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Politico-economical developments of December 2004

In December 2004, the so-called “YUKOS case” came into its final stage. On 19.12.2004, an auction was held on the sale of the YUKOS major oil production unit - Yuganskneftegaz. The day before, the organizers of the auction received quite probable but still not seemed evident the U.S. Bankruptcy court ruling in the State of Texas, which warned economic entities, and Gazprom, in particular, against participation in such a procedure¹. The Western banks consortium, for example an American J.P. Morgan, refused to lend Gazprom a credit to the amount of almost USD 9 bn, required for acquisition of Yuganskneftegaz (though some European banks doubted the competence of the court’s ruling, which key issues are either presence in the U.S. of a debtor-party – American citizens or companies in conjunction with recognizing the Russian court improper for course of justice). So far, the court’s decision is upheld by the first supervisory instance of courts supervisory instance, despite the fact that in the majority of cases the U.S. justice evades analysis of cases of such kind (for example, an emigrant and businessman from Russia, M.Zhivilo lost in the U.S. in 2001-2003 the case of confiscation of his property in all the court’s instances).

As a result, the sale of Yuganskneftegaz from disputable and not quite logical, but still market operation, which essence is in attraction of funds by the company for acquisition of assets being in the state of suspension in a view to the following remission of existing debts (i.e. the scheme, realized, for example, by the structures of Roman Abramovich, Iskander Makhmudov, and “EurazHolding” around aluminum industry and iron and steel industry in 2000, but improved, because of participation, as part of concerned parties, of western shareholders of Gazprom), turned into fraud, which is rare today. The Gazprom subsidiary refused to participate in the auction (to the point, thereby a huge advance \$1.7 bn is to be referred to the budget to the prejudice of Gazprom shareholders). The winner of the auction was announced not known to analysts the company Baikal Finance Group, which allegedly also granted an advance of such kind. Until January 11, 2005 the remaining amount is to be transferred, and it is obvious, as we predicted, the only resource for such an amount may be either the funds of state banks (with obvious breaking of crediting activities’ standards for one company), or billion dollars of budgetary funds, which in this case are granted even not to the world known state-run company, but nobody knows to whom.

However, Vladimir Putin stated that he knows the owners of Baikal Finance Group, which obviously is a ground for assigning them the state funds. But, it is apparent that judicial perspectives for those “owners” in foreign courts are extremely doubtful and much worse than for Gazprom. At the same time (with annul of the backdated taken decisions on establishing Gazpromneft, participation of Gazprom in the auction), perspectives are broadened to estimate the actions of Russian powers and concrete officials as criminal. In fact, Russia is on the verge of a new “Noga case”, but on a larger scale and in conditions, when the political motivation of foreign governments is by far less kind. Quite probable (though not obvious after what had happened) that the legal scheme scenario on Yuganskneftegaz becoming a part of Gazprom will only slightly reduce those risks, but will not remove them. The officials consider as an alternative the merger of Yuganskneftegaz with Rosneft.

It is fair to say that in December 2004 attempts were made to somehow “sweeten the pill” for business - thus, Alexei Klimov, the head of interregional tax inspection No.7 had been dismissed who raised claims for Rb 4.4 bn rubles for 2001 to Vypelkom. The economy minister G.Gref spoke of possibility of “drawing a line” under the past “tax collection situation” of the company after requesting relevant bodies to carry out a routine tax inspection. But, even if principally approved, it is too early to say of its realization, and the level of credibility to Russian powers is also not sufficient to take such proposals seriously. So, in our opinion, we should expect strengthening of the emerging tendency towards redistribution of property using power structures.

In December, the RF Government once again returned the medium-term perspective program of socio-economic development for follow-on revision. G.Gref also explained lowering of the level of

¹ According to different estimates, the investors, in particular, the U.S. natural persons and hedge funds held up to 20% of YUKOS shares. At present, the depreciated shares of the company (which was made bankrupt by authorities), being affected by political factor (no matter how improbable its changing may seem) are not of special interest, but still attract, as any security, an interest of stock gamblers..

credibility in a dialogue between the power and business, by "absence of serious achievements in carrying out key reforms", among them he marked gas industry, the healthcare and education reform. In our opinion, the discussion on the RF Government Program is first of all the result of rudimentary attitude to the content of the Program as of the form of economic discussion or the effect on the power taking place at the beginning and in the middle of the 1990s. The same is true for the program of reforming electric-power industry. The RF Government had not moved forward at all as regards privatization of generating stations, as, probably no decisions have yet been taken concerning the future owners of these assets, likewise no assurance exists as how to sell them.

The substantial information that is worth mentioning is adoption by the Federation Council and probable signing by V.Putin a package of 17 draft laws for creation of the market of affordable housing. The draft laws prohibit free privatization of apartments since 2007, declare more simple access to mortgage credits (never have decided on putting up the risks of share participation in housing construction to commercial banks), simplification of agreement procedures for construction (25 instead of 153, which, all the same, is too many). Obligatoriness of auctions on the access of builders to land plots is provided for since 01.09.2005 (instead of that initially prepared on 01.01.2005), though it is poorly formulated with preservation possibility for "declaring" principle. Also not solved is the issue of allocation of funds for eviction of nonpayers (nonpayers of rent and communal services for more than half a year are to be evicted to municipal housing by standards of hostel, but such housing is not available), with regulation of an access to the market of housing and utilities infrastructure services. Thus, one may state an adoption of next not actual package of documents.

December 2004 practically completed regional elections². Elections of the heads of executive power took place in Ulyanovsk, Khabarovsk, Volgograd, Kurgan, Bryansk, on Kamchatka, and in Khakassia. Except for Kamchatka Volgograd, always the "United Russia" candidates achieved victory, though it was not so easy for them (a clear-cut victory had been achieved only in Khabarovsk and Khakassia). Competitors have had to be withdrawn from elections (Ulyanovsk, Bryansk), strong consolidation had been observed in the second round against the governor in power – seemed not very strong oppositionist (Volgograd, Kurgan). In fact, despite "epidemic" entry the "United Russia" recently all the more governors, it may be concluded that belonging to the "United Russia" is not in itself a guarantee of success where there is a strong opponent, and in annulment of elections there is a considerable reason.

As regards completion of a cycle of elections to regional bodies of legislative power, here the situation for a ruling party is much more favorable – as a rule, it occupies the stable first place with not a bad "distance" from CPRF or "Rodina". The lists of SPS showed not bad ability to be elected to legislatures, but real revelation were the lists of the Pensioners' Party, which failed in no case during their participation in the elections. In the majority of cases a tendency became evident towards failure or non-participation of LDPR or Yabloko lists.

As regards politics, it is worth noting the completion on December 12, 2004 of the plenary session of the Civil Congress "Russia for Democracy against Dictatorship". Later one may judge from concrete results of working on positive proposals of the program, in the meantime the Congress represented a personal presentation of well-known but not too popular politicians (G.Yavlinsky, B.Nemtsov, I.Khakamada), with declaration of mutually exclusive theses – from struggle with liberal reforms and for revision of the RF Constitution to fight against communists and national socialists as major priority. The only original proposal were G.Yavlinsky's initiatives, who stated joining the Yabloko party of all "honest"³ democrats as the way to integration of all democratic. No new ideas were suggested in the sphere of political tactics, not to mention of strategy. More than that, there was a discussion on apparent question of attraction of people for the defence of democratic freedoms and against bureaucratic arbitrary rule, as, in the opinion of some, people may express protests in Russia only setting up national socialist battle-cries.

"National socialists" did not take long to address in the central electronic mass media – as a parallel so-called All-Russia Congress on the protection of the nations and citizens rights, held by Rodina party. The central theme of the congress was a call for the need to struggle against the USA and oli-

² Last elections are left – the governor of Nenets Autonomous District to be held in January 2005.

³ Dishonest, evidently, will be recognized by the party organization as "no-good".

garches (not all of them but those who made their fortune at the beginning and mid-1990, i.e., using dishonest methods). It is indicative that the first mentioning of the Congress was announced only in presence of the first and second TV-channels. Though, no nationalism was demonstrated by the participants of “Rogozin congress”. They tried to substantiate the unfairness of reform of the 1990 and justify redistribution of property. And this is no wonder, as according to designed plan, Rodina is to force out the CPRF – the last relatively independent on Kremlin parliamentary party – from “voting area”. It is characteristic that such notable figures of the Russian Centrist Party, as A.Kuraev, took part in Congress.

The Supreme Court of the Russian Federation defeated the claim of cancellation of the results of 2003 elections, filed by the members of CPRF, Yabloko, and Committee-2008, which hearing queerly delayed. Against this background once again declared itself “extraparliamentary” opposition. About 40 members of National Bolshevik Party again carried out a non-violent seizure of cabinets, this time in the RF President Administration, standing for (unusual for such party) defence of the RF Constitution, etc. This action took place concurrently with announcement of judgment to seven participants of non-violent seizure of M.Zurabov’s cabinet in August 2004, sentenced for five years to prison. This time members of Limonov’s Party were charged on article 278 (“non-violent seizure of power”) – to 20 years of imprisonment. Therefore, though demonstrating “bally show”, the National Bolshevik Party actually becomes the major opposition factor in Moscow (out of Moscow, there is limited number of them), at present the party numbers over 50 political prisoners. As regards their prospects, they are not still clear. Return to previous, relatively soft methods of counteraction in respect of “nazbolz” (in favor of such a scenario spoke, for example, V.Pligin, the chairman of the Duma Committee for Constitutional Legislation and State Construction), seems will be able to reduce the “snowballing” interest to “nazbolz” to the level of 2002-2003. Otherwise, it’s worth predicting nazbolz’ seeking to liken their activities to their incriminated criminal law articles.

Naming (many times supported by Vladimir Putin) V. Yanukovich a President of the Ukraine in conditions of mass and coarse falsification caused predicted by form but not by scale the flame of people’s indignation, in which participated hundred thousand Ukrainians. The administrative subordination vertical did not function, the courts and power structures took the opposition side. In re-election of the second round on December 26, 2004, Viktor Yushchenko became a president of Ukraine. Without going into details of the Ukrainian policy, we may state that Ukrainians have much in common with Russians by their education, cross-cultural ties and cheap manpower, while large sector of its government property make possible for Russia to export its capital if the new President guarantees fair rules of game and immunity. Even more essential is worsening the Russia’s diplomacy image, and also frustration, for the third time in succession within one year, of a “president appointment” scenario on the territory of the former Soviet Union – after Georgia and Abkhazia.

S. Zhavoronkov

Of the Course of Reforms in December 2004

In December a new short-term program “on the whole had been approved” at the meeting of the Government. Though somewhat worsened, but the latest laws had been passed from the “package of affordable housing”. At the conference devoted to five years of CSD (Center of Strategic Developments), economists discussed the prospects of economic growth and economic reforms in Russia for the years to come – and their conclusions were not encouraging.

December was “hot” in comparison with autumn months, and if not in terms of carrying out reforms, in terms of their discussion, for instance. At the meeting of the government on December 22 a medium-term program was considered, of which major innovations we had already reported in previous reviews. It should be emphasized here that while discussing the two ideologies for the first time confronted in public this year: consistently liberal (laid down by German Gref with some departures in the medium-term program) and manifestly government program, presented by the premier and his advisers. Despite the fact that the premier temporarily retreated, it is too early to say of victory in dispute. Very likely, and this is the most disturbing result of flared up confrontation, the medium-term program will still be adopted, but, as repeatedly occurred in the expiring year, the premier, who did not consider the program “his own”, will try to “slow down” the course of reforms. If such trend of

developments will take place, everyone will lose – Gref, Fradkov, and what is more important – the country's economy.

Dynamics of the economy of the end of 2004 demonstrates what is happening in the country where the economy is not fully reformed, and the reforms are, in fact, stopped. You may argue and talk much about the effect of the course of reforms on the growth of GDP – It's more more than one year the economist try, using different data files, to give a single-valued (having a single meaning) answer, but, so far, their answers are contrary. But today it is clear already that even signs of the abortion of reforms may impact the dynamics of the economy, and if these are accompanied with certain actions (in the sphere of redistribution of property, additional charge of taxes, etc.) or inaction (as regards the Government taking key solutions in economic sphere) It is not improbable that stagnation of economy may be the result.

The first signs of such stagnation had already been appeared, and this was clear from the report of the chief economist of the investment company Troika Dialog, Evgeny Gavrilentov, at the conference devoted to five years of the Center of Strategic Developments.

At that conference the CSD head of research, Mikhail Dmitriev (the former deputy of the minister of the Economic development and trade) provided a comprehensive analysis of the cause and effect of the reform slowdown. The conclusions of both reports, to put it mildly, are pessimistic. It is clearly said in the first report that stagnation had already begun, and it is interesting that it was triggered as the result of signals of stoppage of the reforms and strengthening redistribution activities on the part of the State. In the second – one should not expect acceleration of reforms in the near future, if a number of fundamental decisions in “noneconomic” sphere – law-enforcement and judicial system reform, administrative reform, in the sphere of democratization of the process of policy formulation and implementation, establishing and support of the civil society institutions - will not have been taken. But, as the events of 2004 show, the State is not yet ready to take such decisions.

Against this background the final positive event in the expiring year was adoption of the main body of laws from the “housing package”, including the Housing and Town Planning Codes. Though, there was also, in this case its own (and, unfortunately, not small) “fly in the ointment”. First, several important laws still left unadopted (for example, on the real estate tax). Second, a number of significant measures were not best “corrected”: for example, a transitional period was set before full introduction of auctions (which, most likely will lead in the next nine months to distribution of the finished for construction sites among the companies close to the cities' administrations compliant to absolutely non-transparent procedures, which will not lead in the short term to reduction of prices of housing under construction). The personal responsibility of the chief engineer and chief architect for the quality of construction had also been excluded, the attempts failed to overcome considerable reduction of the volume of expertise.

Nonetheless, adoption of laws concerning creation of the market of affordable housing is almost the only reform that seriously advanced in 2004.

It remains to hope that the following year will be more fruitful, in this respect – advancement will have to be happened, at last, in the sphere of natural monopolies reform, the medium-term program (which provides for enactment of over 100 laws!) will start to be implemented. In this regard, the beginning of the year will hardly be indicative because of 10-day holidays for the whole country (another factor for reduction of GDP growth rates), but even in March we will clearly see “which way the wind blows”.

O. Fomichev

Budgetary and Fiscal Policy

By the end of November of 2004, the level of revenues of the RF federal budget has increased by 0.3 p. p. of GDP in comparison with the figures registered in the preceding month and made 20.5 per cent of GDP. The level of expenditures of the federal budget increased by 0.4 p. p. in comparison with the figures registered last month and made 16.9 per cent of GDP as on December 1, 2004. In January through October of 2004, the revenues of the RF consolidated budget made about 32.0 per cent of GDP, while the expenditures of the RF consolidated budget over the respective period made 25.9 per cent of GDP.

According to the estimates presented by the RF Ministry of Finance, the amount of the RF Stabilization Fund, as adjusted for the transfers from balances of accounts after the execution of the federal budget in 2004, may make Rub. 600 billion as on February 1, 2005.

The State of the Federal Budget

In January through October of 2004, the revenues of the federal budget (cash execution) made 20.2 per cent of GDP, while expenditures made 15.1 per cent of GDP (see Table 1). Therefore, the federal budget surplus made 4.8 per cent of GDP.

Table 1

The monthly execution of the federal budget of the Russian Federation (in % of GDP⁴, cash execution).

	X'03	XI'03	XII'03	I'04	II'04	III'04	IV'04	V'04	VI'04	VII'04	VIII'04	IX'05	X'05
Revenues	1.3%	1.3%	1.3%	0.9%	0.7%	1.2%	1.4%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%
Profit tax .	2.7%	2.6%	2.7%	2.2%	2.6%	2.8%	2.9%	2.9%	2.8%	2.8%	2.8%	2.7%	2.6%
Income tax .	6.6%	6.6%	6.6%	7.9%	6.6%	6.2%	6.4%	6.5%	6.3%	6.5%	6.5%	6.4%	6.4%
Unified social tax .	1.9%	1.9%	1.9%	2.3%	1.8%	1.4%	1.2%	1.1%	1.0%	0.9%	0.8%	0.8%	0.8%
Taxes on goods and services. License and registration dues .	3.3%	3.4%	3.4%	3.6%	4.2%	4.4%	4.7%	5.0%	4.9%	4.9%	5.0%	4.9%	5.0%
VAT	1.8%	1.9%	1.9%	2.4%	2.6%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Excise taxes	2.9%	2.9%	3.0%	2.3%	0.1%	0.2%	0.2%	0.1%	0.1%	1.0%	0.2%	0.2%	0.2%
Taxes on foreign trade and foreign economic operations .	20.5%	20.5%	20.7%	21.6%	18.7%	18.6%	19.3%	19.5%	19.0%	20.1%	19.1%	18.7%	18.6%
Other taxes .	1.4%	1.3%	1.3%	0.9%	0.8%	0.9%	1.0%	1.1%	1.5%	1.4%	1.5%	1.4%	1.6%
Tax revenues .	19.4%	19.3%	19.4%	20.4%	19.6%	19.7%	20.4%	20.6%	20.6%	21.6%	20.6%	20.1%	20.2%
Non-tax revenues .	0.4%	0.4%	0.5%	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Total revenues .	2.5%	2.5%	2.7%	1.7%	2.2%	2.6%	2.9%	2.7%	2.6%	2.6%	2.5%	2.4%	2.4%
Expenditures	0.2%	0.2%	0.2%	-0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.3%
Public administration .	0.2%	0.2%	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
National defense .	1.7%	1.7%	1.9%	1.0%	1.5%	1.7%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.7%
International activity .	0.3%	0.3%	0.3%	0.1%	0.1%	0.2%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.3%
Judicial power .	0.9%	0.9%	1.1%	0.2%	0.4%	0.5%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%
Law enforcement and safety measures .	2.1%	2.1%	2.3%	1.4%	1.7%	1.9%	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%	2.0%
Fundamental scientific research and technological development promotion .	1.8%	1.7%	1.7%	1.0%	2.1%	2.2%	1.7%	1.5%	1.4%	1.4%	0.3%	1.5%	1.4%
Public services rendered to national economy, including :	6.8%	6.8%	6.9%	5.2%	5.8%	5.9%	6.5%	6.4%	6.1%	6.1%	7.4%	5.8%	5.8%
Social services .	6.8%	6.7%	7.7%	10.8%	4.4%	5.8%	6.8%	16.3%	5.9%	5.8%	15.9%	5.2%	5.1%
National debt service	2.6%	2.6%	1.7%	9.6%	5.2%	3.8%	3.6%	4.3%	4.7%	5.8%	4.7%	4.9%	5.1%
Other expenditures	-0.1%	-0.3%	0.5%	-8.6%	-3.1%	-1.2%	-1.3%	-2.4%	-3.1%	-3.2%	-2.9%	-3.3%	-3.3%
Expenditures and loans less repaid loans	-2.5%	-2.3%	-2.2%	-1.0%	-2.1%	-2.6%	-2.3%	-1.9%	-1.6%	-1.7%	-1.8%	-1.6%	-1.5%
Surplus	2.6%	2.6%	-1.7%	-9.6%	-5.2%	-3.8%	-3.6%	-4.3%	-4.7%	-4.9%	-4.7%	-4.9%	-4.8%

в % ВВП; ** ЕСН включен в налоговые доходы

As compared with the figures registered in January through October of 2003, the budget revenues increased by 0.6 p. p. of GDP in the respective period of 2004, while expenditures decreased by 1.7 p. p. of GDP and budget surplus respectively increased by 2.2 p. p. of GDP. As before, VAT accounted for the major share of federal tax revenues – 34.1 per cent of the total tax revenues, what was by 2 p. p. above the level observed in the respective period of 2003. The major factor behind the increase in the amount of revenues of the federal budget in 2004 in comparison with the figures registered in 2003 was high oil prices and a respective growth in the revenues generated by taxes on foreign trade and external economic operations, as well as the increasing revenues from the Mineral Extraction Tax. Thus, in January through October of 2004, the amount of revenues generated by customs duties made about 5 per cent of GDP, what was by 1.7 p. p. above the level of this indicator observed in the respec-

⁴ Because of the estimated data on GDP, the indices may be subject to revision.

tive period of the preceding year. At the same time, the revenues of the federal budget from the Mineral Extraction Tax increased by 0.7 p. p. of GDP.

According to preliminary estimates, the cash execution of federal budget revenues made 20.5 per cent of GDP in January through November of 2004, what was by 1.2 p. p of GDP above the level of revenues observed in the respective period of the preceding year. At the same time, the cash execution of expenditures made 15.5 per cent of GDP (16.7 per cent of GDP in January through November of 2003); therefore, in the first ten months of this year, according to preliminary data, the surplus made 5.0 per cent of GDP.

According to the preliminary estimates of the Finance Ministry, in terms of fulfilled funding⁵ the expenditures of the federal budget in January through November of 2004 made 16.9 per cent of GDP (see Table 2), while in the respective period of 2003 this indicator was at 18.1 per cent of GDP. In January through November of 2004, the amount of revenues of the federal budget increased by 1.2 p. p. of GDP in comparison with the figures registered in the respective months of 2003 and made 20.5 per cent of GDP. Therefore, the surplus of the federal budget in terms of fulfilled funding in January through November of 2004 increased by 2.3 p. p. in comparison with the figures registered in January through November of 2003 and made 3.6 per cent of GDP.

Table 2

**The monthly execution of the federal budget of the Russian Federation
(in % GDP, fulfilled funding).**

	XI'03	XII'03	I'04	II'04	III'04	IV'04	V'04	VI'04	VII'04	VIII'04	IX'04	X'04	XI'04
Total revenues	19.3%	19.5%	20.4%	19.6%	19.7%	20.4%	20.6%	20.6%	20.7%	20.6%	20.1%	20.2%	20.5%
Public administration	0.5%	0.5%	0.5%	0.7%	0.6%	0.6%	0.6%	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%
Judicial power	2.9%	2.7%	2.7%	3.9%	2.9%	3.7%	3.2%	2.8%	3.0%	2.8%	2.6%	2.9%	2.8%
International activity	0.2%	0.2%	0.0%	0.2%	0.2%	0.3%	0.3%	0.2%	0.3%	0.4%	0.4%	0.3%	0.5%
National defense	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Law enforcement and safety measures	1.9%	1.9%	2.1%	2.4%	2.3%	2.4%	2.3%	2.1%	2.1%	2.1%	2.0%	2.0%	2.1%
Fundamental scientific research and technological development promotion	0.3%	0.3%	0.2%	0.3%	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%
Public services rendered to national economy	1.1%	1.1%	0.5%	0.7%	0.8%	0.9%	0.9%	0.8%	0.8%	0.6%	0.7%	0.9%	0.9%
Social services	2.4%	2.3%	2.4%	2.5%	2.4%	3.0%	2.9%	2.5%	2.5%	2.4%	2.2%	2.2%	2.3%
National debt service	1.7%	1.7%	1.0%	2.1%	2.2%	1.7%	1.5%	1.4%	1.3%	1.5%	1.5%	1.4%	1.3%
Other expenditures	6.9%	7.0%	5.6%	6.6%	6.1%	6.6%	6.6%	6.2%	6.3%	6.3%	5.9%	5.9%	6.0%
Total expenditures	18.1%	17.8%	15.2%	19.7%	18.0%	19.7%	18.8%	17.1%	17.4%	17.1%	16.2%	16.5%	16.9%
Budgetary surplus (+) / deficit (-)	1.3%	1.6%	5.2%	0.0%	1.7%	0.7%	1.8%	3.5%	3.3%	3.4%	4.0%	3.7%	3.6%

According to the estimates of the Tax Ministry, in October of 2004 the tax revenues of the federal budget made about Rub. 144.16 billion (without the single social tax). In real terms the revenues made 288.4 per cent of the level registered in January of 1999, while the respective indicator was at 248.7 per cent in September of 2003 and 254.8 per cent in September of 2002 (see Table 3).

⁵ The execution of the budget in terms of fulfilled (actual) financing is equal to the sum of the funds transferred to managers of budget funds, while the cash execution of the budget is equal to the sum of funds spent by managers of funds (i.e. without account of funds remained on their accounts).

Table 3

**Actual tax revenues to the federal budget, according to the data of the MTC
(in % of the data for January of 1999)⁶.**

2002*											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
218,7%	187,1%	234,8%	277,8%	239,6%	218,0%	284,4%	246,5%	254,8%	299,7%	241,0%	250,2%
2003*											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
230,0%	229,2%	265,5%	280,4%	233,2%	240,0%	260,4%	242,6%	248,7%	265,6%	231,0%	247,9%
2004*											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XI
266,5%	204,4%	238,0%	261,4%	241,0%	243,6%	288,9%	246,0%	288,4%	314,7%	229,0%	

* Без учета ЕСН.

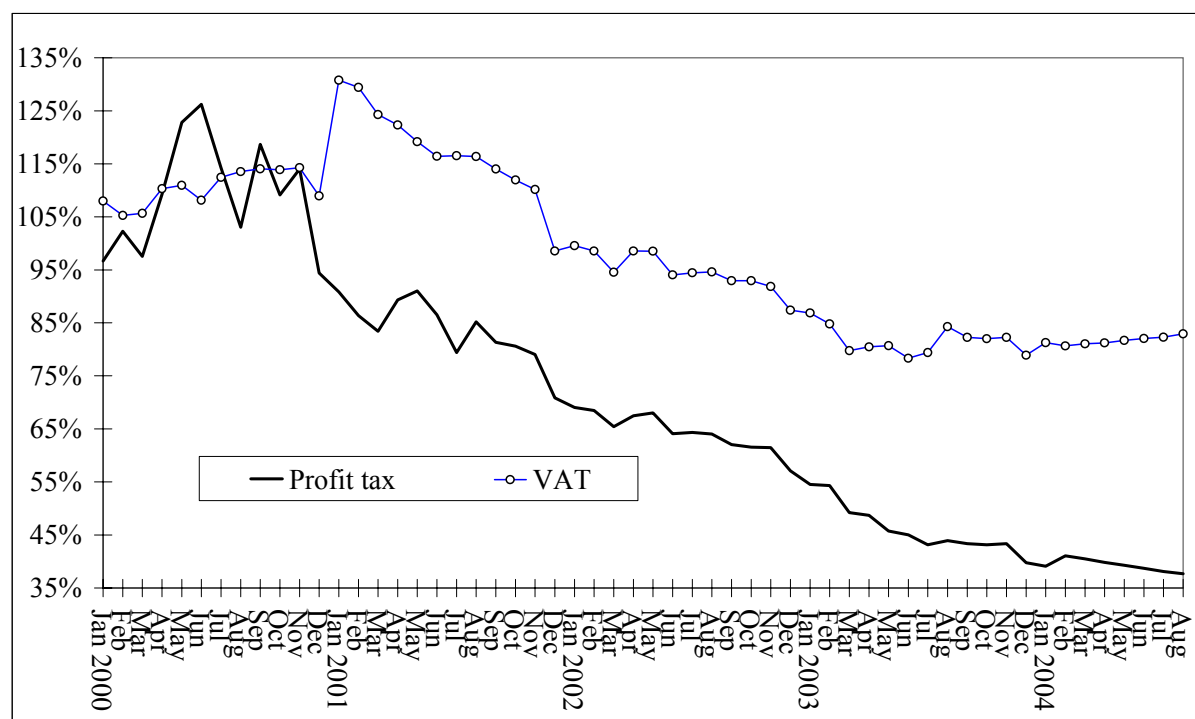


Fig 1. Real tax arrears to the federal budget (in % to July 1999)

The dynamics of real arrears relating to major taxes since January of 2000 are presented in Fig. 1. The debts related to the payments due to the federal budget made, as concerns VAT, Rub. 276.0 billion by September of 2004, increasing by almost Rub. 20 billion since the beginning of 2004, while the arrears of the profit tax increased by Rub. 0.5 billion and made about Rub. 26.9 billion as on September 1, 2004. On the whole, a gradual decrease in the level of accumulated arrears observed since early 2001 to the second half of 2003 was replaced by the stabilization of the level of accumulated indebtedness as concerns the VAT. In the case of the profit tax, the real accumulated arrears continue to decline; however it practically does not change in the nominal terms.

⁶ It was decided to choose January of 1999 as the benchmark in order to render the comparison more reliable. January of 1999 is not a remarkable date in terms of tax revenues.

Table 4

Execution of the RF consolidated budget (in % of GDP)

2002												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Налоги*	28,7%	23,6%	24,3%	26,5%	26,6%	25,9%	26,4%	25,9%	25,2%	25,4%	25,4%	25,5%
Доходы	32,9%	31,3%	31,4%	33,6%	33,6%	32,7%	33,3%	32,5%	31,7%	32,0%	32,1%	32,1%
Расходы	18,3%	23,7%	26,0%	28,4%	28,4%	28,8%	29,1%	28,9%	28,4%	29,3%	29,7%	31,1%
Дефицит/ Профицит	14,6%	7,7%	5,4%	5,3%	5,2%	3,8%	4,2%	3,7%	3,3%	2,7%	2,4%	1,0%
2003												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Налоги*	25,6%	24,4%	25,6%	27,4%	27,1%	26,0%	26,1%	25,7%	25,0%	25,0%	25,1%	25,2%
Доходы	32,0%	30,3%	31,5%	33,4%	33,6%	32,2%	32,2%	31,6%	30,9%	30,8%	30,7%	31,1%
Расходы	20,7%	25,3%	27,7%	28,8%	28,8%	28,6%	28,7%	28,5%	28,2%	27,8%	27,9%	29,7%
Дефицит/ Профицит	11,3%	5,0%	3,8%	4,5%	4,7%	3,5%	3,6%	3,1%	2,7%	3,0%	2,8%	1,4%
2004												
	I	II	III	IV	V	VI	VII	VIII	IX	X		
Налоги*	6,1%		21,8%	27,4%	27,4%	26,6%	27,2%	27,1%	26,4%	26,5%		
Доходы	30,6%	28,2%	29,8%	32,9%	32,9%	32,5%	33,1%	32,9%	31,9%	32,0%		
Расходы	18,5%	22,8%	25,4%	27,3%	26,9%	27,0%	27,0%	26,9%	26,0%	25,9%		
Дефицит/ Профицит	12,1%	5,4%	4,4%	5,6%	6,0%	5,5%	6,1%	6,0%	5,9%	6,1%		

* Без учета ЕСН

The revenues of the consolidated budget in January through October of 2004 made 32.0 per cent of GDP, including tax revenues (without SST) at 26.5 per cent of GDP (see Table 4). The expenditures of the consolidated budget decreased by 1.9 p. p. of GDP in comparison with the figures registered in January through October of 2003 and made 25.9 per cent of GDP. As on November 1, 2004, the surplus of the consolidated budget made 6.1 per cent of GDP, what is by 3.1 p. p. of GDP above the level observed in the respective period of 2003.

Main Developments in the Public Sector.

On December 17, 2004, the State Duma ratified a document permitting Russia to switch to the collection of the value added tax on the "country of destination" principle in its mutual trade with Byelorussia. According to the estimates, presented in the memorandum to the draft law on the federal budget for year 2005, the introduction of the "country of destination" principle with respect to the value added tax on hydrocarbons and other goods exported to Byelorussia, in the case the base rate of the tax on oil extraction and natural gas extraction is increased, would result in a decline of the revenues of the federal budget by Rub. 8.6 billion, or by 0.05 per cent of GDP.

The RF Finance Ministry is planning to reduce the rates of the value added tax not earlier than in 2006. The Ministry considers several variants depending on the retention of the preferential 10 per cent rate. Thus, in the case the 10 per cent VAT rate is retained, the estimated reduction of the 18 per cent base rate would make from 1 p. p. to 2 p. p., otherwise, the VAT rate may be reduced to 15 per cent. It should be noted that since 2004, the base rate was reduced by 2 p. p. and made 18 per cent. The respective evaluation of losses in the budget revenues presented in the memorandum supplemented to the draft law on the federal budget for year 2005 made about Rub. 100 billion or 0.65 per cent of GDP. Over the first three quarters of 2004, the VAT generated tax revenues declined by 0.45 p. p. of GDP and made 6.32 per cent of GDP.

According to the estimates presented by the RF Ministry of Finance, the amount of the Stabilization Fund may make Rub. 520 billion as on January 1, 2005. At the same time, the amount of the RF Stabilization Fund, as adjusted for the transfers from balances of accounts after the execution of the federal budget in 2004, may make Rub. 600 billion as on February 1, 2005. As on December 1, the amount of the Stabilization Fund made Rub. 462 billion.

S. Ponomarenko

Monetary Policy

In November, there persisted the trend towards an increase in the rates of inflation as compared with its level registered in the preceding year: in November, the CPI value made 1.1 per cent (1 per cent in November of 2003). At the same time, there occurred a gradual expansion of money supply at the background of the continuing growth in the amount of gold and foreign exchange reserves of the RF Central Bank. In November of 2004, the Board of Directors of the RF Central Bank approved the “Key guidelines of the common state monetary policy for year 2005,” which retained a rather optimistic forecast of the inflation rates for the next year – from 6.5 per cent to 8.5 per cent.

The increase in the consumer price index made 1.1 per cent (1 per cent in November of 2003), and 10.5 per cent since the beginning of the year (10.8 per cent in January through November of the preceding year, see *Fig. 1*). The most significant rise was observed in the group of food products (1.5 per cent as compared with 1.2 per cent registered in the respective month of 2003). The increment as compared with the figures observed in December of 2003 made 10.4 per cent, what is significantly above the increase observed in the respective period of the preceding year (8.6 per cent). In the first seven months of this year, there were registered more moderate rates of growth in consumer prices of food products as compared with the figures observed in the respective period of the last years. However, after a relatively insignificant seasonal decline in prices of fruits and vegetables, the CPI characterizing this group of products began to exceed the value of this indicator registered over the preceding years. As concerns the period from January till November, over this time the pasta products, meat, sugar, and poultry have increased in prices more significantly than in the respective period of the preceding year. Besides, the seasonal decline in the prices of fruits and vegetables was less pronounced than that registered last year.

As compared with the figures registered in December of 2003, the most significant rise in prices was observed in the group of paid consumer services (by 16.6 per cent as compared with 21.2 per cent registered in the respective period of the preceding year). The increase in November made 0.8 per cent (as compared with 0.4 per cent observed in November of 2003). It should be noted that in January through October of 2004 the increase in the consumer prices of paid services to the population was below the indicators registered in the last two years; however, in November the prices of paid services grew more significantly than in 2003. Over the last month communications services demonstrated the most considerable growth (+ 2.2 per cent).

This year, the prices of nonfood goods also grew at lower rates as compared with the indicators registered last year. Thus, in November the increase made 0.7 per cent (as compared with 0.8 per cent registered in November of 2003), while in the 11 months of this year the prices of nonfood products grew by 7 per cent (by 8.6 per cent in the respective period of the preceding year). In November, the prices of gasoline increased by 2.8 per cent (by 33.6 per cent since the beginning of the year as compared with 16.3 per cent registered in January through November of 2003).

In November, the growth in the Base Consumer Price Index (BCPI)⁷ made 1.1 per cent. Therefore, since the beginning of the year the increase in the BCPI made 9.3 per cent (the total increase in the BCPI in 2003 made 11.2 per cent).

According to our estimates, in 2004 inflation in the RF will make about 11.5 per cent. A more detailed forecast of the dynamics of key macroeconomic indicators in 2005 see the bulletin “Scenario based macroeconomic forecast for year 2005” at the IET web site www.iet.ru.

⁷ The Base Consumer Price Index (BCPI) is an indicator reflecting the inflation rate on the consumer market. It leaves out of account the seasonal (prices of fruits and vegetables) and administrative (tariffs on regulated types of services etc.) factors, calculated by the Statistics Service of the RF.

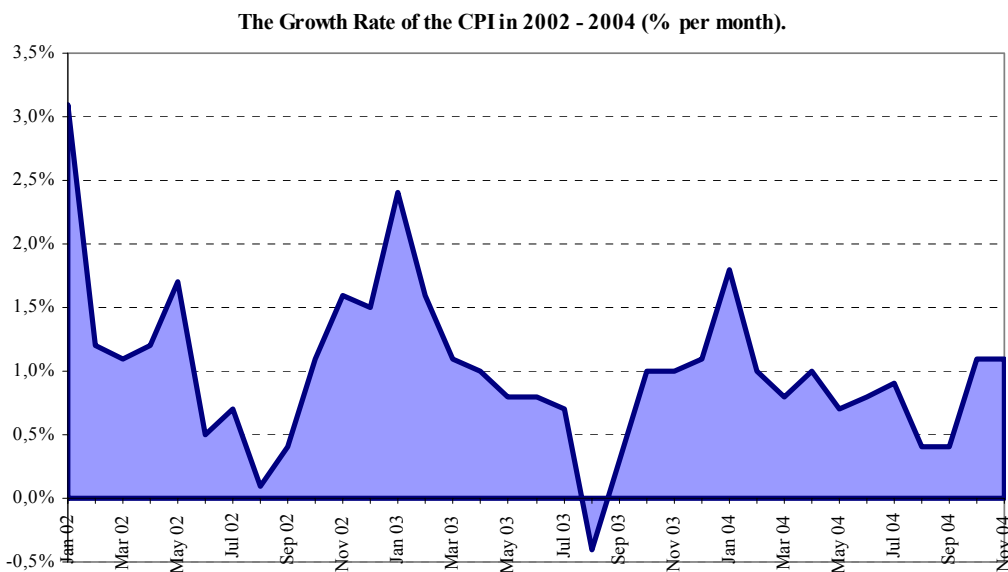


Fig. 1.

In November of this year, the monetary base of the Russian Federation (in the broad definition⁸) increased by about RUR 152.8 billion and made RUR 2.08 trillion. Therefore, in November the growth in the monetary base exceeded 7.9 per cent. It should be reminded that in July and August the monetary base contracted, while in September there was observed an insignificant increase in the monetary base (+ 0.1 per cent), and in October it increased by 5.6 per cent. In comparison with the indicator's value observed as on January 1, 2004, the amount of the monetary base increased by 8.8 per cent. In the respective period of the preceding year, the growth made 24.9 per cent. Below, the dynamics of the monetary base will be analyzed across its components.

The amount of cash in circulation (as adjusted for cash balances of crediting organizations) made RUR 1.42 trillion as on December 1 (+ 1.8 per cent as compared with the level registered on November 1 of this year). On the same date, the amount of accounts of crediting organizations with the Central Bank of Russia made RUR 278.9 billion (+ 16.5 per cent), the amount of mandatory reserves was at RUR 119 billion (+ 1.4 per cent), the amount of banks' deposits in the Bank of Russia made RUR 192.8 billion (+ 122 per cent), the amount of the Central Bank's liabilities related to the reverse repurchase of securities was at RUR 40.3 billion (-41 per cent), and the funds transferred to the Bank of Russia as the reserves related to foreign exchange operations made RUR 7.5 billion (+ 108 per cent). Therefore, in November there was observed a growth across all components of the monetary base, with the exception of the Central Bank's liabilities related to the reverse repurchase of securities.

As in the middle of December, the amount of gold and foreign exchange reserves of the Bank of Russia made US \$ 119.8 billion. Therefore, since the beginning of the year, the gold and foreign exchange reserves increased by more than 55 per cent. Over the respective period of the last year, the reserves grew by 61 per cent. The amount of the narrowly defined monetary base (cash in circulation and the balances of mandatory reserves accounts of crediting organizations with the Central Bank of Russia) made RUR 1577.9 billion (+ 12.8 per cent as compared with the data registered in the beginning of the year). In the respective period of the preceding year, the monetary base in the narrow definition increased by 51.3 per cent. The dynamics of gold and foreign exchange reserves and the monetary base is presented in *Figure 2*.

As this Figure demonstrates, prior to the autumn of 2004 there was observed a rather moderate growth in reserves, which has significantly accelerated later. Thus, in January through August the amount of gold and foreign exchange reserves increased by 14.1 per cent, while in September through

⁸ The RF Monetary Base in broad definition includes cash in circulation, the Ruble denominated funds in mandatory reserves relating to the borrowings of credit organizations, and funds in credit organizations' correspondent accounts and commercial banks' deposits with the Bank of Russia.

mid-December – by 7.3 per cent. Therefore, over the year the monetary base grew much more evenly than reserves. The fact that the rates of growth in the monetary base were below the rates of increase in reserves may be primarily explained by the accumulation of considerable amount of financial reserves in the stabilization fund. In January through October of this year, the net credit to the government diminished by RUR 905.3 billion, as a result, the government became the net creditor of the Central Bank.

Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2003 - 2004.

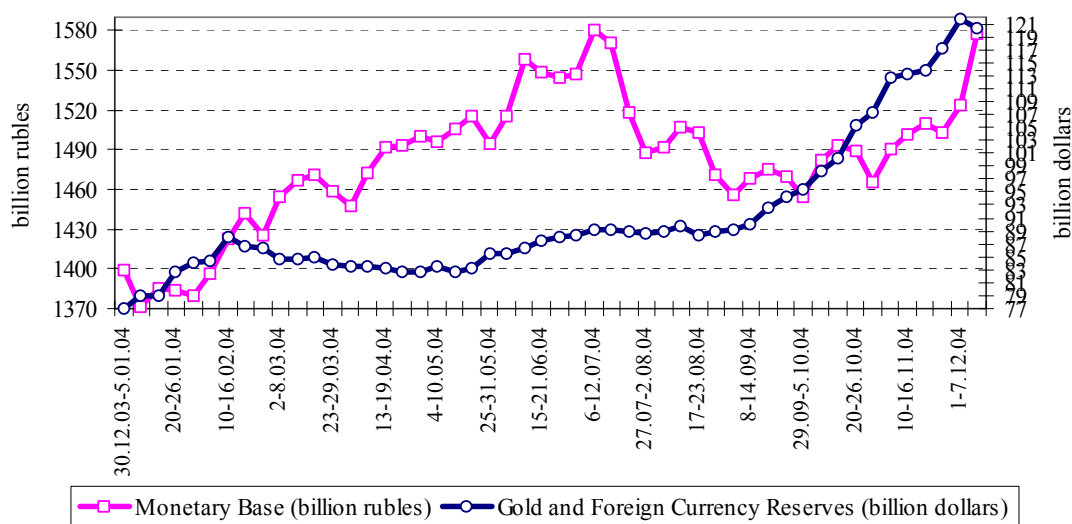


Fig. 2

According to the preliminary estimates presented by the RF Finance Ministry, in January through November of 2004 the payments pertaining to the RF foreign debt amounted to RUR 404.1 billion. The payments associated with the servicing of the foreign debt made RUR 155.3 billion, while the repayment of the principal debt amounted to RUR 248.8 billion. At the same time, new borrowings were registered at RUR 39.4 billion.

On December 10, 2004, the Board of Directors of the RF Central Bank approved the issue of three funded loans of the Bank of Russia totaling to RUR 300 billion. The terms of the issue should be determined later. According to the information published by the Central Bank, this issue is aimed at the formation of reserves for sterilization operations.

In November of 2004, the Board of Directors of the RF Central Bank approved the “Key guidelines of the common state monetary policy for year 2005.” The said document retained the forecast of the inflation rates for the next year in spite of the failure of forecast for year 2004, what no doubt resulted in a growth in inflation expectations of economic agents. Therefore, the probability that inflation rates will decrease to 6.5 per cent to 8.5 per cent in 2005 is rather low.

At the same time, the document sets forth the real effective Ruble exchange rate as the benchmark of monetary policy. However, the methods of calculation of this indicator are rather arguable, what does not permit to detect a clear relation between the real effective exchange rate and the competitive capacity of Russian producers. Besides, inflation rates in the RF remain at a rather high level and from our point of view, the main efforts of the Bank of Russia should be aimed at the struggle against inflation.

At the end of the year, the management of the Bank of Russia stated that there was a probability of changes in the structure of gold and foreign exchange reserves. Prior to the moment of the statement, the total amount of gold and foreign exchange reserves was composed as follows: the share of US \$ made 70 per cent, Euro made 25 per cent, and other foreign currencies made 5 per cent. It seems that the Central Bank planned to introduce the announced changes due to a continuous depreciation of the US dollar against major world currencies.

P. Trounin

Financial Markets

In December, the general state of financial markets was characterized by a certain deterioration of the price situation in spite of the fact that by the end of the month in certain segments of the Russian stock market there was observed a growth in quotations. In December, the market paid special attention to corporate news, which primarily determined the market dynamics. In particular, a significant fall of the stock market continuing up to the last but one week of the month was caused by the situation related to the auction for the sale of Yuganskneftegaz, as well as the lodging of tax claims for year 2001 against Vypelkom. All these events were perceived by the market as the additional evidence that the government intended to continue its course towards expansion of its influence in the private sector of the economy. All these developments resulted in the fact that foreign market participants refrained from operations with Russian securities and the dynamics of the stock market were primarily determined by the behavior of profit seeking gamblers.

The Market for Government Securities

In the last month of this year, the quotations of Russian forex denominated bonds have somewhat increased in comparison with the levels registered at the end of November. Over the month, the major factor behind the market developments was the dynamics of US treasury bills. At the same time, the quotations were significantly affected by a number of other factors. For instance, the lodging of tax claims against Vypelkom and Megafon caused a decline in prices on the market. The results of the auctions for the sale of Yuganskneftegaz also did not facilitate a growth in quotations. Besides, an important favorable news for the market of forex denominated borrowings was the fact that the ranking agency Moody's raised the ranking of Gazprom to the investment level.

As on December 23, the yield to maturity of Russian Eurobonds RUS-30 was 6.55 per cent p.a.; RUS-18: 7.02 per cent p.a. Besides, on the same date the yield to maturity of the Russian Eurobonds was: Minfin bonds, 7th tranche: 5.88 per cent; Minfin bonds, 6th tranche: 4.20 per cent; Minfin bonds, 5th tranche: 4.99 per cent; RUS-07: 6.35 per cent.

Figure 1

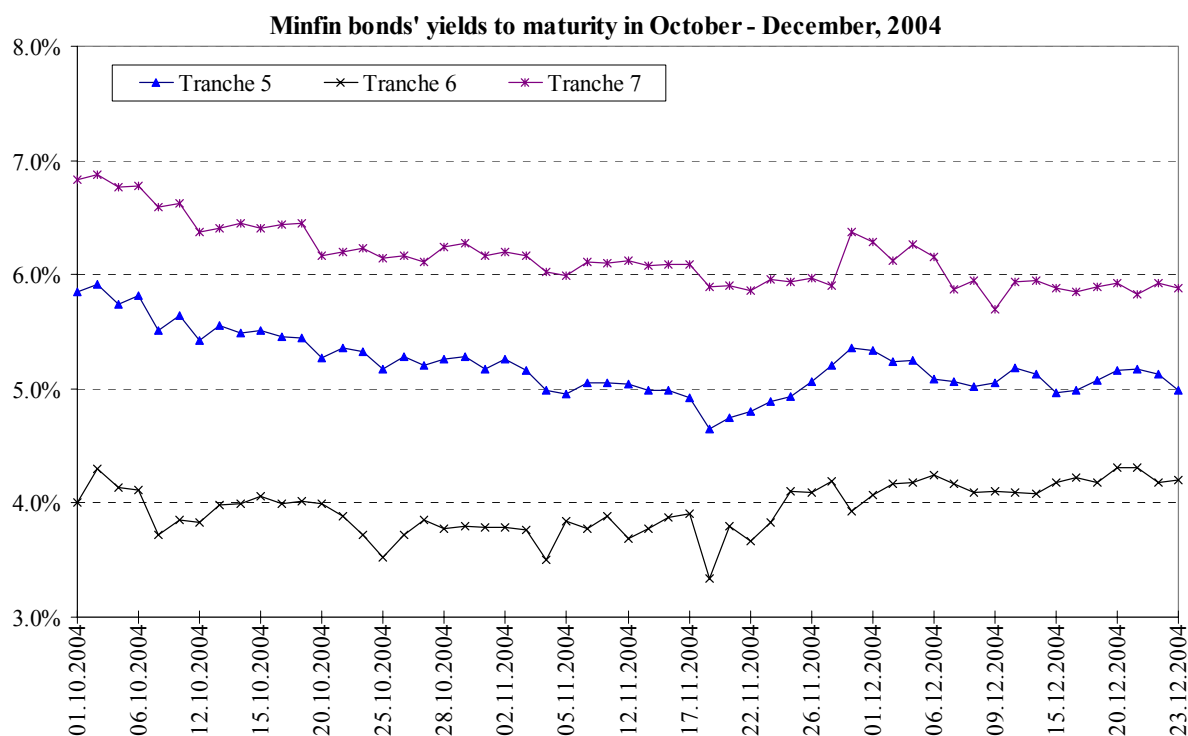
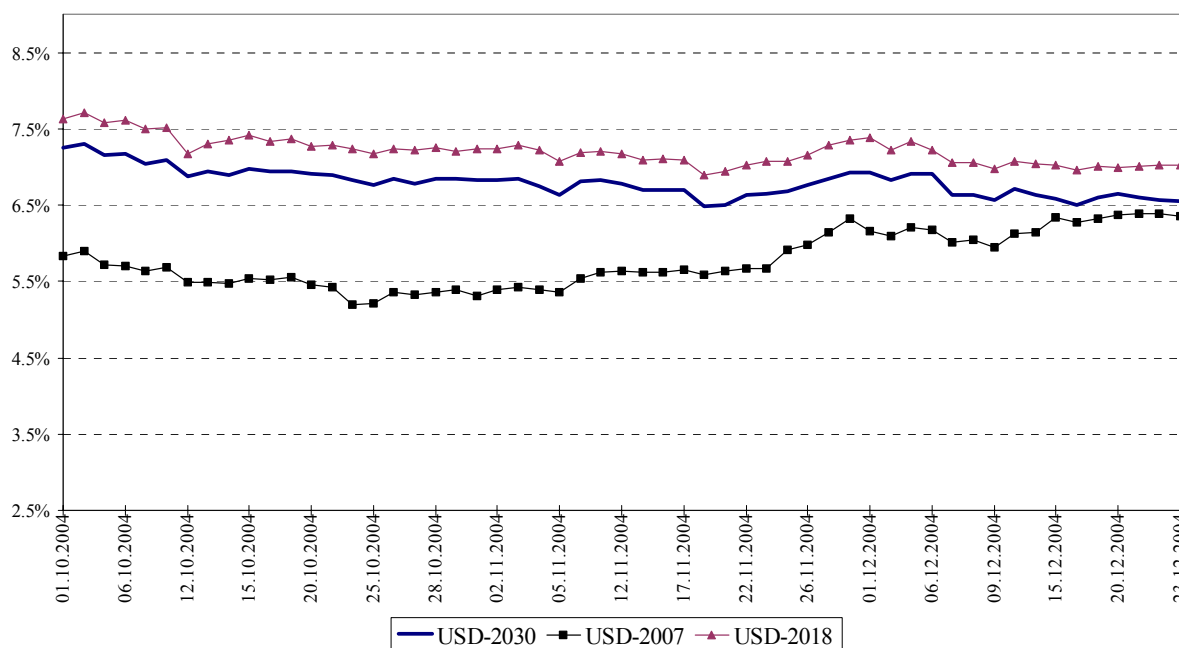


Figure 2.

Yields to maturity of the Russian eurobonds with maturity in 2030, 2018 and 2007 in October - December, 2004



The situation on the market of Ruble denominated government debt was primarily affected by the factor of Ruble appreciation against the US dollar and high liquidity in the banking sector. In the beginning of the month, the Ruble exchange rate supported the quotations of government bonds; however it could not completely compensate the adjustment trends. The quotations of most liquid securities declined, what, as it seems, was determined by the growing inflationary expectations, which already could not be compensated by the appreciation of the national currency. Later, on the market there was observed a significant increase in the turnover of the secondary market, what was determined by the placement of OFZ 28005, the amount of which made about RUR 15 billion, or about 70 per cent of the weekly turnover. As concerns other placements, the respective activity was not so high, what was observed in the course of auctions. On the whole, the market dynamics were primarily determined by the situation on the forex market.

Over the period from December 1 to 23, the aggregate turnover of the secondary GKO OFZ market made about RUR 40.6 billion (approximately RUR 49.1 billion over the respective period in November), while the average daily turnover was at RUR 2.54 billion (RUR 2.58 in November). Therefore, the activity of the market was at the level observed in the preceding month.

On December 5, there took place an auction for the placement of OFZ AD 46014. The amount of the issue made RUR 7 billion, while the actual amount of placement made RUR 1.49 billion. The weighted average yield of the placement made 8.0 per cent p. a.

As on December 23, the amount of the GKO – OFZ market made RUR 557.56 billion at par and RUR 540.83 billion at the market value. The duration of the GKO-OFZ market portfolio was 1755.27 days.

The Market for Corporate Securities

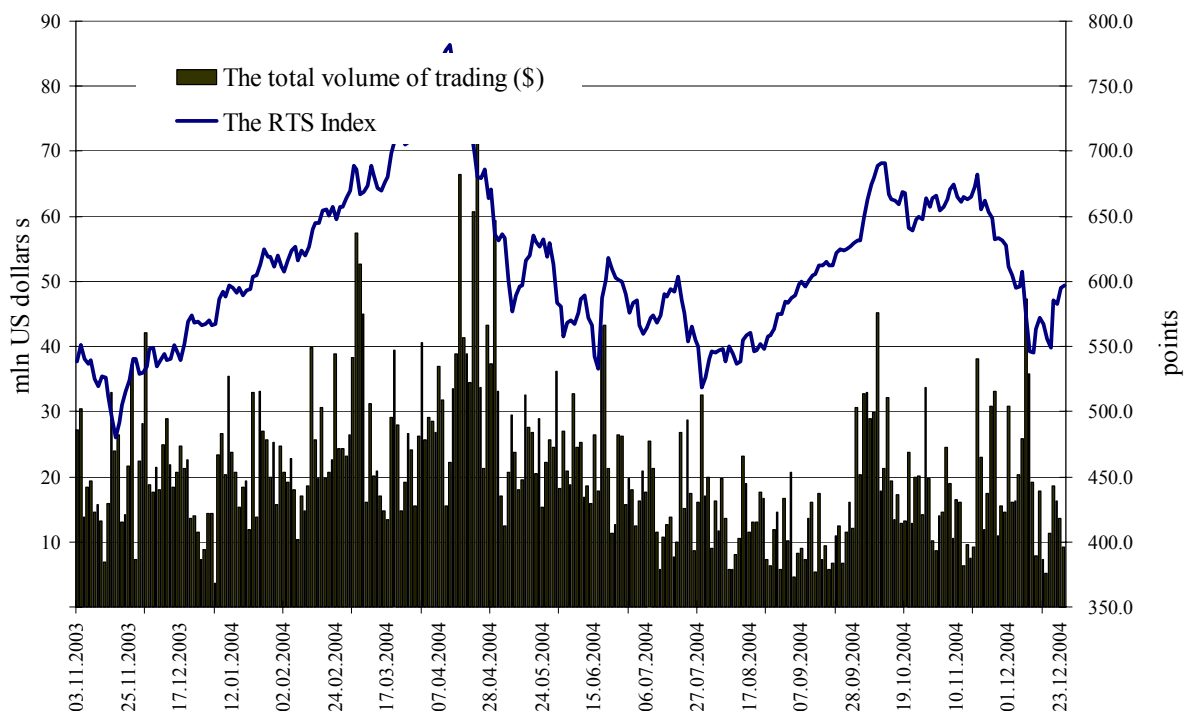
The business situation on the stock market. Throughout the month, the dynamics of quotations have differed significantly. Thus, in the beginning of the month, on the domestic stock market there prevailed the trends towards a decline in quotations. The factor behind this development was the information that privatization of generating companies in electrical power engineering was delayed at least till the end of 2005. The information that Gazprom is going to participate in the auction for the sale of Yuganskneftegaz had somewhat intensified the trade with the shares in this monopoly; however, it failed to significantly affect the market at large. The statement of the ranking agency S&P's that slow

structural reforms could not be a barrier to a rise of the Russia's credit ranking had supported the market.

Later, a decline of the market continued at the background of negative corporate news. In particular, the market was negatively affected by such a factor as the information about lodging of tax claims against Vypelkom, a company, which was created after the period of "dubious" privatization transactions and being one of the most transparent companies in Russia. The market also could be negatively affected by the statement of Exxon Mobil to the effect that this company was not going to participate in the auction for the sale of Yuganskneftegaz in apprehension of higher risks associated with the investment in Russian assets. The statement made by M. Fradkov to the effect that shares in RAO UES of Russia would present the payment in the course of purchase of the power generating companies had almost stopped the fall of the stock of the energy monopoly, but failed to support the market at large.

By the end of the third week of the month, the RTS index remained at the practically the same level. At the same time, by the end of this week, the sales resumed due to the negative news background. By the end of the month, the situation on the market had significantly changed and was characterized by a considerable enhancement of activity and a rise in stock quotations, what compensated the decline in prices observed in the beginning of the month. The developments in the corporate sector were also intensive. In particular, investors paid attention to the results of the auction for the sale of Yuganskneftegaz, where the practically unknown company Baikalfinancgrupp became the formal winner of the auction. However, the uncertainty abided by the end of the week, when it became known that the buyer of the key YUKOS extraction asset was purchased by Rosneft. The fact that the auction was not transparent was the additional evidence that the authorities were ready to use any available means in the struggle for their interests in the private sector.

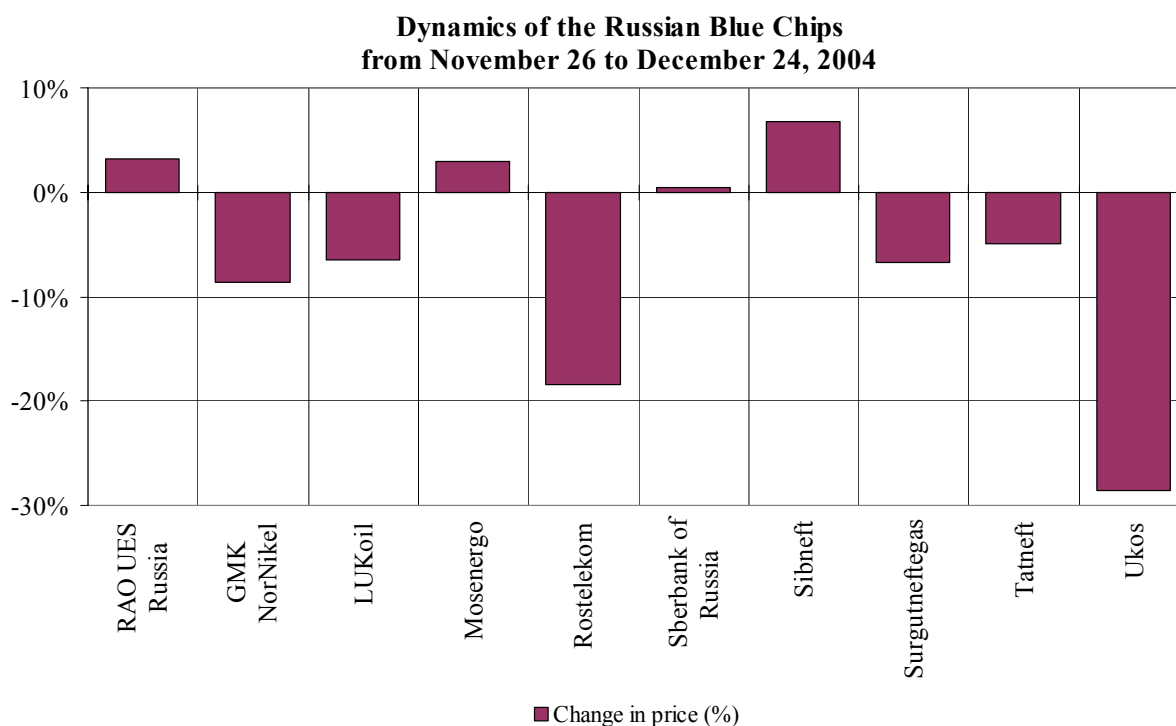
Figure 3.



On the whole, in the period from December 1 till December 23, the RTS index decreased by 2.72 per cent or by 13.9 points in absolute terms. Over the same period, the turnover of the RTS trading amounted to about US \$ 318.7 million (about US \$ 321.5 million in the same period in November), while the average daily turnover at the RTS made about US \$ 18.7 million (US \$ 16.9 million in October). Therefore, in comparison with the data collected in the preceding month, the activity of investors has practically not changed. The highest and the lowest volumes of trade at the RTS made US \$ 47.3 million (on December 8) and US \$ 5.3 million (on December 17) as compared with US \$ 38.2 million and US \$ 6.2 million respectively in November.

Over the last month (from November 26 till December 24), the majority of “blue chips” demonstrated a decline in prices. The leaders in terms of the downward movement of prices remained shares in YUKOS, the price of which decreased by 28.5 per cent over the month. The YUKOS stocks were followed by the shares in Rostelekom (-18.39 per cent), Norinickel (-8.63 per cent), Surgutneftegaz (-6.76 per cent), LUKoil (-6.51 per cent), and Tatneft (-4.97 per cent). The shares in Sberbank demonstrated practically zero dynamics (the prices of these securities increased by mere 0.42 per cent). At the same time, the shares in Mosenergo (+ 2.92 per cent), RAO UES of Russia (+ 3.19 per cent), and Sibneft (+ 6.79 per cent) were characterized by positive dynamics.

Figure 4



In December, the list of leaders in terms of the volume of turnover at the RTS⁹ looked as follows: the shares in the RAO UES of Russia (28.71 per cent) and LUKoil (23.57 per cent). Besides, according to the results of weekly trade, among the leaders in terms of the volume of turnover were also the securities of Surgutneftegaz, Norilsk Nickel, and Sberbank of Russia.

As on December 24, the top five leaders of the national stock market by capitalization looked as follows¹⁰: Surgutneftegaz: US \$ 25.72 billion; LUKoil: US \$ 25.09 billion; Sibneft: US \$ 14.08 billion; the RAO UES of Russia: US \$ 11.7 billion; and GMK Norilsk Nickel: US \$ 11.44 billion.

The market for fixed term contracts. In December, the activity of investors on the RTS market for fixed term contracts (FORTS) significantly increased in comparison with the November indicators. Thus, in the period from December 1 till December 24, the aggregate volume of trade in futures and options at the RTS amounted to about RUR 35.7 billion (148.7 thousand transactions; 4.6 million contracts), what was significantly above the respective indicators registered in the preceding month (turnover - RUR 28.2 billion, 118.5 thousand transactions; 3.2 million contracts).

Futures contracts accounted for the greatest percentage of transactions: the volume of trade in these contracts made RUR 32.9 billion (4.26 million contracts, 142.12 thousand transactions) over the period under observation. As before, options were in a much lower demand: the respective amount of trading made about RUR 2.85 billion (352.8 thousand contracts, 6.6 thousand transactions). The maximum trading volume was observed on December 8 and made RUR 3.34 billion, while the minimum trading volume (RUR 1.3 billion) was registered on December 16.

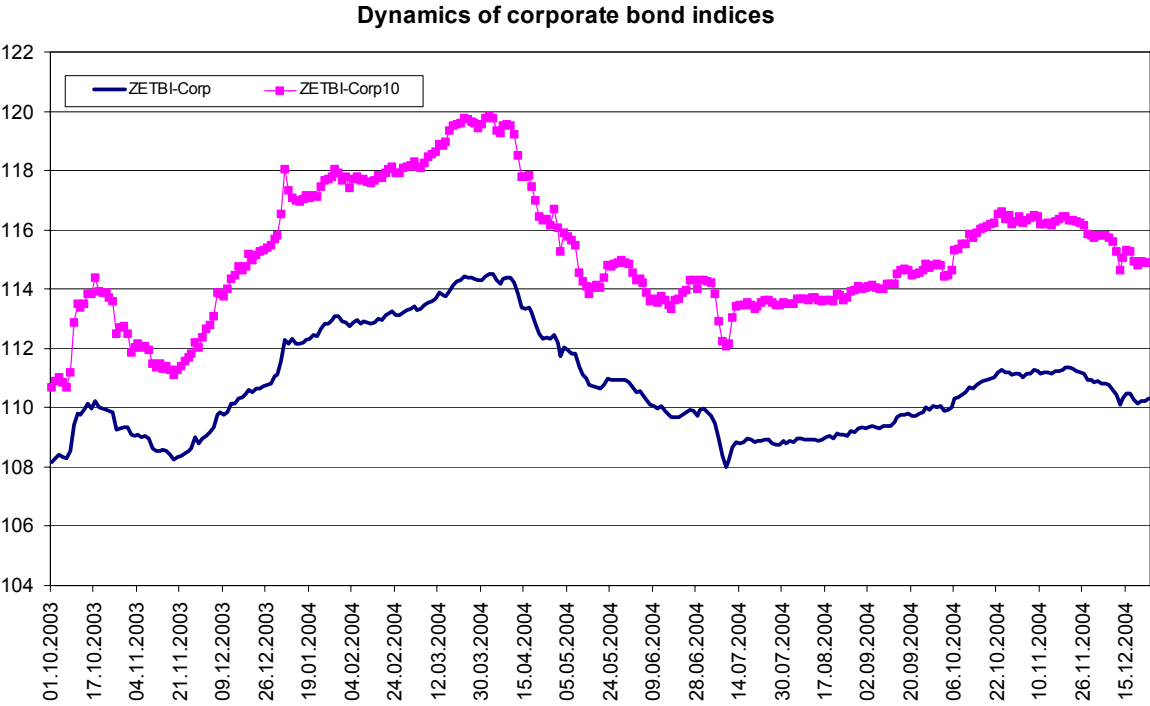
⁹ On the classical stock market.

¹⁰ According to the RTS.

Corporate bond market. On the whole, in December the level of prices of corporate bonds somewhat declined. In the beginning of the month, the dynamics of quotations of corporate bonds were similar to the quotations of government securities. A significant volume of primary supply attracted a considerable part of liquidity, what facilitated speculation for the fall on the secondary market. Later, the information about the lodging of tax claims against Vypelkom resulted in mass sales, especially in the telecommunication sector. At the same time, the situation on the primary market was somewhat better, the evidence of which is the successful placement of RZhD bonds at the high level of liquidity in the banking sector. At the end of the second week of the month, the mass sales of Ruble denominated securities continued. In the middle of December, the fall stopped and investors began to buy the issues, which got significantly cheaper. These developments were also facilitated by the Ruble appreciation against the US dollar on the domestic forex market. However, all positive developments on the market were neutralized by the end of the week due to the rumors about new tax claims against Vypelkom in spite of the fact that these rumors were not confirmed officially. Therefore, the quotations were primarily affected by corporate news. At the end of the month, the situation on the market stabilized and was in favor of buyers. The factor behind this development was the statement made by the Deputy RF Finance Minister S. Shatalov that the amount of tax claims against Vypelkom might be significantly diminished. Later, due to the absence of news the market entered the stage of consolidation.

From December 1 till December 23, the price index of corporate bonds traded at the MICEX¹¹ decreased by 0.55 points (0.49 per cent) and the index of ten most liquid corporate sector bonds decreased by 0.86 points (by 0.74 per cent). In the period from December 1 till December 23, the total turnover in the bond sector of MICEX made about RUR 38.79 billion about RUR 24.2 billion in the respective period of November), while the average daily turnover was registered at RUR 2.42 billion (RUR 1.27 billion in November). Therefore, the activity of participants of the market of corporate debt instruments has enhanced rather significantly.

Figure 5



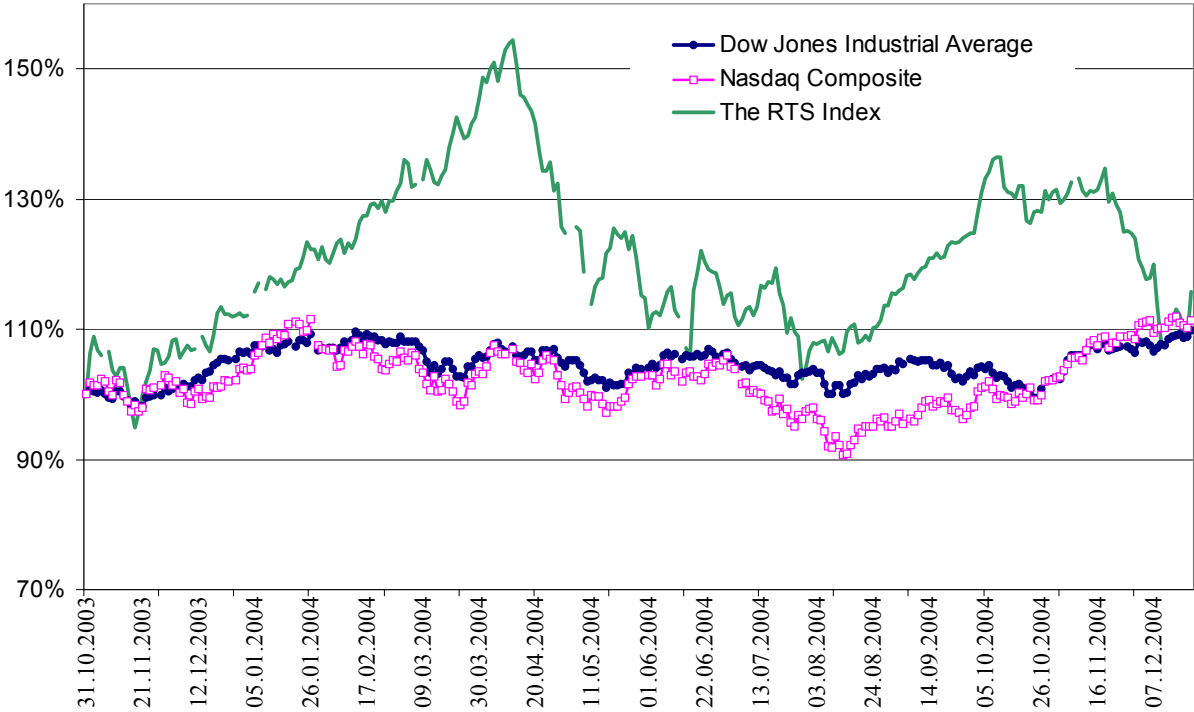
¹¹ The indices of corporate bonds traded at the MICEX that have been used for the calculations are calculated by Zenit Bank.

External factors affecting the dynamics of the Russian stock market. In the beginning of the month, the oil prices declined at a record rate; over the first half of the month the decline made about 20 per cent. The factor behind such a sharp fall in quotations was the statistical data on the fuel reserves in the USA, which indicated a significant growth across practically all types of fuels. The OPEC reaction followed immediately. The cartel reacted to these developments at its summit taking place on December 10. The summit took the decision to harmonize the official quotas and the real level of oil extraction, which at that time was somewhat above the official quota.

Later, after the publication of the EIA report on the commercial reserves of oil and other fuels in the USA, which proved to be below the forecasts, the prices were adjusted upward, since the market expected an increase in the fuel reserves, however, they remained at the previous level. Bad weather as it seems facilitated the further decline in reserves and thus created incentives for a further rise in oil prices on the world market.

In December, the situation on the world stock markets remained favorable (see Table 1). Over the month, on the US stock markets there were observed upward dynamics of the key US stock indices. In the beginning of the month, the US markets went up at the background of significantly declining oil prices. The economic statistical data were mixed. On the one hand, the rates of economic growth were rather satisfactory and inflation remained at the normal level. On the other hand, certain indications of stagnation were observed on the labor market. Later, the market received negative economic statistics and corporate news, what resulted in a downfall of indices. The quotations of US stocks were also negatively affected by the rising interest rates, inflation, and depreciation of the US currency. On the whole, the majority of the published economic indicators were below the level of respective forecasts. In the second half of the month, the US stock indices went up in spite of the publication of negative economic and corporate news. The factors positively affecting the market still remained rather high rates of economic growth in the US economy and relatively low yields of government bonds. The Open Market Committee of the US FRS, as it had been expected, raised the interest rate by 0.25 basis points to 2.25 per cent per annum.

Figure 6.



Corporate news.

The OAO Sibneft

On December 14 of 2004, Sibneft won the auction for the right to explore and extract hydrocarbons in three areas of the Yamal Nenets autonomous okrug. According to the data presented by the Department of Natural Resources of the Yamal Nenets autonomous okrug, the retrievable oil reserves of the Yuzhno Udmurtsky field obtained by the Sibneft were estimated to be at 1.2 million metric tons (the geological reserves were estimated to be at 7.6 million metric tons), while the reserves of the Chatylkinsky field totaled to 3.1 million metric tons and 8.9 million metric tons respectively, and the reserves of the Kholmisty field amounted to 9.7 million metric tons and 42.6 million metric tons. The average value of the retrievable reserves purchased at the auction made US \$ 0.5 per barrel.

The OAO Gazprom

In the beginning of the month, the Board of Directors approved the participation of the OOO Gazpromneft in the auction for the sale of 76.79 per cent in the OAO Yuganskneftegaz, the submission of the final binding bid and the transaction with respect to the purchase of the said shares. At the same time, after the US court ruled the suspension of the auction for the sale of Yuganskneftegaz, the consortium of banks granting the respective credit took the decision to suspend this transaction and granting of the syndicated credit to the company. Later, by the end of the month there appeared information that Gazprom had sold Gazpromneft, which should have become the owner of Yuganskneftegaz after the merger with Rosneft, which purchased the winner of the auction for the sale of Yuganskneftegaz.

OAO GMK Norilsk Nickel

On December 2 of 2004, the Board of Directors of the company took the decision to purchase the company's own placed ordinary registered shares with face value of RUR 1 per share each. The total number of purchased shares should be 12 500 000.

The purchase of the shares should be at the price of RUR 1 680 per share, the total amount of purchase should make up to RUR 21 billion. The applications concerning the purchase of shares should be submitted by the shareholders wishing to sell their stock to the company from December 15, 2004, till January 15, 2005. The purchase of the share should take place from January 16, 2005, till February 15, 2005. The payment for the shares should be made in cash at the moment of purchase in accordance with the sales contract, but not later than in the 30 days period after the date of completion of the period of purchase set forth by the company.

The OAO Slavneft

At an extraordinary meeting, which took place on December 15, 2004, the shareholders of the OAO NGK Slavenft took the decision to approve the payment of interim dividends for the first 9 months of the company's operations in 2004. The total amount of dividends should make RUR 14.5 billion or RUR 3.06 per ordinary share of the face value of 0.1 kopeck. The payment of dividends should be carried out prior to December 31, 2004. The list of the shareholders having the right to participate in the meeting was composed basing on the data entered in the register as on November 9, 2004.

Besides, in December the group of companies Slavneft completed the transaction concerning the purchase of the block of ordinary and preferred shares in the OAO Slavneft – Megionneftegaz (MNG) from the minority shareholders, whose interests were represented by the company Vostok - Nafta. The amount of the purchased block of shares amounted to 6.4 per cent of the authorized capital of the OAO Slavneft – Megionneftegaz. As a result of the transaction, the share of the group of companies Slavneft in the authorized capital of the MNG increased up to 56.4 per cent. The group of companies Slavneft owns 60.12 per cent of the total number of ordinary shares and 18.11 per cent of the total number of preferred stock of the OAO Slavneft – Megionneftegaz. The consolidation of the joint stock capital of the Slavneft subsidiaries would facilitate the improvement of the corporate structure of the group.

The RAO UES of Russia

In the very beginning of December, in accordance with the schedule (prior to December 1, 2004) the RAO UES of Russia completed the payment of dividends for year 2003. According to the information provided by the company, the total amount of dividend payments made RUR 2.39 billion. About RUR 1.9 billion were paid as the ordinary share dividends (proceeding from RUR 0.0469 per share) and RUR 473 million as the preferred stock dividends (proceeding from RUR 0.2283 per share).

In the middle of December there was made public the official information that the European Bank of Reconstruction and Development (EBRD) would grant the subsidiary of the RAO UES of Russia – the OAO System Operator – TsDU UES a credit amounting to Euro 80 million. The respective agreement had been signed in London. In accordance with the signed agreement, the credit should be provided in two tranches. The first tranche amounting to Euro 60 million should be granted to the System Operator for a 10 year term, and the second tranche amounting to Euro 20 million should be granted for the term of 7 years by the syndicate of two commercial banks - Raiffeisen Zentralbank Osterreich AG and Bayerische Landesbank.

The System Operator should invest the borrowings in the development and introduction of a new joint automated control system of Russia (SCADA/EMS – Supervisory Control and Data Acquisition/ Energy Management System). The project envisaged that program and equipment complexes should be purchased and put into operation at the central (TsDU) and seven joint control directorates (ODU), which are units of the OAO SO – TsDU UES.

On December 24, 2004, the Board of Directors of the RAO UES of Russia approved the formation of the OAO “Federal Hydro Generating Company” (OAO GidroOGK) with participation of the RAO UES of Russia via the creation of a 100 per cent subsidiary on the following terms:

- The authorized capital of the OAO GidroOGK should amount to RUR 103 951 322 702 divided in ordinary registered stock with the face value of RUR 1 per share;
- The term of payment for the shares should make 3 months since the date of state registration of the OAO GidroOGK;
- The form of payment for shares should be property, the money equivalent of which should make RUR 103 849 527 702 and 47 kopecks; and money funds amounting to RUR 101 794 999 and 53 kopecks.

At the first stage, the composition of the OAO GidroOGK should include the shares in the following subsidiaries and affiliates of the RAO UES of Russia: OAO Volzhskaya GES, OAO Zhigulevskaya GES, OAO Votkinskaya GES, OAO SShGES named after P. S. Naporozhy, OAO Zey-skaya GES, OAO Boguchanskaya GES, OAO Bureyskaya GES, OAO Zaramagskiye GES, OAO Zelenchukskiye GES, OAO KabbakGES, OAO Sulakenergo, OAO Nizhny Novgorod GES, OAO Saratovskaya GES, OAO Kamskaya GES, OAO Kaskad VV GES, OAO UK VoGEK.

The NK YUKOS

In relation to the ruling of the Moscow City Arbitration Court with respect to the claim lodged by a YUKOS shareholder Millhouse Capital, which prohibited the NK YUKOS shareholders extraordinary meeting planned for December 20, 2004, it was announced that the planned meeting was cancelled. According to the YUKOS statement, this court ruling does not comply with the clearly stated position of the Supreme Arbitration Court as concerns the principal impossibility to prohibit shareholders’ meetings on the part of courts.

On December 20, 2004, the NK YUKOS made public the statement to the effect that the participants of the auction for the sale of shares in the OAO Yuganskneftegaz, which took place on December 19, 2004, as well as the persons, which could have taken part in the completion of the transactions concerning the sale of the said shares or other actions with respect to the company’s property, were notified that these shares were the property included in the mass of the bankrupt’s estate of the NK YUKOS according to Article 11 of the US Bankruptcy Code and that the auction was held in contravention of the respective prohibition, which entered into force immediately at the moment the company submitted to the US Bankruptcy Court in Houston (Texas) the application on reorganization of YUKOS. In the case the sale of shares in the OAO Yuganskneftegaz is completed, it would result in the YUKOS losses amounting to US \$ 20 billion. The company was going to seek compensation at the expense of all parties involved in the sale, its financing, and any other transaction having an impact on the value of the shares.

Table 1

Dynamics of international stock market indices

Data as on December 23, 2004	Value	Change within the month (%) ¹²	Change since the beginning of the year (%)
RTS (Russia)	585.86	-7.51%	-0.04%
Dow Jones Industrial Average (USA)	10759.43	2.25%	3.36%
Nasdaq Composite (USA)	2150.91	2.33%	7.19%
S&P 500 (USA)	1205.45	1.93%	8.75%
FTSE 100 (UK)	4733.00	-0.18%	4.94%
DAX-30 (Germany)	4214.39	1.45%	4.87%
CAC-40 (France)	3770.03	-0.32%	4.82%
Swiss Market (Switzerland)	5640.80	1.66%	1.04%
Nikkei-225 (Japan)	11125.92	2.70%	2.78%
Bovespa (Brazil)	25890.00	3.57%	15.35%
IPC (Mexico)	12651.73	4.77%	55.84%
IPSA (Chile)	1810.10	2.04%	21.93%
Straits Times (Singapore)	2063.59	1.73%	15.20%
Seoul Composite (South Korea)	882.82	2.88%	7.5%
ISE National-100 (Turkey)	24044.56	3.23%	25.57%
Morgan Stanley Emerging Markets Free Index			

The Foreign Exchange Market. In the beginning of the month, at the background of significant forex denominated export proceeds the US \$ depreciation continued. At the same time, the situation on the world currency market did not significantly affect the US \$ / Ruble exchange rate – the Ruble appreciation persisted. Later in the month, on the market there was observed an adjustment in the course of which the US dollar somewhat appreciated. A negative factor behind the changes in the Ruble exchange rate was a sharp decline in the world oil prices. The negative dynamics of the stock market forced certain investors to balance their positions and in the course of this adjustment a part of the funds made available was invested on the forex market. Since the middle of the month, the forex market began more significantly react to the dynamics of the Euro / US \$ exchange rate. By the end of the month, the trade on the forex market were characterized by a stable level of the US \$ exchange rate at about RUR 27.83 per US \$.

In the period from December 1 till December 23, the US \$ depreciated by RUR 0.32 (by 1.15 per cent) and made RUR 27.825 per US \$. The aggregate volume of trade in the US Dollar at the SELT in the period from December 1 till December 23 made about US \$ 35.06 billion (as compared with approximately US \$ 30 billion in the respective period of November). Over this period, the average daily turnover made US \$ 2.19 billion, what was also above the respective indicator registered in November. During the period under review, the highest volume of trade in the US Dollar, about US \$ 5.05 billion, was observed on December 10; the lowest volume, US \$ 958 million, was observed on December 23.

This December, the Ruble liquidity in the banking sector demonstrated a significant increase in comparison with the figures registered in the preceding month, what was the continuation of the trends observed over the few last months: in December, the average balances of correspondent accounts of credit organizations with the Bank of Russia made about RUR 327.6 billion as compared with RUR 277 billion registered in November of 2004.

¹² In relation to the levels registered on November 26.

Figure 7.

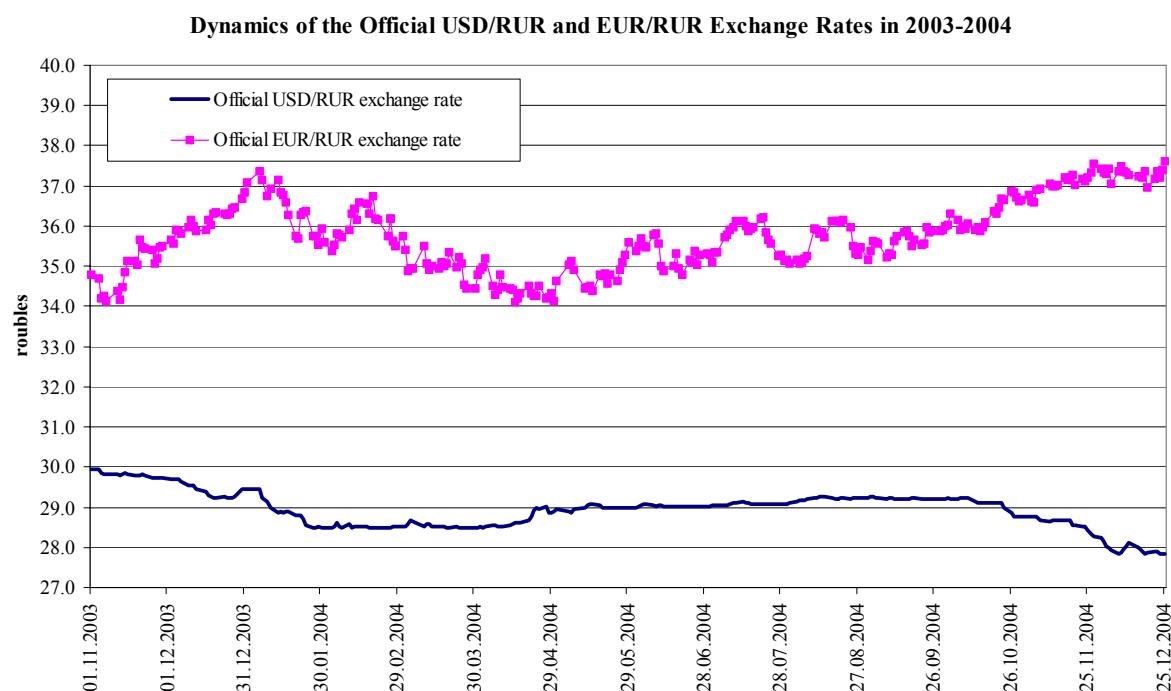
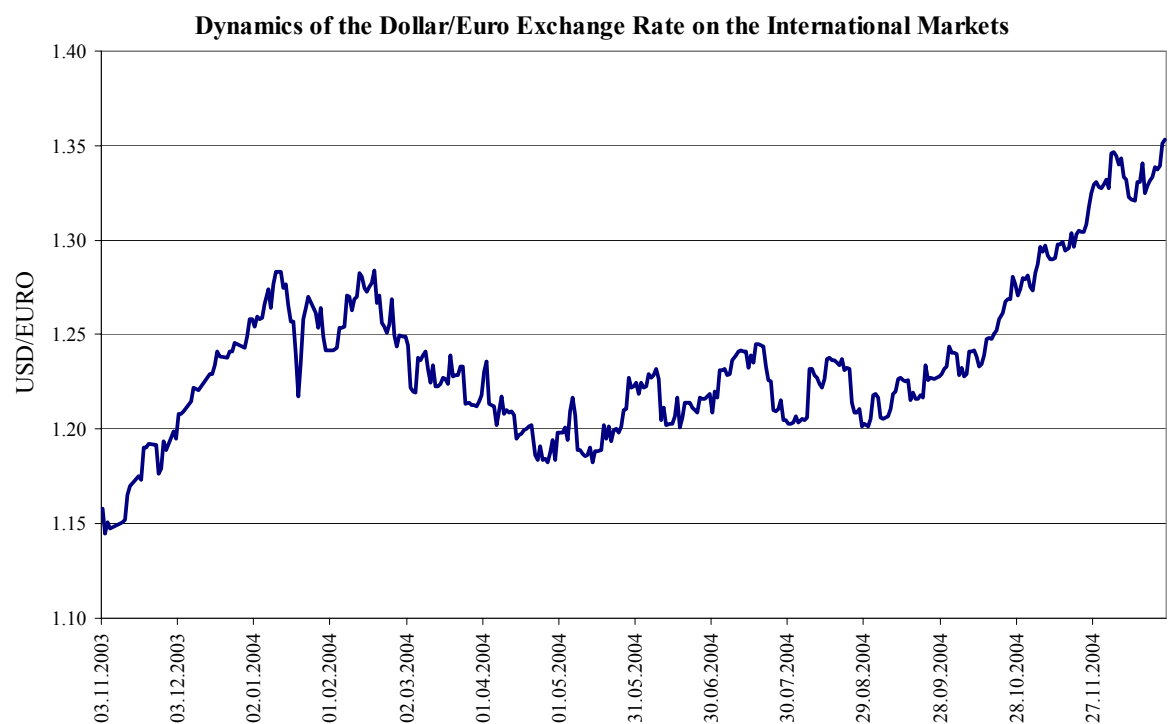


Figure 8.



In the beginning of the month, the Euro continued to appreciate against the US dollar. The major factor behind the appreciation was the information about the state of the US labor market. In the middle of the month, on the world forex market there was observed consolidation of the exchange of the European currency after the period of intensive growth and at the background of the increase in the US balance of trade from US \$ 50.9 billion to US \$ 55.5 billion. At the same time, the net amount of purchases of US securities by nonresidents declined from US \$ 67.5 billion to US \$ 48.1 billion.

In the period from December 1 till December 25, the exchange rate of Euro on the world market appreciated by US \$ 0.02 (1.8 per cent) and reached US \$ 1.3535 per Euro. At this background, there was also observed a significant appreciation of the Euro against the Ruble. In the period from December 1 till December 25, the European currency appreciated against the Ruble by RUR 0.27 (0.73 per cent) from RUR 37.32 per Euro to RUR 37.59 per Euro. Thus, the Euro exchange rate reached its historical maximum both on the world and the Russian market. The aggregate turnover of trade at the SELT amounted to Euro 143.6 million in the period from December 1 till December 25, while the average daily turnover was registered at about Euro 8.98 million. These indicators were somewhat above their respective levels observed in November. In this period, the highest volume of trade with Euro was registered on December 2 at Euro 12.09 million, and the lowest, Euro 7.03 million, was observed on December 7.

Table 2

Financial Markets Indicators

Month	August	September	October	August	December*
Monthly inflation rate	0,4%	0,4%	1,1%	1,1%	1,2%
Inflation rate annualized on the basis of this month's trend	4,91%	4,91%	14,03%	14,03%	15,4%
CB RF refinancing rate	13%	13%	13%	13%	13%
Annualized yield to maturity on OFZ issues (%)	6,64%	7,13%	6,15%	7,97%	7,2%
Volume of trading in the secondary GKO-OFZ market for the month (RUR billion)	20,61	33,59	30,57	18,07	35,0
Yield to maturity on Minfin bonds at the end of the month (% p.a.)					
5th tranche	5,87%	5,84%	5,28%	5,35%	5,0%
6th tranche	4,25%	4,25%	3,80%	3,93%	4,2%
7th tranche	6,90%	6,86%	6,27%	6,38%	5,9%
8th tranche	4,87%	4,76%	4,28%	4,46%	4,5%
Yield to maturity of Eurobonds at the end of the month (% p.a.)					
2005	3,92%	5,14%	6,26%	8,43%	10,0%
2007	5,30%	5,86%	5,39%	6,33%	6,4%
2010	6,76%	7,01%	6,66%	7,03%	7,0%
2018	7,60%	7,61%	7,21%	7,35%	7,1%
2028	8,22%	8,20%	7,83%	7,86%	7,6%
2030	7,23%	7,24%	6,84%	6,93%	6,6%
INSTAR-MIACR rate (% p.a.) on interbank overnight loans at the end of the month	9,86%	3,13%	2,93%	1,26%	1,0%
Official RUR / US\$ exchange rate at the end of the month	29,2447	29,2171	28,7655	28,2367	27,80
Official RUR / Euro exchange rate at the end of the month	35,1463	35,9896	36,6472	37,4165	37,70
Average annualized growth in RUR / US\$ exchange rate	0,49%	-0,09%	-1,55%	-1,84%	-1,5%
Average annualized growth in RUR / Euro exchange rate	0,27%	2,40%	1,83%	2,10%	0,8%
Volume of trading at the stock market in the RTS for the month (US\$ million)	277,15	262,27	470,87	351,53	330
Value of RTS-1 Index at the end of the month	584,65	635,57	663,67	633,34	610
Change in value of RTS-1 Index during the month (%)	8,21%	8,71%	4,42%	-4,57%	-3,5%

* Estimate

D. Polevoy

Investment in the real sector of the economy

According to the estimates presented by the RF Ministry of Economic Development and Trade, in 2004 the increase in investment in fixed assets made 10.5 per cent. This year, the share of investment in fixed assets in GDP is evaluated to be at the level of 14.6 per cent as compared with 16.4 per cent registered in 2003.

The character of investment activities was most significantly affected by the intensive growth in revenues of the economy determined by the exclusively favorable changes in the price situation on the world market, as well as an active policy pursued by the Russian business on the domestic market.

An increase in investment demand is a specific feature of the recovery growth of the development of the Russian economy. In 2000 through 2004, there was observed a trend of outpacing rates of growth in investment in fixed assets in comparison with the GDP dynamics and output of the base sectors of the economy. According to the preliminary estimates for 2004 published by the Ministry of Economic Development and Trade, the increase in investment in fixed assets will make 10.5 per cent. The share of investment in fixed assets in GDP is estimated to be at the level of 14.6 per cent as compared with 16.4 per cent registered in 2003 and approximately corresponds with the average value of this indicator in the period from 1998 till 1999.

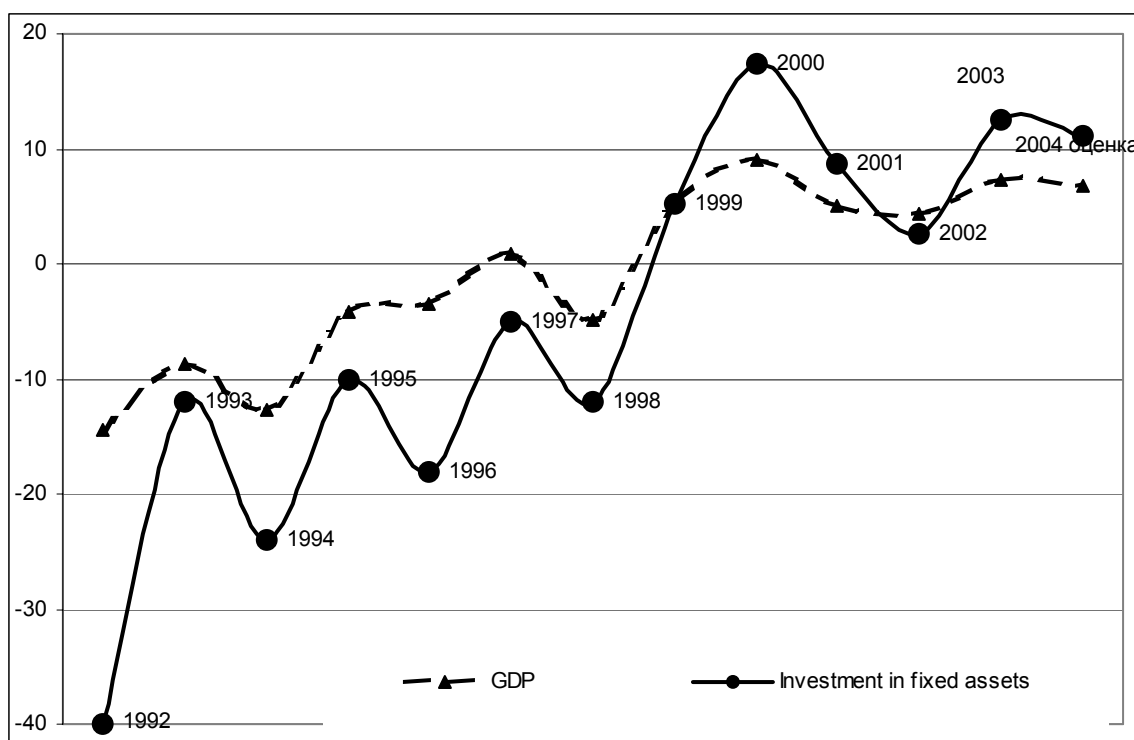


Fig. 1. Rates of growth in GDP and investment in fixed assets in 1992 through 2004, in per cent of the figures registered in the preceding year

The intensive growth in the revenues of the economy had the most significant impact on the nature of investment activities. This circumstance was related to the exceptionally favorable changes in the price situation on the world market of hydrocarbon raw materials and metals, on the one hand, and the active policy of the Russian business aimed at the filling of the niches on the internal market with domestically produced goods, on the other hand. The intensive expansion of investment demand was based on the acceleration of the rates of growth in output of the industries belonging to the investment complex. Due to the increasing orientation towards an active modernization and reconstruction of production both the export sector and manufacturing industries increased their demand for machinery and equipment.

One of the key areas of investment in fixed assets still remains the replacement of worn out equipment and machinery. In 2004, about one third of all organizations the investment aimed at the increase in production capacities both manufacturing the same products, and new goods. At about 40 per cent

to 47 per cent of organization, the motivation to enhance their investment activity was determined by practical problems of enhancement of efficiency of production related to the introduction of new production technologies, diminishing of the first cost of the products, and saving of energy resources. As a result, in 2004 a considerable part of investment in fixed assets was made in purchase of machinery and equipment. According to the data provided by the Rosstat, 88 per cent of organization purchased new machinery and equipment of domestic manufacturing, while 60 per cent of organizations purchased machinery and equipment of foreign production; 22 per cent and 5 per cent of organizations purchased domestic and foreign equipment respectively on the secondary market. In January through September of 2004, the investment in purchase of imported equipment made 23.0 per cent of the total amount of investment in machinery, equipment, and transport vehicles.

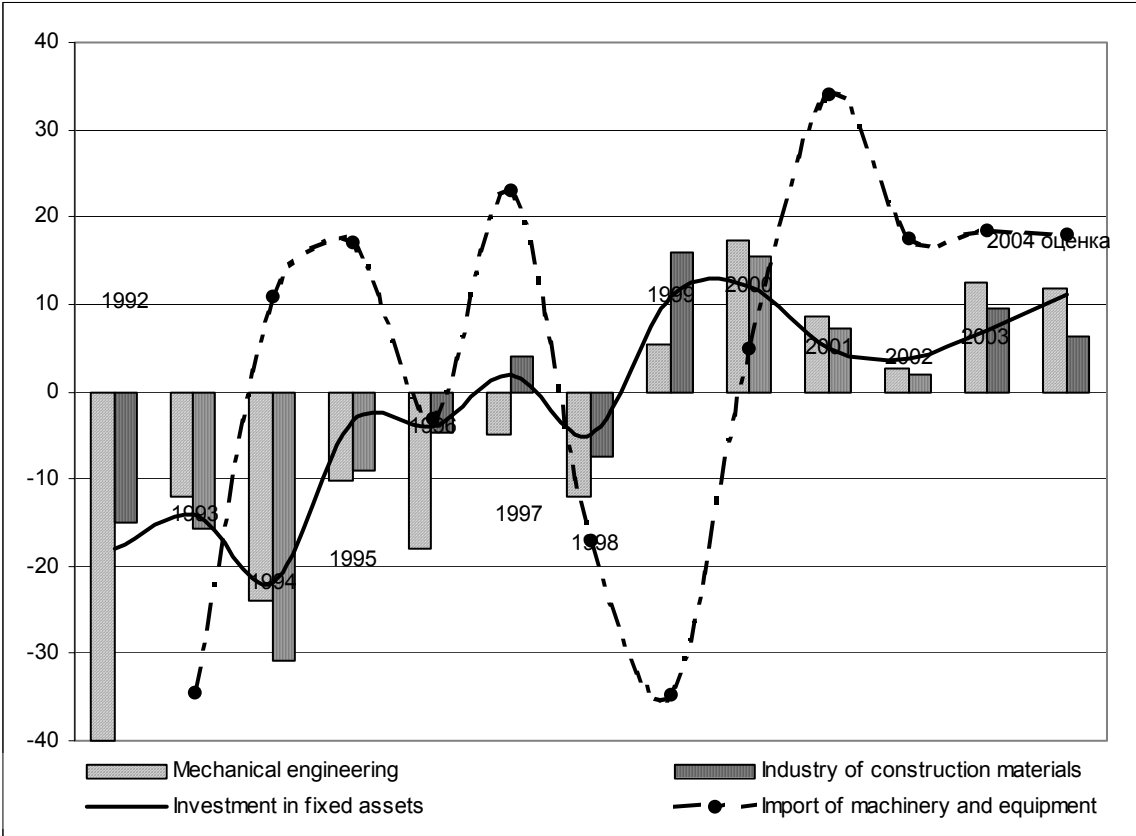


Fig. 2. The rates of growth in investment in fixed assets, production, and import of capital goods in 1992 through 2004, in per cent of the figures registered in the preceding year

The dynamics of output of capital goods across the branches of mechanical engineering were determined by the outpacing rates of growth in production of technical means of general industrial purpose. As concerns the output of investment goods, the leading positions in this area were taken by the industries manufacturing equipment for oil and chemical industries, as well as the branches of mechanical engineering traditionally oriented towards the domestic market: railroad and metallurgy mechanical engineering. The intensive development of the infrastructure branches imparted an impetus to an increase in the growth in the volumes of output of road construction, hoisting and transport mechanical engineering, communication production and instrument making. The fact that domestic mechanical engineering could retain its competitive capacity with respect to similar imported equipment and machinery in terms of prices has created incentives for an expansion of output of equipment for the consumer complex industries.

The shift from financing of investment in fixed assets from own funds of enterprises and organizations to the increase in the share of borrowings was a principally new moment of economic growth. This shift is an important illustration of qualitative changes in the mechanism of investment development oriented towards the rationalization of investment resource flows. In January through September of 2004, the share of own funds made 47.4 per cent of the total amount of investment in fixed assets. The

changes in the proportions of borrowed funds was determined by the outpacing rates of growth in bank credits and borrowings from other organizations at the background of moderate participation of budgetary sources of financing.

In 2004, the share of banks in the crediting of investment increased up to 7.7 per cent as compared with 5.2 per cent registered in 2003 and 2.9 per cent registered in 2000. In 2003 and 2004 there were observed higher rates of economic growth, while the positive dynamics of growth in foreign direct investment in the Russian economy persisted. As concerns the results of the first three quarters of 2004, the increase in foreign investment made 39.1 per cent, while the share of foreign investment in the total amount of investment in the national economy made 5.4 per cent.

Table 1

Structure of investment in fixed assets across sources of financing in per cent of the total

	1998	1999	2000	2001	2002	2003	2004*
Investment in fixed assets, total	100	100	100	100	100	100	100
Including							
1. <i>Own funds</i>	53,2	52,4	47,7	49,4	48,0	46,2	47,4
of which							
Profits	13,2	15,9	23,4	24,0	20,5	17,2	17,0
2. <i>Borrowings</i>	46,8	47,6	52,5	50,6	52,0	53,8	52,6
of which							
Bank credits	4,8	4,2	2,9	4,4	4,8	5,2	7,7
Including credits of foreign banks			0,6	0,9	0,5	0,8	1,4
Borrowings form other organizations	4,3	5,6	7,2	4,9	6,0	8,6	7,3
Budget resources:	19,1	17,0	22,0	20,4	19,6	18,8	16,9
Federal budget	6,5	6,4	6,0	5,8	6,0	6,5	4,9
Budgets of RF subjects and local budgets	12,6	10,6	16,0	14,6	13,6	11,5	11,2
Foreign investment in the total amount of investment in fixed assets	3,5	6,6	4,7	4,5	4,1	4,7	5,4

*) according to the data collected in January through September of 2004

Source: Federal Service of State Statistics

Among the factors behind the increasing role of banks and borrowings from other organizations there may be indicated the dedollarization of household savings. The decline in the amounts of household cash savings denominated in foreign exchange and conversion of such funds in Rubles was accompanied by the growing amounts of deposits in banking structures. The low real value of credit resources at the average profitability levels formed in the economy resulted in the expansion of the circle of enterprises-borrowers in the sector of the economy oriented towards the domestic market. The attractiveness of financial market was significantly affected by an increase in the share of medium and long term assets accumulated by the banking system. At the same time, in the situation of economic growth it became apparent that management of investment did not correspond to the dynamic processes of restructuring of the Russian economy.

O. Izryadnova

Foreign investment

As at the end of September of 2004, the accumulated amount of foreign investment in the non-financial sector of the Russian economy (not taking into account the monetary and credit regulating authorities, commercial and savings banks, and including Ruble denominated investment in US \$ equivalent) made about US \$ 73.42 billion, what was by 28.8 per cent above the level of this indicator registered as on January 1, 2004. The similar indicator of the total amount of foreign investment observed in the first 9 months of 2004 is evaluated to be at US \$ 29.1 billion.

Table 1

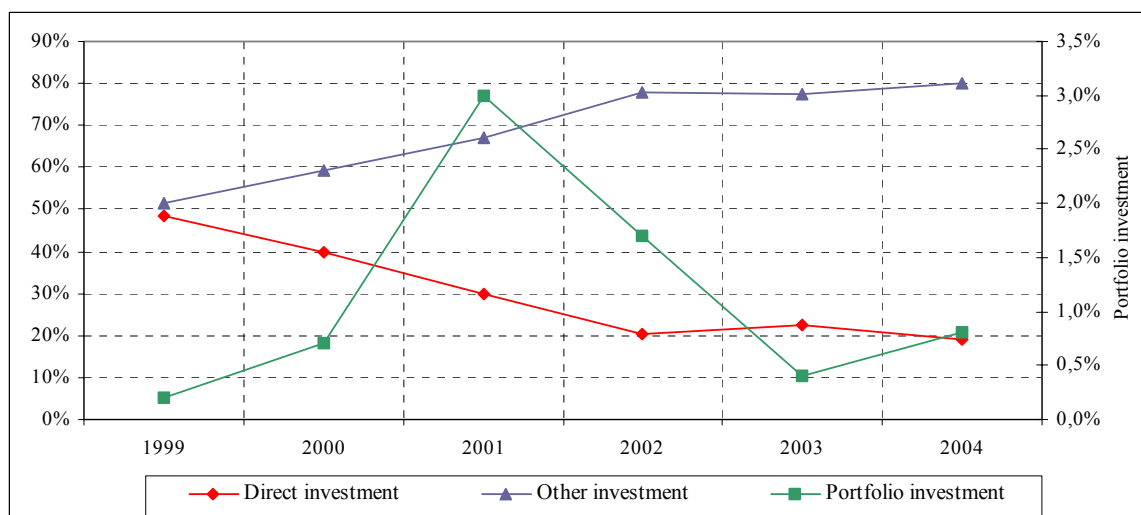
The structure of foreign investment in the Russian economy in January through September of 2000 through 2004.

	US \$ mil.				In % of the figures registered in the preceding year			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
2000	7 888	3 154	59	4 675	22,0	0,7	6,6 times more	40,6
2001	9 721	2 920	292	6 509	23,2	-7,4	4,9 times more	39,2
2002	12 905	2 631	224	10 050	32,8	-9,9	-23,3	54,4
2003	20 899	4 665	81	16 153	61,9	77,3	2,8 times less	60,7
2004	29 135	5 590	227	23 318	39,4	19,8	2,8 times more	44,4

Source: RF Goskomstat

This year, the trend towards an excess of the foreign investment in the Russian economy over the Russian investment abroad persisted. In the first 9 months of 2004, the Russian economy received by US \$ 3.78 billion more investment than there was exported. In January through September of this year, 43.7 per cent of the received foreign investment were withdrawn as transferred abroad earnings of foreign investors, payments pertaining to the interest on credits, and repayment of credits (as compared with 49.0 per cent registered in the first nine months of 2003).

The rates of growth in foreign direct investors observed in January through September of 2004 have declined 4 times in comparison with the figures registered in the respective period of 2003 and made 19.8 per cent. At the same time, the rates of growth in "other" investment remained at the level registered in the preceding year, what taking into account their higher absolute amounts resulted in an increase in the share of "other" investment to 80 per cent.



Source: RF Goskomstat

Fig. 1. The structure of foreign investment in the Russian economy in January through September of 1999 through 2004

Similarly to the situation observed in the preceding year, in 2004 the concentration of foreign investment in two spheres of the Russian economy: industry and trade and public catering persisted. At the same time, this year the highest rates of growth in foreign investment were observed in the sphere of finances, credit, insurance, and industry. The distribution of foreign investment across the key sectors of the Russian economy is presented in Table 2.

Table 2

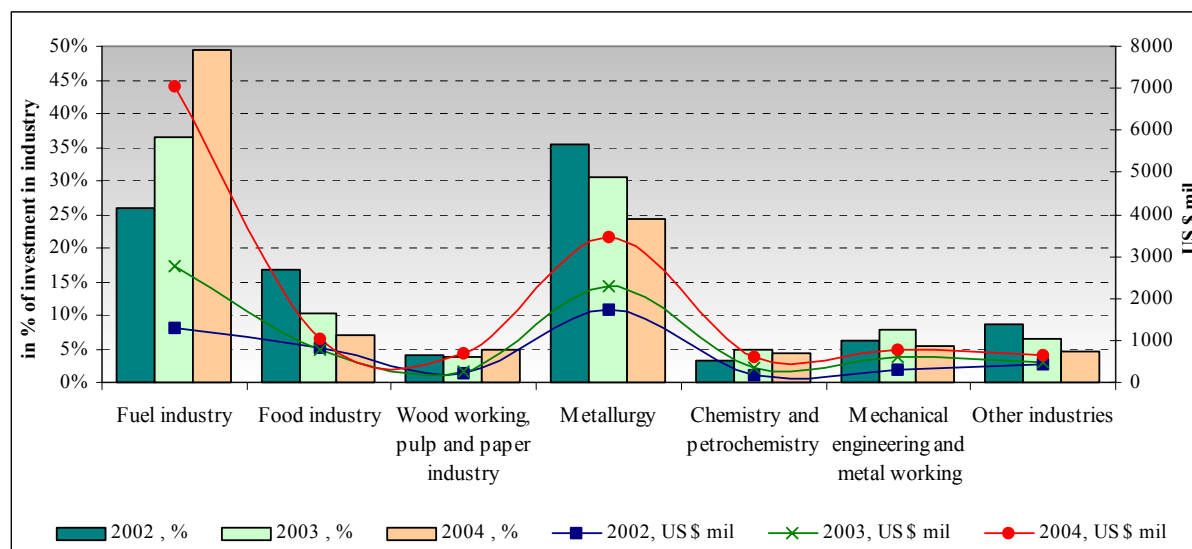
**The sectoral structure of foreign investment in the Russian economy
in January through September of 2002 through 2004**

	US \$ mil.			Changes in % of the figures registered in the preceding year			In % of the total		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Industry	4 950	7 581	14 282	31,8	53,2	88,4	38,4	36,3	49,0
Transport and communications	427	882	1 489	-57,8	106,6	68,8	3,3	4,2	5,1
Trade and public catering	5 292	8 948	9 557	55,1	69,1	6,8	41,0	42,8	32,8
Commercial activities relating to market servicing	1 131	1 956	1 133	83,3	72,9	- 42,1	8,8	9,4	3,9
Finance, credit, insurance, pensions	105	226	691	-8,7	115,2	3,1 times	0,8	1,1	2,4
Other sectors	1 000	1 306	1 983	23,5	30,6	51,8	7,7	6,2	6,8

Source: RF Goskomstat

A positive development in this year was the fact that there was observed a growth in investment across all key branches of industry.

In the first 9 months of 2004, the foreign investment in forestry, wood working, and pulp and paper industries, as well as in fuel industry increased 2.5 times as compared with the figures registered in the respective period of 2003, while investment in chemistry and petrochemistry grew by 64.9 per cent, investment in metallurgy rose by 50.9 per cent, investment in mechanical engineering, metal working, and food industry increased by 31 per cent respectively. At the same time, in comparison with the figures observed in January through September of 2003, there were observed significant changes in the branch structure of foreign investment in industry: a significant increase in investment in fuel industry and wood working resulted in the growth in their shares at the background of a decline in the specific weight of other branches of industry.



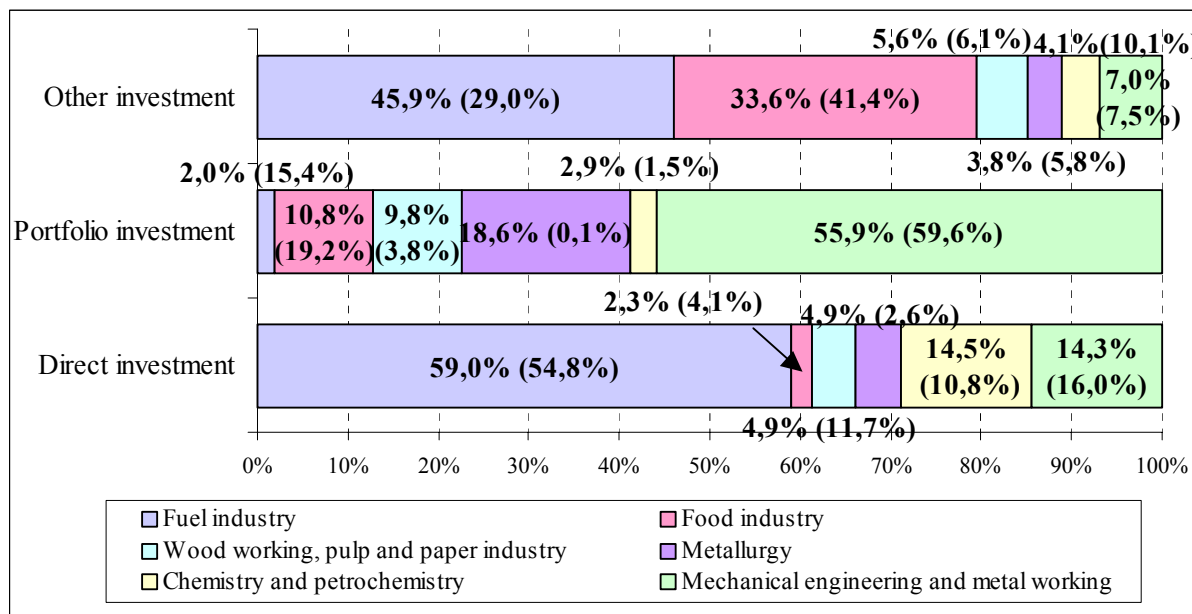
Source: RF Goskomstat.

*Fig. 2. The branch structure of foreign investment in industry
in January through September of 2002 through 2004*

The Ruble appreciation and respective enhancement of competition on the part of imported goods may result in a decline in investment in the branches oriented towards the domestic market (for instance, in the food industry).

Similarly to the situation observed in 2003, the structure of foreign investment in industry was characterized by a higher share of foreign direct investment in comparison with the respective structure of the total foreign investment in the Russian economy (28.9 per cent in the first 9 months of 2004).

Although the rates of growth in direct and “other” investment in industry in 2004 are identical and made 85.7 per cent and 88.5 per cent respectively, the growth of investment in production occurred primarily at the expense of “other” investment, which increased by US \$ 4.72 billion in absolute terms (up to US \$ 10 billion) in comparison with the figures registered in the first 9 months of 2003 (the increase in direct investment in industry over this period made US \$ 1.9 billion). Fuel industry accounted for more than 65 per cent of the increase in “other” investment (US \$ 3.1 billion).



Source: RF Goskomstat

Fig. 3. Structure of foreign investment in industry in January through September of 2004 (the data for January through September of 2003 are presented in brackets).

In 2004, there were registered significant changes in the structure of foreign investment in a number of industries.

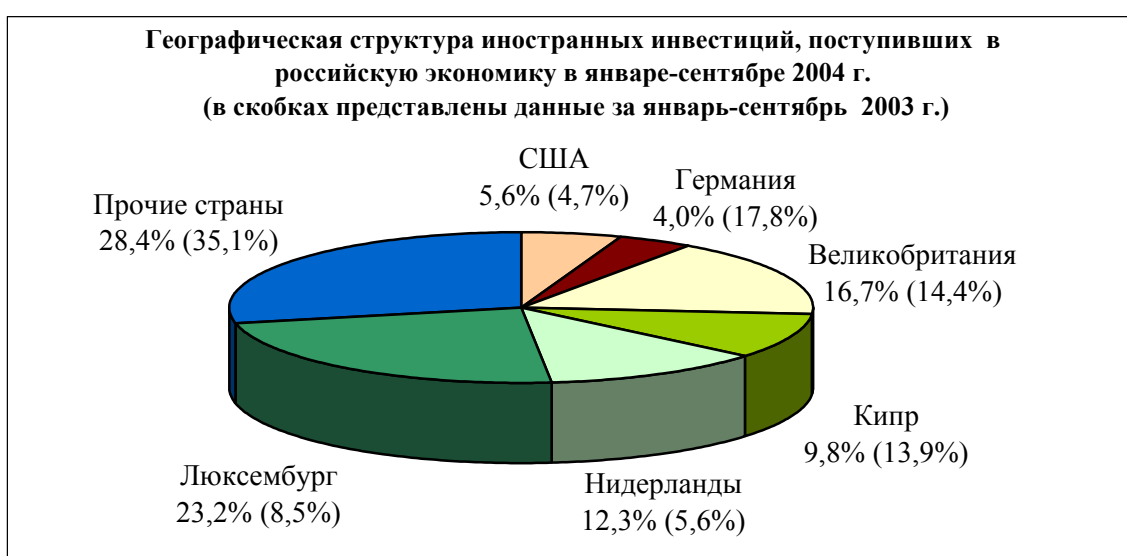
As concerns the structure of foreign investment in food industry, in January through September of 2004 the specific weight of direct investment there increased to 58.9 per cent, while in the respective period of the preceding year the growth made only 30.9 per cent. A similar situation was observed in chemistry and petrochemistry, where the share of direct foreign investment increased more than 2 times (from 15.5 per cent to 33.7 per cent). As concerns the structure of foreign investment in mechanical engineering, metallurgy, fuel industry, and wood working, there on the contrary increased the specific weight of “other” investment: in mechanical engineering – from 55.6 per cent to 72.5 per cent, in metallurgy – from 95.8 per cent to 97.0 per cent, in fuel industry – from 55.8 per cent to 65.4 per cent, in wood working – from 40.9 per cent to 64.7 per cent.

A significant increase in investment in fuel industry resulted in changes in the regional structure of foreign investment in the Russian economy. For instance, the amount of investment in Moscow remained at the level observed in 2003, while foreign investment in the Tyumen oblast made US \$ 4.7 billion in the first 9 months of 2004, what was 3.1 times more than the figures registered in the respective period of the preceding year. The similar indicator for the Khanty Mansi autonomous okrug made US \$ 3.9 billion, what was 2.7 times above the level registered in the preceding year. Over this period, investment in St. Peterburg grew by 28 per cent and made US \$ 651 million. In the first 9 months of

this year, investment in Tatarstan were at US \$ 456.8 million, while the overall amount of investment in this region in 2003 made only US \$ 176.1 million.

As concerns the geographical structure of foreign investment made in the Russian economy in January through September of 2004, Luxemburg held the leading positions, which accounted for 23.2 per cent of the total amount of investment made in the Russian economy in January through September of 2004, while the UK investment is second at 16.7 per cent of the total amount of foreign investment.

In 2004, the Luxemburg investors increased their investment in the Russian economy almost 4 times, what was 3 times above investment from the Netherlands. In the first 9 months of 2004, the most significant decline in investment in the RF was registered with respect to investors from Germany. Over this period, German investment made US \$ 1.17 billion (as compared with US \$ 4.3 billion registered in the preceding year). French investment in the Russian economy has also declined to US \$ 1.9 billion (from US \$ 3.7 billion in 2003). The differences in the dynamics of investment from different countries resulted in significant changes in the geographical structure of investment in the Russian economy.



Source: RF Goskomstat

In 2004, the sectoral preferences of foreign investors from different countries also shifted. Thus, while in 2003 investors from Luxemburg invested in trade and public catering (60.1 per cent of the total investment from Luxemburg to the RF in 2003) and metallurgy (35.2 per cent), in 2004 these investors preferred fuel industry (51.8 per cent of the total investment from Luxemburg to the RF in January through September of 2004), communications enterprises (7.1 per cent), and the sphere of trade and public catering (40.1 per cent).

In January through September of 2004, entrepreneurs from UK significantly diminished their investment in the general commercial activities relating to market servicing: from 30.1 per cent of their aggregate investment in the Russian economy in 2003 to 8.5 per cent in January through September of 2004. At the same time, they increased their investment in the sphere of trade and public catering (from 39.6 per cent in 2003 to 45.3 per cent in January through September of 2004) and metallurgy (from 10.3 per cent to 27.4 per cent). In January through September of 2004, the share of investment in communications made 8.5 per cent of the total amount of UK investment (the data about UK investment in communications in 2003 are unavailable).

For investors from France, the priority sector was fuel industry, where they invested US \$ 2.7 billion, or 72.5 per cent of the total French investment in the RF in 2003. In the first 9 months of 2004, the respective indicator was registered at only US \$ 200 million, or 10.4 per cent of the total French investment. At the same time, the share of investment in trade and public catering in the French investment in the Russian economy in January through September of 2004 increased to 59.8 per cent.

Over the first 9 months of 2004, the Netherlands, Luxemburg, Cyprus, Germany, and UK were the leaders in terms of the total amount of accumulated foreign investment. Their share made 64.8 per

cent. The top five investing countries also accounted for 59.0 per cent of direct foreign investment, 51.3 per cent of portfolio investment, and 69.5 per cent of “other” investment.

Table 3.

**Structure of accumulated foreign investment as broken
down by major investing countries**

	Accumulated by 01.10.2004 US \$ mil.				Change to 01.01.2004, in %			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
USA	6 670	4 207	412	2 051	25,9	-2,1	10 times	2,1 times
Germany	9 378	2 410	7	6 961	-8,1	-5,2	54,7 times less	-4,0
France	4 206	364	0,1	3 842	-11,9	10,0	0,0	-13,6
UK	7 422	1 460	143	5 819	2,8	-48,4	33,6	35,8
Cyprus	9 580	5 545	562	3 473	18,5	10,1	2,7	38,9
The Netherlands	10 678	7 858	43	2 777	3 times	2,8 times	в 8,6 p.	3,6 times
Luxemburg	10 560	280	1	10 279	3 times	26,1	0,0	3,2 times
Other countries	14 935	7 645	306,9	6 983	3,8	-5,4	-11,0	16,9
Total	73 429	29 769	1 475	42 185	28,8	13,9	3,2	43,2

Source: RF Goskomstat.

On November 18, 2004, the international ranking agency Fitch increased the Russia’s sovereign ranking up to the investment level. On October 8, 2003, the agency Moody’s also granted Russia the investment ranking. At the end of November of 2004, the ranking agency Standard & Poors also announced that it was ready to increase the Russia’s sovereign ranking to the investment level. This fact will have a positive impact on the investment climate in Russia in the future and will facilitate an inflow of foreign capital in the Russian economy.

E. Ilyukhina

The Real Sector of the Economy: Factors and Trends

In 2004, the dynamics and structure of production were favorably affected by the changes observed in the business situation on the world markets, the growth in investment in fixed assets and the dynamic development of the sector of services. In January through September of 2004, the amount of GDP made Rub. 12164.4 billion and increased by 7.0 per cent in comparison with the figures registered in the respective period of the preceding year. While in 2004 the added value in the sector of manufacturing of goods grew by 6.2 per cent, the market services increased by 7.5 per cent.

The calculation of forecast values of macroeconomic indicators until end-2004, carried out by IET, demonstrates that the amount of GDP will increase by 6.9 per cent by the end of the year, while investment in fixed assets and exports will be at 111.5 per cent and 129.4 per cent as compared with the figures registered in the preceding year.

The economic recovery observed in 1999 through 2004 occurred at the background of simultaneous recovery of positive dynamics in both the sector of production of goods and services sector. In January through September of 2004, the amount of GDP made Rub. 12164.4 billion and increased by 7.0 per cent in comparison with the figures registered in the respective period of the preceding year. While in 2004 the added value in the sector of manufacturing of goods grew by 6.2 per cent, the market services increased by 7.5 per cent. In 2003 and 2004, the dynamics of market services were most significantly affected by the accelerating rates of growth in services rendered by transport, communications, trade, commercial activities ensuring market operation, and transactions with real estate.

In the last five years, at the background of a stable growth in effective household demand the turnover of retail trade increased at the rates outpacing the GDP dynamics. In January through November of 2004, the index of turnover of retail trade made 111.8 per cent. The development of trade was accompanied by the intensive development of the material and technical basis of the sector and shifts in

the structure of rendered services. The increase in the role played by organized forms of trade in the structure of turnover was accompanied by an intensive growth in trading space, warehouses, and services. Trade demonstrates a growing demand for equipment, information services, services rendered by the sector of communications and transport. The share of trade in the GDP produced in 2004 made 22.6 per cent. It should be noted that dynamic structural shifts were a characteristic feature of the development of this sector of the economy. First, the favorable changes in demand on the world market have determined the outpacing rates of growth and an increase in the specific weight of foreign trade in the structure of the trade turnover. Second, the specific feature of the Russian economy was almost twofold excess of the amounts of the wholesale trade over the retail trade turnover. As business activity revived, the intensive growth in wholesale trade was supported by the expanding demand for material and technical resources on the domestic market.

The growing demand for industrial goods was accompanied by increasing use of transport capacities. In January through November of 2004, the commercial freight turnover grew by 6.4 per cent, while industrial output increased by 6.2 per cent. Export oriented industries had the most important impact on the changes in demand for transport services. In September, the export freight of rail road transport increased by 11.5 per cent in comparison with the figures registered in the respective period of the preceding year. The growth in the freight turnover of pipeline transport made 6.7 per cent as compared with the figures observed in January through October of 2003. As concerns the rates of growth in freight of staple goods by the railroad transport, oil, oil products, ferrous and non-ferrous ores, and products of ferrous metallurgy retain their leading positions.

Communications sector is one of the most prospective and rapidly developing sectors of the economy. In January through November of 2004, the rates of increase in rendered communications services made 27.3 per cent. The share of telephone communications accounted for almost three fourth of the total proceeds of the sector, including the proceeds of mobile communications, which were at 40 per cent. as on October 1, 2004, the total number of subscribers of mobile operators made 58.5 thousand and increased by 23 million subscribers, or 64.8 per cent in comparison with 23 million subscribers registered in the beginning of the year.

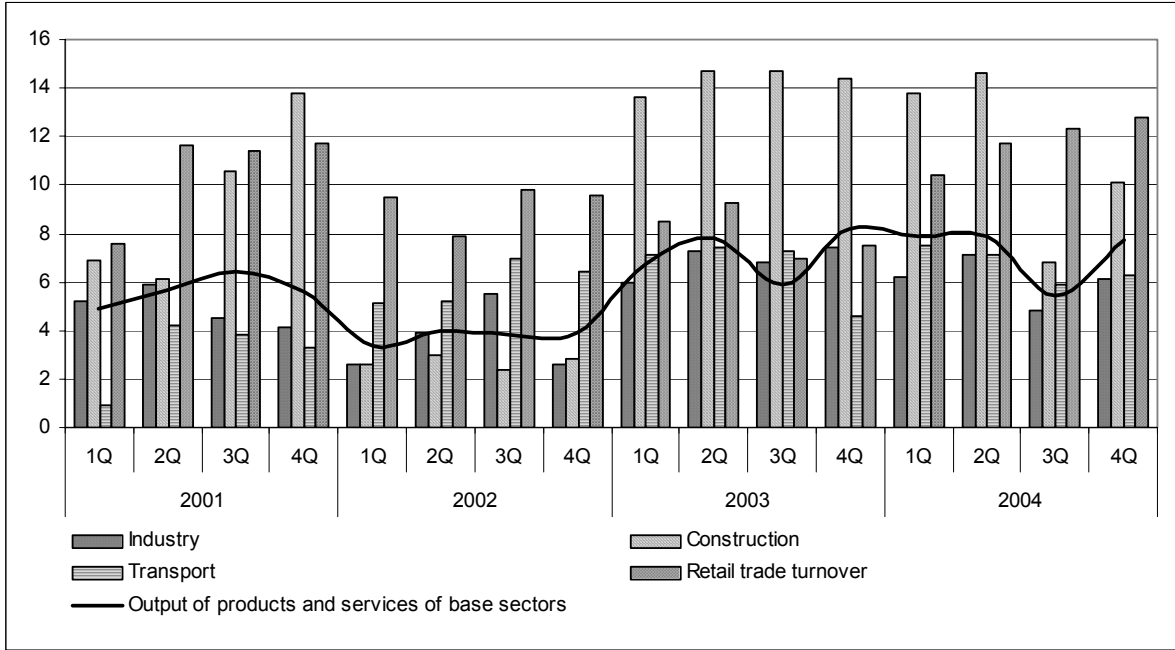


Fig. 1 Changes in rates of growth across the sectors of the economy in 2001 through 2003, in % of the figures registered in the respective period of the preceding year

The simultaneous growth of investment and consumer markets has determined the enhancement of the role played by the domestic demand in the formation of economic dynamics. According to the experience accumulated over the last 6 years, the ratio between investment demand and final consumption most acutely reacts to the changes in export proceeds and determines the specifics of the

domestic market functioning. Sharp fluctuations of investment expenditures for reproduction of fixed assets were compensated by a smooth shift in the dynamics of final household consumption.

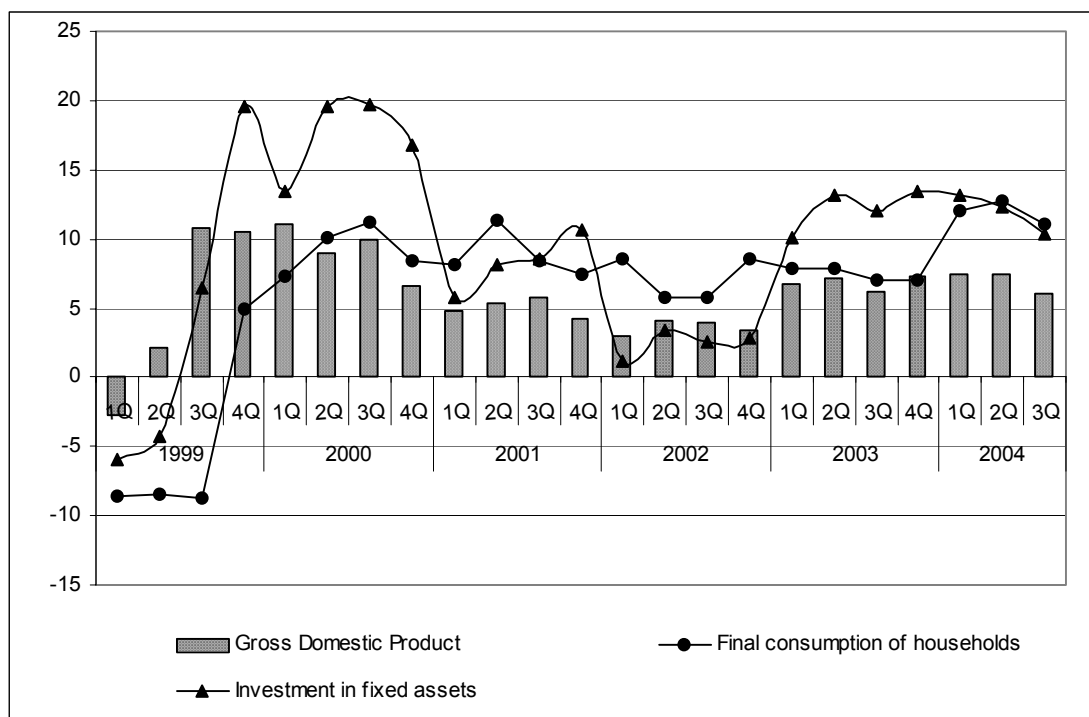


Fig. 1 Changes in the dynamics of GDP across the components of final demand in 1999 through 2004, in % of the figures registered in the preceding year

The positive dynamics of final consumption were a factor behind the stable development of the domestic market. The growth in the scale of final consumption occurred at the background of a rather stable persistence of the ratio between the household consumption and social transfers received from state institutions and noncommercial organizations. The support of the dynamics of domestic demand was based on the growth in real wages and salaries and household incomes, what was accompanied by the redistribution of incomes from enterprises to households. These developments resulted in the end in an increase in production costs and a decline in profitability of production.

In 2003, at the background of an intensive growth in output, there became perceptible that the rate of increase in labor productivity became closer to the rates of growth in wages and salaries. However, the impact of this process on the changes in the indicators of efficiency of the operations carried out by enterprises and organizations remained rather insignificant and unstable. In 2004, the dynamics of wages and salaries again outpaced the growth in labor productivity. In January through November of 2004, the increase in real wages and salaries made 11.5 per cent as compared with 9.8 per cent registered in the respective period of the preceding year. Low labor productivity and low efficiency of utilization of resources were a major factor negatively affecting the dynamics of economic development. It should be noted that the potential for a further increase in the costs associated with remuneration of labor began feel the constraints of the changes in the competitive environment on commodity markets due to the Ruble appreciation and growing pressure on the part of imports.

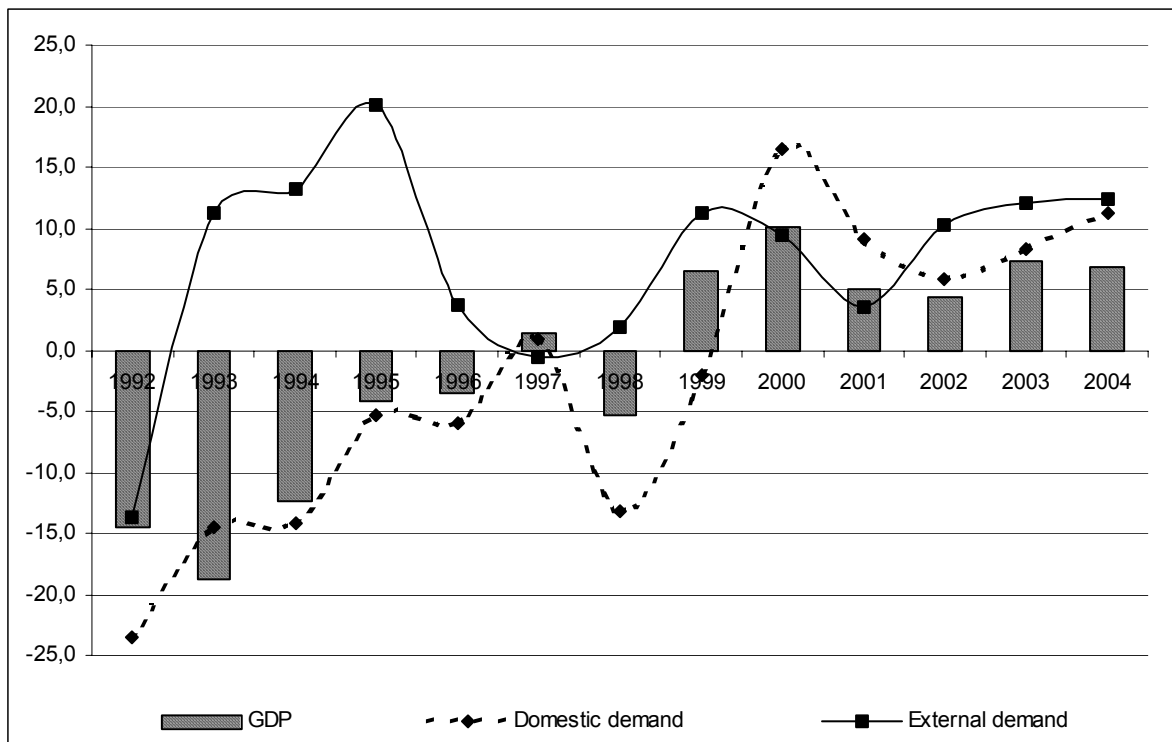


Fig. 1 The rates of growth in the domestic and external demand in 1992 through 2004, in per cent of the figures registered in the preceding year

The increasing influence of external factors on the nature of development of the Russian economy characteristic for the recovery growth occurred at the background of expanding demand and favorable shifts of prices on world commodity and raw materials markets. The external factors related to both high prices of oil and metals and the potential for a significant rise in the export of energy resources can explain almost one third of the economic growth. In January through October of 2004, the amount of Russian export of goods grew by 32.1 per cent as compared with the figures registered in the respective period of the preceding year.

The relative decline in the prices of imported raw materials and material and technical resource has finally had a significant impact on the changes in the competitive environment and detected problem zones of growth. In particular, while the dynamics of consumer imports were checked by the rather strong positions of Russian producers of food products, the increase in investment imports was accompanied by the squeezing of Russian producers from the respective markets. As a result, taking into account both the positive impact of expansion of the domestic demand and the negative impact of the real exchange rate appreciation and changes in the ratio between domestic prices and import prices, the general competitive positions of Russian producers have returned to the level registered in pre-crisis 1997. These developments have sharply intensified competition between domestic products and imported commodities shifting the center of gravity towards non-price factors.

The calculation of forecast values of macroeconomic indicators until end-2004, carried out by IET, demonstrates that the amount of GDP will increase by 6.9 per cent by the end of the year, while investment in fixed assets and exports will be at 111.5 per cent and 129.4 per cent as compared with the figures registered in the preceding year. For a more detailed forecast of the dynamics of key macroeconomic indicators in 2005, see the bulletin "Stsenarny makroekonomicheskiy prognoz na 2005 g." presented on the IET web site at www.iet.ru.

O. Izryadnova

Oil and natural gas sector

In 2004, the development of oil and natural gas sector was characterized by the persistence of the trend towards the growth in production. In January through November of 2004, the volume of oil output (including gas condensate) increased by 9.1 per cent in comparison with the figures registered in the respective period of the preceding year, primarily at the expense of an increase in exports. The world oil prices were at an exceptionally high level, what permitted to significantly increase export proceeds. The current situation on the world market allows to expect that the world oil prices will remain at a rather high level and the favorable conditions of development of the oil and natural gas sector will persist in the short term.

The price situation on the world oil markets determined the development of the oil and natural gas sector of the Russian economy. Due to the fact that the world economy grew at rather high rates, OPEC¹³ member countries had in place the limitations on oil extraction, and production of oil in Iraq decreased, the world oil prices were at an exceptionally high level. The persistence of high oil prices was facilitated by a decline in oil production in the Mexico Gulf as a result of the September hurricane, the conflict in the Niger delta, as well as strikes in Nigeria, Norway, and Brazil. As a result of these developments, in October of 2004 the average price of the Brent oil reached US \$ 49.6 per barrel, while the price of Russian Urals oil exceeded US \$ 42 per barrel. In 2004, the average price of the oil basket of OPEC member countries was above the upper target price threshold (US \$ 22 to US \$ 28 per barrel) set by the organization. In January through September of 2004, the average price of Russian Urals oil on the world (European) market oil was at US \$ 33.0 per barrel. At the end of 2004, there was observed a decline in the world oil prices determined by the growing production of oil in the OPEC¹⁴ member countries, the restoration of the volumes of extraction of oil in the Mexico Gulf, and increasing supply of oil from the countries of the former Soviet Union. In November of 2004, the average Urals oil prices decreased to US \$ 38.2 per barrel (see Table 1).

Table 1

World oil prices in 2004, US \$ per barrel.

	2004 1 Q	2004 2 Q	2004 3 Q	2004 October	2004 November
Brent, UK	31,95	35,36	41,54	49,64	42,84
Urals, Russia	28,94	32,54	37,41	42,34	38,24
OPEC oil basket	30,80	34,41	38,97	45,37	38,96

Source: OECD International Energy Agency, OPEC.

The development of the oil and natural gas sector of the economy in 2004 was characterized by a persisting trend towards an increase in extraction of oil and oil products, which formed in 2000 through 2003. In January through November of 2004, the volume of oil output increased by 9.2 per cent in comparison with the figures registered in the respective period of the preceding year, while the increase in primary processing of oil grew by 2.1 per cent. An increase in extraction of natural gas first registered in 2002 continued in January through October of 2004 making 2.1 per cent (see Table 2). At the same time, in the oil sector there was observed a certain decrease in investment activity: in January through October of 2004, the volume of oil production drilling declined by 2.0 per cent as compared with the figures registered in the respective period of the preceding year, while the oil surveying drill-

¹³ In accordance with the decisions taken at the September (2003) OPEC conference, since November 1, 2003, the OPEC oil extraction quotas were reduced by 900 thousand barrels a day (from 25.4 to 24.5 million barrels a day), while in accordance with the decision taken in the course of the February and March (2004) OPEC conferences, the quotas on oil extraction by the organization's member countries were further reduced by 1 million barrels a day to 23.5 million barrels a day.

¹⁴ In accordance with the decisions taken at the June (2004) OPEC conference, since July 1, 2004, the OPEC oil extraction quotas were increased to 25.5 million barrels a day and to 26.0 million barrels a day since August 1, 2004. In accordance with the decision taken in the course of the September (2004) OPEC conferences, the quotas on oil extraction by the organization's member countries were further increased to 27.0 million barrels a day since November 1, 2004, i.e. by additional 1 million barrels.

ing decreased by 18.1 per cent (this development may be explained by the sufficient level of available reserves) and commissioning of new oil drilling wells declined by 4.3 per cent. In the oil processing industry, the output of oil products refined with the use of modern processing technologies increased by 2.1 per cent, while the degree of processing of crude oil grew from 70.4 per cent in January through October of 2003 to 71.8 per cent in January through October of 2004. The share of high octane gasoline in the total amount of motor gasoline increased from 52.7 per cent in January through October of 2003 to 55.4 per cent in 2004.

Table 2

**Oil, oil products, and natural gas output in 2000 through 2004,
in % of the figures registered in the preceding year**

	2000	2001	2002	2003	2004 January - November
Oil, including gas condensate	106,0	107,7	109,0	111,0	109,2
Oil	105,9	107,7	108,7	111,1	108,9
Gas condensate	103,8	106,7	112,8	108,7	117,5
Primary oil processing	102,7	103,2	103,3	102,7	102,1
Motor gasoline	103,6	100,6	104,9	101,2	103,3
Diesel fuel	104,9	102,0	104,7	102,0	102,2
Furnace fuel oil	98,3	104,2	107,1	100,3	97,4
Natural gas, cub. m. billion	98,5	99,2	101,9	103,4	101,5
Oil gas, cub. m. billion	102,5	105,0	110,5	119,3	106,4

Source: Federal Service of State Statistics.

In 2004, there was observed a significant growth in prices of oil and oil products occurring on the domestic market, what was primarily related to the enhancement of the potential of oil export. Due to the high level of world oil prices, the exports based on combined transport schemes including the use of rail road and river transport became efficient. In October, the average domestic oil price (producers' price) in dollar terms increased to US \$ 105.3 per metric ton. The average motor gasoline price has reached US \$ 318.8 per metric ton, what is the record high over the whole post reform period. In the last few months, oil and natural gas prices have significantly exceeded the pre-devaluation level (see Table 3, Figures 1 and 2).

Table 3

**Domestic oil, oil products, and natural gas prices (in US \$) in 2000 through 2004
(average wholesale prices of producers, US \$ / metric ton)**

	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Jun.	2004 Oct.
Oil	54,9	49,9	60,7	70,1	87,5	105,3
Motor gasoline	199,3	151,5	168,8	236,9	275,1	318,8
Diesel fuel	185,0	158,5	153,8	214,3	244,6	324,6
Furnace fuel oil	79,7	47,1	66,1	66,0	94,9	88,3
Gas, US \$ / thous. c. m.	3,1	4,8	5,9	4,4	9,7	10,0

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

In January through September of 2004, the oil exports increased by 13.0 per cent in comparison with the figures registered in the respective period of the preceding year, while export of oil products grew by 4.0 per cent (see Table 4). The share of exports in commodity resources of diesel fuel made 54.7 per cent, furnace fuel oil – 64.0 per cent, motor gasoline – 13.9 per cent (memorandum: in 1999 the share of exports in the amount of motor gasoline output made only 7.2 per cent). The high level of world oil prices determined a significant increase in the proceeds from oil exports. In January through September of 2004, the amount of oil exports increased by 43.5 per cent as compared with the figures registered in the respective period of the preceding year, what is more than 3 times above the growth in the volumes of oil exports. In January through September of 2004, the aggregate amount of the export of oil and major types of oil products reached US \$ 45.24 billion.

The import of oil products increased as a result of the rise in domestic prices of oil products and real Ruble appreciation. On the whole, in January through September of 2004, the import of oil products

increased 3.2 times in comparison with the figures observed in the respective period of the preceding year. At the same time, imports of motor gasoline grew more than 7 times in comparison with the figures registered in the preceding year, while the share of imports in the gasoline resources increased from 0.2 per cent to 1.5 per cent. However, the specific weight of imports remains rather low. For instance, in the first six months of 1998, i.e. before the Ruble devaluation, the specific weight of imports in the gasoline resources made 8.7 per cent.

At the same time, there was registered an increase in the rates of growth in natural gas exports in comparison with the figures registered last year, what was primarily caused by the growing supply of natural gas to the CIS member countries (in January through September of 2004 natural gas exports to these countries increased by 22.5 per cent).

Table 4

**Export of oil, oil products, and natural gas from Russia, in per cent
of the figures registered in the respective period of the preceding year**

	2002	2003	2004 January - September
Oil, total	113,9	117,8	113,9
Including exports to countries outside CIS	109,9	118,9	115,4
To CIS member countries	137,3	112,4	106,3
Oil products, total	118,5	103,6	104,0
Including exports to countries outside CIS	119,1	102,6	102,6
To CIS member countries	102,8	132,3	139,3
Natural gas, total	102,4	102,0	108,9

Source: Federal Service of State Statistics.

The high level of world oil prices observed in 2004 determined a significant growth in proceeds of the oil sector of the economy. In January through September of 2004, the aggregate proceeds from export of oil and staple oil products (furnace oil, diesel fuel, and motor gasoline) made US \$ 45.24 billion, while their specific weight in the Russian exports made 35 per cent. In January through September of 2004, the total revenues (the balanced financial results) of the oil industry, including the oil extracting and oil processing industries, made US \$ 8.05 billion. At the same time, the profits derived by oil industry made 33.2 per cent of the total revenues of the whole Russian industry and 17.7 per cent of the total revenues of the national economy at large. The proceeds of the oil sector determined a high level of tax revenues of the state budget and permitted oil companies to retain a relatively low level of creditor indebtedness (see Table 5).

Table 5

Financial indicators of oil industry in 2000 through 2004, in US \$ billion

	2000	2001	2002	2003	2004*
Proceeds from export of oil and staple oil products	34,89	33,43	38,72	51,13	45,24
Profit (balanced financial results)	10,42	8,14	4,32	6,70	8,05
Outstanding creditor indebtedness (at the end of the year)	1,35	1,01	0,90	1,07	1,12
Including indebtedness to suppliers	0,55	0,52	0,59	0,85	0,82
To the budget	0,27	0,15	0,10	0,07	0,08

* The data on the exports – for January through September, on profits – for January through August, for creditor indebtedness – as at the end of August.

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

An analysis of the current situation on the world oil market permits to expect that rather high levels of world prices will persist in the near term outlook. According to the base variant of the last (December of 2004) forecast of the Energy Information Administration of the US Department of Energy, in 2005 the world price of oil, calculated as the average price of the oil basket imported in the USA, will make on the average US \$ 40.6 per barrel (see Table 6), while over the year there will be observed a

gradual decline in the world oil prices as compared with the current level (US \$ 42.9 per barrel in the 4th quarter of 2004).

Table 6

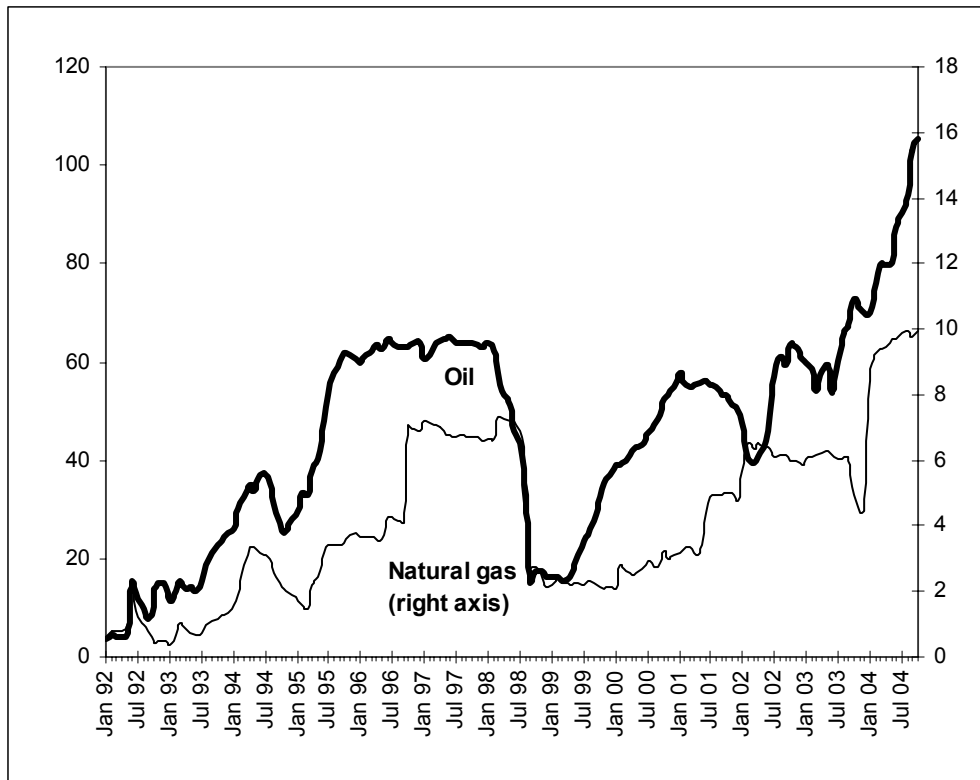
Forecast of world oil prices in 2005, in US \$ per barrel

	2000	2001	2002	2003	2004 (estimate)	2005 (forecast)
Average price of oil imported to USA *	27,72	22,01	23,69	27,74	36,74	40,62

*Purchase price of oil for oil processing plants.

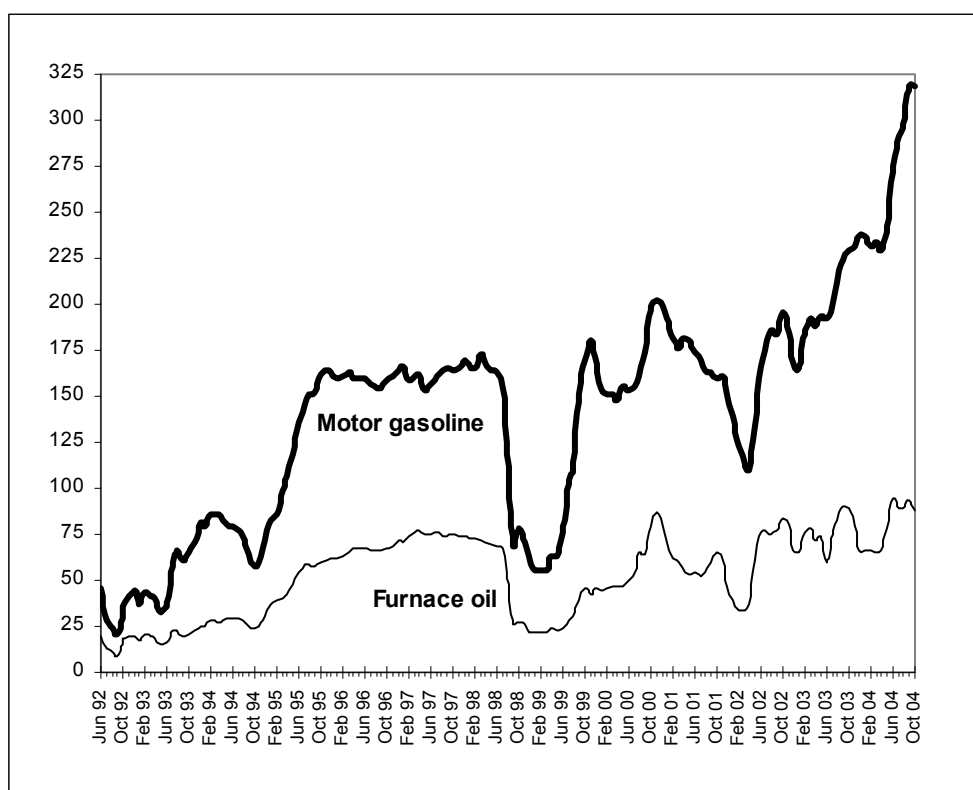
Source: U.S. Department of Energy/Energy Information Administration.

It should be expected that the measures taken by the OPEC, which has three times increased its quotas on oil extraction over the second half of 2004 and a further increase in the oil exports by Russia and other independent producers will have a downward impact on the world prices. In perspective, there should not be excluded the possibility that oil exports from Iraq would increase significantly. All these developments will facilitate a decline in the world oil prices. In the short term outlook, it may be expected that high world oil prices and favorable external conditions for the formation of the revenues of the state budget and development of the oil and natural gas sector will persist.



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

Fig. 1. Average producer prices of oil and natural gas in US \$ terms in 1992 through 2004, US \$ per metric ton / US \$ per thousand cubic meter



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

Fig. 2. Average producer prices of motor gasoline and furnace oil in US \$ terms in 1992 through 2004, US \$ per metric ton

Yu. Bobylev

IET Business Survey: Industry in December of 2004

The first data on the dynamics of output in December look optimistic at the first glance: the rates of growth in production outpaced those observed in November. However the lower rates of growth in sales, a sharp increase in the rate of dissatisfaction with demand, and the growth in excessive finished stocks would most probably make enterprises to decrease the intensity of output in the next few months.

The data published by Rosstat in November (as well as the earlier results of the IET surveys) demonstrate a certain deceleration of the rates of growth in industrial output. According to the estimates presented by the Center for Macroeconomic Analysis and Short Term Prognostication (CMASTP), in November the increase in the average daily volumes of output increased by 0.2 per cent in comparison with 0.5 per cent registered in October (as adjusted for the seasonal factor). In January through November, the index of industrial production made 106.2 per cent as compared with the level registered in the respective period of the preceding year, while in November it made 106.0 per cent. Taking into account the November slowdown in the rates of growth, over the year the growth should make from 106.0 per cent to 106.1 per cent.

The first data on the dynamic of industrial output in December demonstrated that the rates of growth in output increased in comparison with November. The balance of changes in output (prior to the adjustment for the seasonal factor) increased by 3 points; however, after the adjustment for the seasonal factor the growth made only 2 p. p. The insignificant changes of this indicator in comparison with the November figures do not permit to draw the conclusion about the increase in the rates of growth in industrial output. It may rather be stated that in December the negative trend of a further slowdown of growth in industrial output did not intensify.

However, an analysis of other indicators of the IET surveys not reflected by the official statistics, provide evidence that the negative trends intensified in December. First of all, it concerns the effective

demand. In December (similarly to the three previous years), the balance of changes in demand (prior to the adjustment for the seasonal factor) became negative as the volumes of sales of products declined in absolute terms. The absolute decline in sales was registered in the fuel industry, chemistry, petrochemistry, and light industry, the industry of construction materials and ferrous metallurgy. A minimal growth was registered in mechanical engineering. After the adjustment for the seasonal factor, the results of the December survey demonstrated the persistence of a growth in demand across the industries, which, however, was characterized by lower rates than in October and November.

The second negative signal was a significant decline in the satisfaction with the amounts of sales. In December, the share of "normal" evaluations of demand fell to 51 per cent and was the lowest in the last 6 months. The maximum of this indicator makes 60 per cent; this figure was registered in October of 2004. However, the prevalence of answers "normal" over "below norm" persisted. For the first time such a situation was observed in the middle of 2003. By that time, the sales of industrial products for cash had reached such amounts that in the Russian industry there were more enterprises considering the demand for their products normal than enterprises dissatisfied with demand. The Russian industry needed about 5 years of the post-default growth in effective demand to reach this turning point. However, not all industries and groups of enterprises could achieve in 2004 the amounts of sales, which could satisfy the majority of enterprises. The highest degree of satisfaction with demand was observed in the groups of large enterprises and joint stock companies across fuel industry, metallurgy, chemistry, petrochemistry, and food industry.

In 2004, the normal demand for produced goods corresponded to the utilization ratio of production capacities at the level of 72 per cent. According to estimates, the perception of the normal demand changed with time (see the Figure). In 1995 through 1998, the "normal" level was at its minimum and made 57 per cent to 58 per cent in the yearly terms. At present, in mechanical engineering the most moderate perceptions of the normal demand are as follows: the demand is considered normal in the case the utilization ratio of production capacities makes 62 per cent. The requirements of light industry are somewhat higher: 67 per cent. As concerns nonferrous metallurgy and the forestry complex, in 2004 the demand there is considered normal if it sets the utilization ratio of production capacities at 86 per cent. In 2004, the evaluations of demand as being "below norm" corresponded to the utilization ratio of production capacities at 58 per cent on the average. However, in 1996 through 1998 the normal level of utilization of production capacities was considered to be at 41 per cent to 43 per cent.

A decline in the satisfaction with effective demand increases the need in non-cash channels of sales. In the 4th quarter of 2004, the dissatisfaction with barter, promissory notes, and offsets reached its maximum values across the enterprises practicing or ready to resort to such schemes. About 10 per cent to 11 per cent of enterprises assess the current amounts of non-cash transactions as insufficient, while only 2 per cent to 3 per cent of enterprises evaluate these amounts as excessive. The surveys register such preference of non-cash transactions for the first time.

The third negative signal was a sharp increase (by 13 points) in the balance of evaluations of finished stocks. At present almost one third of the Russian enterprises assess their finished stocks as excessive. The surveys have not observed such a level since January of 2003. The factor behind these developments was the increase in output in the situation of a decline (deceleration of the rates of growth) in demand. Taking into account the fact that in 2001 through 2004 January and February traditionally demonstrated not too good dynamics of sales, the persistence of the previous rates of output will result in even more significant overstocking of finished stocks and will most probably make enterprises to diminish the intensity of output.

As usual, at the end of a year the balance of forecasts of changes in demand declines to its minimum. In December and November it made + 3 per cent, what is a year's minimum, which, however, is above the level registered a year ago. An absolute decline in sales is possible in ferrous metallurgy, chemistry, petrochemistry, forestry complex, and light industry. The adjustment for the seasonal factor provides a higher result (+ 16 per cent); however, this result presents the minimum of 2004 being above the results observed in 2003.

Forecasts of changes in output also diminished to the minimal values registered over the year; however, they remain positive according to all estimates. In the beginning of 2005, the growth in output will persist in the industry and its intensity will as usual exceed the intensity of growth in effective demand.

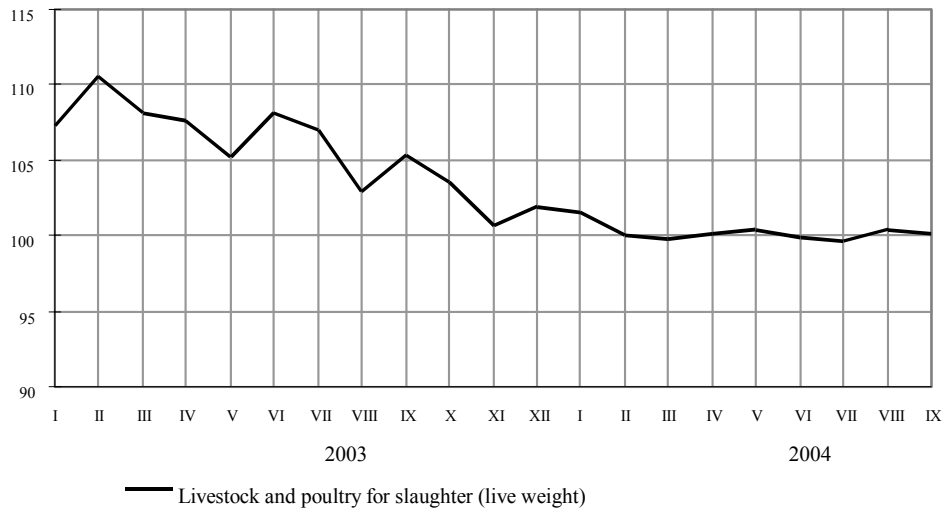
S. Tsukhlo

Russia: causes of meat price growth in 2004

By November 2004 retail prices for meat products in Russia grew by 16.3% (November 2004/December 2003) while the respective overall consumer price index equaled 110.5%. There is a view that this growth is due to the constraining of meat import by means of tariff (for red meat) and absolute (for poultry) quotas beginning from spring 2003.

Let's examine whether these quotas were efficient and have they really brought the desired result, i.e. the growth of domestic production.

The output of basic livestock products is decreasing as well as livestock number. The only exception is poultry the output of which in recent years grows by 15-17% annually (in 10 months 2004 production of poultry meat was up 19% as compared with the same period 2003¹⁵).



Source: Federal Service of State Statistics.

Fig. 1. Output of basic livestock products, as % of the previous month

Imports of raw meat to Russia from the non-CIS countries fell noticeably (Table 1). This trend was most obvious in the first year of meat quotas' application (2003). In 2004 imports of pork and beef to the Russian market were down slightly (by 10%) but still remained above indicators of the previous years when quotas were not applied.

In 2003 imports of meat products from the CIS countries grew sharply but in 2004 they started to fall. The principal cause thereof is that after a heated discussion of problems entailed by escalating "grey" import of meat from the CIS (in fact originating from other countries) customs bodies stiffened control over supplies from these states. Besides, raw meat supplied by them is much more expensive than that from the non-CIS countries and thus processors' demand for it is limited (Table 2).

However, the declining import of raw meat was outweighed by growing supplies of meat products, especially from the CIS countries (Table 1). So, Russia has actually introduced a regression scale of import duty. All countries strive to strengthen tariff protection as degree of processing grows while the introduction of meat quotas in Russia stimulated import of processed products and discouraged import of raw meat (Table 1).

The decrease of imports and domestic production has not affected supply indicators: in 9 months 2004 retail sales of meat products grew by 4.6% as compared with the same period last year. This shows that rise of prices for meat is due to higher real personal incomes rather than smaller supply.

The second factor of price growth is surely the increase of CIS share in meat imports' value from 9% in 2002 (before the introduction of quotas) to 10.5-12% in 2003-2004 (for meat products – up to 37% in the first half of 2004). Since prices for raw meat from the CIS are much higher than those paid

¹⁵ "Social and economic situation in Russia". Federal Service of State Statistics, January-October 2004, p. 66.

to the non-CIS countries (Table 2), prices for meat products manufactured out of this input on the average grow.

Table 1

Imports of meat and meat products

	2003/2002, %		I-VI 2004/I-VI 2003, %	
	Total	CIS	Total	CIS
Beef	106.2	119.1	89.8	56.3
Pork	88.8	1007.7	74.9	75.3
Poultry meat	87.1	145.5	89.5	15.3
Meat products	109.5	286.7	218.2	520.0

Source: calculated using data of RF State Customs Committee.

Table 2

Average import prices for meat, dollars per ton

	1997	1998	1999	2000	2001	2002	2003	I-VI 2004
<i>Import from the non-CIS countries</i>								
Red meat	143 6	1471	958	1072	925	1099	1061	1301.8
Poultry meat	709	691	651	535	546	589	586	601.4
<i>Import from the CIS countries</i>								
Red meat	113 4	1724	1151	1284	1687	1463	1437	2080
Poultry meat	178 2	657	1243	816	1340	1108	899	1518.3

Source: calculated using data of RF State Customs Committee.

The situation on the Russian meat market is also apparently affected by the upward trend of the world meat prices¹⁶.

So, meat quotas introduced by Russia in 2003 have led neither to larger domestic production nor to smaller imports. At the same time they entailed change in the structure of meat and meat products' import that was one (although not the only) factor of price growth on the domestic market.

E. Serova., N. Karlova

Foreign trade

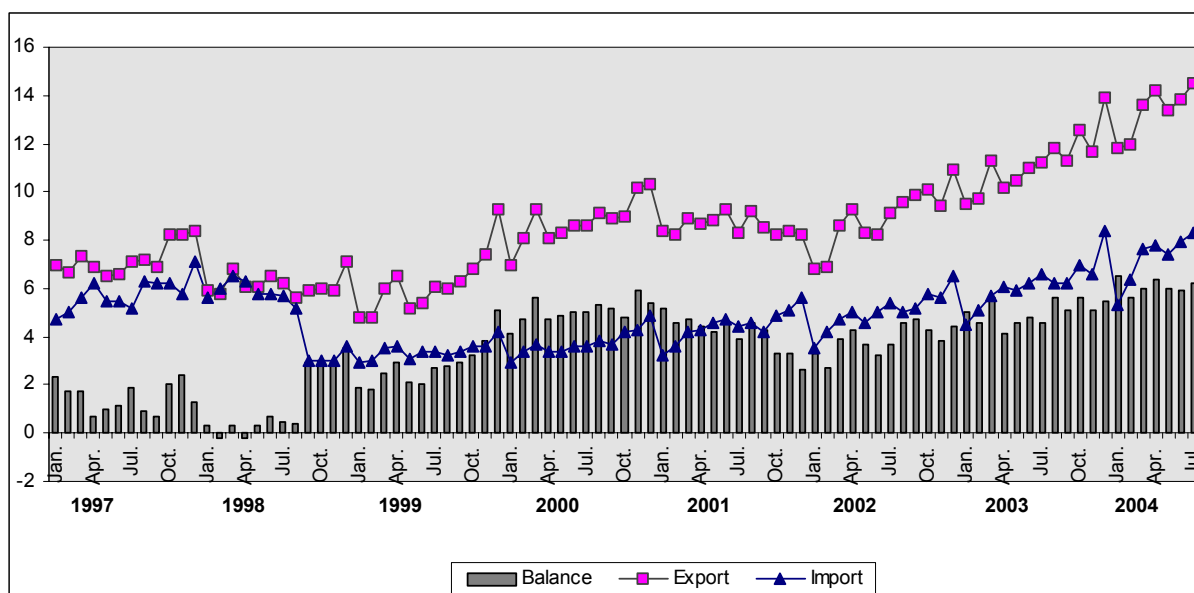
Major factors which made, in 2004, a positive effect on the growth of the RF foreign trade turnover were favorable for the Russian exporters, world market conjuncture and for growth of effective domestic demand. As a result, in October, the Russia's major foreign trade indices continued to grow.

Basically, the formation of the normative-legal base, regulating the Russian foreign economic activity, has been completed. Yet, monitoring of activities performed in the course of the year in conditions of the new Customs Code showed that problems still remain, and amendments are to be made to both - the Code itself and to normative acts issued on its basis.

In October 2004, the Russia's foreign trade turnover, calculated according to balance of payment methodology made up USD 25.2 bn, which by 28,1% exceeded the same indicator of last year, with the growth rates of export deliveries (in value terms) to significantly surpass the growth of import. As a result, the trade balance made up USD 8.2 bn, which by 46,6% higher than October level of last year.

For the majority of commodity items the foreign trade conditions had been improved for the Russian Federation. On average, rise in export prices by 12 % exceeded that of import prices.

¹⁶ <http://www.apkmarket.ru/news>.



Source: Central Bank of the RF

Fig. 1. Major Indices of the Russian Foreign Trade (bn dollars)

In October 2004, the volume of export (in value terms) by 32,3% exceeded the same indicator of 2003 and reached USD 16.7 bn. Price factor plays major part in such a growth. According to the estimate of the Bank of Russia, in October 2004, as compared to previous month, the world prices (with account of export structure by totality of goods including about 65% of its cost) increased on average by 9,3%. As compared to October 2003, they were higher by 37,3%.

In October 2004, as compared to September, the world prices of the Russian fuel and energy complex raised on average by 11,2%, while compared to October 2003 – 1,4 times.

The world prices of copper and aluminum raised in October 2004 to the levels last time observed in August 1995. Such rise has been caused by excess of demand over supply, which is observed in the non-ferrous metals market since the start of the 2004 year. So, according to the data of reserves on the London Metal Exchange, copper reserves began to decrease by 78% since the start of the year, aluminum – by 52%. In October this year, the rise in nickel prices was caused by heavy demand for stainless steel, in which production it is consumed over 85% of all the extracted nickel.

Table 1

Monthly Average World Prices in October of Corresponding Year

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Oil (Brent), USD/barrel	24.08	17.9	12.8	24.1	32.14	21.45	27.2	29.6	49.8
Natural gas, USD/1 mln. BTU	2.742	2.346	2.205	2.558	5.767	2.649	4.144	5.162	7.7
Gasoline, USD/gallon	0.67	0.569	0.421	0.699	0.895	0.603	0.801	0.841	1.43
Copper, USD/t	1968.5	1900.7	1659.2	1748.1	1838.6	1405.1	1519.0	1916.4	3012.0
Aluminum, USD/t	1341.1	1538.5	1354.2	1470.7	1473.5	1280.8	1313.2	1474.8	1822.8
Nickel, USD/t	7060.9	6240.5	4262.4	7984.2	7353.2	4836.8	6840.9	11030.4	14483.2

Source: based on the data of the London Metal Exchange, International Oil Exchange (London)

As a consequence of such a favorable world market conjuncture, as before, there are two most important commodity groups that form the basis for increase of the Russian exports of goods: fuel and energy goods, which export in value terms increased in January-October 2004, as compared to the same period of 2003, by 33,7%, and metals and items made from them (increase - 60,6%).

At the end of 2004 the term of agreement expires signed between the EC and Russia in July 2002 on steel shipment quotas. For the year and a half its terms were constantly reviewed, and the size of quota increased from 1.2 to 2.04 mln tons. In October 2004, the parties agreed that the steel quota for 2005 will be increased up to 2.217 mln tons, i.e. almost by 10%. The Agreement is to be initialed and then ratified by both parliaments. Most probably, the document will be approved even in March 2005. New

limits will be in effect until the end of 2006 or until Russia's entry the WTO – following which EC will lose its right to quote the Russia's steel shipments. In the case the ratification has been failed, the EU agreed to keep for 2005-2006 the applicable restrictions of 2.04 mln tons.

The growth of import is based on real ruble strengthening and high, though somewhat slowed in the third quarter, economic growth indicators. For January-October 2004, strengthening of the real effective ruble rate made up 4,9%.

The continued economic growth and relatively not high inflation made for an increase of real disposable incomes of the population. In January-October 2004, as compared to the same period of 2003, they increased by 9% (In January-October 2003 – by 13,6%). All this leads to growth of the consumer demand of both population and industrial enterprises.

As a result, the import deliveries in value terms increased in October 2004 by 20,7% and reached USD 8.5 bn, which a record figure for past 15 years.

Improvement of the normative-legal base, which regulates the Russian foreign economic activity, also made an effect on rising the foreign trade indicators in 2004. At present it includes the new Customs Code of the RF, about 20 resolutions of the RF Government, and over 80 statutory regulations of the Federal Customs Service of the RF issued for the development of the Customs Code. More than 900 legal acts, which did not comply with the renewed customs legislation, were annulled in the period of January to October 2004. The mechanisms introduced in the Customs Code, came into operation and produce their positive results, though some problems still remain.

The forecast of the volumes of import and export in 2005 is given in the bulletin "Scenario Macroeconomic Forecast for 2005", placed on the iET's site www.iet.ru.

One of the most important innovations of the RF Customs Committee – possibility to use the simplified customs clearance procedures for individual persons. Article 68 of the RF Customs Committee grants the right to set simplified procedures. But the RF Customs Committee did not set any allowance regulations for simplified procedures. As a consequence, such an important measure as removing unnecessary administrative procedures and simplifying customs clearance is still not operational.

Another important innovation of the RF Customs Committee – the use of electronic goods declaring (article 63.8 of the RF Customs Committee) – is also not fully implemented. Introduction of electronic goods declaring in the context of turnover acceleration, clean-up and unreliable declaring control is highly topical. At present an electronic form of declaring is used in full only at Moscow customs offices. Their equipping with computer facilities and data transmission channels fully meets the requirements. By now, they have cleared totally 1700 electronic cargo declarations.

The main difference of electronic declaration (ED) from that of a hard copy is in that can be simpler made (an average length of paper declaration is 120 pages), and it need not be handed over in the customs authority, but can be e-mailed. In this case, data accuracy is ascertained by an electronic digital signature, which enable customs officers to identify the sender, and also exclude possibility of its changing by third persons. In Russia an electronic declaring first appeared in 2002, after adoption of the Federal Law "On Electronic Digital Signature", which, in fact, equaled digital and personal signatures.

In 2005, it is planned to introduce goods electronic declaring at 56 more customs posts of all the regional customs agencies, including Vnukovo and Sheremetyevo customs. In point of fact, the customs authorities of Russia from an experiment started in November 2002 at the customs post "Kashirsky" of the Central customs agency proceed to its mass use.

Coming into force the new RF Customs Committee caused considerable changes in the composition of the so-called near-customs structures (custom brokers, customs carriers, operators of temporary storage warehouses).

Setting big amounts to maintain the activity of persons engaged in near-customs business, has already led to forcing out from the market of small and middle-size companies which cannot guarantee their responsibilities before the customs authorities. At the same time, danger is great for monopolization of the market of brokerage service by tenths of large broker's firms. This may lead to emerging monopoly prices of brokerage services, strengthening corruption trends in this area, an increase of trade operators' costs, and will cause rise in prices of imported consumer goods, making for the development of inflation in the country. Similar situation is observed in the market of customs carriers and in the sphere of storage services.

All the above indicates that the first months of work in conditions of the new Customs Code of the RF have already revealed a number of problems, for solving of which it is required to make amendments to the normative documents of the Federal Customs Service of the RF, and in individual cases, – correcting legal provisions contained in the, Customs Code of the RF.

The new draft law “On Introducing Changes in the Law “On the Customs”, regulating such areas as customs value and customs collections, adopted by the State Duma of the RF in the first reading, is not yet comply in full with the norms of WTO and interests of development of the foreign trade of Russia. All that testifies that the development of the legal base of the customs regulation has not yet been finalized.

Volovik N.

New forms of state support of innovation activities

This review focuses on an analysis of the new forms of the state support of innovation activities – public private partnerships, the Programs of assistance to creation of small innovation enterprises (START program) and the introduction of domestic research and development projects in industry (TEMP program), as well as development of technology promotion centers. Below, there will be reviewed the aims, targets, and major problems of implementation of each initiative, including the problems related to the recent changes in the regulatory and legislative framework of scientific and innovation activities.

In December of 2004, the RF Government approved the Strategy of the Russian Federation in the area of development of science and innovations till year 2010 elaborated by the Ministry of Education and Science. Among the key aims of the Strategy is the improvement of performance in the sector of research and development and development of the innovation infrastructure. At the same time, among the priorities are such more specific targets as the development of the institutions engaged in the use and protection of intellectual property and creation of “technological corridors”.

One of the mechanisms creating incentives for the formation of technological corridors are public private partnerships (PPP) – a new instrument, which Russia only starts to master. In this connection, in December there was held a joint meeting of representatives of the Ministry of Education and Science and the Organization of Economic Cooperation and Development (OECD), in the course of which experts presented their proposals with respect to the implementation of the mechanism of public private partnerships in Russia.

The term “public private partnership” is defined as the use by the state of the mechanisms creating incentives for participation of private businesses in innovation activities. PPP permit to pool resources, share profits and risks, they facilitate creation of competitive environment and simultaneously urge a more efficient use of budget funds.

The practical experience of the use of public private partnerships in a number of West European countries demonstrates that this mechanism is used in the areas where the state and private businesses have similar interests, but can not act independently of each other. As concerns the sphere of science, technology, and innovation, the most common forms of PPP there are the creation of joint research centers in the areas traditionally controlled by the state (health care, protection of environment, defense); co-financing of research and development projects at the pre-competition stages, and joint participation in the support of such projects at the early stages of commercialization.

At present, practically the only type of PPP existing in Russia is megaprojects¹⁷. Megaprojects are large innovation projects carried out by joint collectives of scientists and industrialists. Megaprojects are based on the idea of sharing the risks associated with the development of new technologies between the state and business. At present, there are financed 12 megaprojects. However, today expert are careful about megaprojects in their present form. First, in the course of selection of such projects there could not be avoided lobbying, and, second, there is the question about the eligibility of the projects receiving budget financing.

¹⁷ For details see: Dezhina I., Saltykov B. Mekhanizmy stimulirovaniya kommertsializatsii issledovaniy i razrabotok. Nauchnye Trudy No. 72 – R. M.: IET, 2004, pp. 107 – 108.

The foreign experience demonstrates that the state allocates funds for applied R & D projects carried out in the framework of PPP taking into account the subjects of such projects. The projects selected for financing should answer national priorities or have a high potential of public benefit. At the same time, at the moment of implementation of such projects the private sector might not be aware of the potential profits. As concerns the Russian experience of selection of megaprojects, the area of research and its significance for the public were of no serious importance. The preliminary outcomes of implementation of megaprojects may be evaluated already in the beginning of 2005.

Alongside with megaprojects, it is possible that there will develop yet another form of cooperation among scientific organizations, small businesses, and industry. This form of cooperation will be implemented in the framework of a new Program of the Fund of assistance to the development of small innovation enterprises in the scientific and technological sphere (the Fund of Assistance), which was announced in the middle of November. At present, the program should be implemented in the experimental regime. The essence of the program is to create incentives for innovation activities in industry and at the same time facilitate the development of ties between small enterprises and large and medium sized businesses. The Fund intends to assist small businesses as concerns free financing of R & D projects, which should be developed after the purchase of the licenses from scientific organizations, higher education institutions, or individuals. Therefore, the Fund is going to finance R & D work, which the licensee (primarily) and the licensor should carry out in order to implement the license. At the same time, the Fund is ready to review the applications for participation in the projects on the part of medium and large enterprises in the case such enterprises organize their work with participation of a small enterprise or provide production capacities for organization of manufacturing of the goods on the license terms. Two options are available on the whole: either the license is purchased and implemented by a small enterprise independently, or the license is purchased and implemented jointly by a small and a large (medium) enterprise. In such cases, the small enterprise implements R & D project, develops the technology, and probably manufactures the first test series of the product.

It is expected that implementation of the TEMP program will permit to reorient enterprises from purchase of equipment abroad to the purchase of the results of domestic R & D projects. At the same time, the Fund expressed its interest in assistance in commercialization of the rights for the intellectual property created at the expense of the financing from the federal budget, what presents the key problem. Since the legislative framework in this sphere is underdeveloped, it is unclear who should be the owner of intellectual property created at the expense of budget funds. In January of 2004, there was approved the draft resolution "On the procedures governing the disposal of the rights for the results of scientific and technological activities obtained at the expense of the federal budget." The draft resolution contains a proposal according to which "the rights for the results of scientific and technological activities obtained by organizations at the expense of the federal budget granted in the form of subsidies, subventions, grants, and material support should be vested with the organization. The condition of allocation of the said funds should be the granting to the Russian Federation of the free right to use these results on the non-commercial basis for the purposes of carrying out the works or supply of products for the federal state needs." However, this year the resolution was not approved due to the disagreements among different executive authorities. Therefore, the enterprises intending to purchase licenses in the framework of the TEMP program may face serious difficulties.

It should be also noted that large enterprises should be included in the program with care, since there is possible a situation, where the state in the person of the Fund of Assistance could finance the expenditures the enterprise should have finance from its own funds in the case it were really interested in the purchase of the license. There is a high risk that the state will carry out the functions of the private business.

The Fund of Assistance supports small innovative businesses also in the framework of the START program, in the framework of which first 400 projects¹⁸ of creation of small innovation enterprises were approved by the end of this year. The amount of the funding totaled to Rub. 375 million. The contest was about 7 to 1. In one year after the start of implementation of the projects, the participants should present investors ready to co-finance the R & D projects at the newly created small enterprises.

¹⁸ For the description of the START program see: Rossiyskaya ekonomika v 2003 godu. Tendentsii i perspektivy. Issue 25. M.: IET, 2004, pp. 269 – 270.

It is estimated that the real results of this program should be the creation and development of a small business, which by the end of the third year would have 3 to 20 employees. At the same time, the amount of sales of the innovative products at such a firm should make not less than Rub. 600 thousand per employee a year.

The START program brought about mixed reactions in the scientific community. Thus, the management of a number of RAS institutions and universities views it as a way to destroy scientific organizations, whose employees might leave them for small innovation businesses. The opponents argue that it should be allowed to work part time at R & D institutes or higher education establishment and small businesses. These arguments are rather the evidence of the lack of viability of the institutes if they may be seriously affected by a few employees leaving their jobs. In other countries, in the course of implementation of such programs it is required that employees either left their jobs altogether, or worked at small enterprises for fixed terms (usually 2 to 3 years).

The START program may become an efficient partner of another initiative implemented both at the expense of the federal budget and regional sources. This program is aimed at the formation of Technology Promotion Centers (TPC) in Russia. All in all, at present there are organized about 20 TPC including 9 TPC with state participation. The centers are primarily created at universities and academic scientific organizations.

The majority of centers exist for just about a year. The most common problems faced by practically all TPC in the period of their fledging were the following. First, the scientists are not ready for commercialization of their projects; often they do not want to engage in such operations at all. Another extreme position is the wish to stand on one's own bottom, while the TPC assistance is reduced to the provision of additional financing. Second, the majority of R & D projects are not ready for commercial use: as a rule, TPC create models and not ready products. Third, there are problems of legislative framework, especially as concerns the regulation of relations between the employer and employee on the basis of contracts. As a result, organizations have no information about the R & D projects developed by their employees. Yet another significant gap in the legislation is the issue of the regulation of the intellectual property rights. At last, fourth, there is the problem of the lack of information about the R & D projects developed at different organizations. Thus, according to the data presented by the Ministry of Education and Science, only 2 per cent to 3 per cent of universities can present calculations with respect to the competitive capacity of their R & D projects, what permits to evaluate the commercial potential of the university.

At present, TPC are at the stage of revision of the R & D projects of the institutions, at which they were created, or those implemented in their respective regions. The study of corporate markets progresses less intensively, partly due to the fact that TPC managers lack necessary experience. The share of commercial services is below 5 per cent of the total amount of works carried out by TPC, while the centers have not as yet had such revenue item as licensing. The major sources of TPC budgets are the funds provided from the state budget, the assistance on the part of "mother" institutes or regions, and grants. At present it is too early to assess the efficiency of operations of the created TPC; however, the Ministry of Education and Science took the decision to finance the creation of 10 additional centers. The usual practice of TPC support is that the state finances such centers for 7 to 8 years, and after this period these structures should become self supporting units.

At the same time, the importance of Technology Promotion Centers should not be overestimated as concerns the development of scientific organizations and higher education establishments. The foreign experience demonstrate that proceeds from commercial operations of higher education institutions is usually below 2 per cent to 3 per cent of the aggregate budget of a university allocated for R & D projects. Therefore, TPC can not be the basis of sustainable development; however, the centers can facilitate the creation, in cooperation with the START program, of the sector of small innovative businesses. It should be however noted that at present the creation of small businesses by higher education institutions is difficult in the current regulatory and legislative framework. First, bylaws of higher education establishments do not set innovative activities as a core activity. Second, only owners have the right to establish small enterprises. As concerns state higher education institutions, the owner is the state in the person of the Ministry of Education and Science. Therefore, in formal terms only the Ministry has the right to take decisions concerning the creation of small enterprises. In this connection, higher education institutions, which have TPC, participate in the START program, and strive for the development of a small innovation business see the solution of this problem in the creation of so called

“dependent” small enterprises, which they establish on the basis of optional agreements with the higher education institution. This practice was successfully used in the Nizhny Novgorod State University, where in 2004 there were created 19 dependent small innovation firms.

The Ministry of Education and Science believes that one of the key instruments for the further development of innovative activities is the parity financing of components of the infrastructure from different sources, including regional funds, financing provided by businesses, and from foreign sources. However, since January 1, 2005, the co-financing from the federal and regional budgets will be in fact prohibited. This development is related to the approval of the federal law “On amendments to the legislative acts of the Russian Federation and abolishment of certain legislative acts of the Russian Federation in relation to the approval of federal laws “On amendments to the federal law “On the general principles of organization of the legislative (representative) and executive authorities of the RF subjects” and “On the general principles of organization of local governments in the Russian Federation”¹⁹. This law has practically excluded from the federal law “On science and state scientific and technological policy” all issues concerning the powers of RF subjects with respect to the general problems of science, which the RF Constitution sets in the joint jurisdiction of the RF and its subjects. The sphere of science is absent in the list of the issues being in the joint jurisdiction, for which RF subjects have the right to expend the funds of their budgets. At the same time, the creation of the innovation infrastructure is based on the co-financing from the federal and regional budgets. Moreover, in accordance with the new version of the law on science, in the jurisdiction of RF subjects should be only “material, technical, and financial provision of scientific and research and development activities of state institutions of the RF subject” (item 3, article 12). Since RF subjects have practically no scientific institutions in their jurisdictions, it means that RF subjects should not engage in the financing of either scientific or innovation activities. These stipulations undermine the creation of such components of the innovation infrastructure as technological clusters, which are yet another form of development of innovation activities.

Clusters are usually defined as a network of independent enterprises, scientific organizations, universities, services organizing cooperation between science and industry, consulting and broker organizations, as well as consumers, making a single production line, which produces added value²⁰. It is believed that clusters significantly improve labor productivity. In Russia, an example of cluster may be the “naukograd (town of science).” Until now, the development of the “towns of science” occurred on the basis of the combined use of the funds provided from the federal and regional budgets.

I. Dezhina

Types of pensions and the issues of inheritance of accumulated amounts in the pension schemes of Russian Non-State Pension Funds.

In 2004, the development of the funded component of the pension system entered its new stage – since this year the insured persons have the right to choose not only the investors of pension accumulations formed on their behalf, but the respective insurers as well (the Pension Fund of the Russian Federation or non-state pension funds (NSPF)).

81 NSPF stated that they were going to participate in the system of mandatory pension insurance and more than 30 of these funds could conclude the first contracts with regard to mandatory pension insurance with insured persons after overcoming the bureaucratic difficulties of the initial stage. In December of 2004, the Pension Fund of the Russian Federation should transfer to NSPF the amounts formed in favor of 256 thousand citizens.

The conditions, on which there will be carried out the formation and investment of funded pensions accumulated of the Pension Fund of the Russian Federation and NSPF are rather close, moreover, they should be identical, since these two variants of formation of the funded pensions are the components of the single system. At the same time, there is still some uncertainty as concerns the form of the funded part of the labor pension in the case the funds allocated for its payment are formed in NSPF. In this connection it is of interests to analyze the market of pension products, which NSPF offer with

¹⁹ Federal law No. 122 - Φ3 of August 22, 2004.

²⁰ Boosting Innovations: The Cluster Approach. OECD, Paris, 1999.

respect to the voluntary pension insurance. Information about the types of pensions is contained in the NSPF rules; below there is presented an analysis of the pension schemes used by the NSPF, which presented their schemes on the Internet.

As concerns the voluntary pension insurance, Russian NSPF usually offer both life and term annuities. Sometimes, NSPF offer joint annuities, while spouse annuities are offered very seldom (in the framework of the schemes under the analysis such a product was offered only once). The schemes envisaging the gradual write down of accumulated funds are very rare, however, a number of NSPF offer the schemes, where the promise to pay the pension over a certain number of years (most often 5 years, however, there are offered also other terms, for instance 3 or 10 years) is determined by the availability of money on the participant's account. Besides, in a number of cases NSPF do not clearly state the schemes available to the participant. Especially significant percentage of uncertainty was registered in the schemes envisaging fixed contributions. In about 17 per cent of the cases the rules of NSPF fail to define the form of annuity. The pensions may be paid both from registered pension accounts of participants, and joint corporate accounts. In both these cases, the NSPF rules may stipulate joint responsibility. Although this term has not been legally defined with respect to NSPF, the inclusion of this condition is interpreted as the responsibility of the contributor (employer) for the NSPF compliance with the conditions of the pension contract between the NSPF and the participant.

The funds accumulated on the participant's accounts are not always subject to inheritance. The requirements the Government set forth with respect to the NSPF pension schemes demand NSPF only indicate the availability or non-availability of the option of inheritance of the fund participant's accumulations. The solution of this problem is rendered more difficult due to the fact that in legal terms the participant does not own the pension accumulations, which are the property of the fund, and it is rather the question of succession in title than the right of inheritance. It should be noted that the norms of inheritance law are not automatically extended to this sphere of relations. In this situation, the requirements to the legal culture of participants of NSPF sharply increase, since the realization of the rights of successors declared in the terms of the scheme depends on the correct formulation of the concrete contract between the participant and the NSPF and the clear indication of successors in due legal terms.

Out of 100 schemes analyzed with respect to the inheritance issues, 36 did not envisage inheritance in any form. More often, inheritance is unavailable in the framework of schemes with fixed payments (each second scheme), while in the framework of schemes envisaging fixed contributions this option was unavailable in each third case. One fourth of the schemes with fixed contributions limited the inheritance to the period prior to the beginning of payments, and about the same number of schemes made inheritance available both prior and after the beginning of the payments. Rather seldom (only in 7 schemes), the inheritance was made available only after the beginning of payments.

In the cases, where the scheme envisaged the option of inheritance, the successor should not receive the inherited amount, but conclude a pension contract with the fund. Rather often, the terms of such a contract included additional contributions for the purposes to increase the amount of the expected pension.

Besides, the inheritance option was often made available only on the basis of the respective entries in the contract between the participant and the NSPF, and, what is more important, the contract between the NSPF and the contributor (employer). It should be also noted that the option of inheritance is not closely tied both to the type of the pension scheme (fixed payments or fixed contributions), and the form of annuity.

However, this analysis of pension schemes does not permit to answer the question about the availability of the forms of pensions and the actual scope of inheritance practice with respect to the pension accumulations, since there were no data on the distribution of participants across the schemes.

L. Mikhailov, L. Sycheva

Stamp tax: an article of the Tax Code

The law "On amendments to Sections 2 and 3 of the Tax Code of the Russian Federation and certain other legislative acts of the Russian Federation and on invalidation of certain legislative acts (provisions of legislative acts) of the Russian Federation" No. 127 FZ of November 2, 2004, has introduced new Article 25.3 "Stamp Tax" in the RF Tax Code.

This article has specific features in comparison with certain other articles primarily due to the fact that in the terms of the concept the major part of payments included in this article may be defined rather as not taxes, but user charges, which are characterized by a number of differences from tax payments. Such payments include for instance payments for registration, payments collected for the issuance of passports and driver licenses, payments for the services rendered by public notaries, or payments associated with the institution of legal actions. The principal difference between user charges and taxes is that in the case of taxes there is usually no direct relation between the payments and consumption of services rendered by the public sector. At the same time, as concerns user charges, the consumer of a service is the person, who made the payment, while the amount of the consumed service (in the cases where such a service is consumed a number of times or is not mandatory) may be chosen in accordance with the benefit of such a service and the price associated with this service. This approach permits to distribute the costs associated with the rendering of services by the public sector between the beneficiaries of such services, i.e. in the case certain additional conditions are met, this approach may result in the establishment of the “benefits received principle” in the financing of expenditures of the public sector.

The RF Tax Code regulates collection of user charges alongside with taxes, therefore, it can not be stated that this article has been incorporated in the Tax Code illegitimately; however, the adequacy of payments set forth in Article 25.3 “Stamp Tax” raises certain questions, moreover, there are questions concerning the interest of any state authority body in such an adequacy.

In principle, the collection of user charges imitates a market mechanism, under which producers sell their goods and services to consumers at a certain price. In this framework, consumers purchase at the current market price such an amount of goods and services, at which the benefit of the last consumed unit of the product is equal to the price paid. In the case the price corresponds to the marginal cost of production of the product, the allocation of benefits is efficient. An additional effect may be that the payment of the costs associated to the provision of benefits to the respective consumers, which in essence is similar to a market mechanism, answers the concept of fairness shared by the majority (on condition that the price is set at the level of costs). However, deviations from this rule may result in an efficient allocation of resources in the cases, where the consumption of services rendered for the respective charges has significant positive or negative externalities.

It should be stressed that the correct setting of user charges permits to achieve two most important effects inherent in the price system: first, the realization of a rationalizing mechanism, under which the state will provide benefits to everyone valuing them not below the cost required for the provision thereof; second, provision of decision makers with the necessary information, since the comparison between the revenues generated by user charges and the costs associated with the rendering of respective services may in the future help in the course of taking allocation decisions (see: G. Bell, “User Charges”, in *Tax Policy Handbook*, ed. By P. Shome, IMF, Washington, D.S., 1995, p. 104).

As a result of the political process, the stamp tax may be set at a level above or below that determined by the efficiency considerations.

In the case the financing of a public institution is not related to the amount of financial resources collected as user charges and is made from the budget depending on the number of persons requesting a service, such an institution may have an interest in the understatement of charges in order to increase the number of requests. In this case, there arises an opportunity to request more funds for financing of such an institution justified by considerable volume of its activities. Besides, the influence of the persons heading the institution may be determined not only by its budget, but by the scale of the institution’s activities as well. Thus, in the case the price and the number of persons requesting a service are understated, the leadership of the institution may request an increase in the regular staff. While the personnel directly rendering services may receive relatively small salaries, an increase in their number may result in a more complex structure of the institution and an increase in the number of senior officers, their status and salaries. The reason behind the understatement of charges may be related not only to the deliberate wish to increase the scope of activities, but to the lack of interest in the revision of charges in accordance with the changes in the costs of services in relation to the growth in prices. However, the considerations discussed above do not mean that budget revenues of the institution directly generated by collection of charges are the necessary condition of its efficiency; on the contrary, this circumstance may result in an overstatement of the amounts of charges. The important aspect is that the conceptual basis of the amount of charges would be taken into consideration, as well as that in

the course of the future analysis of the issue of the amounts of production and financing of services there would be taken into account the amounts of funds accumulated via collection of charges.

It is also important to note that user charges associated with services rendered by the public sector usually are not set with the purpose to redistribute incomes or encouragement of certain groups of the population to use such services. There are more efficient mechanisms, such as progressive or proportional taxation of incomes or property, as well as targeted transfers to those in need, which may be applied for the realization of the redistribution function. Therefore, as a rule, the payment should be the same for all consumers of the same service. In reality, the setting of a differentiated payment for services, which citizens consume very seldom, may rather be a demonstration of care for certain groups of population than a real care. However, in this case the correct consideration of the amount of the value of services rendered and the costs associated with the rendering of such services. If half of the persons requesting the service receive it on preferential terms, an increase in the respective costs of the other half is inevitable, even in the case the price they have to pay is set at the level of marginal costs. These costs may be expressed in a longer waiting time or an increase in financing provided from the budget and, therefore, underfinancing of other public goods or higher taxes.

The principles discussed above are rather justified and are widely implemented around the world. However, there may be three exceptions from these rules.

First, setting a user charge it is necessary to decide if the introduction of a payment of a certain service is feasible. For instance, in many countries the charges for such public goods as elementary education or access to certain loans are negligible or absent. Such provision of public goods without charges from users may be feasible in the cases where the current costs are relatively small in comparison to the fixed costs, where the state wishes to encourage the use of certain services, or where the state sets forth the mandatory for all users procedure of the use of a service (for instance, the issuance of the domestic passport).

Second, the payment for a service may be below the respective costs in the cases, where in the situation of effective price formation the payment for a service may become prohibitively high for certain groups of the population, while the use of such a service is considered important by a number of reasons. For instance, the initiation of an action at law may be too expensive for persons with low incomes. At the same time, the protection of citizens' interests in courts is guaranteed by the constitution; besides, in the case the potential offender is aware that the potential victim of the crime has access to the court protection, the expected benefit of the offence diminishes and the offence may be not committed at all. In such situations, it is permissible to allow a somewhat discriminatory price formation. However, it should be noted that the discriminatory price formation should be based on the characteristics of an individual pertaining to the paying capacity, and not on the potential amount of the final transaction or the direct benefit the individual receives as a result of such a transaction. However, in the cases where the amount of transaction is a good indicator of the value of this service or costs associated with its provision, it is permissible to differentiate the amount of user charges, but in such cases the basis of the difference should be not the different value of the service for users, but the different amounts of costs associated with the provision of the service.

Finally, the payment may be dispensed with in the case the economic costs associated with the payment thereof, including the administrative costs of its collection and control, are significant in comparison with the planned amount of the user charge. For instance, it has no economic sense to spend Rub. 100 in order to collect a user charge amounting to Rub. 10. At the same time, the following considerations should be taken into account. First, the costs associated with the payment of a user charge are often underestimated. Thus, sometimes it is stated that there may be collected very small amounts since the transfer of charges via the savings bank is free for the payer. However, even in the case a bank or all banks do not charge such transfers, there remain some costs. First of all, such costs are passed to the bank, and in the course of appraisal of the costs associated with the bank's operations the cost of similar banking services related to transfer of other payments should be taken into account as lost profit. At the same time, either the bank receives certain benefits in exchange to the consent to grant the right of free transfer of charges, what is inevitably related to some costs borne by the public, or the bank has to transfer the payments free of charge, and in this case this obligation is of compulsory nature. In any case, either the budget of the shareholders of the bank suffer losses. Besides, in comparison with a situation where the said payment is not imposed, there increases the number of persons using this banking service and therefore those requesting the service should wait for a longer

time. The time spent in this way, although it is difficult to measure, should be also taken into account in the course of the analysis of the costs associated with the transfer of funds free of charge. However, it does not exhaust the list of losses: the documents required to certify the payment of a charge or a fee should be checked at the institution rendering the respective services, the documents should be properly filed, and the payment should be entered in a special book. All this requires time of both the staff of the institution, and visitors waiting for the reception. The measurement of administrative costs borne by the institution should include not only the salaries received by the staff directly servicing the recipients, but the expenditures associated with the staff's social insurance and respective benefits. The reception of the persons requesting a service does not take all the working time of the staff, they also have other responsibilities associated with the rendering of the respective services. It should be also taken into account that as the amount of responsibilities increases, there arises the necessity to employ more personnel, equip a larger number of working places, take more spacious premises, and increase the number of senior officers and expenditures associated with their remuneration and provision. By the way, the said administrative costs include not only the costs associated with the collection of a charge: they arise in the course of rendering of a service as well and, therefore, the amount of Rub. 10 to 20 is not a realistic appraisal of the real costs. In reality, even at the current level of remuneration of labor the costs associated with the rendering of a service can not be below Rub. 50 to 60 in the case the rendering thereof takes at least 5 minutes of the working time of an official. However, even at the so low level of costs it would be feasible either to raise the charge to a reasonable level, or dispense with thereof at all. It should be noted that in the case the negligible payment for the service is not imposed, it would not result in a considerable increase in the number of persons requesting such a service, since the potential consumer thereof will bear other costs alongside with the payment of the charge.

The issue of the amount of legal expenses is especially difficult, and there are arguments for different solutions of this problem. However, even in this case it is possible to find a feasible solution answering the general principles. Thus, for instance in the majority of cases it would be unfeasible to impose either too high or too low charge for bringing of a legal action.

First, since the court proceedings are not the only way to resolve a conflict, the imposition of too high or too low legal expenses, with the exception of special cases, might be not in the public interests. In the case the expected benefit of the court proceedings is too insignificant for the potential plaintiff, in many cases it would be unfeasible that the costs associated with the legal proceedings reflected the costs borne by other citizens in relation with the court proceedings. The expected benefit may be also too low due to a small amount of the claim or low probability of a positive ruling concerning the claim. It would help to avoid the use of an expensive court system by certain citizens in order to persecute their enemies or lodging of claims for considerable amounts in the cases where even the plaintiffs themselves do not believe in the satisfaction of such claims and the fairness of such claims is doubtful. Even in the case the respective legal expenses per se are insignificant, the very fact of legal proceedings is associated with expenditures for both the court system and the defendant. At the same time, it should be stressed that since the expected benefit depends not only on the amount of the claim, but also on the probability of its satisfaction, there is no necessity to differentiate charges depending on the amount of the claim, even in the case the purpose is to obtain a payment corresponding to the estimate of the benefit. However, there may be stated another argument in favor of a certain differentiation in relation to costs. Although the direct costs borne by the court system in relation with the registration of claims or initiation of court proceedings do not depend on the amount of the claim, the costs of the defendant associated with the respective efforts, collection of information, costs in terms of time and so on may increase in the case the claim against the defendant is considerable. Since such costs are not compensated by the losing party, a certain increase in the charges for claims for large amounts of money as the taking into account of such expenses; however, even in the framework of such an approach there should be imposed a certain not too high ceiling of charges.

Second, there is possible an alternative solution of the problem of accessibility of the services provided by the court system for poor citizens. Thus, for instance it is possible to grant such citizens a deferment of payment of legal expenses. In the case they are sure to win their cases, they could lodge claims in spite of a shortage of money for the payment of expenses.

Third, the introduction of the institution of judges of peace may help not only to solve the problem of the load on other courts, but to solve the problem of the accessibility of the court protection. In this sense, it may be feasible to impose zero or low charges for turning to such courts.

Finally, as it has been mentioned above, the use of stamp taxes for the solution of redistribution problems is unfeasible, both since the effect of such redistribution is insignificant, and because the costs of redistribution are relatively high: in order to determine if a person has the right for privileges, it is necessary to find the required documents, file them and probably separately register and monitor different groups of persons, etc.

In this sense, the role of different privileges with regard to the payment of stamp taxes granted to persons having deserts to the state and the society. Such persons should be remunerated; however, it remains unclear why this remuneration should be in the form of free services, for the rendering of which others should pay taxes. It may be assumed that the large number of various privileges is an original compensation for the absence or a really significant remuneration, but this compensation is clearly insufficient and does not result in a really significant gain for such persons, what in fact is an illusion of the state care for such persons. However, at the same time such privileges destroy the allocation efficiency of the system.

The question concerning the undesirability of discrimination arises also in relation to the capacity of the system of charges to play the role of a source of information required for decision making with respect to allocation of resources. In this connection it would be unfeasible to impose different charges for individuals and legal entities, as well as exemption of state structures from payment of charges. It is apparent the costs of paid services are similar in all these cases. The usual argument that in the case of government agencies the payment of charges is just a transfer of funds from one budget to another is not quite valid. After all, there exist various taxes and other charges, which state structures have to pay in spite of the fact that the accumulated amounts are due to the budget. The argument that budgets of respective agencies do not envisage expenditures associated with the payment of charges is not a convincing argument either, since these expenditures may be easily included.

It should be noted that the interest of agencies and institutions, which render services and have the most accurate information on the respective costs, as concerns the provision of such information is underestimated. Therefore, it may be hardly expected that charges would be regularly revised in accordance with changes in respective costs, moreover, it is highly probable that legislators had no correct information of this kind at the time of setting forth the respective rates of charges. Since this information is unavailable to the institute as well, it is meaningless to discuss concrete rates with some exceptions. Before enactment of this article, certain charges were at an extremely low level: amounts of about Rub. 10 can not cover economic costs associated with the payment of charges (these costs include not only direct cash payments). After article 25.3 of the RF Tax Code has been adopted, amounts of Rub. 10 and Rub. 20 were retained only for the cases, where charges are collected for the same service rendered more than once: for instance, the charge for handing out one page of a document if the document usually consists of more than one page. However, there are examples of non-observance of this rule: "... in the case of an application for the repeated handing out of copies of court rulings and determinations, copies of other documents handed out by an arbitration court, as well as in the case of an application for the handing out of a copy of a writ of execution (including the copies of the records of judicial proceedings) the payment should be at Rub. 2 per one page of a document, but not less than Rub. 20" (Article 333.21, paragraph 1, subparagraph 13); or 30) "for the introduction of amendments in the earlier issued certificate of a vehicle the charge should make Rub. 20" (Article 333.33, paragraph 1, subparagraph 30); "for the handing out of a certificate for a registration plate made available the charge should make Rub. 50; 34) for the handing out of the sign of a participant of international traffic the charge should make Rub. 30; 35) for the handing out of the state technical inspection ticket for a vehicle the charge should make Rub. 30" (in the respective subparagraphs of the same article). There may be cited a number of other examples, where the stamp tax is below Rub. 100. However, in these cases it is not taken into account that the costs associated with the payment and collection of a charge include the costs borne by the bank related to the transfer of the respective payment (both in the case such services are paid for or not), the costs borne by the person visiting the bank and filling in payment documents, the costs associated with an additional visit to the institution rendering the respective service, the costs associated with the salary of the employee of the

state institution monitoring the payment documents and filing such documents, the salaries of the persons controlling the amounts received by the budget, etc.

Below, there are cited the examples of clear understatement of the amounts of stamp taxes set forth by Article 25 of the RF Tax Code:

1. In a number of articles there was preserved the discrimination of legal entities in comparison with individuals (see, for instance, Article 333.19, paragraphs 3) (the charge for claims concerning property not subject to appraisal and of non-property nature should make Rub. 100 for individuals and Rub. 2000 for legal entities), 6) (the same rates of charges as concerns the challenge of regulatory acts issued by the authorities);

Article 333.21, paragraph 3) (the charge at Rub. 100 and Rub. 2000 collected in the case of the claims concerning invalidation of legal acts, decisions, or actions in arbitration courts);

Article 333.23 paragraphs 1 and 2 (cases considered by the Constitutional Court);

Article 333.30 paragraph 1) (the charge at Rub. 270 and Rub. 720 collected in the case of consideration of application for the registration of computer programs, databases, and topology of integral microcircuits), paragraph 2) (the charge at Rub. 180 and Rub. 360 collected for the inclusion of the information on the registration of respective objects in the Registers of programs, databases, and topology of integral microcircuits), paragraph 5) (the charge at Rub. 180 and 360 for the handing out of registration certificates reflecting the changes made in the Registers);

Article 333²¹ paragraphs 20 - 22), 24), 26) (registration of a number of actions related to real estate, registration of transfer and limitations of the land titles);

As concerns Articles 333.19, 333.21, and 333.23, this differentiation may be viewed as a benefit for individuals aimed at the creation of incentives to settle disputes via the judiciary system. However, in other cases the costs are associated with the property rights and it is unclear why this differentiation should be retained. Here, the insignificance of the amounts of charges may be seen as the justification in the sense that due to the insignificance of charges the payers feel the discrimination less acutely; however, the question if these charges cover the costs associated with the registration and handing out of the respective certificates remains. It seems that the only plausible justification in this case is a considerable differentiation of household incomes and the significance of the said charges for certain persons; however, the same may be true for some legal entities.

2. Certain rates of the stamp tax remained at an extremely low level. It should be taken into account that the stamp tax should compensate not only the costs borne by the state authority in relation to the services it provides, but the respective costs borne by the public as well, and direct administrative costs associated with the collection of the tax (for instance, the costs borne by the banks transferring the funds, the costs associated with the confirmation of the fact of the payment and so on). Since these costs hardly make less than Rub. 10 to Rub. 15 per one payment (in the case it is assumed that the salaries of the staff are low), the charges below Rub. 30 (and, perhaps, Rub. 50, especially taking into account the fact that by the time the Article enters into force they would be depreciated by inflation) should be abolished altogether or increased. Moreover, in the case it is planned to increase salaries in the budget sector in the future, the charges would not cover even the costs directly associated with the payment of the stamp tax, what means that the costs would be covered from the taxes paid by other taxpayers and it should be noted that such costs would be related not only to the execution of the actions relevant at law (for which the charge is collected), but other costs associated with the payment thereof, what seems absurd.

Low stamp taxes are set forth in the following articles:

Article 333.19 paragraph 10) (as concerns the repeated handing out of copies of the rulings and applications for the handing out of the copies the payment should be at Rub. 2 per one page of a document, but not less than Rub. 20; by the way, this charge can not cover the expenditures for copying, since at the moment commercial firms charge about Rub. 5 per a copy of one page; certainly these firms derive profit for this, but there should be also taken into account the work of the respective employee and the costs associated with the transfer of the charge);

Article 333.21 paragraph 13), (the same for arbitration courts);

Article 333.28 paragraph 15) (Rub. 10 per a document for the handing out of the documents necessary for the determination and payment of pensions; the price is significantly below the respective costs; in the case these documents are handed out separately by several authorities, it would be more feasible to abolish this charge since the apprehension that citizens would request this service more

often in the case of the abolishment of the respective payment is groundless – the charge at Rub. 10 hardly prevents this at present; in the case these documents are handed out as one package the payment should be set forth for the package of documents; anyway, this stamp tax should be either abolished or increased.

Article 333.31 paragraph 3) (for examination of precious metals, precious or semiprecious stones and so on carried out by state assay offices in the interests of RF museums the charge should make up to Rub. 25 per unit). It should be noted that the similar actions on the request of law enforcement agencies are carried out for Rub. 120 per unit and in other cases for Rub. 1700 per unit;

Article 333.33 paragraph 30), paragraph 34), and paragraph 35) set forth that for the introduction of amendments in the certificate of a vehicle the charge should make Rub. 20; for the handing out of the sign of a participant of international traffic the charge should make Rub. 30; for the handing out of the state technical inspection ticket for a vehicle the charge should make Rub. 30; for the handing out of certificates confirming the issue of the driver license or the temporary driver license should make Rub. 30.

3. In many cases, the amounts of stamp taxes should depend on the value of the transaction. This measure may be partially justified in the case of legal actions if it is assumed that the hypothesis about the correlation between the complexity of the court proceedings and the price; however, this assumption is apparently wrong with respect to the registration of transactions and notary actions.

Low stamp taxes are set forth in Article 333.24 paragraph 1 subparagraph 4); paragraph 5), paragraph 11), paragraph 19), paragraph 20), and paragraph 22);

Article 333.33 paragraph 19) sets forth the charge for the registration of the title to an enterprise as a property complex;

Article 333.33 paragraphs 27) and 28) sets forth the charge for the right of export or temporary export of cultural values.

Article 333.33 paragraph 44 subparagraph 6 sets forth the charge for the state registration of the issue of securities, which should make 0.2 per cent of the total amount of the issue but be below Rub. 100000 (it should be noted that in this case the progressive nature of the charge was deteriorated in comparison with the draft article, where the upper limit of the charge was set forth at Rub. 10000000).

Article 333.33 paragraph 73) sets forth the charge for the license for the right to carry out banking operations at 0.1 per cent of the authorized capital but below Rub. 40000.

4. Article 333.33 paragraph 27) sets forth the stamp tax on the right to export cultural values, which can make up to 10 per cent of the respective value. As it seems, the article attempts to limit the export; however, it will result in an increase in the number of attempts of illegal export or export disguised as temporary export (the same article, paragraph 38), sets forth the charge for temporary export at 0.01 per cent of the respective value). In the cases, where the owners need legal exports it is highly probable that they may resort to corruption. In certain countries the export of certain cultural values is prohibited; the feasibility of such a prohibition may be challenged, but in the case the society wishes to introduce such a prohibition, this rule may be justified, but the charge for the right of export of cultural values seems meaningless.

5. Articles 333.35, 333.36, and 333.38 retain privileges for certain categories of users. The redistribution effect of the stamp tax is negligible, therefore the respective privileges seem unfeasible. However, as concerns poor citizens, they could be granted deferments (in the case of legal expenses) or exemptions; as concerns state institutions, the granting of privileges would be unfeasible.

E. Shkrebelia

Issues discussed at the meetings held by the Government of the Russian Federation on December 9 and 22 of 2004

Among the all issues discussed at the meetings held by the Government of the Russian Federation in December, the most interesting ones were the meetings held on December 9 and 22. At the meeting of the RF Government held on December 9, 2004, A. A. Fursenko, the RF Minister of Education, presented his report on the priority guidelines of the development of the education system in the Russian Federation. At the meeting of the Government of the Russian Federation held on December 22, 2004, there was discussed the report of G. O. Gref, the RF Minister of Economic Development and Trade, which presented the preliminary results of the social and economic development of the RF in 2004 and

the medium term program of social and economic development of the Russian Federation for 2005 through 2008.

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At the meeting of the RF Government held on December 9, 2004, A. A. Fursenko, the RF Minister of Education, presented his report “On the priority guidelines of the development of the education system in the Russian Federation,” in which he noted the necessity to concretize the key targets of education set forth by the Concept of modernization of the Russian education in the period till year 2010 (hereinafter referred to as the Concept) at the present stage of development of the Russian Federation, i.e. the improvement of the quality of education, its availability, and efficiency.

A section of the report was dedicated to the characterization of the current situation in the sphere of education in the RF.

In particular, the Minister noted that at present there takes place the demographic slump, which has affected both the general education school, and the elementary and secondary professional education (EPE and SPE). As concerns the higher professional education, a decline in the number of students is expected to start in 2010. The demographic slump was also a factor behind the contraction of the network of preschool institutions and general education schools.

In the system of EPE, over the period under observation the decrease in the number of institutions made 7.8 per cent; however, the number of students remained at the same level. This development was related to the integration between the EPE and SPE institutions. The network of secondary professional education institutions resumed its growth after an insignificant decline observed in 1996 through 2001. In the last few years, the number of higher education institutions has increased.

In 2004, there began the process of transfer of EPE and SPE educational institutions to the jurisdiction of RF subjects. Prior to the end of the year, there will be transferred 2517 EPE institutions and 299 SPE institutions. By January 1, 2005, it is planned to transfer to the jurisdiction of the Federal Education Agency 570 SPE institutions, 77 establishments for additional professional training and 14 institutions for higher professional education. It is planned to complete the process of transfer in 2006.

The insufficient financing of the educational system resulted in the fact that in present the degree of wear and tear of the fixed assets in the educational system is above 31 per cent. Many educational establishments are in emergency condition or require capital repairs. At the same time, over the last few years, there was begun the renovation of the material basis and equipment in the educational establishments across all levels of education.

In 2004, the expenditures of the consolidated budget should make Rub. 531.2 billion. At present, only about 20 per cent of all expenditures for education are financed from the federal budget, while the share of expenditures from the budgets of RF subjects is at the same level. The major part of the burden and responsibility for the financing of educational institutions (60 per cent of the total expenditures) is on the local budgets. The transfer of EPE and SPE institution in the jurisdiction of RF subjects will result in a shift in the structure of expenditures for education, thus increasing the share of regional budgets in the consolidated budget.

Over the last few years, there were prepared and submitted to the State Duma draft laws envisaging the introduction of amendments to the RF law “On education” and the federal law “On higher and postgraduate professional education.” Certain amendments should be made to the Family and Civil Codes of the RF as concerns the legal regulation of educational relations. An important development in the educational system was the approval of the RF law “On amendments to certain legislative acts of the Russian Federation as concerns the financing of educational institutions” of July 7, 2003. In accordance with this law, the responsibility for salaries of school teachers and financing of educational expenditures of schools was raised to the regional level.

The Minister noted that the educational system still faces numerous **problems**, among which he indicated the following:

- insufficient coordination of the measures envisaged by the Concept and nonobservance of the deadlines set forth by the Concept;
- persistence of the most important problems faced by teachers – the issue of a competitive level of salaries, pensions, and social status;
- underdevelopment of the continuous professional education;
- deterioration of the quality of higher professional education at the background of the growing number of students;

- lack of an efficient public and state system of control over the quality of education;
- inefficiency of the system of financial and economic mechanisms of the resource provision of educational activities at all levels of the educational system, lack of the mechanisms of concentration of resources in the priority areas of the development of education;
- and so on.

According to the report, the system of education does not meet the requirements of the social and economic development, what is primarily reflected by the lack of adequate reaction of professional education to the needs of the labor market, inflexibility, inertia, and weak reaction of the system of education to external signals.

In the sphere of education, there is observed the lack of teachers and managers having necessary skills, what is caused by a number of reasons. The current mechanisms of state administration do not answer the task of creation of favorable conditions for the development of the educational system.

Due to the growth in the number of new participants of the educational market, the system of management faces two groups of aims. One group is determined by the necessity to regulate the activities of the new participants of the educational process, to monitor and control the quality of education. The second group of aims is related to the creation of the mechanisms of distribution of the positive experience obtained in the new conditions of educational activities. These targets require the use of more “fine” tools than the current management mechanisms.

According to the report, at the present stage of modernization of Russian education, the *priority guidelines of the state policy* should be:

- development of a modern system of continuous professional education;
- enhancement of the quality of professional education;
- ensuring of availability of quality general education;
- enhancement of investment attractiveness of the sphere of education.

The efficient implementation of the priority guidelines should be ensured by the solution of the following **problems**:

1. In order to develop a modern system of continuous system of professional education, it is necessary:

- to create conditions for the enhancement of the number of organizations rendering educational services in the sphere of professional education and training of personnel;
- to create conditions for dissimulation of public and professional mechanisms of attestation and accreditation of educational programs;
- to create conditions in which public institutions might play a more important role in the management of education;
- to form a national system of appraisal of the quality of education received by citizens and implemented educational programs;
- to create conditions for ensuring the educational mobility of students.

It is necessary to create the infrastructure of access to continuous professional education over the whole period of professional activities, the key elements of which should be:

- programs of professional training, further training, and advanced training built on the module principles, as well as the organizations and institutions of different ownership forms, which should implement such programs;
- NGOs and professional organizations, which should form qualification requirements to the level of training of specialists adequate to the needs of the labor market, search for and select modern educational technologies, and appraise (attest and accredit) the quality of educational programs;
- a unified system of test points built on the basis of a modern informational infrastructure of control, keeping, and accumulation of the data on the results of education and training obtained by the citizen in different educational organizations;
- a national system of appraisal of the quality of education independent of other organizations implementing educational programs, which should ensure the existence of a common educational space based on the availability to citizens of the means of objective control over the level of knowledge and competence they obtained.

In his report, the Minister noted the necessity to expand the list of organizations having the right to render services relating to the continuous professional education via the inclusion in this list of large

commercial and other non-educational organizations, as well as the necessity to switch from management of educational institutions to management of educational programs.

The creation of principally new mechanisms of attestation and accreditation of educational programs will require the formation of organizational and legal conditions for the development of public and professional organizations, which should include representatives of professional associations, educational community, and associations of employers. One of the tasks of such organizations should be the formation of requirements to the level of necessary professional qualification, contents and technologies of education, as well as the competence of specialists working in different sectors of the public production.

At present, in order to ensure the development of the continuous education system, there is prepared a draft law on amendments to the RF law "On education" as concerns the regulation of additional professional education. The draft law should set forth a new procedure governing the regulation of activities of organizations implementing additional professional programs, including the enhancement of the list of organizations implementing additional professional programs, changes in the procedures governing attestation, and creation of prerequisites for public and professional attestation of such programs, as well as the respective changes in the procedures governing the state accreditation of the organizations implementing such programs.

The approval of this draft law should create the basis for a further development of the system of continuous professional education.

2. In order to improve the quality of professional education, it is necessary:

- to switch to a two tier system of higher education;
- to restructure the EPE and SPE systems;
- to create conditions for the innovational development of the system of professional education, integration of educational, scientific, and practical activities.

The most important component of the complex transformation of the sphere of higher education is the transition to a two tier system: the bachelor level (first level) and the master (second) level (or training of a specialist on the basis of the bachelor level). In the present conditions, in order to improve the quality of higher education, the bachelor and master education should become independent levels of education, each of them having own tasks and aims.

In order to switch to a two tier system of higher education, it is necessary:

- to classify the areas of higher education;
- to elaborate a new methodological basis of the state standards for enlarged types of training of bachelors;
 - to ensure the development and approval of the state educational standards as concerns bachelors in the framework of the selected areas of education;
 - to work out Regulations concerning the master level, which would envisage broad academic freedoms of higher education institutions with respect to the formation of inter-discipline programs;
 - to elaborate the criteria of licensing and accreditation of master programs and master courses.

3. In order to enhance the accessibility of quality general education, it is necessary:

- to switch to the sectoral system of remuneration of educators, including the use of the mechanism of reduction of weekly load on students and rise in the salaries of teachers;
- to create a mechanism of targeted support of students and enhance the accessibility of additional education;
- to switch to specialized education in the senior school as a means to satisfy the individual educational requirements of students;
- to change the structure of the standard of general education by inclusion of the requirements to the level of training of graduates, the conditions of carrying out of educational activities, model basis educational plan.

4. In order to enhance the investment attractiveness of the sphere of education, it is necessary:

- to create conditions for the enhancement of the economic independence of educational institutions by the introduction of more diverse organizational and legal forms of educational organizations;
- to create conditions for lowering of investment risks associated with the investment in the educational sphere by the development of public institutions of management of education;
- to ensure greater transparency for the founders of the processes of financial and economic management of educational institutions;

- to create conditions for ensuring of higher quality of management of educational institutions.

In his report, the Minister also noted the necessity to **modernize the financial and economic mechanisms** in the sphere of education. The financing of the system of education should be based on the principle of “performance management”. It is necessary that any program of development of educational activities financed from the budget contained a clear list of performance indicators.

The complexity of the system, its multifunctional and multipurpose nature determines the necessity to use different financial instruments used in the unified system and in optimal combination. Among these instruments, there should be singled out the normative per capita financing, which permits to ensure the transparency of allocation of budgetary financial means, to tie the amount of financing directly to the consumer of the educational service on the principle “money follow the student”. Yet another instruments of budget financing should become the financing of the development of the educational system based on medium term programs.

At the meeting of the Government of the Russian Federation held on **December 22, 2004**, there was discussed the report of G. O. Gref, the RF Minister of Economic Development and Trade, “On the preliminary results of the social and economic development of the RF in 2004, the implementation of the action plan of the RF Government aimed at the realization of the Address of the President of the Russian Federation to the Federal Assembly of the Russian Federation, and the drafts of the medium term program of social and economic development of the Russian Federation for a medium term outlook (2005 through 2008) and the action plan of the RF Government for year 2005 aimed at its implementation.”

In his report, the Minister noted the key trends of social and economic development of Russia in 2004.

In 2004, the social and economic situation remained rather stable. According to the estimates presented by the Ministry of Economic Development and Trade, in January through November GDP increased by 6.9 per cent as compared with the figures registered in the respective period of the preceding year, while over the year the growth in GDP would make 6.8 per cent to 6.9 per cent. More than a half of increment in GDP was determined by the favorable external economic situation, while domestic demand accounted for the rest of the growth.

Over 11 months of the year, the amount of industrial output increased by 6.2 per cent as compared with the figures observed in the respective period of 2003, and according to the estimates, the total growth should also be at 6.2 per cent. An acceleration of the rates of economic growth was observed in the industries primarily oriented towards export of their products (metallurgy, chemistry, and petrochemistry), as well as those related to the investment complex (production of technological equipment). In January through November of 2004, the output of agricultural produce at large grew by 0.6 per cent in comparison with the indicators registered in the respective period of the last year, while over 2004 it should increase, according to estimates, by 1 per cent.

It is expected that in 2004 inflation rates will exceed the initially forecasted level and will make about 11.5 per cent in stead of 10 per cent.

Investment expectations improve: there is observed a significant growth in the borrowing Russian companies make on financial markets, including foreign markets, what has already resulted in a net inflow of capital in the private sector in September and October.

According to the estimates presented by the Ministry of Economic Development and Trade, in 2004 the price competitive capacity of Russian products diminished by 20 per cent on the average due to the outpacing rates of growth in domestic prices in comparison with import prices.

The competition on the part of imports increases. In January through November of 2004, the amount of imports grew by 24.6 per cent as compared with the figures registered in the respective period of the preceding year. This year, the major factor behind the growth in imports was the increase in the volume of import. This year, in the favorable external economic situation the amount of exports is characterized by high dynamics. According to the estimates of the Ministry of Economic Development and Trade, in January through November of 2004 the export of goods increased by 32.1 per cent in comparison with the figures registered in the respective period of the last year. The key factor behind the growth in exports was the factor of price.

In 2004, the favorable external economic situation with respect to staple Russian exports persisted. In January through November of 2004, the average Urals oil price made US \$ 34.3 per barrel and increased by 26.7 per cent in comparison with the figures registered in the respective period of the pre-

ceding year; the average contract price of Russian natural gas with respect to the shipments to countries outside the former Soviet Union grew by 0.8 per cent in January through November. The raw material nature of the structure of Russian exports persisted.

According to the estimates presented by the Ministry of Economic Development and Trade, in January through November of this year the balance of trade reached a new record high of US \$ 77.6 billion as compared with US \$ 54.9 billion registered in January through November of 2003. The supply of such amounts of forex denominated export proceeds in the economy in combination with foreign exchange flowing in the country as a result of corporate borrowings accounted for an accelerated rates of increase of the gold and forex reserves of the Central Bank of Russia.

In 2004, household demand for goods and services was one of the most important components of domestic demand characterized by intensive dynamics.

In January through November of 2004, investment in fixed assets increased by 11.1 per cent in comparison with the figures registered in the respective period of the preceding year.

It is expected that in the 4th quarter of 2004 the average monthly rate of growth in GDP will persist almost at the level observed in the 3rd quarter (0.4 per cent). These dynamics will permit to reach the yearly rate of increase in GDP at 6.8 per cent to 6.9 per cent.

In his report, the Minister also presented the draft medium term program of social and economic development of the Russian Federation in 2005 through 2008.

The Minister noted that the medium term program of social and economic development of the RF set forth the key guidelines of the RF Government activities in 2005 through 2008, what should ensure the attainment of the national strategic aims: an increase in the wellbeing of citizens and reduction of poverty on the basis of a dynamic and sustainable economic growth. The key indicator of the successful social and economic development of the country is the two time increase in GDP in 10 years. The key condition for the consolidation of the Russia's political and economic positions in the framework of the world community is to ensure the sustainable enhancement of the Russia's competitive capacity, what is impossible without competition. Creation of equal conditions of competition for all enterprises and setting of clear and transparent rules of the game is the major aim of the RF Government in the sphere of the economy.

The major challenges of the current stage of economic growth in Russia

1. Low efficiency of state administration.
2. Lack of conditions and incentives for the development of human capital.
3. Low level of competition and high share of non-market sector.
4. Uneven implementation of reforms at the subfederal level.
5. Low level of integration of the Russian economy in the system of international economic relations.
6. Insufficient diversification, which makes the economy highly dependent on the world situation as concerns the prices of staple export goods.

7. Infrastructural restraints on growth.

Major conditions of implementation of the social and economic policy at the current stage:

1. It is necessary to achieve an economic growth ensuring progressive structural shifts in the Russian economy. The medium term program envisages the elaboration of tools of economic growth answering the following four criteria:

- 1) Economy should grow at high rates and ensure the twofold increase in GDP over 10 years;
- 2) The growth should be accompanied by progressive structural shifts (i.e. ensure diversification) and enhance the competitive power of the country;
- 3) The growth should be sustainable;
- 4) The growth should ensure the rise in economic development catching up with the most developed countries (i.e., the rate of growth should be above the average world indicators or above the rates of growth registered in the most developed countries).

2. Current economic problems faced by Russia can not be solved with the help of pure economic tools and institutions.

3. The absolute priority is the reform in the sectors related to the development of human potential, primarily education and health care.

4. Implementation of any economic policy measure should not undermine the achieved level of macroeconomic stability. At present, the key factors ensuring macroeconomic stability are the adher-

ence of the RF Government to the balanced budget policy, maintenance of the regime of floating exchange rate, significant gold and foreign exchange reserves, consistent reduction of inflation, and maintenance of the Stabilization Fund.

5. The state of national social and economic institutions is of the key importance as concerns the solution of the problems faced by the country..

Key priorities of the social and economic development of the RF in the medium term outlook:

1. As concerns the creation of conditions for the enhancement of human competitive power, it is necessary to focus efforts on the reform of education.

2. It is necessary to improve the efficiency of functioning of the health care system.

3. The RF Government should focus its efforts on the struggle against poverty.

4. The efficiency of the state should be improved via the implementation of the administrative and public service reforms to the level answering the requirements of the society.

5. It is necessary to develop the innovation sphere.

6. It is necessary to develop Russia's regions and support regional strategies of social and economic development. It is necessary to switch from inefficient equalization of regional development levels to the creation of conditions, which could create incentives for RF subjects and municipal entities to mobilize the available to them resources of economic growth.

7. It is necessary to remove the restraints of infrastructural and technological nature.

8. It is necessary to enhance competition and reduce the non-market sector. It is necessary to create and improve market institutions ensuring flexibility and stability of economy via growth of financial markets, the flow of capitals, development of manufacturing sectors, small businesses, incentives for innovations, and support of competitive conditions on markets.

E. A. Bolshakova

A review of regulatory documents concerning taxation, which were made public in November through December of 2004

1. Informational letter of the RF Tax Service No. 21-2-05/160 of November 23, 2004, set forth the rate of the mineral extraction tax (as adjusted for the Kts coefficient) at Rub. 1878.5617 per metric ton.

2. Federal law No. 141 FZ supplemented the RF Tax Code with Section X "Local Taxes," which included article 31 "Land Tax." Organizations and individuals owning, using in perpetuity, or inheriting land plots on the terms of life estate are defined as payers of this tax. At the same time, the law exempts from this tax the organizations and individuals using their plots of land on the terms of free limited use or on the basis of lease agreements.

The objects of taxation should be land plots situated in the territory of the municipal entity (in Moscow and St. Petersburg – with the city limits), in the territory of which the tax is imposed.

The tax base is defined as the cadastre value of land plots defined as taxation objects. The tax rates should be set forth by the regulatory acts issued by representative local authorities (laws issued by cities of federal importance Moscow and St. Petersburg); however, these rates can not exceed 0.3 per cent and 1.5 per cent as concerns the respective plots of land.

The law also sets forth that the rates of the land tax being in force in 2004 with the exception of the land tax pertaining to the farm lands should be applied with the coefficient of 1.1.

3. Letter of the RF Tax Service No. 21-3-05/514 of November 29, 2004, explained the issue of penalties for the insufficient advance payments pertaining to the tax on the property of organizations.

The ruling of the Plenum of the Supreme Arbitration Court of the Russian Federation No. 5 of February 28, 2001, "On certain issues of enforcement of Section One of the RF Tax Code" determines that the penalties stipulated in article 75 of the code may be exacted in the case of the failure to make the advance payment in accordance with the law on the concrete type of the tax.

4. Order of the RF Tax Service No. SAE-3-15/142 of November 30, 2004, approved the model regulations as concerns the Directorates of the Federal Tax Service for RF subjects; as concerns the Interregional Inspectorate of the Federal Tax Service for largest taxpayers; as concerns the Interregional Inspectorate of the Federal Tax Service for centralized processing of data and certain other documents.

5. Order of the RF Tax Service No. SAE-3-09/141 of November 30, 2004, approved the Methodological instructions for tax agencies as concerns the issues of uniform procedures of registration and deregistration of Russian organizations in relation to reorganization. The organization should notify in writing its local tax agency about its reorganization not later than 3 days since such a decision had been taken.

The local tax agency in the jurisdiction of which is the reorganized legal entity should verify the payments the taxpayer made to the budget and extra-budgetary funds in accordance with the procedure approved by Order of the Federal Tax Service No. SAE-3-27/468 of August 10, 2004, "On the approval of the Regulations governing the organization of work with taxpayers."

The act of verification of the payments the taxpayer made to the budget and an informational letter containing the data about the control measures carried out with respect to the reorganized organizations (the date of the last on site tax inspection, the date of submission of the last tax and accounting statements, legal proceedings, etc.) should be sent to the tax authority in the jurisdiction of which the organization will be after its reorganization.

6. Letter of the RF Tax Service No. 09-0-10/4909 of December 2, 2004, contained the methodological recommendations "On the information the tax authorities provide to legal entities as concerns the publication of materials in the journal Bulletin of State Registration." These recommendations had been elaborated with the purpose of explaining the process of publication of information about legal entities in the journal Bulletin of State Registration as the single publication for the placement of information about legal entities they are obliged to publish about themselves in accordance with the legislation of the Russian Federation.

7. Letter of the RF Tax Service No. 03-1-08/2467/17 of December 9, 2004, informed about the enforcement of federal law No. 109 FZ of August 20, 2004, "On amendments to articles 146 and 149 of the Second Section of the RF Tax Code." The law entered into force on January 1, 2005. The letter explained that taking into account the amendments concerning the abolishment of exemption from taxation or determination that taxable operations should be considered as operations exempted from VAT taxation, the taxpayers should apply the procedure of determination of the tax base (or exemption of taxation), which was in force on the date of shipment of goods (works, services), notwithstanding the date of the respective payment.

In the case the goods were not shipped or transported, but the ownership rights of these goods were transferred, this transfer should be equal to the sale of the goods.

The taxation privileges in the course of realization of residential houses, living premises, and shares thereof, as well as transfer of the shares in the joint property located in apartment houses in the course of realization of apartments should be applied in the case such a transfer of ownership rights (properly registered) took place after January 1, 2005, notwithstanding the accounting policies of the seller for taxation purposes, and, respectively, notwithstanding the date of payment for the said property made by the buyer.

The exemption from VAT should not be extended to construction and assembly works related to capital construction of residential houses and living premises carried out on the basis of respective contracts (subcontracts) by contracted (subcontracted) organizations.

L. Anisimova

A review of economic legislation: December of 2004

In December, there were introduced the following changes in the legislation currently in force: the RF Tax Code was supplemented with new article 31 “Land Tax”; the Central Bank approved the key guidelines of common state monetary policy for year 2005; the portion of forex denominated proceeds subject to mandatory sales on the part of residents was diminished from 25 per cent to 10 per cent; the Tax Service brought to the notice of all concerned parties the data used for the calculation of the mineral extraction tax rate on oil in November of 2004.

I. FEDERAL LAWS of the Russian Federation

1. “ON AMENDMENTS TO THE SECOND SECTION OF THE TAX CODE OF THE RUSSIAN FEDERATION AND CERTAIN OTHER LEGISLATIVE ACTS OF THE RUSSIAN FEDERATION, AND THE ABOLISHMENT OF CERTAIN LEGISLATIVE ACTS (PROVISIONS OF LEGISLATIVE ACTS) OF THE RUSSIAN FEDERATION” No. 141 FZ of November 29, 2004

Enters into force on January 1, 2005, but not earlier than one month since the day of promulgation.

The RF Tax Code was supplemented with article 31 “Land Tax.” It is the first article in section X of the Code (“Local Taxes”).

The land tax, as one of local taxes, is regulated by the RF Tax Code and regulatory acts issued by the representative authorities of municipal entities (in Moscow and St. Petersburg – by laws of these subjects of the Russian Federation). The provisions of the RF Tax Code directly regulating the land tax stipulate the following.

Organizations and individuals owning, using in perpetuity, or inheriting land plots on the terms of life estate are defined as payers of this tax.

The objects of taxation should be land plots situated in the territory of the municipal entity (in Moscow and St. Petersburg – with the city limits), in the territory of which the tax is imposed with the exception of land plots withdrawn from turnover or limited in terms of turnover in accordance with the law, for instance, plots of land provided for defense needs, areas of the forest funds, water funds, and so on.

The tax base is defined as the cadastre value of land plots. The Code sets forth the procedure governing the determination of the tax base by taxpayers co-owning plots, organizations, businesspersons, and individuals.

The article envisages a decrease in the tax base by Rub. 10 thousand for a number of categories of individuals (Heroes of the USSR and RF, holders of the full Order of Glory, invalids of the first group, invalids of the Great Patriotic War and war invalids), as well as privileges for certain organizations and institutions.

The tax period is defined as a calendar year.

The tax rates should be set forth by local authorities; however, these rates can not exceed 0.3 per cent as concerns the plots of land used for agricultural purposes and those occupied by housing and public facilities, as well as plots granted for part time farming; the tax rate can not exceed 1.5 per cent with respect to other plots of land.

As concerns tax privileges, article 31 sets forth that the plots of land occupied by penitentiary institutions and organizations of the RF Justice Ministry, plots of lands occupied by the motor roads of open for public use, objects of mobilization purposes, test grounds, airports and so on should be exempted from taxation. In certain circumstances, land tax related privileges may be granted to religious organizations, organizations of disabled persons, folk craft organizations, small aboriginal peoples of the North, Siberia, and the Far East, the Russian and sectoral Academies of Sciences.

The article sets forth the procedure governing the calculation of the tax and land tax related advance payments, as well as the procedure of submission of the tax declaration (the deadline for the submission of tax declaration is set on February 1 of the year next to that following the expiration of the tax period).

The representative authorities of municipal entities and legislative authorities of Moscow and St. Petersburg should set the tax rates within the limits indicated above, the procedures and terms of the payment of the tax and should have the right to set additional tax privileges, the grounds and procedures of such privileges, including the determination of the amount excepted from the tax as concerns certain categories of taxpayers.

Article 31 also sets forth certain concrete powers of local governments, in particular, they should have the right to set differentiated rates of the land tax depending on the category of land or permitted use of the plot of land, not set the reporting period, grant certain categories of taxpayers the right not to calculate and make advance tax payments.

RF law No. 1738-1 of October 11, 1991, "On the land related payments," which alongside with the land tax also regulated certain other land related payments (lease and normative price of land) should be abolished since January 1, 2006, with the exception of article 25, which set forth the definition of the normative price of land and granting the RF Government the right to set the procedures governing the determination of the normative price of land; article 25 should remain in force indefinitely. Certain provisions of the RF law "On the land related payments" and other legislative acts envisaging the possibility to regulate the land tax by the acts issued by the authorities of RF subjects, as well as those setting the rates of transfer of the land tax to the budgets of the subjects of the Russian Federation and the federal budget should be abolished since January 1 of 2005.

The new article of the RF Tax Code also sets forth that the RF law "On land related payments" with the exception of the provisions of article 25 should not be applied in the territories of the respective municipal entities (and the cities of Moscow and St. Petersburg) in the course of approval by the representative authorities of municipal entities (legislative authorities of Moscow and St. Petersburg) of regulatory acts on the introduction of the land tax in accordance with article 31 "Land Tax" of the second section of the RF Tax Code since January 1, 2005.

The law also sets forth that the rates of the land tax being in force in 2004 with the exception of the land tax pertaining to the farm lands should be applied with the coefficient of 1.1.

II. RESOLUTIONS OF THE GOVERNMENT of the Russian Federation

1. "ON AMENDMENTS TO THE BYLAWS OF THE FEDERAL FUND OF MANDATORY MEDICAL INSURANCE" No. 795 of December 16, 2004

Enters into force on January 1, 2005.

An additional entry was supplemented to the list of the functions of the Federal Fund of Mandatory Medical Insurance. Since January 1, 2005, the FFMMI should spend its financial reserves also for carrying out of social support to certain categories of citizens as concerns the provision of medicines.

2. "ON APPROVAL OF THE LIST OF DISEASES OF DISABLED PERSONS GRANTING THEM THE RIGHT FOR ADDITIONAL LIVING SPACE" No. 817 of December 21, 2004

Enters into force on January 1, 2005.

In accordance with Article 17 of federal law No. 181 FZ of November 24, 1995, "On social protection of disabled persons in the RF," the resolution approves the list of diseases of disabled persons granting them the right for additional living space. The list includes active forms of tuberculosis of all organs and systems, psychiatric diseases requiring the compulsory monitoring in clinics, HIV infections of children).

The RF Government resolution No. 214 of February 28, 1996, which approved the previous list, should be abolished.

3. "ON THE APPROVAL OF THE QUOTAS FOR INVITATIONS TO FOREIGN CITIZENS ENTERING THE RUSSIAN FEDERATION WITH LABOR PURPOSES FOR YEAR 2005" No. 714 of December 1, 2004

In accordance with the Federal law "On the legal status of foreign citizens in the Russian Federation," the resolution approves the quotas for invitations to foreign citizens entering the Russian Federation with labor purposes amounting to 214000 invitations.

III. INSTRUCTIONS, REGULATIONS, AND ORDERS

1. Directive of the RF Central Bank "ON AMENDMENTS TO INSTRUCTION OF THE BANK OF RUSSIA NO. 111-I OF MARCH 30, 2004, 'ON MANDATORY SALE OF A PORTION OF FOREX DENOMINATED PROCEEDS ON THE DOMESTIC MARKET OF THE RUSSIAN FEDERATION" No. 1520-U of November 26, 2004

Registered by the RF Finance Ministry on December 8, 2004, registration No. 6176.

Enters into force after 10 days after the promulgation in the "Vestnik Banka Rossii."

The portion of forex denominated proceeds subject to mandatory sales on the part of residents was diminished from 25 per cent to 10 per cent.

2. KEY GUIDELINES OF THE COMMON STATE MONETARY POLICY FOR YEAR 2005 approved by the RF Central Bank

The key guidelines of the common state monetary policy for year 2005 were prepared in accordance with article 45 of the federal law “On the Central Bank of the Russian Federation (Bank of Russia) and include the following major sections:

Targets and principles of monetary policy;

Specifics of the development of the Russia’s economy and monetary sphere in 2004;

A scenario of macroeconomic development in 2005;

Purposes and instruments of monetary policy in 2005;

The measures the Bank of Russia is planning for year 2005 with the purpose to improve the banking system of the RF, bank control, financial markets, and the payment system.

3. Informational letter of the RF Tax Ministry No. 21-2-05/178@ of December 20, 2004 “ON CALCULATION OF THE MINERAL EXTRACTION TAX RATE IN NOVEMBER OF 2004”

The letter informs about the data used for the calculation of the mineral extraction tax with respect to oil in November of 2004:

- the average level of Urals oil prices on the Mediterranean and Rotterdam markets (US \$ 37.08 per barrel);

- value of the Kts coefficient (3,2986);

- tax rate adjusted for the Kts coefficient (Rub. 1144,6142 per metric ton).

I. Tolmacheva