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5, Gazetny pereulok, Moscow, 125993, Russian Federation

Phone (495)629-6736, fax (495)697-88-16, Email: lopatina@iet.ru

www.iet.ru

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 12'2009

MONTHLY BULLETIN:

RUSSIAN ECONOMY IN DECEMBER: TENTATIVE INDICATORS AND MAJOR TRENDS	2
THE POLITICO-ECONOMIC RESULTS OF DECEMBER 2009 (S.Zhavoronkov)	4
INFLATION AND CREDIT AND MONETARY POLICY (N.Luksha)	8
FINANCIAL MARKETS (N.Burkova, E.Khudko)	12
REAL ECONOMY: TRENDS AND FACTORS (O.Izryadnova)	23
RUSSIAN INDUSTRY IN DECEMBER 2009 (S.Tsukhlo)	27
INVESTMENTS IN REAL ECONOMY SECTOR (O.Izryadnova)	30
FOREIGN INVESTMENTS (E.Ilukhina)	36
FOREIGN TRADE (N.Volovik)	41
MORTGAGE MARKET IN THE RUSSIAN FEDERATION (G.Zadonsky)	45
THE STATE BUDGET (E.Fomina)	48
OIL AND GAS SECTOR (Yu.Bobylev)	54
MUNICIPAL COUNTER-REFORM: THE ONSLAUGHT IS GOING ON (I.Starodubrovskaya, N.Mironova)	58
MAIN EVENTS IN THE SPHERE OF EDUCATION IN 2009 (T.Klyachko)	61
REVIEW OF MEETINGS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION IN DECEMBER 2009 (M.Goldin)	65
REVIEW OF ECONOMIC LEGISLATION (I.Tolmacheva)	67
REVIEW OF LEGISLATIVE DOCUMENTS CONCERNING TAXATION OVER NOVEMBER – DECEMBER 2009 (L.Anisimova)	70
REVIEW OF BUDGETARY LEGISLATION (M.Goldin)	80

RUSSIAN ECONOMY IN DECEMBER: TENTATIVE INDICATORS AND MAJOR TRENDS

The declared reform of the Ministry of Home Affairs can be regarded as the primary political event of December. Basic reform specifics happened to be quite different from those approaches, that were repeatedly discussed in the 2000-ies. The key point of the old concepts invariably was the idea of splitting the police in two sectors - municipal and federal ones. The current reform is aimed at maximum centralization of all structures, at the reduced influence of local authorities on the police structures, at termination of the principle of co-financing the internal affairs agencies from the federal and local budgets. In such a way the reform partly fits into the national policy of centralization and rejection of federalism, pursued over the past years. The reform launching was not preceded by its wide discussion.

Oil prices, defining the major trends of the Russian macroeconomic indicators, were demonstrating volatile dynamics in December, remaining in the range of USD 70-80 dollars per barrel, remaining at the same level in the last six months. Herewith, in the first six months of December, prices declined from the upper limit to the bottom level, and then started to grow again. An average price of Urals oil in the first three weeks of December was USD 73.3 dollars per barrel (USD 76.3 dollars in November).

During the first three weeks of November RUR was strengthening against dollar and Euro, but at the end of the month the situation changed dramatically: the ruble has rapidly went down. On December 9 dollar for the first two months exceeded the rate of RUR 30 to USD 1. As a result, within November and three weeks of December, the nominal value of the dollar has grown against the ruble by 5.7% to RUR 30.72 and by 2.6% against Euro, to RUR 44.18; the value of the two-currency basket made RUR 36.78 (+4%). Among the reasons for the dollar growth was the peak of payments for corporate foreign debt (according to the schedule of upcoming payments in December, the banking sector had to pay USD 5.4 billion, while for the non-financial sector – USD 15.9 billion). Another factor that determines this dynamics, one should regard capital flight, resumed after two months, when the inflow was observed. This event, apparently, defined the volatile dynamics of the Russian stock market during December at the background of a significant decline in trading.

In December the trend of previous months in the dynamics of international reserves has also been changed: on December 18, they accounted to USD 440.4 billion against the maximum level of USD 451.2 billion, reached on December 4.

In December inflation has accelerated slightly, and if the November inflation rate was 0.3%, the increase in prices over the first three weeks of December was 0.4%. However, this acceleration, as well as the same in November, should be related primarily to seasonal factors. Among the food stuffs prices were growing mostly for butter, fruit and vegetables, and among non-food items for footwear and clothing. In addition, the beginning of heating season has urged the price of heating. In general, since the beginning of the year trough December 21, 2009, cumulative inflation made 8.8%, which is below the relevant period of the last year (13.1%). However, lower limit of the annual inflation, estimated by the Ministry of Economic Development from 9% to 8.8% was somewhat premature. In the first month of 2010 one can expect seasonal acceleration of inflation, which will be based on the indexing of tariffs for services of natural monopolies and housing utilities, as well as by increased pensions. The dynamics of monetary supply and weak consumer demand can curb the prices growth. Due to that, inflation is likely to be lower than that of the last year.

Against the background of relatively low inflation the Central Bank again lowered the refinancing rate, but decreased the level of reduction: On December 28 the interest rate was set at 8.75% versus 9%, set in late November. However, as already noted, the rate reduction provides practically no positive effect on economic growth through banks' credits: in November, taking into account the impact of exchange rate revaluation, the dynamics of lending was at the level of 0-0.1% (in October there

was a slight decrease in the credit portfolio). Excessive reserves of commercial banks in November continued to grow (13.6%).

The situation in the real sector demonstrates the contradictory and not too favorable trends in the past months, and in general can be defined as stagnant. In November, industrial production growth has exceeded the level of the relevant period of 2008 by 2.0%; herewith, the growth in mineral production made 4.9%, production and distribution of electricity, gas and water has grown by 1.4%, but there was a decline in processing industries by 0.8%. That indicator was reached against the background of already low level of November 2008 and was largely due to seasonal and external factors. In case the seasonal effect is disregarded, the growth versus October is estimated by the Ministry of Economic Development and Trade only at 0.2%.

Data of market surveys demonstrate that the dynamics of the current and the expected demand has ceased to improve in November and did not improve in December. The December downfall in demand was the worst for the last six months of 2009. Estimates of demand have deteriorated in nearly all sectors. Satisfaction with sales failed to be sustained in November and returned to the level of August-October. However, estimates of production dynamics demonstrate growth in most industries, which, however, are estimated by producers as extremely unstable.

A worrying trend of the end of the year has become a trend change in the dynamics of employment. The growth of the total number of unemployed in October amounted to 1.3%. In November 2009, as compared with October, the number of unemployed (by ILO methodology) was extended by 5.0% and amounted to 6131 thousand or 8.1% of the economically active population. The situation is complicated by 1.7 million of employees transferred to part-time schedule or those forced to take a leave or stay out-of-service. The largest scope of underemployment was observed in the organizations of manufacturing industry, where nearly 10% of the total number of workers are employed part-time.

According to the targeted surveys, in December producers reported the highest scope of the staff reduction within 11 months of this year (except January). Last month, the intensity of dismissals in the industry was doubled. HR plans of enterprises declined in December to the minimum of post-default level of 1998. This is the record indicator of HR plans to reduce the number of employees since July 1998 surveys, not registered before.

Therefore, at the end of the year, the development of crises in the economy can be regarded as halted, but the economic agents are pessimistic in terms of the prospects and the rates of recovery. ●

THE POLITICO-ECONOMIC RESULTS OF DECEMBER 2009

S.Zhavoronkov

In December, Russia's authorities heaped criticism on the RF Ministry of Internal Affairs [hereinafter the RF MIA], blaming it for poor performance, and announced that it will be subject to reform. In particular, over the next two years, the numbers of its personnel will be cut by 20 %, while the wages of the remaining staff will be simultaneously increased. Although the current declarations concerning the impending reform do not sound revolutionary or even convincing, it should be noted that it is for the first time in many years that the country's leadership has acknowledged the existence of serious problems with regard to the RF MIA. V. Putin and D. Medvedev both made lengthy TV addresses summarizing the results of the current year and highlighting a number of key problems. In his Q & A session, D. Medvedev agreed with some critical remarks addressed to the Russian political system; in particular, he approved the annulment of the results of the scandalous mayoral elections carried out in the city of Derbent in October 2009.

December 2009 was the month when both the President and the Prime Minister of Russia summarized the results of the current year; also it was the month of launching a reform of the agencies subordinated to the RF Ministry of Internal Affairs.

Let us start our analysis with the latter. The second half-year, beginning with the infamous mass-murder committed by the head of the Tsaritsyno police department in Moscow, D. Yevsukov, and the subsequent dismissals of Moscow top policemen, made even the official mass media and government officials pay more attention to the problems besetting the RF MIA. Over the year, the head of Tyva's MIA was dismissed for the same crime committed by one of his subordinates, and the head of Buriatia's MIA was arrested on charges of complicity in smuggling activities. In November 2009, S. Magnitskii, lawyer of the *Hermitage* company, died in detention in the Moscow Investigative Isolation Cells. He had accused the leadership of the RF MIA of complicity in a mass embezzlement of the funds belonging to the company and to the federal budget (the embezzlement was perpetrated after the search and the seizure of documents carried out by MIA personnel). So long as Magnitskii was kept in preliminary detention his case did not attract much publicity, but his death compelled a lot of people to speak of the abominable conditions existing in Russian preliminary detention centers. Even some *United Russia* MPs and government officials made very radical statements as to the incorrigibility of the present system of police agencies and their symbiosis with organized crime.

Although in September 2009, in his article "Go, Russia", D. Medvedev tried to convince the country that "we do not have other militiamen for you", in December he was forced to announce some half-hearted reforms. In a TV interview given by D. Medvedev, the President announced his intention to sign a decree "On the Measures Designed to Improve the Performance of the Internal Affairs Agencies of the RF". As regards the situation in the RF Ministry of Internal Affairs, Medvedev remarked that "... We clearly need some strict, serious changes, and we will make them. But at the same time, it is important to preserve the core staff of the Ministry of Internal Affairs".

In a few-days time, the afore – mentioned Decree was published. The text of the Decree contains the admission that "...of late, there has been an increase in the number of instances when militia personnel violate law and service discipline, which produce a well-founded negative response in society and diminish the prestige of authority". The Decree envisages, firstly, a 20 - percent reduction in the numbers of personnel employed by MIA agencies to be carried out before 1 January 2012. Secondly, it envisages a reduction in the number of the RF MIA's departments (it is called "*an optimization of managing the internal affairs agencies of the RF*"). Thirdly, the head of the RF Ministry of Internal Affairs, R. Nurgaliev, is instructed to revise the procedure for selecting candidates for service in the internal affairs agencies, and to develop, within three months' time, a set of anti-cor-

ruption measures in the RF MIA system, and in so doing to envisage the introduction of rotation of the senior personnel of the internal affairs agencies. The RF Government is instructed to consider, by 2011, the issue of increasing the budget allocations designed to monetarily stimulate internal affairs agencies personnel, including at the expense of the funds to be made available as a result of the aforesaid personnel cuts. The Decree contains a number of rather exotic details such as the imposition of the maximum number of deputy-heads of raion militia departments [district police departments], setting it at no more than three.

In his comments on D. Medvedev's Decree, R. Nurgaliev, who has been Minister of Internal Affairs for more than five years, stated that personnel cuts would be made in "...*transport militia [police] and units engaged at controlled-access sites. However, the functions concerning the preservation of law and order will be fulfilled in full*".

D. Medvedev's Decree highlights the necessity of trimming the RF MIA's agencies (their personnel numbers exceed 1 mn, although some estimates put the figure at 1.4 mn) while simultaneously increasing the money allowance of the remaining personnel, introduces rotation of top officials and demands that candidates for service should be selected on a more rigorous basis. Thus, it absolutely correctly defines the vector of the future reforms. However, the Decree as such is rather insipid. It is little more than an attempt at procrastination (for example, the one-year time limit for developing proposals on reforming the wage payment system and the two-year time limit for carrying out the 20 - percent personnel reduction, indicate, judging by the standards adopted by the state apparatus, that these ideas are not of high priority; otherwise the time limits would have been absolutely different). Usually, a 20 - percent personnel cut in any agency is easily achieved by reducing the number of vacancies. Medvedev's Decree ignores numerous important circumstances – from the necessity to introduce changes in the leadership of the RF Ministry of Internal Affairs, who send the signal downwards, to the growing problems dealing with the conduct of service in the MIA agencies (the "plans" for crimes disclosure, the misleading bunkum, the non-transparent system of benefit allocation, the outdated and insufficient technical equipment notwithstanding the enormous funds being spent on the MIA infrastructure, etc) and the excessive powers vested in the internal affairs agencies personnel, especially in the sphere of the struggle against economic crimes.

Also in December D. Medvedev signed the Presidential Decree "On the Appointment and Removal of the Federal Service for the Execution of Punishments' Personnel". The Decree simultaneously dismissed 20 high ranking officials of the central apparatus of the Federal Service for the Execution of Punishments and its regional departments, including the head of its Moscow Department, V. Davydov. Meanwhile the Director of the Federal Service for the Execution of Punishments, A. Reimer, removed from office the heads of the Matrosskaia Tishina prison and the Butyraskaia prison, F. Tagiev and D. Komnov, respectively (it is in their establishments that S. Magnitskii had been kept without receiving proper medical assistance).

In his Q & A TV session, D. Medvedev also gave his support to the initiative put forth by some members of the RF State Duma to the effect that certain limits should be introduced on placing persons charged with committing economic crimes into investigatory isolation wards. Medvedev said: "*With certain types of economic crimes, for example, crimes related to tax evasion, there is no need to throw people in jail immediately, during the initial stage of investigation*"¹. "*A man steals a hat, and he is immediately sentenced to two years in prison*", he added reproachfully. The RF State Duma then adopted, in a third reading, a package of amendments to legislation to the effect that persons charged with tax crimes should not be placed in investigatory isolation wards (provided they are not trying to abscond from investigation). At the same time it remains unclear what will be the final list of the RF Criminal Code's articles to be subject to the new provisions. Moreover, the RF Criminal Code still envisages monstrous prison terms for economic crimes, which frequently exceed by many times the prison terms possible for violent crimes and even murder.

In general, it should be noted that in December 2009, for the first time in many years, Russian authorities demonstrated their readiness to make certain concessions to public opinion in

1 It should be admitted that D. Medvedev's wishes are not always taken into account: thus, in December, the former owner of the bankrupt company *KD Avia*, S. Grishchenko, and its executive director, L. Itskov, were arrested on charges of premeditated bankruptcy. Bearing in mind that as early as the beginning of 2009 Grishchenko sold the controlling block of shares in this air carrier, these charges look rather dubious.

the sphere of reform of law enforcement agencies. However, so far these concessions are not comprehensive enough. The political restrictions dealing with the authoritarian regime's necessity to deprive anybody out of favor with the authorities of his or her freedom and property have not disappeared.

Nothing revolutionary was said in the course of the two hours-long interviews (V. Putin's answers to voter's questions and D. Medvedev's answers to the questions put to him by the directors of the leading TV channels) which took place in early and late December. However, some important details were clarified.

As usual, the case in point was the issue of the 2012 Presidential election, which would determine who would be Russia's President for the next six years. RF Prime Minister Putin was rather reticent in this regard. He answered: *"I will think about it. There is plenty of time"*. As regards Medvedev, Putin, as usually, confined himself to mentioning that they had worked together for many years, had studied together, etc. Medvedev's answer to the same question was lengthier: *"Premier Putin said that he did not rule out this possibility. I also want to say that I don't rule that out either. Like both of us have said, we are close to each other, understand each other and work together. We can avoid pushing elbows and make a reasonable decision for the sake of our country. But the decision will be made only in case Mr. Medvedev and Mr. Putin have any chance to win the election. We cannot foresee the future and cannot say what may happen in several years. Anyway, we will act like responsible politicians should – I am sure of this"*.

Despite the vagueness of D. Medvedev's answers and hints, for the time being there exists a status quo according to which it is more probable that in 2012 V. Putin will return as Russian President. There are two reasons favoring this voting result outcome. The first one is the existing legislative construction for nominating candidates for RF presidency. Under Russian law, a candidate must be nominated either by parliamentary parties or by two million of voters whose signatures should be verified to this effect by the Central Electoral Commissions. Among the current parliamentary parties (it is by no means certain that the number of such parties – 4 at present - will not drop even further, as is suggested by recent trends in regional elections), *United Russia* is headed by V. Putin, *Fair Russia* - by his personal friend, S. Mironov, while the CPRF and the LDPR are led by veteran politicians absolutely loyal to the existing system. The signatures collected by a candidate can be easily declared invalid (as it happened in 2008 with M. Kasianov). Therefore it is not very clear how D. Medvedev's candidature can ever be nominated if V. Putin preserves his control over the composition of the top echelons of power. The second circumstance is that Medvedev has repeatedly said that they would make a coordinated decision, which means that he rules out the possibility of his staging a "coup", legally feasible but physically next to improbable, which would include the sacking of the prime minister and the reshuffling of the top echelons of power. Thus, one should conclude that Medvedev's musings and reflections concerning his future are based on his hopes that he will be able to convince Putin that he, Medvedev, a totally loyal person, could be left in the Kremlin for one more term in office for the sake of Russia's international prestige, among other things. However, if Putin were entirely satisfied with such a solution, he would not constantly talk about his plans for the year 2012.

Of course, the very format of both the RF Prime Minister and the RF President's communication with the TV audience suggested, in the main, that only a rather banal distribution of gifts to individual physical persons as well as to individual enterprises and regions could take place. For example, V. Putin gave assurances of his support to the citizens of Pikalevo, Leningrad Oblast, as well as to the workers of the Izhora Plants company and the Magnitogorsk Metallurgical Combine. Therefore we will try to single out some principal assessments made by the two leaders.

According to V. Putin, 2009 was the most difficult year of the current decade. *"[GDP] has dropped significantly, but not as much as some experts had thought. It is likely to be 8.5 – 8.7 %. That is a lot. [...] At the same time in the sectors that the Government considers to be its direct sphere of responsibility the situation is more or less acceptable"*. As an example of such success, he cited the situation in the aerospace industry and agriculture, which might even expect a slight growth by the end of the year. Putin said that the peak of the crisis had already passed. He mentioned that in December 2008 the authorities had taken the decision that the wages fund for the federal public sector workers should be increased by 30 %, and called on the regions to follow suit. He promised

to do everything possible to prevent medication prices from skyrocketing, and even mentioned the possibility to apply articles of criminal law. And he announced that after 2010 the system of medical insurance would undergo a reform, although without specifying its parameters.

Putin mused a bit on the Khodorkovsky affair (the year 2009 saw the beginning of yet another farcical trial of the ex-tycoon, replicating the charges which had been brought against him in 2003 – 2005). The Prime Minister informed the audience that *“it is not important when he will be released, it is important to avoid repeating such crimes in this country”*. Putin expressed his concern over the problems in Russia’s relations with the USA (*“certain countries including the United States are hindering our accession to the WTO”*) and Belarus, whose leadership insisted, for no reasons whatever, that their country should be entitled to preferential treatment.

Medvedev’s TV statements were delivered by him in an informal manner one could hardly expect from a formal head of state. The questions put to Medvedev concerned Russia’s political system, violations during the recent elections, the so called “Basmany Justice” [a term derived from the name of a Moscow district court], the terrorist bombing of the Nevskii Express train, the problem of alcoholism in Russia, the struggle against terrorism in the North Caucasus and a lot of other things. Medvedev admitted that the political system should be modernized. As far as the elections were concerned, Medvedev, in fact, confirmed the rulings previously passed by Dagestani courts to the effect that the results of the scandalous mayoral election in Derbent should be nullified (in the course of this election one third of polling stations in the city of Derbent had failed to open, while in the rest of them voters had been chased away by the police; as a result, the *United Russia* candidate, the incumbent mayor F. Kaziahmedov had been declared winner). As regards another election mess, this time in Moscow, Medvedev repeated *United Russia’s* affirmation that electoral violations were minor and insignificant. Nevertheless, he admitted the fact of their existence. As far as “Basmany Justice” was concerned, Medvedev remarked: *“... Such decisions or verdicts should be repealed, and if they are taken under the influence of some or other circumstances – be it money, political pressure or other factors – the individuals who issue such verdicts and decisions should be called to account and face both legal and civic responsibility”*. The President even recalled the so-called “opposition outside the political system”, but then explained that this opposition was outside the system by its own free will and not because the authorities did not permit it to participate in elections.

On the whole, although Medvedev’s interview was seemingly more frank than Putin’s, the President also did not promise any principal changes – if, of course, we abstain from characterizing as such the nullification of electoral results in Derbent, however laudable this gesture might be.

Both the Prime Minister and the President touched upon the acute problem of illegal and legal migration into Russia. In his Q & A session, V. Putin stated that it was necessary *“that, taking into account the world financial crisis, the quota for attraction of foreign labor force should be cut by 50 percent”*. In his turn, D. Medvedev added that labor migration is a good thing, but *“if they are coming to work in Russia they need to speak Russian”*¹. As a result, in late December the RF Government took a decision to cut down the quota for labor migrants from almost 2 million to 1.3 million. Nevertheless it is clear that the current problems with law enforcement practice and the open borders with the Central Asian states will make the actual implementation of this decision extremely difficult. very difficult to implement this decision. ●

1 Prevalent legislation does not stipulate that labor migrants should be obliged to know Russian.

INFLATION AND CREDIT AND MONETARY POLICY

N.Luksha

In November 2009, after a three months pause, the consumer prices growth was resumed: CPI by the end of the month amounted to 0.3per cent. In December, inflation accelerated, amounting to 0.4 per cent within three weeks of the month. Therefore, the consumer prices growth within January - December 21 has reached 8.8 per cent. However, compared to the relevant period of the preceding year, inflation declined significantly (by 4.3 p.p.). Within November, foreign currency and gold reserves of the Bank of Russia increased and amounted to USD 447.8 bln. At the same time, since early December international reserves decreased, accounting on December 18 to USD 440.4 bln. Within November capital inflow into the country continued, but in December capital streams were expanded again. The real effective exchange ruble rate continued to strengthen (+0.9per cent) in November.

In November, after three months of zero growth, consumer prices started to grow. As of the month results, the consumer price index reached 0.3per cent (see *Fig. 1*). It should be noted, that the growth in prices in November of the current year was the minimum for the relevant month over ten years (for comparison, in November 2008 the CPI made 0.8per cent).

As in October, the main contribution to the prices growth was made by non-food products, which increased by 0.4 per cent. Frosts influenced demand, which, in turn, caused the growth in prices for seasonal footwear and clothes: in November the cost of knitwear increased by 1.2 per cent, clothing and underwear by 1.1 per cent and footwear by 0.9 per cent. Reduction of petroleum prices amounted to 0.1per cent.

In October reduction of prices for food stuffs and commercial public services has been replaced in November by their growth (+0.3per cent and +0.1per cent, accordingly).

In the category of food products the greatest contribution to prices' growth was made by butter (+3.2per cent). In November, seasonal decline in prices for fruit and vegetables has stopped, the increase in prices made 0.9 per cent. Moreover, prices, which declined within the preceding month (cereals and beans -1.9 per cent, fish and seafood -0.9 per cent, sunflower oil and pasta -0.6 per cent and sugar -0.5 per cent), in November meat and poultry prices have also decreased sharply (-0.4 per cent).

Prices for paid services basically repeated the October behavior. For the third consecutive month, foreign tourism services are decreasing (-1.4 per cent), and healthcare and spa services (-0.5 per cent), passenger transport services (-0.3 per cent) and insurance services (-0.2 per cent). In November, the growth in tariffs for housing and communal services (0.2 per cent versus 0.4 per cent in October). Among the observed decline in prices of housing services prices gas and electricity were affected (-0.1per cent for both). In November, the greatest price growth was noted in heating (+1 per cent).

In December, inflation accelerated as usual, accounting within three weeks to 0.4 per cent (against 0.5 per cent in December of the last year). In general, since the beginning of the year through on December 21, 2009 cumulative inflation made 8.8 per cent, which is below the level of the same period of the last year (13.1 per cent). Obviously, lowering of the estimated level of annual inflation, made by the Ministry of Economic Development from 9 per cent to 8.8 per cent was somewhat premature. However, the annual inflation rate of 2009 still has a chance to become the lowest for the decade.

In the first month of 2010 one can expect seasonal acceleration of inflation, which will be based on the indexing of tariffs for services of natural monopolies and housing utilities, as well as increased pensions. Restraining factors of price growth will become the dynamics of monetary supply, low inflationary expectations, and low consumer demand. Inflation is likely to be lower than the relevant indicator of 2009.

The basic CPI of consumer price index¹ in November has made 0.3 per cent (versus 1.1 per cent in the relevant period of preceding year).

As of November results, the monetary base (in broad definition²) has grown by 3.9 per cent and amounted to RUR 5,218.2 bln. Cash in circulation with regard to the fund balances in credit organizations on December 1 for the first time since the beginning of 2009 has made RUR 4 trillion (+1.4 per cent as compared with October), correspondent accounts of credit organizations in the Bank of Russia made RUR 664.9 billion (+19 per cent), mandatory reserves made RUR 151.4 billion (-1.7 per cent), banks' deposits with the Bank of Russia made RUR 275.6 billion (-13.6 per cent), the value of shares of the Bank of Russia with credit organizations made RUR 111 billion (increased by 3.6 times).

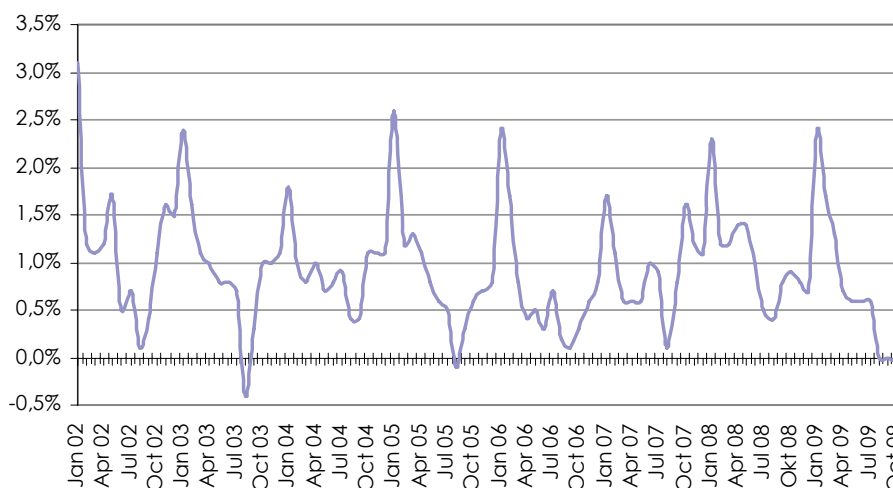
In November, the excessive reserves of commercial banks³ have grown again, amounting by the end of the month to RUR 1,051.5 billion. Therefore, the growth made RUR 143.2 billion, or 13.6 per cent. Excessive liquidity growth was observed in the banking system.

In general, in November the situation in banking sector if not improved, then at least not deteriorated. Arrears and the share of bad debt have insignificantly grown, and the portfolio of corporate debts from banks was not decreased.

According to the Central Bank, in October the interest rates on ruble credits to non-financial organizations continued to decline: the rate has declined by 0.6 p.p. to 14.1 per cent. As compared with the beginning of the year, credit interest rate decreased by 3 p.p. Despite this fact, the rates remained rather high, and the credit activity of banks was low.

According to G. Melikyan⁴, the First Deputy Chairman of the Central Bank, in November, for the first time within 10 months the growth of credit portfolio of banks to non-financial organizations has been recorded by 0.8 per cent (for comparison: in October, excluding the revaluation, the scope of the banks' credit portfolio to enterprises has decreased by 0.5 per cent). However, taking into account the impact of exchange rate revaluation, the credit dynamics in November was at the level of 0-0.1 per cent. As opposed to that, crediting to individuals in November has decreased by 0.2 per cent.

In November, debt in arrears continued to grow. The share of overdraft credits of Russian enterprises to the banks (regardless Sberbank) in November increased from 6.7 per cent to 6.85 per cent. The level of arrears on credits to individuals increased within the month from 8.2 per cent to 8.5 per cent. The total share of overdraft credits in November has somewhat increased, amounting



Source: Russian Statistical Agency

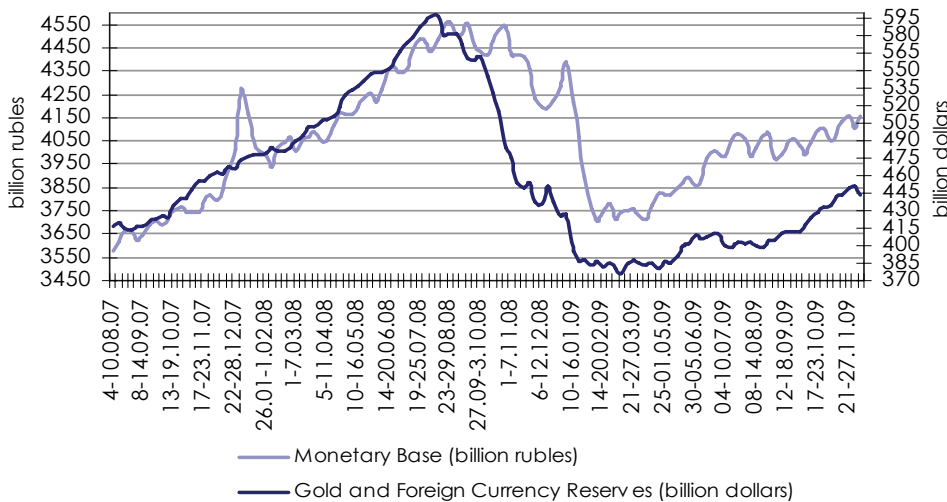
Fig. 1. The Growth Rate of the CPI in 2002 – 2009 (% per month)

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

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

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

4 Interfax (<http://www.ifx.ru/txt.asp?rbr=1493&id=1371326>, 17.12.2009).



Source: RF Central Bank

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

10.5-10.6 per cent. Therefore, within the month, their share has grown by approximately 0.5-0.6 per cent.

In November, an increase of volume of cash in circulation by 1.4 per cent and the reduction of mandatory reserves by 1.7 per cent caused an expansion of the monetary base in narrow definition (cash plus mandatory reserves)² by 1.2 per cent (see Fig. 2).

The volume of foreign currency and gold reserves of the CBR in November increased by 3.1 per cent, and by the end of the month made USD 447.8 billion. Like in the preceding month, currency revaluation was the main reason for the growth of international reserves. Moreover, the growth of reserves was due to high oil prices and the inflow of foreign capital. In early December international reserves started to decline, and on December 18 reached the level of USD 440.4 billion. Just within a week, from December 4 to 11, first of all due to the currency revaluation, the reduction of the Central Bank's gold reserves was the highest within the period from early July (- USD 7.5 billion).

We would like to remind, that within the period from January to October 2009 a net outflow of capital from the country amounted to USD 53 billion³. In November capital inflow was resumed, however, it was lower, than in October, when it made USD 10 billion⁴. According to the CBR preliminary data, in December capital flows increased again, and by the end of the month a net outflow of capital should be expected. According to S. Ignatiev, the Chairman of the Central Bank, as of 2009 results, the net capital outflow could exceed the official forecast by USD 40 billion⁵.

The inflow of foreign currency into the country in November, as well as the continuing growth of oil prices contributed to further strengthening of the ruble. In November, the ruble has strengthened by 0.9 per cent. The index of real effective ruble rate of the month's results increased to 133.83⁶ (see Fig. 3).

Within the first three weeks of November the ruble demonstrated strengthening against the dollar and Euro, however, in the last few days in November, the situation changed radically: the

to 5.5 per cent (in the previous month, according to A. Simanovsky, the Director of the Department of Banking Regulation and Supervision of the Central Bank, its share amounted to 5.07 per cent¹).

Apparently, the banks still will be able to meet the new Central Bank estimates of the level of overdraft credits of 7 per cent.

The share of problem and "bad" credits (the fourth and fifth category of quality) in the total credit portfolio of Russian banks on November 1 was

1 The same.

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

3 Prime-Tass (<http://www.prime-tass.ru/news/articles/-201%7BC75548D1-4F93-4549-BCA8-1940C1742108%7D.uif>, 24.12.2009).

4 According to A.Kudrin, Minister of Finance, one can expect more capital outflow from the country as per results of the fourth quarter (Prime Tass, same reference, 24.12.2009).

5 RIA-Novosty (<http://www.rian.ru/economy/20091223/201003999.html>, 23.12.2009).

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

ruble rapidly went down. On December 9 the dollar for the first time within two months exceeded the rate of RUR 30 per USD. Therefore, within November and three weeks of December, the nominal rate of the dollar against the ruble increased by 5.7 per cent to RUR 30.72, the Euro - by 2.6 per cent to RUR 44.18. As a result, within three weeks of November and December, the two-currency basket¹ value rose again, amounting to RUR 36.78 (+4per cent).

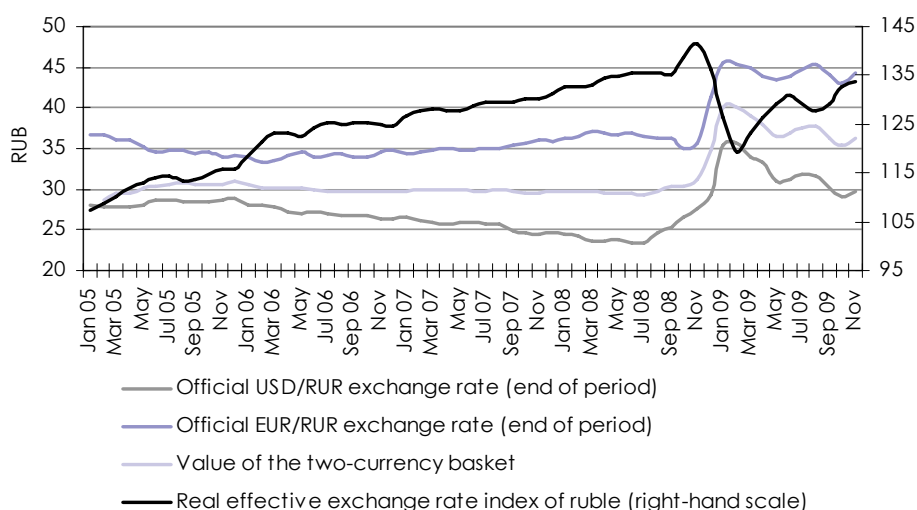
The main factors, which contributed to ruble weakening were: 1) the falling price of Brent oil from USD 79 per barrel at the end of November to USD 72-74 dollars per barrel in the second decade of December, 2) strengthening of the dollar (from USD 1.51 /Euro on November 27 to USD 1.43/Euro on December 20, 3) peak of payments under corporate foreign debt (according to the schedule of upcoming payments, in December the banking sector should pay USD 5.4 billion, while non-financial sector - USD 15.9 billion, 4) expectations of budget expenditures growth in December, 5) negative factors in the external markets (in particular, the situation in the emirate of Dubai).

On December 11, 2009, at the meeting of the Board of Directors of the Bank of Russia, it was decided to extend the Central Bank Instruction of December 23, 2008 "On the specifics of assessing of the credit risk on the loans, credit and similar debt" up to June 30, 2010.

Let us remind, that in accordance with the Instruction, credit organizations were given the right not to downgrade the quality assessment of the debt service on loans in case of:

- extended duration of overdraft under principal debt or interest on the loan for 30 calendar days as compared with the established timeframes;
- restructuring of the loan (for example, in case of change of the currency, in which a loan was nominated, amendment of repayment term of the loan (and (or) interest) in the period from October 1, 2008;
- since October 1, 2008, repayment of the debt on a loan previously provided to the borrower.

This measure was addressed at the support of the Russian banks in a crisis situation. The period of such beneficial approach was initially limited by December 31, 2009. However, despite some positive developments in the banking sector, the situation is still quite unstable. In this regard, it was decided to extend the validity of this Instruction for two more quarters. This measure seems to be justified, but should only be considered as a temporary support to the Russian financial system, as well as too liberal approach to credit risks' assessment can contribute to the further decline of financial stability. ●



Source: RF Central Bank, author's estimates

Fig.3. Indicators of RUR Exchange Dynamics in January 2005 – November 2009

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

FINANCIAL MARKETS¹

N.Burkova, E.Khudko

In December the dynamics of Russia's financial market was volatile with predominating upward trend. Gradual cutting down of programs to support the economies of the U.S., Europe, China and Russia, as well as changes in the international agency Standard & Poor's assessment of Russia's credit rating from "negative" to "stable" contributed to positive perceptions among investors in the Russian stock exchange market. Positive trends were particularly clearly expressed in the market of government bonds and the MICEX futures market, where the investors' activity increased by 35 per cent and 11 per cent respectively, while the downward trend was noted in the market for corporate bonds, where the daily average monthly turnover has declined by nearly 15 per cent. In the domestic corporate bonds market a positive trend was observed: the volume of the market, initial public placements (including the issue of exchange-traded bonds) and the activity of investors in secondary trading was increased, the index of corporate bonds continued to grow with a simultaneous decrease in the effective yield. Yet the record number of actual defaults, especially in the redemption of securities is still a major problem of the bond market.

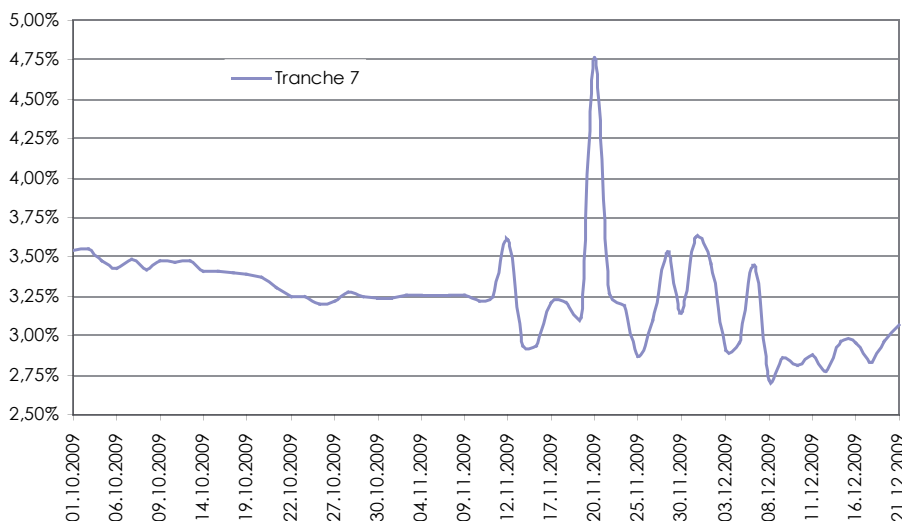
Government securities market

During December the volatility in world markets against the background of falling commodity markets, the strengthening of the ruble, reduced refinancing rates of the Central Bank of Russia, a positive situation with ruble liquidity, resulted mainly in the positive dynamics of the yield on the market of ruble and foreign currency government bonds and contributed to the increase of activity in the market of government securities denominated in rubles and foreign currency.

As of December 22, the Russian Eurobonds RUS-30 yield to maturity has increased as compared with the level of November 22 from 5.29 to 5.37 per cent per annum (by 1.52 per cent), RUS-28 – from 6.05 per cent to 6.28 per cent per annum (by 3.80 per cent), RUS-10 – from 0.43 to 0.50 per cent per annum (by 16.28 per cent), RUS-18 - from 5.04 per cent to 5.19 per cent per annum (by 2.98 per cent). As of the same date, a reverse trend was observed in the yields of external

currency debt bonds. Thus, the yield to redemption of the seventh tranche of external currency debt bonds has decreased from 4.77 to 3.07 per cent per annum (by 35.64 per cent) (see Figs 1-2).

Within the period from October 26 to November 22, the total turnover of the secondary market of government bonds amounted to approximately RUR 224.08 billion with an average daily turnover of RUR 10.67 billion (about RUR 150.77 billion with an average daily turnover of RUR 7.94 billion in November), what corresponds to the growth of an average monthly turnover nearly by 35 per cent.



Source: "Finmarket" Information Agency data

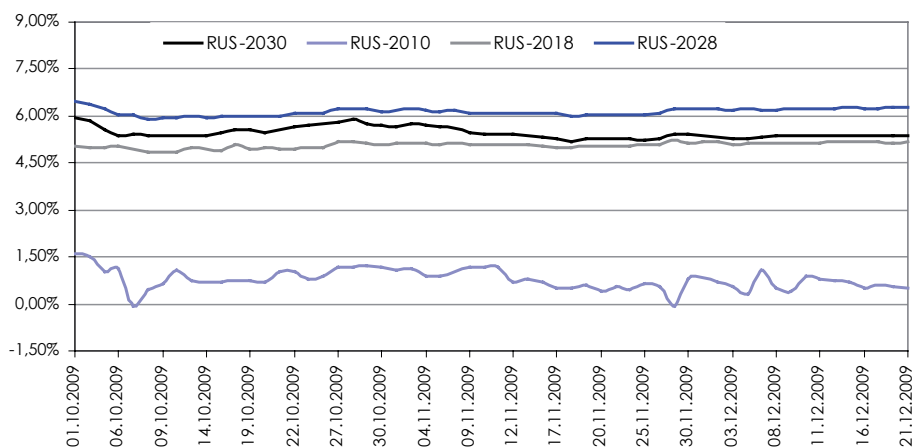
Fig. 1. Minfin bonds' yields to maturity in October – December 2009

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

Within November 23 – December 21, there were four auctions on government bonds additional placements (against three auctions a month before) at the primary government bonds market. Herewith, two auctions for government bonds additional placement series 25070 and 25069 for the amount of RUR 10 bln and RUR 20 bln were arranged on November. Actual placement volumes were RUR 9.95 bln and RUR 19.06 bln with an average weighted yield of 7.34 and 7.73 per cent per annum accordingly.

On December 2, there was an auction on government bonds' additional placement, series 25071 for the amount of RUR 20 bln, an actual placement volume reached RUR 10.12 bln with an average weighted yield of 8.26 per cent per annum. On December 9, there was an auction on government bonds' additional placement, series 25063 for the amount of RUR 10 bln, an actual placement volume reached RUR 2.72 bln with an average weighted yield of 7.81 per cent per annum. Therefore, the actual volume of placement for the period under review was RUR 70 per cent versus the estimated level of 70 per cent (94 per cent a month earlier), which demonstrates a reduced interest of the investors to government bonds market.

Furthermore, in this period there were several auctions on government bonds additional placements in the secondary market (see *Table. 1*). The total actual placement in the secondary market for the period amounted to 29 per cent of the estimated volume (versus 31 per cent a month earlier). This trend reflects the overall downgrading dynamics in the market of government securities.



Source: "Finmarket" Information Agency data

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

Table 1 AUCTIONS FOR OFZ ADDITIONAL PLACEMENTS IN THE SECONDARY MARKET

Auction date	Issue	Auction type	Issue volume, RUR, mln.	Nominal placement amount. RUR. mln	Average yield
23.11.2009	ОФЗ-26200-ПД	Add. Placement	2 295.29	895,29	8,18
24.11.2009	ОФЗ-26200-ПД	Add. Placement	1 400.00	1 400,00	8,18
02.12.2009	ОФЗ-25071-ПД	Add. Placement	9 879.78	362,78	8,24
04.12.2009	ОФЗ-25071-ПД	Add. Placement	9 517.00	277,78	8,24
09.12.2009	ОФЗ-25063-ПД	Add. Placement	3 285.48	335,48	7,80
10.12.2009	ОФЗ-25063-ПД	Add. Placement	2 950.00	859,96	7,78
11.12.2009	ОФЗ-25063-ПД	Add. placement	2 090.05	2 291,50	7,81
16.12.2009	ОФЗ-25063-ПД	Auction on add. placement	3 798.55	3 586,41	7,74
17.12.2009	ОФЗ-25063-ПД	Add. Placement	212.14	52,60	7,74
18.12.2009	ОФЗ-25063-ПД	Add. Placement	159.54	159,54	7,74
23.11.2009	ОФЗ-26200-ПД	Add. placement	2 295.29	895,29	8,18
Total:			35 587,82	10 221,33	

Source: "Finmarket" information Agency data

As of December 21, the OFZ market has amounted to RUR 1 469.75 bln at face value and to RUR 1 408.21 bln at the market value (RUR 1 417.69 bln and RUR 1 341.64 bln accordingly,

as of November 22). The duration of the OFZ market portfolio has made 1 573.29 days, having decreased by 49.72 days as compared with the preceding month (as of November 22).

Stock market

Stock market situation

In December volatility of global stock markets, reduced refinancing rate of the RF Central Bank since November 25 (from 9.5 to 9 per cent per cent per annum), strengthening of the RF national currency, RF Central Bank reduced estimates in regard to the level of overdue loans in Russia from 10 to 7 per cent by the end of 2010, the Central Bank plans to reduce the amount of funds allocated to the implementation of anti-crisis measures, as well as amended assessment of the international rating agency Standard & Poor’s rating of Russia from “negative” to “stable” on December 21 and confirmed sovereign credit rating of Russia on the obligations in foreign currency at the level of BBB/A3, in national currency - BBB + / A2 on the one hand, in the background of oil price downgrading at the beginning of the month, the RF GDP decline and trade balance surplus within ten months of 2009 by 9.6 per cent and 52.8 per cent respectively, the growing unemployment, reduction of the RF foreign currency and gold reserves, license revocation from a number of banks, pessimistic expectations of the Ministry of Economy for short-term perspective of the Russian stock market, reduced net profit of a number of major Russian companies as per the results of the 3rd quarter of 2009, an increased domestic public debt of the RF by 27.8 per cent to RUR 1 816.4 billion within 11 months of 2009, the decision of the RF government to provide financial support to OAO “AVTOVAZ” (RUR 12 billion), and to Consolidated Aircraft Corporation (RUR 45.2 billion), on the other hand, promoted the volatile dynamics of the Russian financial market with a predominance of upward trend during the month.

Thus, while in late November – early December a general downgrading dynamics was observed in the MICEX index, since the middle of the month the decreasing trend was replaced by an upward one (See Fig. 3). The minimum value the MICEX index has reached on December 22 - 1 301.33 points (against 1 218.42 points in the preceding month). The maximum value the MICEX index has reached on December 16, having reached 1 388.59 points (1,371.82 points a month earlier).

In general, within the period from November 23 to December 21, the MICEX index has increased by 3.28 per cent in absolute terms, what makes about 43.78 points in absolute terms (within the year, from December 22, 2008 to December 21, 2009, the MICEX index has increased times 2.2). Over the same period, the turnover of trades in shares, included in the MICEX index, made about RUR 1,226.3 bln at an average daily turnover of RUR 58.4 bln (against RUR 1 299.43 billion with an average daily turnover of RUR 68.39 billion in the preceding period). Therefore, the investors’ average daily activity in the stock market in December has declined as compared with the preceding

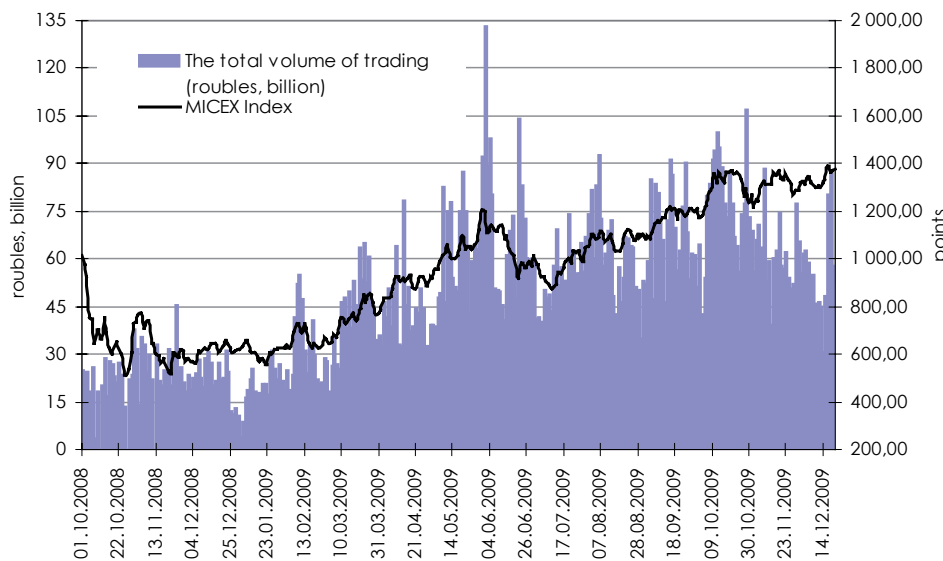


Fig. 3. Dynamics of MICEX Index and trading volume

month by 14 per cent. The indicators of maximum and minimum daily turnover in the market trades in December made, accordingly, RUR 87.07 bln (as of December 17), and RUR 30.61 bln (on December 14).

As of the month results (from November 23 through December 21), the majority of the “blue chips” securities have shown a volatile trend. The leaders in this regard were Sberbank of Russia, the value of which has grown by

13.34 per cent and “VTB Bank” (10.8 per cent). Some lower upgrading rates were demonstrated by Mosenergo securities (4.28 per cent), “Gazprom Neft” (3.85 per cent), GMK “Nornickel” (by 2.67 per cent) and Gazprom (2.62 per cent). At the same time, shares of other “blue chips” demonstrated, on the contrary, downgrading trends. Thus, “Rostelecom” share have declined by 18.36 per cent, followed by LUKOIL, downgraded by 5.62 per cent, “Tatneft” (2.38 per cent), Surgutneftegas, whose value declined by 2.28 per cent and Rosneft (1.16 per cent) (Fig. 4).

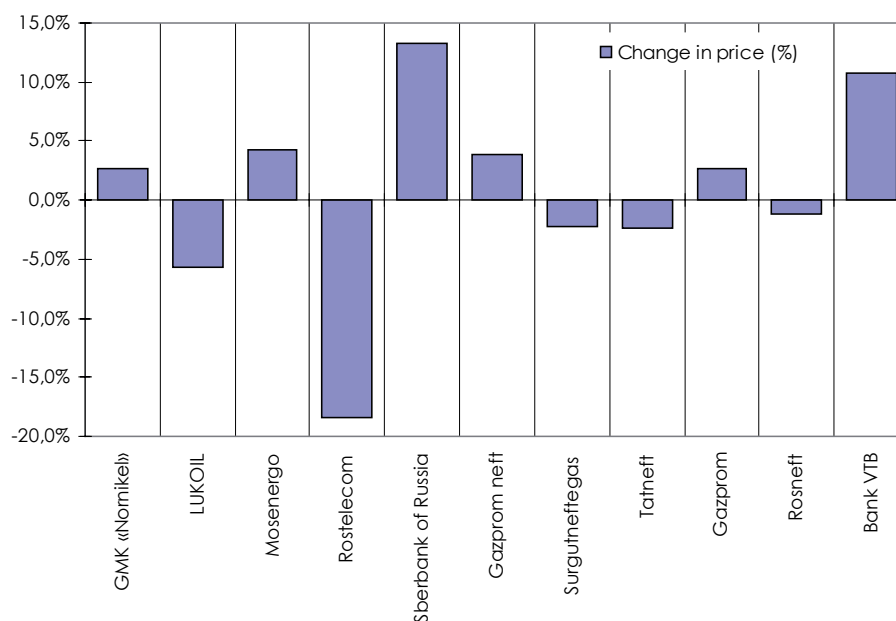


Fig.4. Dynamics of the Russian Blue Chips from November 23 to December 21, 2009

In December the MICEX

turnover leaders were: “Sberbank of Russia” (32.89 per cent of the total turnover), “Gazprom” (23.99 per cent of the total turnover), “LUKOIL” (7.61 per cent), GMK “Nornickel” (6.01 per cent) and “VTB Bank” (5.73 per cent). The total share of transactions with the shares of the five «blue chips» was about 76.23 per cent (all «blue chips» - 83.89 per cent) of the total trades in shares at the MICEX stock market during the period from November 23 to December 21.

According to MICEX information, as of December 21, the top five leaders of the domestic stock market in terms of capitalization were: “Gazprom” – RUR 4 332.96 bln (RUR 4 256.50 bln a month earlier), “Rosneft” – RUR 2 718.43 bln (RUR 2 646.26 bln in preceding month), “Sberbank of Russia” – RUR 1 753.72 bln (against RUR 1 535.48 bln), “LUKOIL” - RUR 1 416.32 bln (RUR 1 497.82 bln in preceding month), and “Surgutneftegas” - RUR 971.03 bln (RUR 944.38 bln).

Futures and Options Market

In December the total turnover in the MICEX (futures) market has increased by 11 per cent as compared with the preceding month. Thus, in the period from November 23 through December 21 the total turnover in the MICEX (futures) market made approximately RUR 42.11 bln (81.31 thousand of transactions, 1.08 mln of contracts), against approximately RUR 37.99 bln (71.52 thousand of transactions, 1.17 mln of contracts) in November. The largest volume of trading in December, as a month earlier, was observed in foreign currency futures, amounting to RUR 25.52 billion (349 thousand of transactions, 0.83 mln of contracts). Herewith, contracts for the US dollar were in the first place in terms of trading in the MICEX futures market section, followed by futures contracts for Euro and for Euro/USD rate. It is worth noting that prices of futures contracts, concluded in December for RUR/USD futures in the short-term MICEX market were made within RUR/USD 29.8-30.7 for March 2010, RUR/USD 30.3–31.4 for June, RUR/USD 29.7-30.3 for June, RUR/USD 30.3–31.7 for September 2010. In addition, since December 17 there were issued 2 additional quarterly series for USD futures with deadlines in March and June 2011 were made in the MICEX futures market. Thus, since December 17 there are in circulation futures for USD with the dates of execution in the next six months, as well as in the four months, of the end of the quarter (March, June, September, December). The greatest number of transactions (79 thousand transactions) per month was made with the futures contracts on equity instruments (69.46 thousand transactions in November); the volume of transactions made RUR 13.19 bln (24 per cent more than in preceding month). Herewith, futures for the MICEX index were leading in the short-term MICEX market, followed by futures for «Sberbank of Russia» and «Gazprom» shares. It should be noted, that the

value of the MICEX index (the price of transactions) for December 2009 made on average 1,270–1,390 points and 1,370–1,390 for June 2010. Trading volume in futures for commodity assets within the period has increased by 25 per cent (from RUR 2.73 billion to RUR 3.41 billion). There were no transactions in futures contracts on interest rates in November. Moreover, from November 26 the effect of futures on the MosIBOR accumulated daily rate is terminated at the futures MICEX market.

Similar trends were observed in the short-term market of RTS FORTS, where the investors' activity in December has increased as compared with the previous month by 9.5 per cent. Thus, in the period from November 23 through December 21 the total market turnover of futures and options in RTS was about RUR 1 944.04 billion (8.69 million of transactions, 48.21 million of contracts) as compared with about RUR 1,755.81 billion (8.51 million of transactions, 45.90 million of contracts) in November. The greatest demand among the participants, as before, was noted in Futures: trading volume in them during the period under review amounted to RUR 1 868.34 billion (8.58 million of transactions and 46.38 million of contracts). At the same time, in the futures market of RTS FORTS prices of the recent transactions, concluded on futures contracts for the date of execution on March 15, 2010, were within RUR] 29.4 / USD 30.9, on June 15, 2010 - RUR / USD 29.9-31.5 , and RUR 30.7 - 31.9 on June 15, 2010. The value of futures of the RTS index (based on the prices of recent contracts) for March 15, 2010 was estimated on average at 1,350–1 450 points, and 1.380–1.440 points for June 15, 2010 and 1 420–1 490 for September 15. Options enjoyed far less demand, the turnover made about RUR 72.7 bln (107,49 thousand transactions and 1.83 mln of contracts). The maximum daily turnover in the short-term RTS futures market in December made RUR 112.82 billion (as of December 17), and minimum was RUR 56.69 bln. (on December 15).

In addition, we would like to note the introduction RTS FORTS in the short-term market on November 16 the margining options on the following basic assets: futures on shares of OAO Gazprom, futures on shares of LUKOIL, futures into ordinary shares of OAO Sberbank of Russia, futures for dollar-ruble exchange rate and futures on refined gold in bars, and from December 10 margining options on futures on refined gold in bars , futures on the shares of Norilsk Nickel, futures on ordinary shares of GMK "Polyus Gold", futures on shares NK "Rosneft", futures on shares of OAO "Surgutneftegaz", futures on preferred shares of OAO "Transneft" and futures into ordinary shares of OAO «VTB Bank». Herewith, already traded options contracts with the term of execution in 2010 will be replaced at their margining performance accordingly.

External factors behind Russian stock market dynamics

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

- the decision of the Bank of Japan to maintain the bank rate at 0.1 per cent per annum, the European Central Bank - at 1per cent, the Bank of England – at 0,5per cent, the U.S. Federal Reserve System – at 0-0,25 per cent;
- information about the U.S. plans to complete the program on national economy support in the amount of 700 billion dollars;
- statement of the European Central Bank on the possibility of an early than planned reduction of anti-crisis measures for the support of the European economy;
- Chinese government's decision to limit the volume of domestic credit;
- Plans of U.S. banks Bank of America Corp., Citigroup and Wells Fargo to repay debts to the State in the amount of USD 45, 20 and 25 billion, respectively, obtained under the anti-crisis program;
- GDP growth in Germany in the 3 rd quarter of 2009 by 0,7 per cent of GDP, in India and China during the 2-nd quarter of 2009 - by 7,9 per cent, GDP growth in Japan's in the 3 rd quarter of 2009 by 0,3 per cent;
- unemployment reduction in the U.S. and Germany in November by 0,2 p.p. and 0,1 pp., respectively;
- Japan's trade surplus in November in the amount of USD 4.13 billion;

- Reduction of the U.S. trade deficit in October by 7.6 per cent, to USD 32.94 billion;
- Increased sales of new houses in the United States in October by 6.2 per cent, reduced number of applications for unemployment benefits in the U.S.;
- information on the placement of Royal Bank of Scotland Group Plc. bank of shares for GBP 25.5 billion pounds in favor of the UK Ministry of Finance in the framework of ending the state program for the protection of bank assets;
- Volkswagen automaker acquisition of 49,9 per cent of Porsche shares for Euro3.9 billion, and plans to acquire 20 per cent shares in Suzuki Motor Corp. for USD 2.8 billion.

However, the following events were restricting the growth of the global financial markets during the month:

- Reduction of the world price of oil in the first half of December (up to USD 70 per barrel);
- information about financial problems of one of the largest investment companies in Dubai Dubai World, which has debts to creditors (including international ones) in the amount of USD 60 billion;
- changes in the international rating agency of Moody's forecast on ratings of the banks in Switzerland as the "negative";
- Reduction of Greece long-term credit rating from the level of A-to BBB + with a "negative" outlook by the Fitch international agency
- Net outflow from the USA in October in the amount of USD bln.;
- Decrease of the Great Britain GDP by 0.3 per cent in the Third Quarter of 2009;
- Growth of the the United Kingdom trade deficit in October to GBP 7.11 billion;
- Allocation by the Hungary International Monetary Fund next credit tranche of Euro788 million;
- Plans to reduction of personnel by General Motors automakers by 9-9,5 thousand by Opel.

All those factors urged volatility in the major global stock market indices in December as compared with the preceding months. In December markets in selected developing countries were characterized as an increase by 1-13 per cent, and lowering of indices by 1-6 per cent. In the same period in the markets of Europe have demonstrated growth of indices in the range 1-7 per cent. Herewith, we note the predominance of upward dynamics in quotations of the major stock indexes in the world markets as of the month results (see *Table. 2* and *Fig. 5*).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES (AS OF DECEMBER 21, 2009)

Index	Ticker	Value	Dynamics within the month(%) ¹	Dynamics since the year beginning(%) ²
MICEX (Russia)	MICEXINDEXCF	1 377.93	3.28	122.42
RTS (Russia)	RTSI	1 425.45	-0.77	125.59
Dow Jones Industrial (USA) Average	DJI	10 414.14	0.93	18.66
NASDAQ Composite (USA)	NASD	2 237.66	4.27	41.89
S&P 500 (USA)	SPX	1 114.05	2.08	23.34
FTSE 100 (UK)	FTSE	5 293.99	0.81	19.39
DAX-30 (Germany)	DAX	5 930.53	4.72	23.29
CAC-40 (France)	CAC	3 872.06	3.83	20.33
Swiss Market (Switzerland)	SSMI	6 504.44	3.62	17.52
Nikkei-225 (Japan)	NIKKEI	10 183.47	7.22	14.94
Bovespa (Brasil)	BUSP	65 925.19	-0.61	75.56
IPC (Mexico)	IPC	31 799.23	3.69	42.09
IPSA (Chile)	IPSA	3 518.57	6.96	48.06
Straits Times (Singapore)	STI	2 786.81	0.92	58.20
Seoul Composite (South Korea)	KS11	1 644.23	1.46	46.22
ISE National-100 (Turkey)	XU100	51 280.90	13.38	90.89
BSE 30 (India)	BSE	16 601.20	-2.47	72.08
Shanghai Composite (China)	SSEC	3 122.97	-5.60	71.52
Morgan Stanley Emerging Markets Free Index	EFM	750.05	-1.95	63.90

- – Versus index indicator valid on November 22, 2006.

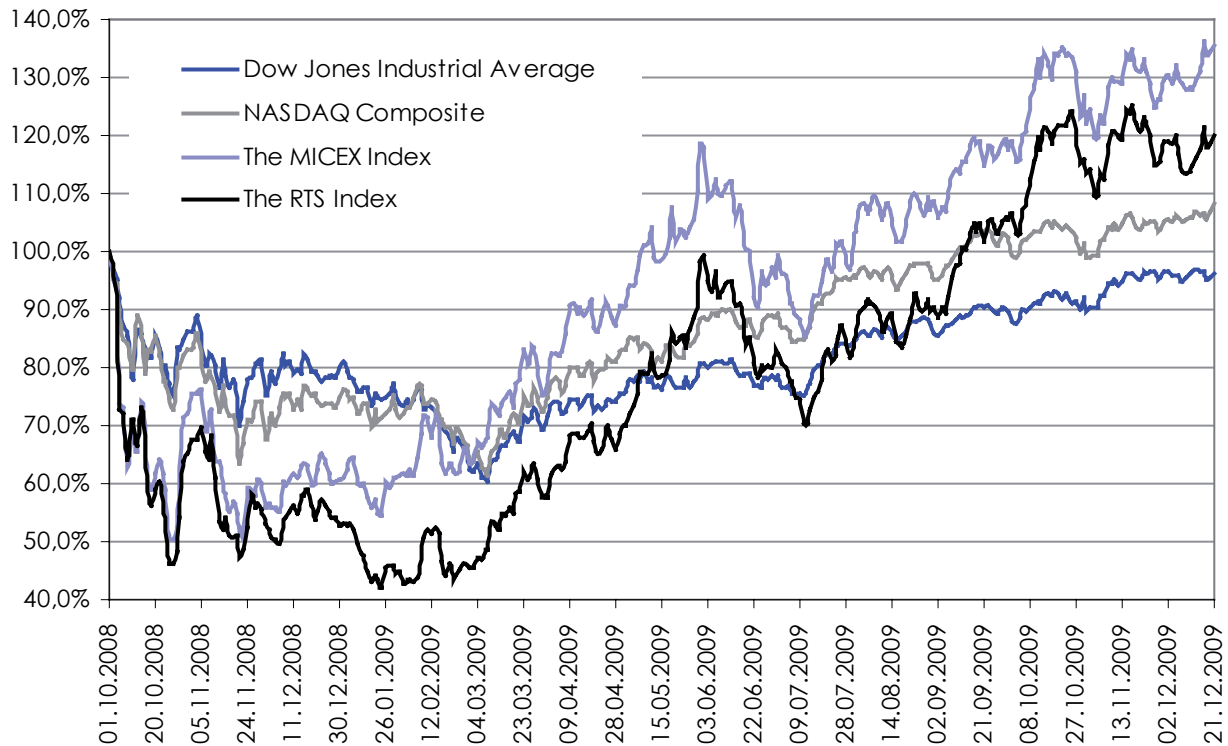


Fig. 5. Dynamics of the main USA and Russian stock indexes (in per cent to the date 01.10.2008)

Corporate News

ОАО «VTB Bank»

On November 23, 2009 OAO «VTB Bank» started its activity in the market of Azerbaijan. In late November – early December OAO «VTB Bank» has provided credits to: the government of Moscow Region totaling RUR 6.5 billion up to two years to fund priority of budget expenditures; to OAO «Krasnoyarsk Machine-Building Plant» in the amount of RUR 530 million; to LPK «Mondi Syktyvkar» in the scope of RUR 7 billion for up to 3 years. In addition, on December 2, OAO «VTB Bank» has restructured loans to enterprises of «Mechel» group totaling to RUR 15 billion. On December 3, «VTB Bank» became the majority shareholder of «Sistema-Hals» through on an option to acquire 31.5 per cent share (the transaction price was RUR 30 rubles.) On the basis of this phase of transaction the share of VTB in the OAO Sistema-Hals authorized capital has reached 51.2 per cent.

On December 1 OAO «VTB Bank» and the Export-Import Bank of the Kingdom of Thailand have signed an agreement on cooperation in the field of documentary operations. On December 3, OAO «VTB Bank» and KfW IPEX-Bank GmbH (Germany) signed a new basic credit agreement providing for the allocation of OAO «Bank VTB» a long-term credit line worth of Euro 200 mln to finance Russian companies - importers of industrial goods and services from European countries - under the cover of export insurance agencies in Europe. Also on December 3, OAO «VTB Bank» and Mediobanca - Banca di Credito Finanziario SpA (Italy) signed a framework loan agreement providing for the allocation of OAO «VTB Bank» a credit line worth of Euro 200 million the for long-term financing of the Russian imports from Italy, Spain, France, Germany, Finland and Austria in the framework of export insurance agencies in these countries. On December 15, 2009 OAO «VTB Bank and Bank for Investment and Development of Vietnam have signed a memorandum of understanding on establishing an investment fund whose objective is to achieve investment in the most important economic sectors of Vietnam.

On December 4, OAO «VTB Bank» has disclosed unconsolidated reporting under RAS for the 11 months of 2009: Assets on December 1, 2009 reached RUR 2 755 billion, as compared with RUR 2 551 billion as of January 1, 2009, net profit totaled to RUR 31.88 billion. On Dec. 17 the company announced its unaudited financial results under IFRS for the 9 months of 2009: net loss made RUR 45.5 billion

OAO «Gazprom»

On November 27, OAO “Gazprom” and EDF have signed a memorandum providing for joint participation in the project “South Stream”. And on December 3, OAO “Gazprom” and ENI have signed a Memorandum of Understanding on the project “South Stream”, fixing that Gazprom and ENI supports EDF’s accession to the project “South Stream”. In December, OAO “Gazprom” have signed a cooperation agreement with Samara, Vologda, and Irkutsk regions. On December 15, Gazprom and Petrovietnam have signed a strategic partnership agreement providing for the continuation of joint work on the blocks of the continental shelf of Vietnam, and in addition, have signed the Treaty establishing the joint company “Gazpromvet”.

OAO «Gazprom Neft»

On December 1, OAO “Gazprom Neft” has announced a deal worth of 820 million of Swedish krona (about USD 118 million) to acquire the production unit of the Swedish company Malka Oil. Also on December 1, OAO “Gazprom Neft” has published financial results under the US GAAP for 9 months of 2009: net profit amounted to USD 2 375 million, which is lower than in the same period in 2008 by 54 per cent, EBITDA reached USD 4 280 million. On December 14 OAO “Gazprom Neft” has won the tender in Iraq on the oil field Badr development.

OAO «LUKOIL»

On December 8, OAO “LUKOIL” has published consolidated financial reporting, developed under the US GAAP for the nine months of 2009: net profit amounted to USD 5 285 million, the rate of EBITDA (earnings before interest, taxes, depreciation and amortization) is USD 10 237 million. On December 11, LUKOIL has completed a transaction worth USD of 1.6 billion for the purchase from British Petroleum’s 46 per cent participation share in the joint venture LUKARCO BV, after which 100 per cent of the shares is owned by OAO “LUKOIL”. On December 12, OAO “Lukoil” and Norway’s Statoil have won the tender for the right to develop the largest deposits of “West Qurna 2” in Iraq; the share of OAO “LUKOIL” in the consortium is 85 per cent, the share of Statoil is 15 per cent. On December 15, OAO “LUKOIL” has signed a supplement to the Agreement on cooperation with the Khanty-Mansi Autonomous District and Yamalo-Nenets Autonomous District. On December 16, OAO “LUKOIL” started drilling at the Yuri Korchagin field in the Caspian Sea. On December 21, OAO “LUKOIL” and “Rosmorport” have signed a cooperation agreement, in particular, providing for joint action in the design, renovation, modernization and maintenance of transshipment complexes seaports of Russia, as well as other objects of the coastal port infrastructure.

OAO «Mosenergo»

On November 25, OAO “Mosenergo” has disclosed financial reporting under RAS for the 9 months of 2009: net profit has grown to RUR 5 128 million as compared with RUR 201 million in the relevant period of 2008. In December, rating agency Standard & Poor’s having reviewed the Russian companies of the electricity sector has recognized the OAO “Mosenergo” one of the leading companies in terms of Transparency and Disclosure. On December 4, OAO “Mosenergo” placed in MICEX stock exchange ruble-denominated bonds of 03 series of 5 billion rubles for the period of 5 years with a coupon rate of 10,25 per cent per annum. On December 16 OAO Mosenergo has prepaid credit obligations to the European Bank for Reconstruction and Development under the loan agreement with a limit of RUR 7.2 billion. In December 2005 21 December OAO Mosenergo has disclosed IFRS financial statements for the 9 months of 2009: net loss made RUR 163 million, caused by reflection of the fair value of property investment in accordance with market trends (net profit excluding the effect of the revaluation was RUR 1 064 million).

OAO «GMK «Norilsk Nickel»

On December 4, OAO “GMK Norilsk Nickel” is recognized the winner of 2009 in the category “Metallurgy” in the framework of national competition held by a group of RBC under the sponsorship of the Ministry of Economic Development and the Chamber of Commerce in Russia.

NC «Rosneft»

On November 25, NC “Rosneft” has disclosed consolidated financial reporting, developed under U.S. GAAP for 9 months 2009: EBITDA amounted to USD 9.6 billion, oil production increased by 1.5 per cent, net profit decreased by 53.2 per cent as compared with the same period of 2008 to USD 4 840 million. In addition, in December, NC “Rosneft” has signed a cooperation agreement for 2010 with Krasnoyarsk Krai, Khanty-Mansi Autonomous Area and the Samara region.

ОАО «Rostelecom»

On December 11, ОАО “Rostelecom” announced on the decision to make a delisting of American depositary receipts of companies (ADRs) from the New York Stock Exchange, as well as to implement the de-registration with the U.S. Securities and Exchange Commission to terminate reporting obligations and reduction of Roslecom under cost under the Law on U.S. exchanges of 1934 .

Sberbank of Russia

In late November - December, Sberbank of Russia continued to issue loans to domestic enterprises under the program of support to the priority sectors of the economy of Russia. In particular, Sberbank of Russia has provided the loan / credit line to ОАО Kosogorsky Metallurgical Plant “(RUR 2.3 billion), to X5 Retail Group NV (1.1 billion dollars), to the Federal State Unitary Enterprise “State Scientific-Production Enterprise” Alloy “(USD 320 million),” to RusFudMenedzhement “(RUR 1.02 billion). On November 26, Sberbank of Russia has placed its bonds on the MICEX Atomenergoprom, series 01 and 02, totaling to RUR 50 billion, with the maturity of 5 years, and on Dec. 18 took part in the offerings of Tver region with the volume of RUR 3 billion with the maturity of 1 638 days. In addition, on November 30, Sberbank of Russia and ООО “Rostov Coal Company” have signed an agreement for an investment project on construction of the mine “Bystrianska No. 1-2” in Rostov region, the amount of credit for 7 years is USD 96 million.

On November 24 Sberbank of Russia has disclosed financial reporting, developed under RAS for 10 months of 2009: net profit amounted to RUR 17.1 billion against RUR 113.0 billion within 10 months of 2008, assets have not changed and amounted on 1 November 2009 to RUR 6 727 billion. On December 7, Sberbank of Russia has published the consolidated financial statements developed under IFRS for 9 months of 2009: net profit amounted to RUR 10.3 billion as compared with RUR 90.2 billion within 9 months of 2008, assets on September 30 2009 declined slightly by 0.4 per cent to RUR 6 707.8 billion.

On December 11, Sberbank of Russia and the Government of the Republic of Belarus have signed an agreement to buy the 93.27 per cent of shares in ОАО “BPS-Bank” by Sberbank Bank of Russia for USD 280.8 million and the conclusion of an investment agreement for the long-term development of “BPS-Bank”. On December 21, Sberbank of Russia and Experian Group “Interfax” company declared the establishment of a united credit bureau on the basis of the existing bureau Experian-Interfax , 50 per cent which shares is acquired by the Sberbank of Russia, while Experian and Interfax will own 25 per cent each.

ОАО «Surgutneftegaz»

In November ОАО “Surgutneftegaz” has disclosed publishes its financial results for the 3rd quarter of 2009: net profit for 9 months of 2009 has decreased by 25 per cent as compared with the same period of 2008 and amounted to RUR 90 445.86 million.

ОАО «Tatneft»

On November 24, ОАО “Tatneft” has signed a loan agreement with the syndicate of international and Russian banks of for USD 1.5 billion to finance the project of construction of the complex of refineries and petrochemical plants in Nizhnekamsk. On December 15, Tatneft has disclosed its consolidated interim financial reporting, developed under U.S. GAAP for 9 months of 2009: sales revenue amounted to USD 8 426 million, as compared with USD 15 720 million in 9 months of 2008, net income increased to USD 1 452 million as compared with USD 1 264 million for the 9 months of 2008.

Corporate bonds market

The volume of the Russian domestic stock market (as per nominal value of shares in circulation, denominated in national currency) in December of the current year has significantly grown and at the end of the month reached RUR 2,320.2 bln (689 emissions made by 403 emitters), which is more than the relevant indicator of preceding month by 6.3 per cent¹. However, despite the increase in the number and nominal amount of corporate bond issues, the number of emitters continues to decline (for comparison, in late November there were 682 outstanding issues made by 411 emitters). There is still an issue of bonds denominated in Japanese yens, and three bond issues, denominated in dollars (in early 2009, there was in circulation only one issue, denominated in dollars). In addition, currently there are 15 issues of convertible bonds, which provide for the possibility of their redemption through conversion into additional shares of the issuer at the request of owners of bonds.

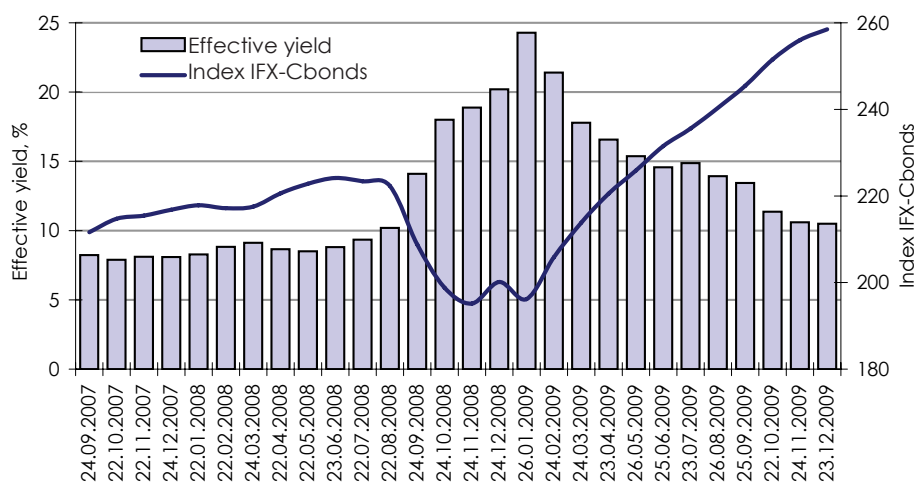
In December, the volume of trading in the secondary market of corporate bonds reached the record level over the past eighteen months, and their volume in the period from November 23 to December 21 amounted to RUR 90.5 billion (from October 26 to November 20, it was equal to RUR 60.1 billion)². During the reporting period on the MICEX Stock Exchange there were committed 27.0 thousand of transactions in bonds (for the previous period, the number of transactions amounted to 21.4 thousand).

Since January of the current year the index of the Russian market of corporate bonds IFCbonds is continuously growing. Within the period from November 24 to December 23, the index has grown by 2.5 points (or 1.0 per cent), having reached the highest level since the beginning of its assessments. The effective yield has decreased from 10.6 to 10.5 per cent during the period under review (see Fig. 6). The duration of corporate bonds market portfolio has grown and by December 23 has made 615 days, which is by 289 days more as compared with late November of the current year. Such growth of portfolio duration is the result of reduces interest rates and extended term of the bonds' maturity.

In December, large companies were still actively borrowed through bond issues (two or three series of each issue of the same emitters), although the number and the total volume of registered issues have declined as compared with the previous month. Thus, in the period from November 25 through December 23 of the year 14 issuers have registered 32 bond issues for the total amount of RUR 128.5 billion (for comparison, from October 23 to November 24, twenty three issuers have registered 69 bond issues totaling to RUR 408.0 billion). Most of the reported releases amounted to four series of bonds EvrazHolding

Finance totaling to RUR 30 billion, three series of OJSC "Mineral and Chemical Company EuroChem for RUR 20 billion, five series of bonds "INC" or USD 19 billion, four series of exchange-traded bonds of "Bank" Revival" for the amount of RUR 16 billion, two series of exchange-traded bonds ZAO "Commercial Bank "Globex" for the amount of RUR 10 billion³.

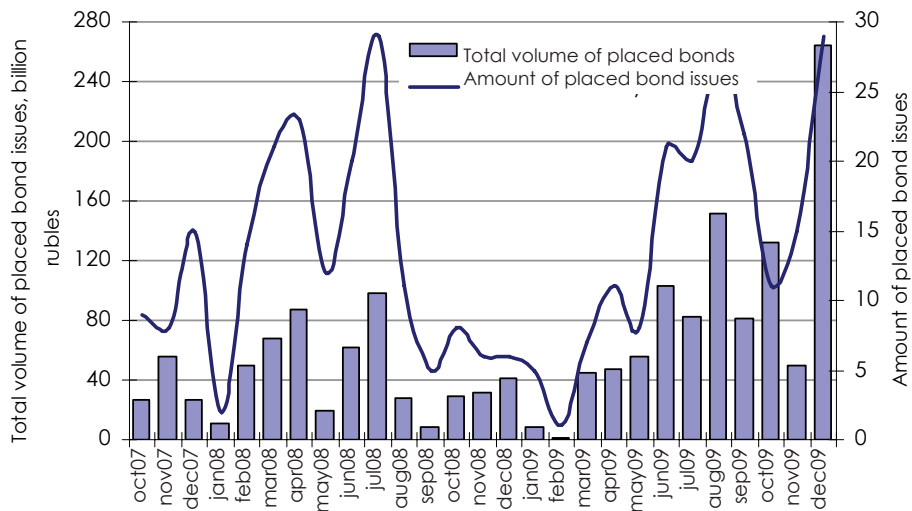
In the second half of 2009, there has been highly volatile trend bond issue: after a significant reduction in November, the volume of IPOs



Source: Cbonds data.

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

- 1 Rusbonds data.
- 2 As per "Finmarket" Information agency.
- 3 As per Rusbonds data.



Source: Rusbonds data

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

RUR 60 billion). OAO “Joint Stock Oil Company «Bashneft (three series of bonds for RUR 50 billion), OAO “Joint-Stock Financial Corporation «System» (a series of bonds worth RUR 19 billion), Including six issuers which have placed issues of exchange-traded bonds totaling to RUR 50 billion (against the previous similar period - four issuers for the amount of RUR 21 billion).

In the period from November 25 through December 23 there was again a large number of issues, recognized invalid due to non-placement of any security. In this period, like in the preceding term, the Federal Statistical Service for Financial Markets of Russia has recognized as invalid four issues of corporate bonds, offered for open placement¹.

Within November 25 through December 23 emitters were supposed to redeem bond issues totaling to RUR 50.2 billion. However, eight emitters have announced a technical default on repayment of their bond loans, totaling to RUR 7.4 bln (against five emitters announced a technical default on repayment of their bond loans, totaling to RUR 6.6 bln in preceding period). In January 2010, five issues of corporate bonds redemption for the total amount of RUR 4.5 bln are expected².

The issue of the emitters’ failure to perform their liabilities in regard to the bonds holders is still sustained, especially in regard to repayment the accumulated coupon interest. Thus, from November 25 through December 23, the default on bonds redemption was announced by fifteen emitters (since October 23 through November 24 there were eight emitters). Four issuers managed to reach agreement with bondholders to restructure the debts. A real default on offer (redemption) was announced three 3 issuers (against 4 emitters in the previous period)³. A real default on failure to repay the nominal value of the bond loans within the period under review was announced by four emitters for the total amount of RUR 5.6 billion (against for the previous period - five of the issuers for the amount of RUR 9.2 billion).

in the December level again rose to the record level. Thus, in the period from November 25 to December 23 there were placed 41 issues of bonds denominated in national currency, totaling to RUR 264.2 billion. That was the maximum level over the past few years, and a bond issue, as well as one issue of bonds denominated in USD (for comparison, in the same previous period there were placed only 15 bond issues totaling to RUR 49.3 billion). (See Fig. 7). During the period under review the major bond issues were placed by OAO “Nuclear Power Industry» (two series of bonds for

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

REAL ECONOMY: TRENDS AND FACTORS

O.Izryadnova

According to the preliminary data the drop of the GDP in 2009 may be equal to 8.5-8.7%, which conforms well to earlier forecast estimations. One of the main problems is still the intensification of the trend for the contraction of the internal market. The reduction of the industrial production by 11.6% versus January-November 2008 was mainly influenced by the decrease of the output of processing industries by 17.6%.

In January-November 2009 the investments in fixed assets made 81.6% and the retail trade turnover made 94.3% of the figures of the corresponding period of 2008. The dynamics and the structure of the expenditures of the population were considerably influenced by negative signals from the labor market. In November 2009 as compared with October 2009 the number of the unemployed went up by 5.0% and was equal to 6131 thousand of people or 8.1% of the economically active population. The contraction of the demand for employees from employers is observed together with the increase of tension coefficient per one vacant position.

As a result of January-November 2009 the decrease of the rates is observed in nearly all kinds of economic activity. The recession of the production in the industry made 12.0% in January-November 2009 versus the corresponding period of the previous year. The absolute reduction of the volumes of production output predefined the contraction of the demand for the services of natural monopolies. The volume of freight turnover reduced by 11.6%, including the reduction of freight turnover of railway transportation by 13.5%; the electricity, gas and water production and distribution diminished by 6.0%. Under the influence of contraction of the investments in fixed assets by 18.4% the workload in construction reduced by 17.5% versus January-November 2008.

One of the main problems is still the intensification of the trend for the contraction of consumer demand at the internal market, which has been in effect since February 2009. Over January-November 2009 the retail trade turnover decreased by 5.7%, and that of foodstuffs – by 2.8%, while the turnover of non-food goods – by 8.4%. The volume of paid services rendered to the population went down to 95.6% of the level of January-November 2008.

Since the beginning of the current year the consumer inflation has increased by 8.4% versus 12.5% in January-November 2008. At the same time the index of prices for foodstuffs made 105.5% versus 115.3% in January-November 2008, and that of prices for non-food goods – 109.4% versus 107.8%. However, even against the background of slow-down of inflation the behavior of population at the consumer market is extremely reserved.

The dynamics and structure of the consumer demand was significantly affected by the change in the structure of incomes of the population, the decrease of real wages by 3.2% as compared with January-November 2008, and the trend for the increase of the number of population with monetary incomes below the level of life subsistence. It should be noted that the anticipating growth of nominal wages in October-November 2009 against the background of zero inflation in August-October has not resulted in sustention of the positive monthly dynamics of consumer market observed in May-October 2009. In November 2009 the retail trade turnover was registered to reduce by 1.7%, the sales of foodstuffs – by 0.9% and non-food goods – by 1.6% as compared with October 2009, the inflation being at the level of 100.3%.

Besides, the situation was aggravated by the decrease of the real incomes of the population by 5.2% in November versus October 2009, though on the whole over the period of January-November 2009 versus the corresponding period of the previous year the increase of real incomes made, according to the preliminary estimation, 1.1%. It is the anticipating growth of pensions and social benefits as compared with the wages that is the factor limiting the drop of the real incomes. In the structure of monetary incomes of the population in the 3rd quarter 2009 versus the corresponding period of 2008 the proportion of payment of social benefits went up by 2.8 percentage points while the proportion of

labor remuneration (including hidden wages) reduced by 0.6 percentage points and the incomes from entrepreneurial activity and property reduced by 2.2 percentage points.

Table 1

STRUCTURE OF MONETARY INCOMES OF POPULATION, AS PERCENTAGE TO THE TOTAL

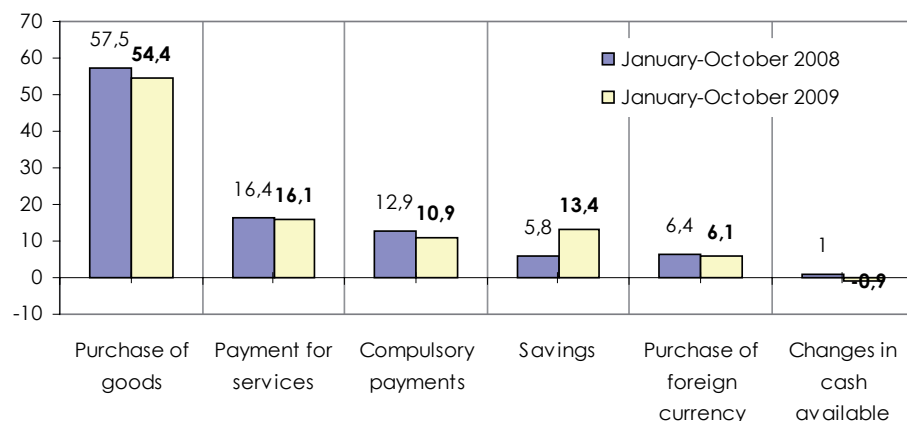
	Total	Including				
	monetary incomes	Incomes from entrepreneurial activity	Labor remuneration, including hidden wages	Social benefits	Incomes from property	Other incomes
2008						
1 st quarter	100	10.2	68.4	13.3	6.1	2.0
2 nd quarter	100	9.6	68.4	12.7	7.4	1.9
3 rd quarter	100	10.2	69.0	12.4	6.4	2.0
4 th quarter	100	9.9	68.5	13.0	6.6	2.0
Year	100	10.0	68.6	12.8	6.6	2.0
2009						
1 st quarter	100	10.2	69.4	14.7	3.8	1.9
2 nd quarter	100	9.0	69.8	14.5	4.6	2.1
3 rd quarter	100	9.8	68.4	15.2	4.6	2.0

Source: Federal State Statistics Service

In the structure of the expenditure of the population the proportion of funds for purchase of goods remained at quite a low level and made 54.4% in January-October versus 57.5% a year ago. The incomes of the population decreasing, the biggest part of expenditure is accounted for by the purchase of foodstuffs and basic necessities. As a result the proportion of foodstuffs, including beverages and tobacco goods, in the structure of retail trade turnover went up to 48.6% in January-November 2009, exceeding by 3.2 percentage points the figure of the corresponding period of 2008. It was the increase of the inclination to savings that was the peculiar feature of the use of the incomes of the population in the environment of the crisis. As compared with January-October 2008 the proportion of savings in the incomes of the population went up by 7.6 percentage points.

The dynamics and structure of expenditures of the population was considerably influenced by negative signals from the labor market. Starting with September 2009 there has been observed the decrease in the number of the employed population from 70.4 million of people to 69.4 million of people by the end of this November.

After a systematic reduction of the general unemployment observed since March 2009 in October the trend was changed. The increase in the total number of the unemployed in October made 1.3%. In November 2009 as compared with October 2009 the number of the unemployed in the



Source: Federal State Statistics Service

Fig. Structure of Use of Incomes of Population, as percentage to the total

economy (calculated by the methodology of the International Labor Organization) increased by 5.0% and made 6131 thousand of people or 8.1% of the economically active population. The number of the officially registered unemployed in the state services of employment reached 2041.1 thousand of people (2.7% of economically active population) and went up by 1.3% versus this October.

The situation is aggravated by the increase in the

number of the workers and employees that were transferred to forced holidays or being idle up to 1.7 million of people. The biggest rate of underemployment were observed in the organizations of processing industries, in which nearly 10% of the average number of employees on the books worked part time, about 2.1% were on holidays with partial retention of the wages initiated by the employer and 6.3% were on holidays without retention of wages according to written applications of employees.

There is a contraction of the demand for the staff from the employers that were registered at the state employment service which accounted for the increase of tension coefficient (the number of the unemployed citizens registered at state employment services per one vacant position) in the current November up to 2.3 versus 1.3 in the corresponding month of 2008.

In January-November 2009 there was a decrease of the production volumes in all kinds of economic activity versus the corresponding period of 2008. It was the drop of production output of the processing industries by 17.4%, the production of minerals decreasing by 1.5% and electricity, gas and water production and distribution – by 6.0% that had a negative influence on the dynamics of industrial production.

In January-November 2009 versus the corresponding period of the previous year the biggest contraction of the production in processing industries was observed in production of other non-metal mineral products (73.4%), in production of machinery and equipment (70.0%), in electricity, gas and water production and distribution (66.8%) and transport vehicles and equipment production and distribution (60.0%).

In November 2009 as compared with the corresponding period of 2008 there was a growth of 2.05 of the industrial production observed against the background of the increase of minerals production by 4.9% and electricity, gas and water production and distribution – by 1.4%, the processing industries production decreasing by 0.8%. It was the contraction of production of rubber and plastic goods by 3.1%, of other non-metal mineral goods – by 10.2%, of electric, electronic and optic equipment production – by 15.4% of transport vehicles and equipment production – by 29.5% that had a negative impact on the dynamics of processing industries in November versus the corresponding period of 2008. Other kinds of activities were characterized by the growth of production, which is accounted for by the effect of low base of November 2008 as well as adaptation of the producers to the changes in the situation at the internal and external market.

In January-October 2009, according to the live data, the balanced financial result of enterprises and organizations in the industry made RUR 1722.1 billion or 59.6% versus the corresponding period of 2008. It should be noted that as compared with January-September 2009 the balanced profit increased by 17.1% in January-November.

Table 2

BALANCED FINANCIAL RESULT (PROFIT REDUCED BY LOSSES) OF ENTERPRISES AND ORGANIZATIONS IN THE INDUSTRY IN JANUARY-OCTOBER 2009

	RUR billion			As percentage to the corresponding period of the previous year		
	Bal- ance of incomes and losses	Profit (+)	Losses (-)	Bal- ance of incomes and losses	Profit	Losses
Industry - total	1722.1	2214.5	492.4	59.6	70.4	191.5
Out of which by kinds of activities:						
Minerals extraction	+725.6	790.8	65.2	78.0	77.1	68.2
Out of which fossil fuels extraction	+660.0	704.2	44.2	85.3	81.8	51.0
Processing industries	+825.7	1192.5	366.8	42.7	57.5	261.1
Electricity, gas and water production and distribution	+170.8	231.2	60.4	250.0	163.6	83.6

Source: Federal State Statistics Service

In January-October the losses of industrial production made RUR 491.4 billion (increase of 2.6 times versus January-October 2008), out of which RUR 366.8 billion (74.6%) are accounted for by processing industries. As compared with January-October 2008 in January-October 2009 the decrease of losses in production of minerals made 31.8%, and in electricity, gas and water production and distribution – 16.4%.

Against the background of favorable changes in the situation at the world market of energy carriers the improvement of the financial situation of the enterprises producing minerals. Over January-October 2009 financial result of activity of enterprises producing fossil fuels made RUR 660.0 billion.

As a result of January-October 2009 it still was electricity, gas and water production and distribution that was the most profitable kind of activity. As a consequence of the growth of the regulated tariffs and free prices, the financial result of this kind of activity over January-October 2009 made RUR 170.8 billion, which is by 2.5 times more than the figure over the corresponding period of 2008.

The financial result of the processing industries over January-October 2009 is estimated to be at the rate of RUR 825.7 billion. The financial situation was the most difficult in the industries of the processing sector oriented for satisfaction of the investment demand. The losses in these kinds of production were caused by the contraction of the production programs which is accounted for by the contraction of the demand at the internal market, as well as by the growth of production costs due to the growth of tariffs for energy carriers and the increase of expenditures for wages.

However, the negative moments mentioned should not cause unnecessary pessimism. According to the preliminary data, in 2009 the drop of the GDP may be equal to 8.5-8.7%, which conforms to earlier forecast estimations.

The reconsideration of the Russia's credit rating from "negative" to "stable" and the confirmation of the currency rating at the level of BBB by the International Rating Agency Standard & Poor's is a positive signal. It should be remembered that a year ago S&P was among the first who reacted to the financial crisis in Russia, lowering the sovereign rating for liabilities in national and foreign currency from BBB+ to BBB, making negative forecast. After S&P has reconsidered the forecast it is only Fitch that retains negative forecast for Russia's sovereign rating at the level of BBB. Moody's has recently lowered the country's rating to the level of Baa1 but with a "stable" forecast.

The experts of S&P notice that the change in the rating will depend on the rigidity of the control over the budget expenditures within the following year cycle and the consistency of the advance of the declared structural economic reforms. ●

RUSSIAN INDUSTRY IN DECEMBER 2009

S.Tsukhlo

In December the enterprises managed to retain the positive results of the previous months but were not able to achieve anything more than that. This has resulted in the decrease of the satisfaction with the demand, worsening of the estimations of stocks of finished goods and the growth of pessimistic forecasts.

Official Statistics of November

According to the data of the Federal State Statistics Service, in November 2009 the output of industrial goods went up by 2% versus October of the current year and by 1.5% versus last November. Upon exclusion of the seasonality the growth versus October, according to the Ministry of Economic Development, was equal to 0.2%, according to the Centre for macroeconomic Analysis and Short-Term Forecasting – 0.7%, and according to the Foundation for Economic Research “Development Center” - to 0.8%. The estimations of November data on the dynamics of the output (and the Federal State Statistics Service does not provide any other indices) are quite unanimous – “not bad”, “there is some growth upon exclusion of seasonality”, “we are entering the period of stagnation”, “this is recovery though weak one”. A more representative set of indices that evolves earlier as a result of surveys testify that the situation in the Russia industry is not so unambiguous.

Demand for Industrial Goods

In December the intensity of the decrease of the demand (upon exclusion of seasonality) remained at the level of October-November, i.e. there is no progress concerning this index in the 4th quarter observed by the enterprises. The demand continues to decrease though at not such intensive rates as in the 2nd or 3rd quarter of the year of crisis. Moreover the initial data demonstrated the intensification of the sales decrease rates by points in November and by another 5 points in December. As a result the rates of the decrease of the demand before exclusion of seasonality turned out to be the worst in the second half of 2009. A more intensive growth of sales in December occurred in all branches of industry except foodstuffs production.

The initial forecasts for the demand worsened in December by 10 points, and by 24 points in November-December. In the years when the prices for oil were high the traditional decrease of optimism in forecasts for demand at the end of the year made no more than 15-17 points. The exclusion of seasonality demonstrated the decrease of only 6 points in December the index being stable in October-November. The forecasts for the demand have also worsened in nearly all branches of industry.

The satisfaction with sales could not secure the new level of November and returned to the level of August-October when one third of enterprises were satisfied with the volumes of sales of their own goods and two third regarded them as “below the norm”. The worsening of the estimations of the demand occurred in all the branches of industry but the absolute levels of differ considerably: in foodstuffs production there is now 57% (66% in November) of enterprises satisfied with the

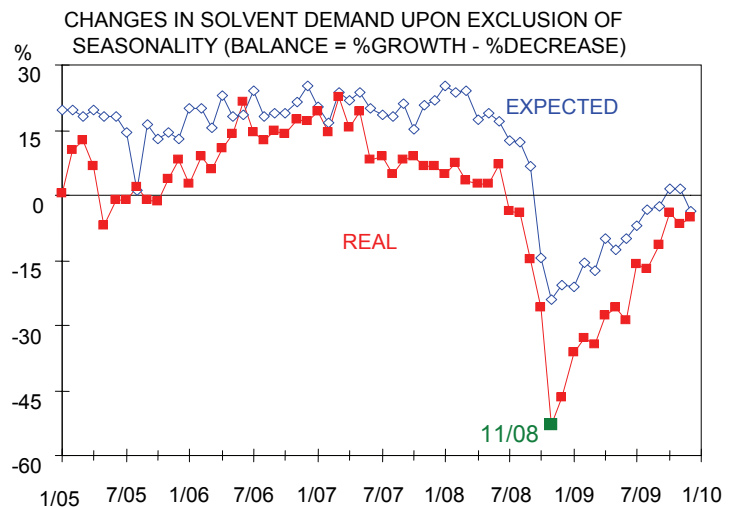


Fig. 1

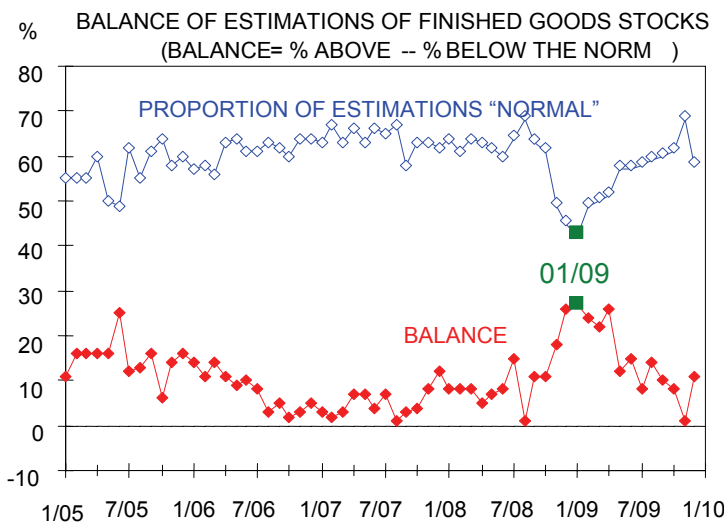


Fig. 2

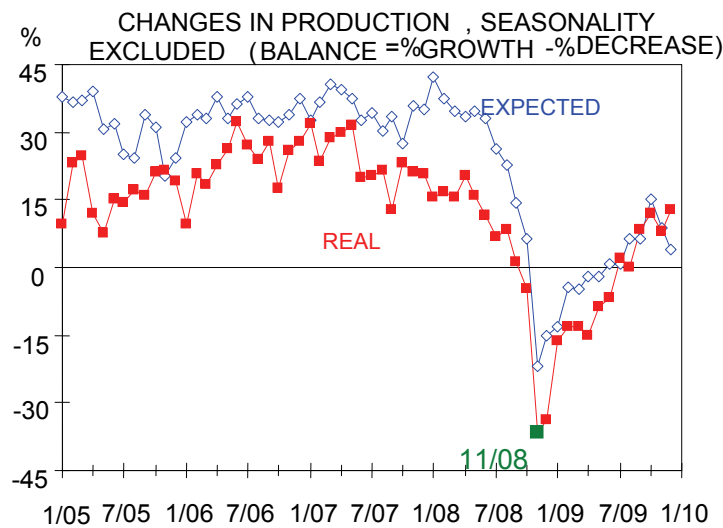


Fig. 3

demand, in machine building 32% (41%), in industry of construction materials – 12% (18%).

Stocks of Finished Goods

The estimations of the stocks of finished goods after extreme fluctuations in November which are most likely accounted for by the favorable combination of the real and forecast changes in demand and output returned to the average (and quite normal for the year of crisis) levels of May-October. The improvement of the estimations of stocks of finished goods (up to the absolute shortage) was registered only in foodstuffs production.

Production Output

Upon exclusion of seasonality the data on the dynamics of the production demonstrate the sustention of output growth rates on the average level of +11 points at the end of 2009. That is the production has been growing in September-December and growing at quite good rates and faster than any time during the current crisis. The growth of the output in December (according to the data upon exclusion of seasonality) took place in all the branches of industry except for the industry of construction materials and light industry.

The production plans of enterprises on the eve of all-Russian New Year holidays have been decreasing for the second month in the row and have lost 11 points of optimism over this time according to the data upon exclusion of seasonality. According to the initial data the losses made 28 points, as a

result of which the balance of output plans in December 2009 turned out to be closest to the balance of November-December 2008 when the industry was on the peak of the crisis. The plans have worsened in all the branches of industry except for foodstuffs production.

By the end of the year the dependence of the production on the demand has intensified. At the moment 68% of the enterprises change the volumes of the output in concordance with the dynamics of the demand. In July this figure went down to 60% (the minimum of the year), and the proportion of the reports on the anticipating growth of sales versus the output went up to 13%. That is the sharp slow-down of the demand decrease rates turned out to be unexpected for the producers and they did not use it to the full extent according to the dynamics of production. The absolute record-breaking figure for coincidence between the dynamics of the output and the demand was registered in November-December 2008 when 81% of the enterprises brought the changes in their production in concordance with the changes in the demand. In August-September 1998 there was no such an upsurge observed.

Prices of Enterprises

The traditional January growth of tariffs and prices has had little influence on the price policy of the enterprises so far. On the whole the industry continues to decrease prices though at not such intensive rates as in May-June 2009 or in December 2008. It is the industry of construction materials that

demonstrates the most intensive decrease of prices and the machine building that is characterized by the most moderate one.

The pricing plans of the enterprises testify the desire of the producers to increase their prices at the beginning of the year. But the intensity of the growth of prices forecast in December is 2-2.5 times lower than in the year of high prices for oil. Moreover the timber industry and the industry of construction materials plan not to raise but to decrease their prices in January-February 2010.

Dismissals: Real Dynamics and Plans

The positive trends of staffs policy observed in September-November 2009 disappeared. In December the producers reported on the most intensive reduction in the number of staff for 11 months of the current year (excluding January). Over the month the intensity of dismissals in the industry has doubled. The increase in the intensity of dismissals took place in all the branches of industry except timber industry and foodstuffs production. The most dramatic reductions were registered in metallurgy and industry of construction materials in December.

In December personnel plans of the enterprises reduced to the after-default minimum of 1998. The surveys have not registered such an excess of the plans to reduce the number of employees over the plans to increase their number since July 1998. Over the month they have worsened in all the sectors except for light industry and foodstuffs production, where the dismissals are also planned though not as intensive as before.

Industry Crediting

By the end of the year of crisis the normal availability of the credits for industrial enterprises went up to 53% being only a little below the level of pre-crisis September (63%). The minimum of the crisis (17%, December 2008) was exceeded by three times. Thus, the crediting of the industry over the year has obviously been recovering, and, though probably at not such intensive rates as the enterprises and government would have desired, the positive trend is obvious. The highest availability of credits is maintained in metallurgy (on average the normal availability makes 70% in the 4th quarter and 80% in December), foodstuffs production (66% and 61%) and petrochemistry (54% and 63%). The situation is opposite in the industry of construction materials (33% and 31%) and light industry (26% and 36%). In Machine building industry 48% of enterprises had normal availability of credits in the 4th quarter and 53% - in December.

In December banks offer credits to the enterprises with the average interest rate of 17.2% per annum. The rate for small- and medium-scale enterprises is equal to 18.5% and for large enterprises – 15% per annum. In metallurgy this figure is equal to 15%, in timber industry – 16.4%, in foodstuffs production – 16.7%. The rate offered by the banks to the enterprises of light industry and the industry of construction materials was 18.5% per annum.

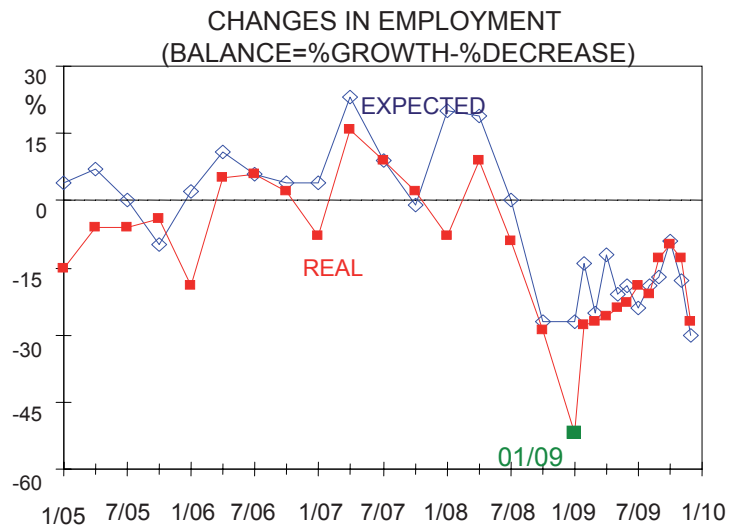


Fig. 4

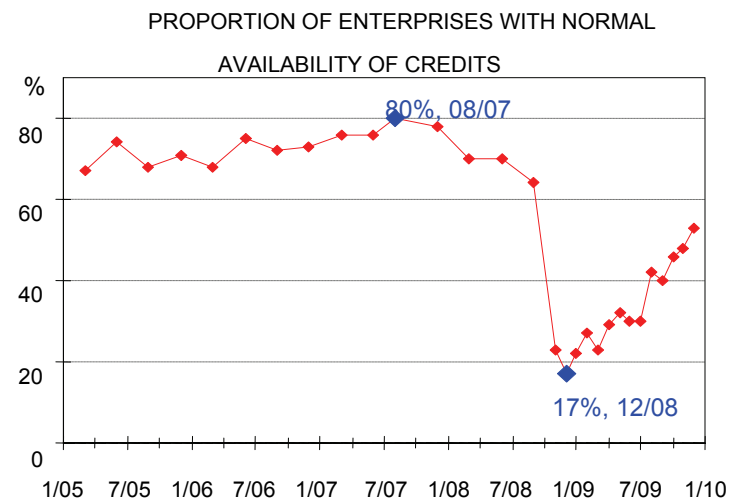


Fig. 5

INVESTMENTS IN REAL ECONOMY SECTOR

O.Izryadnova

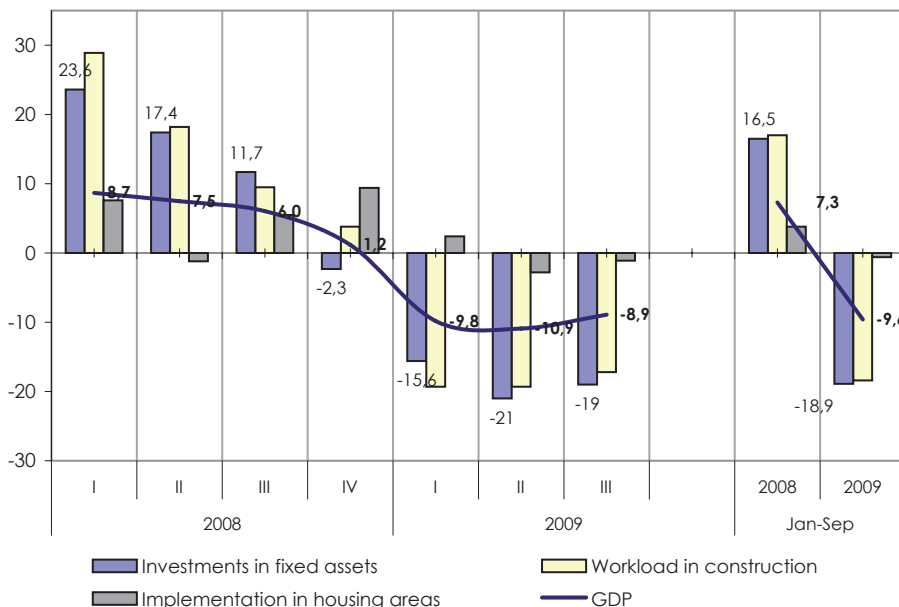
Over January-September 2009 the investments in fixed assets reduced by 18.9% as compared with the corresponding period of the previous year. The contraction of the internal market and the drop of incomes predefined the contraction of the volume and proportion of own funds of enterprises and organizations in the structure of sources of financing of the investments in fixed assets down to 38.3%. In January-September 2009 as compared with the corresponding period of the previous year the credits of foreign banks increased by 1.9 times the credits of the domestic banks for investments in fixed assets decreasing in absolute terms by RUR 90.7 billion. As a result of the year the reduction of the investments in fixed assets is estimated to be at the level of 20.0% the GDP reducing by 8.0%.

During 2008 the trend for gradual slow-down of the investments growth rates was observed, which against the background of the financial crisis was changed with a sharp turn of the dynamics. In the 4th quarter 2008 the investments in fixed assets were equal to 97.7%, the GDP – to 101.2% versus the corresponding figure of previous year. In 2009 the contraction of the scales of investments in fixed assets proceeded in a more acute form. Over the period from January to September 2009 the investments in fixed assets decreased by 18.9%, GDP falling by 9.6% the result being that the proportion of investments in the GDP made 17.7% and reducing by 1.3 percentage points as compared with January-September 2008. In the segment of small business the decrease of investments in fixed assets exceeded 25%.

The moderate contraction of construction of production and infrastructure objects was characteristic for the current year. A sharp reduction in the construction works at the objects of non-production purposes was partially compensated by quite a mild contraction of the rates of implementation of housing areas. For instance, in January-September 2009 the implementation of the total area of housing reduced by 0.6%, and over January-November the figure was approximately equal to the figure of the corresponding period of the previous year.

It should be noted that, first, the absolute volumes of investment in construction of residential areas reduced by RUR 74.8 billion in January-September 2009 versus January-September 2008, and, second, that the trend for the decrease of the proportion of the investments in construction of housing in the structure of investments in fixed assets by 6.1% (versus 7.6% in the corresponding period of the previous year) became more intensive.

The proportion of expenditures for construction of buildings and erections in the structure of investments



Source: Federal State Statistics Service

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

in fixed assets in January-September 2009 went up to 54.8%, exceeding by 3.5 percentage points the figure of the corresponding period of the previous year, the proportion of expenditures for machinery and equipment decreasing to 31.1% (33.6% in January-September 2008).

It should be noted that against the background of a dramatic drop of domestic production of investment goods, investments for purchase of import machinery, equipment, transport vehicles (excluding the subjects of small-scale entrepreneurship and parameters of informal activity) were equal to RUR 257.2 billion in January-September 2009 or 23.0% of the total volume of investments in machinery, equipment and transport vehicles as compared with 19.9% in the corresponding period of 2008. Whereas in the first half of 2009 the positive dynamics of the investments in the purchase of machinery and equipment slackened the negative influence of a sharp contraction in the domestic production of machinery, equipment and transport vehicles, in the 3rd quarter the decrease in the investments into the purchase of the import equipment and machinery additionally complicated the fulfillment of investment programs.

Table 1

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY KINDS OF FIXED ASSETS
IN JANUARY-SEPTEMBER 2008 AND 2009 (EXCLUDING THE SUBJECTS OF SMALL-SCALE
ENTREPRENEURSHIP AND PARAMETERS OF INFORMAL ACTIVITY), AS PERCENTAGE TO THE TOTAL

	2008	Including			2009		
		1 st quarter	1 st half of the year	January-September	1 st quarter	1 st half of the year	January-September
Investments in fixed assets, total	100	100	100	100	100	100	100
Including by kinds of fixed assets:							
housing	7.5	8.1	7.8	7.6	6.0	6.0	6.1
buildings and constructions	52.4	48.5	49.9	51.3	51.6	54.4	54.8
machinery, equipment and transport vehicles	33.0	34.5	34.1	33.6	32.2	30.7	31.1
other	7.1	8.9	8.2	7.5	10.2	8.9	8.0

Source: Federal State Statistics Service

The growth rates of the economy decreasing there is a change in the role of budget funds in the sources of financing of the investments in fixed assets observed. In January-September 2009 there was RUR 676.3 billion of investments in fixed assets (18.7% of the total volume of investments in the economy) financed at the expense of the budget funds, including UR 309.7 billion (8.5%) at the expense of funds of the federal budget and RUR 309.5 billion (9.1%) at the expense of budgets of subjects of the Federation. The expansion of the volumes of financing of investments in fixed assets from the funds of the federal budget by RUR 94.8 billion was the mechanism for the partial compensation of negative consequences of the reduction of expenditures for investments purposes in the budgets of subjects of the Russian Federation by RUR 63.3 billion and in the budgets of other levels – by RUR 13.4 billion.

The state demand for production and services of the Russian enterprises was supported with the fulfillment of the planned investment projects in the sphere of transportation, telecommunication etc, executed within the frameworks of the Federal Target Program and the Federal Targeted Investment Programs, as well as large infrastructure projects of Investfund. In the environment of the crisis the government supported the investment activity fulfilling “technological” federal target programs, expenditures for which were either sustained at the level planned earlier or reduced to the minimum extent.

The contraction of the internal market and the drop of the incomes predefined a dramatic decrease in the volumes and proportion of own funds of enterprises and organizations in the structure of sources of financing of the investments in fixed assets. In January-September 2009 own funds of large- and medium-scale enterprises used for investment purposes were equal to RUR 1378.8 billion versus RUR 1674.7 billion in the corresponding period of the previous year. An acute

shortage of own funds was partially compensated by attraction of the banking credits and borrowed funds. In January-September 2009 RUR 398.8 billion or 17.9% out of RUR 2225.6 billion of borrowed funds was accounted for by banking credits.

Table 2

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

	2008	Including			2009		
		1 st quarter	1 st half of year	January-September	1 st quarter	1 st half of year	January-September
Investments in fixed assets - total	100	100	100	100	100	100	100
Including by sources of financing:							
own funds	40.0	46.2	44.3	42.8	40.9	40.1	38.3
of which:							
profit	18.6	20.5	20.5	20.1	18.1	16.9	15.5
borrowed funds	60.0	53.8	55.7	57.2	59.1	59.9	61.7
of which:							
banks' credits	11.1	10.4	10.5	11.0	13.4	12.0	11.0
including those of foreign banks	2.4	1.6	1.8	1.7	4.3	3.7	3.4
borrowed funds of other organizations	6.5	6.9	6.7	6.8	9.2	8.2	8.9
budget funds:	21.0	11.8	14.9	16.8	13.0	16.7	18.7
of federal budget	8.1	2.8	4.4	5.5	4.1	6.5	8.6
of budgets of subjects of the Russian Federation and local budgets	10.4	8.3	9.3	10.0	8.1	9.2	9.1
other	21.1	24.3	23.2	22.3	23.3	22.8	22.8
out of which the funds received for share participation in construction	3.3	3.7	3.5	3.5	2.2	2.3	2.6
including the means of the population	1.5	1.4	1.6	1.7	0.9	1.0	1.0
Foreign investments in the total volume of investments in fixed assets	4.6	5.3	5.3	5.2	6.7	5.7	5.4

Source: Federal State Statistics Service

The structure of banks' credits in the sources of financing of investments in fixed assets was subject to considerable changes. Whereas in January-October 2008 the proportion of credits of foreign banks accounted for 15.1% of the total sum of banks' credits, in the corresponding period of 2009 this figure went up to 30.8%. The credits of foreign banks in January-September 2009 as compared with the corresponding period of the previous year went up by 1.9 times the credits of foreign banks for investments in fixed assets decreasing in absolute terms by RUR 90.7 billion. As a result the proportion of investments inflowing from abroad in the total amount of investments in fixed assets went up to 5.4% and made RUR 193.8 billion.

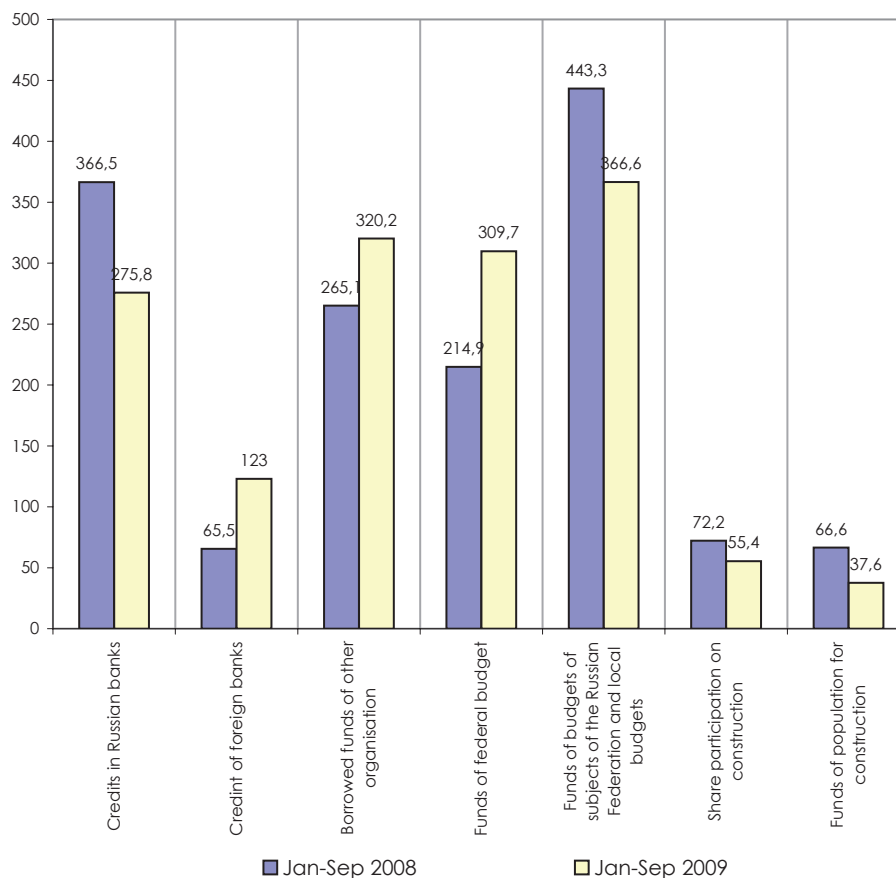
The shortage of own funds and slack participation of the domestic banking sector in financing of investments in fixed assets accounted for the expansion of borrowing of the funds from other organizations (insurance and investments companies, trading enterprises etc.). The volume of borrowed funds in January-September 2009 was equal to RUR 320.2 billion, exceeding by RUR 44.4 billion the amount of credits of domestic banks in the structure of sources of financing of investments in fixed assets.

Financial crisis predefined the peculiar features of investors' behavior at the market of housing construction. In January-September 2009 there was an absolute reduction of funds observed that was directed for share participation in construction both from the organizations and from the

population. In January-September 2009 the proportion of funds received for share participation in construction made 2.6%, including 1.0% of the funds of the population, versus, correspondingly, 3.5% and 1.7% in January-September 2008.

Low indices of investments activity in the last quarter of 2008, the growth of volumes of unfinished construction, high interest rates and the scantiness of credits defined the unfavorable background for the development of the economy in 2009. The structure of investments in fixed assets by kinds of economic activities was formed under the influence of trends that evolved at the end of 2008.

As a result of January-September 2009 the structure of investments in fixed assets on the whole throughout the economy was considerably influenced by a sharp drop of investments in agriculture (75.4% versus January-September 2008), in trade (68.9%), in communication (64.1%), in operations with real estate (69.7%).



Source: Federal State Statistics Service

Fig. 2. Structure of Attracted Funds for Financing of Investments in Fixed Assets in January-September 2008 and 2009, as RUR billion

Table 3

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY KINDS OF ECONOMIC ACTIVITIES (NOT INCLUDING THE SUBJECTS OF SMALL-SCALE ENTREPRENEURSHIP AND PARAMETERS OF INFORMAL ACTIVITY)

	2008	Including				2009		
		January-March	January-June	January-September	October-December	January-March	January-June	January-September
Total	100	100	100	100	100	100	100	100
including by kinds of economic activities:								
Agriculture, hunting and forestry	3.9	3.6	4.3	4.2	3.4	2.9	3.5	3.5
Industry	42.0	46.0	44.7	44.1	38.4	47.1	45.7	46.0
Minerals extraction	16.6	21.6	19.8	18.3	13.7	20.7	19.0	19.1
Including fossil fuels extraction	15.1	19.9	18.2	16.7	12.6	18.5	17.1	17.5
Processing industries	16.5	18.6	17.6	17.5	14.8	19.1	17.8	17.0
Electricity, gas and water production and distribution	8.9	6.8	7.3	8.3	9.9	7.3	8.9	9.9

Table 3, cont'd

	2008	Including				2009		
		January–March	January–June	January–September	October–December	January–March	January–June	January–September
Construction	2.4	3.4	3.8	2.7	2.0	3.2	3.6	2.9
Wholesale and retail trade; motor vehicles and motorcycles servicing, repair of household appliances and items of private use	2.7	2.5	2.7	2.7	2.7	2.7	2.1	2.1
Transportation	21.9	19.1	19.2	20.4	24.2	22.6	22.5	23.4
Communication	4.1	4.5	4.2	4.1	4.1	3.0	3.0	2.9
Financial activity	1.2	1.1	1.0	1.2	1.2	1.5	1.5	1.6
Operations with real estate, rent and services rendering	11.7	12.5	12.1	11.9	11.3	10.2	10.6	9.4
Education	2.2	1.4	1.7	1.8	2.8	1.1	1.5	1.7
State management and provision of military security; compulsory social security	2.0	0.9	1.4	1.6	2.7	1.1	1.5	1.8
Health care and rendering of social services	2.6	1.6	1.9	2	3.5	1.5	1.8	1.9
Rendering of other communal, social and personal services	2.9	1.9	2.5	2.8	3.4	2.8	2.2	2.4

Source: Federal State Statistics Service

Investment activity in the branches of infrastructure is one of the main indicators of the potential for growth, since the activity in this sector of economy is mainly oriented on the solution of perspective problems. The positive dynamics of investments in transportation was supported by the increase of the volumes of financing of priority projects on the development of pipeline transportation. Investments in pipeline transportation as compared with January-September 2008 went up by 1.27 times, and their proportion in the structure of investments in fixed assets on the whole throughout the economy went up by 3.1 percentage points up to 10.1%. It is the drop of the investments in the development of railway transportation by 10.95 in January-September 2009 versus the corresponding period of the previous year that is a worrying aspect of the dynamics of investments in the development of railway transportation. The absolute decrease of the scales of investment has had an extremely negative impact on the adjacent production of capital goods.

Against the background of contraction of the internal market as compared with January-September 2008 investments in retail trade reduced by 32.6%, in wholesale trade – by 24.4%, in the trade with motor vehicles – by 41.2%.

Changes of the structure of investments in fixed assets as broken by kinds of economic activities in the industry in January-September 2009 were determined by the decrease of rates of investment activity in extractive industries – by 11.3% and in processing industries- by 16.7% versus January-September 2008. It should be noted that against the background of the sustention of the positive dynamics of the investments in fixed assets in electricity, gas and water production and distribution (105.1% versus January-September 2008) the proportion of investments in the industry in the total volume of investments in fixed assets in the economy made 46.0% and went up by 7.6 percentage points versus the critical drop in October-December 2008.

In the extraction of fossil fuels the decrease of investments made 17.8% versus January-September 2008. The efficiency of the investment activity in recent years being low and unfavorable trends of renewal of minerals and raw materials base forming the intensification of the decrease of investments makes additional limitations for overcoming negative consequences of the crisis.

Although it is necessary to note that with the world prices for mineral raw materials increasing the profitability of production of fossil fuels in January-September 2009 went up to 31.1% versus 18.9% in the 1st quarter of the current year, and the profitability of assets, correspondingly, - up to 8.5% versus 2.2%.

The proportion of extractive industries in the structure of investments in fixed assets on the whole throughout the economy in January-September 2009 made 17.0%, and in the investments in the industry – 37.0%. The sustention of investment activity in the processing industries was secured, for instance, by the increase of investments in production of oil products (153.9% versus January-September 2008). It is the chemistry production (69.9% versus January-September 2008), foodstuffs production (79.7%), leather and footwear production (63.8%), textile production (79.7%) and pulp and paper industry (76.3%) that are among the productions with the deepest recession of the investment activity.

Low investment demand for investment goods and construction materials the load of facilities being low resulted in the reduction of investments in metallurgy production by 24.4%, in production of metal goods – by 37.2% versus January-September 2008.

The analysis of the dynamics and the structure of investments demonstrates that low share of investments in machine building is characteristic for the Russian economy. The proportion of investments in production of investment goods made 4.0% in January-September 2009 and reduced by 0.6 percentage points versus the corresponding period of the previous year. The change in the proportion of investments in machine building was mainly determined by the contraction of investments in production of transport vehicles by 23.6%, and the reduction of investments in the production of machinery and equipment by 31.0% as compared with January-September 2008.

Under existing age, technological and reproduction structure of the fixed assets low rates of investments in machine-building production is the factor that restricts the rates of development of the production of final and intermediate goods. The reduction of investments in fixed assets as a result of the year is estimated to be at the level of 20.0%, GDP decreasing by 8.0%. ●

FOREIGN INVESTMENTS

E.Ilukhina

The period from January to September 2009 is characterized by lower activity of foreign investors in Russia as compared with the previous year. In the structure of investments incoming in 9 months of 2009 the proportion of direct investments made a little more than 50%. Industry, sphere of trade, transportation and communication account for 83.9% of the total volume of foreign investments incoming in the Russian economy in January-September 2009. As for the industry, the foreign investors are still interested in processing industries (71.1% of foreign investments in the industry). As for geographical structure, the biggest amount of the investments incoming in the Russian Federation over 9 months of 2009 was directed from Luxemburg, the Netherlands and Germany (41.6% of the total of foreign investments in the Russian economy).

At the end of September 2009 the accrued foreign capital not taking into account the bodies of monetary and crediting regulation, commercial and savings banks, including investments in rubles recalculated in dollars made approximately USD 262.4 billion, which is 0.8% lower the figure of January 1, 2009 and exceeding by 4.4% the figure of October 1, 2008.

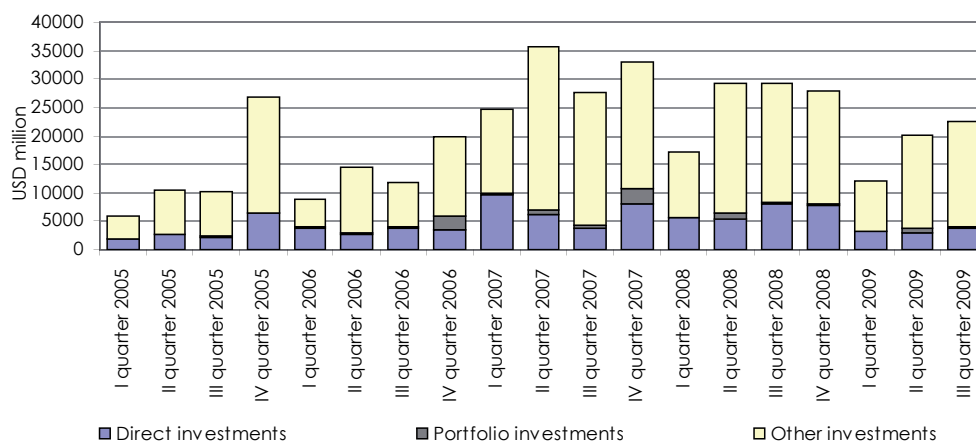
Table 1

STRUCTURE OF FOREIGN INVESTMENTS IN RUSSIAN ECONOMY
IN JANUARY-SEPTEMBER 2005-2009

	As USD million				As percentage to the previous year			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
2005	26 829	6 602	365	19862	92.1	118.1	160.5	85.2
2006	35 323	10 268	665	24 390	131.7	155.5	182.3	22.8
2007	87 936	19 644	1 547	66 745	248.9	191.3	232.6	273.7
2008	75 792	19 201	1 296	55 259	86.2	97.7	83.8	82.8
2009	54 738	9 975	1 019	43 744	72.2	51.9	78.6	79.1

Source: Federal State Statistics Service

The total volume of foreign investments incoming in the Russian economy in 2009 has reduced by all the components (fig. 1). As compared with the corresponding periods of the previous year other investments by foreign investors in the Russian economy has been decreasing for four quarters (3rd quarter 2008 – 2nd quarter 2009). In the current year they have reduced by 24.4% in the 1st quarter, by 27.6% and 11.6%, correspondingly, in the 2nd and the 3rd quarters.



Source: Federal State Statistics Service

Fig. 1. Quarter-by-quarter Dynamics of Inflow of Foreign Investments in the Russian Federation in 2005-2009

At the same time, versus the preceding quarters, there is a growth observed in the 2nd and the 3rd quarters 2009.

The decrease of the direct foreign investments in the Russian economy which started

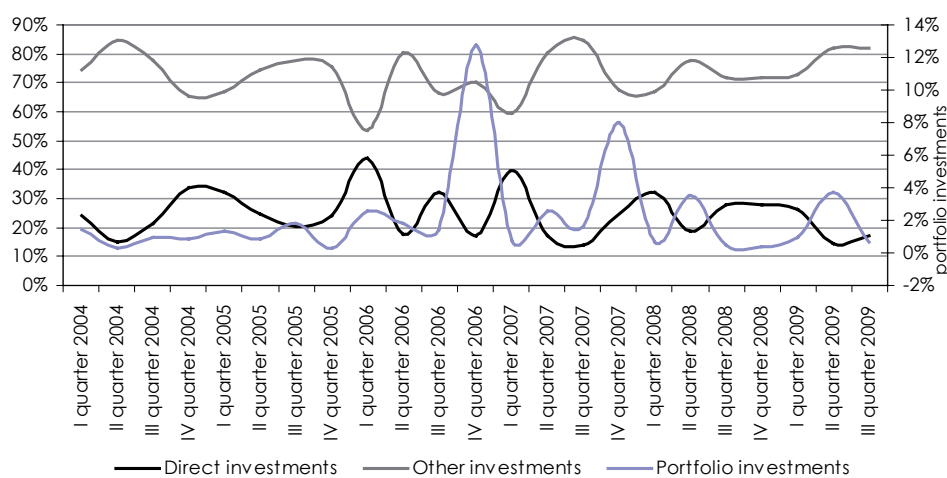
in the 4th quarter 2008 was interrupted only in the 3rd quarter 2009. And although versus the 2nd quarter 2009 in July-September of the current year the growth of direct foreign investments made 33.6%, as compared with the corresponding periods of 2008 the rates of the decrease of these investments have been intensifying: by 43.0% in the 1st quarter, by 47.1% in the 2nd quarter, by 52.2% in the 3rd quarter 2009.

Versus the corresponding periods of the previous year the shortest period during which the investments decreased (three quarters) was observed for the segment of portfolio investments. In the 1st and 2nd quarters of 2009 the decrease of portfolio investments by 6.% and 27.4% was registered. In the 3rd quarter 2009 they rose by 9.0%.

The versatile dynamics of different directions of foreign investments in the Russian economy demonstrate the following changes in the quarter-by-quarter structure of foreign investments (fig. 2).

In January-September 2009 the concentration of foreign investments in the industry and in the sphere of trade, where according to the results of the year 68.3% of the total volume of foreign investments in the Russian Federation was directed (73.8% in January-September 2008), was maintained. At the same time as a result of January-September 2009 the foreign investments in the industry reduced nearly by

half, and the investments in the sphere of trade decreased by 9.2% versus the corresponding period of the previous year. Lower rates of decrease of the investments in trade as compared with the corresponding indices of aggregated foreign investments in the Russian economy has resulted in the growth of its proportion in the structure of foreign investments by branches of economy as compared with the previous year.



Source: Federal State Statistics Service

Fig. 2. Structure of Foreign Investments in the Russian economy in 2004-2009

Table 2

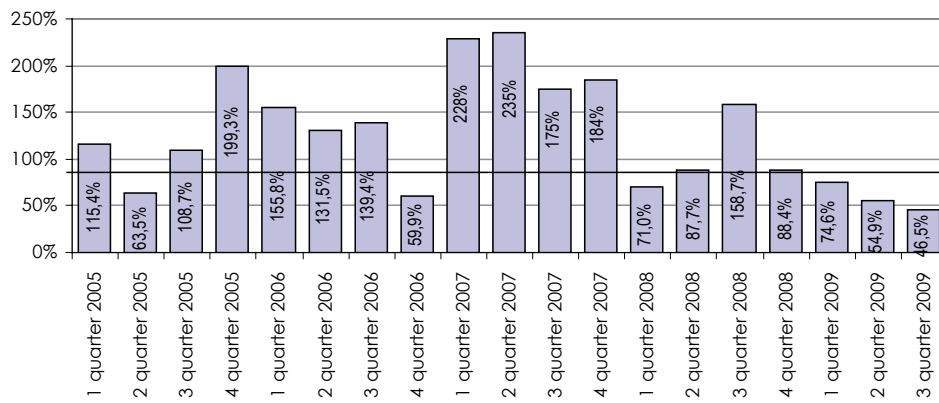
STRUCTURE OF FOREIGN INVESTMENTS IN THE RUSSIAN ECONOMY AS BROKEN BY BRANCHES IN JANUARY-SEPTEMBER 2007-2009

	As USD million			Change as percentage to the previous year			As percentage to the total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Industry	37 008	38 074	21 130	211,8	102,9	55,5	42,1	50,2	38,6
Transportation and communication	5 725	2 237	8 512	130.7	39.1	380.5	6.5	3.0	15.6
Wholesale and retail trade; servicing of motor vehicles and motorcycles, repair of household appliances and items of private use	37 207	17 917	16 277	504.1	48.2	90.8	42.3	23.6	29.7
Operations with real estate, rent and services rendering	4 236	10 767	5 593	134.4	254.2	51.9	4.8	14.2	10.2
Financial activity	2 152	3 249	1 971	104.5	151.0	60.7	2.4	4.3	3.6
Other branches of economy	1 608	3 548	1 255	182.5	220.6	35.4	1.8	4.7	2.3

Source: Federal State Statistics Service.

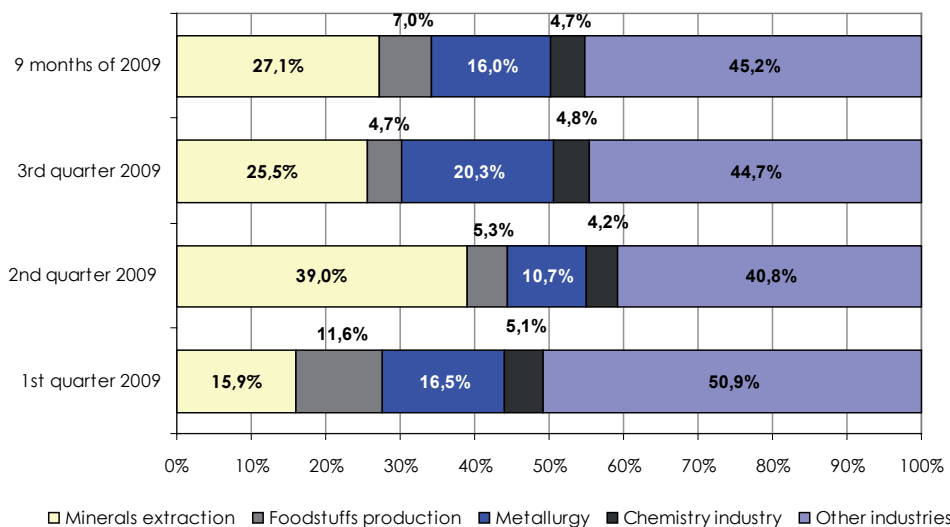
Over 9 months of the current year there was 43.2% less foreign investments made than in the corresponding period of 2008 (in January-September 2008 there was a growth of 22.6% observed). Foreign investments in the extractive industry reduced by 30.4% over 9 months of 2009 versus the corresponding period of 2008 (in January-September 2008 there was a reduction of 1.8 times observed). As for the processing industry, the investments in foodstuffs production reduced nearly by half, investments in chemistry industry – by 2.2 times, making USD 1.5 billion and USD 989 million, correspondingly. Foreign investments in metallurgy in January-September 2009 as compared with the corresponding period of the previous year reduced by 3.5 times down to USD 13.4 billion.

The analysis of quarter-by-quarter dynamics of foreign investments in the industry in the current year testifies that the rates of the decrease of foreign investments intensified in 2009 versus the corresponding periods of 2008 (fig. 3). In the current year foreign investments in metallurgy reduced by 39.85 in the 1st quarter versus the corresponding quarter of 2008, and in the 2nd and 3rd quarters the decreased, correspondingly, by 5.2 and 4.7 times. The interest of the investors in the extraction of minerals in the 1st and the 2rd quarters also went down (by 55.2% and 44.9%, correspondingly), while in the 2nd quarter their growth is estimated to be 16.3%. the growth of foreign investments in foodstuffs production in the 1st quarter 2009 made 55.2% versus the corresponding period of 2008, in the 2nd and 3rd quarter they decreased by 1.7 and 4.7 times. The decrease of foreign investments



Source: Federal State Statistics Service

Fig. 3. Foreign Investments in Industry in 2005-2009, increase as percentage versus the corresponding period of the previous year



Source: Federal State Statistics Service

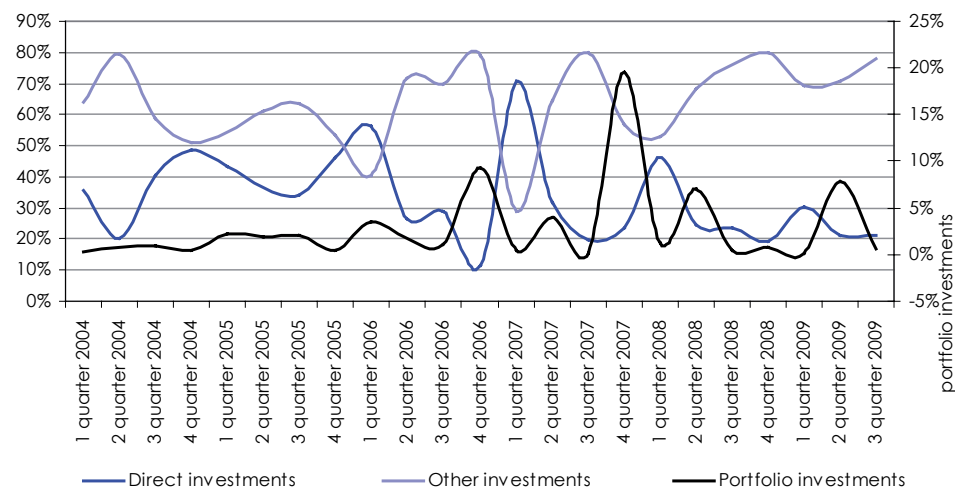
Fig. 4. Structure of Foreign Investors in Industry in 2009 as Broken by Branches

in chemistry industry was registered in the 2nd and 3rd quarters of 2009 (by 3.7 times and 1.9 times, correspondingly).

The differences in the dynamics in the branches of industry were reflected in the change of quarterly structure of foreign investments in industry in the current year as broken by branches (fig. 4).

The proportion of direct investments in industry decreased from 28.8% in January-September 2008 to 24.0% in January-September 2009, and the proportion of other investments over the same period went up from 68.4% to 73.1%. Quarter-by quarter dynamics demonstrates considerable differences in the structure of foreign investments in industry in the current year. During the year the proportion of direct investments has been decreasing, while the proportion of other investment, on the contrary, has been growing (fig. 5).

The structure of foreign investments as broken by kinds of economic activities was also subject to changes. In January-September 2009 in the field of production of minerals the proportion of direct investments reduced down to 39.0% (53.7% in January-September 2008). The volume of direct investments in this sphere made USD 2.2 billion, which is by 2.2 times lower the corresponding figure of January-September



Source: Federal State Statistics Service

Fig. 5. Structure of Foreign Investments in Industry in 2004-2009

2008. The proportion of other investments in mining, whose decrease as a result of 9 months 2009 is estimated to be 41.3% (down to USD 3.1 billion), went up to 55.0% (45.9% in January-September 2008).

In the processing industry in the current year the main part of the investments was accounted for by other investments, which, as compared with January-September 2008, reduced by 45.0%, making in the total figures of investments in processing industry 80.6% (83.2% in January-September 2008). Over the period under consideration direct foreign investments in processing industries reduced by 35.0%. The proportion of the direct investments in processing industries went up to 18.4% (16.1% in January-September 2008).

In the geographical structure of foreign investments flowing into the Russian economy over 9 months of 2009 Luxemburg holds the leading position, which account for USD 8.9 billion (USD 6.3 billion and the 5th place over 9 months of 2008). The second place is occupied by the Netherlands with USD 8.3 billion (USD 8.9 billion and the 3rd place over 9 months 2008), the third- by Germany with USD 5.5 billion (USD 6.5 billion and the 4th place over 9 months 2008).

The biggest increase of the investments in 2009 was observed for those from Luxemburg – by 42.1% versus January-September 2008. Investments from the Cyprus reduced by 2.9 times, from France – by 3.2 times, from the UK – by 3 times. Investments from the Netherlands decreased by 6.3%, from Germany – by 15.6%, from the USA – by 39.0%.

Table 3

INFLOW OF FOREIGN INVESTMENTS IN THE RUSSIAN FEDERATION AS BROKEN BY LEADING INVESTING COUNTRIES IN 2009

	Inflow as USD million			As percentage to the corresponding period of 2008.			As percentage to the total		
	1 st quarter	2 nd quarter	3 rd quarter	1 st quarter	2 nd quarter	3 rd quarter	1 st quarter	2 nd quarter	3 rd quarter
USA	688	359	232	163.4	35.1	35.5	5.7	1.8	1.0
Germany	1227	1635	2645	136.0	67.8	82.3	10.2	8.1	11.7
UK	798	1371	2062	24.5	19.4	92.1	6.6	6.8	9.1
Cyprus	1010	1860	2361	25.2	27.3	52.7	8.4	9.2	10.5
Netherlands	1827	1774	4647	53.0	77.8	145.8	15.2	8.8	20.6
Luxemburg	1261	4105	3539	496.5	202.3	56.5	10.5	20.4	15.7
Other countries	5220	9028	7089	105.1	117.8	76.9	43.4	44.8	31.4

Source: Federal State Statistics Service

The differences in the dynamics of the investments resulted in the change of the geographical structure of the accumulated foreign investments in the Russian economy. The proportion of Cyprus reduced from 20.2% as a result of 9 months of 2008 to 9.6% in January-September 2009, of the UK – from 16.6% to 7.7, of France – from 6.7% to 2.9%. of the USA – from 2.8% to 2.3%. At the same time the proportion of Germany went up over the period under consideration from 8.6% to 10.1%, of the Netherlands – from 11.8% to 15.3%, of Luxemburg – from 8.3% to 16.3%.

As a result of 9 months of 2009 it was the trade transportation and communication that were the most attractive for the investors from Luxemburg, where they invested 70.9% and 10.6% of the total investments from Luxemburg into the Russian Federation in January-September 2009. As a result of January-September 2008 these spheres of the Russian economy accounted for 32.2% and 6.3% of the investments from Luxemburg.

As to the structure of investments into the Russian Federation from the Netherlands. there was a decrease of the proportion of minerals extraction from 39.1% in January-September 2008 to 12.6% in January-September 2009. In 2009 60.7% of the investments from the Netherlands to the Russian Federation was directed in the trade.

The entrepreneurs from Germany continued to invest in trade, 37.4% of the total investments from Germany into the Russian federation being directed in this sphere as a result of 9 months of 2009 (33.8% in January-September 2008). The proportion of the processing industries in the investments from Germany reduced from 57.1% in January-September 2008 to 53.2% as a result of 9 months of 2009.

As a result of January-September 2009 it is the Netherlands, the Cyprus, Luxemburg, the UK and Germany that are leading in the total volume of accumulated foreign investments. their share being 68.5% (71.7% in 9 months of 2008). At the same time the proportion of first five investing countries in the segment of direct investments decreased to 69.6% (75.1% in January-September 2008), and went up in the segment of portfolio investments to 83.8% (75.1% in January-September 2008), decreasing in the segment of other investments to 66.5% (68.4% in January-September 2008).

Against the background of decrease of foreign investments in the Russian economy. as a result of 9 months of 2009 the volume of the withdrawn capital in the form of the incomes of foreign investors transferred abroad. as well as in the form of payment of interest for the use of credits and repayment of credits increased as compared with the corresponding period of 2008 by 5.3% and made USD 50.6 billion (92.5% of foreign investments received over 9 months of 2009). The most intensive outflow of the capital in absolute terms (USD 19.8 billion) was observed in the 2nd quarter 2009. It should be noted that 98.1% of the investments received by the Russian economy in the 2nd quarter was withdrawn over the same period. In the 1st and 3rd quarters 2009 there was 100.3% and 83.3% of the received foreign investments withdrawn (as a result of 9 months of 2008 there was 63.4% of the volume of received foreign investments withdrawn). ●

oil products – USD 103.5 per ton. At present export duty rate for light oil products is equal to USD 194.9 per ton, and for dark oil products – USD 105 per ton.

The organization of petroleum exporting countries (OPEC) in its regular survey recalculated the forecast for oil consumption in 2010. According to its estimation, the demand will be equal to 85.1 million of barrels a day, which is by 800 thousand of barrels above the previous forecast. It should be noted that the countries that do not participate in the cartel could increase their production of up to 51.27 million of barrels a day. The growth of the demand is accounted for by the gradual recovery of the world economy mainly thanks to China and India, where economic growth rates are forecast to be 8.5 and 6.5%, correspondingly, in 2010.

The prices for non-ferrous metals continue to grow, but the rates of prices growth in recent months have slowed down considerably as compared with March-August of the current year. According to the data of London metal exchange the prices for the main industrial non-ferrous metals since the beginning of the year went up by 72.8%. In the first week of October the market functioned without the Chinese participants, which affected the volumes and prices, but later the quotations for the majority of metals went up. As a result in October 2009 as compared with the previous month the prices for copper went up by 1.5%, for aluminum – by 2.4%, for nickel – by 6.0%. Despite the positive dynamics average world prices over January-October 2009 are considerably below the figures of 2008: by 37.2% for copper, by 42.4% for aluminum, by 39.1% for nickel.

Table 1

AVERAGE MONTHLY PRICES IN OCTOBER OF THE CORRESPONDING YEAR

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil (Brent), USD/barrel	24.1	32.14	21.45	27.2	29.6	49.8	58.2	57.9	81.4	79.63	73.21
Natural gas, USD/1 million BTU	2.558	5.767	2.649	4.144	5.162	7.7	12.2	12.76	7.47	6.824	5.008
Petrol, USD/gallon	0.699	0.895	0.603	0.801	0.841	1.43	2.056	1.484	2.13	4.195	1.903
Copper, USD/ton	1748.1	1838.6	1405.1	1519.0	1916.4	3012.0	4060	7500	8008	4925.7	6286.8
Aluminum, USD/ton	1470.7	1473.5	1280.8	1313.2	1474.8	1822.8	1929	2659	2442	2121.4	1877.8
Nickel, USD/ton	7984.2	7353.2	4836.8	6840.9	11030	14483	12403	32348	30999	12140	18514

Source: calculated on the basis of data of London metal exchange, International oil exchange (London)

The reduction of foreign demand and the decrease of prices at the world goods markets in January-October 2009 affected the dynamics of the Russian export: versus ten months of 2008 export reduced by 42.2% down to USD 228.6 billion.

As compared with January-October 2008 in January-October 2009 the structure of export was subject to significant changes.

The proportion of fuel and energy commodities in the structure of export went down from 69.3% in January-October 2008 to 66.5% in January-October 2009, which is mainly due to the decrease of prices for energy resources as well as to the decrease of physical volumes of export of some goods. The decrease of the value of oil and oil products exported abroad was caused by the decrease of average contract prices nearly by half, and the decrease in the cost of natural gas – by a considerable reduction in the physical volume of the export and contract prices. As a result the value of export and fuel and energy commodities in January-October 2009 reduced by 44.5% as compared with January-October 2008.

The value volume of export of metals and goods thereof in January-October 2009 reduced as compared with the corresponding period of 2008 by 44.7%. The reduction of export of this group of goods was connected both with the decrease of contract prices and with the reduction of physical volumes of their export. The proportion of metals and metal goods in the structure of export reduced by 0.6 percentage points. Export of production of chemistry industry decreased in terms

of value by 42.5%. this reduction is accounted for by the decrease of average contract prices and physical volumes of mineral fertilizers supplied for export.

The export of timber and pulp-and-paper goods reduced in value by 31.5% due to the reduction in the physical volumes of supplies and prices for unprocessed wood.

Export of machinery, equipment and transport vehicles reduced by 26.3%, which is a consequence of the overall decrease of the investment activity. The export of machine-building goods to CIS countries diminished dramatically – by 51.8%, whereas the export to non-CIS countries went up by 2.6%. the proportion of this group of goods in the total volume of the Russian export went up from 4.5% to 5.8%.

The value volume of export of foodstuffs and agriculture raw materials (except for textile raw materials) went up by 9.8%. The physical volume of supplies of Russian foodstuffs abroad went up by 94.1% in January-October, mainly due to the export of wheat, barley, sunflower seeds and sunflower oil. Over 10 months of 2009 Russia exported 13.9 million of tons of wheat worth USD 2.28 billion versus 8.8 million of tons worth USD 2.3 billion over the same period of the previous year.

The decrease of the internal demand for the foreign goods which was caused by the worsening of the situation in the Russian economy in the environment of the world financial and economic crisis resulted in the decrease in the import of goods. In January-October 2009 the import supplies reduced by 38.7% versus the corresponding period of 2008.

In the goods structure of the Russian import the major changes were connected with the decrease of the proportion of machinery, equipment and transport vehicles. The proportion of metals, metal goods and mineral products has also reduced. At the same time the proportion of foodstuffs and agriculture raw materials, production of chemistry industry, timber, pulp-and-paper goods, textile, textile goods and footwear has increased.

Import of machinery, equipment and transport vehicles reduced by 52.7% in terms of value. Import of passenger cars and trucks reduced by 73.6% and 86.4% in terms of value and by 75.2% and 84.5%, correspondingly, in terms of physical volume.

The foreign trade balance of Russia in January-October 2009 remained positive and made USD 87.8 billion. In January-October of last year it reached USD 166.6 billion.

According to the Decree of the Government of the Russian Federation No 1021 from 16.12.09 the quotations for meat export, suggesting gradual decrease of pork and poultry import, were established. As a result, by 2012 the quotation for pork import will have reduced from the current level of 531.9 thousand of tons to 425.1 thousand of tons (for 2010-2011 the quotation was established at the rate of 472.1 thousand of tons).

It should be noted that import duty rate for pork imported into Russia by quotas makes 15%. In 2009 import of pork above the quota was limited with the prohibitive duty of 40%.

The quota for poultry and its byproducts the import quota will make 780 thousand of tons next year, 600 thousand of tons in 2011, 550 thousand of tons in 2012. It is the importers from the USA that will sustain the most serious losses: whereas in 2010 their quota is equal to 600 thousand of tons, in 2011 it will reduce by one third and be equal to 446.4 thousand of tons. In 2012 the USA will be able to import only 409.2 thousand of tons of poultry by quota.

The quotas do not apply to the meat imported from CIS countries.

The limitation quotas for import of meat and higher duties for non-quota import started to be introduced by the Government to support the national producers in 2003 (at first for poultry, and starting with 2004 – for beef and pork). At first the quotas were distributed at auctions, later- according to the “historical” principle.

The system of quotation of pork, beef and poultry import has had a positive impact on the situation at Russian meat market. In recent years there is a growth of poultry and pork production observed together with the decreased of the volumes of import supplies of these goods.

According to the data of the customs statistics, the volume of purchase of fresh and frozen meat by Russian over 10 months of 2009 as compared with the corresponding period of 2008 reduced by 24.5% down to 1.01 million of tons. The value volume of meat import has reduced down to USD 3.3 billion versus USD 4 billion a year ago. Import of poultry reduced by 25.4% down to 730.9 thousand of tons, in terms of value – down to USD 815.5 million from USD 1.06 billion.

According to the Decree of the Government of the Russian Federation from December 16, 2009 no 1017 the export duty rate for unalloyed nickel of 5% was established. In December nickel was traded at London metal exchange around the level of USD 1800 per ton.

Export duty rate at the rate of 5% for unalloyed nickel was introduced in January 2007. In order to support the branch of industry when the prices for nickel and copper at the world markets were falling dramatically at the end of 2008, according to the decree of the Government of the Russian Federation from January 21, 2009 No 2009 export duties for unalloyed nickel and copper cathodes were nullified.

The duty rate for aluminum was cancelled in 2008 (it was equal to 10%). The duty rate for zinc and tin was maintained at the level of 5%. However with the economy livening up and the demand for non-ferrous metals growing the Government decided to cancel the privileges introduced. The crucial decision on re-introduction of duty for nickel was made in July during the discussion of the main parameters of the budget for 2010-2012.

The decision of the Government to introduce the duty rates for non-ferrous metals is explained by the fact that this is one of the export income items and in the environment of the crisis the introduction of duty rates can bring additional earnings to the budget. The earnings from export of nickel have already been included by the Ministry of Finance in the budget calculations: according to the estimation of the department the return of the duty rate will earn to the Government RUR 4.5 billion each year in 2010-2012. ●

MORTGAGE MARKET IN THE RUSSIAN FEDERATION

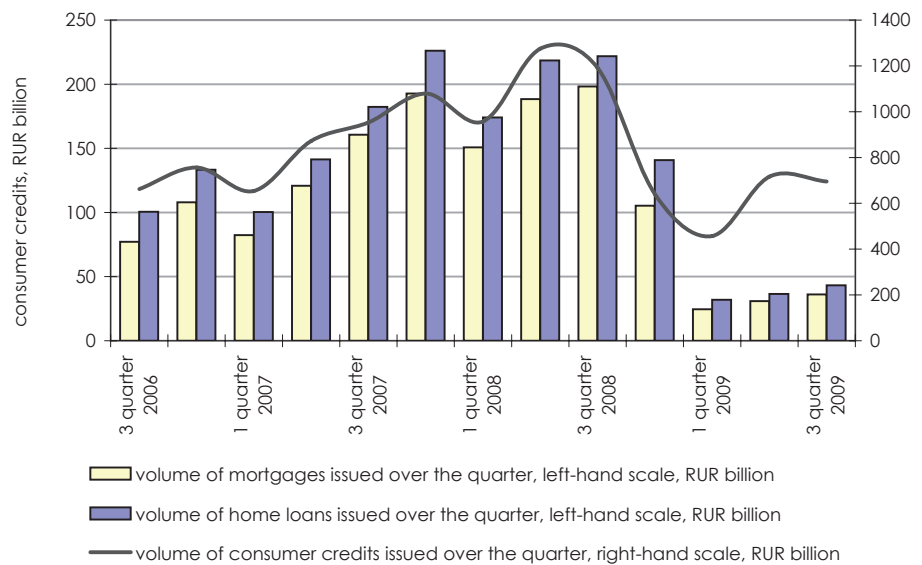
G.Zadonsky

The volume of mortgages issued over 3 quarters of 2009 makes only 17.0% of the volume of credits issued over the corresponding period of 2008. The volume of stale debts is increasing, which forces to prolong the restructurization programs. The repeated decrease of the volumes of newly issued mortgages is accompanied with operations of billions of rubles made by the leading mortgagees with mortgage securities. In the environment of the crisis the large banks are ready to renew programs of refinancing of “strange” credits on more favorable terms.

As on November 1, 2009, according to the data of the Central Bank of the Russian Federation, there were 92 134 mortgages of RUR 107 788 million issued, the debt being equal to RUR 995 643 million. The volume of mortgages issued over 3 quarters of 2009 makes only 17.03% of the volume of credits issued over the corresponding period of 2008 and 25.17% of the corresponding volume of 2007. The volume of issued housing credits on the whole made RUR 130 411 million or 128 503 credits as on November 1, 2009.

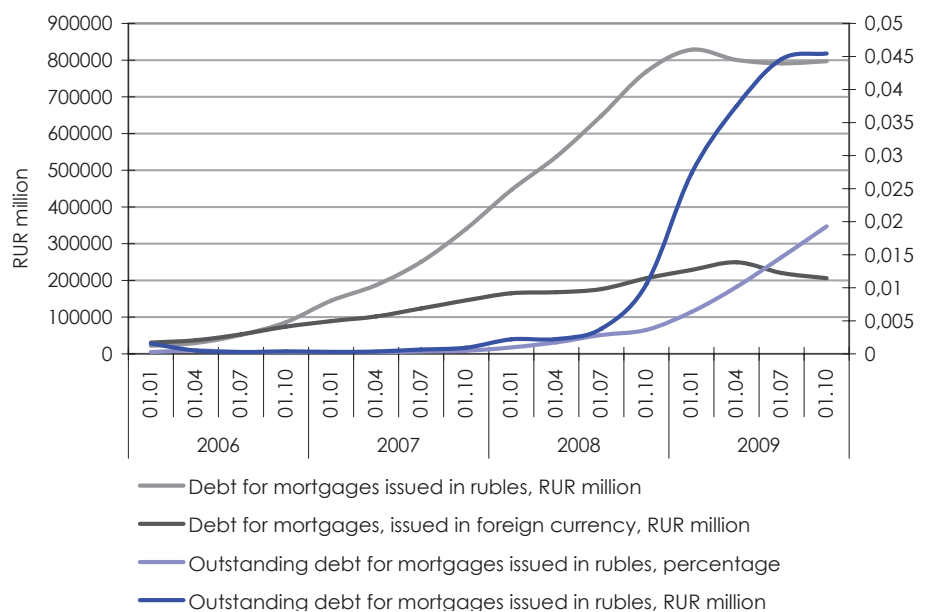
As on November 1, 2009 the proportion of stale debt made 2.06% for credits issued in rubles and 5.04% for credits issued in foreign currency.

Fig. 3 testifies that there is an inverse relationship between the interest rate and the period of crediting: the increase of the interest rate results in the decrease of the period of crediting and vice versa. As on November 1, 2009 the average weighted interest rate for mortgages in rubles issued from the beginning of the year reduced to 14.5%, and for credits issued in foreign currency – to 13.1%. Correspondingly, as



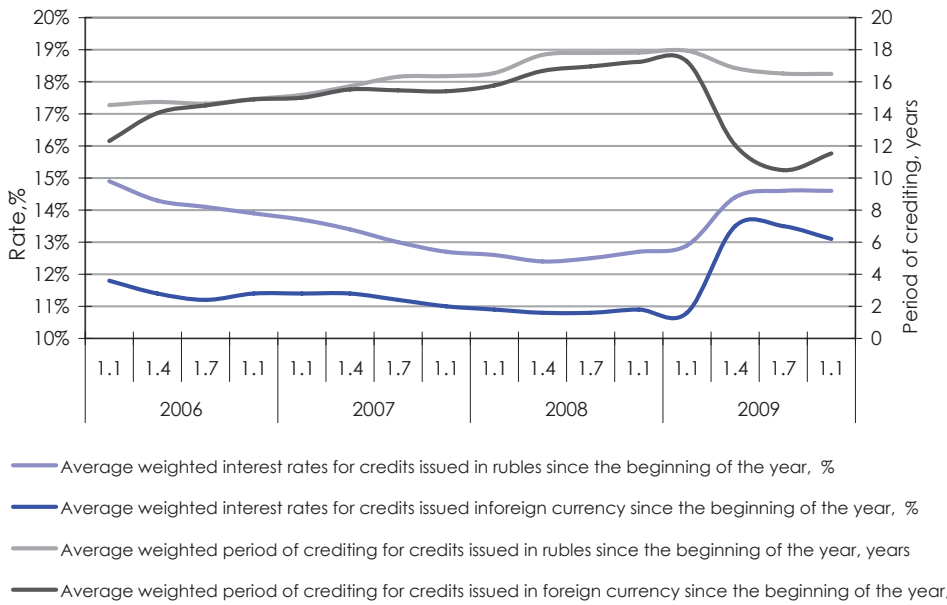
Source: data of the Central Bank of the Russian Federation

Fig. 1. Dynamics of Issue of Credits to Natural Persons over the Quarter



Source: data of the Central Bank of the Russian Federation

Fig.2. Dynamics of Debt and Proportion of Stale Debt

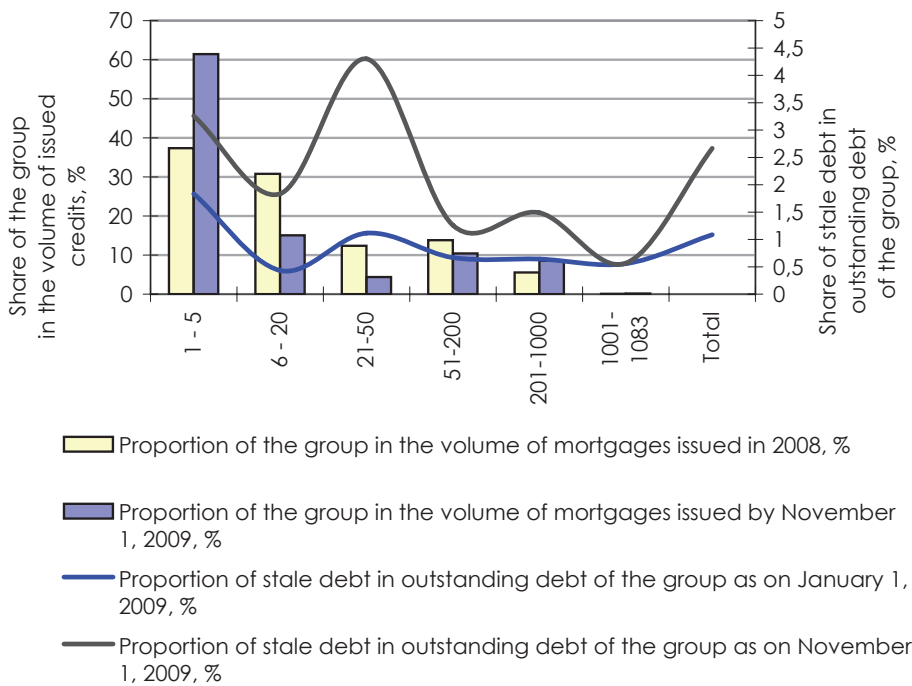


Source: data of the Central Bank of the Russian Federation

Fig 3. Average Weighted Rates and Periods of Crediting for Mortgages Issued Since the Beginning of the Year

tion of the second, third and fourth groups of creditors reduced, and the share of the most numerous fifth group somewhat increased: from 5.5% to 8.5%. Among all the groups the proportion of the stale debt versus outstanding debt increased. Whereas at the end of 2008 it was the first group of creditors that had the biggest proportion of stale debt, the current “leader” is the third group as ranked according to the volume of assets, the proportion of stale debt in which increased by nearly four times, up to 4.5%.

On November 25, 2009 the Central Bank of the Russian Federation lowered the refinancing rate down to 9%. As on December,



Source: data of the Central Bank of the Russian Federation

Fig. 4. Dynamics of Volumes of Issued Mortgages and Stale Debt as Broken by Groups of Crediting Organizations, Ranked by the Volume of Assets

on November 1, 2009 the average weighted periods of crediting made 16.5 years for credits in rubles and 11 years for credits in foreign currency.

Crisis phenomena at the mortgage market have also revealed in further monopolization of the primary market, market of mortgages issue. As it follows from fig. 4, the share of five largest banks (Sberbank, VTB-24, Bank of Moscow, rosselkhozbank and Gazprombank) went up from 37.4% to 61.4%, i.e. by 24 percentage points among the crediting organizations ranked by the volume of their assets. The propor-

tion of the credits in foreign currency in the volume of mortgages issued over the quarter continues to decrease: from 17.33% in the 4th quarter 2008 to 5.57% in the 3rd quarter 2009 which conforms to the general descending trend of the mortgages. The repeated decrease of the volumes of newly issued mortgages is accompanied with the operations of billions of rubles with mortgage securities, in

which banks VTB-24, Moscow Bank of Reconstruction and Development, AHML, Vnesheconom-bank, Gazenergobank, Home Credit and Finance Bank Ltd. Participate. Such an activity at the secondary mortgage market testifies that:

- the recession at the primary market of mortgages and the growth of the stale debt has not resulted in dramatic decrease of the estimation of the quality of the available portfolios of mortgage notes and letters by the financial community;
- the banking system is developing and expanding the technologies of securitization of assets that are underdeveloped in Russia on the basis of mortgage market;
- the level of preparedness of the financial market for large-scale growth of mortgage crediting is increasing.

There being no demand for retail credits, the banks are ready to renew the programs of refinancing of “strange” credits on more favorable terms. Sberbank of Russia has introduced a new crediting product – “Refinancing of home loans” for the purposes of setting off (refinancing) of credits issued for the period of up to 30 years by other crediting organizations.

VTB-24 has lowered the minimum initial contribution of the borrower down to 20% for all the programs of mortgage crediting in the majority of the regions of bank presence.

In December the State Duma adopted the amendments to the Law “On banks and banking activity” in the first reading, which prohibits the banks to change unilaterally the interest rates for credits, deposits, commission rate and periods of corresponding agreements with clients that are natural persons.

The State Duma also adopted in the first reading the amendments to article 810 part 2 of the Civil Code of the Russian Federation, which envisages the right of the citizens of advance repayment of the credit without the agreement of the bank. ●

THE STATE BUDGET

E.Fomina

According to the existing budget statistics concerning the execution of the federal budget over the first eleven months of 2009, Russia's budget deficit increased to almost 5 % of GDP. This trend can be explained by the growing rate of utilizing budget allocations, which is typical of the final months of each year, and also by the implementation of some of the individual measures envisaged in the anti-crisis package.

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

Preliminary estimates of the execution of the general government budget in the first ten months of 2009 indicate that the volume of revenues dropped by 5.9 p.p. of GDP on the corresponding period of 2008, while expenditures grew by 8 p.p. of GDP. According to the statistics issued by the Federal Treasury, as of 1 November 2009, the general government budget showed a deficit of almost 3 % of GDP against a surplus of 11 % of GDP marked in the corresponding period of 2008 (Table 1).

Table 1

THE EXECUTION OF THE REVENUES AND EXPENDITURES OF THE BUDGETS OF ALL TIERS OF GOVERNMENT IN JANUARY - OCTOBER 2008 AND 2009

	January - October 2008		January – October 2009		Deviation, p.p. of GDP
	in bn rubles	% of GDP	in bn rubles	% of GDP	
Federal budget					
Revenue	8,092.8	23.1	5,787.6	18.1	– 5.0
Expenditure	5,309.4	15.1	7,268.9	22.8	+ 7.7
Deficit (–) / Surplus (+)	2,783.4	8.0	– 1,481.3	– 4.7	– 12.7
Consolidated budgets of RF subjects					
Revenue	5,208.6	14.8	4,820.5	15.1	+0.3
Expenditure	4515.2	12.9	4617.5	14.5	+1.6
Deficit (–) / Surplus (+)	693.4	1.9	202.9	0.6	–1.3
General government budget					
Revenue	13,785.2	39.7	10,785.8	33.8	– 5.9
Expenditure	9,950.6	28.7	11,706.2	36.7	+ 8.0
Deficit (–) / Surplus (+)	3,834.6	11.0	– 920.4	2.9	– 13.9
For reference: GDP, bn rubles	34,730.8		31,918.7		

Source: RF Ministry of Finance, IET estimations.

As far as the current make-up of the revenue side of the general government budget is concerned (Table 2), it can be noted that revenues from the tax on the profits of organizations and the mineral extraction tax and revenues from external economic activity are the items that were particularly badly hit by the crisis. The current situation has confirmed the assumptions previously made by IET experts that these revenue sources are very susceptible to market fluctuations¹.

1 M. V. Kazakova, S. G. Sinelnikov-Murylev, P. A. Kadochnikov, Analiz strukturnoi i kon'yunktturnoi sostavliaiushchikh nalogovoi nagruzki v rossiiskoi ekonomike [An analysis of the structural and market components of the tax burden on the Russian economy] / Nauchnye trudy IEPP [The IET's Scientific Studies], No 129 R, 2009. <http://www.iet.ru/ru/analiz-strukturnoi-i-konyunktturnoi-sostavlyayuschi-nalogovoi-nagruzki-v-rossiiskoi-ekonomike-nauchnye-trudy-129.html>.

Over the first ten months of 2009, the volume of *revenues from the mineral extraction tax and external economic activity* dropped to 2.7 % of GDP and 6.3 % of GDP respectively. This drop was caused by a combination of internal and external factors. The negative effect of the collapsing oil prices was aggravated by the shrinkage in the physical volumes of the extraction and export of carbohydrates (first of all, natural gas). Also, there were a number of changes in the administration of the mineral extraction tax:

- the profit amount exempt from the mineral extraction tax was increased from 9 USD per barrel to 15 USD per barrel;
- starting from 1 January 2009, the tax base for the mineral extraction tax is based on net oil;
- the number of oil fields fully exempt from the mineral extraction tax was increased;
- the procedure for the deduction of expenses associated with the acquisition of subsoil licenses was changed for all oil-extracting companies.

Over January – October 2009, the general government budget's revenues from *the tax on the profits of organizations* dropped considerably in relative terms. They declined to 3.4 % of GDP against 6.6 % of GDP marked in the corresponding period of 2008. The financial situation of the majority of enterprises remains rather difficult, which results in a shrinkage of the taxable base. According to the latest data, the financial result of the real sector of the economy for the first nine months of 2009 amounted to 2805.7 bn rubles, which is by more than 1.5 times lower than in the corresponding period of 2008. It should be noted that the share of loss-making enterprises in the total number of organizations rose to approximately 33 %, or by 6.4 p.p. on the corresponding period of 2008. The worst financial results for the first nine months of 2009 (as well as during the whole year) were once again demonstrated by chemical plants and enterprises engaged in the production of electrical and transport equipment.

As of early November 2009, the package of anti-crisis measures designed to support the real sector of the economy had not been implemented in full notwithstanding the fact that all the measures of this package were targeted to salvaging a limited number of 'system-forming' enterprises.

The volume of the taxable base was also negatively affected by a number of alterations and amendments to Chapter 25 of the RF Tax Code in the part of administering the tax on the profits of organizations and improving the financial situation of taxpayers (these changes having taken effect in early 2009). The heaviest adverse effect was produced by a significant reduction of the basic tax rate (from 24 % to 20 %), and also by the depreciation bonus (part of the historic value of fixed assets being charged to costs in a current tax period) having been increased from 10 % to 30 %.

Table 2

THE DYNAMICS OF THE TAX BURDEN LEVEL AND THE REVENUES OF THE RF GENERAL GOVERNMENT BUDGET FROM THE MAIN TAXES IN JANUARY – OCTOBER 2008 AND 2009, AS A PERCENTAGE OF GDP

	January – October 2008	January – October 2009	Deviation, p.p. of GDP
Tax burden level (1 + 2 + 3)	37.0	30.3	– 6.7
Tax revenue inflow, including from:	25.0	20.6	– 4.4
Tax on profits of organizations	6.6	3.4	– 3.2
Personal income tax	3.8	4.1	+ 0.3
Single social tax*	1,9	2,1	+ 0,2
VAT	5.5	5.3	– 0.2
Excises	0.8	0.9	+ 0.1
Mineral extraction tax	4.5	2.7	– 1.8
Insurance contributions to mandatory pension insurance	3.1	3.4	+ 0.3
Revenues from external economic activity	8.9	6.3	– 2.6

* without insurance contributions to mandatory pension insurance.

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

The volume of budget revenues from VAT in January – October 2009 also shows a drop of revenues in relative terms; however, this drop is less dramatic than that demonstrated by a number of other taxes: the general government budget's revenues from VAT shrank by 0.2

p.p. of GDP (*Table 2*). Despite a certain improvement in the administering of this tax and an increasing steadiness of VAT revenues over the year by comparison with 2008, the collectability of VAT did not improve. The key factor which determined the drop in VAT revenues in 2009 was the narrowing of the taxable base caused by a considerable decline in entrepreneurial activity.

Excise revenues declined much slower than VAT revenues due to the stable consumption of excised products. The volume of excise revenues remained at the level of 2008, amounting to nearly 0.9 % of GDP. Even the introduction of increased excise taxes on alcohol, tobacco and powerful cars, in force from 2009, failed to produce a significant positive effect on the volume of excise revenues, apparently due to a slowdown in the pace of indexation of excise rates.

By contrast, over the first ten months of 2009, the general government budget's revenue from the personal income tax showed growth: they rose by 0.3 p.p. of GDP on the corresponding period of 2008, to 4.1 % of GDP. The positive dynamics of personal income tax revenue was largely caused by the accelerated indexation of the wages-fund of public sector workers.

While the revenue side of the general government budget is shrinking, *the expenditure side* of Russia's budget system is steadily growing. In January – October 2009, expenditure rose by 8.0 p.p. of GDP on the corresponding period of 2008 (*Table 3*). Moreover, the past few months saw an increase in the rate of expenditure of public funds by comparison with the beginning of 2009.

Table 3

THE IMPLEMENTATION OF THE EXPENDITURE SIDE OF THE GENERAL GOVERNMENT BUDGET IN JANUARY – OCTOBER 2008 AND 2009, AS A PERCENTAGE OF GDP

	January – October 2008		January – October 2009		Deviation, p.p. of GDP
	Bn rubles	as % of GDP	bn rubles	as % of GDP	
Expenditure, total	9,950.6	28.7	9,214.2	36.7	+ 8.0
including					
Nationwide issues	954.8	2.8	976.1	3.1	+ 0.3
Of these, servicing of state and municipal debts	163.1	0.5	194.3	0.6	+ 0.1
National defense	702.9	2.0	833.0	2.6	+ 0.6
National security and law-enforcement activity	809.9	2.3	936.1	2.9	+ 0.6
National economy	1,344.9	3.9	1,965.1	6.2	+ 2.3
Housing and utilities system	721.9	2.1	695.8	2.2	+ 0.1
Environment protection	21.8	0.06	20.8	0.07	+ 0.01
Education	1,218.4	3.5	1,324.5	4.2	+ 0.7
Culture, cinematography and mass media	226.1	0.7	242.1	0.8	+ 0.1
Public health care and sports	1,139.2	3.3	1,223.7	3.8	+ 0.5
Social policy	2,810.3	8.1	3,488.7	10.9	+ 2.8

Source: KRF Treasury, IET estimations.

As can be seen by the preliminary results, in the first 10 months of 2009 the greatest deviation of the volume of financing from last year's volumes was displayed by the item 'Social Policy': the volume of funding allocated to it in the general government budget was by 2.8 p.p. of GDP higher than in the corresponding period of 2008. A similarly upward trend was displayed by the financing allocated to the execution of government obligations under the item 'National Economy' – up to 6.2 % of GDP in 2009 against 3.9 % of GDP in 2008. A noticeable growth was observed with regard to expenditures under the items 'National Defense', 'National Security and Law-Enforcement Activity' and 'Education'. The volumes of budget resources being spent in each of these areas are higher by 0.6 – 0.7 p.p. of GDP than those in the corresponding period of 2008.

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

As the revenue side of budgets was steadily dwindling across all tiers, the brunt of expenditures was to be carried by the federal budget. According to a preliminary estimate made by the RF Ministry of Finance, federal budget revenue in January – November 2009 amounted to 18.1 % of GDP, which was by 4.2 p.p. of GDP lower than its index recorded in 2008, while at the same time the volume of expenditure increased by 7.2 p.p. of GDP, to 23 % of GDP by the results of the first 11 months of 2009. *Table 4* presents the main parameters of the RF federal budget for the reporting period.

The decline in federal budget revenue in January – November 2009 by comparison with the corresponding period of last year was mainly caused by negative changes in the price situation and by the drop in demand for Russian exports. As a result, there was a fall in personal income tax revenue and revenues from external economic activity. Besides, the global financial crisis negatively influenced the situation in the domestic economy, which, in its turn, produced a decline in federal budget revenues from items other than oil and gas.

Table 4

THE MAIN PARAMETERS OF THE RF FEDERAL BUDGET IN JANUARY – NOVEMBER 2008 AND 2009

	January – November 2008		January – November 2009		as % of budget revenue and ex- penditure in 2009	Deviation	
	bn rubles	% of GDP	bn rubles	% of GDP		bn rubles	p.p. of GDP
Revenue, including:	8,663.4	22.5	6,446.5	18.1	96.0 %	– 2,216.9	– 4.4
Revenues from oil and gas	4,145.8	10.8	2,596.6	7.3	126.2 %	– 1,549.2	– 3.5
Deductions to Reserve Fund and National Welfare Fund (Stabilization Fund)	2,039.4	5.3	262.3	0.7	–	– 1,777.1	– 4.6
Expenditure, including:	6,152.2	16.0	8,201.9	23.0	83.3 %	2,049.7	+ 7.0
interest	143.9	0.4	160.7	0.5	81.7 %	16.8	+ 0.1
non-interest	6,008.3	15.6	8,041.2	22.6	83.3 %	2,032.9	+ 7.0
Federal budget surplus (deficit)	2,511.2	6.5	– 1,755.4	– 4.9	56.1 %	– 4,266.6	– 11.4
'Oil and gas' deficit	– 1,634.6	– 4.3	– 4,352.0	– 12.2	83.9 %	– 2,717.4	– 7.9
GDP estimations	38,493.8		35,647.2				

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

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

According to preliminary estimates, the federal budget for the first 11 months of 2009 was executed with a deficit of 4.9 % of GDP, while the non-oil and gas budget deficit amounted to 12.2 % of GDP. Thus, the downward trend in the growth rate of the federal budget deficit in relative terms shown by the results of the first 10 months of 2009 did not continue, judging by the afore-said preliminary estimates for the first 11 months of 2009. The fact that the budget deficit has resumed its growth can be explained by the accelerated spending of budget allocations, which is a typical feature of the last months of each year.

Table 5 illustrates the dynamics of revenues from the oil and gas sector and the dynamics of their spending by the federal government in January – November 2009. The total revenue volume

allocated to the Reserve Fund and the National Welfare Fund in the first 11 months of 2009 amounted to 262.3 bn rubles, while the volume of the oil and gas transfer to the federal budget during the same period amounted to more than 2.5 trillion rubles.

Table 5

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

Indices	Fund residuals, end of 2008	Approved for 2009 budget	Received in Janu- ary – November 2009	Allocated in January – November 2009		Fund residuals, end of October 2009*
				to maintain- ing well-bal- anced fed- eral budget	to oil and gas transfer	
Oil and gas revenues in federal budget	X	2,057.2	2,596.6			X
Areas for allocating oil and gas revenues:	X	X				X
Oil and gas transfer	X	2,531.1	2,531.1			
Reserve Fund	4,027.6	5,147.5	183.0	2,263.6	179.4	2,238.6
National Welfare Fund	2,584.5	X	79.3	–	–	2,769.8
Total	6,612.1	X	2,793.4	2,263.6	179.4	5,008.4

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

Source: RF Federal Treasury.

Table 6 shows the dynamics of federal budget execution in cash terms in the first 10 months of 2009 in accordance with the functional classification of budget expenditures. It should be noted that, on the whole, the dynamics of spending in January – October 2009 is close to the corresponding parameters for the same period of 2008. However, if some budget items are taken separately, their execution is much lower than last year's dynamics. Thus, the rate of spending under the items 'Public Health Care and Sports' and 'Social policy' is 10 – 14 % lower than it was last year, and is 6 to 7 % lower under the items 'Housing and Utilities System' and 'Nationwide Issues'. The annual carry-forward of substantial part of financing to the year's end increases inflation risks, given that in Q4 34 % of the total budget revenue and expenditure allocated to the year 2009 will have to be implemented.

Table 6

FEDERAL BUDGET EXECUTION IN CASH TERMS IN JANUARY – OCTOBER 2008 AND 2009 (AS A PERCENTAGE OF ANNUAL BUDGET REVENUE AND EXPENDITURE)

	January – October 2008	January – October 2009
BUDGET EXPENDITURE – TOTAL	75.6 %	73.2 %
Nationwide issues	71.3 %	65.4 %
including servicing of state and municipal debts	74.8 %	74.1 %
National defense	68.9 %	68.9 %
National security and law-enforcement activity	75.3 %	75.2 %
National economy	64.2 %	65.3 %
Housing and utilities system	63.2 %	55.9 %
Environment protection	72.5 %	66.9 %
Education	71.1 %	69.8 %
Culture, cinematography and mass media	68.3 %	75.9 %
Public health care and sports	79.5 %	65.8 %
Social policy	81.3 %	71.8 %
Interbudgetary transfers	83.5 %	82.1 %

Source: RF Ministry of Finance, IET estimations.

December 2009 may see the “peak of expenditure”, when a sum of up to 1.5 bn rubles can be spent within a single month. Besides, some additional transfers to the Pension Fund of Russia are planned in connection with the forthcoming pension indexation, as the base part of labor pension is to be increased by 31.4 % from 1 December. In the last month of each year, expenditure on wages and pensions usually displays a dramatic rise because some of January wages and salaries are paid in advance in December. Also, the month of December represents the last chance for budget recipients to spend up to the limits of their budget spending obligations. Thus, in December 2008, expenditure rose by 70 % on November 2008 - to 1.4 trillion rubles.

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

On 10 December 2009, the RF Deputy Minister of Finance announced that in 2010 the volume of Russia’s foreign borrowing would not exceed 18 bn USD. It is planned that the total volume of foreign loans to be taken in 2010 – 2012 will amount to approximately 60 bn USD. Within the above period of time, the amount of annual borrowing may be adjusted so as to reflect the behavior of oil prices. This will be the first time in recent years that Russia’s government will go back to the foreign debt market. Although the planned loan is relatively small, it can become an additional burden for subsequent annual budgets.

One more notable event in the field of Russia’s debt policy was the decision of the Government that this country’s debt to the London Club should be settled by the end of 2009, and that the commercial debt of the USSR should be restructured in the amount of 400 – 500 bn dollars.

In December, the RF Ministry of Finance summarized the results of financing the package of anti-crisis measures in the first ten months of 2009. The cost of implementing these measures in January – October 2009 amounted to nearly 784 bn rubles. According to the RF Ministry of Finance, as of 1 November 2009 the government had spent 783.7 bn rubles (or 2.5 % of GDP) on anti-crisis measures out of 1.135 trillion rubles (or 2.8 % of GDP) earmarked for this purpose in the budget. It is planned that in 2010 the governmental anti-crisis fund designed to finance economic support measures will be increased to 195 bn rubles.

According to preliminary estimates, on the whole, the planned anti-crisis measures (2008 – 2009) will cost Russia’s budgetary system approximately 3 trillion rubles (or around 8 % of GDP). It should be mentioned that as of 1 October 2009 the cost of budgetary and “quasi-budgetary” measures already financed had reached almost 2.6 trillion rubles (or 6.4 % of GDP).

One of the key problems hindering the implementation of the anti-crisis package is procrastination in decision-making and in carrying out coordination procedures in the process of materializing some or other measures from this package. Thus, the provision of state guarantees to strategic enterprises, planned for 2009 in the amount of 300 bn rubles, has been financed in the amount of only 10.3 bn rubles¹ (or by no more than 4 % of the announced amount). It is worth mentioning that enterprises have applied for 268 bn rubles in state guarantees.

Our analysis of the governmental system of anti-crisis measures indicates that these measures are mainly oriented towards supporting strategic industries and enterprises. And they are certainly much less oriented to providing social support to the population. ●

¹ The data on the volume of funds allocated for implementing the Anti-Crisis Program of the RF Government are taken from the RF Government’s report on the materialization of measures designed to support the economy, for the reporting period ending 30 September 2009.

OIL AND GAS SECTOR

Yu.Bobylev

The situation in oil and gas sector of the Russian economy in the recent months was characterized by the growth of world prices for oil, increase in oil production and export. The growth of prices for oil and the adopted measures of tax stimulation considerably improved the financial situation of oil and gas sector. At the same time as a result of the contraction of the internal and external demand the volumes of production and export of the natural gas decreased dramatically.

The situation at the world oil market in the 2nd half of 2009 was characterized by the growth of prices for oil and their comparative stabilization in the range USD 72-77 per barrel. The contraction of the demand for oil in the developed countries as a result of the financial and economic crisis in the current year was compensated by the increase in the demand in the developing countries and primarily in China and the reduction of oil production in OPEC countries and other oil producing countries (Norway, the UK, Mexico). In this environment at the OPEC conferences that took place in 2009, including at the last one that took place in December, it was decided to retain the quotas for the production of oil by OPEC member countries that were established from January 1, 2009 (in December 2008 OPEC adopted the decision to reduce oil production starting with January 1, 2009 by 4.2 million of barrels per day as compared with the level of September 2008). According to the preliminary estimation the average price of Russian oil grade Urals at the world (European) market in 2009 made USD 61.0 per barrel or 65% versus the average level of last year (table 1,2, fig. 1).

Table 1

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

	2007	2008 1 quarter	2008 2 quarter	2008 3 quarter	2008 4 quarter	2008	2009 1 quarter	2009 2 quarter	2009 3 quarter	2009 4 quarter (estimation)
Price for oil grade Brent, the UK	72.5	96.9	121.4	114.8	54.9	97.0	44.4	58.8	68.3	74.4
Price for oil grade Urals, Russia	69.4	93.3	117.5	113.2	54.1	94.5	43.7	58.1	68.0	74.1

Source: OECD International Energy Agency.

Table 2

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

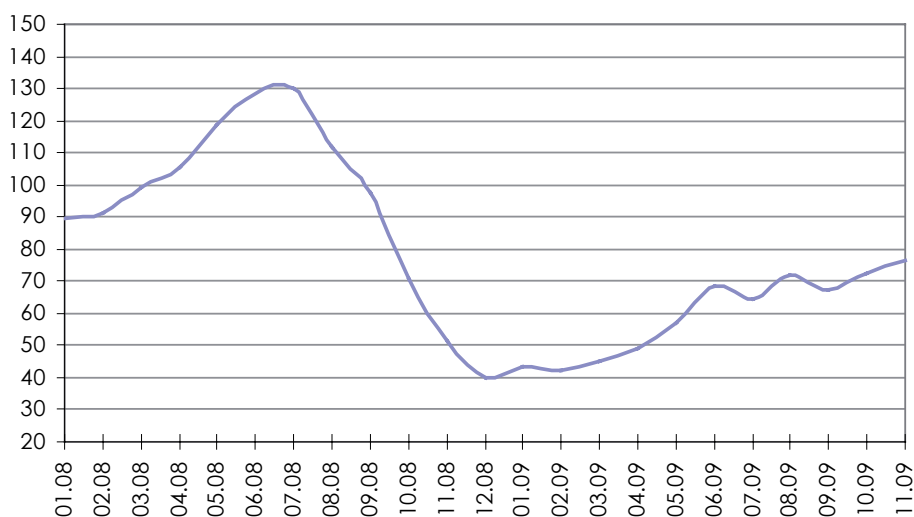
	2009 January	2009 February	2009 March	2009 April	2009 May	2009 June	2009 July	2009 August	2009 September	2009 October	2009 November	2009 1–22 December
Price for oil grade Brent, the UK	43.6	43.1	46.5	50.3	57.5	68.6	64.6	72.8	67.4	72.8	76.7	73.7
Price for oil grade Urals, Russia	43.2	42.5	45.3	48.9	57.1	68.4	64.6	72.2	67.2	72.7	76.3	73.3

Source: OECD International Energy Agency.

In 2009 the growth of oil production in Russia has recovered. In January–November 2009 the increase in oil production versus the corresponding period of the previous year made 1.0%

(table 3). It was the start of exploitation of several large oil fields (in the north of the European part of the country and in the Eastern Siberia), decrease of the ruble exchange rate and a number of amendments to the Tax Code of the Russian Federation coming into effect, which are aimed at the alleviation of the tax load on the oil sector, stimulation of the deeper development of the oil fields in operation as well as the development of new oil fields that had the positive influence on the dynamics of oil production. At the same

time the production of gas dropped sharply (by 14.1% as compared with January-November of the previous year), which was the result of the decrease of the external and internal demand (the consequences of economic recession and relatively warm weather) as well as the forced reduction of gas supplies to Europe at the beginning of 2009 because of the conflict with Ukraine. In January-September 2009 the export of the natural gas reduced by 27.3% as compared with the corresponding period of the previous year (it should be noted that gas supplies to non-CIS countries reduced by 33.7%).



Source: OECD International Energy Agency.

Fig. 1. Price for Oil Grade Urals in 2008-2009, as USD per barrel

Table 3

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

	2002	2003	2004	2005	2006	2007	2008	2009 January- November*
Oil, gas condensate including	109.0	111.0	108.9	102.2	102.1	102.1	99.3	101.0
Primary oil processing	103.3	102.7	102.6	106.2	105.7	103.8	103.2	99.0
Car petrol	104.9	101.2	103.8	104.8	107.4	102.1	101.8	101.8
Diesel fuel	104.7	102.0	102.7	108.5	107.0	103.4	104.1	97.7
Furnace fuel oil	107.1	100.3	97.8	105.8	104.5	105.2	101.9	100.2
Natural gas	101.9	103.4	101.6	100.5	102.4	99.2	101.7	85.9

* as percentage versus January-November 2008

Source: Federal State Statistics Service

Despite the contraction of the demand for oil in Europe, which was accounted for by the economic recession, Russia managed to retain the achieved level of oil export. In January-September 2009 oil and oil products export in natural terms increased by 1.2% and 4.1%, correspondingly, versus the level of the same period of the previous year (table 4). This may be accounted for by the decrease of oil supplies from other producers – Norway, the UK, OPEC member countries. In Norway and the UK this is connected with the objective drop of oil production as a result of exhaustion of the exploited fields, in OPEC countries – with the execution of the decisions adopted by the cartel to decrease the volumes of oil production by its member countries.

Table 4

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

	2002	2003	2004	2005	2006	2007	2008	2009 January- September*
Oil, total	113.9	117.8	115.0	98.4	98.0	104.0	94.0	101.2
including: to non-CIS countries	109.9	118.9	116.3	99.1	98.0	104.8	92.6	102.5
to CIS countries	137.3	112.4	108.3	94.9	98.0	99.4	102.6	94.4
Oil Products, total	118.5	103.6	105.5	117.9	106.3	108.0	105.0	104.1
including: to non-CIS countries	119.1	102.6	104.9	119.1	104.5	107.6	102.0	105.5
to CIS countries	102.8	132.3	117.9	94.6	148.8	115.3	152.2	87.8
Gas, total	102.4	102.0	105.5	103.7	97.6	94.6	101.8	72.7

* as percentage versus January-September 2008

Source: Federal State Statistics Service

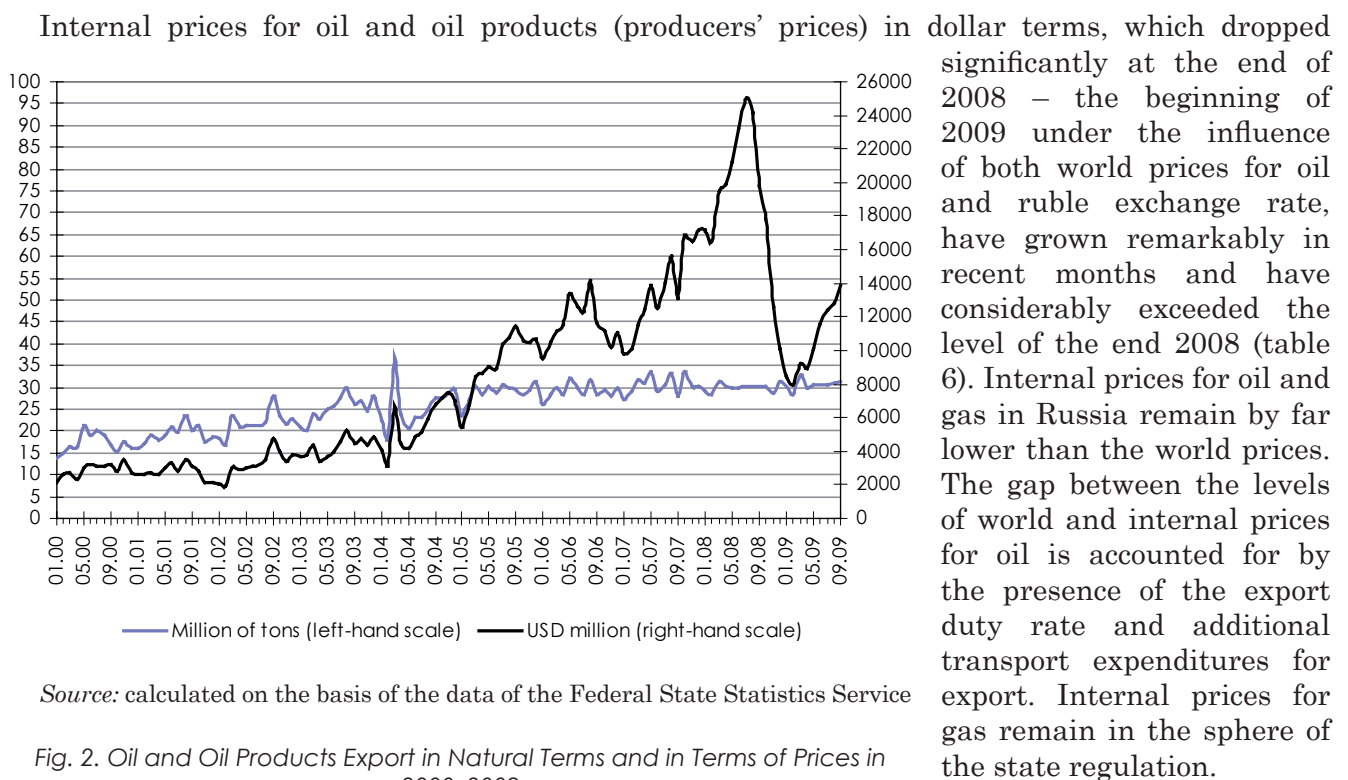
At the same time lower level of world prices for oil as compared with the previous year has led to a considerable drop of incomes from export. The total revenues from oil export and the main kinds of oil products (car petrol, diesel fuel and furnace fuel oil) in January-September 2009 made USD 95.4 billion or 51.2% as compared with the corresponding period of the previous year (table 5, fig. 2).

Table 5

REVENUES FROM EXPORT OF OIL AND OIL PRODUCTS IN 2008-2009, AS USD BILLION

	2008 1 quarter	2008 2 quarter	2008 3 quarter	2008 4 quarter	2009 1 quarter	2009 2 quarter	2009 3 quarter
Earnings from export of oil and oil products	53.2	64.4	68.9	42.4	25.6	30.6	39.2

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



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

Fig. 2. Oil and Oil Products Export in Natural Terms and in Terms of Prices in 2000–2009

Table 6

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

	2005 Decem- ber	2006 Decem- ber	2007 Decem- ber	2008 Decem- ber	2009 Janu- ary	2009 March	2009 June	2009 Sep- tember	2009 October
Oil	167.2	168.4	288.2	114.9	62.2	122.9	194.7	225.9	219.5
Car petrol	318.2	416.5	581.2	305.1	244.3	318.8	481.5	593.2	576.2
Diesel fuel	417.0	426.1	692.5	346.5	306.2	343.1	382.1	388.2	380.6
Furnace fuel oil	142.7	148.8	276.5	125.0	107.2	145.9	210.8	265.8	257.6
Gas, USD/thou cu m	11.5	14.4	17.6	18.1	13.5	14.5	22.0	22.4	17.9

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

In 2009 the amendments to the Tax Code of the Russian Federation aimed at the reduction of the tax load on oil sector of economy came into effect. The executed change to the formula for calculation of the coefficient C_p that reflects the dynamics of the world prices for oil and is applied to the basic rate of severance tax for oil production considerably reduced the applied tax rate. Besides, starting with the current year the requirement for the application of the direct method for the control of the quantity of the produced oil at particular subsoil plots in order to use the established severance tax privileges (diminishing coefficient) for the oil fields with a high level of exhaustion was excluded, which allowed to apply the privileges mentioned for all the exhausted oil fields. In order to create necessary conditions to develop new oil fields the sphere of application of tax vacations from the severance tax has been considerably broadened. Starting with this year the oil fields in the territory of Nenetsk autonomous okrug and Yamal peninsula, in Azov and Caspian seas, at the northern continental shelf of the Russian Federation have been ascribed to the oil fields subject to this privilege.

In 2009 additional measures for tax stimulation of oil production were adopted, for instance, amendments were made to the Tax Code of the Russian Federation which grant tax vacations from severance tax for the development of the oil fields situated in water area of Black and Okhotsk seas.

In the nearest future it is expected that the level of world prices for oil will remain quite favorable for the Russian oil producers. According to the latest forecast of the USA Department of Energy, published in December, the world price for oil defined as the average price of oil basket imported into the USA will make USD 75.7 per barrel in 2010.

MUNICIPAL COUNTER-REFORM: THE ONSLAUGHT IS GOING ON

I.Starodubrovskaya, N.Mironova

The new alterations in municipal legislation have resulted in the abolition of one of the basic rights of citizens in the sphere of local self-government – their right to have the final say concerning changes in the territorial organizations of settlements. Instead of the population expressing their will by means of a voting procedure or by voicing their opinions at public gatherings, the issue of merging of settlements can now be decided upon by representative bodies of authority. This approach is unlikely to significantly improve the effectiveness of municipal administration, but it is highly probable that it can result in abuses of power, in many ill – conceived decisions and in an increasing the mistrust of the authorities among the population.

At the end of 2009, the authorities issued two new legislative acts dealing with the regulation of local self-government. On 28 November 2009, they adopted Federal Law, No 282–FZ, “On the Introduction of Alterations into Some Legislative Acts of the Russian Federation”. The RF State Duma adopted, in a third reading, the Draft Law “On the Introduction of Alterations into Some Legislative Acts of the Russian Federation in Connection with the Improvement of the Activity of the Bodies of State Authority of Subjects of the Russian Federation and Local Self-Government Bodies”. On the whole, the alterations introduced by these normative legal acts are not conceptual, although some of them are rather important. The new important innovations are as follows:

- the list of the interbudgetary transfers to be taken into account when determining the level of subsidy-dependence of municipal formations has been made more precise;
- the concretization of the procedure for the switchover of the procedure for forming the representative body of a municipal raion from direct elections to representatives of the raion’s settlements being delegated to that representative body;
- the list of powers granted to local self-government bodies has been broadened to include the creation of a municipal fire service.

At the same time, one of the provisions stipulated in the new legislation is of a fundamental significance due to its role in further narrowing the rights of local self-government. The Draft Law that was adopted in a third reading has changed the procedure for merging settlements. Instead of the population expressing its agreement for such territorial changes by way of voting or by expressing their opinions at public gathering, it will now be sufficient to obtain the consent thereto of the representative bodies of the corresponding municipal formations.

The emergence of this legislative innovation has a rather long history. In accordance with Federal Law of 16 September 2003, No 131-FZ, “On the General Principles of the Organization of Local Self-Government in the Russian Federation”, urban and rural settlements were created throughout nearly the whole territory of Russia. This wide-scale transformation was carried out primarily for ideological reasons, and so frequently ignored the actually existing possibilities for implementing local self-government in one or other territory. Moreover, the Federation’s subjects, while being forced to implement such global transformations in a very limited period of time, treated the issue of creating settlements rather formally, without taking into account the necessity of creating conditions for effective administration. Accordingly, quite soon it became clear that a significant proportion of settlements had neither material nor financial conditions, nor enough cadres for organizing administrative activities and for providing the required services to the population.

Regional authorities’ response to such a situation was to try to merge and consolidate the settlements. However, this process required a rather complicated procedure including the necessity to obtain the population’s agreement thereto. While in some of the regions this did not become an obstacle to enlarging the settlements (for example, in Vologda Oblast, under conditions of the current crisis, the result was a considerable reduction in the number of settlements), the population of some other regions was rather unanimously opposed to the planned reform. Thus, in Cheliabinsk

Oblast, the far-reaching plans of the regional authorities to merge settlements failed almost completely, as the referendums on this issue yielded negative results. And it should be noted that it were the weaker settlements rather than the stronger ones that demonstrated the most determined opposition to the merger.

At a first glance, the way out of the existing situation seems to be quite apparent. On the one hand, the ineffectiveness of administration in a considerable proportion of settlements is an objective fact that has to do with the specific peculiarities of the Russian system of population distribution (the outflow and degradation of the population in many rural territories). On the other hand, the population's opposition to the merger of settlements blocks the implementation of the necessary transformations in this field. Accordingly, the authorities see the solution of this problem in limiting the ability of the population to influence the process of settlement enlargement. It is exactly this approach that was put forth by the leadership of a number of regions and was adopted in the federal normative acts under consideration. According to the chairman of the State Duma Committee on Local Self-Government Affairs, "the merger of small settlements is already underway, while we are simply eliminating the red tape"¹.

However, as in the case of many other seemingly simple and effective measures being taken in the course of municipal reform, this course of action creates only an illusion of the problem being solved, while in reality it may bring about very negative rather than positive results. We will attempt to explain why this is so.

Firstly, it is by no means apparent that in reality this scenario will necessarily result in optimization. On the one hand, as soon as the process of merger gets out of proper control, political factors may well gain the upper hand, and the settlement enlargement will then be carried out primarily for the sake of fighting the 'inconvenient' heads of municipalities rather than for the sake of increasing the effectiveness of administration. On the other hand, when settlement enlargement is being carried out 'from above', without participation of the local population, the initiators of this move can easily omit all those local peculiarities which can reduce the effect of the merger to a minimum, or can merely result in a waste of money. In any case, we have already come across such instances in the practice of settlement enlargement.

Secondly, it seems likely that the actually existing possibilities for optimization brought about by settlement enlargement have been grossly overestimated. At present, the principal source of ineffectiveness is not the system of municipal formations as such (although the territorial transformations envisaged in Federal Law 131-FZ have clearly aggravated the situation), but rather the existing system of population distribution. Without a concrete strategy for the spatial development of a region, without the introduction of new forms of organizing the provision of services to the rural population, the merger of settlements will either result in a drastic reduction in the availability of municipal services, or will have only some rather weak economic effects. Apparently, as far as settlement enlargement is concerned, the possibilities for economizing on administrative costs are also heavily overestimated. The studies carried out in this regard at the Institute for the Economy in Transition have indicated that, while the proportion of administrative costs in the budgets of settlements is indeed extremely high in many cases, the administrative costs of the settlements constitute only a very small percentage of the consolidated regional budget - simply because of the small size of their budgets. Perhaps the enlargement of settlements can be justified by the idea of improving the effectiveness of their administration. However, the effectiveness of administration could be improved only when settlements with principally different administrative potentials coexist side by side in one and the same district. Such a situation is not typical: strong settlements are mainly concentrated within the agglomerations of big cities and around some other focal points of economic activity, while weak settlements are a more typical feature of depressed rural areas (although there are exceptions to both of these situations). Under these conditions, it can be expected that, as a rule, mergers will take place between settlements with comparable administrative potentials, and thus the desired effect will not be achieved.

Thirdly and finally, it is the basic democratic principles governing the organization of society that are being sacrificed at the altar of real or illusory technological optimization. The Consti-

1 N. Gorodetskaia, Settlements will start to get merged without any unnecessary public gatherings // Kommersant [The Commersant], 11.12.2009, <http://www.kommersant.ru/doc-y.aspx?DocsID=1290191>.

tution of the Russian Federation stipulates that “a change of the boundaries of the territories in which local self-government is effectuated shall be permitted by taking into account the opinion of the populace of the respective territories”. So far, any attempts at abolishing popular voting with regard to issues of territorial transformation have repeatedly been met with the following unambiguous response of the RF Constitutional Court: as far as this field is concerned, the most adequate form of taking into account the opinion of the populace is voting (or referendum)¹. The implementation of territorial transformations by any methods undermining the populace’s stimuli to self-organization and increasing its apathy and mistrust of the authorities will inevitably have long-term negative consequences².

However, all those arguments were not taken into account, and the Draft Law was adopted. Moreover, this decision, so important for local self-government, was adopted without any consultations with the municipal and expert communities and without any serious analysis of the possible consequences. In fact, it can be considered that, along with the possibility of “dismissing” the heads of municipal formations, the elimination of the populace’s right to have the final say may be interpreted as a crucial indication of the growing strength of counter-reform. ●

1 These views were expressed in Ruling of the RF Constitutional Court, of 24.01.1997, No 1-P, “On the Case Concerning the Checking of the Constitutionality of the Law of the Udmurt Republic, of 17 April 1996, “On the System of Bodies of State Authority in the Udmurt Republic”; in Decision of the RF Constitutional Court, of 03.04.2007, No 171-O-P, “On the Complaint of Citizen O. B. Gurtuev and the Collective Complaint of Citizens – Residents of the Kabardino-Balkarian Republic Concerning the Violation of Their Constitutional Rights by Some Provisions of the Laws of the Kabardino-Balkarian Republic “On the Administrative and Territorial System of the Kabardino-Balkarian Republic” and “On the Status and Boundaries of Municipal Formations in the Kabardino-Balkarian Republic” and of the Federal Law “On the General Principles of the Organization of Local Self-Government in the Russian Federation”; and in Definition of the RF Constitutional Court, of 01.04.2008, No 194-O-P, “On the Complaint of the Administration of the “Baltic City Okrug” Municipal Formation, Kaliningrad Oblast; and of the Okrug Council of Deputies of the Said Municipal Formation Concerning the Violation of Constitutional Rights and Freedoms by the Law of Kaliningrad Oblast “On the Organization of Local Self-Government in the Territory of the Baltic City Okrug”; and by Part 4, Article 27 of the Federal Constitutional Law “On the Judicial System of the Russian Federation”; and also on the “Complaint of Citizens N. A. Gorshenina, N. I. Kabanova et al. Concerning the Violation of Their Constitutional Rights by the Said Law of Kaliningrad Oblast”.

2 This view is shared by many experts in the field of local self-government. Thus, one of the appeals of the European Club of Experts in Local Self-Government reads: “...the federal lawmaker has found it acceptable for him to support the governors of Russian regions in their desire to constantly interfere in the affairs of local self-government... It can be assumed that the chasm between the populace and the authorities, ever widening due to the efforts of lawmakers and governors, will someday lead to very negative consequences both for society and the state” (<http://www.ost-euro.ru/russian/news.shtml>).

MAIN EVENTS IN THE SPHERE OF EDUCATION IN 2009

T.Klyachko

2009 for the system of education was not only the year of deep economic crisis but also of two main events: transfer of the Unified State Exam to the normal mode and the beginning of formation of the body of national research universities.

After eight years of experiment this year the Unified State Exam has become practically single form for the final assessment of school-leavers and the basis for the entrance to high schools. And at once it became obvious that, first, many years of the experiment were not sufficient to realize the problems and consequences connected with the introduction of the USE. For instance, both the higher educational institutions and the bodies for surveillance in the field of education (Ministry for Education and Science, Federal Agency for Education Rosobrazovanie, Federal Education and Science Supervision Service Rosobrnadzor) reacted to the fact that the school-leavers sent the certificates of USE results to many higher educational institutions and to many (different) specializations with a complete organizational confusion, although such situation was regularly observed in the regions where the Unified State Exam took place for some years. As a result practically no one could know up to the last moment who entered which institution. According to the official data the higher educational institutions fall more than 3 thousand people short for the places financed from the budget. At the same time the registration for the paid places increased, which was a direct consequence of the confusion: parent not having exact information wanted to ensure that their children have some place.

The admission for correspondence courses also went up. – this is the trend of the last years, which would not be surprising if the number of school-leavers increased. However in the situation when the number of school-leavers is decreasing dramatically (and it has fallen from 1.3 million of people in 2005 to 0.86 million of people¹ in 2009), it could be expected that the admission to the correspondence courses of higher education would fall. This was not the case since the economic crisis resulted in the decrease of the incomes of the households and the admission for paid correspondence courses especially in cases of well-known higher education institutions remained attractive.

Second, the percentage of poor marks (two of five) in mathematics and Russian language (the number of USE point below the established minimum) has decreased dramatically – table 1. This results contrast sharply with the results of the previous years, when the percentage of poor marks in the subjects mentioned has been increasing steadily (table 2).

Table 1

RESULTS OF USE BY SUBJECTS IN 2009

Subject	Number of USE takers	Percentage of USE takers, getting the test points		Including the percentage of last year school-leavers taking USE and getting test points		Including the percentage of school-leavers of previous years taking USE and getting test points		Average test points
		above the minimum number of points	below the minimum number of points	above the minimum number of points	below the minimum number of points	above the minimum number of points	below the minimum number of points	
Russian	1030236	96.99	3.01	97.24	2.76	94.35	5.65	56.88
Mathematics	976486	96.27	3.73	96.96	3.04	85.18	14.82	43.58
Physics	239037	93.05	6.95	93.55	6.45	88.41	11.59	47.88

1 There are no exact data so far

Table 1, cont'd

Subject	Number of USE takers	Percentage of USE takers, getting the test points		Including the percentage of last year school-leavers taking USE and getting test points		Including the percentage of school-leavers of previous years taking USE and getting test points		Average test points
		above the minimum number of points	below the minimum number of points	above the minimum number of points	below the minimum number of points	above the minimum number of points	below the minimum number of points	
Chemistry	84854	88.24	11.76	89.61	10.39	78.72	21.28	52.68
Information and communication technologies	74402	87.08	12.92	87.94	12.06	76.47	23.53	55.43
Biology	183792	91.01	8.99	91.25	8.75	89.29	10.71	51.32
History	208099	90.51	9.49	90.83	9.17	87.89	12.11	47.30
Geography	37495	89.06	10.94	89.20	10.80	86.96	13.04	49.09
English	83778	93.56	6.44	94.30	5.70	86.68	13.32	57.79
German	5371	88.61	11.39	89.76	10.24	79.57	20.43	43.11
French	2399	97.54	2.46	97.78	2.22	94.87	5.13	58.87
Spanish	198	100.00		100.00		100.00		73.90
Social studies	484377	94.33	5.67	94.52	5.48	92.15	7.85	56.33
Literature	63976	91.61	8.39	92.51	7.49	87.60	12.40	50.36

Source: Rosobrnadzor

Table 2

PROPORTION OF SCHOOL-LEAVERS GETTING 2 OF 5 FOR USE IN COMPULSORY SUBJECTS IN 2006-2008, %

Subject	2 of 5		
	2006	2007	2008
Russian	7.91	8.81	11.21
Mathematics	19.99	21.14	23.48

Source: Rosobrnadzor

The situation with the marks for Russian and mathematics seems to be even more surprising if one compares the final results (table 1) with those published in June 2009 (table 3).

Table 3

RESULTS OF USE IN RUSSIAN AND MATHEMATICS IN 2009*

Subjects	Number of works as a results of processing of examination materials	Minimal number of USE points	Average number of points	Number of USE takers, getting 100 points	Percentage of USE takers with the result BELOW the minimum established number of points	Percentage of USE takers with the result ABOVE the minimum established number of points
Russian	1010660 (including 978857 on the main day)	37	56.4	859	6.3 (5.7 on the main day)	93.7
Mathematics	946 756 on the main day (reserve day is being processed)	21	42.9	305	6.8 on the main day (reserve day is being processed)	93.2

* Results, published in June 2009

In June school-leavers of 2009 took USE. It turned out that from June to August the percentage of twos in the main subjects reduced nearly by half. One can certainly assume that a half of poor marks was improved as a result of the repeat of examination, but even if it is the case, it is most likely that the conditions at the repeat examination were considerably easier than at the first examination.

The general decrease of the percentage of poor marks is most likely accounted for by the increase in corruption or by the dramatic decrease of requirements. There is also a third explanation though an unusual one. Up to 2009 there was rule “+1 point” in effect, according to which if the difference between the annual assessment and USE results was one point the higher mark for the general subjects exam in which was taken within USE framework was included in the school-leaving certificate. In other words if a school-leaver got two at the exam he automatically received three. That is why a number of school-leavers who were going to enter higher educational institutions in which the mark in mathematics was not required just handed in empty sheets. In 2009 such option became impossible and that is why the school-leavers really had to make exam tasks which resulted in the reduction in the number of poor marks, though it increased the load on a number of school-leavers.

The decrease of requirements can be accounted by quite a reasonable cause, namely: economic crisis, when the school leavers failing the USE joined the number of the unemployed, which would be highly undesirable taking into account the general growth of the unemployment.

In any case all the hypotheses mentioned are to be checked thoroughly. It is also quite possible that there is a combination of all three reasons and the impact of each factor differs in subjects of the Russian Federation.

In order to analyze the situation it would be necessary to obtain a database for USE as broken by regions and by students in connection with particular educational institution over the last 3-5 years in order to analyze the dynamics of processes and factors defining the results in the Unified exam. It seems however that it would be most difficult due to the traditional unavailability of the corresponding information to the researchers.

Nevertheless, one can state that the USE has started to influence the behavior of families when choosing further education path. The number of ninth-form leavers choosing to enter an institution of intermediate professional training instead of going to the 10th form. The time will show how long this trend will be in effect against the background of the number of school-leavers entering higher educational institutions.

The second specific feature of 2009 is the dramatic growth of the number of the national research universities. There were only two of them chosen last year – Technological University Moscow Institute of Steel and Alloys and Nuclear University Moscow Physics and Technology Institute. In 2009 they were joined by 12 higher educational institutions at once that have won the contest (table 4).

Table 4

LIST OF WINNERS OF CONTEST SELECTION OF PROGRAMS FOR DEVELOPMENT OF UNIVERSITIES THAT ARE GRANTED THE CATEGORY “NATIONAL RESEARCH UNIVERSITY”

1.	State University “High School of Economics”
2.	Kazan State Technical University named after A. N. Tupolev
3.	Moscow Aviation Institute (state technical university)
4.	Moscow State Technical University named after N. E. Bauman
5.	Moscow Institute of Physics and Technology (state university)
6.	Nizhny Novgorod State University named after N. I. Lobachevsky
7.	Novosibirsk State University
8.	Perm State Technical University
9.	Samara State Aerospace University named after academician S. P. Korolev
10.	Saint-Petersburg State Mining Institute named after G. V. Plekhanov (technical university)
11.	Saint Petersburg University of Informational Technologies, Mechanics and Optics
12.	Tomsk Polytechnical University

Besides, on October 21, 2009 President of the Russian Federation Dmitry Medvedev signed the order “On creation of federal universities in North-Western, Privolzhky, Urals and Far Eastern federal okrugs”. There will be five new federal universities created in these okrugs: Northern (Arctic), Kazan (Privolzhsky), Urals, Far Eastern and North Eastern. Thus, the number of federal universities reached 7. Taking into account two national leading universities – Lomonosov Moscow State University and Saint Petersburg State University, the number of high-status universities in the Russian Federation exceeded 20. It is however difficult to say how fast the new federal universities will be formed. However the policy of allocation of the innovation core in the system of the higher professional education or, at least, the leading higher educational institutions is pursued. ●

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

M.Goldin

At the meetings of the Government of the Russian Federation the following issues were discussed: the project of the concept of the Federal Target Program “Complex program for modernization and reforms in the housing and utilities services for 2010-2020”; the project of the Program of operation of the State company “Russian motorways”; the bill that will enable to form the targeted capital of non-commercial organizations with the immovable property and securities and not only with the monetary funds; the bill that will allow the investors to take into account in their taxation base the expenditures for execution of the liabilities on construction (reconstruction) of the infrastructure to the bodies of the government and the local government.

On December, 17 at the meeting of the Government of the Russian Federation the project of the Federal Law “On making changes to article 376 part two of the Tax Code of the Russian Federation” submitted by the Ministry of Finance of the Russian Federation was considered.

The bill envisages establishment of a temporary procedure, according to which in the period from January 1, 2010 to January 1, 2025 when calculating the tax on organization’s property the taxation base is reduced by the sum of the made capital investments in construction, reconstruction and (or) modernization of the newly implemented, reconstructed and (or) modernized navigation hydraulic structures situated on the inland waterways of the Russian Federation, port and hydraulic structures, structures for air service transportation (excluding the system for centralized refueling of aircrafts and space launching sites), taken into account in the basic balance costs of the objects mentioned.

On December, 22 at the meeting of the Government of the Russian Federation the Ministry for Economic Development of the Russian Federation submitted for discussion the project of the concept of the Federal Target Program “Complex program for modernization and reforming of the housing and utilities services for 2010-2020”. By 2020 within the framework of the future target program it is planned to:

- Decrease the annual energy consumption for provision of 1 sq m of the residential area from 77 to 55 kg of equivalent fuel, the total savings being 56.8 million tons of equivalent fuel,
- Decrease the specific water consumption from 304 to 182 liter per person a day,
- Achieve the effect for the budget by the end of the period (2020) of RUR 400 billion a year

It should be noted that the financing of the target program will be made from the federal budget on the recurrent basis at the rate of RUR 696.56 billion in the period of 2010-2020. At the same time the major expenditures for fulfillment of the suggested measures within the framework of the program will be made by attracting off-budget funds and investments in the sphere of housing and communal services.

On December 22 at the meeting of the Government of the Russian Federation the project of the Decree of the Government “On approval of the Program of operation of the State company “Russian motorways” for the long-term period (2010-2015)” was also considered. The adoption of such a program is envisaged by article 16 of the Federal Law from 17.07.2009 No 145-FZ “On the state company “Russian motorways” and on making changes to some legislative acts of the Russian Federation”. The Program of operation defines the main directions, financial and economic indices and expected results of operation of the State Company in the long run.

The financial provision of the operation of the Company will be made within the limits of budget allocations envisaged for 2010 in the Federal Law “On the federal budget for 2010 and for the planning period of 2011 and 2012” in the subsection of the “Road infrastructure” of the section “National economy”. The program of the operation of the Company will be the first stage for the fulfillment of the long-term strategy for creation of the national network of expressways with the total length of 9000 km by 2030.

On the same day at the meeting of the Government of the Russian Federation the project of the Federal Law “On making changes to the Federal Law “On procedure for formation and use of the target capital of non-commercial organizations” submitted by the Ministry for economic Development and the project of the law “On making changes to chapter 25 part 2 of the Tax Code of the Russian Federation concerning the improvement of the procedure for making investment expenditures for construction and (or) reconstruction of objects of transportation, engineer, social and communal and housing infrastructure” submitted by the Ministry of Finance were discussed.

At the moment the Federal Law “On procedure for formation and use of the target capital of non-commercial organizations” allows forming the target capital only at the expense of monetary funds, which considerably limits the possibilities of citizens and organizations to finance non-commercial organizations.

The mentioned bill expands the possibilities of non-commercial organizations to replenish the target capital with securities and immovable property in its ownership.

The idea of the bill “On making changes to chapter 25 part 2 of the Tax Code of the Russian Federation concerning the improvement of the procedure for making investment expenditures for construction and (or) reconstruction of objects of transportation, engineer, social and communal and housing infrastructure” was brought into life by well-established practice according to which the developers fulfilling investment projects in case the land plots that are in the state (municipal) property are given for construction are additionally charged with the liabilities to construct (reconstruct) objects of transportation, communal and social infrastructure, as well as engineering networks for the purposes of their further gratuitous transfer to the state (municipal) ownership.

The expenditures connected with the execution of the mentioned liabilities are somehow included in the expenditures of developers and act as a factor for the sold immovable property becoming by far more expensive.

In this connection chapter 25 “Tax on organizations’ profit” of part two of the Tax Code of the Russian Federation is supplemented with article 264²: “Expenditures for construction and (or) reconstruction of objects of transportation, engineer, social and communal and housing infrastructure”, which establishes the specific procedure for taxation concerning the definition of the taxation base for the tax on organizations’ profit. In concordance with the amendments mentioned are to be taken into account as a part of expenditures when defining the taxable profit within the period that is defined by a taxpayer independently but should not be less than five years.

It should be remembered that earlier the Ministry of Finance of the Russian Federation supported the right of the investing organization executing the conditions of the agreement on the development of the site to include the expenditures for construction of transportation, communal and social infrastructure as well as engineer networks that are to be transferred gratuitously to state (municipal) ownership in the expenditures for the purposes of calculation of the tax on profit (Letter of the Ministry of Finance of the Russian Federation from 12.03.2009 No 03-03-06/1/131). Basing on the essence of the letter the expenditures of the investing organizations for construction of transportation, communal and social infrastructure as well as engineer networks are taken into account in the taxation base for the profit tax if they have been made in connection with the execution of the conditions fo the agreement on the development of the site, concluded in concordance with article 46.2 of the Town Planning Code of the Russian Federation.

It should be noted that the bill also envisages that the amendments made will not apply to the agreements regarded as contractor’s agreement expenditures to which are taken into account when taxing the profit in concordance with the statements of chapter 25 of the Tax Code of the Russian Federation currently in effect. ●

REVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

In December the following changes were made to the economic legislation: the deadline (up to 01.01.2010) of bringing the statute of the limited companies in correspondence with the new requirements of the legislation was cancelled; the citizens now have a right to draw a new international passport without withdrawal of the one issued previously; the list of the paid services rendered by organizations for the federal executive bodies to render state services.

I. Federal Laws of the Russian Federation

1. «ON MAKING CHANGES TO ARTICLE 5 OF THE FEDERAL LAW “ON MAKING CHANGES TO PART ONE OF THE CIVIL CODE OF THE RUSSIAN FEDERATION AND SOME LEGISLATIVE ACTS OF THE RUSSIAN FEDERATION” from 17.12.2009 No 310-FZ

As it was earlier established by the Federal Law from 30.12.2008 No 312-FZ, which made changes in particular to the Civil Code of the Russian Federation and the Federal Law “On limited liability companies”, the statutes of the limited liabilities companies should be brought in concordance with new requirements defined by the Law mentioned no later than January 1, 2010. Now this deadline has been abolished. It has been established that the statutes of the limited liabilities companies formed before the Federal Law from 30.12.2008 No 312-FZ came into effect, which have not been brought into concordance with the requirement established by it yet, are to be brought in concordance when these statutes are changed for the first time.

2. “ON MAKING CHANGES TO ARTICLE 11 OF THE FEDERAL LAW “ON PROCEDURE FOR LEAVING THE RUSSIAN FEDERATION AND ENTRY INTO THE RUSSIAN FEDERATION” from 21.12.2009 No 331-FZ

The citizens of the Russian Federation have a right to make a new international passport without withdrawal of the previously issued passport whose period of validity has not expired yet. According to the changes made to part two article 11 of the Federal Law from 15. 08. 1996 No 114-FZ “On the procedure for leaving the Russian Federation and entry into the Russian Federation” it is not allowed to issue a new passport without the withdrawal of the previously issued if its period of validity has not expired yet. In an earlier version of the article mentioned nor the issue neither the drawing of a new passport without the withdrawal of the previous one was allowed without withdrawal of the passport issued before if its period of validity has not expired yet, in which connection in the period of preparation of new international passports their owners could not possibly leave freely the territory of the Russian Federation.

II. Decrees of the Government of the Russian Federation

1. “ON THE LIST OF PAID SERVICES RENDERED BY ORGANIZATIONS FOR THE FEDERAL EXECUTIVE BODIES TO REMDER STATE SERVICES” from 02.12.2009 No 984

Comes into effect on the day of official promulgation (from 08.12.2009), excluding paragraph 2, which comes into effect on 01.01.2010.

The Decree established the list of paid services rendered by organizations in order the federal executive bodies could render state services (further referred to as the list of paid services), besides it defines the persons that render paid state services and establish the requirements for approval of the methods for calculation of the payment for rendering paid state services and the requirement to inform the population on rendering such services. Paid state services are the services on the list of paid services, which, for instance, includes:

- 1) state ecology expertise;
- 2) prophylactic-epidemiological expertise, investigations, testing, toxicological, hygienic and other kinds of estimations;

- 3) state expertise of stocks of minerals, geological, economical and ecological information on the earth plot offered for exploitation;
- 4) state expertise of project documentation;
- 5) state expertise of the results of engineering survey;
- 6) expertise when licensing the educational activity of educational institutions and scientific organizations;
- 7) expertise of concordance of the content of training and the quality of training of graduates of an educational institution or scientific organization with the federal state educational standards or with the federal state requirements for the purposes of the state accreditation of an educational institution or a scientific organization;
- 8) expertise of concordance of the educational programs of different levels and directions fulfilled by an educational institution with the federal state requirements for the purposes of the state accreditation of an educational institution;
- 9) expertise of the indices of the operation of an educational institution necessary to define its kind or category for the purposes of the state accreditation of an educational institution;
- 10) expertise for the purposes of confirmation of state documents on higher or postgraduate education, on scientific degrees and titles;
- 11) expertise for the purposes of recognition and confirming equivalency in the Russian federation of the documents of foreign countries on education, scientific degrees and titles;
- 12) expertise of quality, efficiency and safety of medicines for the purposes of their state registration;
- 13) expertise of quality, efficiency and safety of goods of medical purposes for the purposes of their state registration;
- 14) analysis and expertise of goods subject to quarantine (materials, freight subject to quarantine) for the purposes of issue of phytosanitary certificate or quarantine certificate;
- 15) veterinary and sanitary expertise;
- 16) expertise on the possibility of use of radioelectronic devices and their electromagnetic compatibility with radioelectronic devices currently used and planned for the use;
- 17) expertise of projects of geological investigation of subsoil;
- 18) testing of special technical devices exported from the territory of the Russian Federation used for secret gathering of information for the purposes of adoption of the decision on the possibility of export of such special technical devices;
- 19) rendering information (copies of documents) from the state informational systems for the purposes of rendering state services (in case such information (copy of a document) is, in concordance with the legislation of the Russian Federation, necessary and compulsory for rendering the corresponding state service).

It is envisaged that its action does not apply to the conduction of expertise, investigations, examinations, testing and other measures of control in concordance with the Federal Law from 26.12.2008 No 294-FZ "On protection of rights of legal entities and individual entrepreneurs when conducting state control (surveillance) and municipal control"; to the services of compulsory confirmation of the concordance made in correspondence with the Federal Law from 27.12.2002 No 184-FZ "On technical regulation"; to the estimation of the conformity of quality and safety of grains, cereals, mixed fodder and components for their production, as well as side products of grain processing; to services rendered in concordance with the Law of the Russian Federation from 21.07.1993 No 5485-1 "On state secret" and a number of others; to paid services, rendered within the framework of fulfillment of authority of the Russian Federation, transferred for execution to the state executive bodies of the Russian Federation.

Paid services are rendered by the federal executive bodies (in cases established by the legislation of the Russian Federation), federal state institutions and federal state unitary enterprises. Other organizations that are not federal executive bodies, federal state institutions or enterprises do not have a right to render paid services (paragraph 2 of the Decree).

When federal executive bodies render state services it is prohibited to demand the citizens and organizations to address for rendering paid services not included in the list or to demand the documents that are the result of rendering such services.

The main statements on calculations of the payments for rendered paid services are approved by the Ministry of Economic Development of the Russian Federation. The method of the calculation is approved by a federal executive body which implements the function on development of the state policy and normative legal regulation in the corresponding sphere of activity if not otherwise stated by the decrees of the Government of the Russian Federation. Such a method should be approved within two months. The rate of the payment for rendering the paid service should not exceed the economically grounded expenditures for rendering paid services defined in concordance with the method mentioned.

It is mentioned that a federal executive body implementing functions on the development of the state policy and normative legal regulation establishes the particular payment rates for the paid services rendered by:

- the federal executive body mentioned directly;
- federal service or federal agency under supervision of the federal executive body;
- federal state institution or federal state government enterprise under supervision of the federal service or federal agency within the jurisdiction of this body.

The operations with the funds raised as a result of rendering paid services are made in concordance with the legislation.

In concordance with the established authority the federal executive body is obliged to secure the placement of the methods for calculation of payment for rendering paid services and information on the particular payment rates for rendering paid services and the procedure for its collection on its official site and the sites of the federal state institutions and federal state unitary enterprises within its jurisdiction. ●

REVIEW OF LEGISLATIVE DOCUMENTS CONCERNING TAXATION OVER NOVEMBER – DECEMBER 2009

L.Anisimova

1. According to the letter from November 23, 2009 No 03-04-06-01/302 with the reference to paragraph 1 article 572 of the Civil Code of the Russian Federation (RF Civil Code) the Ministry of Finance of the Russian Federation (RF Ministry of Finance) clarified that on the basis of paragraph 28 article 217 of the Tax Code of the Russian Federation (RF Tax Code) and paragraph 2 article 211 of the RF TC the property or property rights worth less than RUR 4000 that were gratuitously received in the form of gifts from organizations regardless of the form (monetary or natural) of the donation for the benefit of a natural person are exempted from taxes. The sums above the amount mentioned are levied with taxes as incomes in natural form.

2. According to the Letter of the RF Ministry of Finance from November 24, 2009 No 03-03-06/1/768 the question on the amount of expenditures for wages taken into account when calculating the base for the profit tax is formed was clarified. RF Ministry of Finance explained that according to article 225 of the RF Tax Code accruals to the employees in monetary and (or) natural form, stimulating payments and increments, compensations connected with the regime of work or working conditions, bonuses and flat rewarding allowances, expenditures connected with the subsistence of the employees envisaged by the norms of the legislation of the Russian Federation, work contracts and (or) collective agreements are included in the expenditures of an employer for labor remuneration.

Article 133 of the Labor Code of the Russian Federation (RF Labor Code) establishes that the minimum level of labor remuneration cannot be below the life subsistence level of able-bodied population. In concordance with paragraph 1 and 2 article 4 of the Federal Law from 24.10.1997 No 134-FZ "On life subsistence level in the Russian Federation" the life subsistence level is established every quarter by the Government of the Russian Federation. The life subsistence level established with the Decree of the Government of the Russian Federation from 14.11.2009 No 925 for the 2nd quarter 2009 for able-bodied population makes RUR 5607. The employers are obliged to accrue and pay to each employee such a minimum (if there is no budget financing, the payments are made from their own funds).

3. With the Letter from November 24, 2009 No 03-03-06/1/771 the RF Ministry of Finance clarified the procedure for recognition of receivables as uncollectible for the purposes of taxation of organization's profits.

In concordance with paragraph 2 article 266 of the RF Tax Code the debts to the taxpayer for which the established limitation period has started and the debts for which the liabilities have been terminated in concordance with the civil legislation due to impossibility of their fulfillment or on the basis of an act issued by a governmental body or because of liquidation of the organization are recognized as uncollectible (impossible to recover).

That is why the receivables for which the executive bailiff made a decision on the termination of the execution are also recognized as uncollectible for the purposes of profit taxation and in concordance with article 265 and article 266 of the RF Tax Code are included in the list of outstanding expenditures on the date the executive bailiff made an act on impossibility to collect the debt.

This position is supported by the Ruling of the Supreme Arbitrary Court of the Russian Federation from 07.03.2008 No 2727/08.

4. According to the Letter of the RF Ministry of Finance from November 25, 2009 No 03-04-05-01/827 it is clarified that in concordance with paragraph 24 article 217 of the RF Tax Code

the expenditures that the individual entrepreneurs received from execution of particular kinds of activities by which they are registered in the taxation bodies and taxpayers of the single tax on the imputed income for some kinds of activity or of the agricultural tax or as taxpayers to whom the simplified taxation system is applied are not to be levied with taxes on the incomes of natural persons.

5. According to the Letter of the RF Ministry of Finance from November 25, 2009 No 03-02-07/1-521 it is explained that the procedure for organization of the work and the list of bodies that are authorized to give permissions for an extension, payment by installments, investment tax credit for payment of taxes and fees is established by the Order of the Federal Tax Service of the Russian Federation from 21.11.2006 No SAE-3-19/798@.

6. The Letter of the RF Ministry of Finance from November 26, 2009 No 03-11-06/2/250 once again comments the issue of the maximum amount of incomes for the simplified taxation system in 2009. The problems arise due to the decisions of the courts (see the ruling of the Supreme Arbitrary Court of the Russian Federation from 12.05.2009 No 12010/08) on cumulative account (by consecutive multiplication) of the annual deflation coefficients for the purposes of the simplified taxation system. This issue was analyzed several times in the reviews of the previous months. RF Ministry of Finance and RF Ministry of Economic Development that do not agree with such an approach of the courts have repeatedly expressed the opinion that the deflation coefficient established by the Ministry for Economic Development for each financial year is cumulative itself and that is why additional multiplication by the coefficients of the previous years over the period since the maximum income was introduced in fact exponentiates the correcting coefficient. In the opinion on the RF Ministry of Finance the maximum income in 2009 should be equal to RUR 30.76 million. Nevertheless the position of courts towards the calculation of the maximum amount of incomes in 2009 for the purposes of application of the simplified taxation system will hardly change. According to the position of courts, the maximum income in 2009 should be equal to RUR 57.9 million. It should be noted that for 2010-2012 the maximum level of incomes is established by the legislation (see Federal Law from 19.07.2009 No 204-FZ) and is equal to RUR 60 million.

7. According to the Letter of the RF Ministry of Finance from November 27, 2009 No 03-04-05-01/836 the question on application of the property deduction for the incomes tax. For instance, the RF Ministry of Finance clarifies that in concordance with subparagraph 2 paragraph 1 article 220 of the RF Tax Code when defining the taxation base a taxpayer has a right to get a property deduction at the sum which he spent on construction or purchase of a flat, house, room or a share (shares) in them in the amount of really made expenditures but no more than the established rate and only after the documents testifying his rights have been received.

If the property deduction from tax cannot be used to the full extent in the taxation period its residue can be transferred to the following taxation periods until it is fully used.

8. According to the Letter of the RF Ministry of Finance from November 30, 2009 No 03-03-06/779 the possibility to ascribe the expenditures for management of the organization by the third party, for instance, according to the agreement with natural persons to reduce the taxation base for the profit tax is acknowledged. The condition, on which the expenses can be recognized, in the opinion of the RF Ministry of Finance, is the submission of documents filled according to the established procedure, including the act of the fulfilled works (services). In our opinion the position of the RF Ministry of Finance is not completely correct. It seems that one should distinguish the issues on operation of company's services and the issues of company's management. Management means making legally sound decisions concerning the company's property. In concordance with paragraph 3 article 32 of the Federal Law from 08.02.1998 No 14-FZ persons, acting as a single executive body of a company and the members of the collegiate executive body that do not participate in the company can participate in the general assembly of the participants only with the right for deliberative vote. In practice this means that third parties should not participate in making management decisions concerning the property and liabilities of a limited liability companies.

9. According to the Letter from December 1, 2009 No 03-11-06/2/252 the RF Ministry of Finance clarified the possibilities for transfer of the persons rendering dispatcher services to the simplified taxation system. According to the explanation of the RF Ministry of Finance an organization applying the simplified taxation system and executing dispatcher responsibilities within the agreement on transport dispatching in concordance with article 801 of the RF Civil Code when defining the taxation base should take into account the sums of incomes in the form of fees according to the agreement, that is not taking into the account the sums of expenses compensation made by dispatching organization on behalf of consignor or a consignee that is a client, including according to the agreements with other dispatching organizations. If a dispatching organization renders additional services to the client (freight storage, executing cargo-handling works), the payment for their execution is also included in the lists of dispatcher's incomes.

10. According to the Letter of the RF Ministry of Finance from December 2, 2009 No 03-11-06/2/256 the procedure of fulfilling the record book for receipts and expenditures by the organizations applying the simplified taxation system is clarified. For instance, the RF Ministry of Finance draws attention to the fact that when calculating the taxation base the incomes are deduced by the sums of VAT for goods (works, services) that were paid for. The sums of VAT for goods (works, services) that were paid for (purchased) are not taken into account in the list of expenditures. Thus, within the framework of the simplified taxation system the mechanism for writing off the incoming VAT gradually with the further sale of the purchased goods (works, services) is applied.

11. According to the Letter of the RF Federal Tax Service from December 2, 2009 No N 3-5-04/1774 it is clarified that when receiving "money in envelopes" (hidden wages) instead of the official salary the taxpayer should declare such an income himself up to April, 30 of the following year by his dwelling place and pay the tax before July, 15. If a taxpayer has not done so, he will have to pay a fine in concordance with paragraph 1 article 119 of the RF Tax Code for non-submission of tax declaration and he becomes answerable according to article 198 of the RF Criminal Code for evasion from taxes and (or) fees from natural persons.

12. According to the Letter of the RF Federal Tax Service from December 2, 2009 No ShS-22-3/906@ the clarification is provided for conservation of the right to apply the simplified taxation system for the future in case in the current taxation period such taxpayer carries out only those kinds of activities that are subject for payment of the single tax on the imputed income.

13. According to the Letter of the RF Federal Tax System from December 4, 2009 No ShS-22-3/915@ the procedural questions connected with taxation bodies receiving the notifications confirming the fact of application of the simplified taxation system or the single tax on the imputed income by the taxpayer.

14. The Order of the RF Ministry of Finance from 01.10.2009 No 101n and the Letter of the RF Ministry of Finance from November 25, 2009 No MN-17-3/212@ brings to the notice and directs to the use the changes in the Regulations for formation of the insurance reserves for the insurance excluding life insurance, established by the Order of the RF Ministry of Finance from June 11, 2002 No 51n.

In concordance with subparagraph 1 paragraph 2 article 294 of the RF Tax Code the expenses of the insurance organizations are taken into account for formation of the taxation base for the profit tax according to the procedure established by the RF Ministry of Finance.

15. According to the Ruling of the Presidium of the Supreme Court of the Russian Federation from November 25, 2009 the review of the legislation and the court policy of the Supreme Court of the Russian Federation in the 3rd quarter 2009 was approved.

For instance, the explanation concerning the definition of the taxation base for the income tax on natural persons in case of the exchange of securities that are not in the turnover of the organized market was given.

According to the Ruling of the Presidium of the RF Supreme Court the result of the exchange of the property (securities included) can be the profit either in the form of material benefit (specific characteristics are established by article 212 of the RF Tax Code) or in the natural form (specific characteristics are established by article 211 of the RF Tax Code). Since at the moment the procedure for definition of the market price of securities that are not in the turnover on the organized market is not established, article 212 cannot be applied.

According to paragraph 1 article 211 of the RF Tax Code when receiving the income in the natural form the tax is paid from the difference between the market value of the property and the payment made.

Article 214.1 of the RF Tax Code which established the specific features of formation of the taxation base, calculation and payment of the tax on incomes from the operations with securities, is not applied for the exchange of the securities, since paragraph 1 article 214.1 contains the closed list of operations for which this article can be applied and the exchange of securities is not mentioned in this list.

16. The Federal Law from November 28, 2009 No 282-FZ makes changes to chapter 22 (on excises) and chapter 28 (on transportation tax) of the RF Tax Code. The excise rates, including those for ethanol and ethanol-containing goods, beer, wine, tobacco goods, cars, fuels and lubricants.

The subjects of the Federation are granted the right to increase (decrease) the rates of transportation tax established by the RF Tax Code up to tenfold by their own laws. The procedure for establishing the rates is clarified by the letter of the RF Ministry of Finance from December 3, 2009 No 03-05-06-04/401.

17. According to the Federal Law from November 28, 2009 No 297-FZ the insurance tariffs for the compulsory insurance from the industrial accidents and professional illnesses established for 2006 by the Federal Law from 22.12.2005 No 179-FZ will be maintained in 2010 and in the planning period of 2011 and 2012.

18. According to the joint Order of the RF Ministry for Industry and Trade, Federal Space Agency, State Atomic Energy Corporation Rosatom, No 807; 138; 686 from 6.10.2009 the procedure for issue of the document testifying the length of the production cycle for goods (works, services) of above 6 months is established. Such a document is submitted by a taxpayer producing goods (works, services) included in the list established by the Decree of the Government of the Russian Federation from July 28, 2006 No 468 to prove the period for receiving the earnings from the sale of goods. In concordance with paragraph 1 article 154 of the RF Tax Code the sums of partial payment when selling the goods with a long production period are not included in the taxation base for VAT.

19. According to the Federal Law from November 28, 2009 No 287-FZ changes are made to articles 149 and 162 of the RF Tax Code concerning: (1) the exemption from VAT payment upon sale of communal services rendered by managing organizations, the society of housing owners and specialized cooperatives created to satisfy the need of the citizens in housing and responsible for servicing the domestic engineer systems; (2) the fulfillment by such societies of owners of housing and housing cooperatives of works (services) on maintenance and repair of the common property in the block of flats; (3) exclusion from the taxation of the monetary funds received by managing organizations, societies of owners of housing and specialized cooperatives for the means of reserve formation to make current and thorough repairs of the common property in a block of flats.

20. According to the Federal Law from November 25, 2009 No 275-FZ changes were made to chapter 26.1 of the RF Tax Code on the single agriculture tax. The list of expenditures is supplemented with expenditures in the form of losses from catastrophes, fires, accidents, epizootics and other emergencies, including expenses connected with their prevention and eliminating their aftermaths. When forming the taxation base it was allowed to ascribe to expenses for the taxation with the single agriculture tax on the date of transfer to this tax the expenses for purchase of

quotas (shares) of catching (fishing) water biological resources, which were in fact paid for before the transfer to the single agriculture tax but not ascribed to expenses (this statement was also applied to legal relations evolving from January 1, 2009).

21. According to the RF Ministry of Finance from November 27, 2009 No 03-11-11/216 the procedure for application of the deflation coefficient K1 and K2 when calculating the single tax on the imputed income was clarified.

According to paragraph 4 article 346.29 of the RF Tax Code the basic profitability established per one unit of the natural measure (index) is corrected (multiplied) by correcting coefficient of the basic profitability K1 (takes into account the changes in consumer prices) and K2 (takes into account the peculiar features of carrying out the entrepreneurial activity in the region).

The procedure for the definition of K1 is established directly in paragraph 5 article 346.27 of the RF Tax Code as product of the coefficient applied in the preceding period and the coefficient taking into account the changes in consumer prices for goods (works, service) in the Russian Federation in the preceding calendar year.

According to the Order of the Ministry of Economic Development of the Russian Federation from 13.11.2009 No 465 "On establishing the deflation coefficient K1 for 2010", K1 that is necessary to calculate the taxation base for the single tax on the imputed income is established for 2010 at the rate of 1.295. At the same time the RF Ministry of Finance explained that since K1 for 2010 is calculated as the product of the coefficient applied in the previous period (in 2009) and the coefficient taking into account the changes in consumer prices for goods (works, services) in the Russian Federation in the preceding calendar year (2009) the taxpayer should not multiply them themselves.

22. Federal Law from November 25, 2009 No 281-FZ adopts a number of measures to regulate the taxation of operations with securities, financial instruments of futures and investment shares.

One of the most serious decisions fulfilled within the framework of the Law is the change in the procedure for formation of the tax base concerning the personal income tax. The following issues are considered in detail: (1) the mechanism for calculation of incomes from the deals with securities (separately for those in turnover at the organized market and for those not in turnover); (2) mechanism for calculation of the incomes from the operations with financial instruments of futures (separately (a) those in turnover on the organized market, whose basic assets are securities and financial indices; (b) those not in turnover on the organized market with the basic assets of securities and financial indices; (c) those in turnover on the organized market whose basic asset is not the securities; (d) those not in the turnover on the organized market whose basic asset is not securities); (3) mechanism for separate accumulation of the losses for securities in turnover on the organized market and those that are not in the turnover on the organized market (including financial instruments for securities and financial indices) and the mechanism for separate accumulation of the losses for other financial instruments for futures (the losses are calculated not only depending on the sphere of the turnover of the security and the financial instrument being the organized or not organized market but also according to the principle of separate accounting of losses from the securities and from the financial instruments); (4) the scheme for calculation of the taxation base for REPO operations is introduced for natural persons as participants; (5) the scheme for taxation of incomes from the operations with obligations; (6) the scheme for taxation of incomes from the operations of trustee management of securities and financial instruments of futures; (7) the mechanism for the transfer of losses from the operations with securities and financial instruments for futures for the following 10 years is envisaged (the losses from these kinds of assets are transferred separately within the incomes from the corresponding kinds of assets); (8) it has been allowed to ascribe the interests for the credits attracted to purchase securities and financial instruments of futures to the corresponding expenses; (9) the shares of the open units funds are directly included in the list of securities (in our opinion the question concerning the shares in other unit funds has not been completely settled since technically in the new version of the RF Tax Code other shares of unit funds are not mentioned in the list of securities, and, according to the legislation on unit funds they are not regarded as such and are recognized as the

“right”, that is why when applying the statements of the mentioned chapter of the RF Tax Code to other shares there can arise technical problems and the incomes from them can remain out of the sphere of taxation as before).

The norms regulating the relations under consideration are described in much detail. The reason for making such detailed amendments to the scheme of taxation of personal incomes from securities and financial instruments of futures consists in the characteristics of the structure of this chapter. The chapter is divided into two parts – the profits from the entrepreneurial activity and other personal incomes. The procedure for formation of the incomes from the entrepreneurial activity contains a direct reference to the chapter that is devoted to the taxation of the profit, according to which all kinds of incomes from entrepreneurial activity are the object of taxation (cauldron method). Other personal incomes are represented as a particular selection. In such a situation the precision of description of the particular taxable incomes not included in the “entrepreneurial section” is highly important. The newly introduced schemes for taxation of incomes from the operations with securities and financial instruments of futures are not included in the “entrepreneurial section”. This means that upon receipt of such incomes a citizen should not register as an entrepreneur, he does not have to keep accounts and present the full tax accounts, but this particular kind of incomes is very similar to the entrepreneurial activity – it does not exclude the possibility of losses, envisages attraction of credits and payment of interest rate for them etc. the mechanism that was earlier in effect according to which the interests paid for the credits did not reduce the personal taxation base was an obstacle for the population to take part in financial operations. That is why it has been decided to introduce the scheme for taxation of incomes from the operations with securities and financial instruments of futures as a separate “stock block” to chapter 23, reproducing the conditions for formation of the taxation base similar to that existing for the tax on profit of legal entities without the corresponding accounts keeping.

Though the mechanism of the description is detailed, it is clear, since it specifically dwells on some technical issues. For instance, it was particularly stated that the expenses for purchase of securities and financial instruments for persons are accounted only by FIFO method.

The work of the RF Ministry of Finance on the preparation of the Law was enormous and deserves to be supported.

Amendments made to chapter 25 on the tax on organizations’ profit concerning the incomes from the operations with securities and financial instruments for futures have much in common with the changes made to the chapter on the personal incomes. These changes concern the more detailed description of the procedures connected with the formation of the incomes base for the participants of REPO deals and the agreements on borrowing the securities. Besides, the notion of the realization of securities is specified in this chapter. From now on the set-off of the similar counterclaims, including those within the framework of clearing and paying off is also regarded as realization, which is very important for settling special juridical cases: when the transfer of property right recognized according to the RF Civil Code was not acknowledged as such according to the RF Tax Code by the courts and there was no taxation base being accrued. The specification made to the RF Tax Code concerning the mechanism of the calculated prices for the definition of the taxation base for securities and financial instruments for futures that are not in the turnover on the organized market are serious decisions aimed at the stabilization of the revenue basis of the budget. The form to secure the interests of the budget of the Russian Federation concerning the deals with the financial instruments for futures consists in the introduction of a norm of the RF Tax Code envisaging that “the agreement the requirements for which are not to be protected by the court in concordance with the civil legislation of the Russian Federation is not regarded as a financial instruments for futures. Losses arising from the agreements mentioned are not taken into account when defining the taxation base”. One can enumerate some more serious decisions aimed to regulate the taxation of the operations with stock and futures instruments on stocks and futures markets, for instance: the tax is supplemented with the responsibility of the trustee managers that are Russian organizations to act as tax agents to collect the tax sums from the dividends transferred to a foreign principal (beneficiary) if the issuer of such papers has not deducted the tax or has been deducted at lower rate (a similar scheme is envisaged for the contract of loan with securities); it is established that for REPO operations with the use of clearing any change in the second part of the

deal is regarded as a change in the term for the whole REPO deal (it should be remembered that REPO deal envisages the execution of both parts within 1 year); it is allowed to form the reserves for the case of depreciation of securities by customers in REPO deal or by borrower of the contract of loan with securities; the taxpayers are granted the right to classify the deal independently if its condition envisage the supply of the basic assets in the form of operation with the financial instruments for futures (if the basic assets corresponds to the limitation introduced by the RF Tax Code to the basic assets of financial instruments for taxation purposes) etc.

The corresponding changes in the legislation on banks and banking activity, on the market of securities, on commodity exchange and exchange trading, on investments funds, on the Central Bank of the Russian Federation etc. Require special attention. For instance, according to the legislation the banks are allowed to purchase and sale the goods according to futures contracts if the liability is terminated without actual execution.

The Law “On securities market” gives a legal definition for the notion of “financial instrument”, kinds of violations, upon revelation of which the deal is regarded as abandoned, the legal description of REPO deal, which is of considerable importance for the organization of the taxation control.

Out of other amendments made to the RF Tax Code, it should be noted that its version was corrected taking into account the decisions by the courts. For instance, the VAT text is supplemented with the privilege on transfer of the state property unsecure in the on-line management to non-commercial organizations, the turnover on realization of the space equipment, space objects etc are excluded from the taxable turnover etc; the correction were made to the issues of accounting for the purposes of taxation with VAT tax of the operations with financial instruments for futures and basic assets for them, as well as for REPO operations.

As to the property tax, the property rights in the form of the right to use state or municipal property are exempted from taxation, the specific features of taxation of organizations carrying out clearing operations have been developed; tenants and borrowers are allowed to ascribe to expenses the amortization for uncompensated improvements to fixed assets upon agreement of lessors (lendors) for the period of rent contract; the difference in the currency exchange rates for advance payments in currency is exempted from taxation.

23. According to the Decree of the Government of the Russian Federation the list of the goods transferred across the customs boundary of the Russian Federation for their use for the purposes of conduction of the 22nd Winter Olympic Games and 11th Paralympic Games in Sochi in 2014, whose import in the territory of the Russian Federation is not subject to taxation with value added tax.

24. According to the Decree of the Government of the Russian Federation from December 10, 2009 No 995 the procedure for paying off the arrears of taxes, fees, accrued fines and fees to the federal budget by organizations for defense industrial complex that execute the state defense orders and are included in the list of strategically important organizations. The restructurization is made through the stage-by-stage repayment of the debt calculated on the basis of the accounts data of the taxation bodies as on January 1, 2009, but not exceeding the amount of the debt by the first day of the month when the application for conduction of restructurization is submitted. The sum of restructurized debt does not include the arrears of personal incomes taxes or the arrears for which the extension (payment by installments) is allowed, tax or investment tax credit. It is established that the decision on restructurization is made by the taxation body in the place the organization is located and for the largest taxpayers – by the corresponding taxation body of the place of registration of the largest taxpayer.

25. According to the Letter of the RF Ministry of Finance from November 25, 2009 No 03-11-06/2/248 it is clarified that the organization that has submitted the application on transfer to the simplified taxation system starting with 2010 which over 9 months of the preceding year had the average number of staff over 100 people can transfer to the simplified taxation system from 1.01.2010 if by that time the average number of staff will correspond to subparagraph 15 paragraph 3 article 346.12 of the RF Tax Code and not exceed 100 people. According to subparagraph 1 paragraph 2 article 346.12 of the Tax Code of the Russian Federation the condition for the organization to

transfer to the simplified taxation system is the volume of incomes which as a result of nine months did not exceed RUR 15 million. The condition for application of the simplified taxation system is the number of the staff in the organization of not above 100 people.

26. According to the Letter of the RF Ministry of Finance from November 25, 2009 No 03-03-06/1/773 it is clarified that the settlement of the debt of the filial company by forgiveness of the debt of the filial company purchased by the parent company by the agreement of cession contract with a third party is not subject to regulation of paragraph 11 article 251 of the RF Tax Code according to which the gratuitously received property between the parent and the filial company is not included in the taxation base for the organizations' profit tax.

This position of the RF Ministry of Finance is in concordance with the rulings of courts, including the Supreme Arbitrary Court. The Ruling of the Federal Arbitrary Court of the Eastern Siberia okrug from March 31, 2009 No A33-4100/08-Φ02-1119/09 with the reference to paragraph 2 of the Informational Letter of the Presidium of the Supreme Arbitrary Court of the Russian Federation from 22.12.2005 No 98 clarifies that the property rights for the purposes of the RF Tax Code are not recognized as property (paragraph 2, article 38 of the Code). Consequently, if there is no specific reservation concerning the property rights in particular articles of part two of the RF Tax Code regulating the taxation of the operations connected with the property the articles mentioned do not apply to the property rights.

Since the statements of subparagraph 11 paragraph 1 article 251 of the RF Tax Code do not contain such a reservation, in this situation the norm mentioned is not applicable, since it concerns only the transfer of the property and not of property rights.

27. According to the Letter of the RF Ministry of Finance from November 27, 2009 No 03-02-07/1-523 technical issues of the making the letter of attorney for submission of the tax declarations to the tax bodies are clarified.

28. According to the Federal Law from November 28, 2009 no 283-FZ changes were made to the Law of the Russian Federation from December 9, 1991 No 2003-1 "On personal incomes taxes". The law introduces the share in the right for the collective property as a separate object of taxation and defined the procedure for calculation of the inventory value of a share (part) of the property which is in the common share (joint) property. The Law introduces the authorities and responsibilities of the bodies keeping state cadastre register of rights for immovable property and deals with it concerning the submission of the documents to the taxation bodies and taxpayers.

The clarifications on the issue of calculation of the property tax by natural persons for the shares in the common property are given in the Letter of the RF Ministry of Finance from December 3, 2009 No 03-05-04-01/98.

29. According to the Federal Law from November 28, 2009 No 284-FZ changes were made to chapter 30 of the RF Tax Code concerning the payment of the tax on organizations' property. The majority of changes concern the detailed description of the issues of taxation of the property included un the Single system of gas supply.

30. According to the Letter of the RF Ministry of Finance from 23.11.2009 No 03-04-07-01/359 and the RF Federal Tax Service from December 2, 2009 No ShS-17-3/216@ the question on taxation with the personal incomes tax of the sums of royalties paid to the natural persons as heirs of the authors of the scientific, literature, art work, authors of inventions, useful models and industrial samples was clarified.

The Ministry of Finance explained that there are two schemes of the taxation of incomes in the form inheritance and gifts in the RF Tax Code: the general, according to which such incomes are not subject to taxation in concordance with paragraph 18 article 217 of the RF Tax Code and special, concerning the heirs (legal successors) of the authors of scientific, literature, arts works, as well as discoveries, inventions and industrial samples. Such a situation is a result of abolition of the law on inheritance (gifts) existing earlier. For the general inheritance it is the tax agent that has a

responsibility to collect the tax. As to the taxation of incomes of heirs (legal successors), in this case paragraph 1 article 228 of the RF Tax Code gives them the responsibility to calculate independently the personal incomes tax from such incomes, submit tax declaration to the taxation body where they are registered and pay the calculated tax to the corresponding budget within the established terms.

After the inheritance has been accepted the heirs of the author become the possessors of the exclusive rights for his works and can independently make contracts concerning them that are envisaged by article 1285-1287 of the RF Civil Code.

The heirs (legal successors) also have to calculate and pay the personal incomes tax from the sums of the contract fees on alienation (sale) of the exclusive right for the work themselves.

The personal incomes taxes on the sums of fees received by the mentioned persons according to license agreements that envisage not the alienation (sale) of the exclusive right for the work but the granting of the right for the use of the work within the specified period established by the contract are calculated and paid according to the procedure envisaged by article 226 of the Code (by tax agents).

31. According to the Letter of the RF Federal Tax Service from November 25, 2009 No MN-22-3/890 and the RF Ministry of Finance from 14.09.2009 No 03-03-05/169 the question on the documental proof for business trip expenses (warrant on travelling for official business) are explained.

A primary document on which basis the expenses are taken into account is the advance report approved by the head of the organization (approved in case there is a written report on the work carried out during the business trip agreed on with the head of the structural department of the employer). The date for the recognition of the expenses for the business trip is, according to subparagraph 5 paragraph 7 article 272 of the RF Tax Code, the date of approval of the advance report.

The list of necessary documents to supplement the advance report and the procedure for filling in the documents connected with the employees' business trips is established by the Decree of the Government of the Russian Federation from 13.10.2008 No 749. The proving documents that are a necessary supplement to the advance report should be filled according to the established procedure, i.e. according to the unified forms if there are any such established.

32. According to the Letter of the RF Ministry of Finance from December 03, 2009 No 03-04-06-01/313 the question on taxation of additional payments for the shift work arrangement with the single social tax, personal incomes tax and on ascription of these payments to expenses when calculating the profit tax was considered. According to article 302 of the RF Labor Code the extra payment for the shift work is made instead of per diem subsistence to the employees carrying out the work according to the shift work arrangement for each calendar day of being in the place the work is made during the shift and for the real days of being on the way from the location of employee (assembly point) to the place where the work is carried out and back.

Such expenses are ascribed to the compensation payments for the purposes of taxation with the personal incomes tax and single social tax and, correspondingly, are not subject to taxation with these taxes (paragraph 3 article 217 and subparagraph 2 paragraph 1 article 238 of the RF Tax Code). This coincides with the position of the courts.

For instance, in the ruling of the Federal Arbitratory Court of the Far Eastern okrug from 06.02.2008 No F03-A73/07-2/6500 the following commentary is given on the situation: the fact that the decree of the RF Ministry of Labor from 29.06.1994 No 51, establishing the norms and procedure for compensation of expenses when sending the organizations' employees for work according to the shift work arrangement as well is no longer in effect, and the Government of the Russian Federation has not established the rates of compensations cannot influence the legal nature of the funds paid by the employer and, correspondingly, cannot serve as a reason to deprive the employees of the rightful compensations and the employers – of privileges when calculating the single social tax. The expenses mentioned decrease the taxation base for the profit tax since they are taken into account as labor remuneration in the organization's expenses (paragraph 3 article 255 of the RF Tax Code).

We would like to add the following. In concordance with the classical scheme the personal incomes that are not levied with the single social tax are not regarded as labor remuneration for the purposes of profit taxation and are not deducted from the taxation base for this tax. In the case under consideration this principle is violated. The reason for this is quite clear – making it possible for an

organization to attract labor force to the hardest conditions of living (which is normally characteristic for the extractive organizations). For instance, the practice of purchasing flats for the employees is quite widely spread and the Supreme Arbitratory Court of the Russian Federation recognizes it as a legally sound way to pay compensation (see the Ruling of the Supreme Arbitratory Court of the Russian Federation from 21.02.2007 No 1273/07). At the same time one should notice that the channel for evasion from taxes is formed, since such organizations do not make social payments to the state for the use of the labor force. This seriously reduces their costs as compared with other organizations and creates non-competitive advantages.

33. According to the Letter from December 3, 2009 No 03-11-06/1/51 the RF Ministry of Finance gave explanation to the question on the system of taxation of agriculture goods producers, stating that since established in article 346.2 of the RF Tax Code criterion of the proportion of the agriculture goods (70%) in the total volume of the incomes from realization of goods (works, services) does not mention the incomes from realization of property rights, such incomes when calculating the mentioned criterion should not be taken into account. The criterion defines the possibility for recognition of the right to apply the taxation regime established for producers of agriculture goods by an organization, which is more privileged than the general regime.

34. According to the Letter of the RF Ministry of Finance from December 4, 2009 No 03-03-06/2/230 it is explained that the procedure for tax bookkeeping of incomes (expenses) in the form of interests for the contracts of loan, credit, bank account, bank deposit, as well as interests for securities and other debt liabilities is established by article 328 of the RF Tax Code. The procedure for accounting the interests (discount) of promissory note for the purposes of taxation does not depend on whether the promissory note was received from its drawer or from the third party. 35. According to the Letter of the RF Ministry of Finance from December 10, 2009 No 03-03-06/1/799 the question on the procedure for accounting of the receivables of wages is explained. The employer when made redundant from an organization before the end of the year in which he had a paid holiday leave has a debt in the form of the payments for unproven days to the organization that has accrued and paid the holiday leave benefit for him. The organization, according to article 137 of the RF Labor Code has a right to withhold the holiday pay for the unproven days at the moment of dismissal as well (on condition that an employer does not argue about the reasons and volume of withholdings). This is made according to the procedure: the sums of liabilities for current payments are reduced by the sums of overpayment for the holiday leave (they are also accrued as labor remuneration). The unsettled debt of holiday pay for unproven days for which the limitation of actions period is in effect cannot be taken into account for the purposes of profit taxation, i.e. they are not ascribed to expenses reducing the taxation base.

36. According to the Letter of the RF Ministry of Finance from December 11, 2009 No 03-03-06/4/106 the issue on the accounting of the sums of budget subsidies when forming the taxation base for profit tax and VAT was explained.

Since the subsidies according to their purpose are aimed at compensation of the expenses made, which have arisen in connection with the operation of the organization, the organization that according to article 78 of the RF Budget Code has received a subsidy gets economic profit. That is why the funds in the form of subsidies allocated to commercial organizations from the budget to compensate for the expenses are taken into account as outstanding incomes for the purposes of profit taxation. The expenses for which compensation the subsidy was given have in fact been paid for from the organization's own funds (that is from the funds of a taxpayer after taxation). So ascription the subsidies to incomes, and the compensated expenses – to expenditures does not result in the additional taxation of the received subsidies.

As to VAT, in the opinion of the RF Ministry of Finance, in this case the taxpayer has a liabilities since he conducts the activity expenses for which have been paid for (compensated) from the budget (the RF Ministry of Finance confirmed the position expressed in the Letter from 01.09.2009 No 03-07-11/215).

REVIEW OF BUDGETARY LEGISLATION

M. Goldin

In December in the field of budgetary legislation the following events took place: amendments were made to the Federal Law “On the federal budget for 2009 and for the planning period of 2010 and 2011”, which supplements the list of changes of revenues and expenditures of the federal budget in 2009 and makes changes to the departmental structure of expenditures of the federal budget for 2009; the Federal Law from 02.12.2009 No 308-FZ “On the federal budget for 2010 and for the planning period of 2011 and 2012” was adopted; the rules for submission of subsidies for the purposes of co-financing of the regional programs aimed at the decrease of tensions at labor market were established; the procedure for submission of the accounts on the execution of the federal budget to the Government of the Russian Federation was changed.

According to the Federal Law from 02.12.2009 No 309-FZ “On making changes to the Federal Law “On the federal budget for 2009 and for the planning period of 2010 and 2011” the list of reasons for making changes to the free revenues and expenditures of the federal budget for 2009 was expanded. The list of reasons for making changes mentioned was supplemented with the decisions adopted by the Government of the Russian Federation on the re-distribution of the budget allocations envisaged to increase the capitalization of banking crediting institutions, to fulfill the measures of support to the financial market, labor market and branches of economy of the Russian Federation as well as other measures of the social policy. The changes made to the departmental structure of the expenditures of the federal budget for 2009, for instance the rate of subsidies was increased and the rate of subventions for the budgets of subjects of the Russian Federation and municipal formations was diminished.

The law also made changes to the distribution of the grants to the budgets of subjects of the Russian Federation to secure the balance of the budgets, as well as subventions for the expenditures in the field of employment of the population, subventions and grants to the budgets of the subjects of the Russian Federation and municipal formations for payment for communal and utilities services for some categories of citizens.

The Federal Law from 02.12.2009 No 308-FZ “On the federal budget for 2010 and for the planning period of 2011 and 2012” was adopted. The budget for 2010 was made up basing on the forecast volume of the GDP at the rate of RUR 43 187.0 billion and the level of inflation not exceeding 10%. The earnings to the revenue part of the budget are assumed to be at the sum of RUR 6 950 billion (RUR 6 731.8 billion in 2009), including the volume of oil and gas revenues which is planned at the sum of RUR 3 194.7 billion. At the same time the expenditures of the federal budget were defined at the rate of RUR 9 886.9 billion (RUR 9 931.4 billion in 2009). Thus, the forecast deficit of the federal budget in 2010 is established at the level of RUR 2 936.9 billion (6.8% of the GDP).

According to the Decree of the Government of the Russian Federation from 14.12.2009 No 1011 “On granting subsidies from the federal budget to the budgets of subjects of the Russian Federation for fulfillment of additional measures aimed at the alleviation of tension at the labor market of subjects of the Russian Federation” the regulations and conditions for granting the subsidies to fulfill these measures in 2010 and 2011 (further referred to as Regulations) were approved.

The subsidies are granted to the subjects of the Russian Federation for the purposes of co-financing of the corresponding regional programs. The Regulations establish the requirements for the content of these programs, the procedure for their consideration and the selection, as well as the algorithm for calculation of the volumes of the granted subsidies.

The subsidies are granted in concordance with the aggregate revenues and expenditures of the federal budget for the corresponding financial year within the limits of the budget allocations and limits of budget liabilities established by the Federal service on Labor and Employment.

The subsidy is granted to the budget of a subject of the Russian Federation that adopted according to the established procedure the normative legislative acts, stating the expenditure liabilities of the subject of the Federation on fulfillment of the additional measures and defined the authorized executive body of the subject of the Russian Federation for interaction with the Federal Service of Labor and Population on the basis of the agreement signed between the mentioned Service and the supreme executive body of the government of the subject of the Federation.

The selection of the regional programs for granting the subsidies is made by an interdepartmental working group on monitoring of the situation at the Labor market.

The criteria of the selection of the subjects of the Russian Federation for granting subsidies are the following:

- a) there are employees at the risk of dismissals;
- b) there are enterprises that are principal employers (mainstay) of settlements with undiversified economy.

The level of co-financing of the regional program from the federal budget is established at the rate not exceeding 95% of the total volume of expenditures of the consolidated budget of the subject of the Federation for the fulfillment of the additional measures.

The distribution of subsidies between the subjects of the Russian Federation is carried out by the Federal Service on Labor and Employment on the basis of the decision of interdepartmental working group.

According to the decree of the Government of the Russian Federation from 16.12.2009 No 1025 “on making changes to paragraph 10 of the Statement on submission of quarterly and annual accounts on execution of the federal budget to the Government of the Russian Federation” paragraph 10 of the Statement mentioned was supplemented with the norm according to which simultaneously with the budget accounts the report of the Ministry of Finance of the Russian Federation on the results of monitoring of the quality of the financial management made by the chief superintendants of the funds of the federal budget is to be submitted to the Government of the Russian Federation. ●