



## RUSSIAN ECONOMY: TRENDS AND PROSPECTS

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MONTHLY BULLETIN:

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## RUSSIAN ECONOMY IN FEBRUARY 2012: PRELIMINARY DATA AND MAJOR TRENDS

### ***The Socio-Political Situation***

*The focal events of February, the last month before the presidential election in Russia, were, as in January, the highly organized rallies held by the opposition that were answered in kind by Vladimir Putin's supporters. Besides two rallies in Moscow, the opposition managed to stage its first really mass demonstration in St Petersburg, which was attended by about 10 thousand opponents of the government. At the same time, there was no escalation of protests by comparison with December 2011, which can be viewed as the most important fact of the final part of the presidential race.*

*The massive pro-Putin TV campaign proved to be efficient enough. According to public opinion surveys, Putin's approval ratings considerably rose. Levada-Center and the Public Opinion Foundation (FOM) forecasted that he should win by 61.5 and 62 percent of the vote respectively. However, the forecasts released by both public opinion research agencies very closely matched the data announced by the RF Central Electoral Commission, which means that they were by 10 to 15 p.p. higher than the results recorded at the polling stations supervised by independent election supervisors. In any case, the election will have only one round, but its legitimacy will be contested by the opposition. The final pre-election week brought the news of multiple irregularities, such as workers of budget-funded enterprises and state corporations being forced to vote by absentee ballots or being paid to vote for Putin. As a result, some regions, including Moscow Oblast, ran out of absentee ballots two or three days before the election.*

*One week before the election, at one of his pre-election meetings with voters, Vladimir Putin confirmed that, in the event of his victory, Dmitry Medvedev would become head of the RF Government. Thus, he effectively dispelled the doubts as to the probability of this scenario that had been widely expressed in Russia's business and expert communities. At the same time, the uncertainty surrounding the future composition of the RF cabinet of ministers has not gone away. The pre-election promises made by Prime Minister Putin will become an additional burden for the RF budget, while the insufficient legitimacy of the presidential election and the growth of protest mood in society will considerably limit the future president's room for serious reform.*

### ***The Macroeconomic Background***

*The most important factor that determined Russia's macroeconomic background in early 2012 was a new round of oil price increases: the price of Brent crude oil went up from 111 USD per barrel as of 1 February to 126 USD per barrel as of 1 March 2012. The ruble was on a steady rise: by the end of February, the bi-currency basket had become cheaper by 8.3% since the beginning of the current year (from 36.46 rubles as of 31 December 2011 to 33.43 rubles as of 29 February 2012). This situation (the rise in oil prices and the strengthening of the ruble) was conducive to the capital inflow into funds investing in Russia and to the rise in stock exchange indices that had also begun at the beginning of the current year. Thus, the MICEX index rose from 1,402 points as of 30 December 2011 to 1,598 points as of 29 February (+14%); on the 2nd of March it overshoot the 1,600-point mark – for the first time since August 2011. The RF gold and foreign exchange reserves also continued to grow: it should be reminded that, in September 2011, these reserves had begun to decline, and by the end of 2011 they had dropped by \$ 46bn (-8.5%). Over the course of January and February 2012 they increased from \$ 497.4bn to \$ 509.6bn (+2.45%). At the same time, capital outflow from Russia remained very high: according to various estimates, it amounted to between \$ 11bn and \$ 17bn.*

*Russia's inflation remained record low: in February, the month-on-month growth rate of prices amounted to 0.4% vs. 0.5% in January. As a result, the annual inflation rate dropped to 4.1%, its lowest level since the 1980s. However, this result has several components: the real successes of the RF Central Bank's monetary policy; the ongoing capital outflow from Russia; and the political events related to the forthcoming presidential election. Thus, it was due to the presidential campaign that the upward adjustment of government-controlled prices was postponed (utilities and railroad tariffs even showed*

a downward trend), and fuel prices were frozen. These populist measures make it highly possible that inflation levels will surge up sharply by the beginning of the summer. Thus, the positive effect of the RF Central Bank's achievements in monetary policy will be somewhat reduced, because the instability of inflation is an irritating factor in its own right for economic agents.

After their sharp rise in December 2011, the redundant reserves of Russia's commercial banks once again dwindled in early 2012: their volume dropped by almost 20%, to Rb 1,100.6bn. The main reasons for that drop were tax payments and the necessity to repay the banks' debts to the RF Ministry of Finance. The situation on the financial market relatively stabilized, as shown in particular by the fall in demand registered at the repo auctions held by the RF Central Bank. It should also be noted that there emerged a stable trend towards lengthening the maturity of liquidity loans. Also conducive to restoring the money market's liquidity was the rise in budget expenditures observed in late 2011 – early 2012.

### **The Real Sector of the Economy**

In early 2012, all the main trends in the real sector of the Russian economy were determined by the conditions that had emerged in the second half-year of 2011. In January 2012, Russia's domestic market was heavily influenced by a 15.6% growth in investments in fixed assets and 11.7% growth in the volume of construction work on January 2011. Consumer demand rose by 6.8% – in response to a considerable rise in the real incomes of the population and deceleration of the growth rates of prices for consumer goods and services. Net consumer loan receivables also showed growth. In January 2012, the real incomes of the population rose by 2.3% on January 2011, while its real wages grew by 9.0% vs. 1.3% one year earlier. By the end of January 2012, loans to the populations increased by 3.7% on December 2011 and by 36.8% on January 2011.

In January 2012, Russia's Industrial Production Index amounted to 104.7%, while the Indices of Industrial Production for the mining sector, the processing industry, and the production and distribution of electricity, gas and water were 101.4%, 104.8% and 99.8% respectively. The main growth drivers in the processing industries were production of machinery and equipment, production of transport means and transportation equipment, and production of electrical, electronic and optical equipment. At the same time, the Index of Industrial Production for textile and apparel production amounted to 95.0% of its January 2011 level, while production of leather, leather items and footwear amounted to 90.5% of the above level. The decline in the volumes of production in these sub-sectors of light industry is steady and unrelenting, which indicates the existence of long-standing and long-ignored problems caused by the deficit and the low quality of domestic raw materials and technological equipment.

At the same time, recent business opinion surveys carried out by the Gaidar Institute indicated that the negative trends in business situation assessments typical of late 2011 continued to persist in early 2012. The January 2012 Optimism Index was the lowest for the past one-and-a-half year. The downward trend in the Optimism Index has been observed since July 2011. At the same time, in January 2012, the Business Outlook Index showed a sharp rise, possibly caused by political factors. Industrial sales have been dropping since October 2011; their current drop rate amounts to -9 points. According to business executives' assessments, in late 2011 and early 2012 redundant industrial production capacities rose to about 20% and then stabilized at that level (the share of enterprises which characterized their production capacities as 'more than sufficient' in relation to expected demand) vs. 10% that consider their production capacities as insufficient.

In early 2012, the terms and conditions under which loans were granted to industrial enterprises were characterized by several opposite trends. On the one hand, the average minimum rate for ruble credits, adopted in the banking sector, stopped its decline. After climbing up to 11.8% in October 2011, this indicator has been rising, at a rather symbolic rate, for a third month in a row. A thorough analysis indicates that the banking sector has been increasing its credit rates for small and medium-sized enterprises (from 14.3 to 14.8% per annum for small enterprises, and from 12.1 to 13.1% per annum for medium-sized enterprises). On the other hand, according to business executives' general assessments of credit terms, in January 2012 the latter were mitigated to a certain extent. The aggregate assessment of credit availability rose by 6 points. At the same time, the ease of access to credits also depended on the size of a given enterprise: the larger the enterprise, the higher the degree of credit availability. ●

## THE POLITICAL AND ECONOMIC RESULTS OF FEBRUARY 2012

S.Zhavoronkov

*The top news of February 2012 was the presidential election campaign; thus, Moscow became the venue of rival rallies staged by Putin's opponents and supporters. Although the pro-Putin rallies attracted approximately the same numbers as those held by the opposition, it should be pointed out that the former were organized with the help of the 'administrative resource'. Official sociologists have indicated that Russia's executive authorities are eager to ensure that Vladimir Putin in the first round should not merely win – he should win in a landslide, by garnering a staggering 66% of the vote<sup>1</sup>. According to opinion polls, second place in the race for the Presidency is solidly held by Gennady Ziuganov, while Sergey Mironov, whose presidential campaign is virtually non-existent, is risking losing his third place in the race and dropping to fourth, or even lower, position, after Vladimir Zhirinovskiy.*

It is not surprising that the key event of February 2012 was the electoral campaign in anticipation of the 4 March 2012 Presidential election. Naturally, public attention was mainly focused on the electoral campaign of the official candidate for the Presidency, Russian Prime Minister Vladimir Putin. On the other hand, the top news of February was the two mass rallies held in Moscow by Putin's supporters. Their first rally (whose official organizers were several TV Stalinist propagandists, including Sergey Kurginian and Nikolai Starikov) took place on February 4<sup>th</sup>, simultaneously with a rally staged by the opposition. The second rally, organized by Putin's HQ, was held in Luzhniki, and was attended by Putin himself. The attendance numbers of those rallies were achieved by the devices that are traditional for such public events: employees of budget-funded enterprises were bussed in their thousands from the provinces, numerous people in Moscow were paid to attend the rally, and workers of big state companies like *Rosneft*, *InterRAO*, etc. were simply ordered to participate. Of course, the rally was also attended by some authentic admirers of Kurginian and Starikov, but, judging by the numerical strength of the purely Stalinist rally held separately from the official event of 23 February, their numbers did not exceed a couple of thousands at most. The 4 February rally on Poklonnaya Gora was attended by about 50 thousand people; the rally staged at Luzhniki on February 23<sup>rd</sup> – by about 60 thousand, which was by far not enough to fill to capacity the Luzhniki Stadium, designed for 85 thousand. At the same time, the authorized rally staged in Moscow by the opposition on February 4<sup>th</sup> also drew about 50 to 60 thousand people, while the February 23<sup>rd</sup> opposition-organized flashmob protest in the form of a human chain along the Garden Ring road in Moscow drew even smaller numbers. Although the organizers of the pro and anti-Putin rallies 'modestly' overestimated almost twice their respective attendance, the main aim of Putin's headquarters was achieved: it created a TV image, according to which the attendance of pro-Putin's rallies generally equaled that of anti-Putin's rallies. As a matter of fact, it is this TV image and the opinion polls carried out by official sociologists, whose December forecasts turned out to be by 8 to 10% higher than the subsequent official result of the ruling party in power,<sup>2</sup> that will be the count-down point for the results of the Presidential election to be announced on March 5<sup>th</sup>.

In February, Putin published four more program articles: *'Russia and the Changing World'*; *'Building Justice: A Social Policy for Russia'*; *'To Be Strong: Guarantees of National Security for Russia'*; and *'Democracy and the Quality of the State'*. Also, he made two loud statements: one on the possible introduction of a tax on luxury, and the other on the necessity to 'discuss' the possible adoption of a windfall tax on gains made since the time of privatization of some enterprises. On the whole, Putin's program documents correspond to the general logic of his statements made in recent years, and represent an eclectic combination of the following three genres: common

1 <http://www.grani.ru/Politics/Russia/Election/m.195908.html>

2 It should be remembered that the actual moods and attitudes of people were much more unfavorable for United Russia than the falsified electoral results.

populism, which promises to increase various social liabilities of the State; democratic and free market slogans that would have been well accepted when put forth by any European politician; and Soviet-style counter-propaganda, which represents this country as a besieged fortress and identifies the ruling group with the country and the ruling group's collapse with the collapse of the country itself. Maybe the most vacuous of those Putin's articles is that on democracy. Although the afore-said article contains several concrete promises, e.g., that the right of legislative initiative should be granted to citizens who have collected 100 thousand identifiable signatures online, on the whole it does not offer any answers to the most important questions: what was the purpose of creating the existing political system, or why was it changed after the December 2011 elections to the State Duma and exactly on the eve of the major rally staged by the opposition on 24 December 2011 (if of course those actions of the authorities are interpreted as a pursuance of some ideological line and not as a concession given in the hope that the attendance of the rallies and the hostility of their participants would drop as a result); and what would happen next? Almost equally vacuous is his article on Russia's foreign policy; it is confined to the idea that it is not correct to impose on Russia and other countries the standards of democracy that are totally alien to them, but at the same time somewhat incongruously asserts that Russia, whose authorities do not want to live by somebody else's standards, is part of European civilization.

As far as Russian social policy is concerned, Putin makes the following promises: to increase teachers' salary from 1 September 2012 to the level of the average salary existing in a given Russian region, and then to increase it two-fold by 2018, making it two times higher than the average for Russia. The same is promised to be achieved by 2018 with regard to physicians' and research associates' salaries. Believe it or not, housing prices are promised to be reduced by 20 to 30%. However, it should be remembered that such promises were repeatedly made by the authorities over the course of the twelve years of Putin's rule. It should also be noted that physicians, teachers and researchers are to gain much less from Putin's reelection than military personnel, policemen and special services personnel: as Putin's articles proudly remind the reader, from 1 January 2012 the money allowance of the military has been increased three-fold, and police salaries were already increased two-fold in 2011. And it is promised that, in the future, military personnel will be entitled to free higher education, while the State will increase its housing provision for Army families, and spend 23 trillion rubles on military needs over the course of the next ten years. As regards Russia's ongoing population decline, Putin sets the task of 'ensuring an influx of migrants at the rate of about 300 thousand persons per year' and promises that these migrants will be highly qualified, although he does not indicate what countries they will come from. Russia's tax policy remains a mystery – in February, the new RF Minister of Finance, Anton Siluanov, admitted that it was a serious mistake to increase the rate of insurance contributions to the Pension Fund, the Social Insurance Fund and the Federal Compulsory Health Insurance Fund to 34%: *“Despite the economic growth and the achieved rise in wages and salaries, there was a reduction, by 0.3 p.p. of GDP, in personal income tax receipts, and despite a rise in the insurance contribution rate from 26% to 34%, insurance contributions receipts grew only by 1 p.p. – much less than expected. Despite the afore-said rise in insurance contributions, the expected receipts have failed to materialize, and we have also failed to receive the expected amount of revenues from personal income tax, the mainstay in municipalities' budgets and the major source of budget revenue in a number of subjects of the Federation. The maneuver has proved counterproductive, and the expected effect has not been achieved”*<sup>1</sup>. Meanwhile, RF Minister of Economic Development Elvira Nabiullina, in her speech at a congress of the Russian Union of Industrialists and Entrepreneurs, set the task of not rising taxes in the next few years.

In his address to the conference of the Russian Union of Industrialists and Entrepreneurs held in February 2012, Vladimir Putin suggested that it should be necessary to discuss with society the issue of imposing a windfall tax designed to bring about *“...the resolution of problems dating back to the 1990s, including patently unfair privatization and auctions of all kinds. The solution lies in either one-time contribution or something else, but we need to think about it together”*. Another presidential candidate Mikhail Prokhorov, who was also present at that conference, suggested

1 <http://expert.ru/2012/02/10/pokayanie-minfina/>

that businessmen should voluntarily donate to the State 1% of their personal income and 0.2% of their companies' profits. His suggestion did not provoke heated objections from Putin. Also in February, RF First Vice Prime Minister Igor Shuvalov clarified the application and parameters of the proposed income on luxury. According to Shuvalov, the objects of taxation will be houses and flats with the floor area from 1,000 square meters, and passenger cars with engines rated at over 250 horsepower. Judging by Shuvalov's statement, it can be said that the newly retooled taxes will affect an extremely small number of people, and it is far from being evident whether or not these taxes will be really ruinous. Thus, it should be noted that Putin's gestures intended to garner sympathy from leftists are in fact rather inconsequential, which cannot be said about the planned rise in social expenditures and the announced increase in military spending, bearing in mind that, according to Putin himself, the probability of Russia's involvement in full-scale conflicts is very low.

The presidential campaigns of Gennady Ziuganov and Vladimir Zhirinovskiy were rather backgroundish, modest in scale and replicated their parties' parliamentary election campaigns. At the same time, Gennady Ziuganov issued a large number of printed electoral materials, while Vladimir Zhirinovskiy focused on outdoor self-advertising. Sergey Mironov, leader of the *Fair Russia* party, in fact did not carry out any electoral campaign at all, and it seems that the leaders of *Fair Russia's* regional lists that constitute that party's major force are not particularly interested in whether or not he will show good results in the forthcoming presidential election. Mikhail Prokhorov organized a very colorful and wide-scale campaign in Moscow, Yekaterinburg and Krasnoyarsk, but elsewhere his electoral campaign was virtually non-existent. Thus, while Gennady Ziuganov and Vladimir Zhirinovskiy can expect to more or less repeat the parliamentary election results of their respective parties, Sergey Mironov is likely to achieve less than at the recent Duma election. Bearing in mind that Grigori Yavlinsky, who gained a large number of votes in both Moscow and St Petersburg in December 2011, was barred from standing in the presidential election, Mikhail Prokhorov will apparently capture second place in Russia's two capitals and a number of other big cities, but will fail to win more than 5 to 7% in the country as a whole (among other things, due to his puzzling (at least from an electoral point of view) decision not to finance supervision at the polling stations).

As far as Vladimir Putin is concerned, the authorities are planning for him to win by taking 66% of the vote, exactly as *United Russia* did four years ago at the parliamentary election. Of course, this result (a 15% rise on the grossly falsified *United Russia's* result at the December 2011 Duma election) cannot be achieved by honest means, without a drastic rise in vote rigging. Therefore vote rigging should significantly increase throughout Russia, including Moscow and St Petersburg. It was for that purpose that the heads of district electoral commissions were replaced wherever *United Russia* had failed to achieve good results in December. The obvious decline in the dynamics of the rallies held by the opposition in February 2012 has strengthened the authorities' opinion that this scenario can be safely implemented. However, world experience indicates that mass protests can start even in the absence of a resolute leader, and therefore the authorities will certainly spend a very nervous post-election week, when the possibility of a revolutionary scenario coming true may remain relatively high.

In February, there were two key personnel appointments: Viktor Khristenko was removed from his position as RF Minister of Industry and Trade which he had held for many years, and appointed Russia's member-representative in the Eurasian Economic Commission. His deputy Denis Manturov, formerly the General Director of *Oboronprom*, was made acting Minister of Industry and Trade in his stead. History shows that the adjective "acting" almost always means that the official in question will be in due course upgraded to a full Minister position. And there was one noteworthy dismissal: former First Deputy Minister of Internal Affairs Mikhail Sukhodolskiy, once seen as a possible successor of the current Minister of Internal Affairs Rashid Nurgaliev, was ousted from his position as the chief of police for St Petersburg which he had held for only six months. The reason for his dismissal was a number of small incidents. Most likely, Sukhodolskiy was sacked for having failed to exercise effective control over his subordinates and to be accepted by them as one of their own. Therefore, on the eve of the forthcoming transfer of power, the leadership of St Petersburg police was returned to "locals". ●

## INFLATION AND MONETARY POLICY

N.Luksha

*In January 2012 the consumer price index made 0.5%, which was the historical minimum for the month (for comparison, in January 2011 it was 2.4%). In February the trend for inflation slow-down has remained: within three weeks of the month the CPI was sustained at the level of 0.3%. In January 2012 there was a seasonal decrease of the wide monetary base up to Rb 7,898.5 trillion (-8.6%) after the December growth (+15.8%). In early February, the volume of international reserves exceeded \$500bn. Nevertheless, in the first month of 2012 the net outflow of capital from the country was accelerated, having reached according to various estimates, from \$11bn to \$17bn (vs. \$7.2bn in January of the last year). Since the beginning of 2012 Russian currency strengthened against the two-currency basket by 6.5%.*

In January 2012 inflation rate has reached its record low peak. The CPI was 0.5%, which exceeds the December indicator only by 0.1 p.p. Traditionally, in January, prices are doubled or even tripled, as compared with December. The January index of consumer price was almost five times lower than the last year value (2.4%). The main reasons for such low rates of growth of consumer prices in January are the transfer of indexation services of natural monopolies from January 1 to July 1, 2011, the effect of high base of the last year, as well as freezing of the prices for fuel and electricity in January–February 2012 at the level of December 2011<sup>1</sup>.

The leaders in the growth in prices in January among the consumer goods were the foodstuffs (+0.8% vs. 2.6% in January 2011). The greatest contribution to the rise in prices has made more expensive fruit and vegetables (2.8%). The increased demand for alcoholic beverages, meat and poultry during the Christmas holidays put pressure on their prices, which increased respectively by 1.0 and 0.8%. At the same time, cereals and beans continued to get cheaper (-1.6%). The group of the cheaper products has included sunflower oil, which price has decreased by 0.2%. In addition, in January significantly slowed the growth rate in prices for eggs, from 5.6% in December to 0.5%.

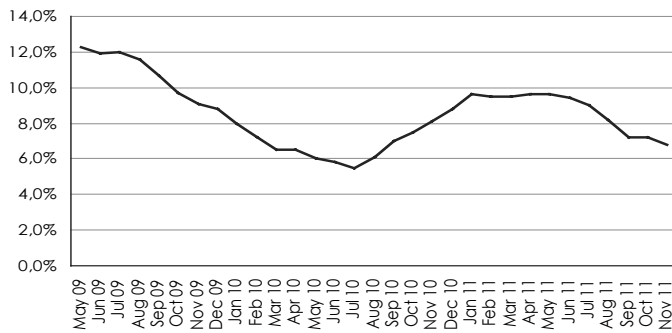
In the first month of 2012 the growth rate of prices for industrial goods has accelerated somewhat in comparison with December 2011, amounting to 0.4%. At the same time, this is almost twice lower than in January of the last year. The only cost reducing commodity in this group remained gasoline (-0.3%), the price of which was fixed in accordance with the agreements between the major oil companies and the Government before the presidential election. Top leaders in price growth were cleaning detergents (+1.1%), tobacco (+0.8%) and pharmaceuticals (+0.7%).

Due to the transfer of indexation of administrative regulated tariffs from January to July, the growth rate of prices for commercial services in the first month of 2012 slowed down to 0.3%. As a result, it decreased by 0.1 p.p. compared with December 2011, and by 3.8 p.p. as compared with January 2011 (+4.1%). In January, 2012 tariffs for a number of housing services and utilities were decreased (cold and hot water, heating (by 0.1-0.2%). Secondly, there was a reduction in fares for the long-distance trains. As a result, passenger transport has become cheaper by 0.1%. Thirdly, due to the lower cost of tours, foreign tourism got cheaper (-0.9%). Finally, in January communication services became cheaper (-0.1%). On the other hand, considerably more expensive became pre-school education services (+1.4%) and organizations of culture (+1.2%). Moreover, healthcare and recreation services were no longer getting cheaper, their prices increased by 1.2%.

The annual inflation (January 2012 to January 2011) has slowed to 4.2% (*Fig. 1*). This is 2.4 times lower than in the past year.

In February, the growth rate of weekly inflation has again fell back to 0.1%. As a result, in less than three weeks of the month the consumer price index made 0.3%. The cumulative inflation since the beginning of 2012 reached 0.8% (against 3.1% in the similar period of 2011).

<sup>1</sup> Vedomosty, 20.01.2012. ([http://www.vedomosti.ru/companies/news/1480955/minenergo\\_dogovorilos\\_s\\_neftyanyami\\_kompaniyami\\_o\\_zamorozke](http://www.vedomosti.ru/companies/news/1480955/minenergo_dogovorilos_s_neftyanyami_kompaniyami_o_zamorozke)).



Source: RF Statistical Service.

Fig. 1. CPI growth rate in 2009–2012 (% year to year)

The basic consumer price index<sup>1</sup> in January 2012 has somewhat declined against the preceding month and made 0.5% (1.1% in 2011).

Therefore, in early 2012 the trend of inflation slowing was sustained. However, in the second half of the year one can expect an increase in inflation due to the termination of the high base effect of 2011 and increased tariffs for services of natural monopolies. At the same time, to date, the minimum level of inflation (in annual terms) over the recent history of the Russian Federation cannot be disregarded as the success of monetary and

credit policy. As a result of 2011, the monetary supply grew more slowly than a year before – an annual growth rate of monetary base in broad definition M2 amounted to 22.6%, i.e., by 8.5 p.p. lower than in 2010 (33.1%). This has been ensured primarily by tight monetary policy the Central Bank. Moderate growth in monetary supply in the last year is continuing to restrain the rate of price growth.

In January 2012 there was a wide seasonal decrease of the monetary base upon its expansion at the end of the year. As a result of the month, it decreased by 8.6% to Rb 7.8985 trillion (see Fig. 2). The monetary base in broad definition was accompanied by the simultaneous decline in currency in circulation with regard to balances of credit institutions (7%), correspondent accounts (-26.2%) and banks' deposits with the Central Bank (-3.2%). In January, only the volume of mandatory reserves has grown (+3%).

Upon an upsurge of December, in January the excessive reserves of commercial banks<sup>2</sup> have declined again. Their volume has decreased nearly by 20% to Rb 1.1006 trillion. The main reasons for the reduction of excessive liquidity were tax payments and the need for banks to repay the debt to the Russian Ministry of Finance for more than Rb 500bn.

After a rather tense situation in the money market in January, in February, it has settled down to normal. This is evidenced, first, by reduced demand of the banks for repo auctions of the Central Bank. In particular, at the beginning on February, for the first time since the summer of 2011, due to the lack of bids, a series of one-day auctions was not held. Secondly, for the first time in two years no auctions were arranged on placement of funds in bank deposits of pension funds administered by the Bank for Foreign Economic Activity (VEB). Third, the net liquidity<sup>3</sup> position of banks became positive again.

Note also that there has been a steady trend to prolongation of provided liquidity. For example, commercial organizations demonstrate a clear preference for a week repos with the Bank of Russia over the one-day. In addition, the demand at proposed annual auction of the VEB, as opposed to the month results, has exceeded the offer by half.

Liquidity recovery in the monetary market was associated with an increase in budget spending in late 2011 – early 2012.

Reduced amount of cash in circulation by 7% and a simultaneous growth of mandatory reserves by 3% in January led to a narrowing of the monetary base in a narrow definition (cash plus mandatory reserves) by 6.5% to 6797.8 (Fig. 2).

Since the second half of January international reserves have grown steadily. At the end of January their volume exceeded \$500bn. In the first decade of February their growth has continued

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

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

3 Net liquidity position is estimated as the difference between the amount of liquidity assets (correspondent accounts with the Central Bank, deposits with the Central Bank, CB bonds) and the total value of banks' liabilities to the Central Bank and Ministry of Finance of Russia.



and by February 10 amounted to \$509.1bn (+2.4% for the period from mid-January). The increase in the Russian international reserves is based primarily on the growth of the Euro against the U.S. dollar and, consequently, an increased share of international reserves denominated in euro expressed in U.S. dollars.

In January 2012, in the situation of ruble strengthening, the Bank of Russia for the first time since September, came to the market with purchases of foreign currency. During the first month of the year the regulator has purchased \$427.72m. In January the net sales of foreign currency in the framework of interventions amounted to \$207.54m and Euro 18.23m (Fig. 3)<sup>1</sup>, which is many times lower than in December 2011 (\$1,773.14 and Euro 191.7m).

According to the Ministry of Economic Development of Russia, net capital outflow from the country at the beginning of the year has not only continued but increased, having reached in January \$17bn. This is almost 2.5 times higher than the January outflow of the previous year (\$7.2bn) and 1.7 times greater than the outflow in December 2011 (about \$10.4bn). A comparable level the outflow was recorded in January 2009: at that time the outflow from country made \$24.3bn According to preliminary estimates of the RF CB, the outflow in the January was lower and amounted to about \$11bn<sup>2</sup>. Despite the marked difference in the estimates of capital flight, they both reflect a continuing trend towards significant capital outflows. Note that in the situation of minimum intervention of the Bank of Russia in foreign exchange market a large capital outflow reflects mainly a significant positive value of the trade balance of Russia. In other words, with little intervention of the Bank of Russia, balance of the account and financial instruments is approximately equal to the current account balance, taken with opposite sign. In such a situation the dynamics of the ruble rate allows to assess the correlation of supply and demand in the foreign exchange market. Strengthening of the ruble earlier this year suggests that the demand for ruble assets exceeds the supply thereof.

In January the real effective exchange rate was growing and in the month it increased by 0.7%. As a result, the index of real effective exchange rate has reached 148.01 (Fig. 4)<sup>3</sup>.

During January and three weeks of February, the dollar fell against the ruble by 6.6%. From the second week of February U.S. currency exchange rate did not exceed \$30 / Rb 1, having returned to the level of the beginning of September 2011. For the same period of 2012 the European currency has also declined against the ruble (-3.5%). Since late January, the

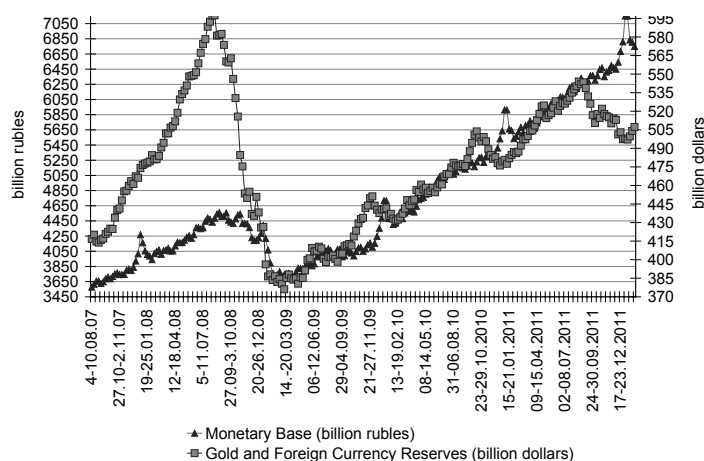
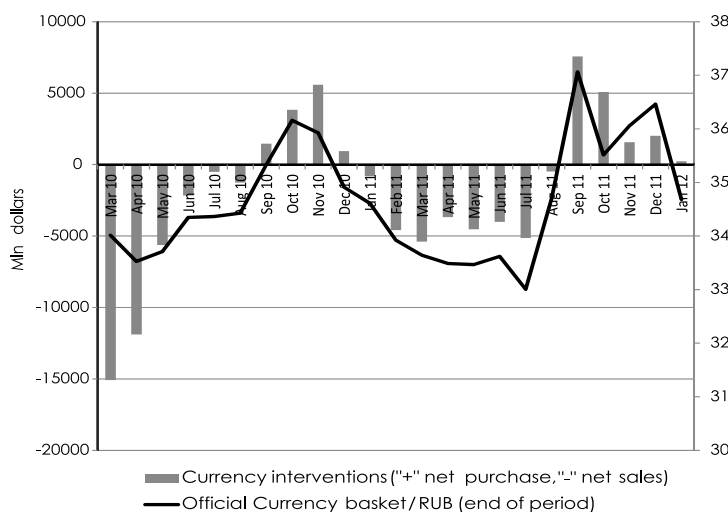
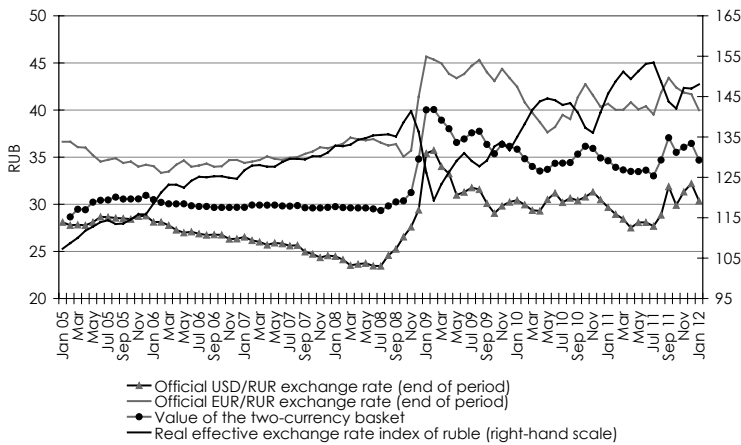


Fig. 2. Dynamics of the RF monetary base (in narrow definition) and gold and foreign currency reserves in 2007–2012



Source: RF Central Bank, author's estimates.  
Fig. 3. Central Bank currency interventions and dynamics of Ruble against currency basket March 2010 – January 2012

1 The level of January 2002 is accepted as 100%.  
2 Vedomosty 21.02.2012 ([http://www.vedomosti.ru/finance/news/1510024/ulyukaev\\_ottok\\_kapitala\\_v\\_yanvare\\_11\\_mlrd](http://www.vedomosti.ru/finance/news/1510024/ulyukaev_ottok_kapitala_v_yanvare_11_mlrd)).  
3 The level of January 2002 is accepted as 100%.



Source: RF Central Bank, author's estimates.  
 Fig. 4. Indicators of ruble exchange rate dynamics in January 2005 – January 2012

the currency of the Russian Federation”, according to which the Bank of Russia will expand the list of banks that will be able to place surplus funds on deposit with the RF CB. That is, except for the bank groups I and II, in terms of the economic status, admission to deposits of the regulator will be provided to the banks of group III of classifier (the banks with deficiencies in the activity, failure to eliminate of which in the coming year may lead to a situation that threatens the legitimate interests of their depositors and creditors). Thus, in case of excessive liquidity, the regulator will get an additional opportunity to sterilize the monetary assets on its deposits. ●

Euro fell below Rb 40 for Euro 1. Such indicators were recorded for the last time in early August 2011. As a result, within three weeks of February the value of the two-currency basket price decreased to Rb34.08 (-6.5% from the beginning of the year).

Strengthening of the Russian currency is promoted by the growth of the global oil prices, which since the beginning of the year increased nearly by 15%, exceeding the level of \$120 / Bbl.

On February 20, 2012, amendments were made to in the RF Central Bank Regulation No. 203-II “On the order of the RF Central Bank on deposit operations with credit institutions in

## FINANCIAL MARKETS

N.Burkova, E.Khudko

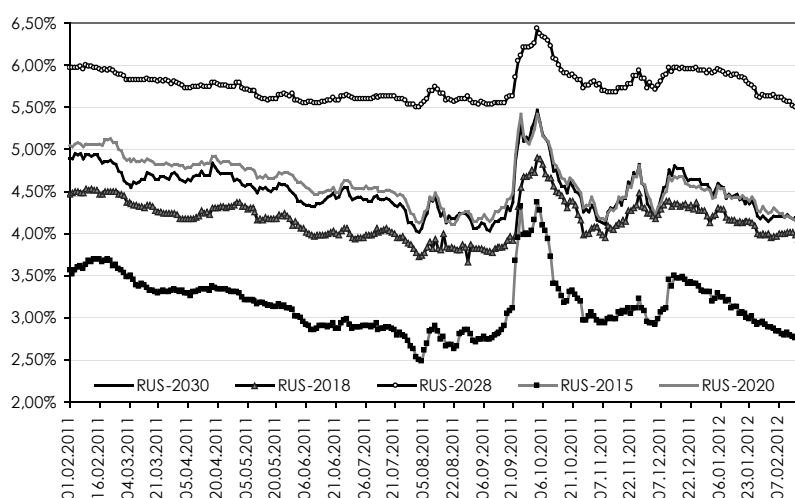
In February 2012 the situation in the Russian financial market characterized by increased activity of investors and trading volumes due to the favorable external macroeconomic statistics and the approval of the Greek Parliament new budgetary savings measures. The value of shares of the most liquid RF companies in early 2012 was also growing. In early February trading volumes and market indices, as well as duration of the portfolio securities in the domestic corporate bond market were increasing.

**Government securities market**

In February this year there was an increased interest of investors to the market of government securities, which has supported the downward trend in the yield to maturity in the market within the month. Thus, the yield of government Eurobonds fell down mostly by 5-9%. The largest downgrading in yield (by 13.19%) was demonstrated by Eurobonds RUS-15, one of the “shortest” securities offered in the market (Fig. 1).

Within the period from January 23 to February 21, the total turnover of the secondary market of government bonds amounted to Rb 200bn with an average daily turnover at the level of Rb 9.1bn, which makes the growth of the daily average monthly turnover by 2.8-fold as compared with the preceding period.

In the period from January 23 to February 21, there were held four auctions in federal loan bonds (OFZ) placement in the primary market (Table 1). The total actual amount of placement made 98.25 % of the planned volume (92.8% in the preceding month). There were no auctions on additional OFZ placement in the secondary market.



Source: “Finmarket” Information Agency data.  
Fig. 1. Yields to maturity of the Russian Eurobonds with maturity in 2015, 2018, 2020, 2028 and 2030

Table 1

## OFZ PLACEMENTS IN THE PRIMARY MARKET

| Auction date | Emission     | Emission volume, RB m | Emission volume at face value, RB m | Average weighted yield |
|--------------|--------------|-----------------------|-------------------------------------|------------------------|
| 25.01.2012   | OFZ-26206-PD | 20 000,00             | 19 838,00                           | 8,04                   |
| 01.02.2012   | OFZ-26205-PD | 35 000,00             | 34 942,00                           | 8,25                   |
| 08.02.2012   | OFZ-26205-PD | 35 000,00             | 34 469,14                           | 7,76                   |
| 15.02.2012   | OFZ-26206-PD | 20 000,00             | 18 823,71                           | 7,49                   |
| Total:       |              | 110 000,00            | 108 072,85                          |                        |

Source: Russian Ministry of Finance.

**Stock market****Factors of the Russian stock market dynamics**

Last ten days in January 2012, the Russian stock market was closed with sideways trend, but was characterized by higher trading activity than earlier this month. The situation in global stock

markets during this period was mainly provoked by the uncertainty in the solution of economic problems in Greece. In addition, the international rating agency Fitch Ratings has downgraded the ratings of five Eurozone countries: Italy, Spain, Belgium, Slovenia and Cyprus. U.S. Federal Reserve has maintained the key interest rate in the range of 0-0.25% per annum, but reduced the forecast of economic growth in the U.S. from 2.5-2.9% to 2.2-2.7% in 2012 and from 3.0% -3.5% to 2.8-3.2% in 2013, while the IMF has lowered the forecast economic growth of Russia in 2012 from 4.1% to 3.3%. The first week of February was characterized by the growth of the major indexes in connection with the publication of positive macroeconomic data of the U.S., Germany and China, as well as the results of the EU summit. During the second week of February (from February 6 to 10) correction was prevailing at the market, associated mainly with the preservation of the uncertainty regarding the financial support for Greece. Herewith, the Bank of England and European Central Bank were keeping the interest rates unchanged.

From the third week of February market growth was observed in view of positive external news, among which there were the Greek parliament approval of the new fiscal policy, GDP growth in Eurozone as per 2011 results and the GDP of France growth in the 4th quarter of 2011, as well as reduction of mandatory reserve requirements for banks by the People's Bank of China. However, among the negative news of the second half of February we should highlight the solution of the international rating agency Moody's Investors Service to revise the ratings of nine European countries (including Spain, Italy, Malta, Portugal, Slovakia, Slovenia) and the change in the outlook for Austria, Britain and France from «stable» to «negative».

In general, the national markets have grown by 1–11%, and from the beginning of the year the global markets under review – by 1–9% (*Table 2* and *Fig. 2*).

Table 2

## DYNAMICS OF THE GLOBAL STOCK INDICES

| Index  | Value<br>(as of 21.02.2012) | Dynamics within<br>the month(%)* | Dynamics<br>from the year<br>beginning (%) |
|--|-----------------------------|----------------------------------|--|
| MICEX (Russia)                                 | 1 558.98                    | 4.55                             | 6.34                                       |
| RTS (Russia)                                   | 1 655.35                    | 10.62                            | 8.29                                       |
| Dow Jones Industrial Average (USA)             | 12 965.69                   | 1.93                             | 4.12                                       |
| NASDAQ Composite (USA)                         | 2 948.57                    | 5.81                             | 6.97                                       |
| S&P 500 (USA)                                  | 1 362.21                    | 3.56                             | 4.59                                       |
| FTSE 100 (UK)                                  | 5 928.20                    | 3.49                             | 2.80                                       |
| DAX-30 (Germany)                               | 6 908.18                    | 7.87                             | 8.58                                       |
| CAC-40 (France)                                | 3 465.24                    | 4.33                             | 5.12                                       |
| Swiss Market (Switzerland)                     | 6 237.82                    | 1.88                             | 3.14                                       |
| Nikkei-225 (Japan)                             | 9 463.02                    | 7.95                             | 3.68                                       |
| Bovespa (Brazil)                               | 66 203.50                   | 6.24                             | 9.79                                       |
| IPC (Mexico)                                   | 37 859.48                   | 1.27                             | 0.83                                       |
| IPSA (Chile)                                   | 4 525.33                    | 5.78                             | 2.41                                       |
| Straits Times (Singapore)                      | 3 025.07                    | 6.17                             | 7.67                                       |
| Seoul Composite (South Korea)                  | 2 024.24                    | 3.81                             | 6.80                                       |
| ISE National-100 (Turkey)                      | 61 252.83                   | 11.59                            | 7.06                                       |
| BSE 30 (India)                                 | 18 428.61                   | 10.09                            | 8.31                                       |
| Shanghai Composite (China)                     | 2 381.43                    | 2.69                             | 5.44                                       |
| Morgan Stanley Emerging&Frontier Markets Index | 839.14                      | 6.84                             | 8.32                                       |

\* Versus index indicators valid on January 2012

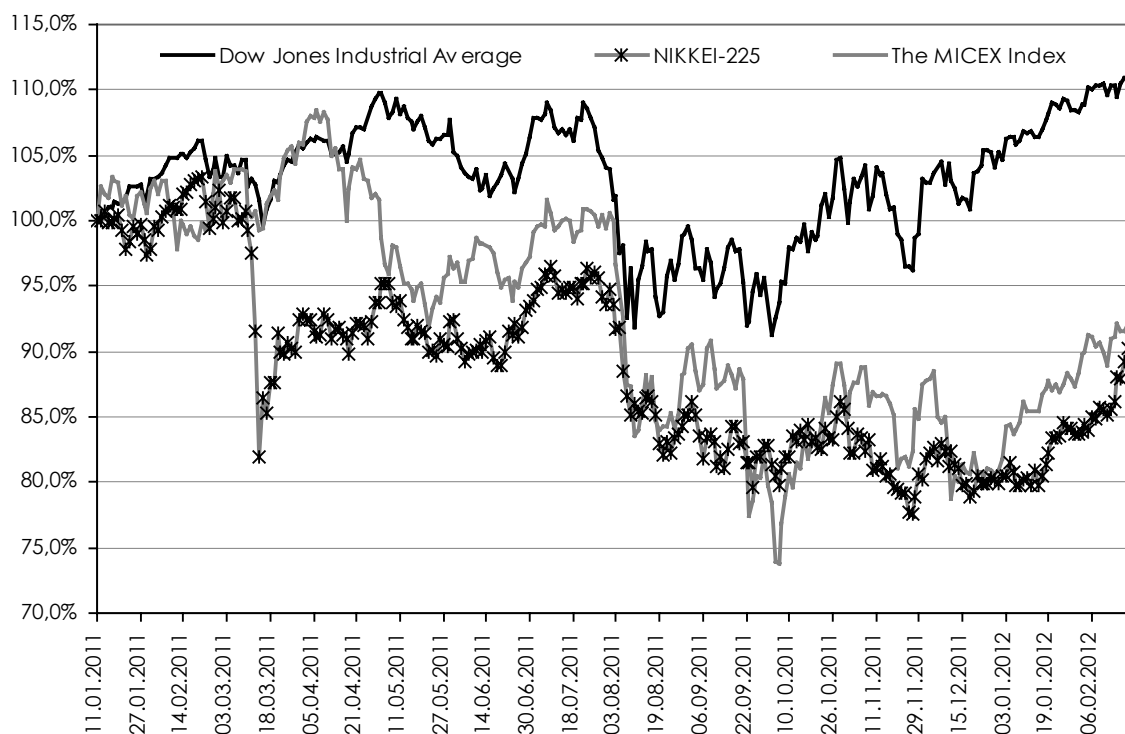


Fig. 2. Dynamics of the main USA, Japanese and Russian stock indices (in % to the date 11.01.2012)

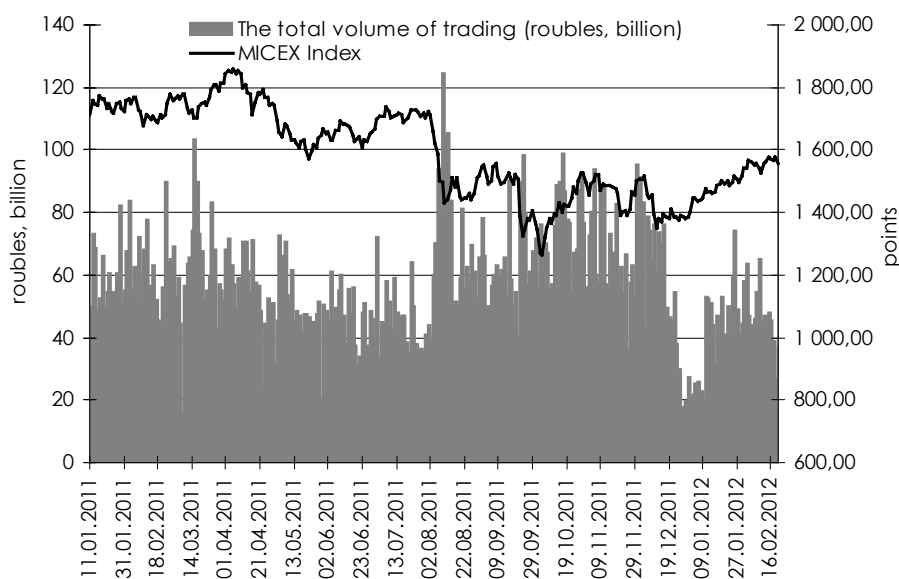
### Stock market situation development

The maximum value within the month the MICEX index has demonstrated on February 15, having reached 1579.38 points (1503.7 points in the preceding month). The minimum value for the period the MICEX index has reached on February 10 – 1525.17 points (against 1434.91 points in the preceding month) (Fig. 3).

In general, within the period from January 23 to February 11, 2012, the MICEX index has increased by 4.55%, what makes about 67.83 points in absolute terms (from February 22, 2011 through February 21, 2012 the MICEX index has downgraded by 8.35%), whereas the turnover of trades in securities included in the MICEX index has reached Rb1,103.65 bn. The average daily level of investor's activity in the stock market in February has increased by 43%.

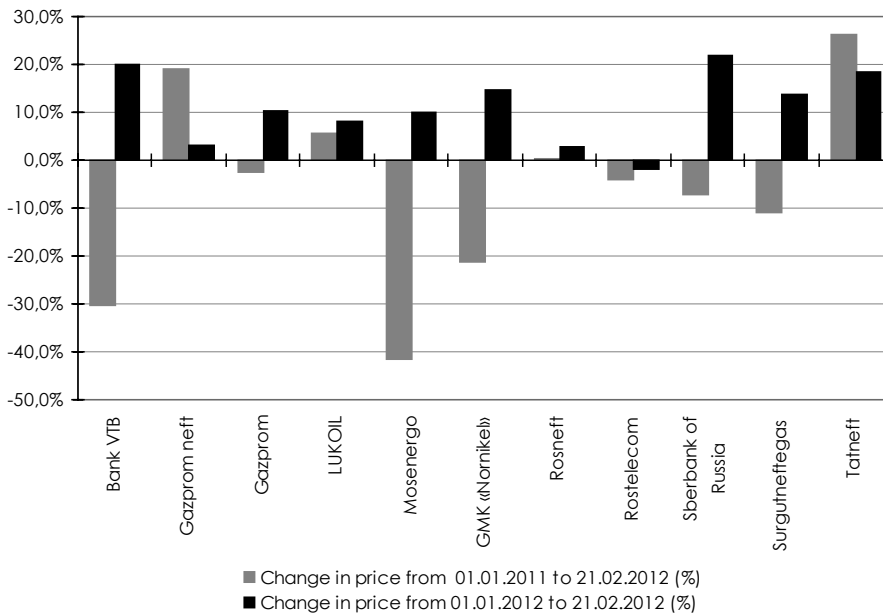
In the period from January 1 through February 21, 2012, the leaders in the value growth among the "blue chips" were securities of Sberbank and VTB Bank, which value has increased by 21.76 and 29.93% accordingly (Fig. 4).

Prices of futures contracts concluded for Rb /\$ in MICEX derivatives market with the maturity date on March 15, 2012 were mostly in the range Rb 29,9-30,3/\$, i.e., there is expected (0.4–1.75%) depreciation of the



Source: JSC "MICEX-RTS".

Fig. 3. Dynamics of MICEX Index and trading volume



Source: JSC “MICEX–RTS”.

Fig. 4. Dynamics of the Russian Blue Chips

derivatives market after the settlement of futures contracts on the MICEX index was followed by deliverable futures contracts on the shares of Gazprom, LUKOIL and Sberbank. Trading volume in futures trading commodity assets amounted to Rb11m. There were no transactions in interest rate instruments in February.

On FORTS futures market average daily activity of investors in February increased by 12.29% as compared with the previous month. The leaders in terms of trading in futures contracts are those for RTS index, followed with a significant margin by contracts for the Rb / \$ rate, for Sberbank of Russia securities, for the Euro/\$ and the shares of Gazprom. In FORTS futures and options market, the prices of the last transactions for the futures contracts Rb/ \$ with maturity date on March 15, 2012, were mostly within Rb 29.9–30,0 Rb/\$, and the maturity date on June 15, 2012 – within Rb 30.0–1.5 Rb /\$.

Rates of recent transactions concluded on futures contracts for Rb / Euro with maturity on March 15, 2012, were mostly within Rb 39.5–40.4 /\$, and with the maturity date of June 15, 2012 – within 40–41 Rb/\$. The value of the futures contract for RTS index (based on recent prices of transactions) with the maturity date on March 15, 2012 was an average of 1,520–1,660 points, i.e., it is expected (0–8.2%) in the index downgrading as compared with the level of February 21, 2012, and with the maturity date of June 15, 2012 – in the range of 1,480–1,610 points. Options were much less in demand – turnover on them amounted to about Rb 263.09bn (Rb 3,602.39 in futures). In the first place in terms of trading there were leading futures-style options for the RTS index futures contracts.

### Corporate bonds market

The volume of the Russian domestic corporate bonds market (as per nominal value of shares in circulation, denominated in national currency) in February of the current year continued its regular growth. At the end of the month reached the level of Rb 3,472.9bn, having gained 1.7 % against the relevant indicator of the late January of the current year<sup>1</sup>. Therefore, this indicator has once again updated the historical maximum. Such significant growth in the market volume took place again due to the increase in the number of emissions: 786 issues of corporate bonds denominated in national currency, against 777 emissions at the end of preceding month). Herewith, the number of emitters represented in the debt segment of the securities market was changed insignificantly (339 emitters against 341). The above statistics shows once again an increase in the number of loans placed by each emitter on average. Among the emissions denominated in foreign currency, there is still only one emission of bonds in circulation, in Japanese yens.

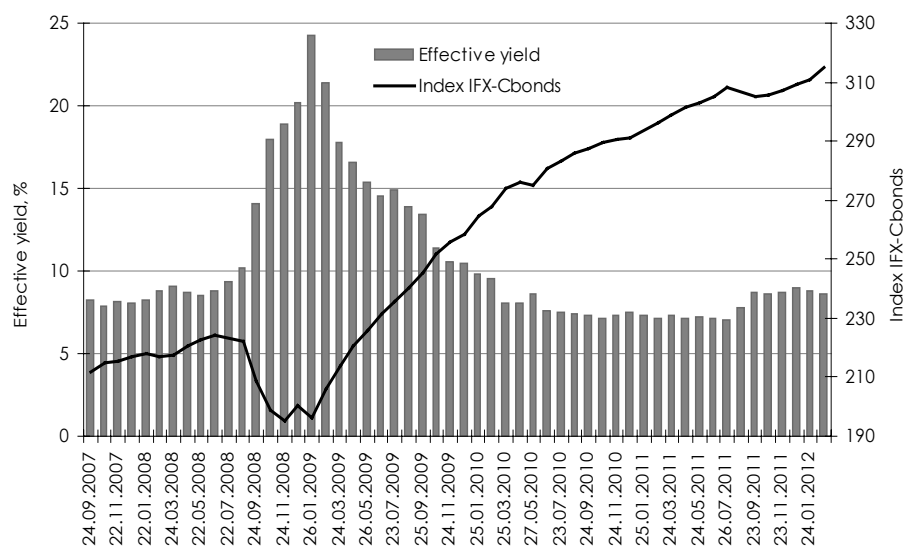
<sup>1</sup> Russian Federal Financial Markets Service data.

In the secondary market of corporate bonds investors have shown a high activity. Trade indicators have continued to grow: from January 21, through February 21, the total volume of transactions in the MICEX stock exchange amounted to Rb 125.4bn (for comparison, from December 21 to January 20 of the current year, the turnover has reached Rb 117.7bn, and in the fourth quarter it has not exceeded Rb 90–100bn per month). The number of transactions in the period under review made 24.900 (23.900 in the preceding relevant period)<sup>1</sup>.

Index of Russian corporate bond market IFX-Cbonds has accelerated its growth; by the end of February its value increased by 4.2 points (or 1.3%) as compared with the value of late January. At the same time, the weighted average effective yield remained virtually unchanged for several months: 8.63% at the end of February against 8.84% at the end of the previous month (Fig. 5). Thus, reduction of the refinancing rate in late December has not yet contributed to a more intensive decrease in the attraction of raising bonds. Most likely, this is a result of deteriorating liquidity situation in the Russian financial market in connection with increased capital outflow from the country at the beginning of the year. An important role is played by negative external news background. However, the duration of the portfolio of corporate bonds rose suddenly and at the end of the month amounted to 781 days, which is 39 days longer than at the end of the previous month. This value of the duration index is rather high and indicates a large share of long-term liabilities in the corporate market segment.

The overall slight decrease in the average weighted interest rate on the market was mainly due to the companies of the financial and industrial sectors. The leaders in the yield reduction (more than 1 percentage point) in February were securities of “Renaissance Capital” (issue series BO-03), JSC “Mechel” (Issues series 16 and BO-03), JSC “Russian Railways roads” (issues series 15 and 18 series), JSC “Mineral and Chemical Company” “EuroChem” (issue series 02)<sup>2</sup>. At the same time, variable trends were observed in the bond yields of the above emitters. Thus, the record growth in the yield to maturity in February was demonstrated by the issues of securities of JSC “LUKOIL” (series BO-04 3.6 percentage points), Commercial Bank “Renaissance Capital” (series 2+2.6 percentage points), JSC “Mechel” (series 19+2.2 percentage points)<sup>3</sup>. The yield of the most liquid securities issues the financial sector majority group (“AHML”, “Alfa Bank”, “VTB”, “Zenith Bank”, “Russian Agricultural Bank”, etc.) and industrial companies (“Alrosa”, “Bashneft”, “Gazprom”, “Gazprom Neft”, “Novolipetsk Steel Mills”) has decreased by 0.2–0.4 percentage points. But there was no such unity in the trends of high-tech and energy sectors. In particular, a higher volatility was observed in the dynamics of the interest rate on bonds of generating companies.

At the end of January – early February, there was observed a high activity of emitters in the debt sector. Thus, in the period from January 25 to February 21, eleven emitters have registered 33 corporate bond issues with a record aggregate nominal value of Rb 255.5bn (for comparison, from December 23 to January 24 there were registered 49 bond issues denominated in rubles for Rb 166.4bn nominal value) and one issue of securities denominated in



Source: Cbonds data.

Fig. 5. Dynamics of the Russian corporate bonds index and average weighted yield

- 1 As per “Finmarket” Information agency.
- 2 Russian Federal Financial Markets Service data.
- 3 Russian Federal Financial Markets Service data.

U.S. dollars). The major emissions in the period under review were registered with the SC “Bank for Development and Foreign Economic Affairs” (9 series of bonds totaling Rb 120bn), OAO “Metalloinvest Holding Company” (7 bonds series totaling to Rb 50bn ) and JSC “Russian Agricultural Bank” (4 series in the amount of Rb 30bn). Like in January, there were very few exchange-traded bonds, for which a simplified registration scheme is applied. At the same time, there were several companies that were first planning to enter the debt market among emitters, who have registered the bond issues.

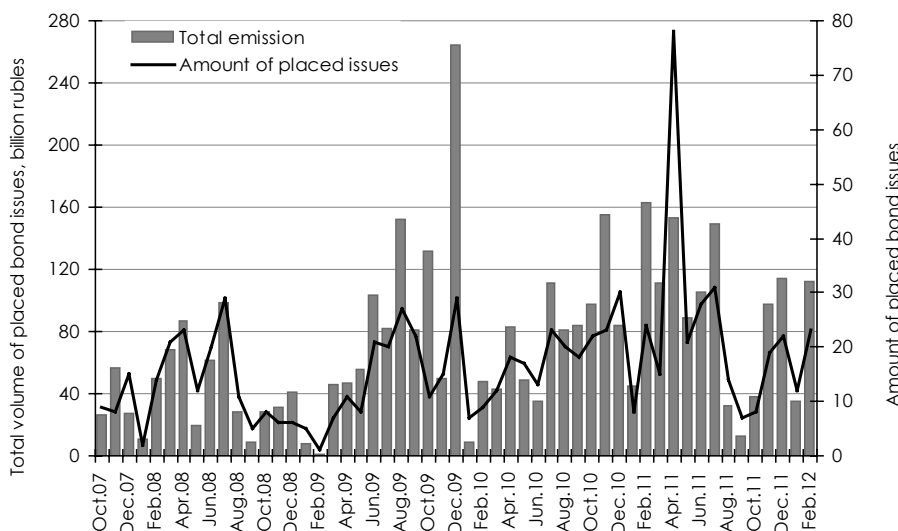
Investors’ activity in the primary bond market has also increased significantly and reached the level of December of the last year from January 25 to February 21, eighteen emitters have placed 23 emissions with the total nominal value of Rb 112.5bn. (From December 23, 2011 to January 24 of this year, there were placed a total of 12 issues of securities for nominal value of Rb 35.1bn) (Fig. 6). There were some debut bond issues among the placed bonds. The largest bond issues were placed by the financial sector: JSC “VTB” (a series of exchange-traded bonds worth Rb 10bn), JSC “Bank Zenit” (2 series of exchange-traded bonds totaling to Rb10bn), JSC “VEB- Leasing” (a series of bonds worth Rb10bn), ZAO “Gazprombank” (a series of exchange-traded bonds worth Rb 10bn), JSC “Russian Agricultural Bank” (two series of commercial papers worth Rb10bn) and the emitters of the real sector of the economy: JSC “Bashneft” (a series of bonds worth Rb 10bn) and JSC “Gazprom Neft” (a series of bonds worth Rb 10bn). Corporate bonds with maturity of 10 years or more (excluding mortgage coverage) are no longer a rarity in the Russian stock market, in February, there were placed 3 issues of 10-year bonds issued by companies “Bashneft”, “Gazprom oil” and “St. Petersburg Telecom”.

Herewith, it should be noted that in February FFMS of Russia recognized only one bond issue as invalid in connection with the non-placement of any security (in late December – January there were canceled seven bond issues of rather large issuers). This indicator demonstrates a high demand for corporate bonds<sup>1</sup>.

From January 25 to February 21, all emitters who were to pay off bonds, have performed their obligations to bondholders when due (in December–January on the bond market as there were no announcements of technical default on repayment of securities issues). In March 2012 are expected to repay 13 corporate bond issues totaling to Rb 30.9bn<sup>2</sup>.

The situation with the announcement of the actual default (when the issuer is unable to pay the income to the owners of the securities, even in the days after the scheduled date of performance) in February has improved significantly as compared with the recent months. From January 25 to February 21, all issuers have fulfilled their obligations under the current bond loans on time or within a technical default (in December and January 2–3 Issuer declaring the real default on coupon

payments). In February, as in the previous month, one issuer was unable to repay the face value of outstanding bonds, even in the framework of technical default and reach an agreement with bondholders to restructure the debt. But at the same time, the early redemption of the securities on offer from their current owners, as a month earlier, all issuers have carried out in due time. ●



Source: Rusbonds data

Fig. 6. Dynamics of corporate bonds primary placement, denominated in national currency

1 Rusbonds data.  
2 Rusbonds data.



**REAL ECONOMY: TRENDS AND FACTORS**

O.Izryadnova

*In January 2012 the main trends in the real sector of the Russian economy were defined by the conditions which formed in the Russian Federation in the 2<sup>nd</sup> half of 2011. The internal market of January 2012 was considerably influenced by the growth of the investments in the fixed assets by 15.6% and the volume of the workload in construction – by 11.7% versus the level of last January. Expansion of consumer demand by 6.8% was supported by the increase in the real incomes of the population and the real wages growing at anticipating rates.*

In January 2012 the macroeconomic situation was defined by the factors formed in the second half of the previous year. In January 2012 the internal market was significantly affected by the increase of the investments in fixed assets by 15.6% and the workload of construction – by 11.7% versus the the previous year. The trend for the expansion of the consumer market was also maintained. In January 2012 the index of the retail trade versus the corresponding period of the previous year made 106.8%, for foodstuffs – 105.0%, for non-food goods – 108.5%. In January 2012 as compared with January 2011 the volume of the paid services rendered to the population growth was accelerated: the growth rate made 4.9% versus 3.9% a year ago.

The expansion of the demand this January was determined, first, by the slowdown of the prices growth rates for consumer goods and paid services, which has been observed since the second half of 2011, and, second, by the refusal from the indexation of prices and tariffs for federally regulated goods (service) of the natural monopolies at the beginning of the year, third, by the growth of the real incomes of the population, and, fourth, the increase of the consumer crediting volumes.

In January 2012 the consumer prices made 100.5% versus December of the preceding year and 102.4% versus a year ago. The moderate growth of prices for foodstuffs together with the increased offer of the domestic agriculture had a considerable contribution into the inflation decrease. In January 2012 the price index for foodstuff as compared with December 2011 made 100.8% against 102.6% a year ago, for non-food goods – 100.4% versus 100.9% and for service – 100.2% versus 104.2%.

Starting with the 2<sup>nd</sup> half of 2011 the trend for the growth of the real incomes of the population has recovered. In January 2012 the real incomes of the population went up by 2.3% versus January 2011, the real wages increasing by 9.0% versus 1.3% a year ago<sup>1</sup>. The level and dynamics of the wages in 2011 had a prevailing influence on the dynamics and structure of the expenditures of population. Whereas in 2010 the proportion of labor remuneration made 64.6% of the monetary incomes of the population, in 2011 it was 67.1% the proportion of the incomes from entrepreneurship, property and other sources decreasing from 16.6% to 14.8%. The proportion of pensions and other social payments in the incomes of the population went up to 0.3%.

During 2011 the trend towards the inclination to saving among the population was observed to abate. However, in December 2011 the situation traditional for the end of the year was registered when the proportion of saving in the population's incomes went up to 18.2%, proportion of savings in deposits and securities rising to 16.8% (average figures for 2011 being correspondingly 10.3% and 5.3%).

Despite a sharp growth of the nominal incomes of the population in December 2011 and the increase of the savings and cash on hand of population the demand for consumer crediting was observed to expand simultaneously. As on the end of January 2012 credits issued to the population made Rb5582.4bn, rising by 3.7% as compared with December 2011 and by 36.8% as compared with January 2011.

<sup>1</sup> Federal State Statistics Service considerably raised the estimation of the real wages for last December – increase versus December 2010 made 11.4% versus 4.9% according to the preliminary data. The annual estimation of the real wages has changed: increase on 2010 made 4.2% as compared with 3.5% according to the previous estimation.

In January 2012 the number of the economically active population made 74.9m, which is about 53% of the total number of population. In January 2012 70.0m were employed in the economy, which is 965000 less than at the end of the previous year. The number of the employed (as calculated by the ILO methodology) made 4.9m in January 2012 or 6.6% of the economically active population; 1.3m was registered at the state employment services (1.7% of the economically active population). It should be noted that the growth of the number of the unemployed at the beginning of the year is seasonal.

The demand of the employers for the employees declared to the state employment services went up by 98700 this January versus December 2011 and made 1.26m of vacant positions. Tension coefficient per 100 of the declared vacant positions made 117.4 versus 175.9 over the corresponding month of 2011.

It was the continuous growth in the real economy sector that had a positive influence on the general economic situation. As compared with January 2011 the index of the industrial production made 104.7%, minerals extraction index being 101.4%, processing industry index – 104.8%, electricity, gas and water production and distribution index – 99.8%.

Table 1

INDICES OF PRODUCTION FOR MAIN TYPES OF MANUFACTURING INDUSTRIES, JANUARY  
ON JANUARY OF THE PREVIOUS YEAR, AS PERCENTAGE

|  | 2009 | 2010  | 2011  | 2012  |
|--|------|-------|-------|-------|
| Manufacturing industries                                     | 75.9 | 113.3 | 113.5 | 104.8 |
| foodstuffs production, including beverages and tobacco       | 96.4 | 101.8 | 104.1 | 105.6 |
| textile and sewing industry                                  | 71.9 | 114.1 | 112.2 | 95.0  |
| leather, leather goods and footwear production               | 74.0 | 137.6 | 111.8 | 90.5  |
| timber processing and wooden goods production                | 66.6 | 109.8 | 114.9 | 96.3  |
| pulp-and-paper production; publishing and printing           | 78.9 | 113.1 | 94.2  | 108.0 |
| coke and oil products production                             | 95.7 | 106.7 | 107.0 | 100.9 |
| chemistry industry   | 67.1 | 135.9 | 112.8 | 96.8  |
| rubber and plastic goods production                          | 73.3 | 127.1 | 126.2 | 104.6 |
| production of other non-metal mineral goods                  | 65.7 | 101.0 | 118.8 | 118.2 |
| metallurgy production and production of finished metal goods | 69.9 | 120.9 | 113.2 | 105.7 |
| machinery and equipment production                           | 54.1 | 113.1 | 112.4 | 142.0 |
| electric, electronic and optical equipment production        | 52.9 | 117.8 | 115.3 | 114.5 |
| transport vehicles and equipment production                  | 64.0 | 109.7 | 186.7 | 115.6 |
| other industries   | 84.0 | 121.9 | 109.2 | 102.1 |

Source: Federal State Statistics Service

In processing industries it was machine and equipment production, production of transport vehicles and equipment, electric, electronic and optical equipment production acted as growth drivers.

The acceleration of the growth rates in the machine-building complex is connected with the consistent realization of measures aimed at demand stimulation for the Russian industry, particular machinery and equipment for agriculture and forestry (using the resources of OJSC Rosselkhozbank and OJSC Rosagroleasing); fulfillment of the projects for technological re-equipment of metallurgical and oil and gas factories; increase in the demand for OJSC Russian Railways for railway cars the freight and passenger turnover of railways growing. The production of passenger cars in January 2012 versus January 2011 went up by 16.8% due to the increase in the solvent demand which was supported with the development of crediting mechanisms.

Analyzing the dynamics of the machine-building complex this January one should pay attention to such negative moments as the reduction of trucks production by 5.6% versus the level of January 2011 in connection with the increased share of the import production at the internal market; decrease in machine tools production by 7.9% due to a complicated financial situation of both the producers and consumers of these types of produce; contraction of the household appliances production by 2.8% the domestically produced household appliances being not quite competitive with the import analogues.

Living up of the investments demand supported the output of adjacent production. The index of metallurgy production and production of finished metal goods in January 2012 made 105.7% versus January 2011, including the metallurgy production index – 102.4%, production of finished metal goods – by 111.9%. The growth of the production of other non-metal mineral goods in January 2012 made 118.2% versus last January the dynamics of construction materials production being positive: concrete, lime and plaster production index was 125.3%, concrete, lime and plaster goods production index – 143.3%, bricks, tiles and other construction material of baked clay – 123.7%.

In the segment of the intermediate goods production in January 2012 there was a decrease of the production observed for a broad list of the main types of chemistry industry goods as compared with January 2011, which is connected mainly with the correction of the contracts for export supplies.

As compared with January 2011 in January 2012 the timber and wooden goods production made 96.3% the index for timber harvesting being – 94.7%.

Coke and oil products production growth in January 2012 as compared with the corresponding period of 2011 made 100.9%, oil products production growth making 104.7%. In January 2012 Russian oil processing factories received 22.6m of tons of crude oil or by 4.4% more than in the corresponding period of 2011. The proportion of oil processing in the amount of the total amount of oil production in January 2012 went up to 51.4% versus 50.2% over the corresponding period of 2011 and the oil refining efficiency increased to 70.6% versus 70.1%. The structure of the output was still characterized by the high proportion of furnace fuel oil and diesel fuel, the offer of which exceeded the demand of the internal market and was actively exported due to more favorable conditions for sale at the external markets as compared with the internal.

Analyzing the dynamics of the processing industry one should note the characteristic feature of domestic market oriented industry functioning. In January 2012 the index of textile and sewing industry made 95.0% versus January 2011, of leather, leather goods and footwear production – by 90.5%. The index of textile production made 89.3% in January 2012 versus January 2011. The decrease in the production volume in these types of economic activity is steady, which testifies the problems caused by the shortage and low quality level of the domestic raw materials and technological equipment, which have not been addressed for a long time.

The beginning of the current year was marked by the anticipating growth of the foodstuffs production versus the dynamics of the processing industry as a whole. The index of foodstuffs production including beverages and tobacco made 105.6% in January 2012 as compared with the corresponding period of 2011.

The analysis of the main trends in the development of the real sector of the economy at the beginning of 2012 allows drawing conclusion that although in 2011 the Russian manufacturing industry on the whole reached the pre-crisis level of 2008, and in 2012 it exceeded by 2.3% the index of January 2008, unsteady dynamics of the economic growth in some types of activity is connected with the low level of competitive ability of the national economy while the trend for the anticipating growth of import versus the domestic production. ●

## RUSSIAN INDUSTRIAL SECTOR IN JANUARY 2012

S.Tsukhlo

According to the Gaidar Institute surveys<sup>1</sup>, the beginning of 2012 has been a hard time for Russian industry. In the wake of declining demand, industries are reducing production (practically to full stagnation), continue to reduce personnel and carefully increase prices. However, a sharp increase in the optimism of forecasts shows that the industry hopes to exit from the prolonged and escalating crisis, but mainly – with the help of political factors.

### The index of industrial optimism

In January the index of optimism showed decline to the minimum values for the half of the year. The growth of forecasts optimism in the end was not able to compensate for the deterioration in the actual dynamics and its assessment. The situation in the Russian industry has definitely deteriorated (Fig. 1). The index of industry forecasts has increased unexpectedly from economic point of view in January, which can only be explained by political factors (Fig. 2).

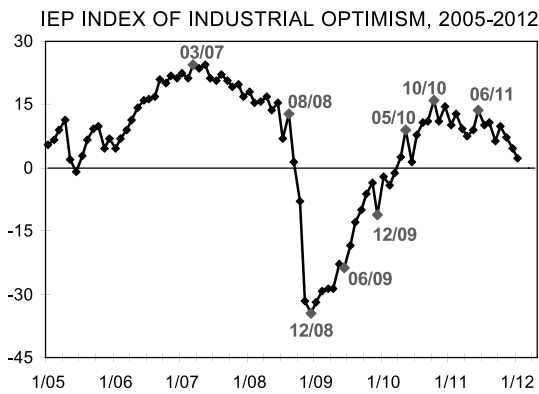


Fig. 1

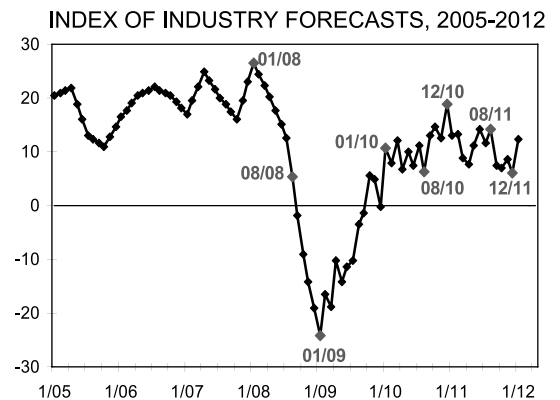


Fig. 2

### Demand for industrial products

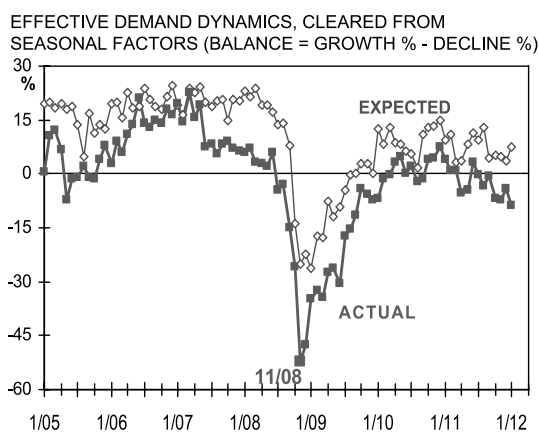


Fig. 3

In the beginning of the year there was an expected sharp decline in demand for industrial products due to the national holiday. However, this time the usual January sales decline was a continuation of negative demand trends formed in September 2011, when sales growth stopped. The decline with increasing intensity (pace) began afterwards and in January 2012 it reached a very high rate, which was not recorded ever since January 1998, except, of course, the crisis in January 2009. Removal of the seasonal factor smoothed this result of the beginning of the year, but only to reveal the lowest growth rate since September 2009. This apparent decline of sales continues from October 2011 and now its pace amounts to -9 points (Fig. 3). Demand forecasts have improved in January by 40 points as per

<sup>1</sup> Surveys among managers of industrial enterprises are conducted by the Gaidar Institute under the European harmonized procedure on a monthly basis since September 1992 and cover the whole territory of the Russian Federation. The panel includes about 1,100 enterprises, employing more than 15% of those engaged in industry. The panel is biased towards large companies in each of the sub-sectors. Feedback to questionnaires is 65–70%.

initial data, which was the second biggest change for the entire sixteen-year history of monitoring. As a result the deeply negative outlook of the end of 2011 gave way to clearly positive expectations in early 2012. But being cleared from seasonal factor both negative trend of the end of 2011, and a positive start in 2012 have changed to a moderate and steady optimism; however, it is, obviously, inferior to the mood of the summer 2011.

The negative trend in demand reduces content from its volumes. The proportion of normal estimates of sales lost 14 points since October and reached the minimum of eighteen months (*Fig. 4*). The share of answers “below normal” had the opposite trend. As a result, their levels are almost equal, and if this trend continues, the unsatisfactory estimate of current sales may prevail in the industry again. Just in October 2011 this indicator reached its post-crisis maximum.

**Stocks of finished products**

Balance of finished products stocks has not undergone fundamental change in January and stayed within the limits observed from the beginning of the II quarter of 2011 (*Fig. 5*). A strong negative adjustment of the production volume in January, according to the predictable dynamics of demand, has allowed companies to align changes of these two indicators up to 72%, which was not observed in our industry since November 2008 – January 2009, when the companies had no choice but to follow a sharply declining demand. Then the alignment of changes in demand and production jumped up to 81%, which is still an absolute record of 15 years of monitoring for these two parameters. There is a high correlation between production plans of Russian enterprises and their demand estimate. The average correlation of these two indicators is 75% in recent months, which contributes to careful management of finished goods inventory. However, in ferrous metallurgy and consumer goods industry the estimates of stocks in December and January show high level of redundancy, which certainly indicates serious problems with sales and the inability (unwillingness) to introduce strict production policy in progressing crisis conditions.

**Industrial production**

The rate of production growth has traditionally shown a sharp decline in January: the initial balance immediately lost 44 points during the month and became deeply negative to such a degree that has not been registered by surveys for the last 16 years (i.e. since 1996!). Except, of course, January 2009. Clearance from seasonal factors has smoothed this extreme decline to the minimum growth that is becoming indistinguishable from stagnation and which was the worst for the last 27 months (*Fig. 6*). Lack of production facilities is definitely not the reason for apparent slowdown of production volumes. According to companies’ estimates in late 2011 – early 2012 excess capacity in the industry has increased and was set at the level of 20% (the share

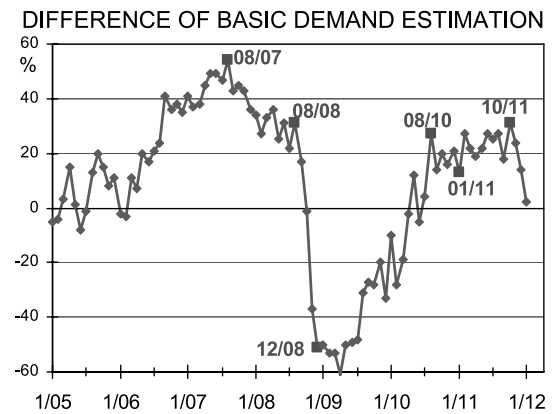


Fig. 4

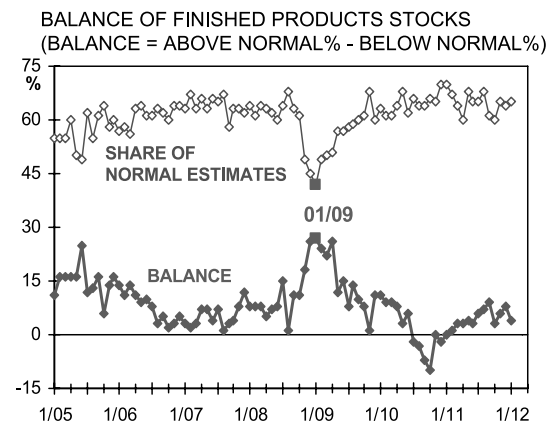


Fig. 5

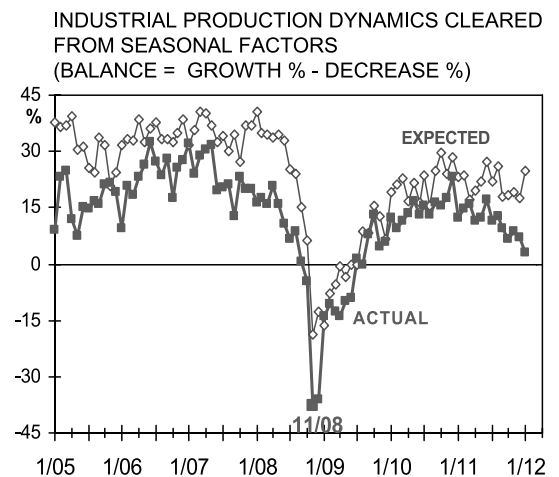


Fig. 6

of companies, that assessed the existing capacities as “more than sufficient” in relation to expected demand) compared to 10% considering its capacity insufficient. Some of the companies still mention lack of equipment as an obstacle to the growth of output. In early 2012 this figure fell to 14% after having reached the post-crisis peak of 19% in II quarter of 2011. Thus, companies have definitely revised their estimate of capacities in the face of continuing and re-aggravating crisis.

### Enterprises' prices

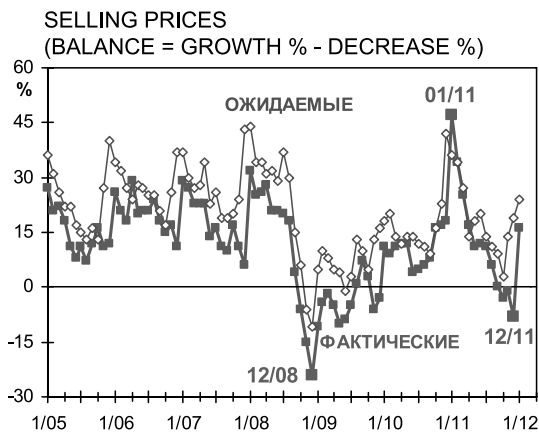


Fig. 7

trying to intensify the price growth during 2011 and were constantly reducing their forecasts for growth up to October. It was only in November and December when they indicated intention to increase prices. But they were able to realize these plans only in January 2012 and it seems to have negative effect on sales. Price forecasts for January show the desire of manufacturers to continue price growth policy. The only exception was the ferrous metallurgy industry, where plans to lower the prices prevail (*Fig. 7*).

### Actual dynamics and dismissal plans

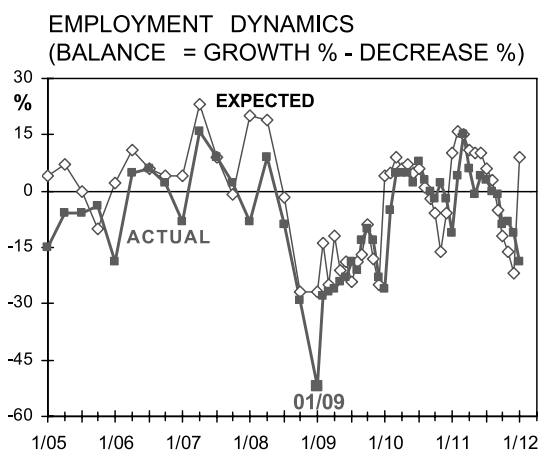


Fig. 8

Enterprises' prices, on the contrary, showed an increase in January, which is also traditional for the beginning of the year, as well as downturn of demand and production. But there are certain anomalies observed in the dynamics of this indicator. First, the increase in growth rates was recorded for the first time in the past 12 months. Throughout 2011 the pace of price growth declined, making short stops and lost 55 points during the year. Moreover, there was the most intense decline in December 2011 for the past two and a half years. Second, the price growth rate at the beginning of 2012 is much lower than the price leap of early 2011 (due to natural disasters like the hot summer of 2010, as well as human factor). But the current rise is also behind all the January price spikes for the period between crises 1999–2008. Third, the enterprises have realized the futility of

In January 2012 layoffs in Russian industry continued. Balance (rate) changes in staffing levels has lost 8 points over the last month and dropped to a two-year minimum (*Fig. 8*). At the same time evident staff reductions in the industry began in October and is now have just reached its peak. However, this happens in accordance with companies' plans, which have already revealed the intention to move from hiring to personnel cuts in September 2011. In December 2011, these plans were the most resolute and were only 5 points behind the post-default level, recorded in January 2009. But in January, hiring plans have traditionally shown an intense growth of optimism. Balance increased immediately by 31 points, a record change for the whole history of parameter monitoring since 1993. Recruitment will prevail in the coming months in all sectors except non-ferrous metallurgy. The most intense hiring will happen in the food and engineering industries.

### Actual

However, hiring plans may be confronted with assessment of staff redundancy – insufficiency to deal with anticipated changes in demand. In January 2012, these assessment has undergone dramatic change. Earlier, during six quarters “less than sufficient” evaluation prevailed

in the industry, but now its share equals to the proportion of answers “more than sufficient” and the balance in estimates was at zero level. This means, that companies have eliminated the lack of personnel. Since this happened together with reduction of personnel quantities, we can assume that this shortage elimination is not associated with a change in quantity, but rather with the revision of prospective of crisis recovery. And this revision was made in the negative direction (*Fig. 9*).

**Industry debt financing**

Conditions of industry financing in early 2012 are characterized by opposite trends. On one hand, the decrease in the average minimal rates on ruble loans offered by banks has definitely ceased. After achieving 11.8% in October 2011 this index shows a subtle three-month growth, having increased for the next three months up to 12.1% (*Fig. 10*). It is too early, of course, to declare growth of lending rates, but it is obvious that there was no decline in this period. Detailed analysis showed that during this period banks have increased the rates only for small and medium businesses (1-250 employees) from 14.3% to 14.8% per annum and for companies with 251-500 employees from 12.1% to 13.1%. Larger businesses were offered the same rates.

On the other hand, the overall assessment of credit conditions by enterprises have shown easing of credit in January. The total evaluation of loans availability (normal + above normal) increased by 6 points, reaching a seven-month high (*Fig. 11*). Most comfortable conditions according to this indicator were proposed to ferrous metallurgy (87% of enterprises), machine building (78%) and the chemical industry (72%). Availability of loans rises with increasing the size of the company: this index for the group of small enterprises is 34%, for the group middle-sized it is 48% and reaches 100% in a group of very large enterprises. ●

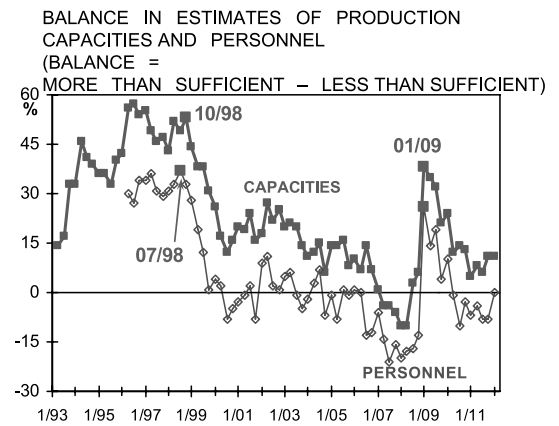


Fig. 9

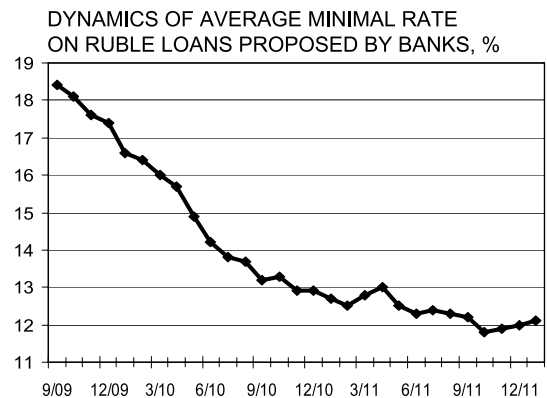


Fig. 10

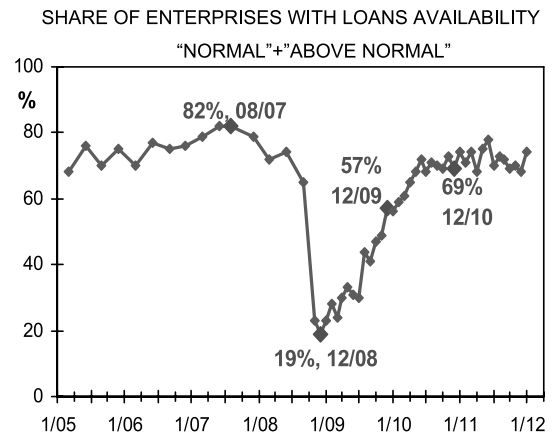


Fig. 11

## FOREIGN TRADE

N.Volovik, K.Kharina

*The favorable global market conditions have contributed to further expansion of Russia's energy products export in December 2011. Import growth was driven by the appreciation of ruble and increase of food prices in the world market. On February 7, 2012 Russia has banned import of certain cheese products from Ukraine.*

In December 2011 the main indicators of Russia's foreign trade reached the maximum within the period under review. The foreign trade turnover amounted to \$81.5bn, which indicates the increase by 7.6% from the previous month level and 19.5% increase as compared to the relevant period of 2010. The positive trade balance in December 2011 has reached its record peak for all time – \$20.4bn, having increased by 31.3% from 2010 level and by 9.3% from the pre-crisis level in July 2008.

Exports have reached \$50.98bn in December 2011, which is 7.6% higher than in previous month and 19.5% higher as compared to December 2010. The increase in value of exports is attributed to favorable pricing conditions for Russian exporters in the world market of energy products. The average export price index made 135,8%, with its physical volume index of 96,4%.

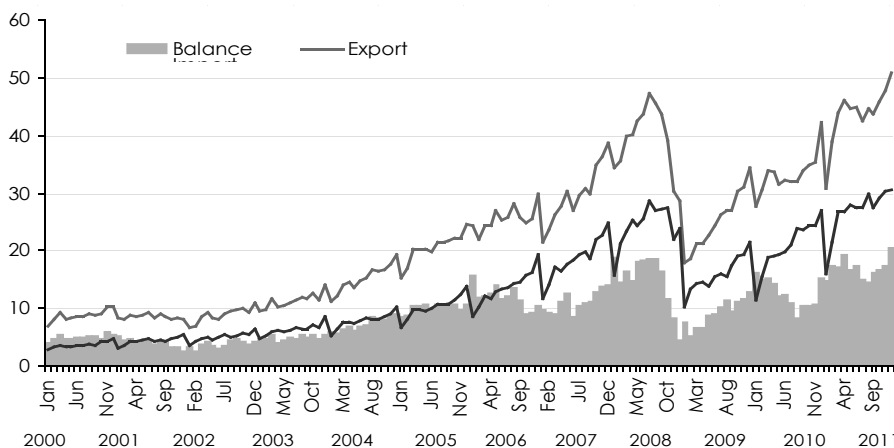
In 2011 commodity prices peaked in the first quarter, but then began to decline due to deteriorating demand expectations because of the slowdown in global economy growth. According to the World Bank<sup>1</sup>, non-energy commodity prices decreased in December 2011 by 2.7% as compared to November, moreover the price decline is observed the fifth month in a row. Cumulatively prices for non-energy commodity goods have decreased by 11% during the year, this fall in prices affected almost all of goods, except fertilizers, timber and grain. The prices for energy goods rose by 14% during the year.

The average price of Urals oil in December 2011 amounted to \$109.3/barrel, which was by 39.8% higher than the level of 2010. The average price of Urals oil in December 2011 stood at 107.6 per barrel, which is 20.2% higher as compared to December 2010.

At the end of January 2012 EU approved the restrictive measures against Iran in order to reduce the financing sources of Iran's nuclear program. The EU Council prohibits the importation, purchase and transportation of Iranian oil and petroleum products from 1 July 2012, as well

as related financial and insurance operations. Until that date, European countries are allowed to buy Iranian oil against existing contracts.

In response to the EU economic sanctions, Iran threatened the symmetric response: the Parliament of the Islamic Republic has promised to enact legislation for the early cessation of oil exports to Europe, before the embargo comes into force. In February, Iran halted oil supply to British and French



Source: RF Central Bank.

Fig 1. Key Indicators of the Russian Foreign Trade (\$bn)

<sup>1</sup> [http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1111002331357/829378-1326493099587/CommodityMarketsReview\\_January2012..pdf](http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1111002331357/829378-1326493099587/CommodityMarketsReview_January2012..pdf)



companies. This decision as well as the news about the second credit tranche for Greece pushed the oil prices up: on February 21, 2012 Brent oil went up to \$121.66/barrel – the highest level since May 2011.

In 2011 Iran was the third in the world in terms of crude oil extraction after Russia and Saudi Arabia. The share of EU countries now account for about 20% of Iranian crude oil exports. The largest consumer of Iranian oil is China.

The rise in prices in the world oil market has affected the rates of export duty established by Russian Federal Government. During the period from January 15, 2011 to February 14, 2012 the average price of Urals oil reached \$112.23/barrel. Accordingly, the rate of export duty on crude oil will amount to \$411.2 per ton from March 1, 2012. The flat rate of export duty on light and dark oil products will be increased by \$11.6 (up to \$271.4 per ton). At the same time, the duty on gasoline, preserved at 90% of duty on crude oil could reach \$370.1 per ton (against \$354.3 per ton in February 2012). Reduced rate of export duty on crude oil from the fields of Eastern Siberia and the two fields of LUKOIL in the Caspian Sea will amount to \$204.4 per ton from March 1, 2012 (\$ 191.2 per ton in February). The duty on liquefied petroleum gas (LPG) from March 1, 2012 will be set at \$157.3 per ton versus \$181.7 per ton from February 1, 2012

The reduction of prices for nonferrous metals which began in the second half of 2011 continued until the end of the year. The aluminum price on the London Metal Exchange (LME) decreased by 0.2% in December 2011 from the level in November 2011, copper – by 2.8%. While the price of nickel increased by 2.2%, it still remained 35.3% below the maximum annual level reached in February. As compared with December 2010 aluminum prices fell down by 14.0%, copper – by 17.3% and nickel – by 24.7%.

Table 1

## AVERAGE MONTHLY PRICES IN DECEMBER OF RELEVANT YEAR

|                         | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Oil (Brent), \$/bbl     | 19.0   | 27.48  | 29.51  | 39.6   | 56.4   | 63.1   | 90.64  | 72.77  | 75.26  | 91.8   | 107.91 |
| Natural gas*, \$/1m BTU | 3.4    | 3.36   | 3.97   | 5.01   | 7.49   | 8.92   | 9.49   | 15.5   | 8.01   | 8.74   | 11.53  |
| Gasoline, \$/ gallon    | 0.5398 | 0.836  | 0.889  | 1.141  | 1.875  | 1.638  | 2.353  | 0.976  | 1.93   | 2.35   | 2.59   |
| Copper, \$/t            | 1528.7 | 1618.6 | 2187.3 | 3137.0 | 7578.0 | 6643.9 | 6580.5 | 3072   | 6982.0 | 9111   | 7565   |
| Aluminum, \$/t          | 1346.3 | 1376.2 | 1553.8 | 1850.0 | 2248.0 | 2816.9 | 2380.2 | 1490.4 | 2179.7 | 2321.5 | 2022   |
| Nickel, \$/t            | 5219.5 | 7255.0 | 14060  | 13792  | 13423  | 34578  | 26003  | 9686,4 | 17066  | 24946  | 18267  |

\* European market average contract price, franco border.

Source. Estimated according to the London Metal Exchange, Intercontinental Exchange Petroleum (London).

In December 2011 food prices declined compared to November level: FAO food price index fell by 2.4%. The decline is attributed to a sharp fall in world prices for grains, sugar and oilseeds due to the high yields in 2011.

Record yields and improved forecasts of global supply of grain led to a significant reduction in prices of major grains. Maize prices fell by 6% in December 2011 as compared to the previous month, wheat – by 4% and rice – by 3%. However, the average FAO price index for grains in 2011 was 35% higher than in 2010 and reached a record high since 1970.

The sugar price index has been decreasing over the past five months of 2011 in a row. It amounted to 327 points In December 2011, which is 4% below the November level and 18% below the record high prices of July 2011. The prices decreased mainly due to the expectations of a large increase in global production in the view of good harvests in the past year in India, European Union, Thailand and Russian Federation.

The monetary volume of Russian imports increased by 0.7% in December 2011 as compared with the previous month, and by 12.8% compared with December 2010, and reached \$30.5bn. In contrast to export dynamics the growth of imports value was primarily due to an increase in

its physical volume, import index made 112.4%, while the average price index of imported goods amounted to 108.4%.

In December 2011 the highest growth rates (compared to December 2010) were observed within the energy products sector, where imports increased 2.5 times (monetary value). The increase was due to both price increases and growth of import purchases volumes. For example, the gasoline imports grew by 97.2% in physical volume, diesel fuel – by 52.8%, liquid fuel – by 33.1%. However, we should note that importing of petroleum products does not have a large impact on the domestic market. In 2011 36.8m tons of gasoline were produced, 3.1 million tons were exported and 977,300 tons – purchased abroad, figures for diesel fuel are 70.2m tons, 35.4m tons and 784,500 tons, respectively.

Imports of food products and agricultural raw materials declined by 7.4% in December 2011 as compared to the relevant period of the previous year. Import purchases of fresh and frozen meat fell by 32.1%, poultry – by 63.8%, butter – by 28.2%. There were practically no purchases of sunflower oil and raw sugar.

On January 25, 2012 EurAsEC Customs Union Commission decision № 913 has determined that from May 1 to July 31, 2012 seasonal duty on import of raw sugar will not be reduced to \$50 per ton, and will remain unchanged – \$140. The adoption of such measures is associated with a record high harvest of sugar beet in 2011 – 46.3m tons, which produced 5m tons of beet sugar. Carry-over stocks of sugar amount to more than 2m tons. These resources are sufficient to meet domestic needs and for saturation of the market until the next growing season.

Rospotrebnadzor letter 01/1075-12-23 from 07.02.2012 “On the circulation of cheeses produced in Ukraine,” banned imports to Russia of certain cheeses produced by Ukrainian producers. Products manufactured by PE KF “Prometheus” (Ukraine, Chernihiv region), JSC “Pyriatynskiy Cheese Factory” (Ukraine, Poltava), LLC “GADYACHSYR” (Ukraine, Poltava region) are recognized as inconsistent with statutory requirements of the Federal Law “Technical regulations on milk and dairy products” from 12.06.08 № 88-FZ because they contain vegetable fats, without specifying them on the product label.

The problem with quality of dairy products imported from Ukraine emerged in early 2011: the Russian sanitary service revealed an excess of palm oil in the Ukrainian cheese. Such goods should not be called “cheese”, but named “cheese product” instead.

The Ukrainian side believes that Russia does not have enough arguments for restricting imports of Ukrainian dairy and cheese products. The State Veterinary and Phytosanitary Service of Ukraine has sent Ukrainian cheese samples for examination of quality standards compliance to foreign laboratories. Even if the results of quality testing of Ukrainian cheese production is lower than those of Russian products, this will be insufficient to impose restrictions. According to the requirements of the World Trade Organization to ban imports Rospotrebnadzor must demonstrate that consumption of Ukrainian cheese may lead to negative consequences for the health of citizens. If examination reveals that the quality of Russian and Ukrainian dairy products is similar, we can conclude that a measure to restrict Ukrainian imports is extremely discriminatory.

Complaints against the discriminatory measures can be addressed to the World Trade Organization. But Russia is not yet a member of the WTO: Russia must ratify the relevant documents package by June 15, 2012. After 30 days of WTO notification of the ratification Russian Federation will become a full member of WTO. Ukraine may make a complaint to WTO against Russian restrictions on the importation of cheese once Russia becomes a full member of this international organization. But even if the process will be resolved in favor of Ukraine, the losses from the six-month export restrictions would not be compensated – such mechanism does not exist.

In 2011 over 30 countries exported cheese production to Russia. The main suppliers were Belarus, Germany, Ukraine and Finland. 421,000 tons of cheese and curd were imported (99.9% of 2010 level). The share of imported cheeses in the Russian domestic market amounted to 45.8%. ●

## STATE BUDGET

T.Tishchenko

According to the preliminary estimates of the Russian Ministry of Finance, the federal budget in January 2012 was executed with a deficit of 0.5% GDP, while the budget surplus reached 4.3 % GDP for the same period last year . A significant difference in January results can be attributed to high pace of expenditure budget utilization in the first month of the year (January 2012 cash execution – 9.4%, in January 2011 – 6.0%) . We can expect that, despite the growth in world oil prices in February 2012, the federal budget deficit will remain in the coming months due to more even budget expenditures compared to previous years.

### Analysis of the main indicators of the Russian Federal budget execution in January 2012

The federal budget revenues have increased by 4.1% GDP in January 2012 as compared to the relevant period of 2011 (Table 1), while expenditures rose by 9.1% GDP.

Table 1

## KEY INDICATORS OF THE RUSSIAN FEDERAL BUDGET IN JANUARY 2011 AND 2012

|   | January 2012 |       | January 2011 r. |       | Change as<br>% of GDP |
|---|--------------|-------|-----------------|-------|-----------------------|
|   | Rb, bn       | GDP % | Rb, bn          | GDP % |                       |
| Revenues, including:                          | 1056.1       | 27.3  | 804.9           | 23.2  | +4.1                  |
| Oil and gas revenue                           | 530.2        | 13.8  | 357.0           | 10.3  | +3.5                  |
| Expenditures, including:                      | 1074.0       | 28.0  | 657.4           | 18.9  | +9.1                  |
| Interest expenditures                         | 31.2         | 0.8   | 25.5            | 0.7   | +0.1                  |
| Non- interest expenditures                    | 1042.8       | 27.2  | 631.9           | 18.2  | +9.0                  |
| Surplus (+)/Deficit (-) of the federal budget | -18.0        | -0.5  | +147.6          | 4.3   | -4.8                  |
| Non-oil surplus (+)/deficit (-)               | -548.2       | -14.3 | -209.5          | -0.6  | -13.7                 |
| GDP estimates(Rb, bn)                         | 3833         |       | 3470            |       |                       |

\*According to The Economic Expert Group.

Source: Ministry of Finance of Russia, Gaidar Institute estimates.

The increase in federal budget revenues is caused by oil and gas income, which grew by 48% or 3.5 p.p.GDP in absolute terms in the first month of 2012 as compared to the previous year, due to rise in prices for Urals oil from \$93.8 to \$109.3/barrel and foreign exchange differences (in January 2011 the dollar exchange rate was Rb 30.1, in January 2012 – Rb 31.5). Federal spending amounted to 28.0% of GDP in January 2012, which is 9.1 p.p. GDP higher than the expenditures for the same period last year. The greatest change in spending occurred in the following sections: “National Defense” by 3.0 p.p. GDP, “Education” by 1.4 p.p. GDP, “Healthcare” by 2.9 p.p. GDP.

### Analysis of the main indicators of the RF Subjects consolidated budget execution in January-December 2010–2011

In January–December 2011 consolidated budget revenues of RF subjects amounted to Rb 7,643.9bn (14.1% of GDP), which is 0.4% GDP lower than revenues for 12 months of 2012 (14.5% of GDP).

Disturbing is the fact of the lowest level of tax revenues in 2011 as a share of GDP since 2008, even in the crisis year of 2009, the revenues of the RF subjects budgets were 0.1 p.p. GDP higher than in the past year. As a result of 12 months of 2011 there is a reduction in revenue from corporate income tax – by 0.3 p.p. GDP, personal income – by 0.2 p.p. GDP, property tax – by 0.2 p.p. GDP compared with the relevant period of last year.

Table 2

KEY INDICATORS OF THE RF SUBJECTS CONSOLIDATED BUDGET EXECUTION  
IN JANUARY-DECEMBER 2010–2011

|                                       | January–November 2011 |       | January–November 2010 |       | Change,<br>p.p. of<br>GDP |
|---------------------------------------|-----------------------|-------|-----------------------|-------|---------------------------|
|                                       | Rb, bn                | GDP % | Rb. bn                | GDP % |                           |
| Revenues, including:                  | 7 643.9               | 14.1  | 6537.3                | 14.5  | -0.4                      |
| – tax income                          | 5273.0                | 9.7   | 4520.0                | 10.0  | -0.3                      |
| – interbudgetary transfers            | 1644.0                | 3.0   | 1398.9                | 3.1   | -0.1                      |
| Expenditures, including:              | 7679.3                | 14.1  | 6636.9                | 14.7  | -0.6                      |
| interest expenditures                 | 75.7                  | 0.1   | 71.2                  | 0.2   | -0.1                      |
| Surplus (+)/Deficit (-) of the budget | -35.4                 | -0.0  | -99.6                 | -0.2  | +0.2                      |
| GDP estimates(Rb, bn)                 | 54369                 |       | 45166                 |       |                           |

Income from excise taxes have declined by 0.1 p.p. GDP, mainly due to the reduction in revenues from the sale of beer, strong spirits and gasoline, while revenue from excise taxes on diesel fuel rose by 0.04 p.p. GDP.

Income from transport tax remained at the level of previous year – 0.1% of GDP, due to the increase in revenues from individuals together with reduction of revenue from organizations. Income tax on accumulated income<sup>1</sup> in the consolidated budgets of RF subjects remained at 0.4% of GDP. The share of tax revenues in total revenues of consolidated budgets of RF subjects slightly decreased – by 1.2 p.p. compared to the previous year.

There was also a decrease in property income in the budgets of RF subjects – by 0.1 p.p. GDP compared to the revenues of 2010, despite the fact that the annual investments in the increase of state property value in RF subjects amount up to 2% of GDP.

A characteristic feature of income structure of RF subjects budgets is still a low proportion of such property taxes as transport tax, land tax and corporate property tax, despite the fact that they possess a high potential to increase the revenue base of the regional budgets. A favorable external economic conditions may be short-lived, and the introduction of measures to improve collection and management of non-oil revenues could generate sustainable sources of financing for RF subjects.

Thus, in the face of a possible slowdown in tax and non-tax revenues of RF subjects budgets, as well as enhancing the differentiation of their financial capability in the near future, there will be a need to increase subsidies to equalize the budget sufficiency in the regions.

Expenditures of RF subjects consolidated budget decreased by 0.6 p.p. GDP in 2011 (Table 3) in comparison with the previous year and amounted to Rb 7,679.3bn (14.1% of GDP), mainly due to the expenditures on social policy.

Expenditures on social policy have decreased by 0.4 p.p. GDP in 2011 as compared to 2010, this was caused by reduction of spending on social welfare by 0.4 p.p. GDP. Expenses under the line “Health, Physical culture and Sport” increased by 0.7 p.p. in 2011. A slight decrease is observed in cost of state and municipal debt servicing – by 0.1 p.p. GDP.

For other sections the expenses in 2011 remained at level of the previous year.

The problems in the uniformity of the execution of RF subjects budgets occurred throughout the year. As a result of 8 months the cash execution of the consolidated budgets of RF subjects was 51.7%, for the whole year – 91.4%, which is lower than in 2010 (92.5%).

As of January 1, 2012 57 Russian Federation subjects performed the budget with deficit, the largest deficit registered in the Republic of Tatarstan, Samara, Krasnodar Territory. As of January 1, 2012 the total debt of the Russian Federation subjects slightly increased from the beginning of 2011 (7.1%).

The volume of public debt of RF subjects dropped by Rb 34.1bn for 11 months of 2011 and amounted to Rb 1,071.9bn (2.0% of GDP). The greatest reduction in public debt was observed in

<sup>1</sup> According to the classification of the budget revenues this group of income includes income from taxes collected with the use of a simplified tax system, unified tax on imputed income for particular types of activity, and unified agricultural tax. Due to the fact that the majority of tax payers for this group are small businesses, the dynamics of budget revenues may reflect the real state of small and medium-sized enterprises

the Moscow region (Rb 50bn), Moscow (Rb 36bn), the growth was recorded in 40 regions of Russia, the largest one – in the Republic of Tatarstan (Rb 23bn).

Table 3

DYNAMICS OF EXPENDITURES OF THE RF SUBJECTS CONSOLIDATED BUDGET EXECUTION IN  
JANUARY-DECEMBER 2010–2011

|  | January–December<br>2011 |       | January–December<br>2010 |       | Change,<br>p.p. of<br>GDP |
|--|--------------------------|-------|--------------------------|-------|---------------------------|
|  | Rb, bn                   | GDP % | Rb, bn                   | GDP % |                           |
| Expenditures, total:                   | 7679.3                   | 14.1  | 6636.9                   | 14.7  | -0.6                      |
| Including                              |                          |       |                          |       |                           |
| Federal issues*                        | 468.8                    | 0.9   | 410.3                    | 0.9   | 0                         |
| National defense                       | 3.4                      | <0.1  | 3.2                      | <0.1  | 0                         |
| National Security and Law Enforcement  | 282.0                    | 0.5   | 254.0                    | 0.5   | 0                         |
| National Economy                       | 1316.4                   | 2.4   | 1103.5                   | 2.4   | 0                         |
| Housing and public utilities           | 968.7                    | 1.8   | 836.5                    | 1.8   | 0                         |
| Environmental protection               | 21.8                     | <0.1  | 14.8                     | <0.1  | 0                         |
| Education                              | 1728.4                   | 3.2   | 1450.9                   | 3.2   | 0                         |
| Culture, cinematography and mass media | 269.0                    | 0.5   | 227.8                    | 0.5   | 0                         |
| Healthcare and sports                  | 1337.8                   | 2.5   | 796.8                    | 1.8   | +0.7                      |
| Social policy                          | 1191.8                   | 2.2   | 1167.3                   | 2.6   | -0.4                      |
| Public and municipal debt servicing    | 75.7                     | 0.1   | 71.2                     | 0.2   | -0.1                      |

\* Excluding the public debt servicing expense.

Source: Federal Treasury, Gaidar Institute estimates. ●

## RUSSIAN BANKING SECTOR

M.Khromov

*In January 2012 the impact of seasonal factors has led to a reduction of the banks' resource base, which affected the dynamics of lending to the economy. The growth of foreign currency component in the borrowed funds, mostly made by businesses in foreign currency, provoked an increase in the banks' foreign currency assets and accordingly, the net outflow of capital from the banking sector outside the country.*

There is a distinct seasonal component in the dynamics of the banking sector at the beginning of the year. A large share of the proceeds of economic agents is to be paid before the new year, so in January the growth rates of the resource base of banks are traditionally declined. Thus, in January 2012 the assets of the banking sector have decreased by 1.1%, and raised funds of the banks<sup>1</sup> – by 1.6%.

The banks' own funds grew by 1.9% over the month. The main factor in the growth of own funds of banks in January 2012 was a record amount of revenue: Rb 103bn, which corresponds to the return on assets of 3.0% in annual terms. For comparison, the average return on assets in 2011 amounted to 2.3% in annual terms, while the maximum amount of monthly revenue made RB 90bn in December 2011. Detailed analysis of the banks' profits growth factors is possible only on a quarterly basis. We can assume that the trend of the second half of January 2011 has remained – i.e., an increase in net interest income with moderate allocations to provisioning for possible losses. However, the rising interest rates on deposits are the major constraints to further growth in net interest income of the banks.

### **Raised funds**

The volume of *bank deposits of the population* in January has decreased by 1.9% or more than Rb 230bn. This reduction was more significant than a year earlier, when the volume of deposits fell down by less than Rb 90bn, or 0.9%. As a result, the tendency of deposits growth decline has remained: over 12 months from February 2011 through January 2012 the amount of funds in banks increased by 19.6%; a month earlier the figure was 20.8%, a year earlier – 29.8%.

Against the background of the overall deposits decline, it is necessary to note an increase in the dollar equivalent of deposits in foreign currency. Over the month, their value has grown nearly by \$2bn or by 2.9%. Comparing the dynamics of the ruble and foreign currency accounts of the population, we can conclude that over one-third of ruble accounts reduction was replaced by the growth of deposits in foreign currency. This is despite the strengthening of the ruble exchange rate in January against the dollar (by 5.8%) and Euro (by 4.1%). That is, the demand for foreign currency deposits from the public was not due to a short-term weakening of the ruble, as has happened before, but was caused, perhaps, by a more complex combination of factors: from the ratio of yield of deposits in different currencies, up to the expectations of the medium-term dynamics in exchange rates. Herewith, the share of deposits in foreign currency over the last month has not practically changed – the contribution to the dynamics of the negative revaluation of foreign currency deposits was greater than the growth of their dollar volume.

In terms of maturity of deposits in January, the medium-term deposits were most popular for the period from 1 month to 1 year, the growth rate of which was more than 6%. The accelerated growth of this category of deposits has been observed for the third consecutive month, and probably was the result of interest rate policy of banks which were in need of primarily short-term resources and increased the rate on such deposits. The greatest outflow of deposits and balances was noted in the deposits for one month, which decreased within the last month by 11.5%, what is largely a reflection of the seasonal dynamics of this type of liability.

<sup>1</sup> Total bank liabilities, net of bank equities and established reserves for possible losses on loans and other assets.

Funds in *the accounts and deposits of enterprises and organizations*<sup>1</sup> in January have also decreased. The decline made 1.6% or Rb 170bn. In contrast to the individuals, the annual growth of bank accounts of corporate clients continues to grow. As of 01.02.2012, it made 26.4% versus 24.8% on 01.01.2012, and 12.8% on 01.02.2011.

The share of deposits and balances organizations in foreign currency has grown in January, despite the negative revaluation of the ruble in relation to the accounts of almost 2 p.p. from 19.0 to 20.8%. At the same time their value in dollar terms grew by more than \$9bn, or nearly by 15%. Almost all of the increase came to the accounts of corporate clients in foreign currency, while the value of fixed-term foreign currency deposits remained virtually unchanged.

This situation may be a consequence of the high trade surplus in January, and the inflow of export proceeds to the accounts of exporters in the Russian banks. According to the Bank of Russia assessments, net capital outflow in January amounted to \$11bn. In addition, in the framework of foreign exchange intervention of the Bank of Russia there were sold \$200m, what means that the current account surplus in January was about the same \$11bn, which is close to the maximum values of February and April 2011 (\$12bn) and significantly higher than the average values of 2011 (\$8.4bn), when the current account surplus was the highest in history.

Thus, almost all capital outflow in January was in the banking sector, but was caused by the accumulation of foreign currency on the accounts of the bank customers – businesses and individuals.

Total *foreign liabilities* of banks in January 2011 increased by \$0.5bn or 0.3%. The main contribution to the growth of foreign liabilities of the banking sector was provided by an increase in foreign liabilities of the Savings Bank by \$1.4bn. However, the importance of foreign loans for the banking sector continues to decline. As a result of January 2012, the share of foreign liabilities in the total volume of bank liabilities has decreased to 10.6%.

Debts of the banks to the monetary regulation authorities – the Bank of Russia and the Ministry of Finance continues to be fairly large: 4.0% of assets are formed by these means, although in January the value of this debt has decreased by Rb 140bn from Rb 1.773 trillion to Rb 1.633 trillion. Deposits of the Ministry of Finance placed with the banks, decreased in January to Rb 294bn. Herewith, in comparison with December, the volume of temporarily free budget funds in bank deposits were even increased. The total amount of the Ministry of Finance assets proposed to be placed in the banks in January amounted to Rb 430bn (against Rb 232bn in December), out of which the banks have raised Rb 399bn (Rb 222bn in December). The weighted average interest rate was 6.82% per annum. Thus, the total amount of funds of the Ministry of Finance with the banks has decreased due to repayments of previously placed deposits.

Table 1

## STRUCTURE OF THE RUSSIAN BANKING SYSTEM LIABILITIES (END OF MONTH), AS% OF TOTAL

|   | 12.05 | 12.06 | 12.07 | 12.08 | 12.09 | 06.10 | 12.10 | 06.11 | 09.11 | 12.11 | 01.12 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Liabilities, Rb bn  | 9696  | 13963 | 20125 | 28022 | 29430 | 30417 | 33805 | 35237 | 38443 | 41628 | 41150 |
| Own assets  | 15.4  | 14.3  | 15.3  | 14.1  | 19.3  | 19.7  | 18.7  | 18.5  | 17.3  | 16.9  | 17.3  |
| Loans of the Bank of Russia                                   | 0.2   | 0.1   | 0.2   | 12.0  | 4.8   | 1.7   | 1.0   | 0.9   | 1.3   | 2.9   | 3.3   |
| Interbank operations  | 4.0   | 3.4   | 4.1   | 4.4   | 4.8   | 5.1   | 5.5   | 5.2   | 5.4   | 5.7   | 5.7   |
| Foreign liabilities   | 13.7  | 17.1  | 18.1  | 16.4  | 12.1  | 11.5  | 11.8  | 10.9  | 11.4  | 11.1  | 10.6  |
| Private deposits  | 28.9  | 27.6  | 26.2  | 21.5  | 25.9  | 28.3  | 29.6  | 30.4  | 29.0  | 29.1  | 28.7  |
| Corporate deposits  | 24.4  | 24.4  | 25.8  | 23.6  | 25.9  | 25.4  | 25.7  | 24.3  | 24.4  | 26.0  | 25.9  |
| Deposits and balances of state agencies and local authorities | 2.0   | 2.2   | 1.5   | 1.0   | 1.0   | 1.8   | 1.5   | 3.5   | 4.9   | 2.3   | 1.8   |
| Securities issued   | 7.6   | 7.2   | 5.8   | 4.1   | 4.1   | 4.2   | 4.0   | 4.0   | 3.8   | 3.7   | 3.8   |

Source. Bank of Russia, IEP estimates.

1 Against the relevant date of preceding year.

Along with the reduction of debt to the Ministry of Finance, the volume of loans to the banks by the Bank of Russia has increased by Rb 154bn, mainly to the state banks. As a result, even regardless the long-term subordinated loan to Sberbank, the debts of state banks to the Bank of Russia has exceeded Rb 900bn. Other banks (with a comparable volume of assets) depend on the funds of the Bank of Russia much less. As of 02.01.2012, they account for only Rb 160bn of the regulator.

### Investments

*Lending to corporate borrowers* in January was suspended – the volume of the bank's credit portfolio has declined in the last month by 0.9% (or Rb 150bn). Herewith, loans denominated in Rb have kept a positive trend, increasing by 0.3% within the month, and the reduction of loans in foreign currency is explained primarily by the growth rate of the ruble.

Reduction of credit portfolio has immediately stopped the process of formal improvement of its quality. The volume of overdue loans to corporate borrowers has increased over the month by 2.7% and their share in total loans increased from 4.8% to 5.0%. Impairment reserves for possible losses on loans to enterprises and organizations have increased over the month by 0.7%, and their share in the loan debt – from 8.3% to 8.4%.

The growth of retail lending in January has also slowed down, but their rate remained positive. Within the month the amount of debt to the banks of the population has grown by 0.4%. But as in the corporate segment of the credit market, the growth portfolio in general lagged behind the growth of bad debts and provisions for possible losses. As a result, the share of overdue loans increased from 5.3 to 5.4% and the share of reserves in credit debt to the population – from 7.2% to 7.3%.

Despite the January decline of the resource base, the volume of corporate and individual accounts and deposits exceeds the amount of loans by Rb 533bn. However, in future one can expect a gradual alignment of loans and deposits as a result of higher growth rates of lending to the economy, which can create some risks to the stability of banking sector.

*Foreign assets of banks* in January increased by \$13.5bn. From the point of view of the structure of bank balance sheets, it is a response to the growth of foreign currency accounts in liabilities, with a sustained stable currency position (excess of assets over liabilities in foreign currency). As a result of withdrawal of funds in foreign assets began in January the main trend of the bank assets growth, and net foreign assets of banks (foreign assets minus foreign liabilities) amounted to \$53bn.

Table 2

STRUCTURE OF THE RUSSIAN BANKING SYSTEM ASSETS (END OF MONTH), AS% OF TOTAL

|                                  | 12.05 | 12.06 | 12.07 | 12.08 | 12.09 | 06.10 | 12.10 | 06.11 | 09.11 | 12.11 | 01.12 |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Assets, Rb bn                    | 9696  | 13963 | 20125 | 28022 | 29430 | 30417 | 33805 | 35237 | 38443 | 41628 | 41150 |
| Cash and precious metals         | 2.7   | 2.6   | 2.5   | 3.0   | 2.7   | 2.1   | 2.7   | 2.2   | 2.3   | 2.9   | 2.5   |
| Deposits with the Bank of Russia | 7.3   | 7.5   | 6.9   | 7.5   | 6.9   | 7.8   | 7.1   | 4.5   | 3.5   | 4.2   | 3.6   |
| Interbank operations             | 6.3   | 5.8   | 5.4   | 5.2   | 5.4   | 6.2   | 6.5   | 6.4   | 6.2   | 6.4   | 6.6   |
| Foreign assets                   | 9.1   | 9.9   | 9.8   | 13.8  | 14.1  | 12.7  | 13.4  | 13.8  | 14.6  | 14.3  | 14.6  |
| Individuals                      | 12.1  | 14.7  | 16.1  | 15.5  | 13.1  | 13.0  | 13.0  | 14.0  | 14.2  | 14.4  | 14.6  |
| Corporate sector                 | 47.0  | 45.3  | 47.2  | 44.5  | 44.5  | 45.1  | 43.6  | 45.3  | 45.1  | 44.0  | 44.2  |
| Government                       | 6.6   | 5.2   | 4.1   | 2.0   | 4.2   | 4.2   | 5.1   | 5.8   | 6.0   | 5.0   | 4.8   |
| Property                         | 2.4   | 2.4   | 2.2   | 1.9   | 2.7   | 2.7   | 2.6   | 2.5   | 2.4   | 2.3   | 2.4   |

Source. Bank of Russia, IEP estimates.

Banking liquidity<sup>1</sup> in January declined by almost Rb 500bn, which was the result of the outflow of funds from the accounts and deposits of customers. The share of liquid assets of banks in the total amount of assets declined to 4.5%, and their volume as of 02.01.2012 amounted to Rb 1.833bn.

1 Funds deposited in accounts and deposits with the Bank of Russia, and balances of rubles in cash at the box office.

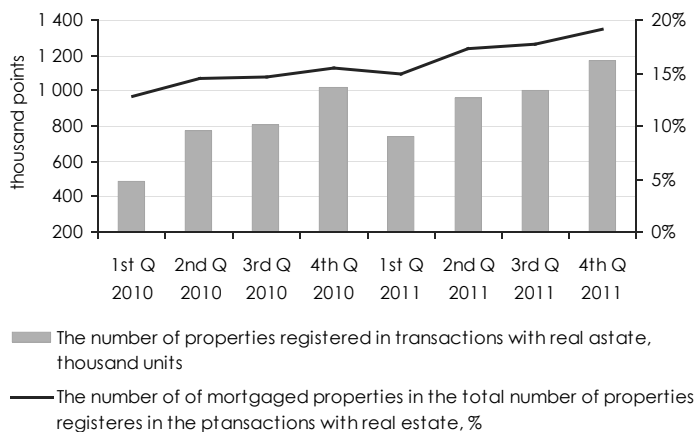


This is extremely low, especially considering that bank liquidity is almost completely formed at the expense of the Bank of Russia and the Ministry of Finance. On the one hand, this situation demonstrates the critical dependence of the banking sector on the monetary authorities and the parameters of refinancing instruments (maturity, terms of provision and the level of interest rates), on the other hand, provides to the Bank of Russia a greater degree of control over the banks by means of regulating interest rates and other parameters of lending to commercial banks. ●

## THE MORTGAGE IN THE RUSSIAN FEDERATION

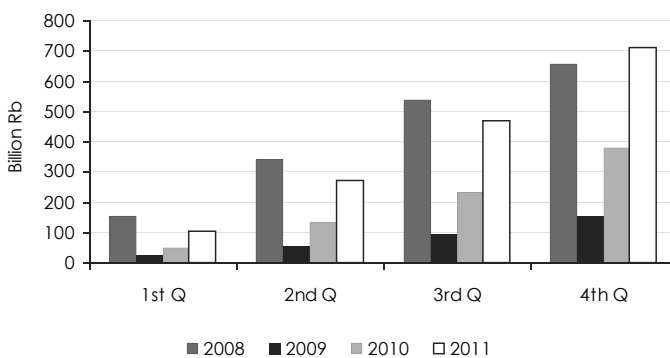
G.Zadonsky

In 2011, 520,805 mortgage housing loans (MHL) for the amount of Rb 712.959bn were extended which figure is higher as regards both the number of loans and the volume in money terms than in 2008. Within the year, the rate of lending kept falling. The average weighted rate per annum on loans in rubles and foreign currency amounted to 11.9% and 9.6%, respectively. The share of the overdue debt as a percentage of the outstanding debt kept decreasing as well. In 2011, the share of the overdue debt amounted to 3.19%.



Source. Rosreester and calculations of the AMHL.

Fig. 1. The dynamics of the residential housing market



Source. Data of the Central Bank of Russia.

Fig. 2. The dynamics of extension of mortgage housing loans

587,500 loans with the debt of Rb 1,621.1bn. As of January 1, 2012, the overdue debt on MHL amounted to Rb 51,879bn or 3.19% of the outstanding debt which figure is 0.46 lower than that as of January 1, 2011. It is to be noted that as of January 1, 2012 the share of the overdue debt in the outstanding debt on MHL in rubles fell by 0.39 % to 2.03% as compared to January 1, 2011 and increased by 2.03% on loans in foreign currency to 12.69% as compared to that as of January 1, 2011.

The number of credit institutions which provided HL and MHL in 2011 exceeded the level of 2008 (Table 1).

According to the data of the Federal State Service of Registration, Cadastre and Cartography (Rosreester), in 2011 the total number of registry entries as regards individuals' housing mortgage in the Unified State Register of Titles (USRT) amounted to 1,002,492 which figure is 36.7% higher than in 2010 (733 090 entries).

In 2011, the share of mortgaged property in the total number of properties registered in transactions with real estate increased (Fig. 1) which factor is evidence of the advanced growth in demand in loans for buying housing against the demand in housing itself. In the first six months of 2011, that share amounted to 17.3% against 14.5% in the first six months of 2010, while in 2011 it amounted to 19.1% against 15.5% in 2010 (Fig. 1). According to the data of the Central Bank of Russia, in 2011 both the number of the extended mortgage housing loans (520,805 loans) (Fig. 2) and their volume in money terms (Rb 712,959bn) were larger than in 2008. As of January 1, 2012, the debt amounted to Rb 1,474,839bn. As compared to the 2010 data, the number of the loans extended and their volume in money terms were 72% and 88% higher, respectively. In 2011, the volume of the extended housing loans (HL) amounted to Rb 765,854bn or

Table 1

## THE NUMBER OF CREDIT INSTITUTIONS – PARTICIPANTS IN THE MARKET OF HOUSING (MORTGAGE HOUSING) LENDING

|         | Credit institutions |              |               |                                 |  |  |
|---------|---------------------|--------------|---------------|---------------------------------|--|--|
|         | existing            | providing HL | providing MHL | acquiring legal claim under MHL | carrying out refinancing of the early extended MHL | attracting refinancing on the secondary MHL market |
| 2009    |                     |              |               |                                 |  |  |
| 01. Jan | 1 108               | 729          | 602           | 108                             | 25   | 204  |
| 01. Jul | 1 083               | 695          | 571           | 110                             | 5  | 139  |
| 2010    |                     |              |               |                                 |  |  |
| 01. Jan | 1 058               | 699          | 584           | 117                             | 5  | 167  |
| 01. Jul | 1 038               | 692          | 588           | 120                             | 12   | 131  |
| 2011    |                     |              |               |                                 |  |  |
| 01. Jan | 1 012               | 723          | 631           | 134                             | 22   | 175  |
| 01. Jul | 1 000               | 718          | 638           | 137                             | 17   | 145  |
| 2012    |                     |              |               |                                 |  |  |
| 01. Jan | 978                 | 731          | 658           | 141                             | 34   | 168  |

Source. Data of the Central Bank of Russia.

In 2011, the share of MHL in foreign currency in the volume of the extended loans fell to 2.68% against 4.06% in 2010. As of January 1, 2012, the share of such loans in the outstanding debt decreased to 11.14%, while the share of the overdue debt on MHL in foreign currency in the total overdue debt amounted to 42.76%.

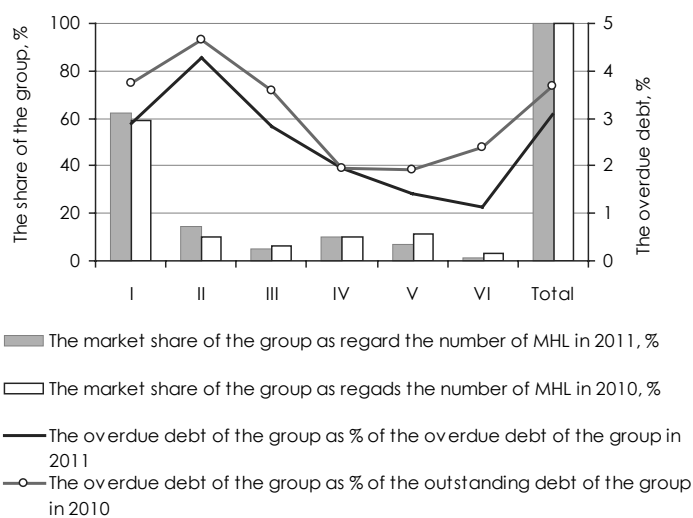
According to the data of the Central Bank of Russia, the share of debt on MHL without overdue payments in the total amount of the debt on MHL as of January 1, 2012 increased by 6.23% as compared to that of January 1, 2011 and amounted to 94.06%. The share of debt on defaulted loans (with payments overdue for over 180 days) in the total amount of the debt on MHL fell in the same period by 1.45% and amounted to 3.66%.

As regards the number of the extended MHL, in 2011 the first group of the large credit institutions accounted for over a half of the MHL market (62.11%) (Fig. 3), which figure is 2.74% higher than in 2010.

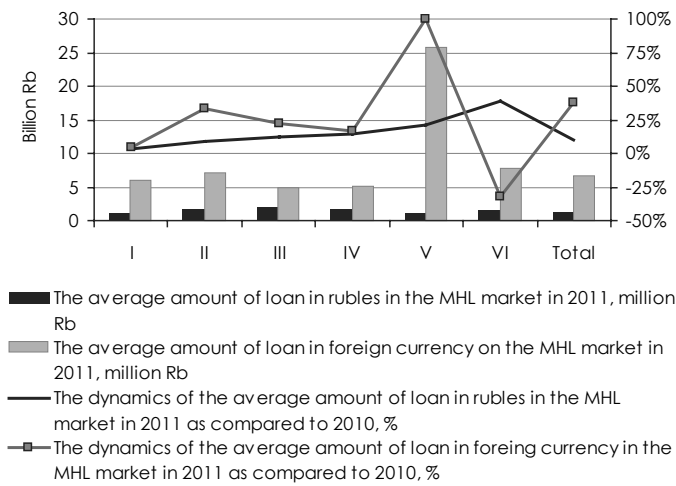
The quality of loan portfolios expressed as a percentage of the overdue debt in the outstanding debt of the group improved in all the groups, except the 4<sup>th</sup> one. It is to be noted that the largest share of the overdue debt is still with the second group (4.28%).

In 2011, group V retained the lowest index of the average value of MHL in rubles (Rb 1,039m), as well as the largest index of the average value of MHL in foreign currency (Rb 25,717m) (Fig. 4). As compared to 2010, the average value of MHL in rubles for all the groups increased. The highest growth (100%) in the average value of MHL in foreign currency was registered with group V, while a decrease, only with group VI.

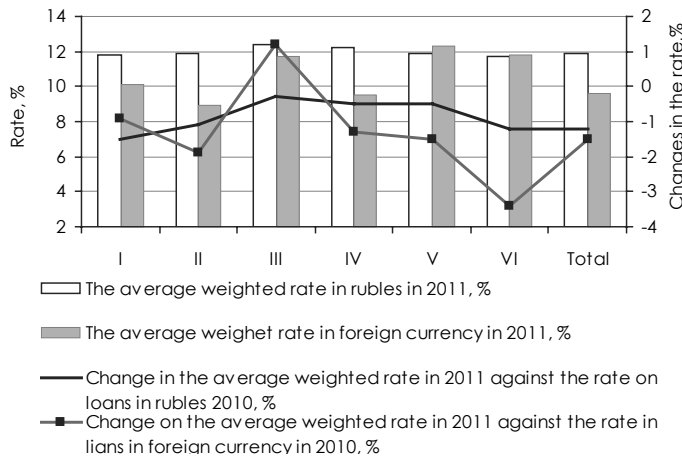
In 2011, the average weighted rate on MHL in rubles by all the groups fell by 1.2% as compared to 2010 and amounted to 11.9%, while that on MHL in foreign currency, by 1.5 % to 9.6% (Fig. 5).



Source. On the basis of the data of the Central Bank of Russia Fig. 3. The dynamics of extension of MHL by the six groups of credit institutions ranged by the value of assets (in descending order)



Source. On the basis of the data of the Central Bank of Russia.  
 Fig. 4. The dynamics of the average amount of MHL by the six groups of credit institutions ranged by the value of assets (in descending order)



Source. On the basis of the data of the Central Bank of Russia.  
 Fig. 5. The dynamics of the average weighted rate on MHL by the six groups of credit institutions ranged by the value of assets (in descending order)

A drop in the average weighted rate per annum took place in all the groups as regards MHL both in rubles and foreign currency, except for MHL in foreign currency of group III.

In 2011, the average weighted period of lending on MHL in all the groups of credit institutions as regards MHL in rubles and foreign currency amounted to 14.92 years and 12.43 years, respectively. The highest average weighted period of lending both for loans in rubles (15.23 years) and loans in foreign currency (17.41 years) was registered with group I, while the lowest average weighted period of lending both for loans in rubles (11.24 years) and loans in foreign currency (3.64 years), with group V.

According to the data of the Central Bank of Russia, in 2011 the volume of refinanced MHL with a sale of a pool of loans (legal claims under MHL) without formation of an additional financial instrument in rubles amounted to Rb 80,769bn which is 39% higher than in 2010. That index in foreign currency amounted to Rb 2,222bn against Rb 6,548bn in 2010. In 2011, refinancing with further issuing of mortgage-backed securities in rubles amounted to Rb 10,697bn; in 2010 such refinancing did not exist. The proposal of the Ministry of Health and Social Development to use pension accruals of individual persons as a security against a mortgage loan extended to them received a negative response from the interested agencies as such a proposal violates the pension rights of individuals. In addition to that, the above proposal contradicts the well-tried practice of using pension funds on the mortgage-backed securities market. ●

## THE STANDARD OF LIVING IN RUSSIA

S.Misikhina

*In 2011, the households' real disposable cash income virtually did not change as compared to the level of 2010. In December 2011, the households' nominal average per capita income increased considerably against November which can be explained to a great extent by a seasonal factor, namely, payment of the end of the year bonuses, annual bonuses and other remunerations. A seasonal drop in households' nominal average per capita cash income in January against the December index was rather tangible: in January the households' average per capita cash income was at the level of Rb 16,400 or 52.8% of December 2011. In 2011, the total number of the unemployed (the number of the unemployed calculated in accordance with the ILO methods) decreased from 5.64m to 5.0m people as compared to 2010.*

**Households' Income.** In December 2011, the households' nominal average per capita income as compared to November increased by 47.9% from Rb 21,100 to Rb 31,200; such an increase can be explained to a great extent by a seasonal factor, namely, payment of the end of the year bonuses, annual bonuses and other remunerations. It is to be noted that the December growth in the households' per capita cash income in 2011 was the largest in the past few years:

- In December 2009 it amounted to 36.1%;
- In December 2010, to 43.5%.

As a result of such an increase, the average annual value of households' nominal per capita cash income amounted to Rb 20.700 which figure is 9.7% higher than in 2010.

A seasonal January decrease in the households' nominal per capita cash income as compared to the December index was rather tangible: in January 2012 the households' average per capita cash income was at the level of Rb 16,400 or 52.8% of December 2011.

Growth in the households' nominal cash income resulted in an increase of 45.0% in the households' real disposable cash income (that is, the income less mandatory payments adjusted to the consumer price index) in December 2011. The December growth in the households' income resulted in a tangible increase of 17.2% in the households' real disposable cash income in the 4<sup>th</sup> quarter of 2011 which situation, in its turn, gave rise to positive (though not a significant) growth of 0.8% in the index value on a year on year basis.

Thus, in 2011 the households' real disposable cash income virtually did not change as compared to the level of 2010. In January 2012, the households' real disposable cash income amounted to 53.5% of December 2011.

Table 1

### THE DYNAMICS OF THE REAL DISPOSABLE CASH INCOME, %<sup>1</sup>

|                   | Percentage                                    |                        |
|-------------------|---|------------------------|
|                   | Of the respective period of the previous year | Of the previous period |
| 2010              |   |                        |
| 1st quarter       | 108.1   | 79.2                   |
| 2nd quarter       | 104.3   | 114.1                  |
| First half-year   | 106.0   |                        |
| 3rd quarter       | 105.8   | 98.1                   |
| January-September | 105.9   |                        |
| 4th quarter       | 102.9   | 116.1                  |
| Year              | 105.1   |                        |
| 2011              |   |                        |
| 1st quarter       | 100.0   | 77.0                   |
| 2nd quarter       | 99.0  | 112.9                  |
| First half-year   | 99.4  |                        |

1 The preliminary data.

Table 1, cont'd

|                   | Percentage                                    |                        |
|-------------------|---|------------------------|
|                   | Of the respective period of the previous year | Of the previous period |
| 3rd quarter       | 101.6   | 101.7                  |
| January-September | 100.2   |                        |
| October           | 100.2   | 101.4                  |
| November          | 100.3   | 101.2                  |
| December          | 106.0   | 145.0                  |
| 4th quarter       | 102.7   | 117.2                  |
| Year              | 100.8   |                        |

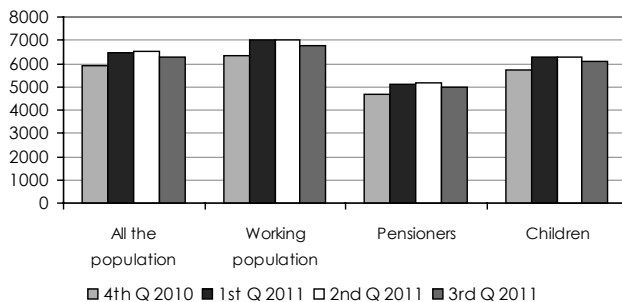
The source: the Rosstat's data.

According to the preliminary data, the average monthly nominal accrued wages and salaries in December 2011 rose by 35% as compared to November and amounted to Rb 32,800. The above increase was the most tangible in the year and resulted in formation of the annual value of that index at the level of Rb 23,700 which figure is 13% higher than the average monthly accrued wages and salaries in 2010. In January 2012, the average monthly nominal accrued wages and salaries amounted to Rb 23,500 or 71.5% of December 2011. In December, the real average monthly accrued wages and salaries rose by 34.4%, which situation resulted in growth of 14.3% and 4.2% in the index value in the 4<sup>th</sup> quarter and on a year on year basis, respectively. In January 2012, the average monthly accrued wages and salaries amounted to 71.1% of December 2011.

In the second half of 2011, there was no indexation of pension, so, the average amount of the pension in December did not virtually change and remained at the level of Rb 8,300. For the year, the value of that index amounted to Rb 8,200. A 10% annual growth in nominal pensions resulted in the growth of 1.2% in their real amount. From February 2012, labor pension rose by 7%. The average amounts of labor pensions will amount to about Rb 9,100 a month:

- Retirement pension, to about Rb 9,500;
- Disability pension, to Rb 5,900;
- Survivor's benefit, to Rb 5,700.

**The Minimum Subsistence Level.** In December 2011, the Government of the Russian



Source: Rosstat's data.

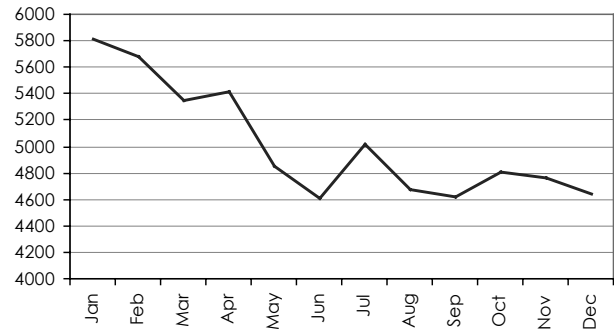
Fig. 1. The value of the minimum subsistence level both per capita and by the main social and demographic groups in the 4th quarter of 2010–the 3rd quarter of 2011, rubles a month

Federation set the minimum subsistence level both per capita and by the main social and demographic groups of the population in general in the Russian Federation in the 3<sup>rd</sup> quarter of 2011 (Resolution No. 1068 of December 21, 2011 of the Government of the Russian Federation) at the level of Rb 6,287 a month which figure is 3.4%<sup>1</sup> lower than in the 2<sup>nd</sup> quarter of 2011. In the 3<sup>rd</sup> quarter of 2011, the value of the minimum subsistence level (Fig. 1) by all the main social and demographic groups of the population decreased by 3.3% and 3.5% for the working population and the children and pensioners, respectively, as compared to the 2<sup>nd</sup> quarter of 2011.

1 According to Article 4 (1) of Federal Law No. 134-FZ of October 24, 1997 on the Minimum Subsistence Level in the Russian Federation “the value of the minimum subsistence level both per capita and by the main social and demographic groups of the population in general in the Russian Federation ... is determined quarterly on the basis of the consumer goods basket and the data of the federal executive authority in charge of the statistics on the level of consumer prices on food products, non-food products and services and expenses on mandatory payments and duties”. As according to the Rosstat's data in the 3<sup>rd</sup> quarter of 2011 the cost of food products in the consumer goods basket fell by 8.8% as compared to the 2<sup>nd</sup> quarter of 2011, while the cost of non-food products and services rose by 1.7% and 0.4%, respectively and with taking into account the fact that in the 2<sup>nd</sup> quarter of 2011 the cost of food products and services (39.9% and 38.4%, respectively) accounted for the four-fifth of the value of the minimum subsistence level a decrease of 3.4% in the value of the subsistence level in the 3<sup>rd</sup> quarter of 2011 appears to be justified.

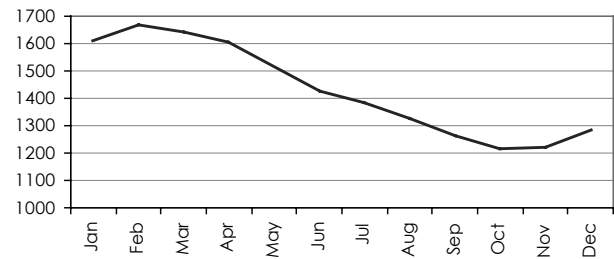
**Employment and Unemployment.** In December 2011, the number of the gainfully occupied population amounted to 75.6m people or over 53% of the total number of the country's population. In accordance with the ILO methods, in December 2011 the unemployed included 4.6m people or 6.1% of the gainfully occupied population (*Fig. 2*). In 2011, the total number of the unemployed (the number of the unemployed according to the methods of the International Labor Organization (ILO)) decreased as compared to 2010 from 5.64m to 5.0m people; it is to be noted that in 2011 the quarterly dynamics of the decrease in the unemployment was a progressive one: from 5.62m in the 1<sup>st</sup> quarter to 4.74m in the 4<sup>th</sup> quarter.

In 2011, the registered unemployment was falling at a higher rate (that is, the number of the officially registered unemployed): in the 4<sup>th</sup> quarter it amounted to 1.24m against 1.64m in the 1<sup>st</sup> quarter. In December 2011, the state offices of the employment service registered as unemployed 1.29m people (*Fig. 3*), including 1.1m people who received the unemployment benefit. ●



Source. Rosstat's data.

Fig. 2. The dynamics of the total number of the unemployed in 2011, thousand people (according to the ILO methods)



Source. Rosstat's data.

Fig. 3. The dynamics of the total number of the unemployed in 2011, thousand people

## VALUE ADDED GROWTH FACTORS ON THE INDUSTRIAL SECTOR IN 2011

E.Astafieva

*The results of the industrial production decomposition rate witness to the fact that in 2011 the dominant role in determining the growth rate of value added in industrial production played a major role, i.e., like in 2010, an increase of gross value added (GVA) in industrial enterprises was carried out at the expense of the extensive growth components. As per tentative estimates, in 2011 industrial production demonstrated reduction in aggregate production output. Extension of labor costs in 2011 occurred mainly due to the increase of the number of employees.*

One approach to studying the causes of the development of various economic activities differentiation rate is the decomposition of economic growth. The basis of this approach is the evaluation of the differential form of the production function, according to which the growth rates of production are presented as the sum of three components. The first two components determine the influence of the dynamics of the main factors of costs: labor and capital (components of extensive growth). The assessment method suggest that the cost factors are equal to the multiplication product inventory (number of employees and amount of fixed assets) on the intensity of use (working time of one employee and capacity utilization). The third component, defined as total factor productivity (TFP) is an unexplained balance of the main factors, which is considered as an indicator of intensive growth components. Such an assessment of the total factor productivity reflects not only changes in “technology” components, but also exogenous shocks, the effect of increasing efficiency of production organization, management quality, etc.

According to Rosstat, in 2011, all industrial activities demonstrate the increase in value added (*Table 1*). Compared to the 2010, gross value added (GVA) in manufacturing industries has increased by 6.1% in mining - by 1.7%, in production and distribution of electricity, gas and water supply – by 0.4%. In real terms the amount of GVA in the manufacturing sector in 2011 made about 98% of the 2008 level.

In accordance with the results of decomposition (*Table 1*), in 2011 63% of value added growth rate in manufacturing costs are based on the main factors. However, the cost structure of the main factors the cost of capital is the predominant component: their contribution to the growth rate of GVA in manufacturing industries is 35%. Despite the fact that in 2011 the manufacturing sector was characterized by the maximum industry growth rates of the two components of labor costs, in the structure of growth of value added they accounted for only 29%. The increase in labor costs for this type of economic activity is implemented to a greater extent by increasing human resources. The contribution to the growth of manufacturing value added, based on employment growth (21%) is more than twice higher than the contribution of hours worked (8%). It should be noted that in 2010 the first component of labor costs was substantially lower than the second component in terms of contribution to GVA growth. According to preliminary data, the 2011 growth rate of TFP in this economic sector has shifted to positive values, identifying about 37% of manufacturing production GVA growth, although this assessment is likely to be biased, it disregards changes in the degree of utilization of production capacity.

In the crisis period, the dynamics of growth of GVA of enterprises engaged in mineral production shows the smallest fluctuations: in 2009 the decline in value added of this economic activity was only 2.4%, while the growth rate of production in 2010 and 2011 was by 4.3%. As of 2011 results, the amount for the mining sector GVA in real terms (more than by 6%) exceeds the pre-crisis level.

In 2011 the structure of the growth rate of value added in mining sector differs from that of manufacturing industries. As a result of 2011, mining companies demonstrate the reduction of SFA. GVA growth of this kind of economic activity is completely based on the major increase in the costs of factors, while the contribution of gross factor productivity growth rate of output is negative.



The most significant factor in the growth rate of value-added in this economic activity is the cost of capital: a contribution to GVA growth rates, determined by an increase of fixed assets is almost 10 times higher than the contribution due to labor costs. The increase in labor costs in the mining sector is for three-quarters depends on employment growth and for a quarter – for the workload of one employee: the contribution of these components in the growth rate of value added is 26% and 9% respectively.

Table 1

## DECOMPOSITION OF VALUE ADDED GROWTH RATES OF THE INDUSTRIAL SECTOR IN 2010–2011\*

|                         | Mineral production |       | Manufacturing industries |      | Production and distribution of electrical power, gas and water |       | Industrial production ** |        |       |         |
|-------------------------|--------------------|-------|--------------------------|------|--|-------|--------------------------|--------|-------|---------|
|                         | 2010               | 2011  | 2010                     | 2011 | 2010   | 2011  | 2010                     |        | 2011  |         |
| GVA                     | 7.1                | 1.7   | 8.3                      | 6.1  | 3.5  | 0.4   | 7.2                      |        | 3.8   |         |
| I. Factors costs        | 1.89               | 5.15  | 12.01                    | 3.87 | 2.44   | 2.40  | 6.42                     | (6.25) | 4.09  | (4.13)  |
| I.1.Labor***            | 0.48               | 0.59  | 2.75                     | 1.76 | 0.35   | 0.65  | 1.86                     | (1.65) | 1.28  | (1.21)  |
| Number of employees     | -0.05              | 0.45  | 0.15                     | 1.27 | 0.22   | 0.57  | 0.11                     | (0.09) | 0.93  | (0.89)  |
| Workload (per employee) | 0.53               | 0.15  | 2.60                     | 0.49 | 0.13   | 0.08  | 1.75                     | (1.56) | 0.34  | (0.32)  |
| I.2.Capital             | 1.41               | 4.55  | 9.26                     | 2.11 | 2.10   | 1.76  | 4.56                     | (4.60) | 2.82  | (2.92)  |
| Fixed assets****        | 5.67               | 4.55  | 2.98                     | 2.11 | 2.10   | 1.76  | 3.57                     | (3.78) | 2.82  | (2.92)  |
| Capacity utilization    | -4.26              | 0.00  | 6.28                     | 0.00 | 0.00   | 0.00  | 0.99                     | (0.82) | -     | -       |
| II. SFA*****            | 5.21               | -3.45 | -3.71                    | 2.23 | 1.06   | -2.00 | 0.78                     | (0.96) | -0.27 | (-0.31) |

\* For 2011 a preliminary assessment is given. For the 2010 discrepancies with previously published results are explained by changes in the data provided by Russian Statistical Service.

\*\* Estimates for industrial production are based on the aggregation of the initial assessments of economic activity indicators (in parentheses are the results of decomposition, obtained by combining the estimates by types of economic activity).

\*\*\* Preliminary assessment of the rate of employment growth in the industrial sector is based on the data on the number of jobs provided in 2011, with regard to the constancy of the ratio of employment by economic activity among the provided jobs.

\*\*\*\* Preliminary evaluation of volume of fixed assets growth in 2011 is based on the assumption of constant coefficient disposal of fixed assets and on the constancy of the share of investment allocated to update them.

\*\*\*\*\* SFA assessment in 2011 in the mineral production, manufacturing sector and total for the industry is biased due to the lack of data needed to assess the degree of change of capacity utilization of enterprises of these types of economic activity.

As noted earlier, the SFA assessment represents a balance, not explained by the basic factors. In particular, the use of cost indicators of output and capital can lead to a shift in SFA estimates due to the uneven dynamics of prices of output and fixed assets. SFA dynamics of mining sector to a greater extent than other industrial production depends on the price situation in global commodity markets. An econometric evaluation of the correlation between SFA growth and the growth in the world oil prices allows to break the SFA into two parts: market component (based on changes in the price situation in the world commodity markets) and “final balance”. It should be noted that the selection of the SFA index of mining sector component, defined by rising oil prices, does not lead to qualitative changes in the conclusions regarding the dynamics of productivity, “final balance” also shows negative growth.

As in the manufacturing sector, in 2011 the volume of GVA in manufacturing and distribution of electricity, gas and water in real terms does not exceed the pre-crisis level. After a 5% reduction in rate of production of this kind of economic activities, in 2009 growth rate of GVA in manufacturing and distribution of electricity, gas and water supply in 2010–2011 accounted to 3.5% and 0.4% respectively. So in real terms the GVA of the sector in 2011 is about 99% from 2008 level.

As a result of decomposition, the production and distribution of electricity, gas and water shows a similar structure of the mining sector growth rate of added value: in the situation of SFA reduction, growth rates of GVA of this type of economic activity are completely determined by the major increase in costs of the basic factors. In the cost structure of the major factors the cost of capital is

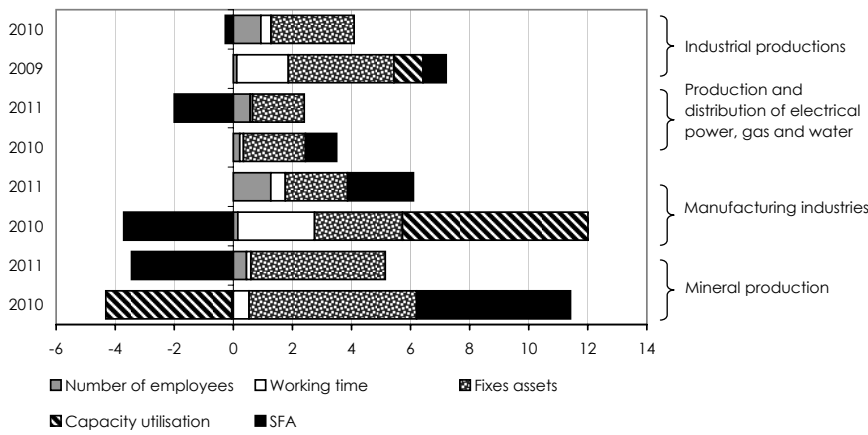


Fig. 1. Structure of gross value added growth in industrial production in 2010-2011

dominating: its contribution to GVA growth rate of enterprises engaged in production and distribution of electricity, gas and water almost three times exceeds the contribution of labor input. The increase in labor costs of this economic activity is realized to a greater extent by increasing their reserves: the contribution of employment growth in the GVA of this economic activity substantially exceeds the contribution by the workload per one employee.

It should be noted that the production and distribution of electricity, gas and water is the only industrial sector, where in 2011 the number of employees exceeded the level of 2008, yet this is the only industrial sector, in which the working time per one employee did not reach the pre-crisis levels.

Data aggregation by economic activity shows that the overall growth rate of value-added in industrial production in 2011 has declined by 3.4 p.p, reaching 3.8% (against 7.2% in 2010), and this reduction to a greater extent is determined by the slowdown in the cost of the main factors. It should be noted that in 2011 GVA of the industry reached the level of 2008, and this situation is almost completely determined by the growth of value added in mineral production sector, which confirms the high level of economic dependence on this kind of economic activity.

In 2011, the industry demonstrates an increase in the rate of growth of employment, while the workload and fixed assets are characterized by slower growth. In accordance with the results of decomposition, labor input makes about 33% of GVA growth in the industry, the cost of capital – 74%. According to preliminary estimates, in 2011 industrial production shows the reduction in aggregate productivity, while SFA growth rates differ little from zero. Selection in the SFA the component, which characterizes the redistribution of value added, labor input and capital expenditures broken down by economic activity, leads to a slight change in the contribution of productivity growth in manufacturing GVA.

The results of the decomposition indicate that in 2011 the predominant role in determining the growth rate of value-added manufacturing costs are the main factors, i.e., as in 2010, an increase in GVA at the industrial enterprises is implemented at the expense of extensive components of growth.

It should also be noted that if in 2010 an increase in labor input in industrial production was realized primarily due to increase in the intensity of workload (hours worked), the increase of labor costs in the 2011 is implemented mainly due to increase of human resourced (number of employees).

The contribution of total factor productivity in GVA growth of industrial production is negative. The dynamics of SFA varies across the sectors. According to preliminary estimates (in the absence of data on the degree of capacity utilization), in 2011, the SFA in the manufacturing sector demonstrated an increase, while the growth rate of SFA in the mineral production sector and the manufacturing and distribution of electricity, gas and water supply are negative. ●

## THE REVIEW OF THE MEETING OF THE GOVERNMENT OF THE RUSSIAN FEDERATION IN FEBRUARY 2012

M. Goldin

*In February 2012, at the meetings of the Presidium of the Government of the Russian Federation the following issues were discussed: the draft federal law which provides for broader provision of state and municipal services on the basis of the 'single window' principle at the multifunctional centers (MFC) and the draft of such amendments to the Tax Code of the Russian Federation as introduce privileges in payment of state duties when filing a lawsuit for a compulsory license to be granted.*

**On February 16**, at the meeting of the Presidium of the Government of the Russian Federation, the draft Federal Law on Amendment of Individual Statutory Acts of the Russian Federation for the Purpose of Removal of Limitations as Regards Provision of State and Municipal Services on the Basis of the "Single Window" Principle was discussed.

The legal foundations of provision of state and municipal services on the basis of the principle of the "Single Window" at multifunctional centers (MFC) were established in Federal Law No. 210-FZ of July 27, 2010 on The Organization of Provision of State and Municipal Services. However, numerous statutory acts which regulate the procedure for provision of state and municipal services include limitations as regards provision of the above services at the MFC. In particular, as stated at the Website – The Administrative Reform in the Russian Federation – such limitations include federal law norms which oblige the applicant to submit the documents needed for the service to be provided and receive the output of the service only at the respective state or municipal authority and cooperate personally with authorized representatives of state and municipal authorities in order to carry out individual activities and procedures. Even in case the documents have been submitted to the MFC, to receive the output of the service the applicant needs to apply to the authority or vice versa.

To remove such limitations, it has been proposed to amend 23 federal laws.

Also, the draft law introduces responsibility of the MFC for provision of state and municipal services in acceptance and issuing of documents and determines the list of actions which the multifunctional center is responsible for.

Also, on February 16 the draft federal law on Amendment of Part Two of the Tax Code of the Russian Federation was discussed at the meeting of the Presidium of the Government of the Russian Federation. The draft law provides for privileges in payment of state duties when filing lawsuits for the compulsory license to be granted.

In accordance with Article 1239 of the Civil Code of the Russian Federation, at the request of the interested person the court may decide to award that person the right on the terms specified in the court ruling to use the intellectual activities' output the exclusive title to which belongs to another person (the compulsory license).

In particular, in accordance with Article 1362 of the Civil Code of the Russian Federation if an invention or industrial sample have not been used or used insufficiently by the patent holder within four years from the day of issuing of the patent while in case of the useful model, within three years from the day of issuing of the patent which situation results in insufficient supply of respective goods, jobs and services on the market any person who intends and is prepared to use such an invention, useful model and industrial sample in case of refusal by the patent holder to enter with that person into a license agreement on the terms which are in line with the established practice has the right to file a lawsuit in court to the patent holder for the compulsory simple (non-exclusive) license to be granted to use the invention, useful model or industrial sample in the Russian Federation.

Amendments are introduced into Article 333<sup>36</sup> and Article 333<sup>37</sup> of the Tax Code of the Russian Federation in order to exempt the applicant from payment of state duties when filing a lawsuit for a compulsory license to be granted them in courts of general jurisdiction and arbitration courts. ●

## THE REVIEW OF THE ECONOMIC LEGISLATION

I.Tolmacheva

*In February, the following amendments were introduced into the legislation: presidential scholarship in the amount of Rb 20,000 a month was established for young researchers and post-graduate students; partnerships of owners of housing (POH) and condominiums ought to disclose the information on their activities in such a way as for-profit entities which manage apartment houses under an agreement do; a number of research and innovation organizations was granted the right to invite to Russia foreign citizens as researchers and teachers without securing a permission to engage and use foreign workers*

### I. Orders of the President of the Russian Federation

1. Order No.181 of February 13, 2012 on ESTABLISHMENT OF THE SCHOLARSHIP OF THE PRESIDENT OF THE RUSSIAN FEDERATION FOR YOUNG RESEARCHERS AND POST-GRADUATE STUDENTS WHO ENGAGE IN PERSPECTIVE RESEARCH AND DEVELOPMENT BY PRIORITY LINES OF MODERNIZATION OF THE RUSSIAN ECONOMY  
The above scholarship was established for the purpose of government support of young (under the age of 35) researchers and post-graduate students who engage in perspective research and development by priority lines of modernization of the Russian economy. The scholarship is assigned for the term of up to three years; the same person may be granted the scholarship more than once. The total number of persons who receives the scholarship annually should not exceed 500 persons in 2012, while starting from 2013 that number will be 1,000 persons.

### II. Resolutions of the Government of the Russian Federation

1. Resolution No.94 of February 6, 2012 on AMENDMENT OF THE STANDARD OF DISCLOSING OF THE INFORMATION BY ORGANIZATIONS CARRYING OUT ACTIVITIES IN THE SPHERE OF MANAGEMENT OF APARTMENT HOUSES

Partnerships of owners of housing and condominiums ought to disclose the information on their activities at the specialized web-site determined by the authorized federal executive authority, as well as the site of the respective executive authority of the constituent entity of the Russian Federation or the site of the local authority. In addition to the above, POH and condominiums should place information on information boards (desks) situated at such premises of apartment houses as are accessible to all the owners and provide the information on request. At the same time, unlike management entities POH and condominiums do not have to disclose the information on their activities at their own web-site.

Due to the organizational and legal status of POH and condominiums, the composition of the information which is to be disclosed by them is somewhat different from that disclosed by the management entities. Apart from the general information (the name, postal address, work schedule of the governing bodies and other), accounting documents and information related to the apartment house maintenance technology, the above entities have to publish, in particular, the minutes of the general meetings of members of the partnership or condominium where the issues of maintenance of the apartment house were considered, conclusions of the auditing commission on the results the audit of the annual accounting statements, information on the amount of mandatory payments and contributions set by the general meeting and information on establishment of the reserve fund or other specialized fund for carrying out of the current repairs or major overhaul.

2. Resolution No. 93 of February 6, 2012 on APPROVAL OF THE LIST OF RESEARCH AND INNOVATION ENTITIES WHICH HAVE THE RIGHT TO INVITE TO THE RUSSIAN FEDERATION FOREIGN CITIZENS AS RESEARCHERS OR TEACHERS TO CARRY OUT

**RESEARCH AND EDUCATIONAL ACTIVITIES WITHOUT SECURING A PERMISSION TO ENGAGE FOREIGN WORKERS**

A number of research and innovation organizations have been granted the right to invite to Russia foreign citizens as researchers or teachers without securing a permission to engage or use foreign workers. The list of such organizations includes, in particular: ROSNANO and non-profit organizations established by it; Rostekhnologii; entities which are associated with Naukograd (research city) of the RF, a research and industrial complex; entities which carry out their activities in technological parks in the sphere of high technologies; entities which are under the jurisdiction of the state academies of sciences; entities which are residents of special economic zones of the technical and development type or the industrial and production type; OAO Russian Venture Company and venture funds established by it; the FGAU Russian Fund for Technological Development; the FGBU Fund for the Assistance in Development of Smaller Forms of Entities in the Scientific and Research Sphere; the Fund for Infrastructure and Educational programs; economic associations established for the purpose of practical application (introduction) of the outputs of intellectual activities in compliance with Federal Law on Higher and Post-Graduate Professional Education and Federal Law on Science and State Research and Technical Policy. ●

## AN OVERVIEW OF NORMATIVE DOCUMENTS ON TAXATION ISSUES IN JANUARY–FEBRUARY

L. Anisimova

*In February 2012 there were two acute problems for Russia in terms of compulsory payments: 1) exploration of possibilities of economic development promotion of the Russian economy by restructuring the tax system (through the so-called “tax maneuver”) and 2) preparing for the relationship of fair income state budgets differentiation in the open international market in view of Russia’s accession to WTO.*

1. The first problem was the result of high-cost government social policy over the past few years, not supported by steady budget revenues. There is insufficient funding for the declared revenue growth of pensioners and members of security forces. An attempt to mobilize additional resources by increasing the tax burden on entrepreneurs turned into a massive capital outflow, which put into question not only the fulfillment of the government social liabilities, but in general the possibility of survival of the business in Russia in the new environment.

Increased social insurance premium rates, not only did not only bring a serious revenue growth to socially funds, but, in contrast, has led to an absolute reduction in municipal budgets generated by the tax on personal income<sup>1</sup>, as well as the capital outflow<sup>2</sup>. The situation in which the increase in tax rates is impossible, since it provokes direct losses of budget revenues, can be qualified as a crisis of public finances.

In accordance with the assignment of the RF Prime Minister V.V. Putin, Ministries were to present by February 15, 2012 the approved “proposals on improvement the tax system, including the optimization of taxes to provide incentives for economic growth and inflow of investments in high-tech and manufacturing businesses”. The meaning of this maneuver was clarified in an article of V. Putin on economic challenges of Russia: not to increase the tax burden on non-oil sector<sup>3</sup>. The business community has accepted the proposal as an attempt to resolve the budget problems at the expense of “cross-subsidization” between the economic sectors and to shift the burden on the mineral production sector. At the Congress of Entrepreneurs, dedicated to its 21th anniversary, it was suggested that the “cross-subsidization” violates the interests of business and increasing the load on the mining industry will lead to an increase in tariffs on goods (works, services) of natural monopolies<sup>4</sup>.

Another issue which requires special consideration is the proposal to introduce a lumpsum payment<sup>5</sup> for the social legitimization of privatization outcomes. Given the ambiguity of the relations in the society to the results of privatization, the desire of the Government is clear to solve two problems at once: to ensure its (privatization) social legitimacy and simultaneously to raise additional funds to the budget. The Head of the Account Chamber Sergei Stepashin has responded to that proposal, who noted that the Report on the results of privatization, prepared as early as in 2003 with participation of international experts, it was noted that privatization in Russia “was held in the worst option of all European countries”. However, Stepashin said: “... Everything was done in the framework of the laws effective at that time... The mass privatization and even the pledge auctions were legitimate de jure. Everything was done in accordance with the laws and decrees of that time. Hence, our conclusion is to raise the issue of de-privatization from a legal point of view is incorrect<sup>6</sup>. “For this reason, in the opinion of the Accounts Chamber, the above payment may be paid only on the voluntary principle. As

1 “Insurance premiums recognized unsuccessful. It was impossible to plug a hole in the pension system by raising taxes on the payroll. Increased insurance premiums turned out to lower revenues from personal income tax”, 9 February 2012, Site Finmarket.ru.

2 In 2011 the loss was more than \$ 84bn for January 2012, and as per the Ministry of Economic Development – \$ 17bn.

3 “Entrepreneurs against the tax maneuver of the Prime minister. The Government was advised to first deal with the transparency and efficiency of the budget”. Anastasia Bashkatova, site ng.ru 07.02.2012.

4 O. Tanas, “No time to catch with Putin”, gazeta.ru, 14.02.2012.

5 V. Butaev, “New Year holidays will be cut down, extending the May holidays”, the site Kp.ru / Politics 09/02/2012.

6 “Expulsion from the tax havens. The Chamber of Commerce will stop the withdrawal of Russian assets to offshore companies”. The Russian Gazette – Federal Issue number 5708 (35), 17.2.2012.

suggested by the Head of the Accounts Chamber, the amount of compensation will be difficult to assess: “In principle, one can calculate the difference in the price of those assets for which they were purchased in the 90s and their actual cost. But I just warn you, it will be difficult to do it. If this is a necessity, it is possible to solve the issue through legal procedures, to involve independent financial supervision, including the Accounts Chamber”.

Position of the leadership of the Accounts Chamber on the voluntary nature of the compensation payments is worth of supporting. There should be distinguishment between privatization as a substitute for the holder capital and the circumstances of the change of owner. Privatization as a change of the owner of capital (ownership of shares, equity) must be made by the government in carrying out certain pre-specified public requirements related to investments in production, programs of production development. Herewith, separate provisions are specified for a possibility of its liquidation or sale to competitors. The owner of privatized business becomes the owner of the shares (equities), but the property and operations proceeds belong to the privatized object as an independent subject of civil-law relations. That is, the capital owner (owner of shares, equities) theoretically derives its profit from privatization in the last turn – after the payment of wages to employees and repayment of tax and production liabilities, with regard to the schedule of repayment of debts acknowledged at the point of privatization. In Russia, the privatization also meant the acquisition of rights in the capital, rather than the acquisition of property of the privatized object by the new owner (the argument is given in the footnote)<sup>1</sup>.

Naturally, there are financial risks in this scheme. One of them is inefficiency of the privatizing to the budget (low cost of privatization deal). In Russia, privatization vouchers were distributed free to all citizens and in access in the market (it was forbidden to use them only as means of payment for goods and services), but the voucher nominal cost in 1992 amounted to Rb 10,000 (with subsequent denominations by Rb 10)<sup>2</sup>. By different means through the transactions, these checks were combined into packages and by the individuals (or legal entities for example, by check or physical funds) were exchanged for equity in privatization. The problem was that an access to real auctions for ordinary people was difficult, because those trades were monitored, on the one hand, by the administrations of the territories at the location of these facilities and, on the other hand, by criminal organizations. Both of them (although their motives were fundamentally different) tried to hinder unauthorized access to tradings, so ordinary people were forced to handle their vouchers, based on the available options, but legally they all had chances to participate in free privatization. Taxable income of a participant in privatization occurs in case of realization of the rights obtained by an individual at the privatized facility (expressed in stocks, shares, equity in privatized object) in the form of the difference between the acquisition cost of equity (at least nominal voucher package cost) and the price of its market sale price. It should be recalled that before the early 2000s in Russia, tax revenues of physical persons was carried out under a progressive scale (effective rate - about 20-22%), and the income tax rate reached 35% (up to 43 % for financial institutions). In the case of a free voucher privatization, it is not entirely clear what the additional payment other than payment of tax on income from sale of the share in the privatized object may be involved, and what is to be selected as the object of this payment?

The greatest risk of privatization, we believe, is associated with the acquisition of capital for the deliberate destruction of the privatized object (to capture the market, set up a monopoly, just for personal enrichment through the transfer of property privatized as the personal property of the object). In particular, the owner of the capital (stock shares, equity) may authorize the organization for non-market transactions (transfer) prices, i.e., artificially to understate the income received by the privatized

1 An assumption the government had made privatization of the companies solely as a sale of industrial complex is incorrect, as all privatized enterprises and organizations were in labor relations with citizens. This means that, taking a privatized object is burdened with the labor relations, the new owner could not take it otherwise than through ACQUISITION LAW on capital, i.e., in any case, when the privatization was recognized, a separate legal entity that had independent and direct relations with third parties, the employees. Moreover, since CCORDING the Law of the Russian Federation No. 2116-1 of 27.12.1991, provides that the taxpayers have recognized legal entities, including Budget ones, and the Federal Law No. 2490-1 of 11.03.1992, regulating collective agreements in the framework of the Labor Code, defined the heads of employers' organizations or other representatives, in accordance with the Charter of the organization.

2 Item 5 of Presidential Decree No. 914 of 14.08.1992 “On introduction of the system of vouchers in the Russian Federation”, Paragraph 2 of the Regulations of privatization vouchers.

business in order to transfer funds for personal use or for the benefit of the third parties with whom it has non-market arrangements. If the transfer prices were used, then it means that income from the operation of the privatized object (incoming revenues from sales of produced goods, works, services) in connection with decisions taken by the owners of the shares (stocks, equities) are lower than those to which the organization would have received in the application of free market prices. As a result there is a lack of funds to upgrade equipment, pay salaries to employees, decreased revenue base in the budget of the organization. For over 10 years, the RF Ministry of Finance failed to enter the concept of transfer price in the text of the Tax Code. The problem was resolved only in 2011, and until that time only the term “market price” was used in the tax law, as the market price was classified in courts in most cases as an actual transaction price. But amendments to the Tax Code have addressed only the issue of the budget protection. Therefore, the interests of privatized labor collectives, as well as property interests of the legal person is still not assured. Thus, the bankruptcy of privatized objects for over 10 years, in fact, became the result of not so much the privatization as it is, but much of delay in the necessary market reforms, and first of all, institutional reforms.

For the market it does not matter who owns the shares (they can be held by thousands of entities), but those solutions, which give the right to ownership of shares (stock shares, equity) and the system of the legal entity interests protection from the actions of the owners or authorized persons to own shares (equity), carried out in violation of the proprietary interests of the legal entity. In the Russian legislation there is no list of actions, transactions and circumstances that may be classified as violating of the freedom of market prices of the organization and threatening the economic interests of independent market participants. It is necessary to remove legal gaps and to enact legislation provisions, which could protect property rights and legal entity rights as an individual market entity (protection from the threat of deliberate bankruptcy on the part of the founders and members, third parties, from a hostile merger, from the dumping invasion to the market, from the violation of intellectual property rights of legal entity). It is necessary to introduce in the legislation the mechanisms for representation and protection of the interests of labor collectives in the management of enterprises (for example, a mandatory quota of votes held by the employees at the meetings of supervisory or executive bodies of the legal entity).

Thus, to legitimize the results of privatization, we believe that we must first build a more thorough legal relationships between the owners of capital of a legal entity, people, entered into an employment relationships with such entity, and the legal entity itself in connection with its activities in the market, as well as to establish the civilized rules of a free (independent) market operations, which would protect the interests of independent producers. Due to the pendency of these particular problems, people were helpless in the market conditions, there occurred a hypertrophied stratification of society, as well as an uncontrolled capital outflow. If necessary institutional solutions are not implemented, the people will go on strikes and continue to write letters to the president of the country to guide their organizations from the “top” to acquaint the employees of modernization and further development plans<sup>1</sup>.

Among other proposed activities for the “tax maneuver,” one should note the proposal to restore the so-called “tax holiday” for new businesses (in the early 2000s such scheme was rejected, as it did not promote emergence of a new business, but was widely used for tax avoidance) and the introduction of a luxury tax (if the tax is applied, it will be very expensive in terms of administration, so now the RF Ministry of Finance is considering the economic schemes of its implementation, including through special rules of already effective corresponding taxes on the property and vehicles).

The preparation of proposal to deny the property tax in the framework of “tax maneuver”, coordinated by the Ministry of Finance and the Ministry of Economic Development of Russia is highly disputable<sup>2</sup>. It is obvious that this proposal (if it is introduced) will be motivated as a measure to promote the modernization of enterprises. But the rejection of the property tax actually will not actually affect the upgrade. In fact, the main purpose of property taxes is to ensure the effectiveness of assets ownership, replacement and utilization thereof. The tax rates are not large enough to affect the motivation to acquire new assets. The property tax in the tax scheme complements to the income tax. Income tax is a tax on current income, and property tax is a gained income tax, it is theoretically absorbed by the

1 A. Bondarenko. “In Primorye, chemical plant workers on strike have asked for help from the government”, Russian gazeta, site [www.rg.ru](http://www.rg.ru).

2 “Tax maneuver with obstacles”. Website Rambler / finance, the section “Personal Money” from 15.02.2012.



income tax, as it refers to the costs of organizations and reduces the base of taxation on profits (if there is any profit), or forcing taxpayers to sell property (in its absence). In this event, the property tax causes taxpayers to get rid of unprofitable assets, which reduces the price for the equipment in the secondary market and increases the efficiency of the economy in general. In addition, this proposal could lead to a loss of government control over the property located in the RF territory, which is hardly advisable.

The regular changes in tax regulations in connection with the impossibility of finding sources to cover the additional social liabilities in the framework of the current tax system has led to the nomination of ultimatums from the business - the legislative establishing of tax burden limits on all types of mandatory payments as a percentage of revenue<sup>1</sup>. Thus, the dispute about the development of the tax system is again at an impasse, like it was in the early 90s of the last century. The fact that each industry has its own inherent structure of the unit cost of goods (works, services), and there is no “single” tax, common for each and every market participant. A fixed percentage of sales (not of profit) will be good for someone, but a ruin for others (at a low rate of return in this case the costs of producers will be taxed). If the rate of revenue will be reported as marginal, while maintaining of all affective corresponding taxes, in practice this will mean a reduction in the relative tax burden on high-profit companies, manufacturers of alcohol and tobacco, etc., as compared with the load on the profits of other producers. The current tax system of market economy, as we have repeatedly noted in previous reviews, is based on the principles of fairness (equity) of the tax burden on income (profit) of market participants and neutrality with respect to their legal status. “Forgiveness” of the tax obligations for super profitable organizations is unfair to other market participants and therefore cannot be supported.

Meanwhile, the issue of public finances can become very serious, if the anticipated increased tax burden entails a further business closing, especially in the regions. To avoid such a development, we believe that the Russian government should restructure the (at least in part) the past commitments, including social ones. The law on the federal budget could include the provision on social commitments made under the federal laws in 2011–2012 will be performed to the extent and within budget revenue of additional resources.

2. The second major problem of the past time, we believe, is the lack of legal clarification on the application of tax laws in connection with Russia’s accession to the WTO. At the end of 2011 the issue of Russia’s accession to the WTO was decided. Until mid-2012 the legislature must ratify the agreement. In our opinion, the question of accession to the WTO breaks out with renewed vigor after the presidential elections in Russia.

Complication for Russian taxpayers would be that they would confront for the first en masse event with the qualification of the market price for the work in the open market with international rules and concepts. Thus, the concept of “subsidy” for the application of the rules of the market pricing in an open market has a completely different semantic content than that as that term is interpreted by the Russian budget and tax legislation. As part of the international pricing, subsidy means the artificially low cost for producers below fair market levels through the adoption of the state of a part of business costs (e.g., due to government regulation of internal prices of primary commodities and resources), which creates the possibility of such producers to use lower prices in the sale of manufactured goods (works, services) in the world market than for its competitors.

The existence of this problem is clearly stated in the Report of the Working Group on the Russia’s accession to the WTO. With the entry into WTO, the Russian domestic market is gradually becoming a part of the world market, and with exports of goods, which production has been subsidized in one or another form, the application of sanctions is provided. According to the Report content, international regulators can be accounted as anti-dumping and other penalty sanctions on the facts revealed under the hidden subsidy, such as: “Export of intermediate or finished products from the Russian Federation, in particular energy-intensive goods, such as fertilizers and metals, can be carried out at a price below their regular value, or at subsidized prices, which may be due to the possibility of applying anti-dumping or countervailing measures in export markets”.

Under these conditions, The Russian Ministry of Finance should give a clear definition of the term “market price” for export operations, to answer the question with respect to tax accounting and other anti-dumping sanctions and penalties imposed by international regulators, as well as clarification

1 “Entrepreneurs are against the tax maneuver of the Prime Minister. The Government was advised to first deal with the transparency and efficiency of the budget”. Anastasia Bashkatova, site ng.ru, 07.02.2012.

regarding the mechanism of registration and the list of documents to be submitted to the tax and judicial authorities in connection with such interactions with international regulators.

The issue of hidden subsidies, the difference in prices for raw materials and housing utilities in the domestic and international markets for the Russian taxpayers should be reviewed, to follow point of view, more carefully in order to identify possible system problems for all Russian producers.

In order to reveal the scale of the outstanding challenges, we will present some data (see Table “Comparison of the cost of a conventional unit of utility services to consumers and hydrocarbons (sample according to the Internet)”). As we see, in comparison with the European consumers, comparable prices for Russian consumers of similar products and services are significantly lower (by 2-3 times). Apparently, the Russian government in the near future will have to decide on the phasing out of tariff regulation in hydrocarbon prices and energy prices in the domestic market, since the budget is unlikely to bear a double burden in the form of increased performance of social liabilities and payment of possible sanctions in the event that the tariff regulation subsidies for domestic producers. We would like to recall, that from 01.01.2012, the Russian organizations are obliged to apply the rules of IFRS. The scheme of state subsidies reflected in the revenue and expenditure shown in the organization of IFRS No. 20 (Appendix to the Order No. 12 of the RF Ministry of Finance dated 25.11.2011, No.160n). According to the method of IFRS, in the accounting there should be reflected the real cost of producers, including those covered by government subsidies. There is no tariff regulation of prices in such a scheme. How tough are the requirements for suppression of implicit subsidies can be judged by a special thematic publications.

For example, according to the Director of the department for trade negotiations of Ministry of Economic Development M. Medvedkov, in view of Russia’s accession to the WTO the scheme of aircraft leasing will be fundamentally changed – the air carriers will not be able to receive grants. It may be appropriate in subsidizing Russian companies - aircraft manufacturers ( but only in respect to aircrafts serving domestic traffic)<sup>1</sup>. Only primarily highly developed countries are to monitor the implementation of WTO rules<sup>2</sup>. With the need to protect their interests in the WTO is facing other countries, such as China<sup>3</sup>.

3. With the Russian institutions, who pay interest on corporate bonds, there occur problems in carrying out responsibilities under tax agents in cases where such bonds of Russian issuers located outside Russia, and may be purchased by both, Russian and foreign organizations. On 02.20.2012 the Russian Ministry of Finance has posted at its official website the information about the proposed measures to resolve the those difficulties. The problem is that, in accordance with the agreements on avoiding double taxation on interest from foreign investors should be paid at their place of registration as a taxpayer. But the agreements usually have no record in regard to “other interest” (not named in the texts of the agreements) to be paid as a tax part to the state budget at the location of the source of payment of these “other interest”. Depending on the answer to the question to which category of income includes interest on bonds issued by corporate emitters, a Russian organization is or not holds the obligation to withhold tax to the Russian budget. Previously, the tax exemption on interest was applicable only to Eurobonds issued by the Russian Federation.

Based on the application of the new Minister of Finance A. Siluanov, now it is expected to qualify the interest on corporate bonds of Russian companies, “emitted in accordance with the laws of foreign countries,” as well as interest in the terminology of international agreements. This assumption will be applicable in the framework of the Russian domestic legislation (the draft amendments to Article 310 of the Tax Code will be published on the website of the RF Ministry of Finance). After that, Russian organizations, paying interest to foreign holders of corporate bonds, who are the residents of countries with whom Russia has agreements on avoidance of double taxation, will not have to pay tax in the Russian budget. With regard to interest payments to bondholders who are tax residents of the Russian Federation, in respect of such payment obligations of the tax agents are fully preserved, as well as

1 “The scheme of subsidies for the leasing of aircrafts from the moment of accession of Russia to the WTO could change”, the site ng.ru on 02/01/2012.

2 A. Polunin, “Obama declared war to Russia trade. The U.S. President declared in the Congress that U.S. companies do not need to be interfered”, svpressa.ru, 25.01.2012.

3 China has paid the entry into the WTO. The EU and the United States successfully challenged the Chinese government regulation of the commodity exports. “The site of the newspaper ‘Kommersant’ ” № 18 (4803), 02/02/2012.

in respect of interest payments to bondholders who are tax residents of countries with which Russia does not have agreements on avoidance of double taxation. With regard to the percentage of income paid in the structures of corporate Eurobonds issue with the maturity date prior to January 1, 2013, it is proposed to exempt the Russian borrowers from the duties of a tax agent under certain conditions (including those already made to date, the interest (coupon) payments). The obligation to pay the tax to the budget is supposed to lay directly on the Russian interest recipients.

Table

COMPARATIVE COST OF CONDITIONAL UNIT FOR UTILITY AND HYDROCARBONS FOR CONSUMERS  
(SELECTION ACCORDING TO THE INTERNET)

|   | For companies   | For households    |
|---|---|-------------------|
| The cost of gas, m10003   |   |                   |
| In USA (New York)   | \$ 99   |                   |
| In Europe   | \$350 (furures for 2012 - \$1,27.5 2013 - \$148.7 spot of winter 2012 – over \$ 500)  |                   |
| In Russia (Moscow. Moscow Region)   | Rb 6,000 or \$200   | Rb 3,000 or \$100 |
| The cost of a liter of gasoline   |   |                   |
| In USA  | 1 gallon = \$3.15<br>(1 gallon = 3.7854 l 1 l = \$0.83*RB 30)<br>1 l = Rb 25.   |                   |
| In Europe (Germany)   | 1 l = 1.34 E * Rb 40 E = Rb 53.6.   |                   |
| In Russia (Moscow. Moscow Region)   | Rb 27.  |                   |
| The cost of electricity, 1 kWh  |   |                   |
| In Europe (Germany)   | ( E primo) 0.25E = 0.25E*40 Rb/E=c  |                   |
| In Russia (Moscow. Moscow Region)   | Rb 4.58   | Rb 2.55           |
| The cost of water, 1 m3   |   |                   |
| In Russia (Moscow. Moscow Region)   |   |                   |
| cold  | Rb 29.15  | Rb 15             |
| drainage (incl. channeling of hot water)  | Rb 19.38  | Rb 12             |
| hot   | 1300-1500 Rb/Gcal *) =<br>Rb 75-79.5./m3  | Rb 75             |
| In Europe (Germany)   |   |                   |
| cold  | 2 E/m3=Rb 80  |                   |
| hot   | 5.07 E - 7.75E = 202.8-Rb 310   |                   |
| *) given that 1 Gcal heats (see conversion) about 18.94 m3 of water at 50 degrees (minimum level supported by the heat of hot water), then heat for 1m3 of water requires approximately 0.053 Gcal, which corresponds to RB 79.5. |   |                   |
| Conversion:   | 1 kcal = 1.1163 W * h   |                   |
|   | 1Gkal = 1163 kW*h<br>Specific heat of water 4.19 kJ (mean number of the specific heat means that heating of 1 kg of water by 1 degree needed for 4.19 kJ of heat energy)  |                   |
|   | Heat demand for heating of 1 m3 of water to 50 degrees is determined by the formula: $W = C * V * (T1-T2)$ , where C is the heat capacity, V is the volume of heated water. (T1-T2) is the temperature difference.<br>That is, for our example $4.19 * 1000 * 50 = 209\ 500$ kJ = 209500/3600 sec. = 209.5 MJ: $3.6 = 58.2$ kW * h.<br>at an efficiency of 95% = 61.3 kWh.<br>That is, one Gcal heats 1,163/61.3 = 18.94 m3 of water to 50 degrees. |                   |