



RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 11'2011

MONTHLY BULLETIN:

RUSSIAN ECONOMY IN NOVEMBER: PRELIMINARY DATA AND MAJOR TRENDS	2
POLITICAL AND ECONOMIC RESULTS OF NOVEMBER 2011 (S.Zhavoronkov)	5
INFLATION AND CREDIT AND MONETARY POLICY (N.Luksha)	8
FINANCIAL MARKETS (N.Burkova, E.Khudko)	11
REAL ECONOMY: TRENDS AND FACTORS (O.Izryadnova)	18
RUSSIAN INDUSTRY IN OCTOBER 2011 (S.Tsukhlo)	22
FOREIGN TRADE (N.Volovik, K.Kharina)	25
STATE BUDGET (T.Tishchenko)	29
RUSSIAN BANKING SECTOR (S.Borisov)	33
MORTGAGE IN THE RUSSIAN FEDERATION (G.Zadonsky)	36
THE STANDARD OF LIVING IN RUSSIA (S.Misikhina)	39
MIGRATION AS AN INSTRUMENT OF POLITICAL PRESSURE (L.Karachurina)	42
ON THE DISTRIBUTION OF SCHEDULE STUDENT ENROLLMENT NUMBERS BETWEEN STATE AND NON-STATE HIGHER EDUCATIONAL ESTABLISHMENTS AND SECONDARY VOCATIONAL EDUCATIONAL ESTABLISHMENTS (T.Klyachko)	46
ON ESTABLISHMENT OF ROAD FUNDS OF CONSTITUENT ENTITIES OF THE RF IN 2012 (A.Alayev)	49
THE REVIEW OF THE ECONOMIC LEGISLATION (I.Tolmacheva)	52
THE REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RF IN NOVEMBER 2011 (M.Goldin)	54
AN OVERVIEW OF NORMATIVE DOCUMENTS OF TAXATION ISSUES FOR OCTOBER –NOVEMBER 2011 (L.Anisimova)	56

RUSSIAN ECONOMY IN NOVEMBER: PRELIMINARY DATA AND MAJOR TRENDS

Political Background: Elections Against the Backdrop of a Negative Trend

November 2011 saw the completion of the State Duma election campaign and the start of the presidential election campaign. The final stage of the Duma campaign was unfavorable for United Russia: unlike the previous elections, that party's rating registered by sociological polls during the pre-election month did not improve but became worse, dropping to 52–55% in the latest surveys carried out by the leading polling agencies one week before the election. This means that United Russia will lose its constitutional majority in parliament. This also means that United Russia that party's representation in regional parliaments will be weakened, which will result in a stiffer political competition on the regional level. Moreover, the campaign was riddled with numerous scandals dealing with the executive authorities' pressure on the voter: regional authorities had been instructed from Moscow on the percentage of votes they should obtain for United Russia by hook or by crook, but failed to achieve those targets through lack of resources. As a consequence of all these mishaps, the legitimacy of the electoral results will be considerably undermined.

As soon as the presidential election date was announced, Vladimir Putin was nominated candidate for President in the course of the second part of the United Russia convention. This happened against the background of the continuing slump in the popularity of the current Prime Minister: in November, Putin was booed when he climbed onto the ring at Moscow's Olympic Stadium to congratulate a Russian martial arts fighter with victory, and the boos inflicted a heavy blow on his image Russia's 'national leader'. Surveys conducted by the Levada Center ('Who will you vote for if the presidential election were to take place next Sunday?') registered a more than 10-point drop in Putin's popularity – from 42% in early November to 31% by the end of that month.

In spite of the fact that we can still discern some shadows of the former liberal economic agenda (e.g., the proposals contained in the revised Strategy-2020), his main message as a candidate for President remains 'the preservation of stability and the status quo', which does not permit us to cherish any hope of serious reform, including in the field of the investment climate. Moreover, the dwindling popularity of both the 'party of power' and the Prime Minister himself, as well as a possible decline in the legitimacy of the basic institutes of power in the aftermath of the election, will render the conduct of any profound reform practically impossible, and thus make it almost inevitable that populism in Russia's economic policy will significantly increase.

Macroeconomics: Less Money is Available

Just like in October, oil prices relatively stabilized and continued to hover around \$ 105 – \$ 115 per barrel (ICE Brent). The key factors that influenced the economic situation in Russia were as follows: the low growth rate of money supply in 2011; the instability of world markets caused by the debt crisis in Europe; and the signs of a reduction in the stability of the Russian political systems seen against the background of the forthcoming elections.

November saw no acceleration of inflation typical of a year-end: as overall inflation in the four weeks of November was twice lower than in 2010 (0.4% vs. 0.8%), the inflation accumulated since the beginning of the current year amounted to 5.7% (vs. 7.6% last year). The low growth rates of prices resulted from the registered decline in the growth rate of M2 money supply: expressed in annual terms, its growth in October amounted to 21.5% vs. 35% one year earlier.

One of the most important trends that determines Russia's macroeconomic situation remains the stable outflow of capital. Although smaller than in September, Russian net capital outflow in October was rather high – it amounted to \$ 13bn. Overall outflow in the first ten months of the current year was \$ 64bn. Thus, the capital outflow figures for just ten months of 2011 turned out to be almost twice higher than those for the whole of 2010 (\$ 33.6bn). The Bank of Russia was forced to once again increase its full year 2011 capital outflow forecast, already revised one and a half

month earlier. Due to the considerable capital outflow, the real effective exchange rate of the ruble continued to decline throughout November (-1.2%).

The relentless capital outflow and the RF Central Bank's sales of foreign exchange were the major causes of a sharp aggravation of the current ruble liquidity squeeze that had been plaguing the banking sector since August, which was the most notable event that took place in the macroeconomic sphere in October and November of 2011. The redundant reserves of the banks immediately collapsed by 20% to their lowest level since the beginning of the current year (Rb 803.6bn). The most obvious indicators of the growing liquidity problems were the rapidly rising rates on interbank loans (the rate on one-day ruble loans climbed to 4.9%); the suspension of new placements of Bank of Russia bonds; and the banks' high demand for short-term liquidity. At the direct REPO auctions held in late October – early November 2011 by the RF Central Bank, the amounts of cash provided to the banking sector were up to Rb 1–1.2 trillion, while the average amount of cash provided through an auction in early September did not exceed Rb 15bn. At the same time, the Russian banks have huge difficulties in attracting capital from abroad due to the crisis in EU countries.

In October 2011, the RF Central Bank once again used net sales of foreign exchange within the framework of its interventions in the foreign exchange market, although their volume was smaller than in September. \$ 4,372.64m and € 500.48m was sold on the domestic market, or by 35.4% and 15.3% less, respectively, than in September. After a rebound in October, the ruble once again weakened against the US dollar in November. As of 27 November, the ruble-to-dollar exchange rate was 31.58 rubles per dollar. By contrast, the ruble continued to strengthen against the euro: slightly less than in four weeks, the ruble-to-euro exchange rate rose by 0.8% to 42.03 rubles per euro. As a result, the value of the bi-currency basket grew by 2.1% to Rb 36.28.

In November, the volume of the Bank of Russia's international reserves decreased by \$ 11.8bn (from \$ 522bn as of 28 October to \$ 510.2bn as of 25 November), or by 2.26%. Thus, Russia's international reserves remained on the downward trend that began in August: in comparison with their peak value (\$ 544bn as of 19 August 2011), the reserves dropped by 6.2%. The drop was caused by the RF Central Bank's interventions, well as by the currency revaluation.

The Real Sector: An Unsubstantiated Growth

According to preliminary data released by Rosstat, in Q3 2011 Russia's GDP increased by 4.8% on the corresponding period of 2010. In October 2011, the economic situation was significantly influenced by the uniquely high rise in the output of agricultural products (a 51.8% rise on October 2010), that fully compensated for the negative consequences of the poor harvests of the two previous years.

In January – October 2010, Russian industries, in their turn, succumbed to faltering growth rates: the ratio between the industrial production growth rates for that period and those for the corresponding period of 2010 was lower than between the latter and the growth rates for the first nine months of 2009. Yet not all was so gloomy. Mineral resource extraction rose (by 2.1% on the January – October period of 2010), and there was a visible rise in the rate of residential building commissioning. In October 2011 that rate rose by 6.9% on October 2010, and in the January – October period of 2011 it increased by 3.3% on the corresponding period of 2010, while in the year 2010 these indicators were negative. In the current year, the machine-building sector witnesses much higher growth rates than those registered in the processing industry as a whole. In the January – October period of 2010, the production index for machinery and equipment manufacturing advanced by 11.1% on the corresponding period of 2010. Its rise was caused by a substantial increase in the volume of production in each of the product subclasses of this category.

It can be safely assumed that the consumer market will remain the main driver of economic growth until the end of the year, and that its growth rate for the year 2011 will hover around 5.3%. In the January – October period of 2011, the turnover in retail trade rose by 6.5% on the corresponding period of 2010; in October 2011 it rose by 8.8% on October 2010. However, the current downward trends in the real incomes of the population and in the growth rate of wages and salaries can become the limiting factor for further growth in consumer demand. In the January – October period of 2011, the overall real disposable income of the population dwindled by 0.2%, while the real wage increased by 2.9% on the corresponding period of 2010. In October 2010, the real disposable

incomes and the real wages of the population rose by 0.4% and 5% respectively on October 2010. So far, growth in consumer demand has been sustained at the expense of the share of savings in the incomes of the population: in the January – October period of 2010, the share of savings dropped by 5.0 pp on the corresponding period of 2010, including by 2.8 pp with regard to savings kept in savings accounts or invested in securities.

According to recent economic tendency surveys, industry respondents are becoming increasingly moderate in their assessments of both current and future industrial demand. Because of these negative expectations, industrial enterprises are getting rid of their stockpiles of redundant materials and have shelved their plans to increase prices for their products. According to representatives of a number of enterprises, the growth rate of industrial production registered in recent months has relatively stabilized after having reached its lowest level since the beginning of the current year, as is confirmed by both initial and seasonality-adjusted data. The operational plans of industrial enterprises fully reflect this lack of optimism. ●

POLITICAL AND ECONOMIC RESULTS OF NOVEMBER 2011

S.Zhavoronkov

The main result of November 2011 is the conclusion of the parliamentary election campaign. Sociological data, the dynamics of the election campaign process, and even the statements made by Russia's topmost officials unanimously indicate that United Russia is on course to lose its constitutional majority in Parliament, a development that will increase the role of the 'systemic parties' in decision-making (it is possible that this party will lose even a simple majority to its opponents in some of the regional elections). It is likely that the State Duma will retain its current four-party composition, including United Russia, the CPRF, the LDPR and Fair Russia. On the eve of the general election the Russian authorities carried out a number of integrationist initiatives, such as an almost one-third reduction in the price of natural gas sold to Belarus (in exchange for this price cut Russia was given full control over Beltrans-gaz). Also, United Russia's leaders denied the existence of any plan to raise the pension age.

The parliamentary election campaign is nearly over. On the eve of the elections, polling agencies published the final ratings of Russia's political parties. According to all major polling companies, United Russia will take from 54 to 55% of the vote, or 10% less than 4 years ago. Over the past month, United Russia's rating has slightly dropped, while 4 years ago the final pre-election month witnessed its sharp growth. As regards the other parties, the showing of has improved in November, and that party looks certain to enter the new Duma despite all the odds, first of all due to its strong regional teams. Sociologists predict that it will collect 10% of the vote. Vladimir Zhirinovskiy's and the are expected to take 12 to 13% and 17 to 21% of votes respectively. The non-parliament parties – Patriots of Russia, Right Cause and Yabloko – will once again fail to enter parliament. Only less than 3% of the electorate are ready to cast their votes for Yabloko, and even a smaller percentage of voters – less than 1% – is expected to back the two latter parties. According to estimates, the voter turnout will correspond to the average turnout for parliamentary elections, that is between 58 and 60%. It is estimated that the percentage of spoiled ballots (part of the opposition calls to use this method – although it hopelessly failed 4 years ago) will again be 1–1.5%.

In this connection, even the Secretary of the United Russia General Council Presidium, Sergei Neverov, admitted that United Russia will not gain a constitutional majority in parliament (300 seats) and used the newly-coined term 'stable majority'. 'The ambitious goal of repeating the results achieved four years ago is no longer mentioned even by Vladimir Putin and Dmitry Medvedev. During his visit to Khabarovsk, the President once again used the expression 'stable majority' while describing the situation in the following terms: '... People sometimes say "That party's rating has fallen by five percent, it's a catastrophe". Listen, but that's life, that's an entirely normal situation. If the level of authority is sagging any-where, that means that the party must work on it and think about how to prevent the destruction of its authority, how to improve its positions, including in the pre-election period. Overall, I feel that United Russia's chances of having a stable majority in the State Duma are very good. [...] The campaign is underway, and everyone is capable of improving the achieved results. There-fore I hope that United Russia will have a ruling mandate, a real, solid mandate'. '... People sometimes say "That party's rating has fallen by five percent, it's a catastrophe". Listen, but that's life, that's an entirely normal situation. If the level of authority is sagging any-where, that means that the party must work on it and think about how to prevent the destruction of its authority, how to improve its positions, including in the pre-election period. Overall, I feel that United Russia's chances of having a stable majority in the State Duma are very good. [...] The campaign is underway, and everyone is capable of improving the achieved results. There-fore I hope that United Russia will have a ruling mandate, a real, solid mandate'. In a number of large regions the electoral situation looks alarming for United Russia – for example, Moscow Mayor Sergey Sobianin has admitted that United Russia's rating in Moscow is below 50%.

Thus, according to all indications, the forthcoming election will show a drop in United Russia's voter support. In a number of regions this drop is expected to be considerable. The State Duma's composition will not undergo any tectonic changes (in principle, will be able to 'buy' enough MPs from other parties in order to obtain the constitutional majority of 300 seats, because the Russian parliamentary system, in fact, lacks such an important component as the imperative mandate¹, and the other parliamentary parties are by no means immune to such treacheries on the part of their members). Nevertheless, the role of 'systemic parties' will certainly increase, while in a number of regions where elections to the legislative assemblies of RF subjects will be held simultaneously with the parliamentary election (for example, in Sverdlovsk Oblast), United Russia runs the risk of losing even a simple majority.

By comparison with the previous gala parades, the November convention of United Russia was a rather inconspicuous and almost humble affair. Nonetheless, it was the venue where Vladimir Putin was nominated as a presidential candidate after the official announcement of the presidential election date. Vladimir Putin was definitely chary of essential promises; his only and quite abstract proposal was to tax 'luxury and over-consumption' – an idea clearly pointless in the current conditions when the Russian authorities simultaneously abandon control over officials' expenses. The achievements of the Russian authorities turned out to be absolutely the same as 10 years ago – the prevention of the country's disintegration and other horrible calamities. As always, the culprits of Russia's woes were said to be the civilized countries that provided funds for election monitoring and thus made it more difficult for the ruling party to claim an up to 100-percent victory at the polls, as it sometimes happened 4 years ago. The 's convention has left the general public with a strong impression that that party has nothing to say to society with regard to its achievements during the eleven years of its rule. Moreover, the party seems to be rather reluctant to do so (otherwise its leaders could have invented some attractive slogans). It appears that United Russia's greatest hope is that the opposition will fail in its efforts to monitor the election. In this connection, Dmitry Medvedev's following statement at the afore-said November convention of his party sounds slightly amusing: '... Our citizens are absolutely right in their desire to control the authorities. Everyone is sick of corruption and dealing with the system's stupidity. [...] almost all social groups consider themselves to be insufficiently involved in the political process. They think their opinion is not always taken into account even in matters where their interests are concerned. This situation is unacceptable, and I believe that we have a chance to improve it'. If even the leaders of view the current situation in Russia so grimly, it must be very difficult for them to try to explain why they shall remain in power for an indefinitely long term, trying to improve the mess of their own making.

It is notable that Fair Russia the party has already announced that its forthcoming nominee for President will be Sergei Mironov, although no official decision in this respect has been taken as yet (this early announcement will make sense if Fair Russia remains represented in parliament, in which case it will not be necessary for that party to collect 2 million signatures in support of its nominee's candidacy). Bearing in mind that last time supported the official candidate, its current move can be seen as yet another confirmation of the fact that as United Russia's positions progressively weaken, the ambitions of its rivals become increasingly bolder.

There is every likelihood that the election campaign has had an important side effect, namely, the acceleration of the conclusion of several inter-CIS agreements aimed at greater integration of the concerned parties. The agreements were duly signed in November.

On 18 November, the Presidents of Russia, Belarus and Kazakhstan put their signatures to the documents on the establishment of the Eurasian Economic Commission (EEC) – a supranational body for managing the integration development of the three countries. The Commission will replace the Customs Union Commission that will cease to exist on 1 July 2012. The EEC will start its work on 1 January 2012. It is planned that the Commission will be vested with integration process management functions in the CU (Customs Union) and CES (Common Economic Space) formats.

¹ It exists in a rather bizarre form – a member of parliament has no right to abandon the parliamentary faction on whose list he or she was elected, which is punishable by the renegade MP losing his or her seat. On the other hand, any MP is absolutely free not to vote the 'party line' on one or other issue. Although this wayward parliamentarian can be expelled from his or her faction for this blatant misdeed, the troublemaker will not be unseated.

The parties concerned will gradually hand over to the EEC some of their sovereign national powers. The EEC will consist of two bodies: the Council and the Collegium. The Council will be composed of vice prime ministers, one from each member state. The Collegium will include representatives of the concerned parties – three from each member state. According to the Prime Minister of Kazakhstan, all decisions will be achieved by consensus. The issue of Kyrgyzstan's accession to the CES is on the agenda and is especially problematic bearing in mind the logic of freedom of movement within the CES not only of goods but of the labor force as well. The comprehensiveness of the planned integration will be revealed in the process of preparing the approximately one hundred and fifty documents aimed at adjusting the respective national legislations to the new reality.

In November, the Russian authorities announced the conclusion of a long-term agreement with Belarus. The agreement envisages that the price of natural gas exported to the Republic of Belarus should be considerably reduced in exchange for the sale to Russia of the second half of Beltransgaz. Within the framework of this arrangement, dubbed the 'integration discount' by Vladimir Putin, the price of natural gas is pegged not to the European natural gas prices but to Gazprom's extraction and transportation costs. Also, Russia has agreed that the already accumulated Belarusian debts for her natural gas supplies should be restructured. As a result, in 2012 the price of natural gas for Belarus will amount to \$ 165.6 per 1,000 cubic meters vs. \$ 244 that this country is paying Russia today (despite being obliged to pay even higher prices). The afore-said 50% of shares in Beltransgaz will cost Russia \$ 2.5bn. However, it can be doubted whether it is really beneficial for Russia to gain juridical control over Beltransgaz after already having lost so much money due to the 'integration discount', the loss that cannot be compensated for by the future abolition of the transit fees paid to Belarus.

November saw the retirement of one of the longest-serving Russian top officials, Pavel Borodin, Presidential Charge d'Affaires under Boris Yeltsin and State Secretary of the Union State of Russia and Belarus. He was replaced by Grigory Rapota, Plenipotentiary Representative of the RF President in the Volga Federal District (Rapota had previously worked in a number of positions within the RF Diplomatic Service). The 'Union State', that has actually shrunk into a small department with a small budget, has been slumbering on the remote outskirts of Russo-Belarusian relations for quite a number of years already.

On the eve of the election, Chairman of the Supreme Council of United Russia Boris Gryzlov stated, in the presence of Vladimir Putin, that the 'party of power' would not permit the pension age to be increased. Simultaneously, the RF Ministry of Healthcare and Social Development announced that the official concept of pension reform would be adopted by the end of 2012. As expected, it is this concept that will reflect the issue of reducing the deficit of the Pension Fund, the issue of early retirement pensions and the future of the funded component of the pension system. At the same time, it is now promised the Pension Code will be ready by an even later date – the year 2014. Thus, it is clear that pension reform has been postponed not only until after the elections, but indefinitely. ●

INFLATION AND CREDIT AND MONETARY POLICY

N.Luksha

In October 2011, for the first time since June, inflation became positive: the index of consumer prices for the month reached 0.5%. As of the three weeks of November results, the rate of growth of consumer prices made 0.4% (against 0.6% in 2010). Cumulative inflation since the beginning of the year is still lower than in the previous year (5.6% vs. 7.4%). In October, liquidity shortage worsened in the monetary market: the excessive reserves of commercial banks fell down to the annual minimum of Rb 803.6 bn. According to tentative estimates of the Bank of Russia, in October, despite a slight slowdown, the net capital outflow remained high – \$13 bn. Therefore, as per the first ten months of the year, the capital flight was four times higher than in 2010 and reached \$64 bn. On November 3 the Bank of Russia has revised its forecasts for the key macroeconomic indicators for 2011. In particular, the capital outflow forecast was raised from 36 to 70 billion dollars, and in terms of gold reserves, however, decreased from \$515 to \$495 bn.

With the completion of the period of seasonal cheapening of food products, the consumer inflation rate in Russia started to grow. In October, for the first time since the beginning of summer, the inflation became positive: as per the month result, the CPI made 0.5%, having matched the indicator of 2010.

In October, prices for foodstuffs increased by 0.5% as a result of the renewed growth in prices for fruit and vegetables, which went up by 0.5% as well (in September, there was a reduction in the price by 9.8%). The utmost growth among food products was observed in eggs (+2.7%). However, the continued decline in prices was noted in cereals and beans (-6.5%) and granulated sugar (-6.2%).

Commercial services in October ceased to grow and their prices upgraded by 0.1%. The utmost growth was noted in cultural services (+1.8%) and healthcare services (+0.8%). At the same health-improving, spa and foreign tourism services have reduced in price and amounted to, respectively, 2.8% and 0.8%.

In October, the rate of prices growth for industrial goods has not changed and amounted to 0.7%. Like a month before, the fastest growth was noted in tobacco products (+1.4%). Prices were also rising for seasonal footwear, clothes and underwear, respectively, by 1.2% and 1%. There was no reduction in any type of non-food items.

In October, inflation acceleration in annual terms remained unchanged, accounting to 7.2%. In the relevant period of preceding year this indicator was somewhat higher – 7.5% (Fig. 1). The basic CPI of consumer price index¹ in October has not changed as well and made 0.5% (versus 0.8% in 2010).

From the second week of November, the weekly inflation slowed down from 0.2% to 0.1%. As a result, in the first three weeks of the month CPI made 0.4% (against 0.6% over the same period of 2010). Cumulative inflation since the beginning of the year reached 5.6% (vs. 7.4% in 2010).

It should be noted that in December inflation usually accelerates. This is due, primarily, to the pre-holiday upsurge in consumer demand, also contributed by the seasonal rise in prices for foodstuffs. Weakening of the ruble, which occurred in August and September, is likely to affect the consumer prices as well.

At the moment one can assert that the CPI for the year probably will be within the official forecast of the Ministry of Economic Development of Russia (6.5 – 7%). Downgrading of our initial annual inflation forecast (previously we assumed that the CPI in 2011 amounts to 7.5–8%) is based on a significant slowdown in monetary supply (growth of monetary base M2 in annual terms

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.

in October made 21.5% against 35% a year before), as well as the summer food stuffs deflation due to a good harvest and favorable weather conditions.

We would like to recall that, in accordance with the revised main directions of monetary policy in 2012–2014, growth rate of monetary aggregate M2 in 2012 will amount to 12–20% depending on the version of the forecast. Thus, in the absence of external and internal shocks, one can expect a further deceleration of inflation as of 2012 results.

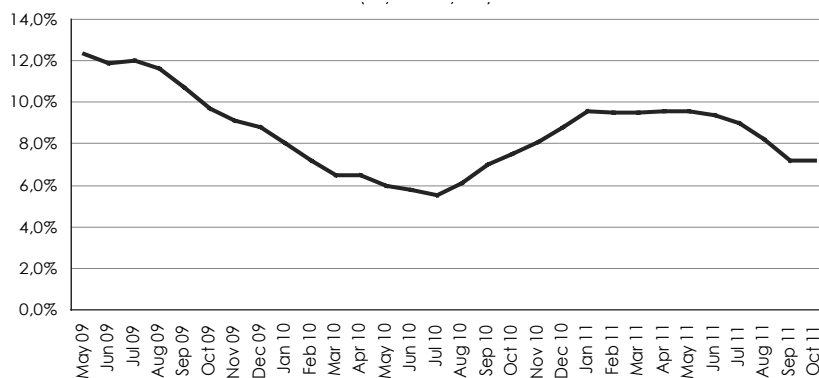
After two months of growth, in October the monetary base in broad definition has reduced by 2% to Rb 7.2616 trillion. This is due to reduced investment of the banks in the bonds of the Bank of Russia from Rb 10.3bn to zero, and a significant reduction in the volume of funds deposited by banks on the accounts with the Central Bank (1.7 times) and correspondent accounts of credit organizations with the Bank of Russia (by 12.8%). In October, the volume of the banks' deposits with the RF CB dropped to its lowest value since the beginning of the year – to Rb 122bn (on January 1, 2011 that level was Rb 633.2bn).

However, in October the amount of cash in circulation, with regard to balances of credit institutions continued to increase by 17.6% to Rb 6.1 trillion, as well as mandatory reserves – by 2.8% to Rb 356.6 bn. Since the beginning of this year, the monetary base in broad definition has decreased by 11.3%.

The main reason for the general decrease of the monetary base in broad definition was the fact that in October liquidity deficit in the banking sector has intensified: the excessive reserves of commercial banks¹ have declined immediately by 20% to the minimum values from the beginning of the year of Rb 803.6bn. Indicators of rising tension with liquidity are increasing rates in the interbank loan market (interest rate for ruble-denominated loans for 1 day has been increased to 4.9%), the suspension of new placements of the Bank of Russia bonds, as well as high demand for short-term liquidity of banks. As part of the repo auctions in late October – mid-November, the Central Bank offering was up to Rb 1–1.2 trillion, while in early September it was on average no more than Rb 15 bn. Such a massive provision of liquidity to the banking system by the Bank of Russia was noted for the last time in the midst of a crisis in early 2009. The main reason for shortage of ruble liquidity in the banking sector during this autumn was the incessant flow of capital from the country and selling of foreign exchange by the Central Bank. The situation was aggravated with the start of the period of tax payments. In addition to internal factors, external factors played their role: due to the crisis in the EU countries, Russian banks are having difficulty with raising funds from abroad.

To stabilize the monetary market, the Bank of Russia has taken a number of measures: in particular, it has resumed lending to banks for up to six months under the guarantee of non-marketable assets and under the sponsorship of other credit institutions. The representatives of the Central Bank also declared that the deterioration in liquidity may increase options for the banks' refinancing (for example, the REPO shares resumption). In December we can expect some stabilization in the market of ruble liquidity, which is associated with significant seasonal budget expenditures at the end of the year.

In October, in the framework of foreign currency intervention, CBR again exercised the net sales of foreign currency, although the amount of them was less than a month earlier. In the domestic market there has been sold \$4,372.64mn and Euro 500.48mn, which is respectively



Source: RF Statistical Service.

Fig. 1. CPI Growth Rate in 2009 – 2011 (% per year)

¹ 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.

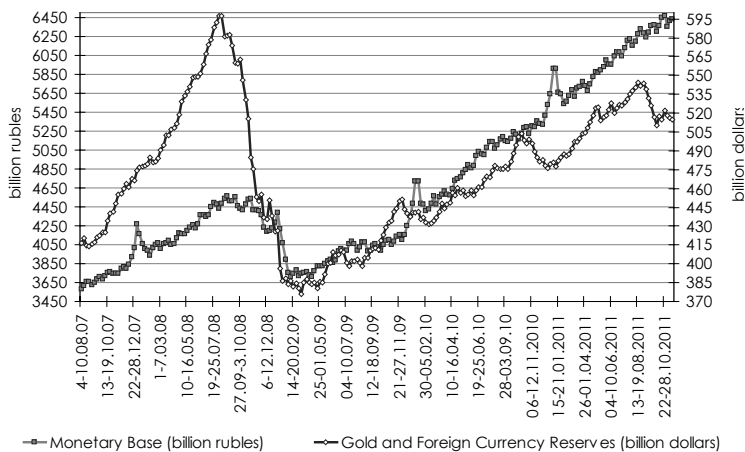
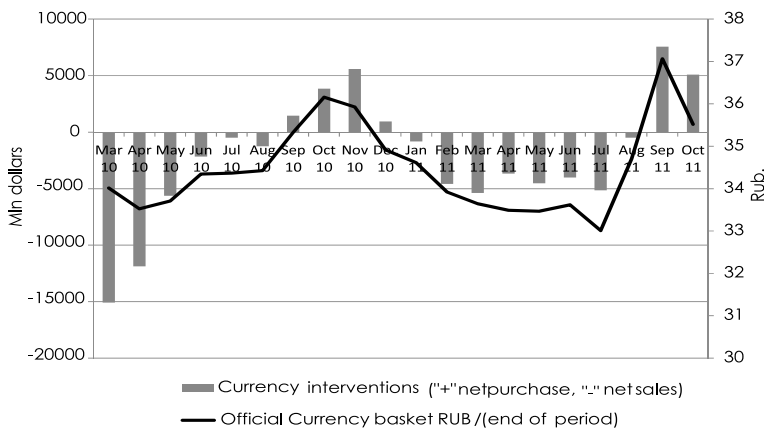
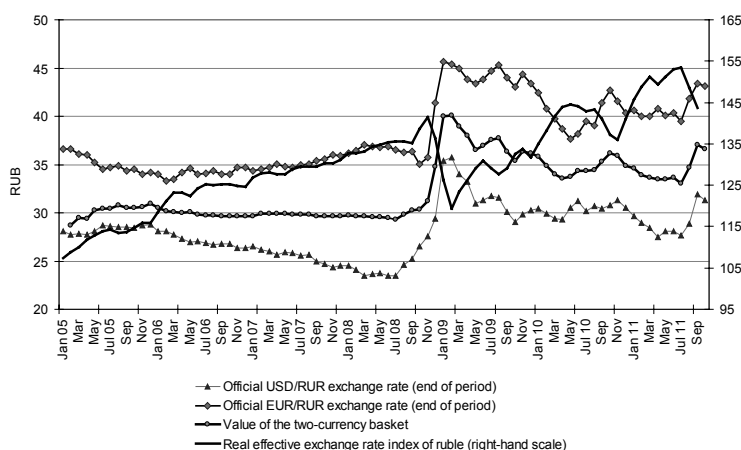


Fig. 2. Changes in the Monetary Base (in narrow definition) and in the Gold and Foreign Currency Reserves in 2007 – 2011



Note. The level of January 2002 is accepted as 100%. Source: RF Central Bank, author's estimates.

Fig. 3. Central Bank Currency Interventions and Dynamics of Ruble Exchange Rate in March 2010 – October 2011.



Source: RF Central Bank, author's estimates.

Fig. 4. Indicators of ruble exchange rate dynamics in January 2005 – November 2011.

by 35.4 and 15.3% less than in September (Fig. 3).

The volume of monetary base in narrow definition (cash plus mandatory reserves)¹ has grown: within the month it has increased by 0.8% and made Rb 6,458.1bn (Fig. 2).

Over the month, from mid-October to mid-November the volume of international re-serves has decreased by 0.5% to \$515.1bn as of November 18. The reasons for the decline in international reserves were interventions of the Central Bank, as well as foreign exchange revaluation.

In October, a net outflow of capital from the country was lower than in September (in absolute terms), remaining rather high. According to the tentative estimates of the Bank of Russia, it could amount to \$13bn, and within ten months of the current year the capital outflow reached \$18.7bn. Therefore, the capital outflow has already exceeded the annual rate of the last year (by \$33.6bn and the level of the year before last by \$56.1bn).

Apparently, the main reasons for the continued outflow of capital are the upcoming elections of the State Duma and the President, devaluation expectations of economic agents, as well as significant redemption of the external debt in the absence of the ability to refinance the debt in view of the worsening debt problems in Europe.

Due to significant capital outflow, the real effective exchange rate of ruble continued to decline in November (-1.2%) (Fig. 4).

After the October strengthening, in November of the ruble rate against dollar again fell down by 5.6% to 31.58 Rb/\$ on November 27. By contrast, the exchange rate of the Russian currency against Euro continued to strengthen: a little less than in four weeks, it rose by 0.8% to Rb 42.03 to EURO 1. As a result, the value of the two-currency basket increased by 2.1% to 36.28 rubles.

¹ We would like to remind, that the monetary base in the broad definition is not a monetary instrument, it reflects the obligations of the Bank of Russia in national currency. The monetary base in narrow definition is a monetary instrument (one of indicators of the volume of monetary supply), which is under total control of the RF Central Bank.

FINANCIAL MARKETS

N.Burkova, E.Khudko

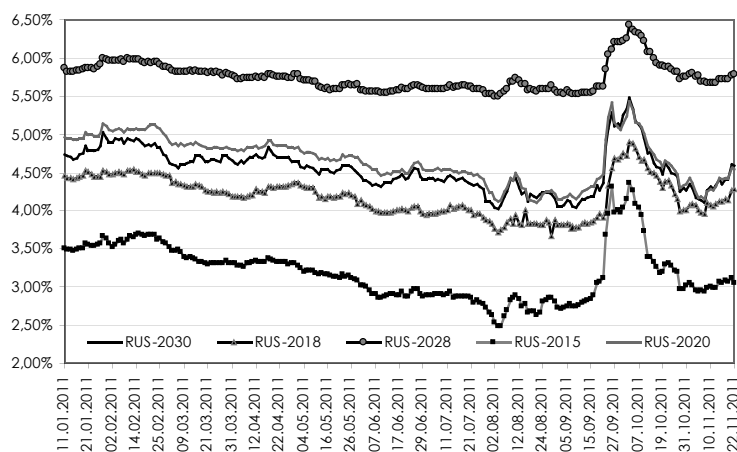
In November, the situation on the Russian financial market became worse, largely in response to the aggravation, once again, of debt issues in some countries of the Eurozone and in the USA, as well as by the forecasts of economic growth decline in France and the United Kingdom in 2012. A negative internal factor for financial markets was the accelerating capital outflow from the Russian Federation. Investor and issuer activity increased on the primary corporate bond market, although the secondary trading indices were stable. A negative phenomenon on the debt market once again was a record-high number of the corporate bond issues cancelled due to failure to float even a single security.

The Government Securities Market

In November, the decline of world markets resulted in a reducing activity on the market and a rise in the yield to maturity on the government securities market in the RF. The ruble-denominated government bonds placed on the primary market were met with a low demand, in spite of the sufficiently high level of offered average weighted yield (more than 8%).

According to data as of 26 November 2011, the yield to maturity of the majority of Russian Eurobonds notably reduced by comparison with 26 October. Thus, the yield to maturity of RUS-18, RUS-20 and RUS-30 rose by 1.3–3.3%. At the same time, the yield of RUS-15, which belong to the category of the 'shortest' securities tradable on that market, displayed a drop by 4.6% (Fig. 1). On 31 October, the coupon income paid on RUS-15 and RUS-20 totaled \$ 123.75m. Over the period from 27 October to 22 November 2011, the combined turnover of the secondary market of OFZ bonds amounted to Rb 60.12bn, while the average daily turnover amounted to about Rb 3.34bn, which corresponds to the 4.3% drop of the average daily turnover over than month by comparison with the previous period.

Between 27 October and 22 November, 3 primary placement auctions of OFZ bonds were held in Russia (vs. 2 auctions one month earlier) (Table 1). Although the weighted average yield was high, the actual placement volume amounted to only 51.3% of the planned figure. No additional auctions for additional placement of OFZ on the secondary market were held over that period.



Source: Data released by the Finmarket information agency
Fig. 1. The Yields to Maturity of the Russian Eurobonds Maturing in 2015, 2018, 2020, 2028 and 2030 (January – November 2011)

Table 1

PLACEMENTS ON THE PRIMARY OFZ MARKET

Date of auction	Issue	Placement volume, m Rb	Placement volume in nominal terms, m Rb	Weighted average yield
02.11.2011	OFZ-26206-PD	10,000.00	4,252.99	8.20
09.11.2011	OFZ-26204-PD	10,000.00	8,982.98	8.15
16.11.2011	OFZ-26205-PD	10,000.00	2,152.03	8.45
Total:		30,000.00	15,388.01	

Source: RF Ministry of Finance.

The Stock Market

Factors in the Dynamics of the Russian Stock Market

In November, the Russian stock market displayed a downward trend, although within its framework three major waves of market growth and decline can be distinguished. On the whole, the amplitude of each wave became weaker towards the month's end. In late October 2011, market growth was contributed to by the Bank of Japan keeping its key discount rate unchanged, as well as by the adoption of some new decisions with regard to the debt issues of EU countries. However, from 29 September through 1 November 2011 the market began to decline in response to fears that the rate of economic growth in France would slow down and that the levels of unemployment and inflation in EU countries would be on the rise; to the news that, by the results of September 2011, the rate of industrial production dropped by 4% (in per month terms); and the OECD lowering its forecasted economic growth figures for the EU (from 2 to 0.3%) and the USA (from 3.1 to 1.8%)

However, in early November the stock market was once again on the rise due to the US Fed's announcement that its discount rates would remain unchanged; the ECB lowering its key rate from 1.5 to 1.25%; the decline of unemployment in the USA in October 2011 by 0.1% per month; and the achievement of agreement on the issue of forming a new government in Greece. On 9 November, stock market indices went down due to investor concerns that the yields on Italy's government bonds exceeded the level of 7%. After that, the growth of stock market indices continued until 15 November. Among the factors that buoyed the market during that period one should note the Bank of England keeping its key rate unchanged; the successful placement by Italy of her two-year bonds; the drop of US trade balance deficit in September to \$ 43.1bn; and the news that Eurozone GDP grew by 0.2% quarter-on-quarter in Q3 (preliminary data). In the second half of the month the market sagged once again. The main contributing negative factors were the downgraded forecast of the prospects for economic growth in the UK released by the Bank of England (no more than 1% in 2011–2012); low demand for the recently placed Spain's 10-year bonds; US state debt exceeding the level of \$ 15 trillion; and the increasing yield on France's government bonds.

On the whole over the period under consideration the markets shrank by 1–9% (by 1–25% since the year's beginning). One exception was Mexico's IPC, which rose 0.42% by November's results (see Table 2 and Fig. 2).

Table 2

THE DYNAMICS OF WORLD STOCK EXCHANGE INDICES (DATA AS OF 26 NOVEMBER 2011)

Index	Value	Change over month (%)*	Change since year's beginning (%)
MICEX (Russia)	1,401.91	-6.53	-16.95
RTS (Russia)	1,431.13	-6.47	-19.16
Dow Jones Industrial Average (USA)	11,493.72	-3.16	-0.72
NASDAQ Composite (USA)	2,521.28	-4.88	-4.96
S&P 500 (USA)	1,188.04	-4.34	-5.53
FTSE 100 (UK)	5,206.82	-6.24	-11.75
DAX-30 (Germany)	5,537.39	-7.96	-19.91
CAC-40 (France)	2,870.68	-9.43	-24.55
Swiss Market (Switzerland)	5,447.66	-4.44	-15.36
Nikkei-225 (Japan)	8,314.74	-4.96	-18.71
Bovespa (Brazil)	55,878.44	-2.21	-19.37
IPC (Mexico)	35,969.61	0.42	-6.70
IPSA (Chile)	4,127.01	-0.97	-16.25
Straits Times (Singapore)	2,717.20	-1.90	-14.82
Seoul Composite (South Korea)	1,826.28	-3.59	-10.96
ISE National-100 (Turkey)	51,986.38	-6.28	-21.24
BSE 30 (India)	16,065.42	-7.08	-21.67
Shanghai Composite (China)	2,412.63	-0.61	-14.08
Morgan Stanley Emerging & Frontier Markets Index	720.03	-5.21	-21.03

* As a percentage of an index's value on 27 September 2011.

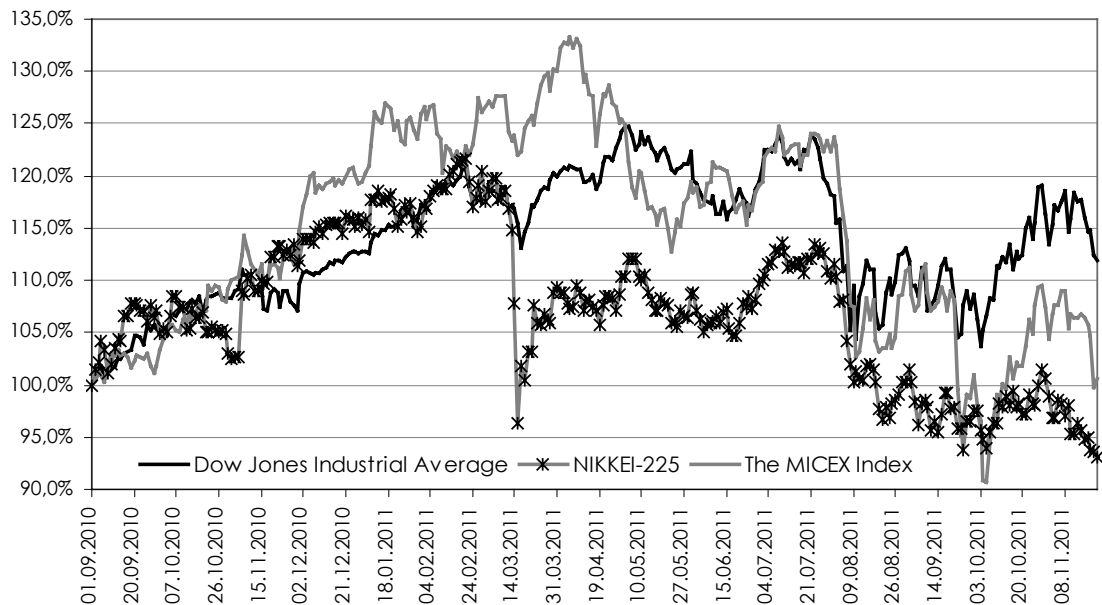


Fig. 2. Dynamics of the Main USA, Japanese and Russian Stock Indexes
(As a Percentage of Their Values on 1 September 2010)

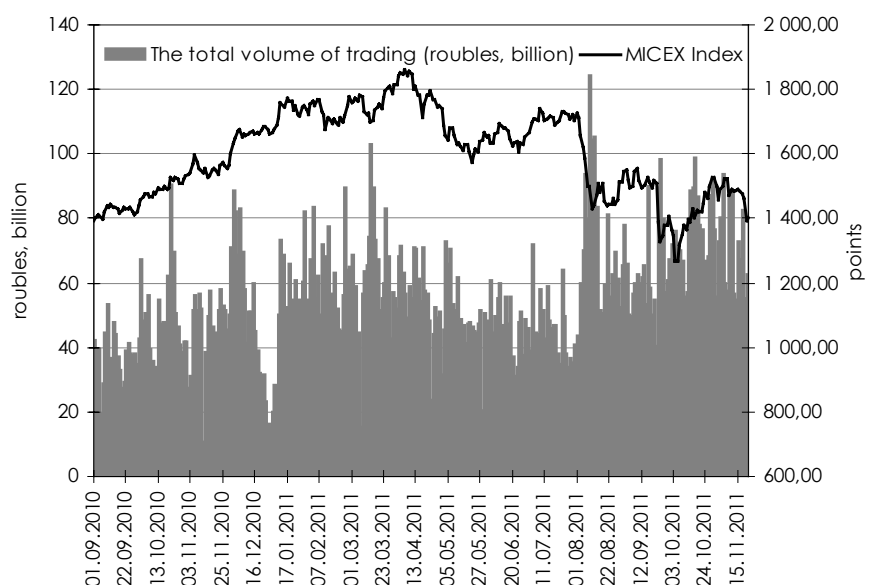
Among the domestic factors in the dynamics of the Russian stock market, we should note information on the increase in capital outflow from the Russian Federation as seen by the results of the year 2011; and on the drop in the volume of Russia's international reserves; as well as the growth of the unemployment level in Russia in October to 6.4% (vs. 6% in September). At the same time, in November the market was propped up by the Bank of Russia's decision to keep its rate of refinancing unchanged; the release of their positive financial results in Q3 2011 by some biggest Russian companies (OJSC Gazprom neft', RUSAL); as well as Russia's GDP growth over Q3 2011 by 4.8% per annum.

The Situation on the Share Market

The MICEX Index reached its monthly peak on 7 November when it hit 1,521.01 points (vs. 1,499.79 points one month earlier). The MICEX Index rose to its highest on 21 November 2011 – 1,390.56 points (vs. 1,265.67 points one month earlier) (Fig. 3).

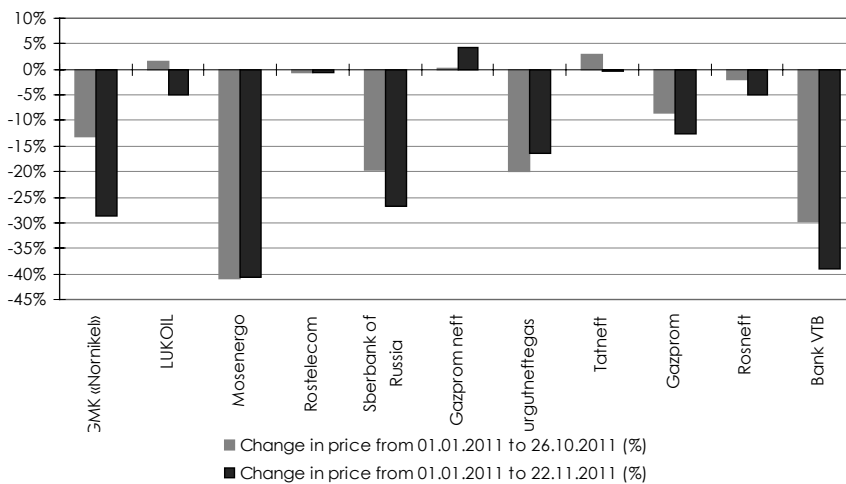
On the whole, over the period between 27 October and 22 November 2011, the MICEX Index dropped by 6.53%, or by 97.88 points in absolute terms (between 23 November 2010 and 26 November 2011, the MICEX Index dropped by 8.78%), while the trading volume of the shares included in the MICEX Index climbed to Rb 1,268.72bn. By comparison with the previous period, in November 2011 the average daily level of investor activity on the stock market declined by 5%.

In the period from 1 January to 22 November 2011, the biggest



Source: MICEX.

Fig. 3. The Dynamics of the MICEX Index and the Trading Volume



Source: MICEX.

Fig. 4. The Dynamics of Russian Blue Chip Stocks from January through November 2011

price losers among the blue chips were shares in Mosenergo and VTB Bank, which shed 40.7% and 39.1% of their value respectively (Fig. 4).

According to MICEX data, as of 22 November 2011 the five Russian companies holding leadership in terms of market capitalization were as follows: Gazprom – Rb 4,051.25 bn; Rosneft – Rb 2,183.44bn; the Savings Bank of the Russian Federation – Rb 1,655.93bn; LUKoil – Rb 1,410.15bn; and GMK NorNickel – Rb 976.4bn

The Futures Market

In November 2011 (from 27 October to 22 November), the

average daily trading volume in the MICEX futures market declined by 3.8% on the previous month. In contrast to the previous periods, the highest trading volume – Rb 8.1bn (21 transactions) – was recorded by interest instruments futures, including Rb 6.3 recorded by interest instruments futures based on RUONIA. The second place belonged to funds futures, whose trading volume shrank to one half of that recorded in the previous month – to Rb 6.7bn (24.4 thousand transactions). By the trading volume in this section of the MICEX futures market, second came cash-settled futures contracts on the MICEX Index, with delivery futures contracts on shares in NorNickel, Gazprom, LUKoil, and the Savings Bank of the Russian Federation. It should be noted that the value of the MICEX Index (the price of the concluded transactions) for December 2011 was, on average, within the limits of 1,400 to 1,520 points, which means that most of the market participants expected that the MICEX index would increase by 1 to 8% by comparison with its value as of 22 November 2011, and within the limits of 1,420 to 1,530 points for March 2012.

The third place in the trading volume in November (Rb 5.5bn) belonged to transactions with foreign exchange futures. The first place in the trading volume in this section of the MICEX futures market belonged to cash-settled US dollar futures contracts, followed by euro-ruble currency pair futures contracts and euro-US dollar currency pair futures contracts. The prices of the ruble-US dollar currency pair futures contracts with the date of execution set for 15 December 2011 concluded in the futures market in November 2011 were, on average, within the limits of 30 to 31.2 rubles per US dollar, which means that participants of this MICEX market also expected that the ruble would become stronger by 0 to 3% by comparison with its value as of 22 November 2011 (30.97 rubles per US dollar), and those with the date of execution set for 15 March 2012 – within the limits of 30.4 to 31.6 rubles per US dollar. The trading volume of commodity futures was Rb 88m.

In November, the RTS FORTS futures market saw a rise in average daily investor activity (by 9.5% on the previous month). The first place in the volume of futures trading belonged to futures contracts on the RTS Index, followed far behind by ruble-US dollar currency pair futures contracts, futures contracts on shares in the Savings Bank of the Russian Federation (Sberbank) and Gazprom, and euro-US dollar currency pair futures contracts. The prices of the latest transactions concluded under ruble-US dollar currency pair futures contracts with the date of execution set for 15 December, were, as a rule, within the limits of 30 to 31.2 rubles per US dollar, which means that market participants expected that the ruble would rise by 0 to 3% by comparison with its value as of 22 November 2011, and those with the date of execution set for 15 March 2012 – within the limits of 30.3 to 31.6 rubles per US dollar. Judging by the prices of the latest concluded transactions, the value of a futures contract on the RTS Index with the date of execution set for 15 December 2011 was, on average, within the limits of 1,410 to 1,600 points, which means that market participants

expected that the RTS Index would increase by 0 to 121% by comparison with its value as of 22 November 2011, and those with the date of execution set for 15 March 2012 – within the limits of 1,400 to 1,580 points. Options were in much less demand, with the options turnover amounting to approximately Rb 228.83bn (while the futures turnover was Rb 44,478.94bn). On 1 November 2011, the RTS FORTS futures market resumed trading in delivery futures contracts on Rostelekom ordinary shares, while on 17 November futures contracts on a basket of 6-year OFZ treasury bonds were introduced into circulation on that market. Also, on 18 November 2011, within the framework of integration of the MICEX and RTS markets, RTS began to employ prices of the MICEX FX market on FORTS and for calculation of the RTS indices.

On the whole, as far as the short-term prospects of the RF financial market are concerned, it should be noted that any considerable growth of that market seems unlikely, except for occasional temporary adjustments, because of the deepening debt problems in the Eurozone and the USA.

The Corporate Bond Market

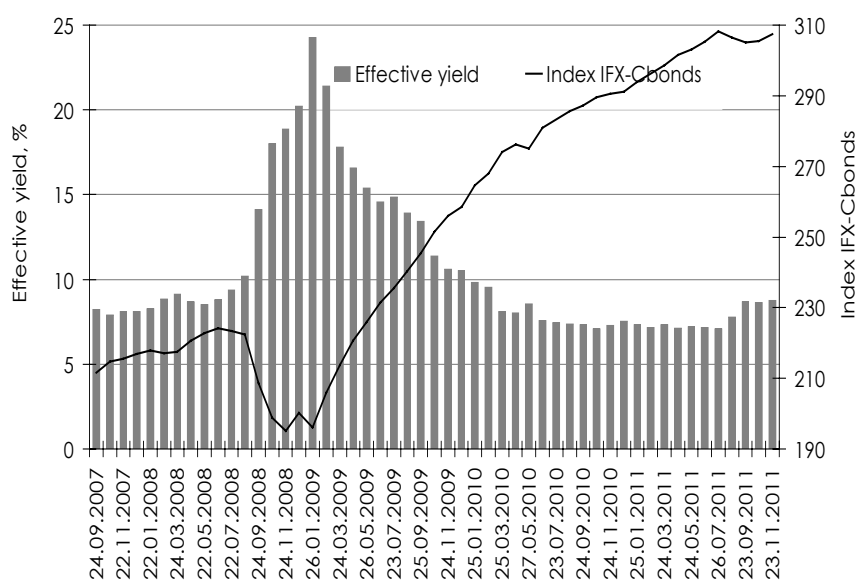
In late November, the volume of Russia's domestic corporate bond market (by the nominal value of ruble-denominated securities in circulation) amounted to Rb 3,304.6bn, or almost 2.1% less than in late October¹. Thus, the market volume remained at its highest level in the history of Russia's bond market. This occurred due to an increased number of bond loans (750 issues of bonds denominated in the national currency vs. 747 emissions as of the end of the previous month) and the unchanged number of the emitters represented in the debt market (331 companies). Of all the issues denominated in foreign currencies, only one, yen-denominated, issue of bonds still remained in circulation.

The secondary corporate bond market's trading indicators remained at their October levels: the combined volume of transactions carried out on the MICEX stock exchange in the course of three weeks, from 27 October to 22 November, amounted to Rb 74.4bn (for reference: in October, the trade turnover was Rb 73.2bn, although in Q3 it exceeded Rb 100bn), and the number of transactions was 18.5 thousand (vs. 16 thousand in October)².

By the end of November, the IFX-Cbonds index of the Russian corporate bond market rose by 1.9 point (or 0.6%) from the end of October. At the same time, the weighted average effective yield remained practically the same as one month earlier: 8.75% as of the end of the period under consideration vs. 8.65% as of the end of October, although in early November profitability declined (Fig. 5).

Thus, in the past three months, the level of yield in the corporate debt market was higher than the refinancing rate, although one cannot overlook the fact that there is some potential for further decline of the yield on the domestic market due to the slowdown in the inflation rate. At the same time, the interest rate was prevented from dropping by a rather grim external environment: due to the recent downgrading of the credit ratings of a number of European countries and major banks, the cost of borrowing in foreign markets sharply rose.

The corporate bond portfolio duration index once again



Source: According to data released by the Cbonds company.
Fig. 5. The Behavior of the IFX-Cbonds Index of the Russian Corporate Bond Market and the Dynamics of its Weighted Average Effective Yield

1 According to data released by the Rusbonds company.

2 According to data released by the Finmarket information agency.

slightly decreased to 809 days by the end of the month (a 25-day drop on the end of October). Despite this drop, it has remained high enough, which proves that the corporate bond market has a sufficiently high proportion of long-term bonds.

Despite the stabilization of the weighted average yield of the corporate bond market, November – in contrast to October – saw an increase in the interest rate of the most liquid bond issues. However, there were no dramatic fluctuations in the yields on the securities of big issuers. The leaders with regard to yield growth (by more than 1 p.p.) were LLC VypelKom-Invest (06 series bonds) and OJSC Mechel (BO-01 series bonds)¹.

In November, the yields on securities issued by the hi-tech companies AFK Sistema, MTS and VypelKom-Invest increased by 0.2–0.6 p.p. on average. The yields on bonds issued by raw-materials and metallurgical companies also increased, although less impressively, with the exception of OJSC Mechel.

The yields on bond loans issued by Alpha Bank, Bank VTB, Bank Zenit, Vneshekonombank (Bank for Development and Foreign Economic Affairs), and NOMOS-Bank rose by no more than 0.8–0.9 p.p.), while those of the most liquid issues of bonds of OJSC Rossiiskii sel'skokhoziaistvennyi bank [Russian Agricultural Bank], OJSC Raffaisenbank, and the Renaissance Capital Commercial Bank declined by 0.2–0.6 p.p.

In contradiction to the general trend observed in the market, the yields on the most liquid bond issues in the energy sector (Lenenergo, Mosenergo, FSK EES) dropped (by 0.4–0.8 on average). At the same time, the yields on securities issued by power-generating companies continued their upward trend (e.g., the yield on TGK-9's securities rose by 0.7 pp).

The relatively stable macroeconomic situation spurred issuer activity with regard to registration of new bond issues. Thus, between 26 October and 23 November state registration was granted to 18 bond issues with a total face amount of about Rb 125.7bn (for reference: between 24 September and 25 October – 23 bond issues with a total face amount of Rb 97.9bn). However, there were only 4 issues of exchange bonds – the type of securities that are registered in a simplified procedure by big emitters long represented on Russia's stock market. Besides, state registration was granted to several inaugural bond issues. It is noteworthy that, for the first time in the Russian bond market's history, two issues of long-term bonds (10 years) were placed by a foreign corporate issuer – Uranium One Inc., a Canadian-base company with a primary listing on the Toronto Stock Exchange and a secondary listing on the Johannesburg Stock Exchange. Representatives of the RF Federal Financial Markets Service have characterized this event as a historic breakthrough, although some financial market experts believe this placement to be of a purely technical nature, because the controlling block of shares in Uranium One Inc. belongs to the Russian company OJSC Atomredmetzoloto, whose parent entity is OJSC Rosatom².

The biggest issues over the period under consideration were registered by JSB Gazprombank (seven series of bonds with a combined face amount of Rb 70bn), Uranium One Inc. (two series of bonds with a combined face amount of Rb 29bn), JSCB Binbank (three series of exchange bonds with a combined face amount of Rb 8bn), and OJSC Gruppa LSR (two series of bonds with a combined face amount of Rb 8bn)³.

Investor activity in the primary bond market also increased although, just as it happened in October, it lagged behind the registration indices. From 26 October to 23 November, 18 emitters placed 19 bond issues with a combined face value of Rb 97.4bn (vs. only 8 bond issues with a combined face value of Rb 37.7bn placed from 24 September August to 25 October) (Fig. 6). The biggest bond loans were placed by organizations operating in the financial sector: OJSC VEB-leasing (two series of bonds with a combined face amount of Rb 10bn); OJSC Rosbank (one series of exchange bonds with a combined face amount of Rb 10bn); OJSC Rossiiskii sel'skokhoziaistvennyi bank [Russian Agricultural Bank] (one series of exchange bonds with a combined face amount of Rb 10bn); and LLC Gazprom kapital (one series of exchange bonds with a combined face amount of Rb 150bn). Big emitters managed to place their bond issues for a very long term: the circulation period of the securities issued by OJSC FSK EES is 12 years, while that of the securities issued by TransFin-M, VEB-leasing and Rossiiskii

1 According to data released by the Finmarket information agency.

2 According to data released by the Cbonds company.

3 According to data released by the Rusbonds company.

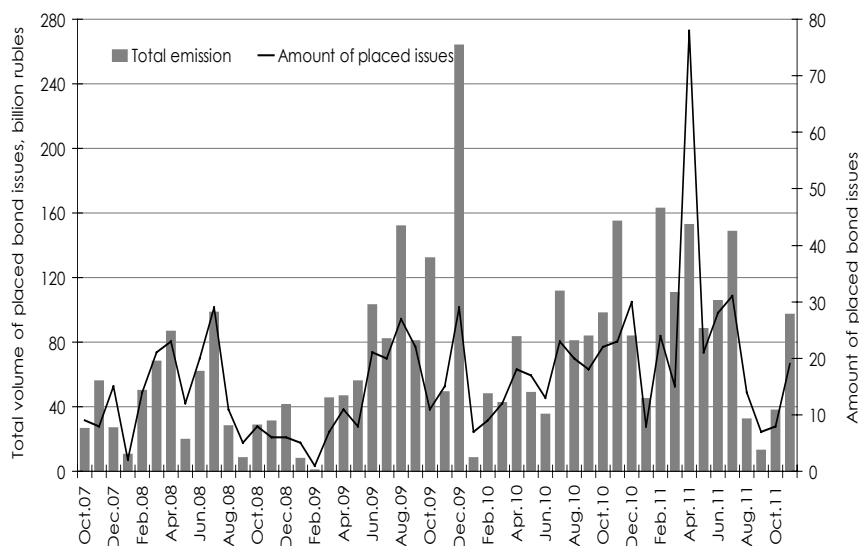
sel'skokhoziaistvennyi bank [Russian Agricultural Bank] is 10 years. And last but not least, Vozrozhdenie Bank revealed its plans to begin placement, in December 2011, of its more-than-thirty-year maturity mortgage bonds¹.

The indicators of the initial placements could have been much higher, but in November, once again, a large number of bond issues were annulled due to failure to place even a single security. Thus, in the period from 26 October to 23 November, the Federal Financial Markets Service of Russia annulled 16 securities issues of 4 emitters, including such major companies as

Vneshekonombank, OJSC Gruppya Cherkizivo, and some others (October saw the annulment of 24 corporate bond issues)². However, it should be said that, as far as the most reliable emitters are concerned, this situation arose not because of a lack of investor interest in their securities issues but by a change in the plans regarding external funding, which was the real reason for the issues to be annulled one year after having been granted state registration.

During the period from 26 October to 23 November, 12 emitters had to redeem their bond loans in the total amount of Rb 27.9bn. However, one of the emitters failed to meet its obligations on time and declared a technical default on the redemption of a securities issue in the amount of Rb 1bn (in the previous one-month period, 1 emitter also failed to timely meet its financial obligations). It is expected that December 2011 will see the redemption of 5 corporate bond issues in the amount of Rb 14.5bn.³

As regards actual defaults (a situation when the emitter is incapable of paying the coupon to the securities holders even within the next few days after the record date), the indices notably improved in November. In the period from 26 October to 23 November, all the emitters fulfilled their current obligations with regard to bond loans in due time or within the framework of a technical default (in the period from 24 September to 25 October, 4 emitters failed to pay the coupon to the securities holders)⁴. No actual defaults on redeeming the face value of securities was registered in November (in the preceding month this happened to 2 emitters). And only one of the emitters failed to redeem the bonds before their maturity by means of a buyback offer to their current holders and to achieve an agreement with them concerning debt restructuring. ●



Source: according to data released by the Rusbonds company.
Fig. 6. The Dynamics of the Primary Placements of Corporate Bond Issues Denominated in Foreign Exchange

1 According to data released by the Cbonds company.

2 According to data released by the Federal Financial Markets Service of Russia.

3 According to data released by the Rusbonds company.

4 According to data released by the Cbonds company.

REAL ECONOMY: TRENDS AND FACTORS

O.Izryadnova

According to the preliminary data, in the 3rd quarter 2011 the GDP growth rates made 104.8% versus the corresponding period of the previous year. In October 2011 the economic situation was significantly influenced by unexampled high growth of agriculture output (151.8% versus October 2010) which fully compensated for negative consequences of the preceding low-productive years. Despite the traditional upsurge in business activity in construction at the end of the year the expected growth of investments in fixed assets according to the estimations of the RF Ministry for Economic Development will make no more than 106%. It is the consumer market with the growth rate at the level of 105.3% as a result of the year was the growth driving force. The expected industry growth in 2011 will make 104.8%, manufacturing industries developing at the anticipating rates of 106.7%.

According to the preliminary data of the Federal State Statistics Service, in the 3rd quarter 2011 GDP growth rates made 104.8% versus the corresponding period of the previous year. It was agriculture, manufacturing industries, trade and construction that contributed the most into the GDP growth. The increase in agriculture output reached 51.8% in October 2011 and 19.9% over January-October 2011 as compared with the corresponding periods of the previous year when the decrease in production was observed.

Investment activity is also characterized by high growth rates. Investments in fixed assets went up by 8.6% versus October 2010 and by 5.3% versus January-October of the same year. The intensification of the investment activity was accompanied with the increase in the workload in construction by 8.2% as compared with October 210 and by 4.7% – as compared with January-October 2010.¹

In October 2011 the increase in the industrial production made 3.6% versus October and 105.1% versus January-October 2010. The rate of crisis overcoming being diversified for the types of economic activity in January-October 2011 minerals extraction made 102.1%, manufacturing industries – 107.0%, electricity, gas and water production and distribution – 100.3% versus the corresponding period of 2010.

In January-October 2011 fossil fuels production index reached 102.1% versus the corresponding period of the previous year, being 100.7% in October 2011. In January-October 2011 the production of the main types of fuel and energy resources went up by 2.3% as compared with the corresponding period of 2010.

In January-October 2011 the volume of oil production made 423m tons (100.7% versus the corresponding period of 2010), the volume of export – 199.7m tons (96.8%), primary oil processing – 214m tons (103.5%). The proportion of oil processing in the volume of its production over this period went up to 50.6% versus 49.3% over the corresponding period of the previous year. The crude oil refining efficiency in January-October 2011 made 71.1% versus 71.5% January-October 2010. The decrease in oil refining efficiency is due to the growth of furnace fuel production and insufficient use of secondary oil processing.

According to the data of the Central Dispatching Department of the Fuel and Energy Complex of the RF Ministry of Energy, in January-September 2011 the total volume of drilling went up by 10.2% versus January-September 2010, the volume of production drilling – by 10.7%, the volume of development drilling – by 1%. It should be noted that in January-September 2011 the increase in investments in oil production in current prices made 22.6%.

¹ Federal State Statistics Service reconsidered the dynamics of the workload in the economic activity "Construction" over 2010. On the whole in 2010 the growth rates of workload in construction made 103.5% versus 99.4% published earlier. Besides, monthly and resulting figures of the 3rd quarter 2011 were reconsidered – 107.6% versus 115.5%. As a result the growth rates of workload in January-September 2011 are estimated at the level of 104.1% versus 107.9% published earlier.

In January-October 2011 natural gas production reached 546bn cu m (103.6% versus the corresponding period of 2010). At the same time during the period under consideration the increase in gas consumption of 3.1% versus the corresponding period of the previous year was observed in power sector, metallurgy, chemistry complex. In January-October 2011 gas export made 154.8 cu m (110% versus the level of January-October 2010). The proportion of export in the total volume of gas production made 28.4% in January-October 2011 and increased versus the corresponding period of 2010 by 1.7%.

This year the machine-building complex demonstrates high dynamics versus the indices of the processing industry as a whole.

In January-October 2011 the index of machinery and equipment production made 111.1% versus January-October 2010, which is accounted for by the increase of production volumes in all the nomenclature subclasses in this group.

Thus, the volumes of machinery and equipment production for agriculture and forestry went up by 36.9%, which is due to the fulfillment of the measures aimed at demand stimulation for the Russian production (including the use of Russian Agriculture Bank and JSC Rosagroleasing resources) and acceptable level of the competitive ability of the machinery produced at assemblage plant.

The increase in the solvent demand for technological equipment from the domestic machine-building enterprises connected with the implementation of the promising investment projects in January-October 2011 versus the corresponding period of 2010 resulted in the expansion of machine tools production by 20.1%.

The growth of the demand for the investment goods contributed into the increase of mechanical equipment production. At the same time, taking into account considerable fluctuations characteristic for the dynamics of mechanical equipment production in machine-building for power sector, which is connected with the duration of the production cycle for the corresponding goods, production of steam turbines practically remains at the level of January-October 2010.

Accessibility of consumer crediting and the necessity to replace outdated household appliances resulted in the increase of the household appliances production volume by 13.3% in January-October 2011 versus the corresponding period of 2010.

Transportation vehicles production index made 128.3% in January-October 2011 versus the corresponding period of 2010.

The increase of the freight railway transportation turnover in January-October 2011 versus the corresponding period of 2010 contributed to the growth of mainline freight wagons production by 32.4% and mainline locomotives production – by 29.6%.

In January-October 2011 passenger cars production went up by 49.9% versus the corresponding period of 2010, trucks production – by 41.7%.

Despite the fact that the pre-crisis figures for the level of industrial production were exceeded, the possibilities for further growth are limited by the maximum level of production facilities load in processing industries on one hand, and low intensity of investments in fixed assets – on the other. As a result of January-September 2011 the proportion of the own funds in the structure of investment activity financing sources expanded, while the banks' credits and foreign investments proportion shrank. The situation is aggravated by the contraction of the volume of the balanced financial result of organization and enterprises activity in the 3rd quarter of the current year, which may result in the necessity of investment plans correction in the period remaining till the year-end.

The growth of consumer demand over January-October 2011 is one of the main factors supporting the economic growth. The increase in the retail trade turnover made 6.5% over January-October 2011 and 8.8% over October 2011 versus the corresponding periods of the previous year. The acceleration of non-food goods market growth rates since the beginning of this year is accompanied by the slowdown off the foodstuffs retail trade turnover growth rates. The index of non-food goods market turnover made 110.4% versus January-October 2010 and 111.1% versus October 2010, for foodstuffs the figures are 102.5% and 106.3%, correspondingly¹.

¹ Federal State Statistics Service reconsidered the data for wholesale trade in the 1st quarter from 98.5% to 103.4% and in the 2nd quarter – from 97.9% to 103.1%. The data for the retail trade for the 1st and 2nd quarter were also updated.

Table 1

MAIN ECONOMIC AND SOCIAL PARAMETERS IN OCTOBER AND JANUARY-OCTOBER 2010-2011, AS PERCENTAGE TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

	2010		2011	
	October	January-October	October	January-October
Demand for investments				
Investments in fixed assets	110.6	103.9	108.6	105.3
Workload in construction	107.0	102.3	108.2	104.7
Implementation of residential floor area	99.6	94.8	106.9	103.3
Consumer demand				
Retail trade turnover	107.3	106.1	108.8	106.5
foodstuffs	104.6	105.5	106.3	102.5
non-food goods	110.0	106.7	111.1	110.4
Volume of paid services rendered to the population	102.2	101.1	102.1	102.9
Goods production				
Index of industrial production	106.6	108.6	103.6	105.1
Minerals extraction			99.7	102.1
Processing industries	109.9	112.3	105.7	107.0
Electricity, gas and water production and distribution	103.9	105.1	97.8	100.3
Agriculture production index	96.3	88.2	151.8	119.9
Social parameters				
Real disposable incomes of the population	100.4	104.5	100.4	99.8
Real wages	103.0	104.6	105.0	102.9
Labor market				
Total number of the unemployed	87.2	89.8	94.0	88.8
Officially registered unemployed	75.9	93.1	79.6	75.6
Foreign trade turnover	118.6	133.2	124.7*	132.2*
Export	112.7.	134.9	129.4	132.0
Import	128.0	130.6	118.2	132.6

* Estimation.

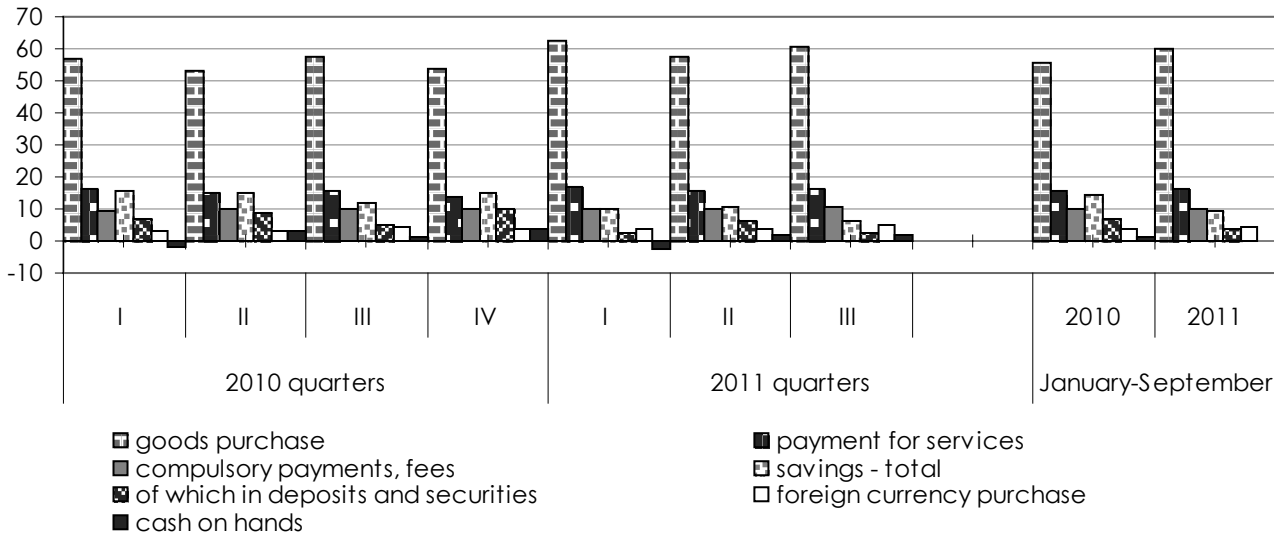
Source: Federal State Statistics Service.

The level of inflation and increasing expectations of devaluation cause a considerable influence on the consumers' activity. In October 2011 the consumer prices were 5.2% higher than January prices, for foodstuffs the increase being 2.7%, for non-food goods – 5.7%; index of the nominal US dollar exchange rate made 104.3%, of Euro – 106.4%. The population reacted to this situation by the increase of expenditures for goods purchase, purchase of foreign currency at the expense of the reduction of saving proportion. Over January-September 2011 the proportion of savings in expenses of the population decreased by 5.0% as compared with the corresponding period of the previous year, savings in the form of deposits and securities – by 2.8%.

The trend towards the decrease of the real incomes of the population and the slowdown of the wages growth rates is worrying. On the whole over the period of January-October 2011 the real incomes of the population diminished by 0.2% and real wages went up by 2.9% versus the corresponding period off the previous year. In October 2011 real disposable incomes made 100.4% versus thee figure of the previous year, and real wages – 105.0%¹.

The situation at the labor market does not cause any concerns. Starting with June 2011 the trend towards the decrease in the demand for the employees has been registered, which was declared to the state employment agencies. This October the decrease made 81,400 vacancies. As

¹ Federal State Statistics Service updated the data for real disposable incomes for September 2011 (2.9% versus 3.2% according to the previous data) and the data for real wages (5.3% versus 6.2%) and corrected the dynamics for the results of the 3rd quarter and January-September.



Source: Federal State Statistics Service.
 Fig. 1 Change in the Structure of Monetary Incomes Use by Population in 2010-2011, as Percentage to the Total

of the end of October there was information on 1.36m vacancies in the job bank of the employment agencies, while there was 1.216m of the unemployed officially registered in the employment agencies. Since the number of the unemployed has decreased, the tension coefficient at the labor market dropped and made 89.4 people per 100 declared vacancies as of the end of October 2011 versus 131.0 people a year ago. It should however be noted that the unemployment as determined by the ILO methodology went up by 190,000 reaching 4.8m, remaining 306,000 below October 2010 figure. ●

RUSSIAN INDUSTRY IN OCTOBER 2011

S.Tsukhlo

According to the polls conducted by the Gaidar Institute¹, in a continuing situation of uncertainty industrial companies still demonstrate satisfaction even with low volumes of sales, 'clear up' their stocks of finished products, maintain a minimum rate of output growth and resort to job cuts. In order to revive demand, enterprises began to lower their prices and display their preparedness to continue this policy over the next few months.

Demand for Industrial Products

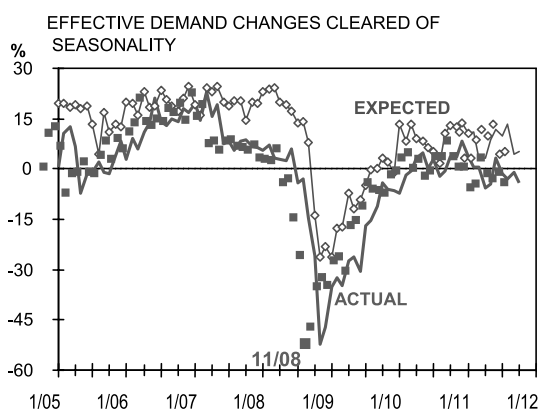


Fig. 1

Demand for industrial products continues to decline (Fig. 1). The initial balance (before clearing of seasonality) dropped to -7 points. Seasonal clearance demonstrated its decline to -4 points. A more rapid decline in sales since early 2010 was recorded only in April 2011. An absolute decline of demand occurs in all sectors except chemical and food industries.

The initial demand forecasts has remained negative for a second month in a row, which means that in industry the expectations of declining sales prevail over the expectations of sales growth. However, when cleared of seasonality, the balance of forecasts remains on the plus side, although its actual value is the most modest since May 2011.

In spite of the obviously negative dynamics of demand, in October the satisfaction with its volumes increased. The difference between the main demand estimates jumped by 12 points and thus reached its post-crisis historic high. Evidently, even modest sales volumes are viewed as quite normal for a majority (63%) of enterprises in face of the nervous situation on the world markets and uncertainty of even the nearest future.

Stocks of Finished Products

In October, the balance of estimates of finished products stocks dropped (i.e. improved) by 7 points at once after a spell of low but confident growth (i.e. deterioration) since the year's beginning. As a result, the excess stocks, that were relatively large by standards of recent months, nearly disappeared. The latter circumstance in conditions of an obvious decline of demand and weak hopes for a revival of sales growth is indicative of the fact that industry has 'cleared up' its stocks of finished products and has no plans of replenishing them in the nearest future. This dynamics of stocks of finished products can be interpreted as high confidence of enterprises in a negative scenario rather than as industry's incapability to satisfy demand.

Output

The rate of industrial production growth in recent months has been relatively stable at its lowest level since early 2010 in terms of both initial data and data cleared of seasonality (Fig. 2).

1 Monthly polls of directors of industrial enterprises have been conducted by the Gaidar Institute on the basis of European harmonized methodology since September 1992 across the entire territory of the Russian Federation. The panel consists of approximately 1,100 enterprises employing more than 15% of the total number of industrial employees. The panel is biased towards big enterprises in each selected subsector. Of the questionnaires posted, 65 to 70% were returned.

The production plans of enterprises are also far from optimistic. In October their index dropped to a zero balance by initial data (this usually happens one or two months later), and to its historic low since early 2010, when cleared of seasonality.

Producer Prices

A negative dynamics of sales has urged industry to more actively use pricing as a tool for reviving demand. While in September the growth of producer prices halted, October saw their absolute decline. The previous instance of this tool being used by industry had been in December 2009. However, then the actual decline of prices was coupled with forecasts of their traditional rise early the next year. Now the situation is fundamentally different. The RF Government's decision to lengthen the period of a January upsurge of tariff rates and thus to level down the already habitual leap of prices in the beginning of a new year prevented the similarly traditional growth of enterprises' pricing plans at the end of the previous year. The balance of pricing plans in industry has lost 17 points since the beginning of the second half-year period and 40 points since the beginning of the year, and now it is nearly ready to demonstrate industry's preparedness to abandon their policy of growth of prices already in the phase of intentions. Previously this happened only in 1998 and 2008.

Actual and Planned Job Cuts

In October, Russian industry embarked on a wave of job cuts (Fig. 3). While over the preceding 8 months enterprises had managed to increase the number of their personnel, or at least to keep it unchanged, early in Q4 dismissals definitely prevailed over recruiting, and this occurred nearly in every branch. The only exception was the food industry, where the balance remained at a zero level. The highest rates of job cuts were registered in the chemical industry, construction, and light industry. Job cuts, most probably, will continue over the next few months – and at an increasing rate.

Enterprise do not dismiss more employees for fear of failing to find the necessary personnel once industrial growth is revived, and thus becoming unable to reestablish the necessary production volumes. This situation has already been persisting in Russian industry for 6 quarters in a row. At the same time, in October 2011 insufficient numbers of personnel are reported by 19% of enterprises, which represents an historic high of that index for the entire post-crisis period. Prior to the 2008 crisis it had reached the level of 26%.

Crediting of Industry

In October 2011, industry did not experience any worsening of crediting conditions, although it had been declared by banks and expected by analysts. The general estimate of normal credit availability remained at the level of 68%. More particularly, very big enterprises are satisfied with credit availability in 80% of cases, while medium-sized and small ones – in 35% of cases.

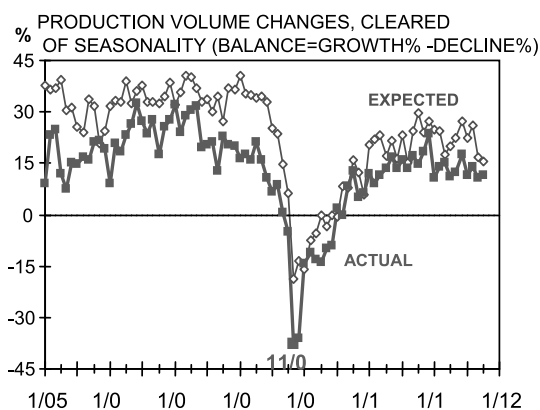


Fig. 2

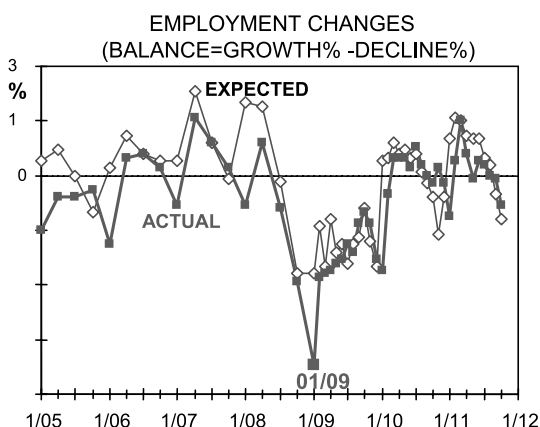


Fig. 3

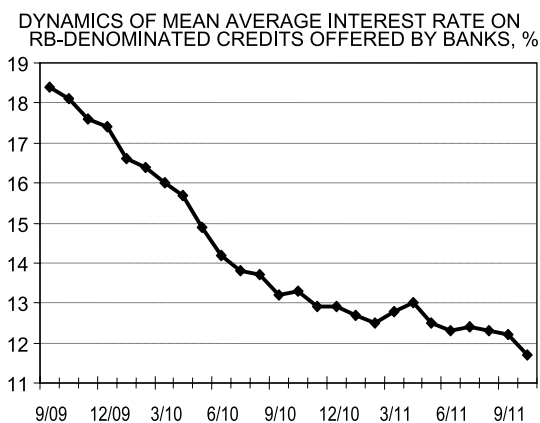


Fig. 4

The sectoral priorities with regard to crediting remained unchanged: while in metallurgy and the chemical industry normal availability of credits is reported by more than 70% of enterprises, in light industry that level is only 35%.

In October there occurred no growth of the interest rate on credits offered by banks to enterprises, either (Fig. 4). Moreover, in October it dropped to 11.7% after being 12.2% in September. When credit availability is normal, the interest rate is 10.8%. Credits are offered to medium-sized and small enterprises at a rate of 14.3% per annum, to very big ones (more than 1,000 employees) – 10.0% per annum. ●

FOREIGN TRADE

N.Volovik, K.Kharina

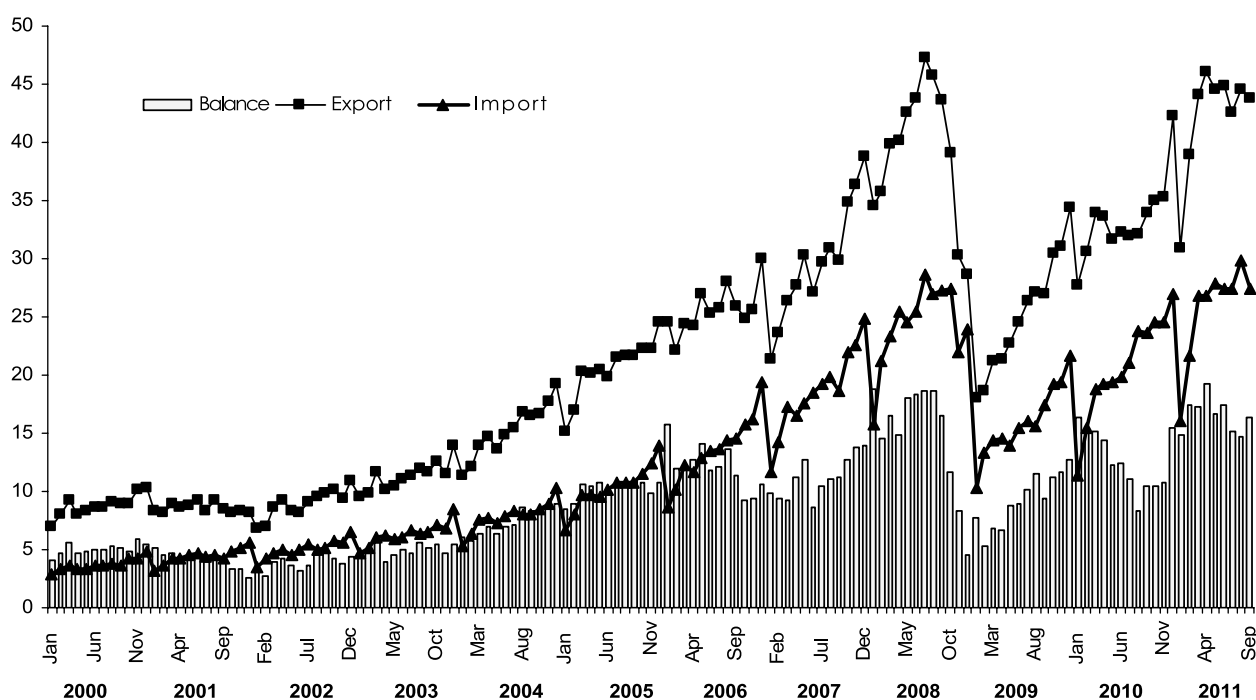
Since July 2011, the growth rates of Russian exports have exceeded the growth rates of imports into Russia, which has resulted in an accelerated rise in Russia's trade surplus. After her forthcoming accession to the World Trade Organization, Russia is expecting to join the Organization for Economic Cooperation and Development.

UNCTAD's *Trade and Development Report 2011* notes a drop in the growth rate of world GDP, from 3.9% in 2010 to 3.1% in the current year. The growth rate of developed economies is expected to be around 1.5 – 2%. In particular, the growth rate of the EU economy is predicted to be no more than 2%. In developing economies (with the exception of North African countries), GDP growth rates will exceed 6%. In transition economies, GDP growth rates have returned to their pre-crisis levels, and these economies are now expanding much faster than developed. It is expected that in 2011 the GDP growth rates of CIS economies, including Georgia, will amount to 4.5%.

International trade in goods and services has reached its 2010 level and displayed an annual growth rate of 14%. However, UNCTAD experts expect the growth rate of world trade to decline at the end of 2011. It should also be noted that the rebound of trade in developing countries is taking place faster than in the developed ones.

In September 2011, Russia's foreign trade turnover, calculated in accordance with the balance of payments methodology, amounted to \$ 71.3bn, representing a 23.1% increase on September 2010. In September 2011, exports from Russia grew by 27.4% on September 2010, to \$ 43.8bn. In September 2011, imports into Russia grew by 16.9% on September 2010, to \$ 27.5bn.

In September 2011, Russia had a trade surplus of \$ 16.3bn (vs. \$ 10.8bn in September 2010). Like before, the September 2011 rise in the value of exports on September 2011 was mainly caused by the ongoing climb in the prices of oil and a number of other commodities.



Source: RF CB.

Fig. 1. Major Indicators of Russian Foreign Trade (bn US dollars)

In November 2011, the average daily oil production volume of OPEC countries hit a three-year high of 30.4 million barrels. This sharp rise in oil production took place due to the resumption of oil supplies from Libya. Libya's oil production climbed to its highest level of 500 thousand barrels ever recorded since February 2011, when that country had stopped its oil exports. Before the beginning of hostilities, Libya produced about 1.6 million barrels of oil per day. By the end of the current year, Libya hopes to increase her daily oil production to 800 thousand barrels.

On 14 December 2011, OPEC members will hold their next regular meeting where the group can take a decision to reduce individual crude-output quotas. The reason for this decision will be the slump of the GDP growth rate expected to take place next year.

The last time OPEC slashed quotas was in December 2008, when they were cut down by 4.2 million barrels per day on September 2008. That cut in quotas was designed to prevent a fall in oil prices. Since then, the crude output ceiling has remained unchanged at 24.84 million barrels per day, although from time to time individual crude-output quotas have been ignored by one or other OPEC member.

At present, oil prices are stable at high level. In September, the average price of Brent was \$ 110 per barrel. In October, Brent crude never dropped below \$ 100 per barrel.

It should be noted that in November Russian Urals crude established a personal record by being more expensive than Brent for four weeks in a row. The climb in the price of Urals was caused by expectations that EU member countries could impose new sanctions against Teheran. In anticipation of this move, traders turned their attention to Urals which has a similar quality to Iranian crude.

In September 2011, the price of Urals grew to \$ 111.5 per barrel, or by 44.1% on September 2010. During the period of monitoring, from 15 October through 14 November 2011, the average price of Urals was \$ 111.2 per barrel. As a result, in accordance with RF Government Decree of 24 November 2011, No 970, export duties on crude oil and some categories of petroleum products exported from the territory of the Russian Federation beyond the borders of the member states of the Agreements on the Customs Union. From 1 December 2011, Russia's export duty rate on oil will rise from \$ 393 per ton to \$ 406.6 per ton. The duty on white and dark petroleum products, unified at 66% of the duty on crude on 1 October 2011, will rise to \$ 268.3 per ton (vs. \$ 259.3 in November). Also from 1 December 2011, the export duty on gasoline, set at \$ 353.7 per ton on 1 November 2011, will rise to \$ 365.9 per ton, while the preferential duty on crude oil will rise to \$ 200.9 per ton against the duty of \$ 190.7 per ton which was in effect in November.

Misgivings about the prospects for growth in the world economy and the growing evidence of faltering demand (especially in China) have triggered a significant drop in the prices of all basic non-ferrous metals and resulted in stagnation of ferrous metal prices. In September 2011, the prices of aluminum, copper, nickel and steel dropped by 4.0%, 8.0%, 7.7% and 4.9%, respectively, on August 2011. At the same time, the prices of all non-ferrous metals, except nickel, rose on September 2010: the prices of aluminum and copper went up by 6.2% and 7.9%, respectively, while the price of nickel dropped by 9.9%. In the January – August period of 2011, the prices of aluminum, copper and nickel climbed by 18.2%, 29.3% and 15.2% respectively on the corresponding period of 2010.

Table 1

MONTHLY AVERAGE WORLD PRICES FOR JUNE (2000 – 2011)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Oil (Brent), \$/barrel	32.15	26.18	28.26	27.1	42.68	61.7	62.1	75.9	104.7	68.64	77.76	109.97
Natural gas*, \$/m BTU	4.03	3.79	3.08	3.97	4.41	6.58	8.77	8.54	14.85	7.13	8.28	10.85
Gasoline, \$/gallon	0.941	0.757	0.797	0.832	1.26	1.958	1.596	2.03	2.63	1.768	1.94	2.73
Copper, \$/ton	2037.5	1,452.9	1,498.3	1,816.4	2,892.6	3,858.0	7,602	7,656.5	6,990.9	6,195	7,709.3	8,314.8
Aluminum, \$/ton	1600.2	1,342.6	1,294.7	1,415.0	1,726.0	1,840.0	2,473	2,392.9	2,525.8	1,833	2,202.4	2,296.7
Nickel, \$/ton	8654.6	5,040.9	6,592.5	9,996.1	13,298	14,228	30,131	29,605	17,795	17,462	22,643	20,392

* European market, average contract price at franco frontier.

Source: Calculations are based on data from the London Metal Exchange (London, UK) and the International Petroleum Exchange (London).

In September 2011, the FAO Food Price Index amounted to 225 pp, representing a 2%, or 4.5 pp, drop on August 2011. June 2010. This drop reflected a decline in the international prices of the majority of raw products included in the Index. Most heavily affected by that decline were the prices of sugar, cereals and vegetable oils.

According to the Bank of Russia, in the first nine months of 2011, Russia's foreign trade turnover amounted to \$ 612.5bn, representing a 33.2% rise on the corresponding period of 2010. Exports rose to \$ 380.4bn (a 32.3% rise on 2010), and imports – to \$ 232.1bn (a 34.7 rise on 2010). The surplus of the balance of payments amounted to \$ 148.3bn (vs. \$ 115.3bn in the January – September period of 2010).

As before, the main factor behind the growth in the volume of Russian exports was the ongoing rise in the prices of exports caused by the favorable situation on the world market. The rise in imports was mainly caused by growth in their physical volumes.

Table 2

RUSSIA'S FOREIGN TRADE: EXPORTS AND IMPORTS

	January-September 2011, as percentage of January- September 2010		Q3 2011, as percentage of Q3 2010		September 2011, as percentage of September 2010	
	physical volume	average prices	physical volume	average prices	physical volume	average prices
Exports	97.9	131.0	95.8	138.9	94.8	138.3
Imports	125.5	109.8	118.4	109.6	113.8	106.6

Source: RF Ministry of Economic Development.

The rates of imports into Russia have significantly increased since April 2010. This rise is demonstrated most visibly by the volumes of such import items as motor cars, equipment, household utensils and food. In the first half-year of 2011, imports grew by more than 40% in annual terms.

However, in September 2011, the growth rate of imports sharply declined to 16.9% in annual terms against 25% in August and 30.6% in July. On the one hand, it was inevitable that the 10% drop in the exchange rate of the ruble in August and September would decrease the growth rate of imports. But on the other hand, that fall in the exchange rate of the ruble took place with regard to its summer local peak, and, moreover, the fall was not very strong. Most likely, the August weakening of the ruble coincided with the expiration of the low base effect (in August 2010, Russia's imports had increased by 53.3% on August 2009). The future behavior of imports will be determined by changes in the exchange rate of the ruble and in the profits of economic agents.

In 2012, the Russian Federation expects to join the Organization for Economic Cooperation and Development (OECD). The major conditions for a country to accede to the OECD is to be a member of the WTO (this condition will be met by Russia in the nearest future), and to accede to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

The RF Government has already approved the idea of Russia's accession to the Convention, and if the RF President makes the relevant decision, the Convention will be signed by Russia. To make her accession possible, Russia has already introduced a number of alterations into her legislation, and prepared a plan of further legislative changes designed to make the Russian legislative base match the OECD's norms.

The OECD comprises a number of committees and working groups responsible for relevant areas addressed by this organization – for example, the Committee on the Global Financial System, the Insurance and Private Pensions Committee, the Investment Committee, etc. Each of these departments will prepare a report on Russia's willingness and ability to accept all of the internal rules of the OECD and to assimilate all existing OECD instruments in the Committee's specific area of competence. These reports will also specify the periods of transition and the plans of further actions. If each of these Committees comes to a decision that the Russian Federation satisfies the OECD requirements in the Committee's specific area of competence, the corresponding documents will be submitted to the OECD Council that will take a decision on Russia's accession.

However, there are still some issues that will need to be resolved at the negotiating table. For example, there exists a huge set of issues dealing with Russia's investment environment, trade and services that are directly bound to her WTO obligations. Whether or not it will be possible to simply transplant WTO norms to Russia's OECD obligations will become clear in the course of further negotiations.

Also, there are a number of areas – protection of consumer rights, the state of competition, state governance and corporate governance – where Russia should prove that her legislation matches OECD norms, and that all of the relevant institutions are actually in existence.

The Russian Federation expects to accede to the OECD after having joined the WTO. And a lot of water has already passed under the bridge since the Roadmap for the Accession of the Russian Federation to the Convention on the Organization for Economic Cooperation and Development was adopted by the OECD Council at its 1,163rd session on 30 November 2007. ●

STATE BUDGET

T.Tishchenko

The major developments of November in the area of fiscal policy were approval by the State Duma and Federal Council of the federal budget and extrabudgetary funds for 2012-2014, implying increased expenditures for national defense and national security, and law enforcement, which for the first time exceed expenses for the national economy, as well as growth of the federal budget surplus for the first 10 months of this year to Rb 1.4 trillion, or by 3.2% of GDP. While these events were predictable, they can have serious long-term implications for the budget system of Russia.

Despite the fact that the country leadership has publicly and repeatedly informed about the readiness of resist¹ any steps that could undermine the stability of the national budget system, concerns about its sustainability are persisting. They are related to the complexity of the budget sequestering in the situation of implementation the adopted commitments in regard to some social groups, military-industrial complex and the international community to finance the military and social expenditures, activities for the 2014 Olympics, APEC, World Cup 2018, the innovation center “Skolkovo”, etc. The difficulty of reducing such costs without prejudice to the political image of the country top officials and the Russian economy and makes the design “FB 2012-2014” difficult but to be modified, which in view of a possible second wave of crisis will lead to an increased federal budget deficit planned for 2012-2013. In this context, the decision of the Government of the Russian Federation, adopted in October of this year, not to make oil and gas transfers to the Stabilization Fund until 2015 looks understandable.

Analysis of the key indicators of the federal budget execution over January-October 2011

Federal budget revenues, according to the tentative estimates of the Russian Ministry of Finance, for 10 months of this year totaled to Rb 9.2412bn, or 21.4% of GDP, which by 2.8 p.p. of GDP exceeds their value over the same period of 2010 (Table 1). Expenditures within January-October have decreased against the same period of 2010 by 2.6 p.p. of GDP and amounted to Rb 7.8397bn.

Table 1

KEY INDICATORS OF THE RF FEDERAL BUDGET IN JANUARY-OCTOBER 2010-2011

	January–October 2011		January–October 2010		Change, p.p. of GDP
	Rb, bn	GDP %	Rb, bn	GDP %	
Revenues, including:	9241.2	21.4	6721.5	18.6	+2.8
Oil and gas revenue	4535.8	10.5	3051.1	8.5	+2.0
Expenditures, including:	7839.7	18.1	7481.4	20.7	-2.6
Percentage expenditures	226.3	0.5	174.1	0.5	0
Non-percentage expenditures	7613.4	17.6	7307.3	20.2	-2.6
Federal budget surplus (deficit)	1401.5	3.3	-759.9	-2.1	+5.4
Non-oil and gas deficit	-3134.3	- 7.3	-3811.0	-10.5	- 3.2
GDP estimates ¹	43314		36277		

Source: Russian Federal Treasury, Gaidar Institute estimates.

For the 10 months of 2011 the federal budget was executed with a surplus in the amount of Rb 1401.5bn, or 3.3% of GDP. Nevertheless, one can expect that the 10-month trend for an increase in the federal budget surplus will be broken in November, however, there is no doubt that the federal budget as of 2011 results will be executed with a surplus. A significant excess of

¹ Speech of Acting Minister of Finance A.G. Siluanov at Financial Forum of Russia, organized by the newspaper «Vedomosti».

revenues over expenditures of the federal budget in the 10 months of the current year is due to low cash execution of budget expenditures was observed during the entire period under review¹. In January-October 2011, with regard to the changes made to the basic parameters of the RF federal budget in October, the cash execution of expenditures made 70.5%, whereas in case of a more regular cash execution of the budget at the level of 80%, budget surplus for 10 months would have been only Rb 344bn.

There is observed a growing oil and gas revenue as of January-October by 2.0 p.p. of GDP as compared with the relevant period of preceding year and made Rb 4535,8bn, and their share in the federal budget increased (as per results of 10 months of 2010, oil and gas revenues accounted for 45.7%, and over 10 months of 2011 – 49.1%). There is observed reduction in non-oil budget deficit by 3.2 p.p. of GDP.

Dynamics of revenue from the main taxes to the federal budget within 10 months of this year (see Table 2) shows substantial increase in revenue from external economic activity (by 1.4 p.p. of GDP), MET (by 0.7 p.p. of GDP), VAT on goods sold in the territory of the Russian Federation (by 0.4 percent of GDP). Growth in the range of 0.1-0.2 p.p. of GDP is noted in other taxes as well. With such positive dynamics in the federal budget revenues from the major taxes there is a concern about the insignificant growth (at the level of error in the GDP assessment) of corporate income tax.

Table 2

REVENUE OF THE FEDERAL BUDGET FROM THE MAIN TAXES DYNAMICS IN JANUARY-OCTOBER 2010–2011 IN ABSOLUTE TERMS AND IN GDP P.P.

	January-October 2011		January- October 2010		Change, p.p. of GDP
	Rb, bn	GDP %	Rb, bn	GDP %	
1. Tax revenue, including:					
Corporate income tax	287.9	0.7	203.0	0.6	+0.1
VAT for the goods sold in the RF territory	1485.1	3.5	1124.3	3.1	+0.4
VAT for the goods imported to the RF territory	1195.8	2.8	914.2	2.6	+0.2
Excise duties on goods manufactured in the RF territory	191.8	0.5	94.0	0.3	+0.2
Excise duties on goods imported to the RF territory	36.0	0.1	22.9	0.1	0
MET	1670.4	3.9	1146.2	3.2	+0.7
2. Revenues from foreign economic activity	3683.2	8.5	2546.3	7.1	+1.4

Source: RF Ministry of Finance, Russian Statistical Service, Gaidar Institute estimates.

To assess the situation with corporate income tax, analysis was made of the data on corporate profit tax by RF Subjects for the 9 months of 2011, which showed a reduction in the growth rate of corporate income tax in general in the Russian Federation: if the first 9 months of 2010 the volume of the collected corporate income tax grew by 46% compared with 9 months of 2009, in the first 9 months of 2011, such growth against the corresponding period of 2010 made only 30%. In some RF Subjects there is even a decrease in revenue from corporate income tax in 2011 against 2010 (including the Krasnoyarsk Krai, Altai Republic, Volgograd and Murmansk regions) or a slight increase (by 6% in Sakhalin region; by 1% in Primorsk Territory and Amur Region). Trend of decreasing growth rates of corporate income tax revenue to the federal budget is not a serious threat in the nearest future, but may have adverse consequences for regional budgets, taking into account the fact that corporate income tax makes up a significant share of their revenue².

The analysis of the federal budget execution in terms of expenditures over January-October 2010-2011 (see Table. 3) shows a zero dynamics in some budget expenditure lines, except for: federal issues (-0.5% of GDP), national security and law enforcement activities (-0.1 percent of GDP) in the national economy (0.5 percent of GDP), education (+0.1 percent of GDP) on health,

1 For example, in the 8 months of this year the cash execution of the expenditures was 58.4%.

2 Analysis of the reasons for declining growth rates of income tax benefit will be held at the annual review.

physical culture and sports (+0.2 percent of GDP); social policy (+0.5 percent of GDP). In fact, the total expenditures on health, physical culture and sport within 10 months of 2011 increased in a greater scope, as Table 3 does not take into account the costs of an article “Intergovernmental transfers” in the amount of Rb 33bn, which included the expenses for physical culture and mass sport, elite sport and other expenses for physical culture and sports.

The main reduction in federal budget expenditures has occurred under “General inter-budgetary transfers to budgets of regional and municipal educational institutions” – at the level of Rb 676bn (excluding transfers to extra-budgetary funds in 2010)

Table 3

FEDERAL BUDGET EXPENDITURES DYNAMICS IN JANUARY-OCTOBER 2010–2011 2011
IN ABSOLUTE TERMS AND IN GDP P.P.

	January-October 2011		January- October 2010		Change, p.p. of GDP
	Rb, bn	GDP %	Rb, bn	GDP %	
Expenditures, total:	7839.7	18.1	7481.4	20.7	-2.6
Including					
Federal issues	543.0	1.3	660.2	1.8	-0.5
National defense	1036.6	2.4	881.4	2.4	0
National defense and law enforcement	890.7	2.1	785.8	2.2	-0.1
National Economy	1093.7	2.6	759.6	2.1	+0.5
Housing and public utilities	169.8	0.4	141.2	0.4	0
Environmental protection	11.6	0.0	9.5	0.0	0
Education	388.4	0.9	293.2	0.8	+0.1
Culture, cinematography and mass media	104.5	0.2	90.0	0.2	0
Health care, physical culture and sports	363.6	0.8	212.0	0.6	+0.2
Social policy ²	2516.6	5.8	2477.6	6.8	-1.0
National and Physical Culture municipal debt servicing	226.3	0.5	174.1	0.5	0

Source: RF Ministry of Finance, Russian Statistical Service, Gaidar Institute estimates.

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

The consolidated budget of the RF Subjects for the first 9 months of this year is executed with a surplus of Rb 831.6bn (1.9% of GDP), and this result is largely based on low cash execution of budget expenditures, which made only 59% in the period under review. As of January-September 2011 results, revenue of consolidated budgets of the RF Subjects made Rb 5.6177bn (13.0% of GDP), by 0.3 p.p. of GDP lower than in the same period in 2010 (13.3% of GDP). A comparison of the revenue dynamics for the 9 months of the last and this year shows:

- increase in revenue from corporate income tax by 0.3 p.p. of GDP to Rb1.5118bn;
- Reduction in revenue from personal income tax by 0.2 p.p. of GDP to Rb1.378bn;
- Reduction in revenue from excise on excisable goods (products) produced in the RF territory, by 0.1 p.p. of GDP to Rb 278.5bn;
- Reduction in revenue from property tax by 0.1 p.p. of GDP to Rb503.0bn.

Downward trend in revenue from basic taxes, which form the budgets of the RF Subjects, taking into account the reduction in the growth rate of corporate income tax provides grounds for concern about balancing the budgets of the RF Subjects in the short term, accompanied by deterioration in the macroeconomic situation.

Consolidated budget expenditures of the RF Subjects as per the 9 months of 2011 have reduced by 1 p.p. GDP and amounted to Rb4.7861bn (11% of GDP); the expenditures structure was observed:

Reduction under budget lines “Federal issues” (by 0.1 p.p. of GDP), “National Security and Law Enforcement” (by 0.1 p.p. of GDP), “Housing and public utilities” (by 0, 2 p.p. of GDP),

“Education” (by 0.1 p.p. of GDP), “Social Policy” (by 0.9 p.p. of GDP); Growth in the article “Healthcare, physical culture and sport” (by 0.5 p.p. of GDP) due to increased spending on outpatient and inpatient medical care. Given the fact that the budget surplus for the 9 months of this year was observed in almost all RF regions, we should recognize that the regions, as well as the Russian government in general are still able to address the issue of budgets balancing. The solution to this problem is crucial for the sustainability of the budgetary system in future, as the budget deficit this year, characterized by a favorable external economic environment, would lead to an increase in public debt and unpredictable consequences for the Russian economy in the long run. ●

RUSSIAN BANKING SECTOR

S.Borisov

In September, a record increase in assets of the RF banking system was contributed by significant increase in credit portfolio to non-financial institutions in rubles, as well as revaluation of currency of the assets due to the weakening of the national currency. The increase in tension with the liquidity in the banking sector caused increased volumes of direct REPO transactions with the Central Bank and interest rates in the interbank lending market. Reduced expenditures for reserves formation, increased interest margins on lending to individuals, while increased revenues from foreign conversion transactions turned out to be the key factors of accelerated growth of the banking sector's profit over the nine months of 2011.

Table 1

MAIN INDICATORS OF THE RUSSIAN BANKING SYSTEM, RB, BN.

	As of 01.10.2010	As of 01.01.2011	As of 01.10.2011		
			Nominal	Growth since the start of the year, %	Year-on- year growth, %
Assets	31 721.7	33 804.6	38 442.8	13.7	21.2
Loans to non-financial organizations	13 629.4	14 062.9	16 682.7	18.6	22.4
Loans to private individuals	3 871.6	4 084.8	5 065.1	24.0	30.8
Loans to banks	2 859.5	2 921.1	3 633.5	24.4	27.1
Investments in bonds	4 190.7	4 419.9	4 684.0	6.0	11.8
Deposits with the RF CENTRAL BANK	373.4	325.7	506.8	55.6	35.7
Banks' deposits	3 461.8	3 754.9	4 170.3	11.1	20.5
Corporate deposits	5 518.2	6 035.6	7 963.6	31.9	44.3
Private deposits	8 879.3	9 818.0	10 920.2	11.2	23.0
Impairment reserves	2 311.1	2 192.0	2 327.8	6.2	0.7
Profit (in the respective year)	359.7	573.4	624.2		73.5

Source: Bank of Russia.

The third quarter of the current year was favorable for the Russian banking system. The record growth of the currency balance by more than Rb 2 trillion in September (+5.5% over the month) was based on a significant increase in lending to non-financial institutions (by Rb 795m), interbank lending (by Rb 282m) and investments of the Russian banks in bonds (by Rb 297m). Herewith, in September the corporate credit portfolio grew mostly due to two reasons: firstly, there were noted increased credits (by Rb 408m) to resident institutions in rubles, and secondly, Rb decline against \$ by 10% in September has resulted in a significant revaluation of foreign currency part of corporate credit portfolio (increase by Rb 260m over the month).

In September quality indicators of credit portfolio of the banking system continued to improve. The share of overdue loans in the corporate portfolio declined by 10 basic points to the level of 5.0%, while the decline in the share of overdue debt in retail credit portfolio in September made 20 basic points (5.9 %). The share of overdue debt was the lowest since January 1, 2010. In September significant structural changes have been observed in the liability side of the balance-sheet of the Russian banking system. For the first time since early 2009 the balances on deposits attracted by the banks from the Central Bank have increased. The growth was about Rb 200m or 64% as compared to August level. Banks have substantially increased the volume of direct REPO

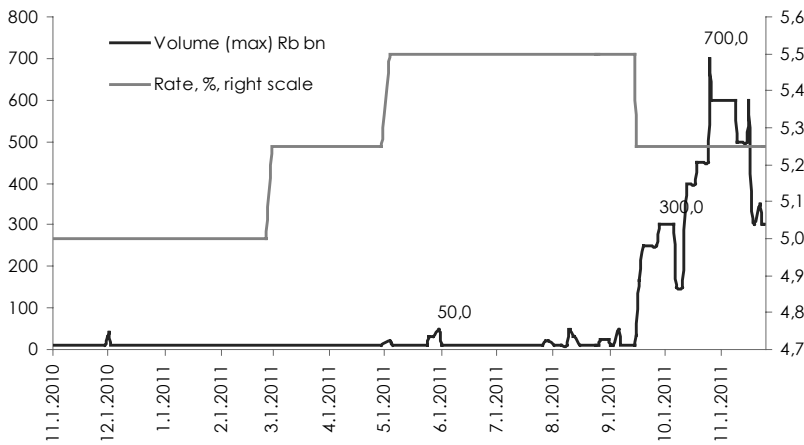


Fig. 1. Dynamics in the rate and maximum 1-day direct repo of banks with the RF CB

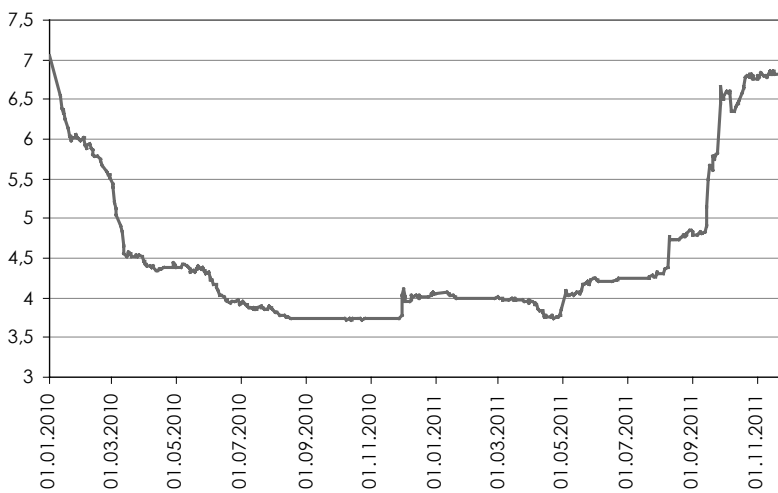


Fig. 2. MOSPRIME 3M Rate Dynamics

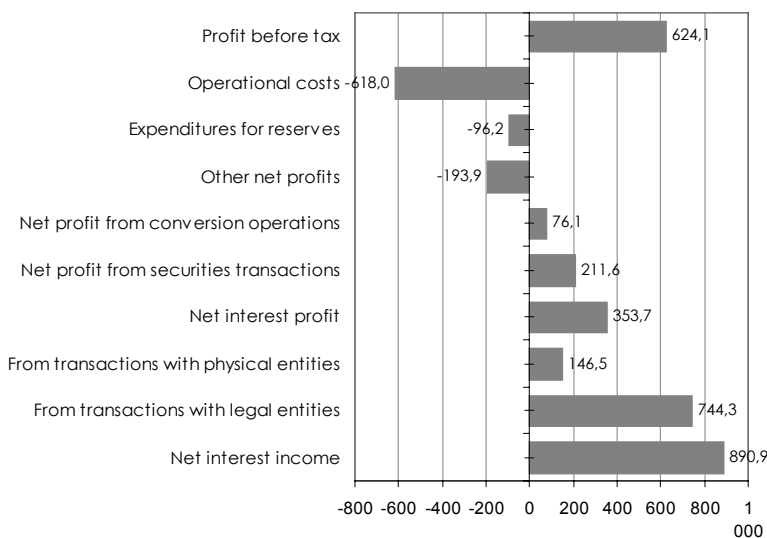


Fig. 3. Aggregate structure of gains and losses of the RF banking sector, RB bn

transactions with the Bank of Russia due to the lack of liquidity in the banking system (Fig. 1)

Fig. 2 demonstrates that the September increase of maximum volumes of the direct REPO with the RF CB was not accidental. The growth the banks incentives to financing from the RF Central Bank was based, among other factors, on continued increase in cost of raising funds in the interbank market. Due to declining access of Russian banks to the international banking markets (in particular to the European monetary market) lending rates in the domestic market grew in September, confirmed by the dynamics of MOSPRIME 3 M indicators.

Interbank lending rates have been growing during September-October and by the end of November have reached the level of early 2010.

In September the volume of deposits and other funds attracted by banks from non-financial institutions rose by Rb 985m. Like in the assets side of the balance-sheet, accelerated deposit growth was partly due to the revaluation of foreign currency part of the portfolio. According to the RF Central Bank, in September deposits of legal entities denominated in rubles increased by Rb 727m, while their foreign currency part rose by Rb 276m, which amounts to 10.9%, matching the weakening the RF national currency against USD in the period under review. Maturity largest increase in the volume of attracted funds from organizations has been observed in deposits «on demand» (by Rb 325m, +51% over the month) and deposits for a term exceeding 1 year - by Rb 472m (+15% over the month).

According to official data, the Russian banking system accu-

mulated profit for the nine months of 2011 amounted to Rb 624bn, which exceeds the level of the previous year by 74% (Fig. 3).

The record values of the accumulated profit within 9 months of 2011 were based on reduced requirements for possible losses on loans, higher interest margin on lending to physical entities, as well significantly increased revenues of banks from conversion operations in the third quarter.

According to the RF CB, the growth in net interest income from loans to physical entities within three quarters of 2011 as compared with the relevant period of 2010 has amounted to 526% (Rb 23.4bn) against Rb147bn in 2011). At the one hand, it was caused by accelerated growth of volumes of revenues from retail lending: the growth of retail credit portfolio balances by October 1, 2011 made 31%. Herewith, recovery of real estate loans has significantly contributed to the extension the retail portfolio in 2011. On 01.09.2011 the growth of real estate loans made 43 % as compared with July 2010. On the other hand, in 2011, % the interest rate margin in consumer lending turned out to be significantly lower at the expense of reduced cost of passive base, which ensured a higher level of net interest income. According to the RF CB, in August 2011 the average weighted rate on loans from physical entities for a term exceeding one year was 1.3 p.p. lower than the relevant value of the preceding year, on the funds of physical entities provided for less than year, a similar difference amounted to 0.7 p.p. Net interest income from lending to legal entities within the first 9 months of 2011 was generally comparable with similar results of the banking system in the preceding year: Rb 744.3bn within 9 months of the current year against Rb 749bn within 9 months of 2010. The volume of conversion profit of the banking sector within the first 9 months of 2011 has reached Rb76bn. Herewith, a large portion of the income was received in the third quarter (Rb64bn) due to currency fluctuations and growth of public and organizations' interest to foreign currency.

The reduced expenditures on formation of reserves continue to make the most significant contribution to the growth of Russian banks' income. Within the first 9 months of the current year these expenditures amounted to Rb 96bn, which is significantly less than within the relevant period of the preceding year (Rb288bn).

Further reduction in interest margin at the background of the rapid growth of liquidity deficit in the Russian banking sector can become the main feature of the 4 quarter. In addition, in case of deterioration of the situation in the Russian economy, overdue debts and contributions for provisions for possible loan losses will grow again. Therefore, the growth trend of financial results of Russian banks in the forthcoming year will be possibly finished.

Here are the most important events in the banking sector in November:

- The Bank of Russia announced its readiness to consider resuming of unsecured lending as an instrument of emergency support to banking liquidity, introduced during the 2008 crisis, and suspended in the course of recovery;

- According to the Bank of Moscow, which is now in the financial recovery, the Bank of Russia has registered the additional emission, placed in favor of VTB Group. Shareholders of the Bank of Moscow approved the capital extension through placement of 100 million in ordinary shares, one hundred rubles per share. The offering price was set at 1111.77 rubles per share.

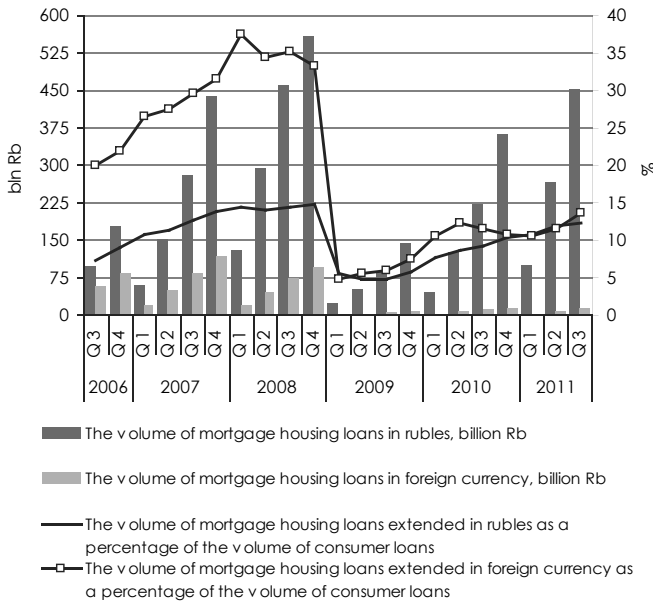
- Sberbank, which share of deposits in the Russian banking system as of October 1 made 46.3%, has announced an increase in interest rates on certain types of physical entities deposits in rubles and savings certificates. Major changes were noted fixed deposits, which yield for the population will grow maximum by 1.3 p.p.;

- The Act, allowing early repayment of bank loans by physical entities came into force. According to the adopted amendments, the amount of loan granted to an individual borrower for personal, family, household or other purpose not related to business activity, may be repaid by the individual borrower fully or partially subject to notification to the lender at least thirty days before the date of such redemption. So far, the conciliation procedure, rather than the notification was in effect for early repayment. According to the new wording of Art. 809 of the RF Civil Code, in case of early repayment of interest “in advance”; the lender has the right to receive interest from the borrower under the loan agreement, accrued as of the agreed date of repayment of the loan in full or in part.

- In December the Council on the financial markets under the Russian President will submit proposals on the list of strategically important financial institutions, by analogy with a list of the 29 strategically important banks, released after the summit of G20 countries in Cannes. ●

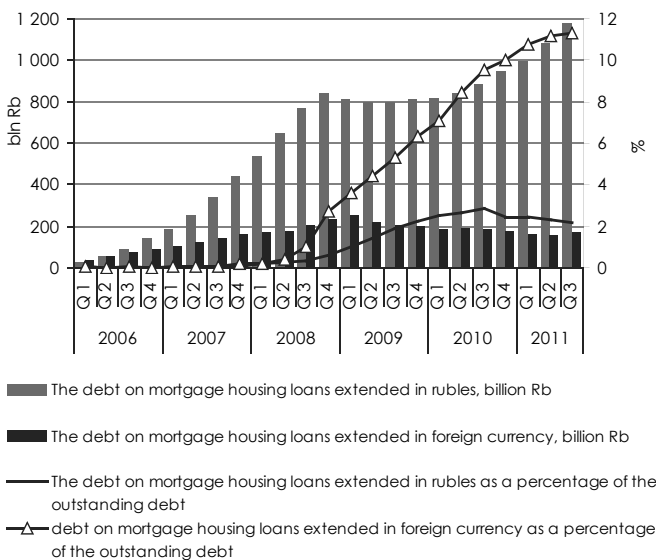
MORTGAGE IN THE RUSSIAN FEDERATION

G.Zadonsky



Source: On the basis of the data of the Central Bank of Russia.

Fig. 1. The dynamics of provision to individuals of loans accrued



Source: On the basis of the data of the Central bank of Russia.

Fig.3. The Dynamics of the outstanding debt and the overdue debt on mortgage housing loans

The volume of mortgage housing loans extended in the three quarters of 2011 exceeded by 100% the volume of loans extended in the respective period of 2010. The share of the overdue debt on ruble mortgage housing loans in the outstanding debt keeps decreasing, while that on foreign currency mortgage housing loans keeps growing. In 2012, OAO AMHL is expecting the total volume of refinancing of mortgage assets to be in the amount of Rb 65.9bn.

According to the data of the Central Bank of Russia, in the three quarters of 2011 credit institutions extended 393,581 housing loans (HL) for the total amount of Rb 508,424bn, including 339,330 mortgage housing loans (MHL) for the total amount of Rb 467,302bn, of which 337,038 mortgage housing loans were granted in rubles for the amount of Rb 452,352bn and 2,292 loans, in foreign currency for the amount of Rb 14,95bn. (Fig.1). In 2011, the volumes of mortgage housing loans in rubles and foreign currency as compared to the respective volumes of the consumer loans (Rb 3.65 trillion in rubles and Rb 110.0bn in foreign currency) grow at almost similar rates (Fig. 1) outrunning the growth in consumer loans. As of October 1, 2011, they amounted to 12.39% and 13.59% in rubles and in foreign currency, respectively. The volume of mortgage housing loans extended in the three quarters of 2011 exceeded in money terms both the volume of loans extended in the respective period of 2010 and the volume of loans extended in the three quarters of 2009 by 100% and 260%, respectively.

As of October 1, 2011, the outstanding debt on mortgage housing loans amounted to Rb 1,354 trillion (in the 1st quarter of 2011, it amounted to Rb 1,158 trillion, while the first six months, to Rb 1,242 trillion), including Rb 1,181 trillion on loans in rubles (Fig. 2). As of the end of the 3rd quarter of 2011, the outstanding debt on mortgage housing loans in rubles grew by 33.62% as compared to the respective period of 2010, while the overdue debt increased in the same period by the

mere 2.23% and amounted to Rb 25,583bn or 2.17% of the outstanding debt (Fig. 2), which figure is 0.66% lower than that in the respective period of 2010. As of October 1, 2011, the outstanding debt on loans in foreign currency (Rb 173.25bn) decreased by 6.56% as compared to that registered at the end of the 3rd quarter of 2010, while the overdue debt grew in the same period by 11.02% and amounted to Rb 19.58bn or 11.30% of the outstanding debt on loans in foreign currency which figure is 1.79% higher than that in the respective period of 2010 (Fig. 2). Thus, the quality of the debt on mortgage housing loans in rubles is getting up, while that on loans in foreign currency, down.

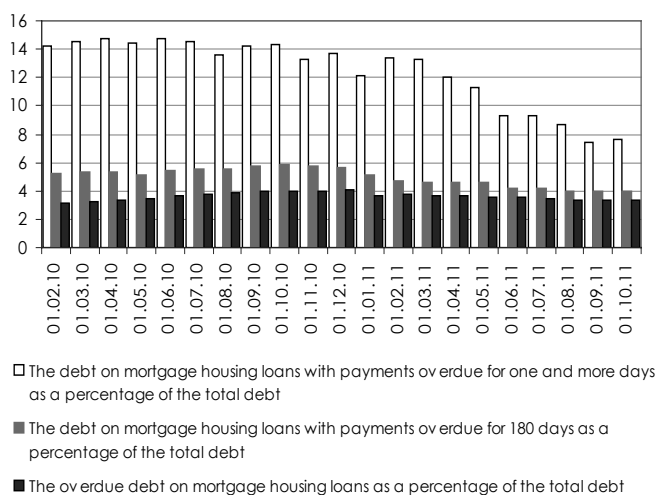
As of October 1, 2011, the aggregate overdue debt on mortgage housing loans amounted to Rb 45,164bn or 3.33% of the outstanding debt which figure is 0.65% lower than that as of October 1, 2010 (Fig. 3). According to the data of the Central Bank of Russia, the debt on mortgage housing loans with payments overdue for one or more days against the total debt as of the end of the 3rd quarter of 2011 decreased by 6.71 percentage points as compared to the respective period of 2010 and amounted to 7.62%. The share of the debt on mortgage housing loans with payments overdue for over 180 days (default loans) as a percentage of the total debt decreased by 1.82% in the same period and amounted to 3.99% (Fig. 3).

As compared to the respective period of 2010, the share of mortgage housing loans in foreign currency in the aggregate volume of mortgage loans extended in the three quarters of 2011 decreased in money terms from 4.75% to 3.20%. The share of debt on mortgage housing loans in foreign currency in the aggregate debt fell from 17.33% as of October 1, 2010 to 12.79% as of October 1, 2011, while the share of the overdue debt on the mortgage housing loans in foreign currency in the aggregate overdue debt increased in the same period by 2.01% to 43.36%.

The average weighted rate on mortgage housing loans in rubles extended from the beginning of the year decreased within the three quarters of 2011 in the Russian Federation in general from 12.4% to 12.1%. The above trend is typical of all the regions. Also, the average value of the loan in the Russian Federation decreased from Rb 1.362m in the 1st quarter to Rb 1.342m as of the end of the 3rd quarter of 2011. However, in regions there was a mixed change in the average amount of the loan. In the period under review, the most explicit growth in the average amount of the loan was registered in Moscow. Also, Moscow has the largest average value of mortgage housing loans in rubles; as of October 1, 2011 it was Rb 3,685m, which figure exceeds by 170% the nationwide average value. The lowest index as regards the value of the average loan (Rb 0.945m) and the average weighted rate (11.9%) is registered in the Privolzhsky Federal District.

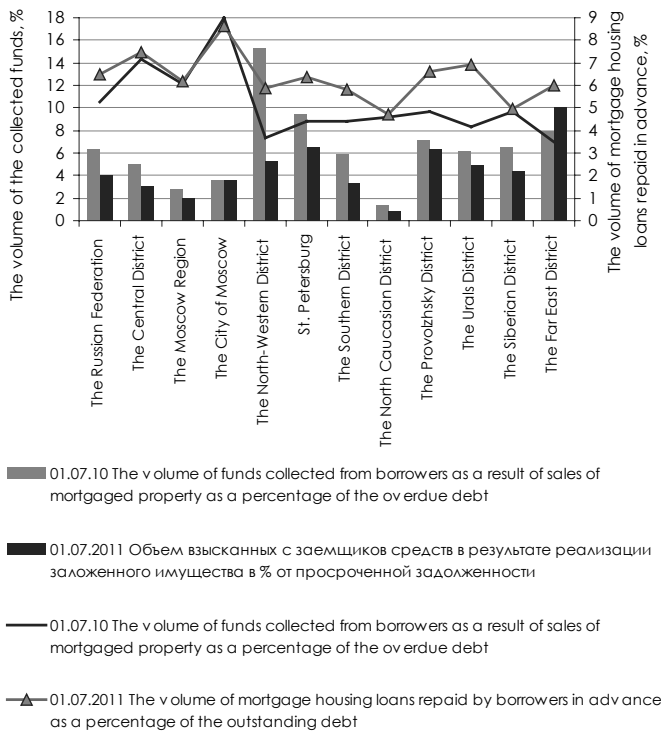
According to the data of the Central Bank of Russia, as of October 1, 2011 the average weighted period of lending as regards mortgage housing loans in rubles extended from the beginning of the year decreased as compared to the 1st quarter (16.2 years) and the first half-year of 2011 (15.7 years) and amounted to 15.3 years. As of October 1, 2011, the average weighted period of lending as regards mortgage housing loans in foreign currency extended from the beginning of the year amounted to 12.9 years, while in the 1st quarter of 2011 and the first six months of 2011, to 12.2 years and 13.2 years, respectively.

In the Russian Federation, the volume of mortgage housing loans repaid in advance by borrowers as of July 1, 2011 as a percentage of the outstanding debt amounted to 6.47% exceeding by 1.21% the respective value as of July 1, 2010 (Fig. 4). Also, growth in the volume of loans repaid in advance in the same period is typical of all the regions of the Russian Federation, except Moscow. As regards Moscow, as of July 1, 2011 the volume of loans repaid in advance as a percentage of the outstanding debt was 0.38% lower than that as of July 1, 2010.



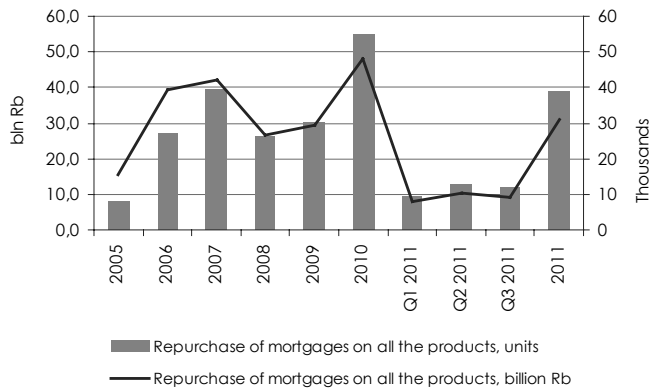
Source: On the basis of the data of the Central Bank of Russia

Fig. 3. The dynamics of the overdue debt



Source: On the basis of the data of the Central Bank of Russia.

Fig. 4. The dynamics of early repayment of mortgage housing loans and the volume of the funds collected from borrowers as a result of sale of mortgaged property by the region



Source: The data of OAO AMHL.

Fig. 5. Repurchase of mortgages by OAO AMHL on all the products

Under the baseline scenario of the business-plan approved by the Supervisory Board of OAO AMHL in November 2011, the total volume of refinancing by the Agency of mortgage assets in 2012 is expected to amount to Rb 65.9bn which figure is 20.4% higher than the refinancing result in 2010.

The volume of funds collected from borrowers as a result of sale of the mortgaged property as compared to the volume of the overdue debt in the Russian Federation in general amounted to 4.07%, which figure is 2.32% lower than that as of July 1, 2010. In the same period, only the Far East Federal District and Moscow exceeded that index by 2.07% and 0.04%, respectively (Fig. 4).

In the 3rd quarter of 2011, the OAO AMHL repurchased on all the products 9,240 mortgages for the amount of Rb 11.84bn which figure is 7.0% lower than that in the 2nd quarter (Fig. 5). In January-October 2011, OAO AMHL repurchased 30,929 mortgages for the amount of Rb 39,006bn which is Rb 15.71bn less (28.71%) than the record-high result in 2010.

In accordance with the draft law on the pledge approved by the State Duma, if the borrower has provided an apartment to the credit institution for repayment of the debt the debt will be deemed repaid irrespective of the cost of the apartment at that moment.

In accordance with the Law on Introduction of Amendments to Individual Statutory Acts of the Russian Federation as Regards Upgrading of the Procedure for Charging the Pledged Property which was passed in the third reading, the notary who engages in private practice and certifies mortgage agreements must conclude an agreement on civil liability for the amount of at least Rb 5m. The Law has introduced a procedure which permits the notary to represent the interests of the parties to the mortgage deal provided that the relevant agreement has been registered with the authority which is responsible for registration of titles to the real property and transactions with it. The period of state registration of mortgages on land plots, buildings and building strictures has been reduced to 15 working days with preservation of a five-day period of registration of mortgages on dwelling.

THE STANDARD OF LIVING IN RUSSIA

S.Misikhina

During the ten months of 2011, the real disposable income of the households failed to amount to the level of the same period in 2010. In January-September 2011, the indices of socioeconomic differentiation of the population decreased, however, in the 4th quarter of 2011 seasonal growth in income will result in higher values of income inequality indices. In the 3rd quarter, the index of households' consumer expectations kept growing, however its value is still below the level of the 3rd quarter of 2005.

The households' income. During the nine months of 2011, the nominal monthly average accrued wages and salaries of workers grew by 12% and amounted to Rb 23,400 in October, while in the same period the real wages and salaries increased by 2.9%.

In September, the average amount of the granted pension amounted to Rb 8,300. In 2011, the pension amounts have been adjusted twice to index:

- On February 1, 2011, the labor pensions grew by 8.8%,
- On April 1, 2011, the social pension increased by 10.27%.

However, the rate of inflation has “demolished” almost the entire growth in pension indexation: in the nine months of 2011 the actual amount of the granted pensions increased by the mere 0.9% as compared to the similar period of 2010.

In October 2011, the households' average per capita cash income amounted to Rb 20,691. During the ten months of this year, such income increased by 9.1% as compared to the similar period of 2010. However, the growth rates of the consumer prices index were almost the same as those of the households' average per capita income. As a result, in the ten months of 2011 the real disposable income of the households failed to attain the level of the same period in 2010 and amounted only to 99.8% of the value of that index. A considerable drop in the real disposable income of households in the 1st quarter (by 23% against the level of the 4th quarter of 2010) was not compensated by growth in that income in the 2nd and 3rd quarters and October 2011.

Table 1

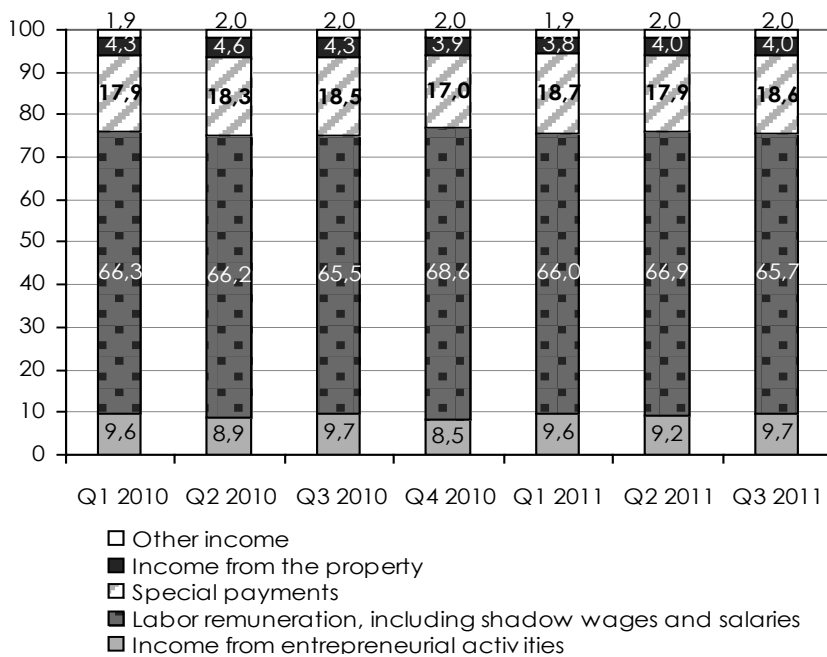
THE DYNAMICS OF THE REAL DISPOSABLE CASH INCOME

	Percentage	
	Of the respective period last year	Of the previous period
2010		
1st quarter	107.3	78.7
2nd quarter	103.7	114.4
1st half-year	105.3	
3rd quarter	104.5	97.3
4th quarter	102.1	116.5
Year	104.2	
2011*		
1st quarter	99.8	77
2nd quarter	97.9	112.1
1st half-year	98.8	
3rd quarter	101.6	101.3
October	100.4	102.1
January-October	99.8	

* Preliminary data.

Source: the Rosstat's data.

The dynamics of the households' real disposable income in the ten months of 2011 does not permit to expect the target value of that index – 102.5% against the level of 2010 – which was planned for



Note: the preliminary data for 2011.

Source: the Rosstat's data.

Fig.1. The structure of the households' cash income in the 2010 – the 3rd quarter 2011 period, % of the result

the year 2011 in the Concept of the Long-Term Social and Economic Development of the Russian Federation prepared by of the Ministry of Economic Development of Russia to be achieved.

In the 1st quarter to the 3rd quarter of 2011, the structure of the households' cash income was as follows:

Labor remuneration (including shadow payments) varied in the range of 65.7%–66.9% of the households' cash income;

Social payments amounted to 17.9%–18.7% of the households' cash income;

Income from the entrepreneurial activities amounted to 9.2%–9.7%;

Income from the property amounted to 3.8%–4.0%.

Within the year, there have been practically no changes in the structure of the households' cash

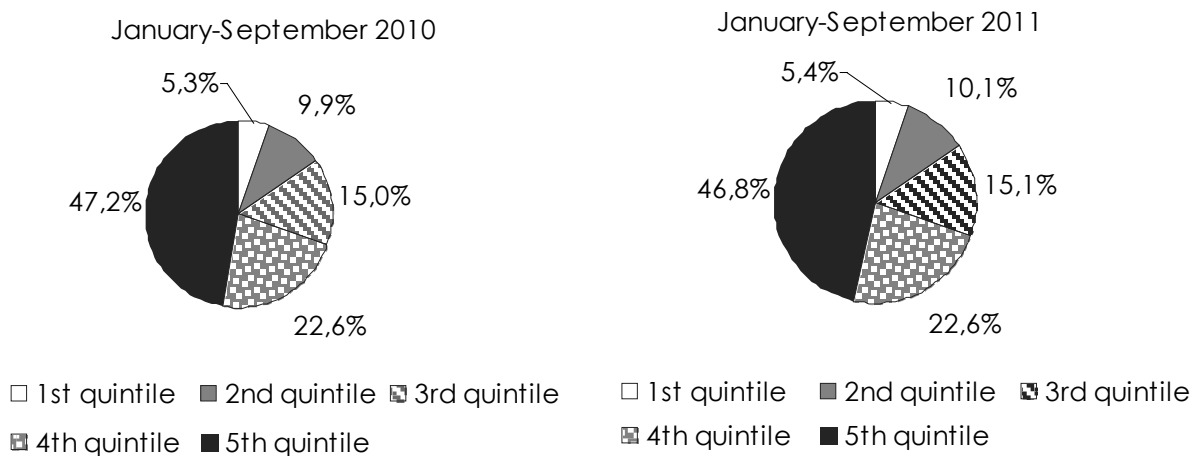
income. The socioeconomic differentiation. Slowdown of the growth rates of households' income has resulted in some drop in the inequality indices in January-September 2011 as compared to the level of the same period of 2010. A drop in inequality was expressed both in a small increase in the share of the households' cash income in the total cash income of the first three quintiles of households with the lowest income (0.1 %– 0.2 %, respectively) and a decrease in the share of the fifth quintile with the highest income from 47.2 % to 46.8%.

A positive dynamics was registered with the ten-percent groups of the households:

During the nine months of 2011, the share of 10% of the households with the lowest income in the total cash income of the households rose from 1.9% to 2.0% as compared to the same period of 2010;

The share of 10% of the well-off households in the total cash income of the households (which share amounted to 30.5% in January-September 2010) fell to 30.2% in the same period of 2011.

Also, the value of the Gini coefficient (the coefficient of the concentration of the income) fell from 0.414 to 0.41 while that of the coefficient of funds, from 15.8 times to 15.3 times.



Source: the Rosstat's data.

Fig.2. Distribution of the total volume of the households' cash income in January-September 2010

Source: the Rosstat's preliminary data.

Fig. 2. Distribution of the total volume of the households' cash income in January-September 2011

In December 2011, seasonal growth in income (payment of the thirteenth salary and bonuses) will result in higher values of the socioeconomic differentiation of the households though in 2011 the annual values of the inequality indices are likely to be somewhat lower than in 2010.

The households' consumer expectations. In the 3rd quarter of 2011, positive changes in the households' consumer expectations continued. In the 3rd quarter of 2011, the index of the consumer confidence which shows the aggregate consumer expectations of the households grew by 2% as compared to the 2nd quarter of 2011 and amounted to (-7%). In the 2nd quarter of 2011, the index of changes in the personal material standing rose by 3% and amounted to (-7%) against (-10%). The index of favorable conditions for making large purchases has somewhat improved, but the index of the expected changes in the personal material standing and the index of favorable conditions for savings remained practically unchanged.

The positive dynamic of the households' consumer expectations is not that high to have a serious effect on the values of both individual indices and the aggregate index of households' consumer expectations which fell sharply in the 4th quarter 2008 – the 1st quarter 2009 period. So far, the index of the consumer confidence has failed to reach the level of the 3rd quarter of 2005. ●

MIGRATION AS AN INSTRUMENT OF POLITICAL PRESSURE

L.Karachurina

Migration policy and issues within the range of this policy are closely related not only to the economy, which was recently demonstrated by a striking example of the arrest and indictment of the Russian pilot and his Estonian counterpart in Tadjikistan, which took place on the eve of the election campaign in Russia. In this case, the migration policy clearly served as an instrument of political pressure, and even from the position of “dual power”. But the pressure would not be so efficient (it has not reached its goal), if it did not affect the underlying socio-economic interests of the Central Asian country.

The first “power” was demonstrated by FMS. Deportation of Tajik citizens (labor migrants) from Russia served as an example of a lever mechanism. We will briefly describe the specifics and the effectiveness of this measure.

Deportations of immigrants as a measure of counteraction to their illegal entry or stay is a worldwide practice. However, they are used on “individual” basis. For example, in October 2009 27, Afghans were sent home by specifically organized by the French and UK authorities charter flight¹. After landing in Afghanistan each deportee was accommodated in the hotel and provided the equivalent of GBP1,800 for settling down. Simple calculations show that UK has paid for the deportation of every Afghanistan national at least GBP 2,500-3,000. Two months earlier, 80 illegal immigrants – Afghans and Pakistanis – were deported by Greece (funded by the EU)². As a rule, the cost of deportation includes expenditures of the state to “capture” illegal migrants and their maintenance in the places of their stay before “transportation” back, transportation and police escorts during transportation to their home. In some cases (as described above in the UK case) – also extra fees for “settling down” at home. Apparently, it is necessary to take into account the cost of maintenance of the security forces carrying out the deportation. Given the increasing levels of illegal migration, some parameters of this control tool of the situation with illegal immigration cannot be large. But its effectiveness raises many questions: the price is poorly correlated with the ability to “make it large-scale”, i.e., to apply it in a vast scope, if required.

In the Russian immigration policy, deportation practice is not a novelty. Even if we avoid mentioning the infamous events of the 1940s with the mass deportations of our national population³, in modern Russian history deportations of foreign nationals have occurred more than once. Herewith, the quantitative parameters of this phenomenon are different. This is due to the difference in wordings: “deported”, “deported under escort from the Russian Federation”, “deported without escort from the Russian Federation (controlled self-exit)”, which is often not specified. At the same time, the process of deportation and some relevant statistics are “split” between several agencies: the Federal Border Service of Russia, Ministry of Interior Affairs of Russia, and Federal Migration Service of Russia.

It is impossible to restore the complete statistical data (see Table 1); the information for 2001-2010 is fragmentary and incomplete. Nevertheless, it is obvious that with increasing labor migration observed in the 2000s, the number of deportees from Russia, while growing up, but not as much as the volume of migration. Thus, in 2000, out of 213,000 officially employed foreign workers to 21,100 were deported from Russia, in 2008, the number of labor migrants has increased against 2000, nearly by 10 times and totaled to 2,081,000, but the volume of deportations has not changed (20,000 foreigners⁴). In some years, the absolute numbers of deportees were more (for example, in 2007 – 27,300 people), but 30,000 thousand people did not cross the border.

1 The EU intends to deport migrants centrally // Lenta.ru. 30.10.2009 <http://lenta.ru/news/2009/10/30/flights/>

2 Greece deported 80 illegal migrants // RIA News. 15.08.2009 <http://ria.ru/world/20090815/180985106.html>

3 For details, see P.M. Polyanskiy. The geography of forced migrations in the USSR // Newsletters of the Academy of Sciences. Geography Ser., 1999. No. 6. p. 55–62.

4 The results of the FMS in 2008.

Table 1

PERSONS DEPORTED FROM RUSSIA, 1995-2000., THOU. PEOPLE

	1995	1996	1997	1998	1999	2000
Total	13.7	14.6	17.7	24.9	24.3	21.1
Including those deported under escort	5.0	3.6	4.1	4.0	3.4	2.7

Sources: Krasinets E., Kubishin E., E. Tyuryukanova *Illegal migration in Russia: the choice of management strategy // immigration policies of Western countries: an alternative to Russia*. Ed. GS Vitkovskaya. M.: "Gendalf", 2002. p. 244; *migration trends in Eastern Europe and Central Asia: An Overview for the period 2001-2002*. M.: IOM, 2002, p. 40.

In theory, any violation of the status of legality can serve as a basis for deportation, i.e., one of the three components of the "illegality": entry, stay or employment¹. Given that there may be a variety of combinations (the most common nowadays is legal entry and stay and illegal employment), we can say that the Russian authorities have grounds for permanent deportation of many migrants. According to our survey, there are more than 42% migrants, while 25% of them stay in Moscow².

Among Tajik migrants fully legal status in Russia possessed 44% of the citizens of this country (some of the other survey data is presented in Table 2).

Table 2

SOME EMPLOYMENT CHARACTERISTICS OF THE MIGRANTS FROM TAJIKISTAN TO RUSSIA, MAY 2009, %

	Migrants from Tajikistan N=185	All respondents (CIS countries), N=801
Registered with the Migration Service	82.2	80.0
Have work permit	60.5	57.8
Work permit was purchased through a commercial agency or intermediary service	42.3	32.2
The work permit is not in possession of employee (as expected by the Federal Law "On Legal Status of Foreign Citizens in Russia")	10.2	22.1
Have an official written contract	60.0	57.6
Get official remuneration	48.1	41.8
Get medical service in Russia	63.8	56.7
Including the purchase medical certificate	7.5	10.5

Sources: Survey of the Center for Migration Studies (headed by E.V. Tyuryukanova) within the projects "Management of migration in the situation of the demographic crisis" (MacArthur Fund) and "Evaluation of a new migration policy of Russia in the sphere of labor migration from the CIS countries" (RF Public Chamber .)

According to the latest available official data, the number of workers from Tajikistan in Russia amounted to 268,600 (2010³) (see Table 3).

Table 3

NUMBER OF WORKERS FROM TAJIKISTAN TO RUSSIA, 2003–2010

Years	2003	2004	2005	2006	2007	2008	2009	2010
Number, thou. of persons	13.6	23.3	52.6	98.7	250	391.4	359.4	268.6
The share of the total foreign workforce in Russia, %	3.6	5.1	7.5	9.7	14.6	16.1	16.2	16.4

Source: Russia in Figures 2011. Russian Statistical Service, 2011. http://www.gks.ru/bgd/regl/b11_11/Main.htm; Labor and Employment in Russia 2009. Russian Statistical Service, 2009. http://www.gks.ru/bgd/regl/b09_36/Main.htm

1 In addition, there may be other administrative violations, including the absence of documents, ID, forged documents, etc.

2 Survey data from the Center for Migration Studies (CMS, headed by E.V. Tyuryukanova) within the framework of projects «Managing migration in the situation of demographic crisis» (MacArthur Fund) and «Evaluation of a new migration policy of Russia in the sphere of labor migration from the CIS countries» (Public Chamber of the Russian Federation).

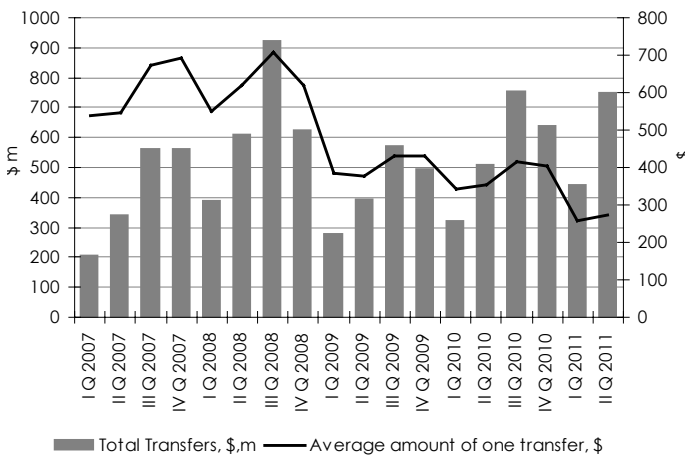
3 Russia in figures, 2011. Russian Statistical Service, 2011. http://www.gks.ru/bgd/regl/b11_11/Main.htm

Expert research has estimated the number of migrants from Tajikistan in 2009 at 700,000 people¹. Approximately the same estimates for 2011 gives G. Dzhurayeva, Head of the Center for Assistance to Tajik migrants in Moscow².

Thus, the deportees in 2010 made less than 0.5% of the total number of Tajik migrants, or about 0.7% of the citizens of the Republic, illegally staying in Russia. Reduction in the opportunities to be legally registered and official (though hardly real) number of labor migrants from Tajikistan (see Table 3) made an utmost contribution to the growth of illegal migrants and hence, all sorts of vulnerabilities, including the threat of deportation.

The verdict to pilots in Kurgan-Tube (of November 8, 2011) has intensified the process of deportation of Tajik migrants from Russia. Thus, on November 11 of this year the Head of the FMS K. Romodanovsky said that “at present 297 Tajikistan citizens are waiting for deportation from Russia”³. However, neither information on the migrants’ deportation in 2010, nor even the deportation trend of November 2011 extrapolation to the entire 2011 do not suggest that the deporting can really affect the migration flow from Tajikistan to Russia. Socio-economic situation in Tajikistan remains deplorable (per capita GDP in terms of purchasing power is \$1,950 (2009), the level of unemployment is 11.5% of the economically active population (2010), the share of the population with a daily income less than \$2 reaches 51% (2010)^{4, 5}, GDP of the Republic is on 35.1% dependent on migrants’ transfers (2010) – this is the first place in the world⁶. The total amount of monetary transfers of individuals from Russia to Tajikistan in 2010 made \$2,229m, and for the first 9 months of 2011 – \$1,193m (Fig. 1).

The second “power”, as usual, was Gennady Onishchenko⁷, the Chief Sanitary Doctor of



Source: RF Central Bank
<http://www.cbr.ru/statistics/?Prtid=svs>

Fig. 1. Cross-border transfers of physical persons from Russia to CIS Tajikistan

Russia. His instrument is taking care of the sanitary-epidemiological security of the country. “The majority of Tajik migrants are ill, Russia cannot and should not treat other nationals”, so on November 14, 2011 Gennady Onishchenko proposed a “temporary ban on the involvement of Tajik labor for medical reasons”⁸. According to him, Tajik migrant workers are often deported from Russia after dangerous diseases are diagnosed, including HIV and tuberculosis. According to Onishchenko, in 2010, 188 Tajik citizens came to Russia with such devastating diseases as HIV, tuberculosis and syphilis. The Head of Tajikistan’s State Sanitary and Epidemiological S. Aliyev voiced rejected information Onishchenko, and noted that “over the past two years the Ministry of Health

1 Main results of the expert meeting on «The consensus estimate of the number of labor migrants in Russia,» April 9, 2010 / Center for Ethno-political and Regional Research in the framework of CERR Project «Immigration to Russia: the Social Framework» in connection with the project of the Fund «New Eurasia», «Migration Barometer in the Russian Federation» / <http://www.indem.ru/Ceprs/Migration/ExSoCoOc.htm>

2 REGNUM news agency with reference to the Head of the FMS K. Romodanovsky. <http://www.regnum.ru/news/1468541.html>

3 Ditto.

4 Source: Main demographic indicators for all countries in the world in 2011 // Demoskop Weekly. http://demoscope.ru/weekly/app/world2011_3.php

5 The average salary in Russia is 15 744 rubles. (May 2009) – CME survey data.

6 The global demographic barometer // Demoskop Weekly. 2010. No. 445-446. <http://demoscope.ru/weekly/2010/0445/barom05.php>

7 We would like to remind, that earlier Onishchenko imposed bans on imports to Russia some products, rather than human beings, as in this case – wines from Georgia, milk from Belarus, canned fish from Latvia. And it always happened in the moments of increasing tension with those countries.

8 Onishchenko responded to the Tajik doctors // News agency INOX. November 19, 2011

http://www.infox.ru/03/body/2011/11/19/Onishchenko_otvyetil.phtml

of Tajikistan has officially received only 11 emergency notices about the detection of tuberculosis in medical institutions of Russia”¹, and in general, Tajikistan has one of the lowest HIV incidence among CIS countries.

Whatever the figures are correct – 188 or 11 cases of severe disease occurrence among migrants – it is clear that this is a real problem and its solution lies not only in the area of the legalization of employment for migrants. In the situation, when medical certificates are purchased (not only by immigrants, but by local residents as well), since the official medical services are costly and the system of their provision is imperfect (it takes time to get a medical certificate), the purpose of preventing the spread of dangerous diseases in the community is clearly not achieved. At the same time, adopted in 2010 innovations in the tax laws have completely cut off all categories of migrants (including children, pregnant women and seriously ill patients) from the possibility of receiving free medical care, except for emergency cases. Such political statements as those expressed by the Chief Sanitary Doctor of Russia “temporary preventing admittance of migrants from Tajikistan to Russia”, cannot resolve the problem. By the way, Russia’s refusal to attract workers from Tajikistan may result in HR problems in the construction industry.

Therefore, on the eve of the elections, political issues have urgently intervened in the economic relations between Russia and Tajikistan. And although it has not caused serious problems for the economies of both countries, it was clearly demonstrated, that on the one hand, there is a close dependence of Tajikistan economy from Russia, and on the other hand, there is a possibility of such leverage as the threat of deportation, that is, a specific tool of immigration policy. ●

1 Tajikistan does not conceal the concern over the situation with labor migrants in Russia // NIRA Aksakal. <http://aksakal.info/news-cis/23532-tadzhikistan-ne-skryvaet-ozabochennosti-situaciy-s-trudovymi-migrantami-v-rossii.html>

ON THE DISTRIBUTION OF SCHEDULE STUDENT ENROLLMENT NUMBERS BETWEEN STATE AND NON-STATE HIGHER EDUCATIONAL ESTABLISHMENTS AND SECONDARY VOCATIONAL EDUCATIONAL ESTABLISHMENTS

T.Klyachko

The Law signed by the RF President on 25 November is aimed at ensuring the access of officially accredited non-state higher and secondary vocational educational establishments to funding allocated to education at the expense of the corresponding budgets of the RF budgetary system. Thus, the Law equalizes the rights of non-state educational establishments with the rights of state and municipal higher educational establishments and secondary vocational educational establishments (SVVE). The alterations introduced in legislation by the Law firmly establish that the schedule student enrollment numbers should be founded on a contest basis, and specify that basis. The procedure for the fixation and distribution of those numbers should be determined by the executive authorities at a level corresponding to the relevant source of budget financing allocated to education.

On 25 November 2011, RF President Dmitry Medvedev signed the Law ‘On the Introduction of Alterations in Some Legislative Acts of the Russian Federation in the Part of Fixing the Schedule Number of Students to Be Enrolled in Officially Accredited Secondary and Higher Vocational Educational Establishments for the Purpose of Being Educated Thereat at the Expense of the Corresponding Budgets of the Budgetary System of the Russian Federation’.

The Law is aimed at ensuring the access of officially accredited non-state higher and secondary vocational educational establishments to financial resources allocated to education at the expense of the corresponding budgets of the RF budgetary system. Thus, the Law equalizes the rights of non-state educational establishments with the rights of state and municipal higher educational establishments and secondary vocational educational establishments (SVVE).

The alterations in legislation introduced by the Law firmly establish that the schedule student enrollment numbers should be founded on a contest basis, and then specify that basis. The procedure for the fixation and distribution of those numbers should be determined by the executive authorities at a level corresponding to the source of budget financing allocated to education.

The idea that non-state educational establishments should be granted access to budget financing is not new. For the first time it was put forth in the RF Law ‘On Education’ (1992). In an operational sense, the suggestion that the rights of state, municipal and non-state higher educational establishments, as well as officially accredited SVVEs should be equalized was raised in 2000, in the course of preparation of a model of State Personal Financial Liabilities (GIFO), that was designed to make it legally possible for a school graduate, who has been vested, in accordance with his or her Unified State Exam (EGE) results, with the right to receive some financial support from the budget, confirmed by the state personal financial liabilities, and to submit them, as payment for his or her education, to one or other officially accredited higher educational establishment or SVVE. From the very beginning this idea was undermined by the RF Ministry of Education, which refused to extend it to SVVEs, and it was seemingly irreversibly finished off by the Union of Rectors of Higher Educational Establishments and the RF Ministry of Finance, who decided that bearing in mind the persistent lack of state funding for higher education, it was not advisable that part of these meager funds should be allocated to non-state higher educational establishments.

Today this idea has got a new lease on life due to the President’s directive that non-profit organizations should be more actively involved in the provision of socially-important services. Moreover, it should be taken into consideration that the recent growth in budget funding for higher education has resulted in an increase in budget expenditures per budget-funded student,

and, correspondingly, in an increase in the higher education tuition fees paid by the fee-paying students of state higher educational establishments. As a result, there emerged a considerable outflow of students to non-state higher educational establishments, where tuition fees were, on average, 20 – 25% lower than at state higher educational establishments (in 2008, students of non-state educational establishments accounted for as much as 17.5% of the total number of Russian students). This trend was then disrupted by the onset of an economic crisis and the ongoing demographic slump, which hit the system of higher vocational education especially hard exactly at the time when the crisis began to ravage the economy.

In 2008-2009, prices for paid education at state higher educational establishments were frozen, while the availability of budget-funded student places began to grow, thus causing a reduction in the number of students at non-state higher educational establishments. At SVEEs, these processes had begun three years earlier. There arose the issue of whether or not the non-state sector would survive in the field of higher and secondary vocational education.

The Clarification Note to the Law indicates that out of the 452 non-state educational establishments, no more than 40 have sufficient grounds to apply for budget funding, and it is specifically among them that 4,500 budget-funded student places will be distributed.

It is likely that Russia has less than 40 really strong non-state higher educational establishments with good master's and post-graduate programs, but without baccalaureate programs. Such establishments include the famous Shaninka (Moscow Higher School of Social and Economic Sciences, MVShSEN), the European University at St. Petersburg, and the Russian Economic School (RESH), which teamed this year with the National Research University – Higher School of Economics to develop a joint baccalaureate program, prepared this year. Here we can also add the International University in Moscow that offers both baccalaureate and master's programs, but this has been mentioned less frequently of late. Another top notch non-state higher educational establishment is the Russian New University. There also exist other popular non-state higher educational establishments that specialize in economics and administration, as well as several good higher educational establishments in the regions. But on the whole the competitive ones total no more than 25–30.

But even if we take 40 as a baseline, this will constitute only 5.5% of the total number of those higher educational establishments among which budget-funded places and budget funds are going to be distributed. Non-state higher educational establishments' share of total student enrollment will be even smaller - about 0.8%. In this connection, one can hardly speak of any real competition between budget-funded higher educational establishments and non-state ones. The main competitor of both state and non-state higher educational establishments in the next few years will be the demographic slump, with the student contingent shrinking by 200–250 thousand persons a year.

In these conditions there will begin mass-scale 'extinction' of non-state higher educational establishments, and so the newly adopted law can be regarded only as the authorities' attempt to preserve at least a small non-state higher educational sector, by means of allocating state support thereto and in effect strapping it to the system of state higher professional education.

However, if one speaks in broader terms, the newly introduced law is contrary to RF Federal Law No 83-FZ, which will come into force in July 2012. In accordance with RF Federal Law No 83-FZ, budget-funded and autonomous establishments will be receiving budget funding for the implementation of a state assignment, to be determined for them by their founder (or an agency performing its functions), and they will not be able to refuse to fulfill it. In other words, such an assignment will be imposed on an establishment, and any tender for the distribution of this assignment will be out of the question (anybody's participation in a tender is absolutely voluntary by definition), educational establishments can participate in it only voluntarily. Indeed, state orders are distributed by means of a tendering procedure, but that is an entirely different instrument applying to government purchases of services or work, which is regulated by the famous RF Federal Law No 94-FZ. At present, there exist intentions to replace this procedure by a federal contractual system. True, the RF Ministry of Education, then Rosobrazovanie, and now the RF Ministry of Education and Science, is said to conduct tenders designed to distribute state assignments among their subordinated higher educational establishments, the assignments being understood as the schedule student enrollment numbers (SSEN). However, we do not know a single state higher

educational establishment that has been unable to obtain the required SSEN. Did this really result in boosting the rate of competition and the quality of higher education? So far there have been no signs this has actually happened.

At present the criteria for distributing state assignments among state (or municipal) and non-state higher educational establishments, and SVEE. It seems that in this connection the Unified State Examination scores received by the applicants to a specific higher educational establishment will be taken in consideration. If only mediocre scorers are enrolled in a non-state higher educational establishment, it would hardly appear feasible for the State to provide it with financial support. However, this leads to yet another question: is it really worthwhile to spend budget money on state higher educational establishments, where most of the students are the same mediocre scorers? In principle, the criteria applied to state and non-state higher educational establishments must be the same, and the leading criterion must be based on education quality and the presence of strong faculty teams. There should not be such a thing as a 'second-best' higher education. However, there arises another problem: all the non-state higher educational establishments that will participate in a tender have state accreditation, whereby the State has confirmed that those higher educational establishments fully comply with federal higher education standards, or the requirements to student training quality. Consequently, they are doing a good job, and so can 'pull up' mediocre students to a better level. Then why cannot they all be allowed to train budget-funded students? So one may ask – perhaps it is necessary to alter the existing standards and to toughen the licensing and accreditation procedures for educational establishments. But this, once again, must apply to all higher educational establishments, without any exception – be they state-funded or private.

It has already been suggested that the following factors should be considered when selecting non-state higher educational establishments: whether they own buildings; have permanent faculty personnel conducting their own research; and whether or not their enrollment process is sufficiently transparent (all the orders on student enrollment and information on the Unified State Examination scores received by their entrants should be posted on their websites). No doubt, all the aforesaid criteria are important, but at the same time it seems to be overlooked that there also exist the established licensing and accreditation requirements to higher educational establishments designed to take into account all these factors. If these requirements are not complied with, the relevant questions must be addressed to Rosobrnadzor (Russia's education watchdog). Quite simply, supervision must be ensured, so that all the established requirements to the provision of educational services by the State would be complied with. These must also include transparency of the functioning of higher and secondary vocational educational establishments.

Thus, the newly adopted law so far has appeared to be rather inefficient and barely implementable. The law makes it possible to more or less sustain, through dispensing patronage, the activity of certain non-state higher educational establishments by introducing the criteria of their eligibility for budget funding that only those same specially selected establishments will be able to comply with. Probably, the State must indeed support non-state not-for-profit sector in the sphere of higher and secondary professional/vocational education. However, it is evident that such support gives rise to some questions concerning the quality of educational services provided by many state and non-state higher educational establishments alike. As for the increasing competition for students between state and non-state higher and secondary vocational educational establishments (that is why the law has been adopted in the first place, according to its authors), that competition has existed anyway – for many years already. In effect, now those non-state higher educational and secondary vocational educational establishments that have survived that competition and proved that they can do without state support will be granted access to state budget funding. ●

ON ESTABLISHMENT OF ROAD FUNDS OF CONSTITUENT ENTITIES OF THE RF IN 2012

A.Alayev

In accordance with Federal Law No. 68-FZ of April 6, 2011 on Amendment of the Budget Code of the Russian Federation and Individual Statutory Acts of the Russian Federation for the purpose of financial support of road activities in respect of public motor roads, from 2012 road funds are to be established at all the levels of power¹.

For the purpose of realization of requirements of the federal legislation, until January 1, 2012 each region must pass a law which provides for establishment of the road fund of the constituent entity of the Russian Federation. Apart from the above law, the regional authorities have to approve the procedure for formation and utilization of budget allocations of the road fund and amend regional long-term programs in the sphere of the public road system (the parameters are to be adjusted to the volumes of financing out of the road fund of the constituent entity of the Russian Federation). According to Article 179.4 (4) of the Budget Code of the Russian Federation, the sources of formation of regional road funds will be the proceeds from the following payments:

- such excise duty on motor gasoline, directly distilled gasoline, diesel fuel and motor oil for diesel and carburetor (injector) engines manufactured in the Russian Federation as are subject to payment to the budget of the constituent entity of the Russian Federation;
- transport tax.

Also, the Budget Code of the Russian Federation provides for the right of the constituent entities of the Russian Federation to establish other sources of formation of the road fund. The analysis of the passed regional statutory acts has shown that among other sources the most common ones are the proceeds from the following payments:

- transfer payments from budgets of the budgetary system of the Russian Federation for financial support of road activities as regards public motor roads of regional (municipal) importance;
- gratuitous payments from individuals and legal entities for financial support of road activities, including donations, as regards public motor roads of regional (municipal) importance.

In addition to the above, some regional authorities have envisaged utilization of the following types of income as the resources of the road fund²:

- payments of the accrued tax on use of motor roads;
- payments of the accrued tax on owners of transport vehicles and tax on purchase of motor vehicles;
- such state duties for issuing of a special permit to transport vehicles which carry on motor roads dangerous, heavy-weight and (or) large-size cargo as are subject to payment to the regional budget;
- utilization of the property which is a part of public motor roads of regional or inter-municipal importance;
- payments for compensation of the damage caused by transport vehicles which transport heavyweight cargo on public motor roads of regional or inter-municipal importance;
- payments for services related to connection of roadside service facilities to public motor roads of regional or inter-municipal importance;
- payments of penalties (fines and penalty interest) in case of a delay in performance of such obligations under government contracts and civil law contracts as are ensured by resources of the fund;

1 The legislation provides for establishment on a mandatory basis of the Federal Road Fund (a reference to it was made in 2011 in Federal Law No.357-FZ of December 13, 2010 on the Federal Budget in 2011 and the Planning Period of 2012 and 2013), as well as road funds of the constituent entities of the Russian Federation from 2012. Also, municipal road funds may be established by decision of the representative body of the municipal entity.

2 The list is not complete as with the specifics of each regional budget taken into account the list of sources may vary and be complemented.

- compensation of damage caused to public motor roads of regional or inter-municipal importance which were used for building of projects in the territory of the region;
- budget credits from the federal budget for building, reconstruction, complete overhaul, repair and maintenance of public motor roads.

At present, the work related to passing of the law on establishment of the road fund from January 1, 2012 has been completed by 52 constituent entities of the Russian Federation while other regions are finalizing the required legislative procedures and have to accomplish that work on time. However, it is to be noted that in the course of development of the statutory act some regions have encountered difficulties. Such difficulties were primarily related to utilization of the transport tax as a source of replenishment of the road fund of the Russian Federation. At first glance, in analyzing new Article 179.4 – The Road Funds – of the Budget Code of the Russian Federation it can be concluded that the first two sources stated above, that is, the transport tax and excise duties on oil products should be mandatory sources of the road funds of the constituent entities of the Russian Federation. On the one hand, according to Article 56 (1) of the Budget Code of the Russian Federation revenues from the transport tax are credited 100% to the budget of the constituent entity of the Russian Federation in compliance with the norm, while on the other hand according to Article 58 of the Budget Code of the Russian Federation the regions are granted the right to transfer withholdings from individual federal and (or) regional taxes and duties to local budgets in compliance with the norms set.

Before amendments to the Budget Code of the Russian Federation as regards establishment of road funds were approved, to support the budget and create additional motivation for municipal authorities to expand the tax base some regions used their right and transferred transport tax revenues to the municipal level. Constituent entities of the Russian Federation where transport tax revenues have been assigned for the past few years to municipal entities include: the Voronezh Region, the Lipetsk Region, the Krasnodar Territory, the Orenburg Region, the Perm Region, the Khanty-Mansiisk Autonomous Region, the Republic of Tyva, the Republic of Dagestan, Republic of North Osetia (Alania) and the Stavropol Territory. Unfortunately, not all the constituent entities stated above have passed the law on road funds (probably, such a delay in the legislative process takes place due to consideration of issues related to application of the legislation). However, as regard the regions which have passed the relevant law, the following can be stated. From 2012, the laws of the Stavropol Territory, the Khanty-Mansiisk Autonomous Region, the Voronezh Region and the Orenburg Region envisage centralization of transport tax revenues at the level of the regional budget and relevant transfer of such revenues to the road fund of the constituent entity. However, it is worth mentioning that the authorities of the Orenburg Region which have managed to introduce amendments to the law on road funds failed to envisage in the original version the transport tax as a source of formation of the road fund of the constituent entity¹.

At the same time, it is stated in the Budget Code of the Russian Federation that the volume of budget allocations of the road fund of the constituent entity of the Russian Federation is approved by the law of the constituent entity of the Russian Federation on the budget of the constituent entity of the Russian Federation in the next fiscal year (the next fiscal year and the planning period) in the amount of no less than the forecasted volume of such revenues of the budget of the constituent entity of the Russian Federation as are determined by the law of the constituent entity of the Russian Federation. Thus, if the unified norm as regards the transport tax is transferred to the budgets of municipal and urban districts the above source will cease to be the income of the regional budget, nor can it be utilized for formation of the road fund. At the same time, municipal entities have the right to establish their own road funds, including those at the expense of the transferred norm as regards the transport tax, however it is not their duty to do that. For instance, the Khabarovsk City Duma passed Resolution No. 459 of October 18, 2011 on Establishment of the Road Fund where the transport tax was stated as a source of income².

1 Law No. 252/42-V-OZ of June 28, 2011 of the Orenburg Region on The Road Fund of the Orenburg Region (as in force on September 22, 2011; No 424-101-V-OZ).

2 Resolution No.459 of October 18, 2011 on the Municipal Road Fund of the City of Khabarovsk, an Urban District.

Generally, the idea of establishment of road funds has both its advantages and disadvantages. The road funds will permit to increase spendings on maintenance and building of roads and that is an advantage. For instance, with the existing system of road funds in the 1992-2002 period 6,000 km to 7,000 km of roads were built annually, while at present only 2,000 km are built. In addition to the above, the unutilized resources of the road funds can be carried forward to the next fiscal year and used more evenly on the road building within a year. The main factors behind abolishment of road funds which existed before were numerous corruption scandals and evidence of inappropriate use by authorities of the constituent entity of the financial resources accumulated in those funds. However, the transformed system of budget financing has added up to the existing problems the practice of delayed financing of road projects. At the same time, it is to be noted that growth in expenditures on the road industry takes place at the expense of the total amount of revenues received by the regional budget and it will inevitably result in diversion of funds from other lines of activities envisaged by the budget. Considering the fact that tariffs on public utilities grow annually and social payments to people are adjusted according to index, an increase in expenditures on other lines of activities is required as well. Such a situation will result in growth in the total volume of expenditures of regional budgets and search for additional reserves for pumping up the budget with revenues that some regions lack. For instance, the authorities of the Republic of Khakasia have applied individual norms of withholdings as regards the sources of the formation of the road fund¹: a norm of 60% has been set in respect of revenues from such excises on motor gasoline, directly distilled gasoline, diesel fuel, and motor oil for diesel and carburetor (injector) engines manufactured in the Russian Federation as are subject to payment to the republican budget of the Republic of Khakasia, while the remaining 40% of revenues are credited to the regional budget and allocated on other spendings.

Establishment of road funds may have a serious effect on equation of consolidated budgets of constituent entities of the Russian Federation in 2012. In case of considerable redistribution of revenues to funds, regions will have either to reduce their spendings, or increase their debt, or wait for support from the federal budget. ●

¹ The Law No. 93-ZRKh of November 8, 2011 of the Republic of Khakasia on the Road Fund of the Republic of Khakasia.

THE REVIEW OF THE ECONOMIC LEGISLATION

I.Tolmacheva

In November, the following amendments were introduced into the legislation: the state academies of science were entrusted with the right to carry out on behalf of the Russian Federation the authorities of founders of state unitary enterprises and state institutions; objectives were specified and the composition of boards of trustees of higher education establishments were determined; at the legislative level the principle of territorial accessibility of education was approved; amendments aimed at upgrading of the mechanism of legal regulation of specialized institutions which carry out management of the specific capital were passed; both the minimum and maximum amount of the unemployment benefit was approved and the list of technically complex goods was expanded.

I. Federal Laws of the Russian Federation

1. FEDERAL LAW No. 291-FZ OF NOVEMBER 6, 2011 ON INTRODUCTION OF AMENDMENTS TO INDIVIDUAL STATUTORY ACTS OF THE RUSSIAN FEDERATION AS REGARDS ACTIVITIES OF STATE ACADEMIES OF SCIENCE AND ENTITIES WHICH ARE WITHIN THEIR JURISDICTION

The law is aimed at upgrading the legal regulation of activities of state academies of science and entities which are within their jurisdiction. Amendments were introduced into such federal laws as the Law on Non-Profit Institutions, the Law on Science and State Research Policy, the Law on State and Municipal Unitary Enterprises and the Law on Autonomous Institutions. The state academies of science are entrusted with the rights to manage their own activities and the authorities of founders of entities which are within their jurisdiction, as well as those of the owner in respect of the federal property assigned to them (the procedure for fulfillment of the above authorities will be set by the Government of the Russian Federation). Also, the functions of the Government of the Russian Federation will include approval both of the register of the federal property provided to the state academies of science and the list of institutions which are within their jurisdiction.

2. FEDERAL LAW No. 290-FZ OF NOVEMBER 6, 2011 ON INTRODUCTION OF AMENDMENTS TO ARTICLE 12 OF THE FEDERAL LAW ON HIGHER AND POST-GRADUATE OCCUPATIONAL EDUCATION AS REGARDS ACTIVITIES OF THE BOARDS OF TRUSTEES OF HIGHER OCCUPATIONAL EDUCATION ESTABLISHMENTS

It is determined that the board of trustees of the higher education establishment should contribute to solution of the current and long-term objectives of development of the higher education establishment and raising for that purpose of financial and material resources (such a provision was determined by the Law on the Higher and Post-Graduate Occupational Education and before that), as well as participate in development of educational programs in order to take into account the requirements of the interested employers to graduates. The board of trustees should include employees of the higher education establishment and those who study there and representatives of the founder, employers, executive authorities of the constituent entity of the Russian Federation, local government and such other entities as are determined in accordance with the charter of the higher educational establishment. The board of trustees must be established not only at federal universities as it was determined earlier, but also at all the higher education establishments with state accreditation.

3. FEDERAL LAW No. 310-FZ OF NOVEMBER 8, 2011 ON INTRODUCTION OF AMENDMENTS TO ARTICLE 16 AND ARTICLE 31 OF THE LAW OF THE RUSSIAN FEDERATION ON EDUCATION AS REGARDS SECURING OF TERRITORIAL ACCESSIBILITY OF MUNICIPAL EDUCATIONAL ESTABLISHMENTS

From January 2012, the amendments introduced to the Law of the Russian Federation on Education will become effective. Under the above amendments, in particular, municipal educational establishments which carry out the main general educational programs must ensure enrollment of people living in municipal areas and urban districts which are assigned to those municipal educational

establishments. Assignment of specific areas to specific educational establishments must be carried out by local government authorities.

4. FEDERAL LAW No. 328-FZ OF NOVEMBER 21, 2011 ON INTRODUCTION OF AMENDMENTS TO INDIVIDUAL STATUTORY ACTS OF THE RUSSIAN FEDERATION AS REGARDS FORMATION AND UTILIZATION OF THE SPECIFIC CAPITAL OF NON-PROFIT INSTITUTIONS

The law has been passed to upgrade the mechanism of legal regulation of activities of specialized institutions which carry out management of the specific capital. Amendments introduced to Federal Law No. 275-FZ of December 30, 2006 provide for formation (replenishment) of the specific capital of non-profit institutions not only by means of cash assets, but also through other assets, including real property and securities. A controversial issue has been resolved; now a non-profit institution – the owner of the specific capital – is permitted to carry out formation of the specific capital also through the interest received from depositing of such funds with credit institutions as were received for formation of the specific capital. Earlier, formation of the specific capital and utilization of income received from it could be carried out for the purpose of utilization in the sphere of education, science, health care, culture, physical culture and sports (except for professional sport), art, archival business and social assistance (support). The above list is now complemented with such activities as protection of the environment, rendering of free legal aid to people and promotion of legal education of people. The owner of the specific capital is now granted the right to utilize maximum 5% of the amount of donations received for formation and (or replenishment) of the specific capital for administrative and management purposes if it is provided for by the agreement on donation. Earlier, it was allowed to use for the above purposes maximum 15% of the amount of income received from trust management of the property which made up the specific capital or maximum 10% of the amount of the income received in the reporting year from the specific capital. It has been specified that non-profit institutions have the right to transfer the funds received for formation of one specific capital in trust management of only one management company, while a non-profit institution which has formed several specific capitals has the right to transfer them in trust management of one management company or several management companies. The period of transfer to the management company of additional donations for formation of the specific capital or replenishment of the already formed specific capital has been increased from 10 days to 30 days. The financing plan of the non-profit institution must be approved maximum within a month from the date of transfer of the property in trust management. The amendments provide for transfer by the specialized institution of income from the specific capital to the recipient of income from the specific capital on the basis of the individual agreement on donation concluded in accordance with the requirements of the civil legislation.

Also, other norms of the Law have been specified. With the above amendments taken into account, such amendments to the legislation on taxes and duties as provide for tax benefits in respect of transactions with such property have been introduced.

II. Resolution of the Government of the Russian Federation

1. Resolution No. 888 of November 3, 2011 on THE MINIMUM AND MAXIMUM AMOUNT OF THE UNEMPLOYMENT BENEFIT IN 2012/ In 2012, the minimum amount of the unemployment benefit will amount to Rb 850 a month, while the maximum one, to Rb 4,900 a month, that is to say, the minimum and maximum amounts of the unemployment benefit remained at the level set in 2011.

2. Resolution No. 924 of November 10, 2011 on APPROVAL OF THE LIST OF TECHNICALLY COMPLEX GOODS

The list of technically complex goods in respect of which consumers' requests to replace them are to be met if significant defects in such goods have been found has been expanded. The new list which was approved in accordance with Article 18 of the Law of the Russian Federation on Protection of the Consumers' Rights has been complemented among other things with the following goods: light jets, helicopters and flying machines with a combustion engine (an electric motor); navigation equipment and wireless communication equipment for residential use, including satellite communication equipment with a finger-touch screen which performs two or more functions; satellite TV equipment kit and television-game devices with a digital control unit; TV sets and projection devices with a digital control unit; digital photo and video cameras, camera lens and optical photo and motion-picture equipment with a digital control unit. ●

THE REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RF IN NOVEMBER 2011

M. Goldin

In November 2011, at the meetings of the Presidium of the Government of the Russian Federation the following issues were considered: amendments to the legislation in the sphere of the administrative control (supervision), amendments in the sphere of regulation of the tariffs on goods and services of entities of the public utilities complex and the proposal on entrusting the Minkomsvyaz of Russia with the authority of the main certifying center in respect of the accredited certifying centers.

On November 3, 2011, also considered at the meeting of the presidium of the Government of the Russian Federation was the draft federal law on Introduction of Amendments to Individual Statutory Acts of the Russian Federation as Regards the Issues of State Control (Supervision) and Municipal Supervision. The above draft law was introduced by the Ministry of Economic Development of the Russian Federation.

The draft law provides for such amendments to be introduced to individual provisions of the Law of the Russian Federation on the State Border of the Russian Federation and Federal Laws on Protection of the Environment; on Turnover of Agricultural Lands; on The General Principles of Organization of Local Government in the Russian Federation; on Lotteries and on the Skolkovo Innovation Center as eliminate inaccuracies in the identity of the types of the state control (supervision) and municipal control and specify the procedure for fulfillment thereof in respective spheres of activities.

In accordance with the draft law, such amendments are introduced into the Housing Code of the Russian Federation as will specify both the combination of mandatory requirements (established by the housing legislation and the legislation in the sphere of energy efficiency) which are the targets of the state housing supervision and the subject of examinations.

Also, the draft law specifies provisions which deal with the procedure for receipt by the executive authorities of the constituent entities of Russia which carry out state housing supervision of notifications of commencement by legal entities and individual entrepreneurs of activities related to management of apartment houses, rendering of services and (or) fulfillment of jobs related to maintenance and repair of the common facilities in apartment houses.

The draft law is expected to introduce such amendments to the Federal Law on Protection of the Rights of Individuals and Individual Entrepreneurs in Fulfillment of the State Control (Supervision) and Municipal Control as specify the composition of the state authorities to which economic agents submit notifications of commencement by them of individual types of activities.

On November 10, 2011, considered at the meeting of the Presidium of the Government of the Russian Federation was the draft federal law on Introduction of Amendments to Article 4 of the Federal Law on the Principles of Regulation of Tariffs of Entities of the Public Utilities Complex. **The draft federal law was introduced by the Federal Service on Tariffs in Russia.**

The draft law provides for elimination of the powers of the federal executive authority in the sphere of state regulation of tariffs and surcharges to determine the procedure for interaction between such executive authorities of constituent entities of the Russian Federation as carry out regulation of tariffs on goods and services of entities of the public utilities complex and local government authorities which carry out regulation of tariffs and surcharges of entities of the public utilities complex.

Also, the draft resolution of the Government of the Russian Federation on The Federal Executive Body Authorized in the Sphere of Use of Electronic Signature was considered. The draft resolution was introduced by the Ministry of Communications and the Mass Media of the Russian Federation (The Mincomsvyaz of Russia).

The relations in the sphere of use of electronic signatures in effecting of civil transactions, rendering of state and municipal services, fulfillment of state and municipal functions and carrying

out of other legally important activities are regulated by Federal Law No. 63-FZ of April 8, 2011 on Electronic Signature.

Article 8 of the Law on Electronic Signature has established that the authorized federal executive authority in the sphere of use of electronic signature is determined by the Government of the Russian Federation. The federal executive authority in the sphere of use of electronic signature carries out accreditation of the certifying centers, checks whether the accredited certifying centers comply with the requirements set by the law, passes resolutions on elimination by such centers of the revealed violations and performs functions of the main certifying center in respect of the accredited certifying centers.

In particular, the Ministry of Communications and the Mass Media of the Russian Federation has introduced a draft resolution which entrusts that government agency with the authority of the main certifying center in respect of the accredited certifying centers and amends the Statute on the Ministry approved by Resolution No. 418 of June 2, 2008 of the Government of the Russian Federation on the Ministry of Communications and the Mass Media of the Russian Federation. ●

AN OVERVIEW OF NORMATIVE DOCUMENTS OF TAXATION ISSUES FOR OCTOBER –NOVEMBER 2011

L.Anisimova

On the eve of the 2011 election the already severe problems with formation of Russia's revenue base had become even more acute. The second international conference on taxation issues held by the RF Federal Tax Service (FTS) on 21 November 2011 was attended by Russia's Prime Minister V. Putin. The creation of the Customs Union (CU) and the newly emerged opportunity for businesses to present themselves as tax residents of one of its three member states early this year strengthened capital outflow from Russia into Kazakhstan where the tax climate is more lax. In spite of the declared lowering of the rates of insurance contributions to state off-budget welfare funds in 2012 to 30% (coupled, however, with a simultaneous introduction of an additional 10% tariff for taxing the sums changed in excess of the marginal base per employee amounting to Rb 512 thousand), there was no reversal of the capital outflow trend – no capital inflow into Russia was observed¹. The social policy aimed at improving the ageing population's quality of life, in combination with the declared manifold increase in the budget funding of the power structures' (the army and police) and the ongoing flight of real taxpayers from Russia, landed the economic leadership of this country in the midst of a tricky situation and urged them to promise that every possible step would be taken in order to reduce the tax load on manufacturers.

1. The discussion at the conference held by the RF FTS² once again demonstrated that the approach to dealing with tax problems is still dominated by populist instead of pragmatic inclinations. Capital outflow from Russia resulted in revival of the most extremist proposals with regard to cardinal reforming of the existing taxation system. Once again it was suggested that, in the interests of reducing the tax burden, VAT should be replaced by sales tax. As far as this issue is concerned, we fully support the RF Ministry of Finance in its opinion that this replacement is not feasible. However, since that issue gave rise to some acute controversy at the conference, and the RF Ministry of Economic Development admitted that the possibility of introducing sales tax is now being seriously considered by this country's supreme economic structures as potentially acceptable measure, we believe it necessary to review this issue in more detail.

The purpose of a market tax system is to generate a stable revenue base for the State (in conditions of growth as well as in crisis) while complying with the principles of just distribution of the tax load among taxpayers and ensuring neutrality of the tax system towards different types of ownership and the juridical status of market participants. We believe that the replacement of VAT by sales tax will dramatically diminish the stability of Russia's revenue base and distort the economic relations between the regions.

This is how our viewpoint can be substantiated. VAT is a federal tax, and so it is transferred into the federal budget. From there, in the form of subsidies and subventions, financial resources are allocated to regional budgets, thus ensuring equalization of the incomes of citizens – in other

1 For data of the RF Central Bank, see S. Ignatiev, *Ottok kapitala ne poddaetsia otschetu* [Capital outflow cannot be counted], *Kommersant* No 217/II (4,758) of 21 November 2011. Over the period from January through October 2011, total capital outflow from Russia amounted to \$ 64 billion., or approximately Rb 2 trillion. It should be reminded that the forecasted revenue of the federal budget for the year 2011, in accordance with Federal Law of 13 December 2010, No 357-FZ amounts to Rb 11.1 trillion, and GDP for 2012 amounts to Rb 55.9 trillion.

2 Information on the conference can be found in the following articles: I. Naumov, *Nalogovyi administrator Vladimir Putin. Prem'er potreboval ot chinovnikov sovershenstvovat'sia, chtoby rossiiskii biznes ne ushel v Kazakhstan i Belorussiiu* [Tax administrator Vladimir Putin. The Prime Minister demanded that the officials improve their ways, so that Russian businesses would not move to Kazakhstan and Belorussia] (*Nezavisimaia gazeta* [The Independent Newspaper], electronic version of 22 November 2011); S. Kozlovskiy, *Spasut ot rosta. Rossiiskoe pravitel'stvo obeshchaet ne povyshat' nalogi* [They will save from growth. The Russian government promises not to raise taxes] (the newspaper *Lenta.ru*, electronic version of 22 November 2011); *Nalogovaia reforma idet na vtoroi krug. Zamena NDS n analog s prodazh vnov' v obsuzhdenii* [The tax reform starts its second round. The replacement of VAT by sales tax is once being discussed] (the newspaper *Kommersant*, electronic version of No 218 (4,759) of 22 November 2011), etc.

words, a single level of welfare across the entire RF territory, irrespective of the level of economic development of each region, climatic zone or availability of natural resources. The task of collecting VAT cannot be delegated to the level of regions even in part (such an attempt has already been done in the past and then abandoned). As a matter of fact, the taxable base (value added) may be formed across the territory of several regions, while the tax will actually be paid to the budget of that territory where the sale to the end retail consumer has been effectuated. If the product is exported outside the territory of the Russian Federation, the payer of the entire accumulated amount of VAT will also become either the budget of the region of the exporter's tax registration or the federal budget. In other words, VAT is a tax that can be collected exclusively in a centralized procedure and, due to the specific technology of its payment, makes it possible to keep in the federal budget a practically non-reducible residual throughout an entire year, because there takes place a continual replacement of sums paid by some taxpayers by the sums paid by other taxpayers up to the moment of the product's retail sale, after which the relevant VAT sum is finally paid to the budget. Such a scheme of ongoing replacement of tax amounts in the budget makes the tax administration procedure easy and cheap, because the information on tax liabilities is submitted to the tax system automatically from each successive seller of goods (or work, or services) who aspires, as a taxpayer, for a refund (or setoff) of incoming VAT from any part of the country. Consequently, within the framework of VAT it becomes very difficult to conceal unrecorded turnovers; this is a transparent tax that encompasses the entire market and is similar, in terms of tax load, for each market participant – be it a domestic producer or foreign seller. From the point of view of manufacturers, this tax involves permanent immobilization of a certain part of their resources. However, if a manufacturer's presence on the market is stable, those sums, once alienated, will subsequently have no influence on its economic motivation and activity; instead, that manufacturer will become strongly oriented towards reducing its stocks of finished products and accelerating material asset circulation. The pressure that is being exerted on the leaders of Russia's economic bloc so that they abolish VAT is, more likely, has external sources – in other words, it is generated by representatives of the governments of those countries that have no VAT and thus do not want their own manufacturers trading on the Russian market to replenish Russia's budget. In this connection we may only advise the leaders of those countries to keep their manufacturers on our market on a permanent basis in order to make VAT immobilization simultaneous.

Besides, it is specifically VAT – to a higher degree than customs duties – that is conducive (no matter how strange that may seem) to increasing genuine competitive capacity of domestic products and protects the real economic interests of domestic manufacturers. It should be remembered that the foreign products imported into the domestic market from those countries where VAT is not levied or its rate is lower than that in Russia are forced to compete while bearing an additional load in the form of VAT, whereas our products, when entering other markets, are freed from that load. VAT represents a fee to be paid for an entry on our internal market that our own manufacturers have already paid, while foreign manufacturers will yet have to pay it. In the 1990s, in conditions of hyperinflation, Russia managed to introduce VAT without any social upheavals. Many other countries cannot afford this measure because VAT is a tax levied on consumption, and for the population any fluctuations of its rate are fraught, first of all, with simultaneous growth of all consumer prices. Fluctuation of consumer prices can have destructive consequences for the governments of market states in terms of mass-scale social protests. VAT is the only tax that make it possible to automatically balance the state budget with real GDP – in face of either economic growth or hyperinflation. One may recall how, in the hyperinflation-ridden Russia of the 1990s, prices were rising at a rate of more than 1,000% per annum, while money in the state budget was, nevertheless, available in amounts sufficient for preventing famine and social explosion. This was achieved, among other things, due to a continual inflow to the treasury of VAT-generated revenue that was adequate to compensate for the pace of hyperinflation. The problems with VAT in present-day Russia have been created by poor tax administration, delayed refunds or setoffs of tax payments.

The replacement of VAT with sales tax in the current situation may, on the contrary, result in a collapse of the federal budget (from which, it should be reminded, the army, the navy, the transport systems and communications networks of all generations, and the biggest construction projects

including those in implemented preparations for the Olympic Games are all funded; besides, it is the source of the dotations allocated to the Federation's subjects in order to equalize the levels of welfare sufficiency for the populations of different regions and other necessary expenditures). The promise that the resources that will become available to the regions as a result of VAT abolition may, in actual reality, result in the country's disintegration and in criminalization of the economy. As noted earlier, added value will be created in the territories of different regions, while the tax levied on retail sales will be transferred only to the budgets of those regions where the relevant goods are being consumed. As a result, we may be faced with the problem of surrogate tax schemes being introduced in the territory of the regions constituting the Russian Federation (nobody would want to give up, without any compensation, the newly created value in the territory of a given region, so that it could be levied with sales tax for the benefit of another region's budget). Inevitably, there are going to emerge economic and administrative barriers that will prevent goods from being carried beyond the regions' boundaries. In fact, Russia has already experienced the phenomenon of economic separatism that could then be done away with only through spending substantial financial resources. Besides, in contrast to VAT, tax on retail sales will make it impossible to organize continual tax control over the entire industrial chain, thus giving rise to the emergence of the so-called unrecorded product that creates fertile ground for the development of a shadow market. It should be reminded that a shadow market is the one that exists in parallel to the official market, and so it does not comply with the established state laws and thus quickly redistributes in its own favor society's financial resources by trading in cheap (untaxed) goods. The danger of the shadow market is that many people receive payment for their work from the budget or in the legal sector of the national economy, and then spend it on the cheap goods purchased on the shadow market. As a result, no money is returned to the budget in the form of taxes, and so the government is forced to keep the printing press running, which in its turn results in inflation because the shadow market accumulates excess money, and then the shadow market begins to dictate the level of prices, thus forcing the State to speed up money emission. The predictable result of such a policy will be depreciation of the national currency. Besides, when the shadow market expands, non-compliance of the laws becomes the norm – in other words, the economy becomes criminalized. That is by means an unfamiliar phenomenon for Russia, either. The bottom line is that, in our opinion, it still will not be feasible to abolish VAT – all its deficiencies notwithstanding, because its significance for ensuring well-balanced state revenue and expenditure in terms of finances in any phase of the economic cycle cannot really be overestimated. Tax on retail sales will be incapable of providing solution to that problem. Sales tax is applied in those countries where the foundation of the tax system is provided by individual income tax, which allows the State to control all the aggregate sources of income and the structure of spending of each individual taxpayer. Such a scheme can work efficiently in a situation of very tough control coupled with high responsibility of non-payers, and so it is orientated towards collecting income directly at the source of payment, otherwise tax collection will become impossible. The transfer, by taxpayers, of their sources of incomes abroad implies a flight of businesses from a country, with is inevitably fraught with problems with the administration of incomes if such a system of taxation is applied. We believe that Russia's tax system has already become better adapted to the task of creating a stable revenue base for the State in the real conditions of present-day Russia. Since our principal tax is VAT, our taxpayers (domestic and foreign alike) in a way forward advance payments to the budget and so, in order to get back their VAT paid in advance, they must find a buyer for their products (or work, or services). The object of taxation is, in effect, absolutely the same as in the case of levying tax of individual incomes (profits of legal entities and wages and salaries of workers).

The standpoint of the RF Ministry of Finance voiced by the Minister at the RF FTS's conference with regard to the non-advisability of reforming the existing tax system, as well as its recommendations that additional resources should be sought by means of regrouping budget funds. We should like also to remind the reader that the mechanism (approved by the RF Government) for withdrawing into the budget, for purposes of modernizing the national economy, at the moment of carrying forward residuals to the next financial year of 50%, of the budget allocations that have not been used by a given taxpayer)¹ appears to be very responsible and timely.

1 Item 15 of the RF Government's Decree of 28 December 2010, No 1171.

2. Among the measures designed to prevent capital outflow that have been practically implemented in Russia in recent years we should point out the adoption of Federal Law of 16. November 2011, No 321-FZ 'On the Introduction of Alterations in the RF Tax Code in Connection with the Creation of a Consolidated Group of Taxpayers'. However, it must be noted that this Federal Law envisages a reduction in the amount of tax liabilities in regard of profit tax that will be effectuated, in fact, at the expense of the revenue sources of regional budgets, whereto 90% of the tax is currently transferred (while the overall rate of profit tax is 20%, in accordance with Article 284 of the RF TC the regions' revenues are generated by 18% of profits). Articles 25.1 and 25.3 of the RF TC recognize as a consolidated group a voluntary association of organizations each of which is an independent payer of profit tax, formed on the basis of an agreement without creating a legal entity for purposes of deducting the tax from their aggregate financial result. From among their number, the participants elect a responsible entity that will actually carry on the calculation and payment of the tax for the entire consolidated group. The group may encompass an unlimited number of organizations, the principal condition being that one of the organizations should directly and (or) indirectly participate in the charter (share) capital of the other organizations, and its share of participation in each organization should be no less than 90%. This requirement imposes considerable limitations on their opportunities for creating consolidated groups which, no doubt, will soften the consequences of consolidation for regional budgets. Another limitation imposed on the participation of an organization in a group is the requirement that the size of its net assets as of the date of creating the group should be no less than its charter capital. Yet another significant restriction on the creation of a consolidated group is the requirement that the aggregate amount of VAT and excises to be paid by the participants in a group less the amount of taxes paid on the transition of goods through the customs border of the Customs Union should be no less than Rb10bn, while the aggregate amount of proceeds and other incomes as of the latest reporting date prior to the submission of the application concerning the registration of the group should be no less than Rb 100bn, and the aggregate share of assets – no less than Rb 300bn.

The following entities cannot be participants in a consolidated group of taxpayers: 1) residents of special economic zones; organizations applying special tax regimes; 2) banks (insurance organizations, non-governmental pension funds, professional participants in the securities market), with the exception of an instance of creating a financial consolidated group where all the organizations constituting a given group are banks (insurance organizations, non-governmental pension funds, professional participants in the securities market); 3) participants in another consolidated group; 4) organizations which are not taxpayers or which pay profit tax at a zero rate, for example educational establishments and medical institutions; 5) payers of tax on gambling business; 6) clearing organizations.

Participation in a consolidated group also implies solidarity responsibility of its participants, including (when the money on accounts is insufficient) in the form of claims on property belonging to one or several participants in the group, as well as suspension of the participants' operations or imposition of arrest on their property..

The general scheme for calculating the tax base of a consolidated group is applied in such a way as if those participants, instead of being independent legal entities, were structural subdivisions. This means that to the transactions carried on inside a group the regimes established for the formation of reserves usually taken into consideration when calculating the tax base of an organization are not applied (the participants in a consolidated group do not create reserve against dubious debts in accordance with Article 266 of the RF TC in the part referring to indebtedness of some of the participants in a given group to other participants, or reserves against guarantee repairs and guarantee servicing of goods in accordance with Article 267; banks do not create reserve against potential losses relating to loans in accordance with Article 292, etc.). The proceeds from sales received by a consolidated group do not include proceeds from sale of goods (or work) by one participant to another participant within such a group. The tax base for operations with securities and financial instruments applied in the forward transactions carried out by the participants in a group which are professional participants in the financial market is also determined by means of consolidating their incomes and losses within the group's framework. The transfer of profit to the budgets of RF subjects is effectuated in the procedure

similar to that established for the payment of profit tax by an ordinary taxpayer (at the place of location of each of its structural subdivision).

Consolidation inside a group is allowed only in regard to the tax bases levied by the tax at a general profit tax rate. The taxes on incomes levied at other rates are paid by the group's participants separately. The consolidated tax base for a group of taxpayers is determined by the responsible participant as the arithmetic sum of incomes of all its participants less the arithmetic sum of their expenditures. A negative difference is recognized as a loss of the consolidated group of taxpayers.

The responsible participant of a consolidated group of taxpayers must submit tax declarations in regard of profit tax to the tax agency at the place of registration of the agreement of the creation of such a group (federal part), as well as to pay tax at the place of location of each participant and (or) of each of its structural subdivisions (regional part).

3. Tax exemptions are also envisaged by yet another Federal Law ('On the Introduction of Alterations in Some Legislative Acts of the Russian Federation in Connection with the Implementation of Measures of Government Support of Shipbuilding and Navigation') adopted on 7 November 2011, No 305-FZ. By that Law, alterations are introduced in a number of normative documents, including the RF Merchant Shipping Code, the RF Tax Code, and legislation on special economic zones. In this connection, taxes once again display a downward trend – largely due to declining revenues in regional budgets.

The range of exemptions granted to owners of vessels (carriers) is expanded with regard to incomes from exploitation and (or) sale of new vessels produced by Russian shipbuilding organizations after 1 January 2010. Exploitation of vessels is understood as their use for transportation of cargoes, passengers, luggage, towing, and provision of the aforesaid services and types of activity irrespective of the location of the point of departure and (or) point of destination, as well as their leasing out. It should be reminded that as far as other vessels are concerned, exemptions apply only to those cases when the points of departure and (or) destination are located outside of the RF territory.

The incomes of the crew members of ships registered under the RF flag are included in the list of personal incomes levies with tax at the general rate of 13% (previously these incomes could be qualified as incomes generated by sources located outside of the RF territory).

An exemption from tax on property is granted to those shipbuilding organizations that have the status of industrial-production special economic zone with regard to their equipment used for construction and repair of vessels (for a period of 10 years, as well as an exemption from land tax for the same period – with regard to buildings owned by them on the basis of a title to property or occupied by them and used for ship building or repairing.

Exemption from the payment of insurance contributions to state social off-budget funds is granted for the period 2012 – 2027 to insurers paying compensations and premiums to ship crew members (in the part relating to such payments).

There were also some technical errors. The introduction of alterations in the definition of the notion of a special economic zone (SEZ) in the text of the Federal Law on special economic zones led to some fundamental alterations in the applied tax schemes, bearing in mind that no such alterations were suggested or introduced in tax legislation.

While previously it was directly stipulated in Federal Law of 22 July 2005, No 116-FZ 'On Special Economic Zones in the Russian Federation' (Article 5, Item 1) that special economic zones (with the exception of port zones) could be created only on land plots that were state and (or) municipal property, by the alterations introduced in Federal Law No 305-FZ it is now allowed to create SEZ of any type, including on land plots owned by citizens and legal entities.

The RF TC envisages tax exemptions from the tax on property of organizations (for SEZ of any type in accordance with Chapter 30 of the RF TC, Article 381, Item 17), from land tax (for SEZ of any type in accordance with Chapter 31 of the RF TC, Article 395, Item 9) for a period of up to 5 years; the possibility to apply accelerated amortization with a coefficient of no more than 2 (for residents of industrial-production and tourist-recreational SEZ in accordance with Chapter 25 of the RF TC, Article 259.3, Item 2); and the possibility to lower the rate of profit tax in the part transferable to a regional budget to 6.5% (i.e., while the overall rate of profit tax is 20%, the resident of a SEZ is obliged to pay 13.5% of the incomes received from operations in the territory of

the SEZ). It should be noted that exemptions are granted by the RF Tax Code to residents of SEZ, and so these are not considered to be personal exemptions.

Tax exemptions for SEZ were introduced in order to promote development in their territories, but only in the form of special measures designed to develop federal and regional lands. In this sense, exemptions from the taxes transferable to the budgets of relevant regions represented, in fact, a form of additional budgetary funding. However, once physical persons and organizations are allowed to become co-founders of a SEZ, the situation becomes fundamentally different. The authors of the amendments to legislation on SEZ evidently decided to resort to this simple solution in order to free the founders of private SEZ from tax on property and land tax. But in accordance with the RF Tax Code, tax exemptions are granted to residents of SEZ. The founders of private SEZ will probably have to be equaled in their rights to SEZ residents in the framework of court rulings. In this connection there will arise an unjustified disproportion in the levels of their tax loads, because there exists no economic substantiation as to why, among the founders of SEZ, an exemption from tax on property must be granted only to organizations and not to physical persons. This imbalance is obviously the consequence of lack of proper professional grounding for the alterations introduced in one branch of legislation, without any consideration for its influence on all the other branches of law, in particular tax law (tax on property of organizations is regulated by the RF Tax Code, while tax on personal property is regulated by the RF Federal Law of 8 December 1991, No 2003-1).

4. By Federal Law of 21 November 2011, No 330-FZ alterations are introduced to the RF Tax Code with regard to the payment of personal income tax (PIT).

Among the measures designed to increase the revenues of local budgets we must certainly note the taxation imposed on the so-called 'golden parachutes' for CEOs and head accountants of organization. Now, PIT will be levied on the employment termination payments paid to these individuals in excess of their 3-fold average monthly salary (for organizations located in the Far North – in excess of their 6-fold average monthly salary).

For the other part, the newly introduced Law has once again reduced the tax load on taxpayers at the expense of local budget revenue.

Much attention is paid to the description of the procedure for the formation of incomes and expenditures relating to REPO operations carried on by physical persons. The date for recognizing incomes and expenditures relating to a REPO operation with regard to securities, interest on those securities, and the income from REPO operations with coupon securities is now determined more precisely. In this connection, the RF Tax Code's text has been augmented by a directly stipulated norm to the effect that the aforesaid rules should be applied to a taxpayer's REPO operations concluded at its expense by commissioners, attorneys, agents, asset managers (including those concluded through a trader on the securities market and on a stock exchange) on the basis of contracts and agreements concluded in accordance with the existing civil law. In other words, the organizations dealing in securities owned by physical persons can now rely on a detailed regulation that determines the technology of calculating the taxable income derived from such transactions by their clients – physical persons.

In this connection it should be noted that the lawmakers, when adopting the thin capitalization rule for REPO operations with regard to PIT collection, instead of a reference to the corresponding paragraphs of Item 1.1 of Article 269 of the RF Tax Code whereby the adjustment coefficient that should be applied to the sums of interest to be charged to costs for the purpose of levying tax on profit (the general regime and the temporary regime – up to the end of the year 2012), introduced for this purpose, on a permanent basis, adjustment coefficients corresponding to the regime established for profit tax: 1.8 of the RF Central Bank's rate of refinancing for the interest on ruble-denominated loans and 0.8 of the RF Central Bank's rate of refinancing for the interest on loans denominated in foreign currencies. Once the temporary regime for profit tax is abolished, the level of the tax load with regard to these transactions will become different for investor organizations and for physical persons without any economic substantiation for such a difference, which means that the tax load will once again be unreasonably deformed.

By the alterations introduced in the RF Tax Code, an additional tax exemption is granted to pensioners. In instances when, over an entire tax period, they do not receive any incomes taxable

at the general rate of 13%, the tax deductions arising during that period may be carried backward for purposes of reducing the taxable incomes received over previous tax periods (but no more than 3 preceding years).

No taxation is now levied on the inherited sum of the funded component of labor pension accumulated in non-state pension funds).

The amount of monthly deduction from the tax base for the third and each successive child has been increased – to Rb 3,000. The tax deduction is granted to parents, a parent's spouse, adoptive parents, guardians, trustees, foster parents, and a foster parent's spouse on the basis of their written applications. (If a parent, guardian, adoptive parent cares for a child alone, the sum of tax deduction is doubled). The tax deduction is applied until the month for which the income of a taxpayer taxable at the rate of 13% and accumulated since the beginning of a given tax period exceeds the threshold of Rb 280,000. From that month (during which the accumulative income exceeds Rb 280,000) onwards the tax deduction is no longer applied.

Tax amnesty is declared with regard to tax arrears of physical persons and fines and penalties in arrears owed by physical persons as of 1 January 2009 (with the exception of arrears relating to entrepreneurial activity).

For purposes of levying profit tax, it is allowed to charge to costs (thus reducing the tax base) the expenditures on standardization (of the standards have been approved as national standards or registered as regional standards at the Federal Information Fund of Technical Regulations and Standards).

5. The administrative measures of enforcement that do not belong to the domain of tax relations, are a rather complex economic phenomenon. In contrast to other types of mandatory payments that represent redistribution of newly created value among society's members by means of applying predominantly tax schemes, fines have other purposes – those of distinguishing permitted activity from forbidden activity. As demonstrated by actual practice, administrative levers alone are not sufficient for preventing undesirable activity. The anti-corruption nature of administrative measures is ensured by high fines. A fine is a money equivalent of a mechanism of administrative restrictions. The State established an administrative barrier, the violation of which is estimated as an equivalent of a certain sum of money.

However, the right to impose restrictions is fraught with the temptation to turn that right into a source of additional income. It is especially difficult to make a distinction between permitted and forbidden entrepreneurial activities. We believe that market activities should be allowed only in those instances when a given type of activity does not result in destruction of human environment, ecosystems, etc. An artificial restriction on the area of a market activity can be imposed only with society's consent, as happens, for example, in the case of restricting the hunting for rare and valuable animal and plant species, extraction and (or) use of natural resources. The threshold (the size of fine) must be the same for similar violations.

Regretfully, in real life a fine as a form of administrative restriction on free entrepreneurial activity often becomes a source of supplementary income for state authorities and local governments, because so far no principles for establishing financial administrative barriers have been officially formulated. If administrative barriers are imposed without due regard for the requirements necessary for the functioning of a competitive market, they become a tool for excessive forcible seizures of resources, and so have a destructive effect on the competitive potential in the territory where relevant businesses are operating.

We are touching upon that issue because Russia, it seems, still lacks a uniform economic policy for imposing administrative monetary fines, which gives rise to unjustified disproportions in fines imposed for the same violations committed by different market subjects.

Here is one example. On 6 November 2011, by Federal Law No 296-FZ, alterations were introduced in Article 12.21.1 of the RF Code of Administrative Violations and Article 35 of the Federal Law 'Statute of Motor Transport and Urban Surface Electric Transport'. Previously, it was established by the RF Code of Administrative Violations, that one type of fines was to be imposed in regard to shipment of bulky and heavy, as well as dangerous cargoes. Fines were established for drivers (1.5 – 2.5 thousand Rb), officials responsible for shipments (up to 20 thousand Rb), and organizations

(from 250 thousand to 500 thousand Rb). By the new Law, a new fine of up to 400 thousand Rb is introduced in regard of legal entities for submitting unreliable information on the weight and size of cargoes, the amount of which is established at the same level as the fine for committing the actual shipment operations involving bulky or heavy cargoes. In effect, the State simply doubles the amount of fine by introducing an additional fine of a similar size not for the fact of cargo carriage itself, but for the distortion of relevant information by its consignor. In this connection it becomes unclear why the punishment for one and the same violation – distortion of information on the shipped cargo – is estimated differently for different subjects (for comparison: for a physical person the amount of fine is Rb 5,000, while for an individual entrepreneur it can be up to Rb 15,000). At the same time, no fine at all is envisaged for submitting unreliable information on a dangerous cargo. It is evident that the purpose of imposing a fine for submitting unreliable information on a cargo's weight has been that of creating an additional source of income for road repair. ●