Russia In 2002: The Next Reform Phases

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- **The Russian economic reform program remains on track. Balanced growth and the international political realignment catalyzed by the events of September 11 provide a supportive backdrop for the next phase of reforms. While reform "indigestion" may be an issue at times during this year, a critical mass of reforms should continue to move forward – including the initiation of financial system reforms.**
- **The pursuit of WTO membership and further integration with the EU will underline Russia's ambition to deepen global economic integration, and act as a powerful restructuring signal to domestic business. Civil service and army reforms could also benefit from a closer Russian association and integration with Western security structures such as NATO.**
- **With a strong budget, policy flexibility and high investment in energy sectors, the economy can withstand a period of low-to-moderate oil prices. Volatile commodity prices also could provide momentum to efforts at budget expenditure restructuring.**
- **Macroeconomic policy will aim for continued budget surpluses, a gradual decline in inflation, and continued (though reduced) current account surpluses. Exchange rate policy will allow the rouble to adjust to changing external conditions, while structural reforms will focus on the vital pillars of the underlying institutional infrastructure.**
- **Economic growth will consolidate - but the Russian economy may well prove more resilient than generally believed. Specifically, corporate sector changes may be underestimated, and the current virtuous reforms-growth-expectations cycle is more powerful than often thought.**

Embarking On The Next Reform Phases

This note outlines the main economic, strategic and political issues facing Russia in 2002. The key characteristic of Russia's strategic situation is the coming together of a changing external economic environment and an accelerated transformation of Russia's international politics. Economic reforms are also entering a stage when focus, on the one hand, will be on implementation of previously approved reforms, and on the other hand, on pursuing the approval of a set of further structural and institutional reforms, many in the area of global economic integration. Our main message on Russia is that above aspects could be seen as mutually reinforcing, and this could very well have a profound and positive impact on the progress of reforms, and thus on the medium-term prospects of sustainable growth. A failure to respond to the mix of new challenges in an appropriate way, however, would be a cause for

concern, and highlight some question marks. In this sense, 2002 is no less important for Russia's reforms than 2000 or 2001.

Economic reforms – the key issues in 2002

A combination of changing external economic conditions, a transformation of Russia's international politics, and the next phases of economic reforms.

In 2002, economic reforms enter a stage where attention will be on areas such as the pursuit of WTO-related reforms, the drafting and initiation of administrative/bureaucracy reforms and army reforms, implementation of corporate governance-related reforms and legal reforms approved last year, the pursuit of further natural monopoly reforms, as well as the initiation of pension reforms and financial system reforms. All of this is combined in a year which is also the last full election-free year before the next election cycle begins in 2003[1].

Pursuing reforms on "two fronts" – implementation of already approved measures, and approval of new reforms.

There are two sides to the 2002 economic reform phase. On the one hand, it will involve the drafting and approval of a number of vital institutional/structural reforms, and on the other hand, it will involve the initiation of detailed implementation of reforms approved over the last year. This second aspect is vital, and is recognized as such by the government. On January 29, Prime Minister Kasyanov declared the main task for the government in 2002 is the implementation of already approved reforms - to avoid the reform process from slowing down. The further Russia embarks on its ambitious strategy, the more notable this reform pursuit on "two fronts" will be – the continued approval of the next reforms and implementing already approved reforms. In this context, it has to be noted that, quite likely, the approval of Russian structural reforms over the last year-and-a-half is unprecedented among transition economies, in terms of the number and complexity of reforms approved within such a short time period. The table below (Figure 1) summarizes overall themes of the 2002 reform agenda. To the latter category, those reforms where implementation is to begin this year, we can mention in particular the "second" wave of tax reforms (lower corporate profit tax of 24%), a new Labor Code, the initiation of pension reforms, the coming into effect of a number of corporate governance-related legal changes, legal and judicial reforms and the ongoing implementation of natural monopoly reforms.

The 2002 reform agenda – the overall themes.

Reviewing overall themes on the 2002 reform agenda, it is clear we are likely to see progress in a number of vital institutional and structural areas[2]. Notably, financial system reforms are likely to be initiated more seriously during 2002. This follows a debate among policy makers and leading economists as to the nature of Russia's growth recovery, and the concern that if financial system reforms are not initiated, over time an industrial structure often labeled "chaebolization", or large vertically-integrated structures, will take hold and ossify. Partly for the same reasons, WTO-related reforms are seen as vital competition-enhancing reforms.

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[1] Vladimir Mau, Ekonomiko-politicheskie itogi 2001 goda I perspektivy konsolidatsii ekonomicheskovo rosta, mimeo, 2002. D. Trenin, Osenny marafon Vladimira Putina – k rozhdeniyu rossiiskoi vneshnepoliticheskoi strategii, Carnegie 2001. O. Antonenko, Putin's Gamble, Survival, IISS, Winter 2001-2002.

[2] For a discussion of the administrative/bureaucracy reforms, see the seminar report *Ot sluzheniya gosudarstvy k obsluzhivaniyu obshestva*, Fond Liberalnaya missiya, January 2002. For an analysis and discussion of potential army reforms, see *Otvet na novye globalnye vysovy – professionalnaya voennaya organizatsiya Rossii*, IET, January 2001.

Figure 1. Russia: The Reform Agenda 2002 – The Main Themes

Area	Comment
Pension reforms	Full approval of the "second wave" of pension reforms, primarily the law on investing pension assets. This law was approved in a first reading on December 21. Amendments for the second reading are due mid-February. Indications are the Ministry for Economic Development an Trade has drafted and will submit market-positive amendments, which would clarify and facilitate the role of private pension funds. A first-quarter approval of this vital pension reform law is possible. In practice, investing of pension assets (initially by the Ministry of Finance and the state Pension Fund) may start later this year and during 2003, a period during which such investments would mostly be in OFZs and Russian Federation Eurobonds. From January 1, 2004, the plan is to allow in private pension funds.
Law on agricultural land/land reforms	A reform of major importance, which is seen as an indicator of 2002 Duma-government cooperation. This law, outlining the rules and regulations for the market for agricultural land, is controversial, and there are some 7 different versions at the moment. This law is the follow-up law to the new Land Code approved last year, and which deals with non-agricultural land.
Corporate governance/capital market reforms	Including amendments to the law on securities markets in a third reading, amendments to the law on joint-stock companies, amendments to the Criminal Code in a third reading, amendments to the law on the protection of investors' rights in a second and third reading. Furthermore, the final version of the new Code of Corporate Governance will be ready by March, and a number of capital market-related initiatives will be pursued, including the full approval of laws for a mortgage securities market and a CP market, and further developments of the rouble corporate bond market. Also, by March a special program for developing the insurance market will be concluded, after having preliminary been discussed by the Ministry of Finance in February.
Natural monopoly reforms/municipal services reforms	Several legislative initiatives, in the fields of energy and transport, are targeted to be approved during the spring Duma session. These initiatives are all enabling legislation for the implementation of natural monopoly reforms approved so far, notably for UES and the Railways Ministry. In particular, a new law on energy is to be approved, as is a new law on railways transport. Gazprom reforms will remain gradual, with the main focus over the first half of 2002 on further transparency and management issues, with a gas sector reform program to be concluded only later this year. In addition, the process of reforming Russia's municipal services sector has been initiated, an area linked with budget expenditure reforms. Gradually, the government will cease subsidization of municipal services companies, as households will gradually pay more for these services. At the same time, the idea is to promote a competitive base for entities in the municipal services sector.
Administrative reforms	A draft program for reforming Russia's vast civil service is concluded, with the Kremlin to shortly decide on the next steps. However, this is a huge task, and implementation will be multi-annual and gradual. Nevertheless, several other parts of the structural reform agenda will have a natural "de-bureaucratization" impact on the civil service, such as the de-regulatory and army reforms.
Army reforms	An area outlined as a priority by President Putin early in his presidency, this is likely to gather momentum this year, at least in terms of moving towards a comprehensive strategy. This is partly because of the changing global geopolitics, and partly because of the attention on budget expenditure restructuring in economic policy. This area will also include the drafting of reform programs for the military-industrial sector (VPK), seeking to rationalize, de-bureaucratize and raise efficiency in this sector.
Legal-judicial reforms	Following the approval of the "first" package of legal and judicial reforms last year, a "second" wave will be pursued this year. As previously, these reforms will be led by Dmitri Kozak, Deputy Chief of Staff of the Presidential Administration.
WTO-related reforms	Full approval of a new Customs Code, as well as laws on standardization and certification. The first draft of the Accession Protocol is expected to be ready by mid-March 2002 already, and Russia could be in a position for full membership by spring-summer 2003.
De-bureaucratization reforms	Following the "first" wave approved in 2001, the government expects to move further in this area this year, with a "second" wave of de-regulatory reforms. Some of these initiatives are also related to WTO reforms. Russian authorities are generally signaling a commitment to continue the process of decreasing administrative barriers to business, and to enhance predictability for business, including that of tax rates.
New Law on Bankruptcy	Submitted in January 2002, and one of the main government priorities. This law will modernize the bankruptcy procedures and make them more efficient and less susceptible to misuse.
Law on currency market regulation	The need for clearer and more transparent acurrency market regulations have been stated several times by leading policy-makers, and a draft law to this effect could be submitted to the Duma this year (under the auspices of German Gref's Ministry for Economic Development and Trade). Such steps would be part of a gradual liberalization of the currency regime.
Tax reforms	In 2002, a "third" wave of tax reforms will be pursued. These could include VAT reforms (the Duma might consider an initiative to lower VAT in the first half of 2002, from 20% to 16-17%), reforms of small business taxation, and lowering the unified social taxation (possibly as of January 1, 2003). Other tax reform initiatives to be expected include reforms of tariff rules and trade tariffs, and concluding the overhaul of PSA taxation rules. The reform of the tariff rules will prevent ministries and government bureaucracy from unchecked, unilateral increases in tariffs (thus bringing predictability into this system), and reforms of trade tariffs will legislate the tariff rate for all categories, also a step enhancing predictability for business.
Financial system reforms	In the last days of 2001, the final draft of a financial system reform framework strategy was approved and signed by the Prime Minister and the CBR Governor. This document is accompanied by a detailed action plan. It is likely implementation of this action plan will be initiated during 2002, mainly involving the approval of a number of legislative initiatives. Such measures include a deposit insurance law, amendments to the law on securities markets in order to enable the CBR to issue CBR bills, and the approval of the much-talked about amendments to the law on the Central Bank.

Source: SSSB, the Russian government, the Ministry for Economic Development and Trade, the Ministry of Finance

Financial/banking system reforms – the approved action plan.

Financial system reforms are to be initiated through a combination of legislative and policy steps, such as a new law on deposit insurance and other measures, all part of the recently approved financial system reform program[3]. This reform program includes the drafting and approval of some 9 new laws, and the amendment to about 13 existing legislative areas. The specific implementation plan of this financial/banking system reform program, is outlined in the table below. In addition, the term of the current Central Bank Governor expires in September, and expectations are for a regeneration of the CBR leadership[4]. It is likely that while the legislative framework for financial system reforms will be put in place this year, much of the practical implementation will be pursued under a new Central Bank Governor, after September. Furthermore, at least a partial privatization of government/CBR-dominated banks will start in 2002. Apart from possibly the EBRD taking up a stake in Vneshtorgbank, Russia's second largest bank, the government is likely to in the 2002 privatization program outline a decision to exit from most of the some 400 banks where the government currently holds stakes. Also, natural monopoly reforms will remain a priority with the government pushing yet further for reforms of the corporate entities in these sectors, an ambition also linked to budget expenditure reforms (see more on this further below)[5].

Figure 2. Russia: The Financial/Banking System Reforms – The Action Plan For 2002

Key reform measures
Amendments to the Civil Code and to the law on bankruptcy, to enhance the protection of creditors
A new law on deposit insurance
Prepare new law on currency regulation and currency control
Prepare for the transition to international accounting standards (to happen gradually in the period to 2004)
Draft proposal regarding the future of the government's participation in the capital of specific financial institutions
Prepare new law on accounting, based on international accounting standards
Prepare new law on the exit of the Central Bank from the capital of Vneshtorgbank
Prepare proposals for changes to the Tax Code, taking into account international accounting standards (by the fourth quarter, 2002)
Prepare amendments to the law on the Central Bank and to the law on banks and banking activity, in order to create a normative framework for banking groups
Prepare new law on abolishing the tax on purchase of foreign currencies, and on abolishing the tax on securities operations
Prepare a package of measures to support the expanded presence of foreign banks in Russia
Prepare amendments to the law on bankruptcy of financial institutions
Additional measures
Conclude the process of bank restructuring under the auspices of ARKO (expected by 2003)
Conclude the preparation of normative acts necessary to implement the new law on combating illegally acquired capital
Prepare amendments to the law on banks and banking activity, to tighten the rules for presenting information on the real owners of financial institutions
Prepare amendments to the law on the protection of competition in financial services, in order to develop and strengthen the legal basis for banking services.
Prepare amendments to existing legislation to pave the way for creating a corporate liquidator of financial institutions
Prepare amendments to the law on the Central Bank, outlining the possibility for the CBR to exchange information with regulatory organizations of foreign countries

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[3] For a full discussion of Russian banking system reform challenges and issues, see especially *Bankovskaya sistema Rossii: puti reformirovaniya*, Fond Liberalnaya missiya, November 2001. An excellent analysis of the Russian banking system especially in the period after 1998, is found in M. Dmitriev and S. Vasiliev (eds.), *Krizis 1998 goda I vosstanovlenie bankovskoy sistemy*, Carnegie, 2001. The banking reform strategy, and the implementation action plan in the table, was formally approved by the government and the Central Bank on December 30, 2001 (see *Strategiya razvitiya bankovskovo sektora Rossiiskoi Federatsii,* the Russian government).

[4] President Putin is expected to nominate a new Central Bank Governor by June 20.

[5] For a recent analysis of some of the issues involved in natural monopoly reforms, see A. Illarionov, *Politika regulirovaniya tarifov (tsen) ha produktsiyo (uslugi) estestvennykh monopoly*, mimeo, January 2002.

Prepare a new law to create a credit bureau
Prepare amendments to the law on banks and banking activity, to abolish restrictions of issuance of bonds by financial institutions
Prepare new law to regulate the issuance and circulation of mortgage securities
Prepare the new laws on transfer of cash funds, and on electronic documents
Enlarge the list of liquid assets, allowed to be used as security for CBR refinancing
Prepare amendments to the law on the Central Bank and to CBR normative acts, in order to improve the system of obligatory norms
Approve decision that financial institutions need to be formed as a credit organization in accordance with Russian Federation legislation in order to carry out banking operations
Take measures to enhance the control of the Supervisory Council over the commercial activities of Sberbank
Amend CBR normative acts in order to improve the procedure to increase the charter capital of financial institutions
Draft and approve ethical principles of banking activities (a Code)

Source: Pervoocherednye meropriyatiya realizatsii polozhenii Strategii razvitiya bankovskovo sectora Rossiiskoi Federatsii, The Ministry of Finance.

The ambitious 2002 legislative agenda.

The reform agenda for the full year 2002 is indeed no less ambitious than in previous years. Only in the first quarter, the cabinet is scheduled to deal with some 37 major themes in the main government meetings. Of particular importance for the near-term policy framework is the updating of the 2002-2004 macroeconmic action plan, approved by the government on January 29, and to be reported to President Putin by February 15. The main purpose of the early year focus on updating and amending the macroeconomic menu of policy actions is the government's declared wish to demonstrate flexibility in the face of changing global economic conditions and the wish to maintain macroeconomic stability (see more on this below). The table below (Figure 2) outlines some (selected) specific road posts of the updated policy action plan, all part of the overall themes discussed above.

Figure 3. Russia: Government Action Plan For Legislative Initiatives, 2002 (selected measures and time table)

March 2002	**Tax reforms**: submit to the Duma an initiative for a unified property tax.
	Natural monopoly reforms: approve amended energy sector strategy up to 2010
April 2002	**Social sector reforms**
May 2002	**De-bureaucratization reforms**
	Debt management reforms: conclude/approve the debt management system reform program
	Currency regime reforms: conclude a new law on currency regulation
June 2002	**WTO-related reforms/de-bureaucratization reforms**: conclude the concept of reforming Russia's standardization regime and converge to WTO norms
	Banking reforms: new law on deposit insurance
July 2002	**Land reforms**: conclude the law on agricultural land
	Banking reforms: submit changes to the law on securities markets, abolishing restrictiions on the issuance of CBR bills
	Social sector reforms: submit law on obligatory medical-social insurance
August 2002	**Currency regime reforms**: submit law to abolish the tax on hard currency purchases
September 2002	**Social sector reforms**: conclude draft of system for some means-tested transfers
December 2002	**Natural monopoly reforms**: conclude the drafting of a gas sector reform program
	Debt management reforms: conclude a full inventory review of the government's total liabilities

Source: The Russian government, SSSB

Duma-government interaction – the importance of the "zero reading".

The busy legislative agenda will be felt in the Duma already short-term, with nearly 30 legal initiatives heard in Duma readings in January, and some 126 legal initiatives in February. During the full spring Duma session (January-June) more than 500 legal initiatives are due to be handled, a third of which are first priority government initiatives. Given the above mentioned "two front" reform phase in 2002, it will be especially important for the government to seek smoother and enhanced ways of legislative procedures. This is a declared priority of the Kremlin. It means there will be a focus on the so-called " reading zero", i.e. a coordination between the executive branch, the Duma and the Federation Council *before* readings start. In relation to this, President Putin made clear in a series of meetings with senior parliamentarians and with Prime Minister Kasyanov in the second half of January, that he would continue to sponsor and prioritize the ongoing pursuit of reforms. The idea is to avoid having to push through a large number of reforms at the end of the Duma spring session in May/June, and rather spread out the initiatives throughout the spring session. This is especially important as much of the autumn will be taken up by work on the 2003 budget.

The interaction between economic policy and Russia's international politics

A re-orientation of international politics has been initiated.

Following the attacks on the US last year, President Putin has initiated a conscious re-orientation of Russia's foreign policy[6]**. Indications, so far, are that this is the beginning of a substantial, and politically sustainable, transformation**. Specifically, it is helpful to analytically view this re-orientation of international politics as largely an instrument to push the domestic reform agenda. By the same token, the ultimate success or failure of these changes will depend on the outcome of Russia's ambitious domestic modernization and growth project[7]. Some of the external manifestations of these recent developments include a movement towards closer association and integration into NATO structures, as well as with EU structures. The deepening and evolution of Russia's NATO relations may take firmer shape at a May top-level NATO meeting to discuss this issue, and in connection with the November NATO summit, where the next NATO enlargement may be announced[8].

Russia and deeper integration with the EU and a common European economic space – an emerging reality.

There are also signs Russian policy-makers are seriously considering the integrative aspects of outlining the EU's economic-institutional set-up as a long-term benchmark[9]. In short, a conscious Russian political choice of EU convergence, or adaptation, as a long-term institutional benchmark is an emerging reality to be reckoned with[10]. In practice, this implies an effort by Russian

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[6] For a full analysis, see D. Trenin, *Osenny marafon Vladimira Putina – k rozhdeniyu rossiiskoi vneshnepoliticheskoi strategii*, Carnegie 2001, and O. Antonenko, *Putin's Gamble*, Survival, IISS, Winter 2001-2002. See also L. Shevtsova, *Mezhdy stabilizatsiyei I proryvom: promezhutochnye itogi pravleniya Vladimira Putina*, The Carnegie Moscow Centre, Briefing, January 2002, for a skeptical view which nevertheless points out the potential for further transformation.

[7] This point has forcefully been made by Dmitri Trenin, Deputy Director of the Carnegie Institute in Moscow. A similar analysis is also made by Igor Bunin, General Director of the Centre for Political Technologies in Moscow.

[8] On the agenda for the May meeting is how to move forward in deepening the NATO-Russia relations, maybe within the context of a substantive new NATO-Russia Council. Lord Robertson, General Secretary of NATO, has in an article as recently as February 1 emphasized the fundamentally strategic importance of a closer connection between NATO and Russia (*Financial Times*, February 1, 2002).

[9] This has, in fact, been evident in much of President Putin's declarations since the very first days of assuming office in the Kremlin. In a typical example, when in July last year asked about the significance of St. Petersburg's 300-year anniversary in 2003, President Putin emphasized this would be an all-Russian anniversary, because the it could be seen as the anniversary of the 300-year "unification of Russia with Europe as a whole". This is, in the Russian context, a clear historical-political marker. See in particular Vladimir Mau, *Ekonomiko-politicheskie itogi 2001 goda I perspektivy konsolidatsii ekonomicheskovo rosta*, mimeo, 2002 and D. Trenin, *Osenny marafon Vladimira Putina – k rozhdeniyu rossiiskoi vneshnepoliticheskoi strategii*, Carnegie 2001.

[10] For an excellent background analysis of the political and foreign policy aspects of such a "European choice" by Russia, see D. Trenin, *End of Eurasia: Russia On The Border Between Geopolitics And Globalization*, Carnegie, 2001. President Putin might include the theme of Russia's "European choice" in the approaching annual address to the nation (to the collected houses of parliament), to be given around the end of March. For a comment on this, see I.

authorities to outline and clearly express the ambition to institutionally converge and adapt with the EU, through the domestic structural and institutional reform process already underway. While one is not talking about declaring some sort of near-term EU membership ambition, it could be seen as part of attempts to bring real substance to the idea of a "common European economic space"[11]. While such developments obviously would be powerful external signals, they are foremost, at this stage, an instrument to push the domestic reform agenda[12].

Watch the May Russia-EU summit in Moscow.

While these ideas may seem far-fetched to some, we stress these discussions are emerging political realities, and should be very positively greeted if taking on a firmer shape. This may happen later this spring. On May 28, there will be a top-level Russia-EU summit in Moscow, and this could be one road post in the process of re-crafting and deepening of Russia-EU relations on various fronts. Under the current chairmanship of Spain, the EU and Russia has outlined the following priorities over the next six months: *first of all – active work on realising the concept of a "unified European economic space" for Russia and the EU, based on institutional and legal harmonization.* In perspective, this is nothing less than the accelerated integration of Russia into EU-connected economic spheres and structures, and a long-term ambition of *de facto* economic membership of the EU. Then comes energy issues, WTO membership and the EU's role in that, the euro's role in Russia, the fight against international terrorism, and – importantly - Kaliningrad. Another issue could Russian membership in the OECD.

Several areas for deepening Russia-EU integration.

There are thus several arenas for intensifying and introducing real substance into Russia-EU relations, such as the economic issues mentioned (trade, investments, integration) and security issues. With the EU approaching a first-wave enlargement into Eastern Europe in perhaps only a couple of years, Kaliningrad is another such arena. Recall Kaliningrad is a Russian exclave, which could be situated right between two future EU members – Poland and Lithuania. This region will then provide a real-life platform for various Russia-EU integration experiments and initiatives[13].

The WTO process and closer EU relations – a powerful integration boost.

Taking into account the WTO process and above mentioned EU issues, all of this could amount to a significant pick-up in Russia's formal integration in these structures. The acceleration is striking when considering that the first meeting of the Working Group on Russia's WTO membership was held in July 1995. Now, Russia is possibly heading towards membership by spring-summer 2003, with the first draft of the accession protocol expected to be ready in mid-March 2002. The

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Bunin, *Skvoznoi temoi putinskovo poslaniya dolzhna stat realizatsiya na praktike evropeiskovo vybora Rossii*, mimeo, February 2002.

[11] See, e.g., the recent report on this issue in I. Samson, *Establishment Of A Common European Economic Area As A Factor Of Russia's Sustainable Growth*, Russian-European Centre For Economic Policy, January 2002.

[12] See Urpo Kivikari, *Rasshirenie evropeiskovo soyuza I Rossiya – situatsiya vsaimnoi vygody*, December 2000, Russian-European Centre For Economic Policy, and D. Trenin, Osenny marafon Vladimira Putina – k rozhdeniyu rossiiskoi vneshnepoliticheskoi strategii, Carnegie 2001.

[13] See D. Trenin, *End of Eurasia: Russia On The Border Between Geopolitics And Globalization*, Carnegie, 2001, and D. Trenin, Osenny marafon Vladimira Putina – k rozhdeniyu rossiiskoi vneshnepoliticheskoi strategii, Carnegie 2001.

same shift goes for EU relations. The Russia-EU partnership and cooperation agreement was signed in June 1994, but only came into effect in December 1997, not exactly betraying a sense of priority by either side. Furthermore, another structure we could refer to in this context is Russian OECD membership, a question raised already in 1996, and now possibly also being the subject of new momentum.

Global and European economic integration – an instrument to further the domestic Russian reform agenda.

As noted, for the Kremlin the re-orientation of Russia's international politics could be an effective instrument in furthering the domestic reform agenda, both in economic reforms and in politics. Reforms such civil service reforms and army reforms could benefit from a closer Russian association and integration with Western security structures such as NATO. At the same time, pursuit of WTO membership will underline Russia's ambition to deepen global economic integration, while it would also act as a powerful restructuring signal to domestic business. Of course, all of these developments will also serve to highlight the changes underway in Russia to international business. Over time, a clear consequence is likely to be seriously increasing foreign direct investments, as the current track record of reforms, growth and integration under President Putin grows longer[14].

Economic policy flexibility in the face of changing external conditions

A test in 2002: to handle changing external conditions, while preserving macroeconomic stability and continuing the pursuit of reforms.

In Russia, there has over the last months been a debate over which "economic model", or economic policy mix, to employ, in the face of changing external economic conditions. Russia's test in 2002 in this area is whether political and economic institutions will be flexible enough to adapt to and handle changing external conditions – within the overall context of continuing to work towards improving the investment climate and laying the foundation for sustainable long-term growth.

The Russian government has signaled it will stay firm on the course of reforms, while remain flexible to retain macroeconomic stability.

We would argue that so far in 2002, Russian economic policy makers have indicated an appropriate stance, and especially signaled an encouraging policy flexibility in order to maintain macroeconomic stability. This stance is basically built on the "model" which has emerged over the last years. The underlying foundation is to target an improvement in the investment climate through institutional and structural reforms – while maintaining macroeconomic stability. This approach has already started to yield benefits, in terms of initiating a process which will make Russia over time less dependent on natural resource exports. Crucially, the government's policy does not include industrial policy in the sense of picking winners or promoting favorites. Rather, it is based on the idea of improving and reforming incentives, allowing market-driven productivity changes to drive growth. That this approach is the right one is supported by the observation of lower capital flight, the start of some return of previous capital flight, and the investment of Russian capital in the Russian economy[15].

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[14] This point is also recently stressed by Rudi Dornbusch. See R. Dornbusch, *Almost Normal: Russia's Economy On The Mend*, mimeo, December 2001.

[15] Per our capital flight proxy (BOP based), capital outflows have decreased from some 1100% of the current account surplus in 1997 to some 46% of the current account surplus in 2001 (fourth quarter 2001 BOP is

The 2002 policy mix.

The policy responses outlined this year make up a mix which appear well suited for the situation. On February 7, the government approved a package of macroeconomic policy measures drafted by the Ministry for Economic Development and Trade. The table below (Figure 3) **outlines the elements of that package and the overall economic policy mix for 2002**[16]. The outlined policy mix is based on three pillars – the continued pursuit of structural reforms (including the natural monopoly sectors), while maintaining macroeconomic stability through a structural tightening of **fiscal policy** (budget expenditure reforms) and, in **exchange rate policy**, allowing the rouble to adjust with changing external conditions and thus avoid too strong real appreciation.

Fiscal policy – focus on budget expenditure restructuring.

In fiscal policy, the key focus is on preserving the surplus-to-balanced budget path, while initiating budget expenditure reforms and restructuring. This follows a political-economy logic: with strong external conditions, budget reforms have over the last years dealt with the revenue side, and with less strong external conditions, budget reforms are moving over to focus on the expenditure side. While not necessarily about cutting expenditures, these reforms will mainly be about restructuring and optimizing Russia's still many inefficient budget expenditure programs[17]. Thus, the softer global economy and weaker commodity prices could have a reinforcing effect on attempts at focusing on budget expenditure restructuring, an important area with connections to areas such as civil service and army modernization[18].

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preliminary CBR estimates). In absolute terms, this proxy of capital outflows have decreased from USD 23-24 bn in the 1996-98 period, to USD 19 bn in 2000 and USD 16 bn in 2001. Other studies, using slightly different proxies, find a similar trend. Another observation is that while the 2001 current account surplus decreased by about USD 12 bn, to USD 34.2 (preliminary) bn from USD 46.3 bn in 2000, CBR reserves in 2001 increased by only USD 4 bn less than in 2000. In 2001, reserves grew by some USD 11.5 bn (including the early CBR repayment of IMF debt) in 2001 compared to USD 15.5 bn in 2000. See also the report *Platyezhny balans: itogi goda I trevozhnye perspektivy*, Tsentr Razvitiya, January 28, 2002.

[16] See also the analysis by presidential economic adviser Andrei Illarionov in A. Illarionov, *Anatomiya ekonomicheskovo rosta*, mimeo, January 2002.

[17] There are though some well-known nuances within the Russian policy-making community in this issue. Presidential economic adviser Andrei Illarionov is strongly in favor of more or less substantial *cuts* in budget expenditures, whereas other policy-makers/economists emphasize instead the benefits of restructuring and reform of budget expenditures, rather than merely cutting the level of expenditures. Presidential economic adviser Illarionov is expected to in the first quarter of this year present a special study outlining his case for the cutting of budget expenditures. In any case, these two views are likely to find common ground at some point in the policy process.

[18] The identification of budget expenditure reforms as a key 2002 policy initiative has been supported across the policy-making spectrum, including Andrei Illarionov, Vladimir Mau, Prime Minister Kasyanov and President Putin. For a discussion of this issue, see Yegor Gaidar (interview), *Gollandskaya bolezn, strukturnye reformy I prioritety pravitelstva: retrospektiva I perspektivy*, November 16, 2001, mimeo, and Vladimir Mau, *Ekonomiko-politicheskie itogi 2001 goda I perspektivy konsolidatsii ekonomicheskovo rosta*, mimeo, 2002. As we have noted in the past, in this sense lower to moderate oil prices are not necessarily bad for Russia, but could in fact be supportive to the overall reform effort at this stage. From a strategic perspective, high commodity prices over the last two years have been no less a "test" for the Russian government, than low commodity prices might be over this year. In the former case, the test is to avoid populism, in the latter case the test is to show flexibility. For a full analysis of the impact of lower oil prices on the Russian economy, and a discussion of why Russia is fiscally sufficiently prepared, see the reports *Why Russia Is More Than An "Oil Play": Reforms, Growth, And Macroeconomic Preparedness*, EC473, October 9, 2001, *The Reform Push Continues: Russian Economic Policy In The New Global Economic And Political Situation*, EC 472, November 16, 2001and *Russia: The Multiple Aims of Russia's Fiscal Policy – Why The 2002 Budget Is Encouraging And Why 2003 Is Manageable*, EC473, August 21, 2001.

Figure 4. Russia: Economic Policy Responses To Changing Economic (And Political) Conditions, 2002

Area	Comment
Fiscal policy	Preservation of balanced-to-surplus budget path (in practice pursuing an overall budget surplus). Note the Ministry of Finance has transferred some RUB 81 bn in funds from 2001, and that as of February 1, the Ministry of Finance had in total RUB 151.5 bn in funds (including some earmarked funds).
	A focus on budget expenditure restructuring and reform, including ensuring a balanced execution of budget expenditures across the year. Reforms of areas such as municipal services are also part of this effort. In 2001, the total value of such services supplied to the population amounted to RUB 360 bn, of which the population only paid RUB 170 bn, with the rest being subsidized by the budget of various levels, and by losses of the companies in the municipal services sector.
	Active debt management, and further debt normalization. Continued focus on maintaining and adding to a financial reserve for debt payments with 2003 in mind. It should be noted that due to active debt management and the fiscal policy pursued over the last year, 2003 is no longer considered a major debt service problem. Debt management targets include a total debt to GDP ratio of 40% by 2005, and 45-48% by the end of 2002. Debt service to federal budget revenues is targeted to decline to 15% by 2005, after being in the mid- to high twenties over much of the past years.
Trade policy	Considering lowering (further) export tariffs on oil products as a response to the sharp fall in domestic oil prices.
	By March 7, a special study into how restrictions on access to foreign markets for Russian companies can be lowered will be concluded and submitted to the government.
Monetary policy	Allowing the rouble to adjust to changing global economic conditions, not wasting reserves "defending" any certain level. As a result, less real appreciation in 2002 compared to the last years.
Structural reforms	A focus on financial system reforms, WTO-related reforms and work on closer EU association, all of which carry an important integration- and restructuring boost for the Russian economy over time.
	By April 15, draft a special package of further measures to attract international investments and to decrease the export of capital.
	Focus on restructuring the role of state in sectors where it is still substantial, seeking to raise the efficiency of such sectors, and look to push further reforms to decrease the administrative barriers to business. A study into these issues should be submitted to the government by April 1.
	The formulation and initiation of administrative/bureaucracy reforms, financial system reforms, army reforms, and more land reforms.
Corporate reforms	Renewed focus on natural monopoly reforms, especially geared to push further restructuring. Specifically, the government is restraining 2002 tariff increases below the maximum limit of 35% on average, in order to add extra incentive for natural monopolies to pursue efficiency reforms. The government has sought a balance between maintaining a medium-term determination to re-adjust tariffs and the need to also push restructuring as well as to consider the inflationary impact of too rash tariff increases. In addition, the government is now mandated to conduct a full evaluation of UES, Gazprom and Railways Ministry financial situation and management, to be concluded before the work starts on the 2003 budget (i.e. before the autumn). Such an evaluation will then be part of the budget process, in the sense of an analytical background on which to take decisions on annual tariff increases.

Source: SSSB, the Ministry of Finance, the Ministry for Economic Development and Trade, the CBR

Exchange rate policy – allowing the rouble to adjust to changing external conditions – no wasting of reserves defending any particular level.

In exchange rate policy, the Central Bank has, since about mid-November, been brought around to a view held by most government ministers, namely that the rouble should be allowed to adjust in line with changing external conditions. In the context of lower commodity prices, this essentially implies allowing the rouble to weaken, thus recording less real appreciation, and not "wasting" reserves defending any particular level. This policy shift should be seen in the context of a continued increase in imports, which along with ongoing rouble real appreciation, was a concern echoed by policy makers during the second half of 2001[19]. The figure below summarizes average monthly (seasonally adjusted) growth rates for 2001, per quarter, indicating the average monthly import growth rate was strong throughout last year.

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[19] There are findings which suggest some of these concerns may be exaggerated, and that the elasticity of imports (and economic growth) to the real exchange rate is generally thought to be higher than it actually is. Such findings are supported by the observations of a broadening of economic growth, in the context of the overall pursuit of structural economic reforms. At the end of the day, the key factors behind sustainable Russian economic growth will not be the exchange rate, but the full impact of the various reforms and the effect those reforms have on total factor productivity and enhanced resource allocation. For an excellent note, see O. Dynnikova, *Plyusy I minusy slaboi elastichnosti rossiiskovo importa po otnosheniyo k realnomu obmennomu kursu*., EEG-the Ministry of Finance, report, December 18, 2001.

Figure 5. The Russian economy: 2001 growth rates (per quarter)

Source: TSKAM (A.Belousov), Goskomstat, SSSB

The real and nominal exchange rate path.

However, it is important to note this stance is not equivalent to an institutionalization of a "weak rouble policy" - it is more an acceptance of "normal" exchange rate movements in the context of a floating rouble regime[20]. As with the question of budget expenditure reforms, this also follows a certain political-economy logic: in 2000-2001, the Russian government resisted (successfully) calls for artificially intervening to *weaken* the rouble, in 2002, Russian authorities will resist to artificially intervene to *strengthen*/maintain the rouble. The graphs below (Figures 4 and 5) summarize the real and nominal exchange rate path over the course of the post-Soviet period. While real appreciation in the post-1998 period has been continuous, the level of the real exchange rate is still clearly low. As per our exchange rate expectations, the real exchange rate would during 2002 return to the 1995 level approximately. In the context of ongoing structural reforms and microeconomic changes, the rouble will remain on a path of real appreciation for quite some time[21].

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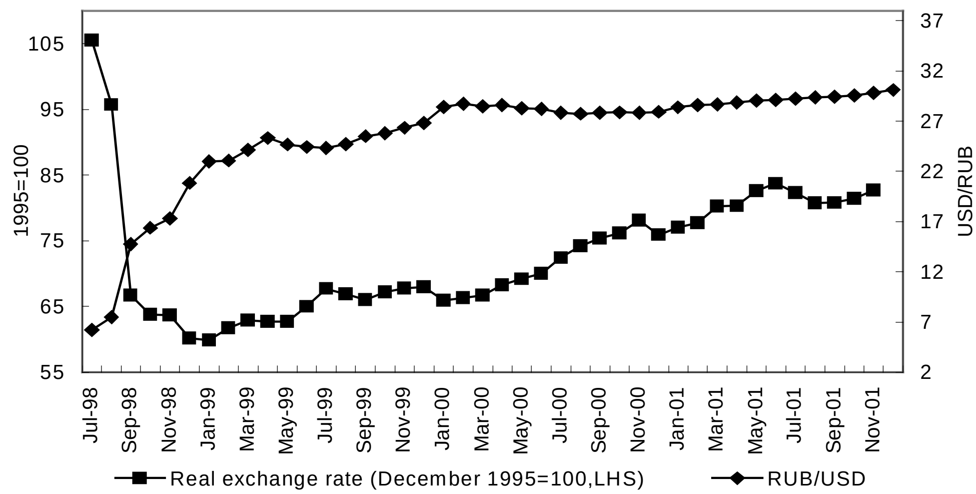
[20] As discussed by Arkady Dvorkovich, Deputy Minister for Economic Development and Trade, in a seminar on the Russian economy in Geneva at the end of January 2002, ultimately real appreciation is an objective reality, and devaluation is not a way out of from problems like rising imports and import competition for Russian companies. Rather, the answer is to push corporate restructuring further.

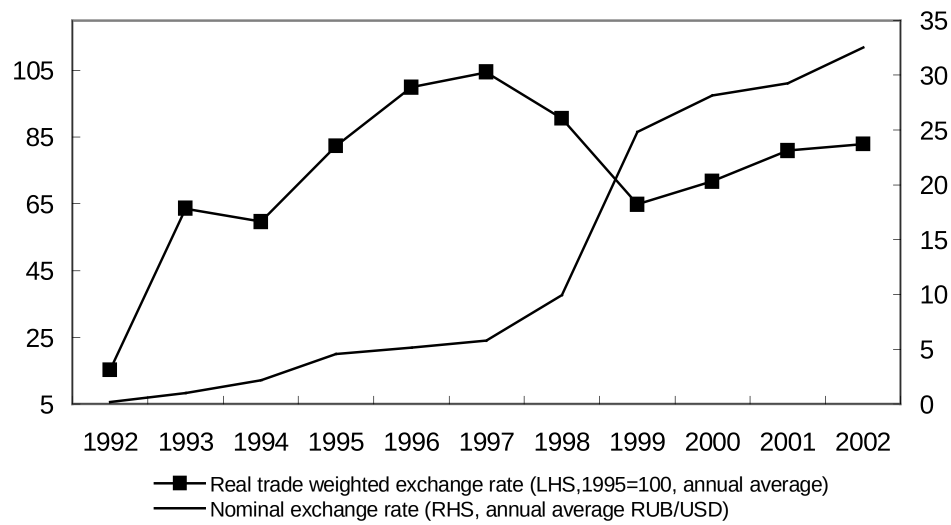
[21] The view of the Russian Central Bank also remains that the rouble is fundamentally undervalued after the nominal and real maxi-devaluation in 1998.

Figure 6. Russia: The Real (Trade Weighted) And Nominal Exchange Rate: 1998-2001



Source: CBR, RECEP, SSSB.

Figure 7. Russia: Real And Nominal Exchange Rate: 1995-2002



Source: CBR, RECEP, SSSB.

The other parts of the policy mix – natural monopoly tariffs, structural reforms.

As the table indicates, apart from the focus on budget expenditure reforms and exchange rate policy, Russian policy makers have also outlined a range of complementary measures to maintain macroeconomic stability. These include the continued pursuit of active debt management and the ambition to create and manage a financial reserve with 2003 debt payments in mind, the consideration of lowering oil product trade tariffs to manage the domestic oil market situation, the prioritizing of WTO-related reforms and closer EU economic integration, the initiation of financial system reforms, restraining natural monopoly tariff growth in order to promote accelerated natural monopoly restructuring, while at the same time limiting the inflationary contribution from too aggressive tariff re-adjustments[22].

Economic growth and the real economy – do not underestimate corporate sector changes

The post-1998 economic growth phases.

In 2001, real GDP growth may have been some 5%, after 9% in 2000 and 5.4% in 1999[23]. In the three years after 1998, GDP has grown by some 20%, industrial production by over a third, agriculture by 20%, and investments by 35%. Essentially, the Russian economy has seen three phases of economic growth since 1998[24]. In the first phase, between October 1998 and July/August 1999, the key factor was real exchange rate adjustments, associated import substitution – as well as base effects. This first phase was followed by a slight pause in the recovery, up until about November 1999. The second growth phase can roughly be dated to between December 1999 and August 2000. In this phase, commodity prices played a large role, but factors such as investment and final household demand growth started to grow in importance. This phase was followed by yet another pause, lasting between September 2000 and February 2001. The third growth phase started in earnest in the second quarter of 2001. The key aspect of this phase is that growth continued, *in the absence of* external shocks as the real exchange rate adjustment and commodity prices, as in 1999 and much of 2000 respectively. The growth recovery thus transited over the last year or so into being driven primarily by renewed investment growth, final household demand and expanding domestic industrial sectors[25]. Notably, while investment growth was higher in 2000, in 2001 the structure of investment financing changed, so that lower capital outflows/return of previous outflows financed some part of the investment growth.

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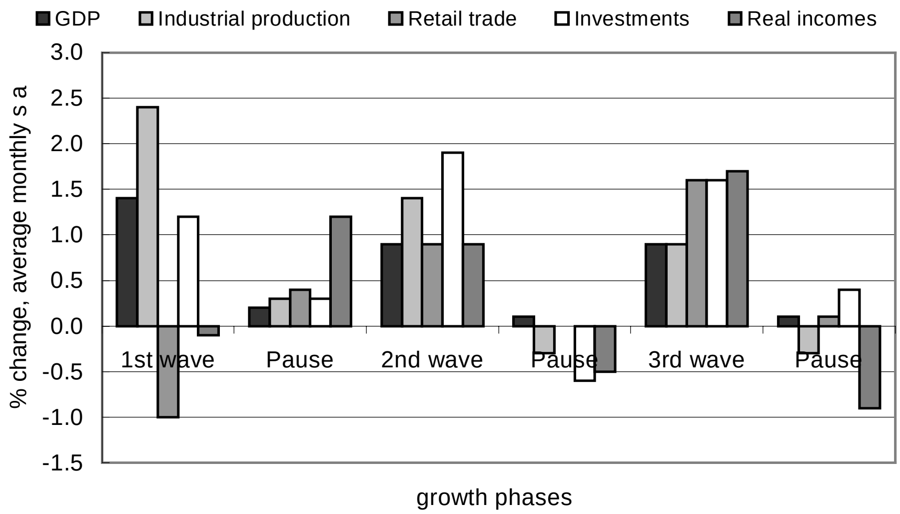
[22] See A. Illarionov, *Nado li povyshat tarify*, Vedomosti, January 24, 2002. For a full analysis of the various components of Russia's current inflation dynamics, see V. Voronina and A. Vdovichenko, *Vliyanie povysheniya tarifov na produktsiyo I uslugi estestvennykh monopoly na dinamiky inflyatsii*, EEG, September 2001.

[23] However, there are reasons to believe Goskomstat is underreporting 2001 GDP growth, and we are likely to see ongoing upward revisions to that number of 5%. The same pattern has been observed for 1999 and 2000 GDP growth, which have been revised upwards a number of times, including very recently. For example, paid services in 2001 is reported to have only increased by 0.8%, whereas this is likely to have been a larger increase, maybe around 5%. We are thankful to Professor Gavrilenkov of the Bureau for Economic Analysis in Moscow for pointing this out.

[24] Andrei Belousov at the Centre for Macroeconomic Analysis and Short-Term Forecasting has conducted the most comprehensive analysis into this subject. See e.g. A. Belousov, *V ozhidanii "russkovo chuda"*, TSKAM, October 2001. See also *his Ekonomicheskie itogi 2001 goda (tezisy)*, January 25, 2002.

[25] We have covered this broadening of economic growth in-depth in several previous publications. See e.g. *The Reform Push Continues: Russian Economic Policy In The New Global Economic And Political Situation*, EC 472, November 16, 2001, and *Why Russia Is More Than An "Oil Play": Reforms, Growth, and Macroeconomic Preparedness*, EC473, October 9, 2001.

Figure 8. Russia's post-1998 growth phases: 1st (10/98-08/99), 2nd (11/99-08/00), 3rd (Q2/01-Q3/01)



Source: TSKAM, Goskomstat, SSSB

The latest growth pause – October-December 2001.

In September/October last year, yet another pause in the expansion begun, and this pause has continued through November and December. Monthly, seasonally adjusted, GDP growth rates went from around 0.7-0.8% for much of 2001, to around 0.1% in the last quarter of 2001. However, even in this pause, demand-side indicators have performed well, such as retail trade and investment growth. In this period, investments and retail trade grew 0.4% and 0.1% per month, seasonally adjusted, respectively. Investments were up 11.5% YOY in December, bringing the full-year 2001 investment growth to 8.7%. Retail trade grew by 11.4% YOY, and for the full-year 2001, some 6%. Interestingly, base sector output, a larger index than industrial production and capturing some 65% of GDP, increased by 5.7% for the full-year 2001. Notably, Russian agriculture has bounced, with output in the sector up nearly 7% in 2001, on a 2001 harvest which was nearly a third better than the year before.

Figure 9. Russia – Real Economy Indicators (December and full-year 2001)

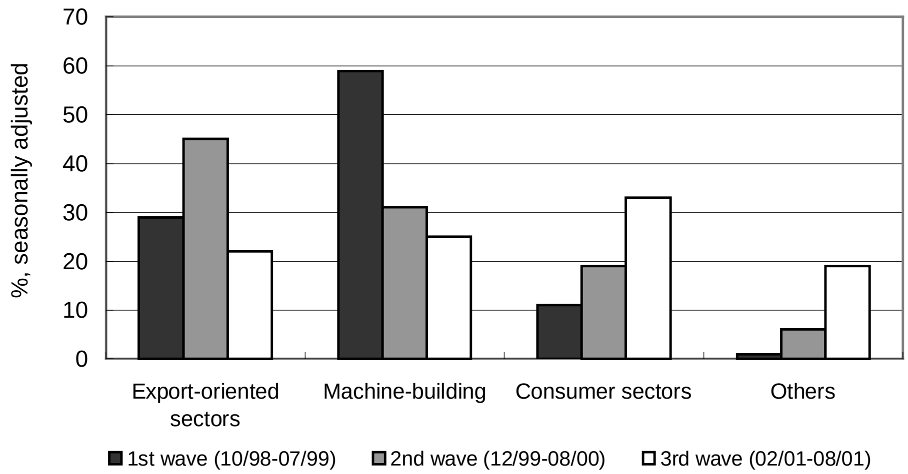
	December 2001, YOY	December 2001, MOM	2001/2000
Industrial production	2.6%	0.1%	4.9%
Base sector output	5.1%	2%	5.7%
Investments	11.5%	58%	8.7%
Retail trade	11.4%	14.5%	10.8%
Real incomes	4%	25.3%	5.9%
Agriculture	4.7%	-13.3%	6.8%

Source: Goskomstat, SSSB

The broadening of economic growth.

While the external sector continues to play a large role, the broadening of economic growth can also be seen in the full-year 2001 industrial production data, an indication we have been reporting on for some time. The figure below outlines the percentage contribution of various industrial production sectors during the three broad post-1998 growth "waves" summarized above. While export-oriented sectors contributed some 45% of industrial production growth in the "second" growth wave (for much of 2000), this impact decreased to 22% in the "third" growth phase (2001). On the other hand, consumer sectors increased their contribution from 11% in the "first" growth phase, to 33% in the "third" growth phase. Altogether, domestic sectors accounted for well over 50% of the industrial production growth in 2001.

Figure 10. Industrial production growth: Sector contribution, post-1998 growth phases



Source: TSKAM (A.Belousov), Goskomstat, SSSB

Russian growth resilience may surprise due to often ignored microeconomic changes and the virtuous cycle of reforms-growth-expectations.

Against the background of a continued pursuit of structural reforms, and the efforts at ensuring macroeconomic stability (see above), the pause in the growth recovery seen since the last quarter of 2001 is not necessarily a cause for concern[26]. The pause appears in line with the earlier pauses (see Figure 6 above). Furthermore, there is a case to be made that improved resource allocation, or total factor productivity growth, has been and probably continues to be underestimated as a source of Russian economic growth[27]. Labor productivity in the three years since 1998 has grown by 18%, whereas real disposable income is actually down 0.7% over this period, due to the over 14% decrease in 1999. Estimates suggest that annual TFP growth could be around 6-7% over the next 5 years, and even more if financial system reforms are pursued successfully. It should also be noted that the early indications of 2002 economic performance is encouraging. Preliminary data suggest January 2002 base sector output was up some 5.3% YOY, with industrial production up 4.1%, investments 6.2% and real incomes up 4.5%. Other indications are for this performance to be extended into the first full two months of 2002, on a YOY basis. Should this pattern continue, full-year 2002 real GDP growth will be

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[26] Interestingly, in the Russian economic debate, presidential economic adviser Andrei Illarionov is now notably more upbeat than previously on Russia's economic prospects due to much of the indicated macroeconomic policy mix outlined in the earlier section (allowing the rouble to adjust to changing conditions, restraining tariff increases, budget expenditure restructuring – and all of this in the context of lower commodity prices). See A. Illarionov, *Anatomy ekonomicheskovo rosta*, mimeo, January 2002.

[27] See E. Gavrilenkov, *Economic Growth And Crises: Evidence From Russia And Some Other Controversial Economies*, November 2001, forthcoming working paper.

between 3.5-4%[28]. Essentially, since 1999 there has been a "revolution of expectations", in Russian society at large and in the corporate sector. Polls and corporate surveys consistenly testify to strong expectations and notably more optimism than previously. In this context, one should not underestimate the impact a virtuous cycle of "reforms-growth-expectations" has on the dynamics of Russian growth and development[29]. A key player in this framework in the Russian corporate sector.

The corporate sector changes.

Observations on Russia's corporate sector suggest restructuring and changes are indeed underway, from issues such as capital flows and investments to management and corporate governance. These microeconomic changes are responses both to a changing global economy and to the changing Russian economic realities[30]. Interestingly, such developments may also be observable among the small business segment. Some small business data reported by Goskomstat suggest that over the last three years, there has been a substantial growth in new small businesses, at a net of some 200 000 new business per annum in this period[31]. Essentially, the structural reform agenda at the heart of the government's economic strategy is gradually transforming the institutional framework and incentive set-up facing the corporate sector[32]. This is contributing to laying the medium- to long-term foundations for an improving investment climate, both for domestic and foreign companies. The table below summarizes some of the key institutional changes affecting the corporate sector, approved over the last year and coming into effect during this year.

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[28] Assuming low to moderate oil prices, 16-18 dollars per barrel Urals. The Ministry for Economic Development and Trade has analyzed various economic scenarios, and reached similar conclusions. Ordered after different oil prices, growth scenarios range from 2.2% with oil prices at annual average 14.5 dollars per barrel Urals, to 4.3% at oil prices of 23.5 dollars per barrel Urals. The most likely scenario is considered to be growth between 3.1-3.5%, with oil prices in the range of 16.5-18.5 dollars per barrel Urals. See also A. Frenkel, *Rost v usloviyakh neopredelennosti*, Vedomosti, February 12, 2002.

[29] We are grateful for discussing this role of the "revolution of expectations" with Professor Yasin.

[30] With the broadening of Russian economic growth, the Russian corporate sector has seen a dramatic increase in overall investment growth over the last years. Such investments have been two-way, in the sense that not only have some entities in the Russian corporate sector looked at overseas investments, but there have been increasing signs of a return of previous Russian capital outflows/moderating capital outflows, to be invested in mainly domestic Russian sectors. As indications of this encouraging capital flow trend, one can point to the expansion into the Russian food industry by Interros, as well as by some oil companies, including an interest in Russian retail networks, and also the expansion into the Russian automotive industry pursued by large Russian metals companies. The volume of foreign investments into Russian agriculture jumped last year to some USD 2.4 bn, from USD 1.85 bn in 2000, and indications are most of these investments are "Russian" capital returning. There are also clear signs of a gradual improvement in corporate governance, including the inclusion of independent directors at some high-profile companies, to very significant management changes at some of Russia's leading corporate entities, to dividend pay-outs, and indeed the whole focus on natural monopoly restructuring.

[31] This observation is emphasized by the World Bank, which also states that independent estimates are even higher. However, one need to caution against reading too much into this, as there are issues with this particular data material. Many small businesses, particularly of the "sole proprietorship" kind, are created for tax management reasons, so these figures may overstate the actual creation of new business. Nevertheless, the overall development it points to is clear. See the World Bank Russia Country Office, *Russian Economic Report*, January 2002.

[32] See seminar reports *Zakony prinyaty. Chto dalshe?* (Professor Evgeny Yasin) Fond Liberalnaya missiya, December 2001. See also our recent report *Russia And External Debt In 2002: Improving Debt Indicators, More Sovereign Eurobonds – And Corporate Eurobonds In Focus*, EC473, January 23, 2002.

Figure 11. Russia: The Corporate Sector – Institutional Changes In Effect From 2002

Reform	Implementation	Comment
De-bureaucratization reforms	In effect from January 1, 2002	The first wave of these de-regulatory reforms, including licensing, inspection and registration, was approved in 2001. A second wave of further de-regulatory reforms, and possibly a third wave, will follow in 2002.
New profit tax	In effect from January 1, 2002	The new corporate profit tax, lowered to 24% as of this year, could be accompanied by a lowering of the unified social taxation this year.
Code of Corporate Governance	Expected to be published by February 2002	Fully drafted, discussed and approved by the government in 2001, the Code of Corporate Governance is expected to be formally concluded early this year. While the real effects of this Code will take some years to evaluate, there are already signs the focus on drafting this Code has had an impact, and the introduction of the Code could imply the emergence of an increasingly accepted benchmark.
Amendments to the law on joint-stock companies	In effect from January 1, 2002	These amendments, signed by Putin in August 2001, represent corporate governance-related improvements of existing legislation.
Start of pension reforms	During 2002	The first, basic, package of enabling pension reform laws was approved last year, and the key law on investing pension assets is expected to be approved in the first half of this year. This will initiate the practical phase of the pension reforms, a process, which will see private pension funds fully take part in the management of pension assets from at least 2004.
New Labor Code	In effect from January 2002	Approved in 2001, the new Labor Code represents an important part of the modernization process of Russia's corporate sector institutional infrastructure. The new code will make labor relations more flexible.
Natural monopoly reforms	Throughout 2002	For UES, continued gradual implementation of restructuring program approved in 2001 and continued approval of necessary legislation, for Gazprom continued strive to establish transparency, for the Railways Ministry possibly new momentum behind reform efforts.
Legal reforms	In effect from January 2002	First wave of legal and judicial system reforms approved last year, further reform phases expected in 2002.

Source: SSSB, FSC, the Ministry for Economic Development and Trade

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