

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
January 2003

MONTHLY BULLETIN

Moscow
2003

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The State of the Federal Budget

The federal budget in January through November of 2002 was executed as follows: revenues (cash execution) – Rb. 1991.4 billion (or 20.1 % of GDP), expenditures – Rb. 1788.0 billion (or 18.0 % of GDP) (see Table 1). Therefore, the federal budget surplus made Rb. 203.4 billion, or 2.1 % of GDP.

Table 1.

**The monthly execution of the federal budget of the Russian Federation
(in % of GDP¹, in comparable prices)**

	XII'01	I'02	II'02	III'02	IV'02	V'02	VI'02	VII'02	VIII'02	IX'02	X'02	XI'02
Revenues												
Corporate profit tax	2,4%	1,4%	1,4%	1,5%	1,9%	1,9%	1,7%	1,7%	1,7%	1,6%	1,7%	1,6%
Personal income tax	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
VAT, special tax and excises	0,0%	4,9%	4,4%	4,0%	3,9%	3,6%	3,5%	3,5%	3,3%	3,2%	3,1%	3,1%
Tax on foreign trade and foreign trade operations	9,4%	9,3%	9,1%	9,3%	9,3%	9,3%	9,3%	9,3%	9,1%	9,0%	8,9%	8,9%
Other taxes, duties and payments	7,1%	6,9%	6,4%	6,8%	6,9%	7,0%	7,0%	7,0%	7,0%	6,9%	6,9%	6,9%
Total- taxes and charges	2,2%	2,4%	2,6%	2,5%	2,4%	2,3%	2,3%	2,2%	2,1%	2,0%	2,0%	1,9%
Non- tax revenues	3,7%	3,2%	3,3%	3,2%	3,0%	2,9%	2,9%	2,9%	2,8%	2,8%	2,8%	2,9%
Revenues, total	0,6%	9,7%	9,1%	8,7%	8,7%	8,4%	1,8%	2,0%	2,0%	2,0%	2,1%	2,1%
Expenditure	16,2%	20,4%	19,6%	19,6%	19,9%	19,6%	19,3%	19,4%	18,9%	18,5%	18,6%	18,5%
Public administration	1,4%	2,1%	1,6%	1,4%	1,3%	1,2%	1,3%	1,4%	1,4%	1,4%	1,6%	1,5%
National defense	17,6%	22,4%	21,2%	20,9%	21,2%	20,9%	20,6%	20,9%	20,4%	20,0%	20,2%	20,1%
International activities												
Judicial power	0,5%	0,1%	0,2%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%
Law enforcement and security activities	2,7%	1,0%	1,5%	1,9%	2,3%	2,4%	2,5%	2,5%	2,5%	2,4%	2,4%	2,5%
Fundamental research	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,3%	0,3%	0,3%	0,3%
Services provided for the national economy	0,1%	0,0%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,2%	0,2%
Social services	1,6%	0,6%	0,9%	1,0%	1,2%	1,2%	1,3%	1,4%	1,4%	1,4%	1,4%	1,5%
Servicing of public debt	0,3%	0,0%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,3%
Other expenditure	1,3%	0,1%	0,3%	0,4%	0,5%	0,6%	0,7%	0,8%	0,8%	0,8%	1,2%	1,3%
Expenditure, total	2,3%	3,7%	4,8%	4,8%	5,3%	5,2%	5,2%	5,2%	5,1%	4,9%	5,5%	5,6%
Loans, redemption exclusive	2,6%	2,0%	3,4%	3,4%	2,6%	2,5%	2,4%	2,3%	2,4%	2,4%	2,2%	2,0%
Expenditure and loans, redemption exclusive	3,0%	2,9%	3,3%	3,6%	3,9%	4,0%	4,0%	4,0%	3,9%	3,8%	3,9%	3,9%
Budget deficit (-)	14,7%	10,9%	15,0%	16,1%	16,9%	17,1%	17,2%	17,2%	17,1%	16,9%	17,8%	18,0%
Domestic financing	2,9%	11,5%	6,2%	4,8%	4,3%	3,8%	3,4%	3,7%	3,3%	3,1%	2,4%	2,1%
Other taxes, duties and payments	-0,1%	-11,2%	-4,6%	-2,7%	-2,0%	-1,8%	-1,6%	-1,8%	-1,3%	-1,2%	-0,5%	-0,2%
Total- taxes and charges	-2,8%	-0,4%	-1,6%	-2,1%	-2,3%	-1,9%	-1,8%	-1,9%	-1,9%	-1,9%	-1,9%	-1,9%
Non- tax revenues	-2,9%	-11,5%	-6,2%	-4,8%	-4,3%	-3,8%	-3,4%	-3,7%	-3,3%	-3,1%	-2,4%	-2,1%

* в % ВВП; ** ЕСН включен в налоговые доходы

As compared with the figures registered in the respective period of 2001, the budget revenues increased by 3.0 p.p., while expenditures grew by 4.1 p.p. and budget surplus decreased by 1.1 p.p.

VAT accounted for the major share of federal tax revenues – 37 % of the total tax revenues, what is somewhat below the respective indicator observed in January through November of the preceding year (42 %).

Social services accounted for the major part of the expenditures of the federal budget – 5.5 % of GDP, or 31 % of the total expenditures. As of December 1, the expenditures for the servicing of the public debt made 2.0 % of GDP, what is the record low since the beginning of 2002 (in the respective period of the preceding year the expenditures for the servicing of the public debt made 2.7 % of GDP).

According to the preliminary estimates of the Finance Ministry, as concerns the fulfilled funding² the federal budget in 2002 was executed as follows: revenues – Rb. 2198.5 billion (20.1 % of GDP), expenditures – Rb. 2044.2 billion (18.7 % of GDP) (see Table 2).

¹ Because of the estimated data on GDP, the indices may be subject to revision.

² The execution of the budget in terms of fulfilled (actual) financing is equal to the sum of the funds transferred to managers of budget funds, while the cash execution of the budget is equal to the sum of funds spent by managers of funds (i.e. without account of funds remained on their accounts).

Table 2

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

	Г02	II'02	III'02	IV'02	V'02	VI'02	VII'02	VIII'02	IX'02	X'02	XI'02	XII'02
Total	22,2%	21,0%	20,9%	21,2%	20,8%	20,5%	20,5%	20,5%	20,0%	20,2%	20,1%	20,1%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,6%	0,5%
National defense	1,7%	2,4%	2,4%	2,7%	2,7%	2,7%	2,7%	2,7%	2,6%	2,7%	2,8%	2,6%
International activities	0,4%	0,2%	0,4%	0,5%	0,4%	0,4%	0,4%	0,3%	0,3%	0,3%	0,3%	0,3%
Judicial power	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Law enforcement and security activities	1,6%	1,4%	1,4%	1,5%	1,5%	1,6%	1,9%	1,6%	1,6%	1,7%	1,8%	1,7%
Fundamental research	0,3%	0,3%	0,2%	0,3%	0,3%	0,3%	0,2%	0,3%	0,3%	0,3%	0,3%	0,3%
Services provided for the national economy	0,3%	0,6%	0,8%	0,9%	1,0%	1,0%	1,1%	1,1%	1,0%	1,5%	1,5%	1,5%
Social services	5,0%	5,7%	5,3%	5,9%	5,7%	5,5%	5,6%	5,4%	5,2%	5,7%	5,8%	5,7%
Servicing of public debt	1,9%	3,4%	3,4%	2,7%	2,5%	2,4%	2,6%	2,4%	2,4%	2,2%	2,0%	2,0%
Other expenditure	3,5%	4,0%	3,9%	4,0%	4,6%	4,2%	4,0%	4,0%	4,0%	3,9%	3,9%	3,8%
Total expenditure	15,5%	18,7%	18,6%	19,1%	19,4%	18,9%	19,1%	18,6%	18,2%	19,2%	19,2%	18,7%
Профицит (+) / дефицит (-)	6,8%	2,3%	2,3%	2,1%	1,4%	1,6%	1,4%	1,8%	1,7%	1,0%	0,9%	1,4%

According to preliminary estimates of the Revenue Ministry, in December of 2002 tax revenues of the federal budget made Rb. 103 billion (without the single social tax). In real terms the revenues made 249.8 % of the level registered in January of 1999, while the respective indicator was at 306.6 % in the end of 2001 (see Table 3).

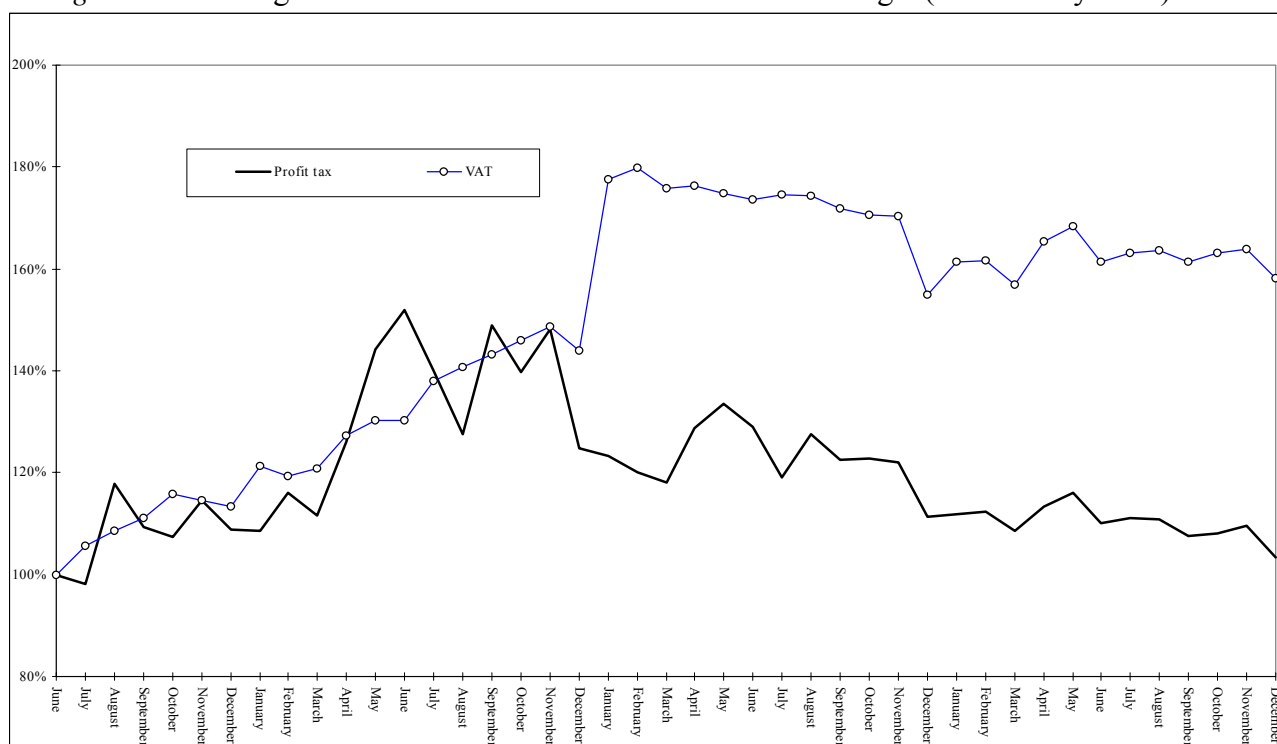
Table 3

**Actual tax revenues to the federal budget, according to the data of the MTC
(in % of the data for January of 1999)³.**

1999											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
100,0%	115,1%	122,0%	122,1%	104,5%	112,9%	127,0%	127,5%	124,3%	141,4%	160,8%	213,1%
2000											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
149,3%	160,5%	181,3%	205,8%	233,1%	186,9%	181,0%	186,4%	173,1%	181,1%	201,7%	254,1%
2001											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
204,4%	198,4%	227,6%	267,5%	252,2%	233,3%	231,9%	235,6%	219,4%	237,5%	247,3%	360,6%
2002											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
218,7%	187,1%	234,8%	277,8%	239,6%	218,0%	284,4%	246,5%	254,8%	299,7%	241,0%	249,8%

³ It was decided to choose January of 1999 as the benchmark in order to render the comparison more reliable. January of 1999 is not a remarkable date in terms of tax revenues.

Figure 1. Rate of growth of the real tax arrears to the federal budget (in % to July 1999)



The debts related to the payments due to the federal budget made Rb. 248.8 billion as on November 1, 2002, the arrears of the profit tax made Rb. 35.3 billion. For the dynamics of actual tax debts as broken down by key taxes since June of 1999 see Figure 1⁴.

The revenues of the consolidated budget in January through November of 2002 made 32.1 % of GDP, including tax revenues at 25.4 % of GDP (see Table 4). Expenditures of the consolidated budget somewhat increased and made 29.7 % of GDP. The surplus of the consolidated budget in January through November of 2002 was 2.4 % of GDP, what is the record low in the last two years.

Table 4

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

1998												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	16,2%	17,4%	18,1%	19,3%	19,7%	19,8%	19,8%	19,4%	18,8%	18,5%	18,6%	19,6%
Revenues	18,8%	20,1%	21,2%	22,4%	23,0%	23,2%	23,2%	22,9%	22,3%	22,0%	22,0%	24,5%
Expenditures	25,3%	23,8%	27,0%	28,1%	28,6%	29,5%	29,4%	28,6%	27,4%	26,9%	27,1%	29,5%
Deficit	-6,5%	-3,7%	-5,8%	-5,7%	-5,7%	-6,3%	-6,2%	-5,7%	-5,2%	-5,0%	-5,0%	-5,1%
1999												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	16,8%	16,6%	18,1%	19,9%	20,1%	20,5%	20,8%	20,8%	20,3%	20,2%	20,9%	22,1%
Revenues	19,2%	18,9%	20,6%	22,7%	23,2%	23,9%	24,3%	24,5%	24,1%	24,0%	24,8%	26,3%
Expenditures	18,6%	20,3%	23,6%	25,6%	26,6%	27,3%	27,4%	27,4%	26,7%	26,3%	26,7%	29,2%
Deficit	0,6%	-1,5%	-3,1%	-3,0%	-3,4%	-3,4%	-3,1%	-2,9%	-2,7%	-2,3%	-1,9%	-2,9%
2000												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	20,8%	21,4%	22,6%	24,2%	25,5%	25,4%	24,9%	24,8%	24,1%	23,7%	24,0%	24,6%
Revenues	24,4%	24,8%	26,4%	28,2%	29,7%	29,7%	29,3%	29,2%	28,4%	28,0%	28,6%	30,0%
Expenditures	19,6%	21,1%	23,8%	24,8%	25,2%	25,5%	22,3%	25,1%	24,5%	24,2%	24,6%	27,0%
Deficit	4,7%	3,7%	2,6%	3,4%	4,5%	4,3%	7,0%	4,1%	3,9%	3,8%	4,0%	3,0%
2001												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	22,7%	23,6%	23,9%	25,4%	26,4%	26,0%	26,1%	25,9%	25,0%	24,8%	25,4%	27,1%

⁴ Since 2001 the form of the MTC's presentation of the respective statistical data has been changed, and the data on debts to the federal budget across all the taxes are no longer available. Since January of 2002 the practice of balancing the data on the arrears against the amount of tax surplus has been ceased. In this relation the figure presents the data on the gross unbalanced tax arrears for comparability purposes.

Revenues	25,9%	27,1%	27,4%	29,3%	30,5%	29,8%	29,9%	29,7%	28,3%	28,2%	28,8%	29,5%
Expenditures	16,8%	22,8%	23,7%	24,7%	25,1%	25,3%	25,5%	25,6%	24,9%	24,7%	25,0%	25,6%
Deficit	9,1%	4,2%	3,7%	4,7%	5,4%	4,4%	4,4%	4,1%	3,5%	3,5%	3,8%	3,9%
2002												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	
Taxes	28,7%	23,6%	24,3%	26,5%	26,6%	25,9%	26,4%	25,9%	25,2%	25,4%	25,4%	
Revenues	32,9%	31,3%	31,4%	33,6%	33,6%	32,7%	33,3%	32,5%	31,7%	32,0%	32,1%	
Expenditures	18,3%	23,7%	26,0%	28,4%	28,4%	28,8%	29,1%	28,9%	28,4%	29,3%	29,7%	
Deficit	14,6%	7,7%	5,4%	5,3%	5,2%	3,8%	4,2%	3,7%	3,3%	2,7%	2,4%	

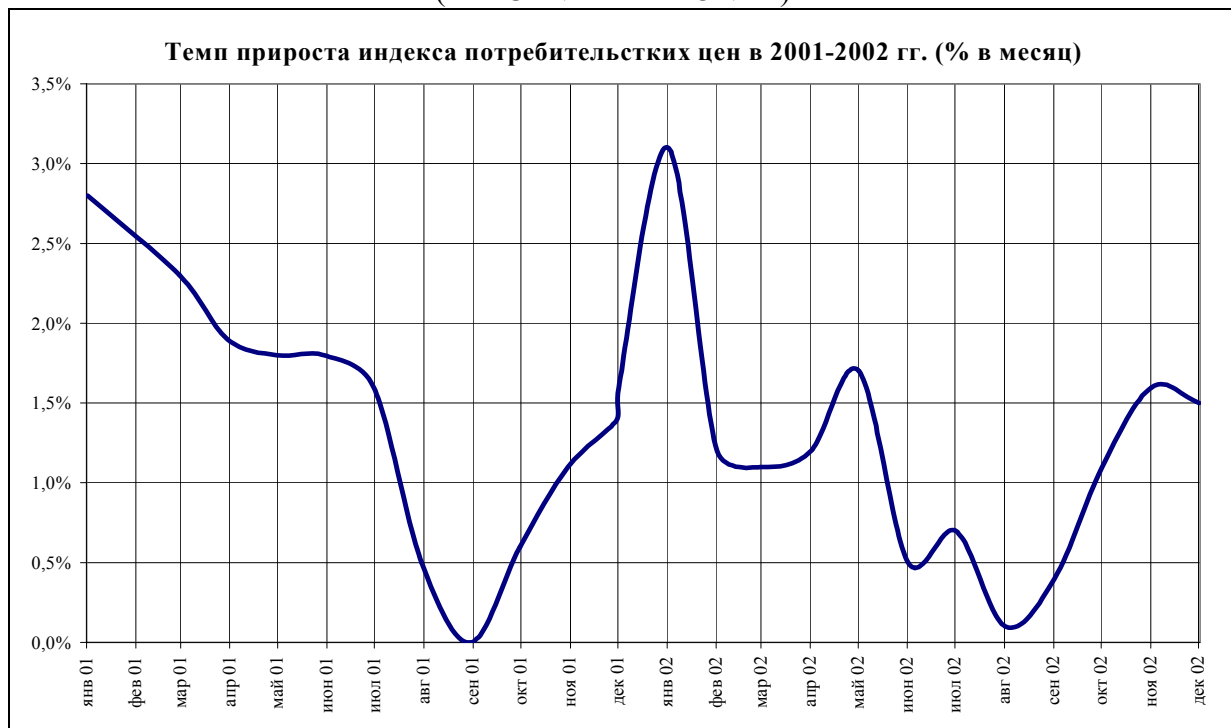
* Без учета ECH

S. Batkibekov

Monetary Policy

In 2002 the CPI grew 15.1 percent, or 3.5 percentage points less than in 2001. The monthly dynamics of CPI growth rates in 2001 - 2002 is shown in Fig. 1: in 2002 the intra-year inflation volatility increased. The commodity structure of consumer prices is as follows: consumer goods: 11.0 percent; non-foods: 10.9 percent; services: 36.2 percent. The highest price growth rates were observed for motor spirit: 20.4 percent (2001: - 8.6 percent), housing and communal services: 48.8 percent (56.8 percent), medical services: 30.7 percent (22.5 percent), public transportation services: 26.0 percent (25.3 percent); and telecommunication services: 37.6 percent (23.3 percent). It should also be noted that in 2002, for the first time since the 1998 crisis, manufacturer prices were growing quicker than consumer prices. In 2002, according to preliminary estimates, the manufacturer price index grew 17.1 percent.

FIGURE 1. CONSUMER PRICE INDEX GROWTH RATES IN 2001 - 2002
(PERCENT PER MONTH)

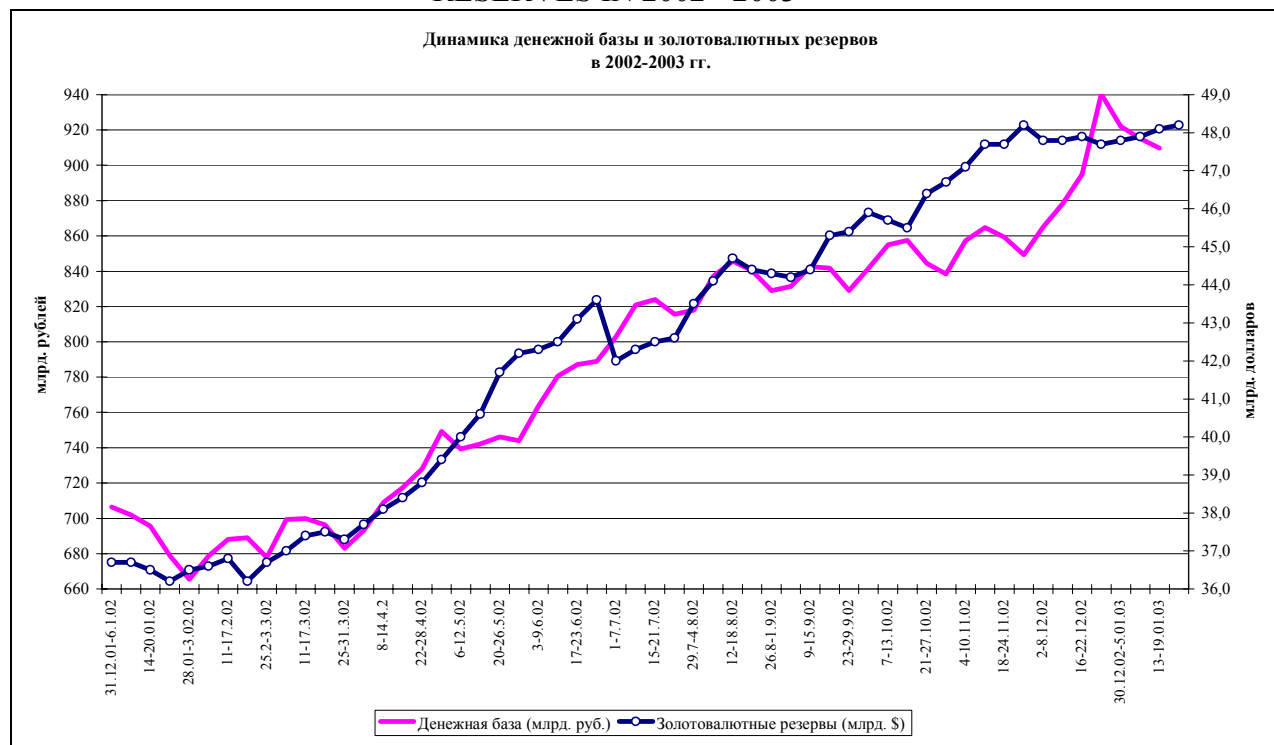


Starting from 2003, the State Committee for Statistics of the RF stopped publishing the weekly CPI values. According to our estimates, in January 2003 a traditional growth of inflation rates was observed and the CPI grew 2.0 - 2.2 percent.

In January 2003 a seasonal decrease of the money supply was observed. During the first three weeks of the month, the narrow monetary base contracted 3.2 percent (see Fig. 2). At the same time the Bank of Russia continued to accumulate gold and currency reserves and high oil prices contributed to this accumulation. Despite the fact that, according to the schedule, external debt payments in Quarter 1 of 2003 amounted to US\$ 1.1 billion, by January 20 the amount of gold and currency reserves again reached an historic high of US\$ 48.2 billion. Let us remember that by the end of 2002

the amount of gold and currency reserves of the Bank of Russia was US\$ 47.792 billion; the share of gold in the reserves was not more than 7.85 percent.

FIGURE 2. DYNAMICS OF MONETARY BASE AND GOLD AND CURRENCY RESERVES IN 2002 - 2003



S. Drobyshevski

Financial Markets

The Market for Government Securities

Summing up the results of 2002, we should note a quick growth of quotations for all Russian securities (See Figures 1 and 2). E.g., the yield to maturity of Minfin bonds decreased from 9 - 12.5 percent to 5 - 8.5 percent p.a., and the YTM of Eurobonds dropped to 4 - 9.5 percent p.a. Thus, the yield on RF bonds (without account of coupon payments) reached 37.1 percent on Eurobonds (the issue with maturity in 2030) and 40.1 percent on Minfin bonds (the 5th tranche that matures in 2008 and belongs to the obligations of the former USSR).

FIGURE 1. YIELD TO MATURITY OF MINFIN BONDS IN OCTOBER 2002 - JANUARY 2003.

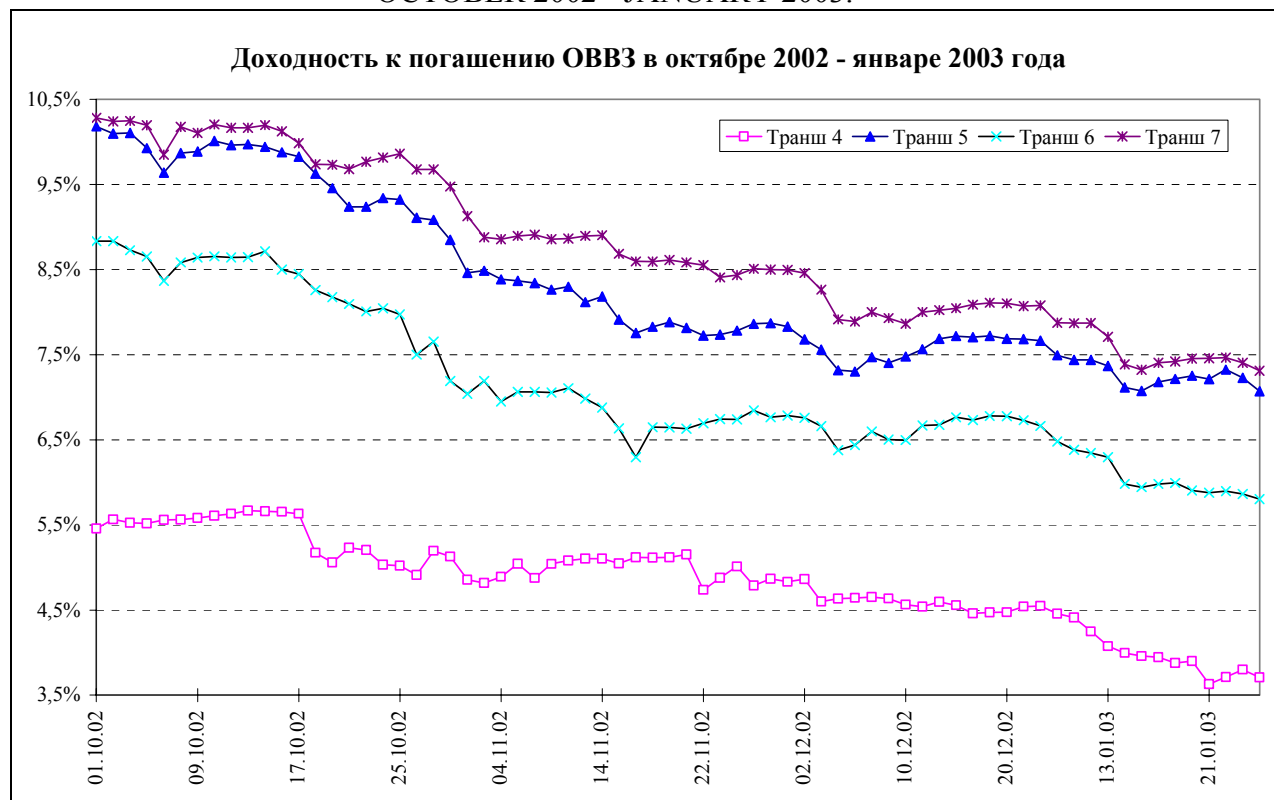
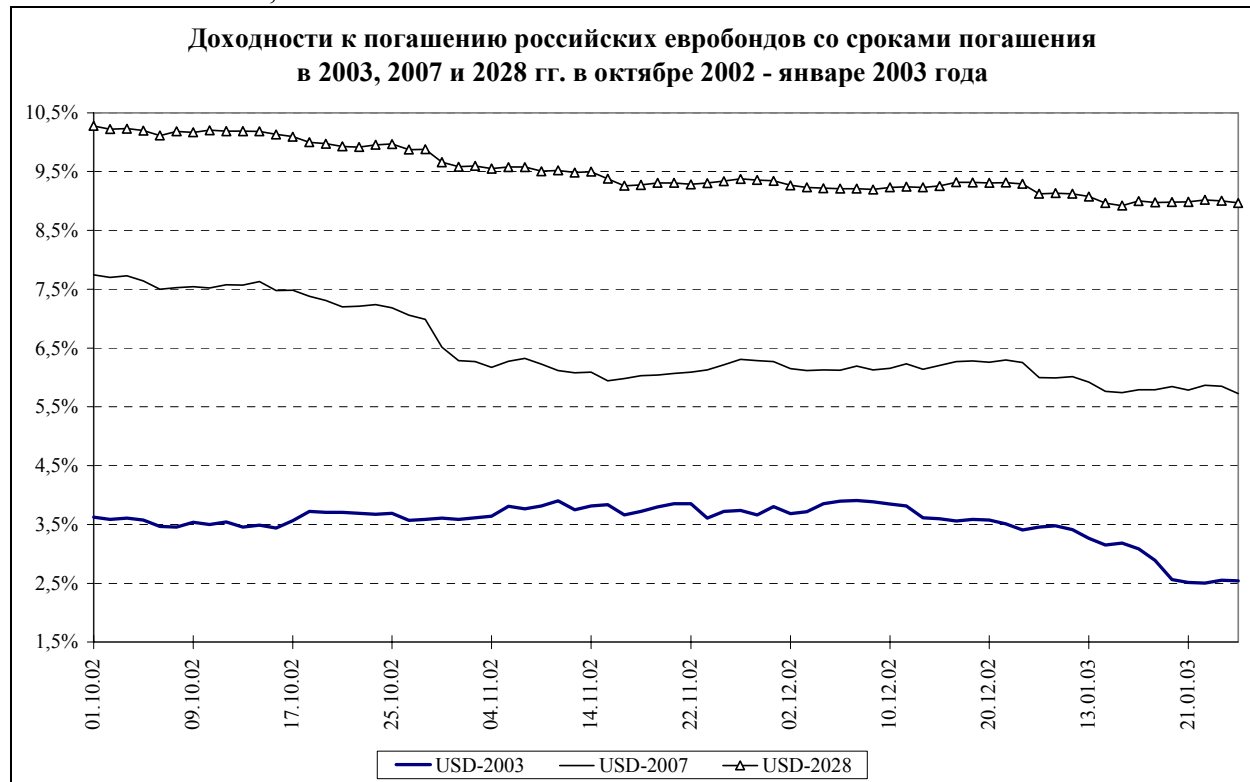


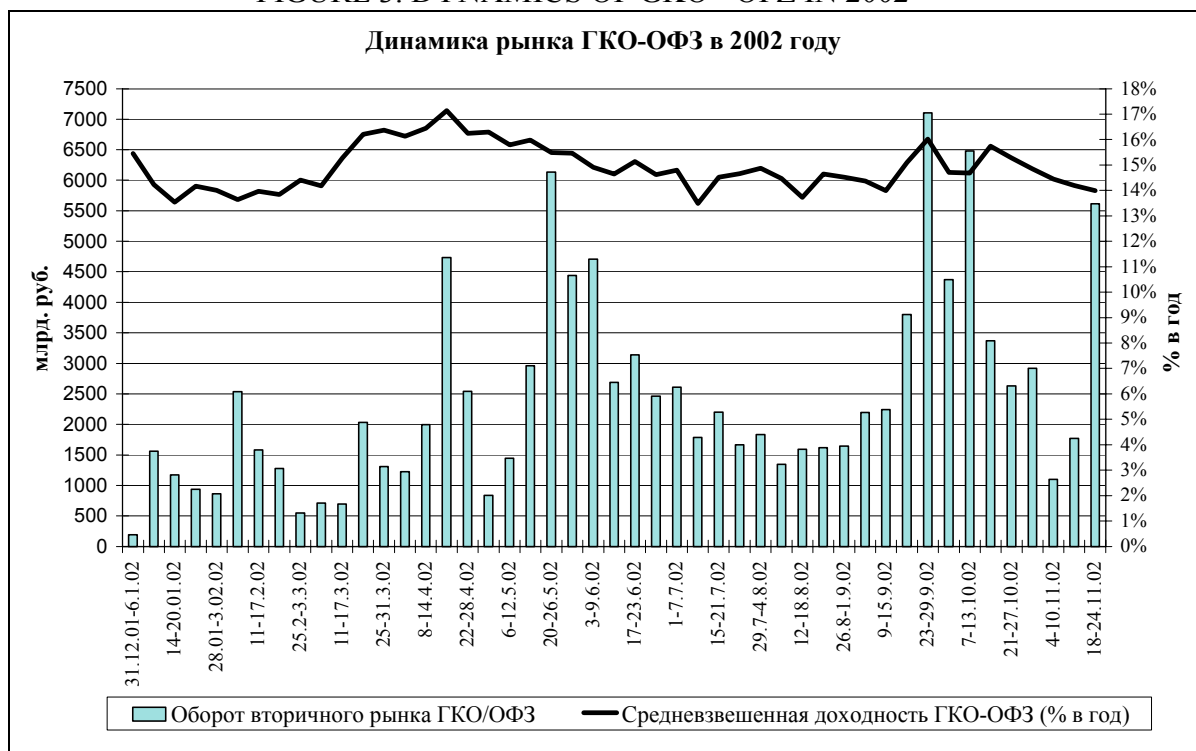
FIGURE 2. YIELD TO MATURITY OF RUSSIAN EUROBONDS MATURING IN 2003, 2007 AND 2008 IN OCTOBER 2002 - JANUARY 2003.



At the internal debt market the past year was above all characterized by an unprecedented drop in yields accompanied by low trade volumes during the most part of the year (See Figure 3). The nominal annualized yield to maturity of GKO - OFZ bonds fell to 13.5 - 15 percent and the turnover at the secondary market sank in certain weeks below RUR 1 billion. Thus, trade volume in the beginning of

the year went down to the lowest values since 1999 when the market was just beginning to operate after the 1998 crisis.

FIGURE 3. DYNAMICS OF GKO - OFZ IN 2002



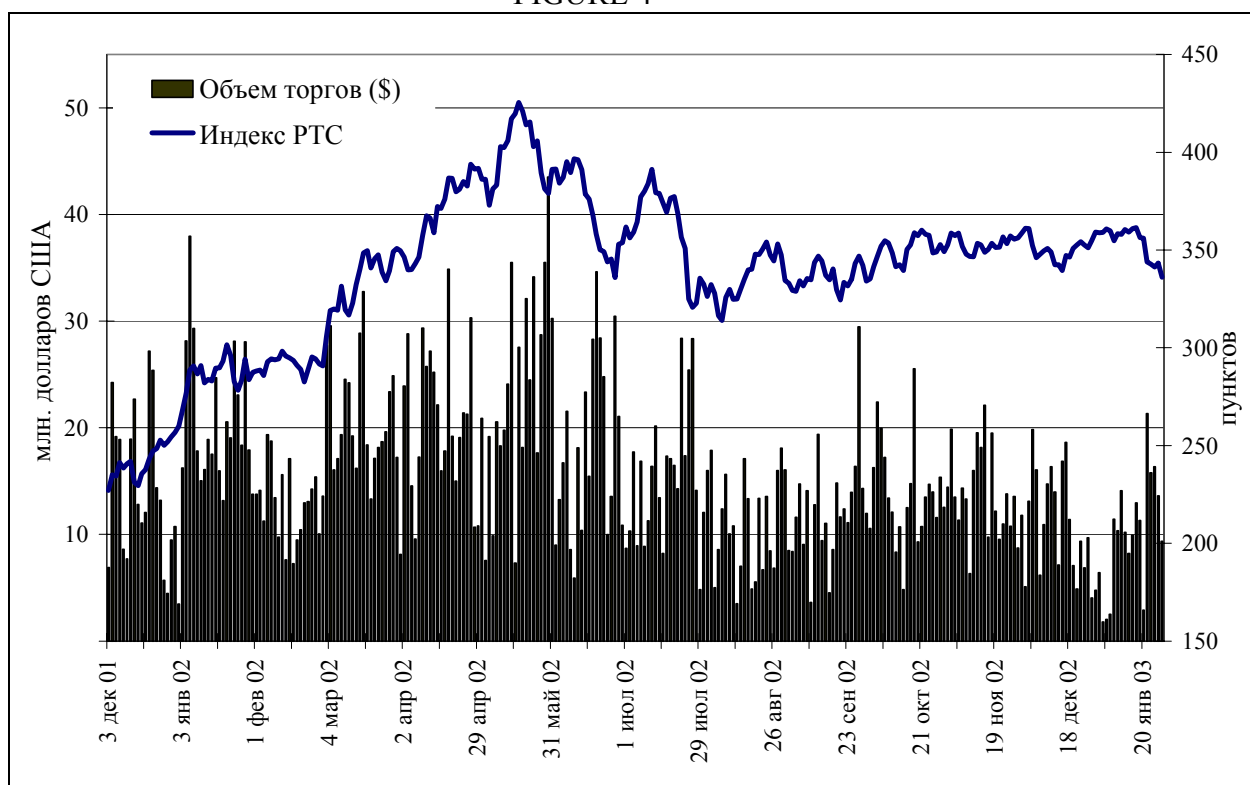
The Market for Corporate Securities

The Stock Market

The New Year did not bring any optimism to the Russian stock market. The menace of Iraq war, instability on the leading trade floors, danger of global economy stagnation as a result of high prices for energy carriers form the negative background that prevents an inflow of funds to the Russian markets. Even the extra-high oil prices failed to add optimism to investors: they had already included the future drop in quotations of the 'black gold' in the prices of Russian oil companies' shares. We would also like to point out a significant factor that is going to play a role of no small importance during the next 18 months in Russia: the forthcoming parliamentary and presidential elections. This can result in suspended adoption of some of the 'unpopular', albeit very important, laws relating, e.g., to reforms of natural monopolies.

On the whole, the RTS index decreased 6.4 percent during the month and was 226.08 points on 27 January. The trade volume was low in the indicated period, amounting to slightly over US\$ 172 million (-10.9 percent as compared to previous month). Low investor activity may be explained, firstly, by the large number of holidays and, secondly, by the fact that investors, mainly foreign investors, are waiting for an outcome of the USA - Iraq conflict. Deputies of the Russian Duma have also contributed to the fall of Russian stock index by postponing one more time the consideration of the block of laws relating to reforms of electroenergetics. In the first half of January the RTS index remained in the 357 - 361 point range, reaching 361.49 points on 16 January. Then a sharp drop followed: 343.89 on 21 January (- 4.8 percent) and on to 336.08 points (- 7 percent). The maximum turnover was registered on 21 January (ca. US\$ 21), the minimum turnover was observed on 4 January (US\$ 2.03 million).

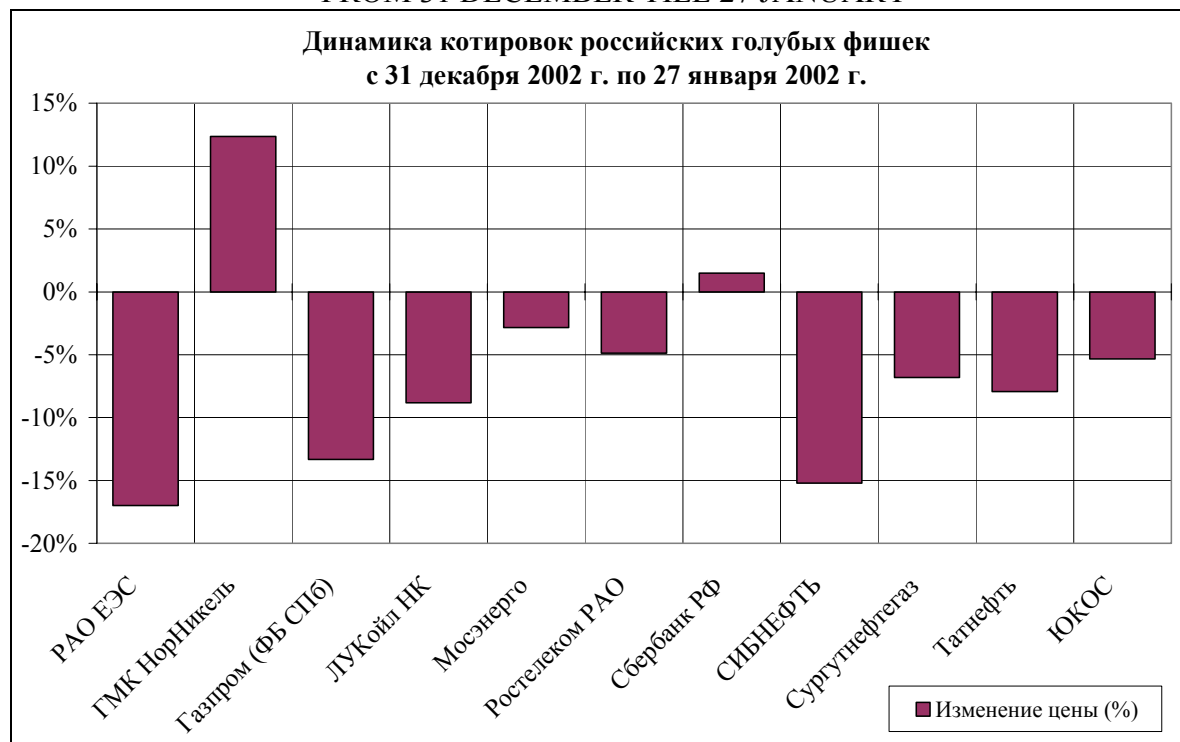
FIGURE 4



In January practically all of Russian blue chips suffered a drop in quotations. The favorable situation in the global metal market and a purchase of a large block of shares of Krasoyarskenergo resulted in a growth of Norilsk Nickel shares (12.35 percent) and good financial indicators of Sberbank (1.48 percent). Shares of the following companies demonstrated the greatest drop in the period from 1 till 27 January: RAO UES: - 17 percent; Sibneft: - 15.2 percent; and Gazprom: - 13.32 percent. The scale of decrease in quotations of securities of Lukoil (- 8.09 percent), Tatneft (- 7.93 percent) and Surgutneftegaz (- 6.81 percent) was lower. In the outsider group, Yukos (- 5.34 percent), Rostelekom (- 4.88 percent) and Mosenergo (- 2.84 percent) fared better than the rest. A purchase of Slavneft shares by Sibneft resulted in a fall of the latter's quotations, and just another delay in reforms of natural monopolies lowered the quotations of Gazprom and RAO UES. The sale of Lukoil shares by British Petroleum resulted in excessive offer in the market and, consequently, in a drop in the prices fro Lukoil shares. It looks like the growth potential of the largest Russian companies will soon be exhausted, and one might suppose that in the short term and medium term outlook investor attention will shift to securities of 'second echelon' companies, in the first place, telecommunication and regional joint-stock energy companies

The proportion of RAO UES shares in the total RTS trade volume in the period from 1 till 27 January was 28.18 percent (27.47 percent in previous month). These are followed by ordinary Lukoil shares with 18.59 percent (18.29 percent). The turnover in the shares of MMC Norilsk Nickel tripled, reaching 12.47 percent (4.10 percent), in Surgutneftegas securities fell to 11.65 percent (13.27 percent), and in Yukos securities fell to 8.66 percent (14.56 percent). The total proportion of the five most liquid shares in the overall RTS January turnover slightly decreased to 79.55 percent (80.6 percent in December).

FIGURE 5. DYNAMICS OF QUOTATIONS OF RUSSIAN BLUE CHIPS
FROM 31 DECEMBER TILL 27 JANUARY



In the period from 1 till 27 January 2002, the volume of trade in Gazprom shares via RTS terminals amounted to US\$ 33.03 million (ca. 45.9 million shares); a total of 5.64 thousand deals were been concluded with the gas concern's securities. In January 2003 the five most capitalized companies retained their positions: Yukos: US\$ 19.8 billion, Gazprom: US\$ 15.7 billion; Lukoil: US\$ 12 billion; Surgutneftegas: US\$ 10.6 billion; and Sibneft: US\$ 8.9 billion (all data according to RTS).

The Market for Term Contracts

The aggregate trade volume in the market for term contracts from 1 till 27 January was RUR 7.14 billion (42.2 thousand deals, 1.69 million contracts); futures contracts accounted for RUR 6.98 billion (40.36 thousand deals, 1.65 million contracts) in this amount. The highest trade volume of RUR 685.6 million was observed on 21 January. On average, the daily volume was RUR 446 million, the number of deals: 2636.

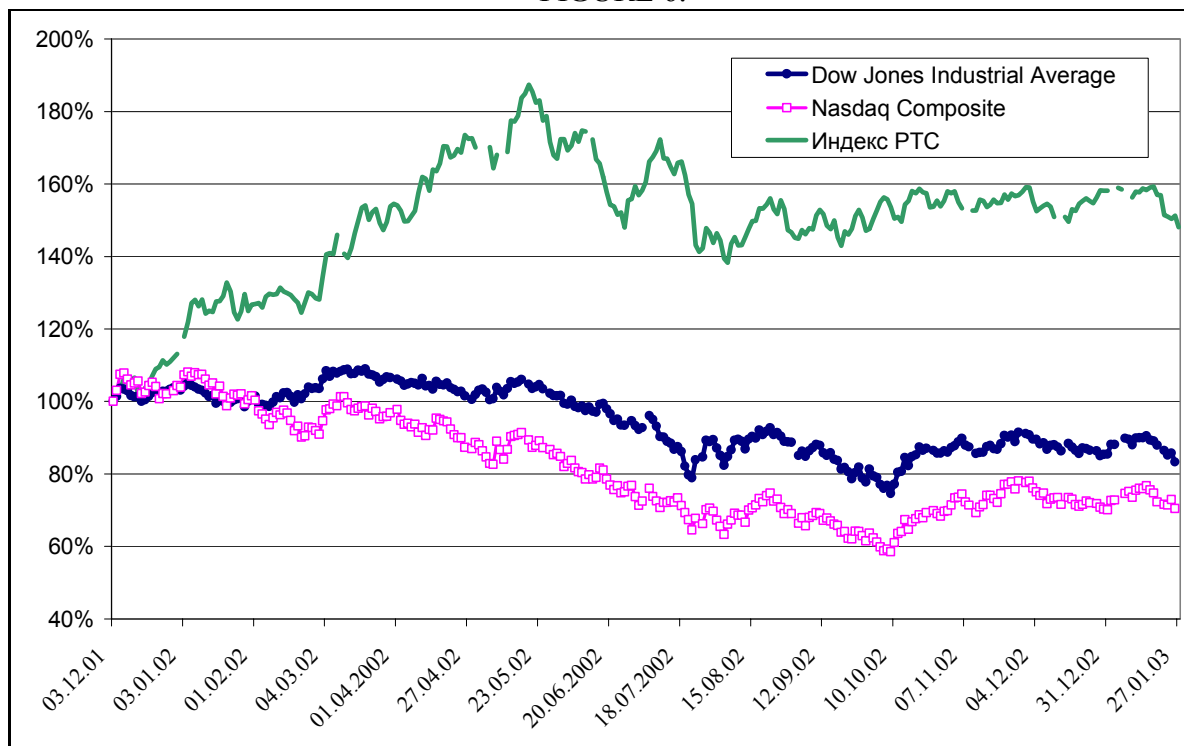
In January the FORTS market grew to new historic highs: on 17 January a record trade volume in open positions was observed: 369.6 thousand contracts (futures contracts accounted for 316 thousand in that number); on 23 January the daily record in the amount of deals was achieved: 4,182 deals, with 4,030 deals with futures contracts and 152 deals with options. The new record in the total amount of deals increased 10.5 percent versus the previous record hit on 26 November 2002.

External Factors of the Russian Stock Market Dynamics

Fears of the forthcoming US military action and unfavorable prospects of the technology sector affected the participants of the main US trade floors negatively. Statements by IBM, Microsoft and Intel about slow recovery of demand for computers and software resulted in falling demand in the market. Other factors, such as news of dropping industrial production in the US, unprecedented foreign trade deficit and a drop in the preliminary value of consumer confidence index down to 83.7 percent in January brought about a cut of the main stock market indices in the US: DJ (- 2.52 percent) and S&P (-2.09 percent), and in Europe: FTSE (- 8.54 percent), DAX (- 6.04 percent) and CAC (- 5.40 percent) in the course of the month.

The European Central Bank and the Bank of England left the key interest rates unchanged, at the level of 2.75 percent and 4 percent, correspondingly. It should be noted that the Bank of England left the interest rate at the lowest level in 39 years, and this index had remained unchanged for 14 consecutive months.

FIGURE 6.



There was no reaction in the market to OPEC's decision to increase oil export quotas by 1.5 million barrels a day starting from 1 February, which the cartel member countries made at the extraordinary meeting on 12 January. Tensions in the Middle East and the continuing strike in Venezuela that resulted in a significant decrease of crude oil reserves in the USA supported 'black gold' quotations. In January the crude oil price did not go down below US\$ 30 per barrel, growing up to US\$ 32.14 by the end of the month.

FIGURE 7. PRICE FOR BRENT CRUDE OIL, USA (NYMEX)



According to the company's officials, Sberbank's net RAS profits in 2002 were ca. RUR 30 billion, which by more than RUR 12 billion exceeds the 2001 results. Under IAS, this figure will exceed US\$ 1 billion in 2002. The total amount of Sberbank branches grew 80 during the past year. The increase in deposits of individuals was 43 percent, with currency deposits growing faster than RUR deposits. Individual lending grew 60 percent in 2002.

ОАО Yukos

Moody's Investors Service has for the first time assigned Yukos Ba1 senior implied and Ba2 foreign currency issuer ratings, with a stable outlook. It is important to point out that the company's senior rating exceeds the sovereign rating of the RF (currently Ba2). Taking into account the company's "extraordinary fundamental characteristics", Moody's has estimated Yukos better than the Russian Federation, while indicating the company's main problems: excessive concentration of share capital, dependence on world oil prices and unclear long-term development plans. As previously expected, the company declared an interim dividend payment of US\$ 12.75 billion for 9 months of 2002. The dividend will be RUR 5.7 per one ordinary share.

ОАО Lukoil

Lukoil published a report on its production operations in 2002. According to the report, the oil company's investments were US\$ 2.4 billion, three fourths of which were allocated to oil production. 78.2 million tons of oil were produced in the reporting period (the increase versus 2001 was 2 percent), gas production was 5.1 billion cubic meters. Oil exports grew up to 34.3 million tons. The total volume of oil processing in the company grew to 41.5 million tons (9.2 percent) in 2002. The increase in the company's reserves amounted to 196 million tons of oil equivalent. In 2002 ten new deposits and 16 pools of hydrocarbons were discovered, mainly in the North Caspian Sea and Timan-Pechora oil-and-gas province.

Table 1

Dynamics of Foreign Stock Indexes

As of 24 January 2003	Value	Change During the Month (%)	Change Since the Beginning of the Year
RTS (Russia)	341.31	- 3.67%	- 4.39%
Dow Jones Industrial Average (USA)	8131.01	- 5.31%	-2.52%
NASDAQ Composite (USA)	1342.14	-2.47%	0.50%
S&P 500 (USA)	861.40	-4.48%	-2.09%
FTSE 100 (UK)	3603.7	-5.68%	-8.54%
DAX-30 (Germany)	2717.82	-6.89%	-6.04%
CAC-40 (France)	2898.6	-5.18%	-5.40%
Swiss Market (Switzerland)	4477.4	-5.81%	-3.31%
Nikkei-225 (Japan)	8731.65	0.48%	1.78%
Bovespa (Brazil)	10784	-7.64%	-4.30%
IPC (Mexico)	6012.56	-3.09%	-1.87%
IPSA (Chile)	994.00	-1.87%	
Strait Times (Singapore)	1d358.04	-0.64%	1.27%
Seoul Composite (Korea)	609.43	-4.25%	-2.89%
ISE National-100 (Turkey)	10.825.87	4.61%	4.40%
Morgan Stanley Emerging Markets Free Index	293.897	-2.67%	0.62%

Foreign Exchange Market

Following the upsurge by as many as 10 kopecks to the value of RUR/ US\$ 31.8846 that occurred at the first trade session in the new year on January 8, caused by deferred demand due to the long holidays, the exchange rate stabilized around the RUR/ US\$ 31.81 peg. The strengthening of the Rouble was caused by appearance of more attractive instruments. For instance, the outflow of RUR funds could have been brought about by auctions for the placement of government bonds within the framework of the Modified Exchange Repo system and by deposit auctions organized by the Central Bank at a time when the offer of hard currency remained consistently high due to inflow of export revenues.

Balances in correspondent accounts fell from RUR 100 - 110 billion in the beginning of the month to 60 - 70 billion by the middle of the month. Overnight interbank deposit rates grew from 3 - 4 percent to 11 - 12 percent over the period.

On the whole, the Rouble - Dollar exchange rate changed in a rather narrow range of RUR/ US\$ 31.835 to 31.80. In the period from 27 December till 24 January the total exchange rate growth was 1.7 kopecks (0.054 percent), or from RUR/ US\$ 31.7844 on 27 December 2002 to RUR/ US\$ 31.8015

on 27 January 2003. According to preliminary estimates, the trade volume in the SELT will exceed RUR 91 billion.

FIGURE 8. THE DYNAMICS OF THE OFFICIAL ROUBLE - DOLLAR AND ROUBLE - EURO EXCHANGE RATE

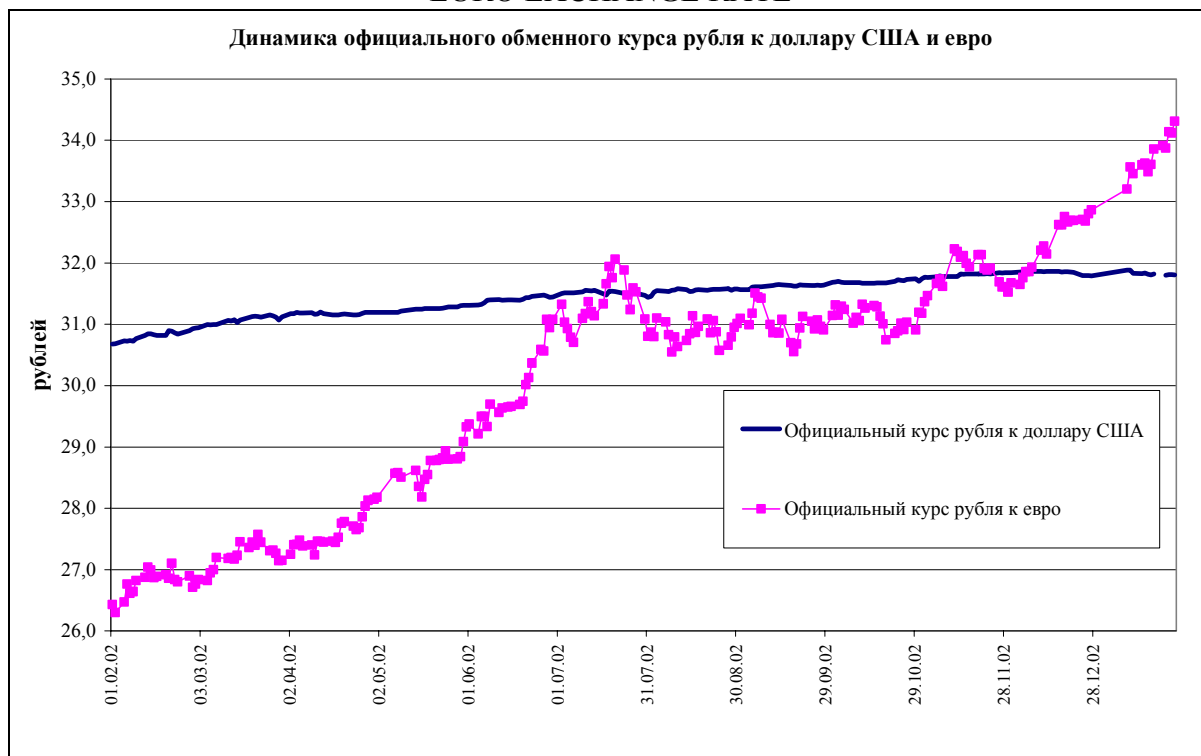


FIGURE 9. DYNAMICS OF EURO/DOLLAR EXCHANGE RATE ON INTERNATIONAL FOREX MARKETS



A pronounced Euro appreciation trend in relation to the Dollar was observed in the global market. Better economic situation in EU countries (as compared to the US) and the constant menace of a military conflict in Iraq encourage investors to buy the Euro against the Dollar. In the period from 31 December till 24 January the Dollar became 2.7 cents (2.58 percent) cheaper; at the end of the period its exchange rate decreased to US\$/ Euro 1.0753.

The Rouble - Euro exchange rate followed the world's leading trade floors. In January the highest value was RUR / Euro 34.31 (a historic maximum) on 24 January, and the lowest value was RUR / Euro 33.2024 on 8 January 2003. The Rouble - Euro exchange rate changed RUR 1.2, or 3.64 percent, in the course of the month, while the trade volume was RUR 2.9 billion.

Table 2

Financial Market Indicators

Month	September	October	November	December	January
Monthly inflation rate	0,4%	1,1%	1,5%	1,6%	2,0%
Inflation rate annualized on the basis of this month's trend	4.91%	14.03%	20.98%	19.56%	26.8%
CB RF refinancing rate	21%	21%	21%	21%	21%
Annualized yield to maturity on OFZ issues	15.25%	14.98%	14.02%	13.41%	12.2%
Volume of trading in the secondary GKO-OFZ market for the month (RUR billion)	15.97	18.73	11.15	15.11	13.0
Yield to maturity on Minfin bonds at the end of the month (% p.a.)					
4 th tranche	5.46%	4.86%	4.83 %	4.55%	3.7%
5 th tranche	10.13%	8.46%	7.83%	7.66%	7.1%
6 th tranche	8.84%	7.04%	6.78%	6.66%	5.8%
7 th tranche	10.31%	9.13%	8.50%	8.08%	7.3%
8 th tranche	9.24%	7.68%	6.81%	6.61%	5.9%
INSTAR-MIACR rate (% p.a.) on interbank loans at the end of the month:					
Overnight	17.79%	14.89%	4.68%	10.11%	5%
Official RUR / US\$ exchange rate at the end of the month	31,6358	31.7408	31.8424	31.7844	31.8222
Official RUR / Euro exchange rate at the end of the month	30,9082	31.1790	31.6736	33.1098	34.4443
Average annualized growth in RUR / US\$ exchange rate	0.22%	0.33%	0.32%	-0.18%	0.12%
Average annualized growth in RUR / Euro exchange rate	-0.37%	0.88%	1.59%	4.53%	4.03%
Volume of trading at the stock market in the RTS for the month (US\$ million)	263.143	324.38	260.20	219.92	215
Value of RTS Index at the end of the month	430.06	358.65	361.15	359.07	348
Change in value of RTS Index during the month (%)	0.90%	5.47%	0.70%	-0.58%	-3.1%

* Estimates

S. Drobyshevski, D. Skripkin

Investment in fixed assets

The macroeconomic situation in 2002 was determined by persistent trends towards the expansion of production across all sectors of economy and industries. The growth in investment demand was a specific feature of the development of Russia's economy over the last three years. In 2000 and 2001, there was observed a stable trend towards outpacing rates of growth in investment in fixed assets in comparison with GDP dynamics. The development of this trend was facilitated by expansion of domestic demand at the expense of increase in own and borrowed funds designated for investment purposes, as well as deceleration of growth in producers' prices in industry and construction. In 2002, the situation changes as consumer demand begins to outpace investment demand. As a result, the outpacing rates of increase in GDP in comparison with the dynamics of investment in fixed assets and output of base sectors of the economy were restored again. The amount of investment in fixed assets from all sources of financing made Rub. 1660.5 billion in 2002, what is by 2.6 % above the level registered in 2001, while GDP grew by 4.2 %. The share of investment in fixed assets in GDP made 15.2 % as compared with 17.7 % registered in 2001, and 16.8 % in 2000.

Decelerating rates of investment demand determined the reserved dynamics of growth in mechanical engineering and construction materials industry. As compared with figures registered in 2001, the gross output of mechanical engineering increased by 2.0 %, while production of the construction materials grew by 3.0 %. It shall be noted that in 2002 the dynamics of investment outpaced the rate of growth in mechanical engineering, what limited the possibilities for transformational shifts in reproduction of fixed assets. Decelerating rates of production in mechanical engineering negatively affect the dynamics of economic growth. The state of industries belonging to the investment mechanical engineering complex is a technological factor limiting the potential for resolving urgent problems of reconstruction and modernization of production on the new technical basis – the obsolete structure of mechanical engineering reproduces obsolete proportions of reproduction. In 2002, the share of expenditures for machinery and equipment in the total amount of investment declined by 1 p.p. in comparison with the figures registered in the preceding year; however, they remain at the level observed in 1999 through 2000.

TABLE 1

Structure of investment in fixed assets by type, in % of the total

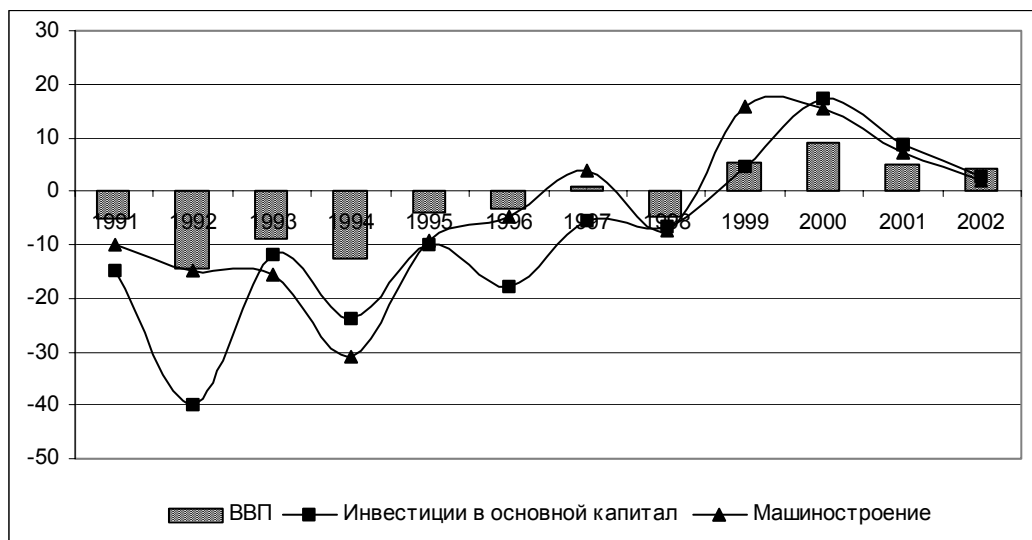
	1998	1999	2000	2001	2002*)
Investment in fixed assets, total	100	100	100	100	100
Including:					
Residential housing	16,3	14,3	10,7	9,8	12,1
Buildings (except residential housing) and constructions	45,1	41,4	43,6	43,6	43,6
Machinery, equipment	29,9	36,4	35,7	38,0	37
Other	8,7	7,9	10,0	8,6	7,3

*) preliminary data of the Ministry for Economic Development

Source: RF Goskomstat

In the last years, investment activity was determined not only by amounts of utilized funds, but also rationalization of resource flows used for the reproduction of fixed assets. As business situation changed, enterprises oriented towards the expansion of their positions on the domestic market both at the expense of increased competitiveness of their products in comparison with similar imported goods, and at the expense of intensive development of import substitution production. Since financial resources were severely limited, investment decisions were determined by the tasks related to the improvement of the quality of output and its conformity with modern standards, expansion of assortment, as well as technological aspects of reduction of costs. At the same time, in 2001 through 2002 the fact that the structure of mechanical engineering does not correspond to changes in demand for machinery and equipment became apparent. Expenditures for purchase of imported equipment increased in the structure of investment in equipment. In the first three quarters of 2002, investment in imported equipment made 24.6 % of the total amount of investment in machinery, equipment, tools, and transport vehicles, and made 8.8 % of the total investment in fixed assets.

Figure 1. Changes in GDP dynamics, investment in fixed assets and production of mechanical engineering in 1991 through 2002, in % of the preceding year



GDP Investment in fixed assets Mechanical engineering

In 2002, the intensity of investment inflow in the real sector of the economy diminished at the background of lacking significant changes in the sectoral structure. Declining investments in industry and transport fully determined the distribution of investments across sectors of the economy. In case the fact that transport, communications, and fuel complex account for almost 1/2 of the total amount of investment in the national economy is taken into account, it becomes apparent that exactly financial and economic standing of these sectors had the most considerable impact on the dynamics and structure of investment demand.

Fuel industry retained its dominating position in the structure of investment. It accounts for 49.9 % of the total amount of investment in industry, at the same time investments in oil extracting industry

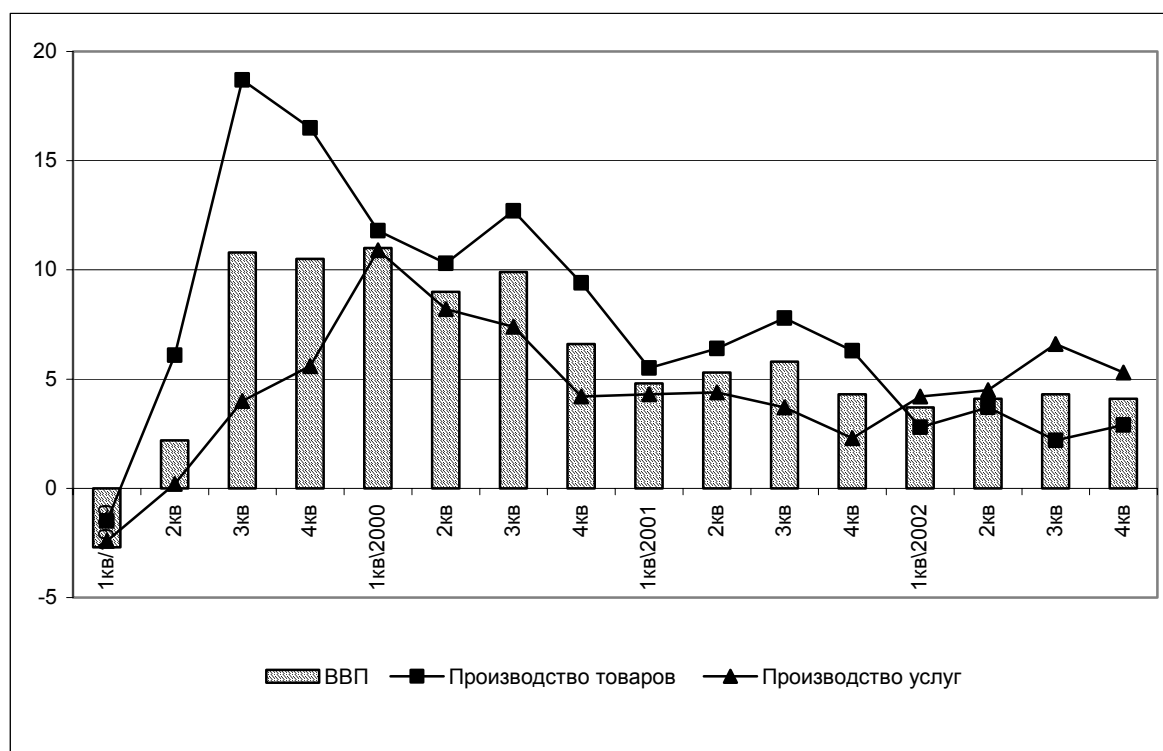
make almost 1/3 of this amount. Over the last two years, the intensive expansion of demand of the oil and natural gas complex for investment goods was a powerful factor behind the increasing business activity in mechanical engineering and industry of construction materials. In 2002, the profitability of production in fuel industry decreased almost twofold in comparison with the figures registered in the preceding year under the cumulative impact of external and internal factors, what negatively affected the level of investment demand. Taking into account the persistence of traditionally high concentration of profits in the export oriented industries of the oil and raw materials sectors and the lack of mechanisms of inter-sectoral flow of capitals, it may be hardly expected that the rate of investment would increase and radical changes would occur in the nature of the reproduction of fixed capital.

O. Izryadnova

The Real Sector: Factors and Trends

According to the preliminary estimates of the Ministry for Economic Development, in 2002 GDP made Rub. 10950 billion and increased by 4.2 % in comparison with the figures registered in 2001. The specific feature of 2002 was the shift in proportions of economic sectors determined by outpacing rates of growth in services in comparison with dynamics of production of goods. According to the preliminary data for 2002, the increase in the output of sectors rendering services made 5.1 % as compared with 3.7 % registered in the preceding year. The dynamics of market services were dominated by an intensive increase in amounts of communication services and the turnover of retail trade. In 2002, the index of the retail trade turnover made 131.6 % in comparison with the respective figures registered in 1999, GDP increased by 19.0 %, while the amount of communication services practically doubled over this period.

Figure 1. Dynamics of GDP production across economic sectors in 1999 through 2002, in % of the figures registered in the respective quarter of the preceding year



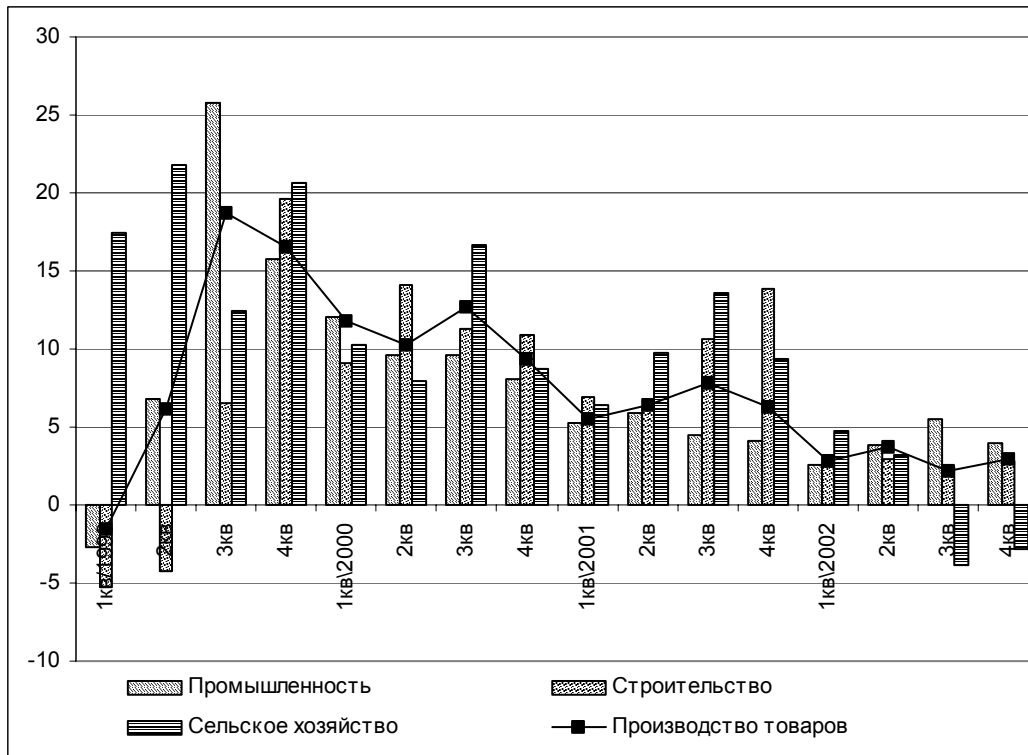
1st quart. 2nd quart. 3rd quart. 4th quart. 1st quart. 2nd quart. 3rd quart. 4th quart. 1st quart. 2nd quart. 3rd quart. 4th quart.

GDP Production of goods Production of services

As concerns sectors producing goods, in 2002 they demonstrated the opposite trend towards deceleration of growth rates. In 2002, the production of goods increased by 3.1 % as compared with 6.5 % registered in the preceding year. In contradistinction to the results of 2001, when the growth in output of goods could be explained primarily by the dynamics of production in agriculture and construction, in 2002 industry accounted for the bulk of increase in output. The growth of amount of

works in construction made 2.8 % as compared with 8.7 % observed in 2001. As concerns agriculture, since the 3rd quarter of 2002 there was registered a decline in added value, although on the whole this indicator remains positive. In 2002, the index of growth in agricultural produce made 101.7 % in comparison with 107.5 % registered in the preceding year. Added value in industry has grown at outpacing rates in comparison with respective indicators of construction and agriculture since the 2nd quarter of 2002, what has compensated the deceleration of the rates of output of goods across other industries.

Figure 2. Dynamics of production of added value across industries manufacturing goods in 1999 through 2002, in % of the figures registered in the respective quarter of the preceding year



1st quart. 2nd quart. 3rd quart. 4th quart. 1st quart. 2nd quart. 3rd quart. 4th quart. 1st quart. 2nd quart. 3rd quart. 4th quart.

Industry Construction
Agriculture Manufacturing of goods

The year's results were as follows: industrial output increased by 3.7 %, what is by 1.2 p.p. below the level registered in the preceding year. The inertia of industrial growth over the last two years may be explained both by depletion of the residual potential of import substitution and devaluation, and extremely slow process of restructuring of domestic businesses aimed at the formation of new competitive markets of domestic products. Orientation towards traditional positions on world markets of raw materials and fuel and the lack of prospective strategy of development of manufacturing sectors of the economy are determine the reserved policy of financial and credit institutions as concerns the financing of the real sector of the economy. While in 1999 through 2001, the dynamics of growth in industrial output was formed under the impact of outpacing rates of growth in manufacturing industries in comparison with extracting industries, in 2002 the situation reversed.

As the rates of growth in the investment complex decelerated from 106.2 % in 2001 to 102.1 % in 2002, the trend towards increasing role of the extracting sector was restored. The major contribution to the positive dynamics was made by the group of export-oriented industries, primarily, oil industry, non-ferrous metallurgy, chemistry, and forestry. As the external business situation gradually improved, the rates of growth in the fuel complex made 107.0 %, in non-ferrous metallurgy - 106.0 %, and in ferrous metallurgy - 103.0 % in 2002.

The outpacing rate of growth in export-oriented industries may be explained by favorable business factors observed on world raw materials markets, while the deceleration of growth rates in mechanical engineering to 102 % in comparison with 107.0 % in 2001 and the decline of output in light industry

by 3.4 % as compared to figures registered in the preceding year are related to purely internal problems.

A factor behind the insufficient competitiveness of domestic products is that economic growth was mainly oriented towards more intensive utilization of production capacities. The lack of substantial shifts related to the introduction of new production capacities in fact prevented the consistent implementation of the policy aimed at import substitution and diversification of export flows. The increasing influence of competing imports has significantly affected the dynamics of development of internally oriented industries. While industrial output increased by 3.7 % in comparison with the figures registered in 2001, imports grew by 12.5 %. An increase in the share of imports is the pronounced trend in the structure of resources of the consumer market and the market of material and technical products. Besides, the real Ruble appreciation was a factor behind the growth in imports.

In 2002, the revenue structure of GDP was formed under the influence of outpacing rates of growth in wages and salaries in comparison with productivity of labor, changes of price proportions among industries, growth in tariffs on services and products of natural monopolies, and dynamics of international prices of Russia's staple exports. In 2002, the share of wages and salaries in GDP increased by almost 2.2 p.p. in comparison with the figures registered in 2001. While the general trend towards declining rates of profit in the economy prevailed, the profitability of trade, communications, and transport somewhat increased. In spite of the gradual deceleration of rates of decline in profits in the second half of 2002, indicators of profitability remain considerably below the levels observed in 2001. In industry, in January through November of 2002, the balanced financial results made 70.5 % of the level registered in the respective period of the preceding year. The decline in profitability of production in fuel, raw materials, and final industries has determined the deceleration of investment demand. The share of profits in the structure of sources of financing of investment activities at the expense of own funds decreased almost by 10 p.p. in comparison with the figures observed in 2001.

In 2002, there was registered a clear asymmetry of growth in production, household incomes, and final demand, what does not permit to unambiguously evaluate the economic situation. While in 1999 through 2000 the expansion of household demand was constrained by the low level of effective household demand, in 2001 through 2002 the situation changed. The active social policy aimed at the restoration of living standards resulted in an increase in the share of expenditures for final demand in GDP by almost 2.2. p.p. in comparison with the figures registered in 2001. It shall be mentioned that in contradistinction to the period of 1999 to 2001 this increase was related both to a growth in household consumption, and an increase in expenditures for final consumption of state agencies. In 2002, real household incomes increased by 8.8 %, real wages and salaries – by 16.6 %, real gross pensions – by 16.9 % in comparison with the levels registered in 2001. The major changes in the structure of GDP utilization occurred at the background of outpacing growth in final consumption in comparison with gross accumulation and investment in the real sector of the economy.

In the course of the analysis of the state of the Russia's economy, it shall be stressed that in 2002 the share of gross savings in GDP made 32.8 % as compared with 32.8 % registered in 2001 and 23.3 % in 1998. The present profitability of production and export operations guaranteed the fulfillment of obligations related to timely financing of budget expenditures and servicing of the public debt without urgent borrowings on the internal and external financial markets. At the same time, the share of investment in fixed assets in GDP declined by almost 2.5 p.p. The sharp reaction of investment in fixed assets to the dynamics and the nature of formation of gross savings in the economy reflects the fact that mechanisms of transformation of savings in investment are underdeveloped.

O. Izryadnova

IET Business Survey: Industry

The seasonal decline in sales and non-cash transactions forced enterprises to sharply decrease their output. However, a growth in finished stocks could not be avoided, what made the finished stocks excessive. Assessments “above norm” prevail across all industries. A traditional increase in costs made enterprises to rise prices, what resulted in accelerating rates of decline in profits at the background of falling demand.

The dynamics of cash sales in January confirmed the pessimistic December forecasts. Effective demand continued to decline. As a result, in the four last months the rates of changes in sales decreased from + 15 % to –22 % (in terms of balance). At the same time, the former value is the best for the period of 2001 to 2002, while the latter is the worst over the whole post-default period.

Therefore, the downfall in sales observed in January of 2003 has exceeded the respective indicator of 2002. An increase in cash sales persisted only in power engineering (+ 45 %). Across other industries the balances of responses were negative.

Non-cash types of demand also continue to decline. The balance of changes in barter dropped down to -15 %, promissory notes and offsets – to -14 %. The rates of decline in effective demand (-22 %) again proved to be higher in comparison with other types of demand. Reports on a decline in barter prevailed across industries and were most frequent in construction industry, chemistry, petro-chemistry, and mechanical engineering. An absolute growth in amounts of promissory notes and offset transactions (i.e. positive balance) was registered only in power engineering (+ 9 %). These operations continued to decline across all other industries.

Accelerating rates of decrease in effective demand did not change evaluations of its amounts. Slightly over 30 % of enterprises still assess the existing amounts of cash sales as “normal.” In August through September of 2002, the number of such reports was at about 40 %. On the whole, surveys register a high and stable dissatisfaction (the balance of evaluations is always negative) of Russia’s enterprises with effective demand for industrial products.

The situation relating to evaluation of barter, promissory note, and offset demand is different. Since the beginning of 2002, dissatisfaction with these types of demand started to prevail across industries. Enterprises lacked non-cash transactions to realize all their output. In the beginning of 2003, this lack was reported at record highs. The balance of evaluation of barter (above – below norm) decreased to - 8 %, while promissory notes and offsets declined to -10 %. In other words, across Russia’s industries there was registered the maximal prevalence of enterprises, which evaluated amounts of non-cash transactions as insufficient. The greatest lack of non-cash demand was observed in construction industry, metallurgy, chemistry, and petro-chemistry.

The decline in all types of demand transactions forced enterprises to decrease the volumes of their output. The January decline in production made -17 % (in terms of balance) and was not so pronounced as a year ago (-21 %). However, this decline was registered across all industries with the exception of power engineering and non-ferrous metallurgy. In 2002 only forestry and woodworking could avoid the downfall. At present, the most sharp decline in output occurs in construction industry, light and food industries.

However, the restraint of output proved to be insufficient in comparison with the decline in sales. This development resulted in an absolute increase in finished stocks. The balance of change in evaluations of volumes finished stocks grew by 5 points and ceased to be negative in the industry at large. An increase in finished stocks was registered across the majority of industries. A decline in volumes of finished stocks was reported only in light and food industries. Evaluations of volumes of finished stocks taking into account the prospects of sales of products have changed even more dramatically. In January, the balance of assessments increased by 8 points and reached +21 %. Such a large excess of finished stocks has only several times been registered since 2001, when enterprises started to use stocks as a cushion compensating sudden changes in demand. At present evaluations “above norm” prevail across all industries.

Characteristic development in the beginning of the year was a sharp growth in costs borne by Russian enterprises. Over the quarter, the share of enterprises reporting an increase in costs grew from 45 % to 66 %. As a result, the balance of change in this indicator went up to +64 %, what is the record high in the last 16 quarters. The growth in costs made enterprises to increase prices even in the situation of falling demand. In January, the rate of rise in prices increased by 18 points and made +34 % (in terms of balance). According to the estimates of enterprises, prices have not grown so intensively in more than last 3 years. However, these measures did not result in an increase, or at least deceleration, of decline in profits. In January, the rates of decline in profits increased to -39 %, what is the worst value of the indicator registered since the start of the monitoring in February of 2002. A growth in profits persists only in power engineering.

Hopes for an increase in cash sales once again prevail in the Russia’s industry. After the pessimistic expectations registered in December, the balance of estimates has increased by 13 points and become positive. A growth in effective demand is expected across all industries with the exception of power engineering and forestry complex. The most optimistic forecasts are registered in chemistry, petro-chemistry, and construction industry. The estimates concerning non-cash types of demand have also changed. On the whole, it may be expected that barter will decline less intensively, while promissory notes and offsets will slightly increase in the Russia’s industry.

The most pessimistic forecasts of changes in output in the post-default period were replaced by optimism characteristic of the last years. An increase in rates of growth in production may be expected across all industries with the exception of power engineering, which is already planning a decline in output due to the seasonal factors.

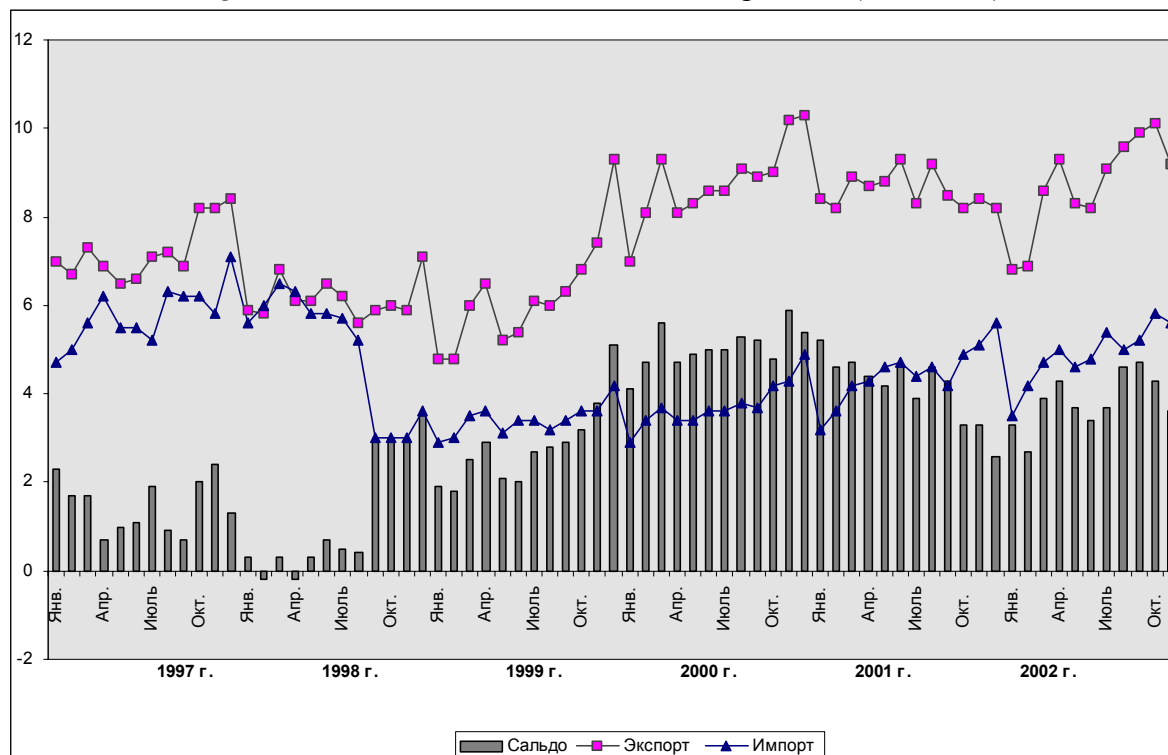
The planned growth in production will not be accompanied by an increase in employment. According to managers, enterprises again experience excessive employment. Evaluations “less than sufficient” prevail only in mechanical engineering and light industry. Therefore, the balances of estimates concerning changes in the number of employed have remained negative since the beginning of 2002: plans to cut down the number of jobs prevail in the industry (especially in power engineering and non-ferrous metallurgy). In the nearest future, an increase in employment is possible only in construction and food industries.

S. Tsukhlo

Foreign Trade

In November of 2002, the Russia’s foreign trade turnover grew by 9.6 % in comparison with the figures registered in the respective period of the preceding year and made US \$ 14.8 billion (according to the balance of trade methodology). However, in comparison with the figures registered in October of 2002 there was observed a decline both in imports and exports, therefore the amount of November turnover decreased by 6.9 % in comparison with the figures registered in the preceding month.

Figure 1. Main indicators of Russia’s foreign trade (in US bln.)



Source: RF Goskomstat

Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct.

Balance Export Import

As a result of temporary deterioration of trade conditions, the amount of exports in November turned out to be by 9.5 % below the October figures and made US \$ 9.2 billion. This development is related to the fact that export of fuel and energy resources accounting for 56.7 % of the total amount of Russia’s exports is practically fully determined by the situation on world oil markets, which was rather unstable over the last few months. For instance, after the September hike in prices (Urals) up to US \$ 27 to 27.5 per barrel, in October prices fell by 4.1 %, while in November they declined further by 11.6 % (down to US \$ 21.4 per barrel) and were closer to prices observed in end-2001 – early 2002.

According to the results of the monitoring carried out in November and December of 2002, the price of Urals oil made US 24.92 per barrel, or US \$ 181.92 per metric ton. Accordingly, the rate of

export duty on crude oil and crude oil products extracted from bituminous rock was reduced from US \$ 29.9 per metric ton to US \$ 25.9 per metric ton on February 1, 2003.

In November, the prices of Russian natural gas on West European markets grew by 44.6 % in comparison with the figures registered in November of the preceding year, but decreased by 0.8 % as compared with prices observed in October of 2002. Gasoline prices also grew significantly in comparison with the respective indicator registered in 2001, however, they decreased by almost 10 % as compared with the figures observed in the preceding month.

In November, the business situation on the markets of ferrous metals was characterized by balanced demand and supply. Prices of these products remained stable. Basic prices of reinforcing steel, commercial steel, and hot rolled steel in rolls remained at the level registered in October of 2002 and made in the end of the month US \$ 250 to 310, 260 to 300, and 295 to 315 per metric ton respectively. The prices of cold rolled steel in rolls made US \$ 365 to 395 per metric ton (an increase by US \$ 35 to 45 in comparison with the October figures).

The business situation on the world market of non-ferrous metals in November was characterized by an increase in prices in comparison both with November of 2001 and October of 2002.

Table 1

The average monthly world prices in November of the respective year

	1996	1997	1998	1999	2000	2001	2002
Oil (Brent), USD / metric ton	22,8	17,8	11,5	24,1	25,6	19,35	24,4
Natural gas, USD / thous. m ³	3,093	2,393	2,251	2,558	5,767	2,843	4,11
Gasoline, USD / metric ton	0,6691	0,5648	0,3739	0,6986	0,7649	0,5454	0,7203
Copper, USD / metric ton	2273,3	1834,7	1601,6	1748,1	1914,4	1481,0	1610,0
Aluminum, USD / metric ton	1459,9	1535,5	1305,0	1470,7	1562,5	1326,6	1373,4
Nickel, USD / metric ton	6920,0	6099,0	4202,0	7984,2	7315,4	5159,7	7316,7

Source: calculated in accordance to the data presented by London Metal Exchange (UK), International Oil Exchange (London)

In November of 2002, the imports grew by 9.8 % in comparison with the November indicator of 2001, while decreasing by 3.4 % as compared with the figures registered in the preceding month. A decrease in imports was observed across practically all commodity groups in comparison with the October figures, with the exception of food imports, the amount of which continued to grow. In November, import of foodstuffs increased by 8.2 % in comparison with October. While in October of 2002 the share of foods in the total imports from countries outside NIS made 20.2 %, in November this indicator was at 23.4 %.

On the whole, in the 11 months of 2002, volumes of food imports from countries outside NIS significantly increased across all commodity groups. For instance, the volume of import of fresh and frozen meat increased by 32.1 % in the first 11 months of 2002 as compared with the figures observed in the respective period of 2001, while the amount of respective imports grew almost by 50 % - up to 997 434 metric tons, or US \$ 1140.6 million. Countries outside NIS accounted for imports worth US \$ 969.1 million, what is by almost 60 % above the level registered in the first 11 months of 2001.

At present, the RF government is very much concerned about the food security of the country. Besides, the task to protect domestic producers has become one of the most important over the last years. As a result, in late January of 2003, there was taken decision to introduce import quotas in relation to poultry, beef, and pork.

The quotas related to poultry is distributed among importing countries in accordance with the proportions formed in 1999 through 2001. The US quota makes 443.5 thousand metric tons, EU – 139.9 thousand metric tons, Brazil – 33 thousand metric tons. The governmental resolution prohibits imports of chicken meat over the established quota. This year, the quota comes into effect in April, therefore 704 thousand metric tons may be imported until December 31, 2003, while imports in the next two years are allowed at 1 million 50 thousand metric tons. The respective imports since January 1, 2006 and until the abolishment of the quota shall be at 306 thousand metric tons. In the past years only US imports exceeded the total present quota.

The mechanism of tariff quota relating to beef and pork requires an amendment to the Customs Code. These amendments have already passed two readings in the State Duma, therefore, these quotas may be introduced before poultry quota. It is planned to limit import of beef by 315 thousand metric tons, while the respective duty will make 15 % (but no less than Euro 0.15 per kilo). It is permitted to import 337.5 thousand metric tons of pork a year, the duty shall be at 15 %, but no less than Euro 0.25.

The duty on imports of beef and pork exceeding the quota shall be at 60 % (but no less than Euro 0.6 per kilo), and 80 % (but no less than Euro 1.06 per kilo) respectively.

The quotas shall be distributed by country and suppliers in accordance with the method of traditional importers: the State Customs Committee shall submit the list of importers of poultry, beef, and pork covering the last 3 years to the Ministry for Economic Development, which should calculate the average annual amounts of imports carried out by companies and distribute quotas in respective proportion. As concerns new operators on the meat market, they shall participate in an auction. It is planned to put out 10 % of quotas relating to import of beef and pork to tender.

In the beginning of 2003, there shall be introduced import duties on sugar and unrefined sugar, as envisaged by the governmental resolution "On tariff regulation of imports of unrefined and refined sugar in 2003," which was approved in July of 2002.

The rate of import duty on unrefined sugar from January 1 to June 30 of 2003 shall be at Euro 0.2 per kilo, from July 1 to December 31 of 2003 – at Euro 0.23 per kilo (in 2002 the rate was at Euro 0.12 per kilo, since July 1 imports of unrefined sugar were subject to the seasonal 50 % duty (but no less than Euro 0.15 per kilo).

The rate of import duty on refined sugar from January 1 to June 30 of 2003 shall be at Euro 0.24 per kilo, from July 1 to December 31 of 2003 – at Euro 0.27 per kilo (in 2002 the rate was at Euro 0.14 per kilo, since July 1 imports of unrefined sugar were subject to the seasonal 50 % duty (but no less than Euro 0.18 per kilo).

The tariff quota related to imports of unrefined sugar in 2003 is set at 3.95 million metric tons (in 2001 through 2002 it was at 3.65 million metric tons). The rate of import duty on unrefined sugar imported within the quota is set at Euro 0.095 per kilo. The quota was sold at the auction held on September 25 for Euro 405.25 million.

According to the data for November of 2002, the turnover of Russia's trade vis-à-vis CIS countries made US \$ 2.63 billion, while the outpacing growth in exports continued (exports were registered at US \$ 1.53 billion and exceeded the respective indicator of 2001 by 17.4 %, while imports grew only by 6.5 % making US \$ 1.10 billion).

Ukraine remains a major trade partner of Russia and accounted for about 5.5 % of the total Russian foreign trade turnover in 2002.

In the course of the meeting of the heads of CIS member countries taking place in Kiev in January, Ukraine supported the idea to join the zone of free trade planning to barter its agricultural produce for Russian natural gas.

On the other hand, Ukraine hesitates to join EvrAzES, in spite of the possible abolishment of VAT on oil supplied to local oil processing factories. According to the present practices, Belorussia and all countries of East and West Europe receive Russian hydrocarbon products at prices 20 % below the price paid by Ukraine.

In 2002, the amount of mutual trade of two countries decreased almost by 10 %. To a certain extent, it is related to numerous reciprocal antidumping investigations and restrictions on a number of staple exports. For instance, only in the last few months of 2002 there were initiated several large bilateral investigations. According to the Ukrainian party, the membership in EvrAzES can not resolve dumping conflict between two states.

The Ukrainian Economic Ministry initiated a special investigation in the end of December and is planning to introduce an import duty at 30 % to 50 % (and later quotas) on five types of mineral fertilizers, for instance, on ammonium nitrate and phosphorous fertilizers imported from Russia, since the increase in imports of these products damages national producers.

In January, representatives of Russia and Ukraine signed the protocol related to imports of Ukraine-made pipes in Russia in 2003. According to the protocol, the volume of imports shall remain at the level set forth in 2002 (620 thousand metric tons, including 135 thousand metric tons of large diameter pipes).

On May 21, 2001, Russia introduced a three-year duty on import of Ukrainian pipes made from ferrous metals at 40 % of the customs value of all pipes and at 20 % of large diameter pipes, the duty was enacted on January 1, 2002.

In the end of March, the Ukrainian government approved a resolution introducing a 20 % duty on 20 Russian commodities in the case Russia would have enacted export duty on Ukraine-made pipes.

As a result of negotiations, on November 7 the RF government abolished the duty on import of Ukrainian pipes made of ferrous metals introduced in the beginning of 2002, however, it declared the intention to continue the regulation of export of Ukrainian pipes made of ferrous metals to Russia.

N. Volovik N. Leonova

On the progress of reforms in 2002

In 2002, the Government of the Russian Federation focused on the following: the reform of the systems of education and health care, the pension reform, creation of a favorable environment for the development of small businesses, continuation of the reform of natural monopolies, housing, and public utilities, the reform of the banking system and government.

At present, modernization of educational system is carried out as an experiment in many spheres: for instance, in 2002 it was experimented with the introduction of the single state exam, certain measures aimed at the improvement of the structure and subject matter of higher education, transition of certain higher professional education establishments to the financing based on state personal financial certificates, and measures aimed at the restructuring of the network of general education establishments in rural areas.

Besides, on November 1, 2002, the RF Government issued its resolution No. 1536-r approving the plan of measures aimed at the support of exports of educational services on the part of Russia's educational establishments.

As concerns the reform of the health care system, there was continued the elaboration of procedures governing paid and free health services to citizens. Respective draft resolutions were submitted to the government of the Russian Federation in December of 2002.

The pension reform is underway. In July of 2002, there was approved the federal law "On the investment of funds for the financing of the accumulated part of the labor pensions in the Russian Federation," which established the legal basis of formation and investment of pension savings designed for the financing of the accumulated part of labor pensions. The State Duma is considering a number of bills, including "On the insurance contributions for the financing of professional pension systems" (passed in the first reading on June 26, 2002).

As concerns the reform of the taxation system, there was approved an article of the Tax Code regulating taxation of small businesses.

In December of 2002, the President of the Russian Federation signed the federal law "On technical regulation." This law is aimed to adjust legal basis of standardization and certification to international rules and regulations. Besides, there was approved a number of normative legal acts necessary for the implementation of laws approved in 2001, which concerned the de-bureaucratization of the economy, including the federal law "On state registration of legal entities."

A number of laws was approved in the framework of antimonopoly policy: in October of 2002, there was approved the federal law "On amendments to the RSFSR law "On competition and restriction of monopoly activities on commodity markets," while in December of 2002, the draft federal law "On amendments to article 178 of the Penal Code of the Russian Federation" was submitted to the Government of the Russian Federation.

On September 23, 2002, the draft federal law "On amendments to the federal law 'On protection of competition on the market of financial services'" was submitted to the Government of the Russian Federation. The draft law is aimed to improve the antimonopoly control over agreements and concerted actions of financial organizations.

The draft federal law "On amendments to article 7 of the federal law 'On protection of rights of legal entities and individual businesspersons related to state control (oversight)'" was submitted to the government of the Russian Federation in December of 2002. The draft law stipulates that there shall be introduced a moratorium as concerns inspection of small businesses in the first three years of their operation.

The President of the Russian Federation signed the federal law "On insolvency (bankruptcy) in October of 2002. The law extends the list of entities which may be declared insolvent (bankrupt). The law embraces all legal entities with exception of state owned enterprises, state agencies, political parties, and religious organizations.

An important step towards the creation of the legal basis of the functioning of the market of farm lands was the approval of the federal law "On the turnover of farm lands" in July of 2002.

In 2002, there banking reform was underway. The reform was carried out in correspondence with the development strategy for the banking sector of the Russian Federation. In July of 2002, there was approved the federal law "On the Central Bank of the Russian Federation (Bank of Russia)," which more precisely defined the status, authority, and functions of the Central Bank.

The Government of the Russian Federation has approved the draft federal law "On insuring deposits of individuals with the banks of the Russian Federation."

In September of 2002, the Government of the Russian Federation approved the Concept of development of insurance in the Russian Federation. Besides, on October 4, 2002, the Government of the Russian Federation approved resolution No. 737 “On tenders among insurers allowing insurance at the expense of funds of respective budgets.”

In December of 2002, the President of the Russian Federation signed federal law “On amendments to certain legal acts of the Russian Federation aimed at the development of the system of mortgage housing crediting (borrowing)” concerning relocation of mortgagors who forfeited property rights for housing, and family members to temporary housing.

By issuing on January 18, 2003, resolution No. 69-r, the Russian Government approved the Concept of development of forestry in the Russian Federation for 2003 – 2010. The concept sets forth goals, objectives, and priorities of development of forestry and state management of forestry assets and forests outside the forestry assets, as well as stipulates measures aimed at the improvement of efficiency of the state management of the forestry assets. On September 19, 2002, the Government of the Russian Federation approved the key guidelines for the restructuring of sectoral research and development institutes. The restructuring of the network of state sectoral scientific establishments is aimed to concentrate scientific and technical potential in priority areas of scientific, technological, and technical development approved by the President of the Russian Federation on March 30, 2002.

In December of 2002, a draft concept of state policy aimed at the restructuring of enterprises in “single-company” towns and measures of its implementation was submitted to the Government of the Russian Federation.

In November of 2002, a draft concept of development of venture industry in Russia (state system of stimulation of venture investment) was presented to the Government of the Russian Federation.

On December 3, 2002, the Government of the Russian Federation issued its resolution No. 858, which approved the federal targeted program “Social development of rural areas until 2010.” The program is aimed at the development of the social sphere and engineering infrastructure of rural municipal entities; creation of legal, administrative, and economic conditions allowing the transition to sustainable social and economic development of rural municipal entities.

An important aspect of activity in 2002 was the improvement of the regulating mechanism on the grain market. On October 11, 2002, there was adopted governmental resolution No. 756 “On carrying out state procurement interventions in order to regulate the grain market in 2002 and 2003” and federal law No. 126-FZ of October 25, 2002, “On amendments to the federal law ‘On the Federal Budget for 2002.’”

In order to control the level of costs of monopolies, more precise prognostication of the necessary amount of investment, and calculation of adjustment of tariffs on products (services) set by monopolies in relation to the necessity to curb inflation in 2002, there were elaborated recommendations for the annual review of budgets of natural monopolies at the meeting of the Government of the Russian Federation.

In October of 2002, the State Duma of the Federal Assembly of the Russian Federation passed in the first reading the package of bills concerning the reform of power engineering. In December of 2002, the State Duma of the Federal Assembly of the Russian Federation passed in the third reading the package of bills concerning the reform of railroad transport. Three bills of this package were signed by the President of the Russian Federation in January of 2003. These signed bills included federal laws “On railroad transport in the Russian Federation” (No. 17-FZ of 10.01.2003), “The transport charter of the railroad transport of the Russian Federation,” (No. 18-FZ of 10.01.2003), and “On amendments to the RF federal law ‘On natural monopolies’” (No. 16-FZ of 10.01.2003).

On July 1, 2002, the Government of the Russian Federation approved resolution No. 490 “On the experiment concerning the introduction of the economic model of reform of housing and public utilities.”

The State Duma of the Federal Assembly of the Russian Federation passed in the first reading the draft federal law “On amendments to the law of the Russian Federation ‘On the basic principles of federal housing policy’ and other legislative acts of the Russian Federation as concerns the improvement of the system of payments for housing and public utility services.” A draft Housing Code of the Russian Federation was submitted to the Government on December 30, 2002, as a part of the package of measures aimed at the ensuring the housing rights of citizens for property, renting, and social renting.

In November of 2002, the President of the Russian Federation issued the decree setting forth the key guidelines of the reform of public service, including the creation of the integrated legal basis of the

regulation of public service, elaborating measures aimed at the improvement of remuneration of public officials, and approving the federal program “Reform of the public service in the Russian Federation (2003 – 2005)”.

A most important aspect of external economic policy is Russia’s accession to WTO. In 2002, there was continued work aimed to bring the legislation of the Russian Federation in correspondence with WTO rules and regulations. The discussion on the final report of the working group on Russia’s accession to WTO, what, in fact, is a last stage of negotiations, is underway.

In December of 2002, there was approved the federal law “On invalidation of certain legislative acts of the Russian Federation concerning the tax on purchase of foreign currency and payment documents denominated in foreign exchange,” in correspondence to which the tax on purchase of foreign currency was abolished on January 1, 2003.

In September of 2002, the Government of the Russian Federation approved on the whole the system of measures aimed at the state support of export of industrial products proposed by the RF Ministry for Economic Development. The document sets forth a number of key guidelines, including organizational, trade and political, tax and administrative measures and measures relating to currency regulation, as well as information, consulting, and promotional measures.

In 2002, the market status of the Russian economy was confirmed. On June 6, 2002, the USA announced that Russia was granted the status of a market economy upon the presentation of the Memorandum on the state of the Russian economy. On November 8, 2002, the similar status was granted to Russia by the European Union.

In December of 2002, a draft federal law “On foreign currency regulation and foreign currency control” was submitted to the State Duma of the Federal Assembly of the Russian Federation.

In 2002, there was started the work aimed at the implementation of the Plan of concerted actions of the Government of the Republic of Belarus, the National Bank of the Republic of Belarus, the RF Government, and the Central Bank of the RF as concerns the introduction of single currency of the Union state until 2005, gradual elimination of waivers relating to the free trade of Russia and CIS member countries, formation of the common customs space in the framework of EvrAzES.

In the framework of development of local government, in 2002 there was elaborated the draft new version of the federal law “On the general principles of local government in the Russian Federation,” which the President of the Russian Federation presented to the State Duma of the Federal Assembly of the Russian Federation in December of 2002. The Government of the Russian Federation approved resolution No. 996-r of July 19, 2002, concerning the urgent measures aimed at the implementation of state support of the development of municipal entities.

In October of 2002, improved draft Concept of the single system of management of the Russia’s public debt was presented to the Government of the Russian Federation.

In 2002, a number of most important issues remain unresolved, including the reform of the system of mandatory medical insurance, creation of special economic zones, elaboration of a law on self-regulating organizations, while the reforms of housing and public utilities (HPU), power engineering, and natural gas industry have noticeably slowed down.

On December 19, 2002, the Government discussed its new action plan for 2003 and approved it on the whole. The draft plan includes both the issues unresolved in 2002 and new tasks in the sphere of administrative reform, diversification of the structure of the economy, tax and budgetary reform, reform of infrastructure monopolies, further opening of the economy, the reform of social services system. On January 29, 2003, the Ministry for Economic Development submitted the elaborated action plan to the Government.

These six basic issues will be included in the new version of the government medium term program (for 2003 – 2005), which is elaborated at present and will be discussed alongside with the results of the year at the Government meeting to be held on February 20.

O. Fomichev

The dynamics of privatization process in 2002

The key characteristic of the whole period of the so called “cash” privatization (from 1994 to present) is the budgetary orientation of privatization process, which is of the seasonal nature from the viewpoint of inflow of major revenues (as a rule, end-year, when 2 to 3 major transactions were usually made). However, it is important that since 1999 the government does not plan to receive fixed revenues from privatization (it permits to more reasonably approach the sales of most attractive

companies). Since 2001, as this general approach persists, yet another principal characteristic related to utilization of state property may be mentioned: a shift in the structure of revenues from nonrenewable to renewable sources. For instance, in 2001 almost 75 % (in the case only internal sources are taken into account, i.e. without revenues from the sale of Vietsovpetro, 60 %) of the aggregate revenues of the federal budget from privatization and utilization of federally owned property were received from renewable sources, while in 1997 this indicator made only 3 %. This positive trend is clearly detected in 2002: the revenues from renewable sources is 3 times above proceeds from privatization (without transactions with shares in Lukoil and Slavneft, which were debated until late in the year – see Table 1).

According to the preliminary estimates of the RF Ministry for Property Relations, in 2002 the aggregate revenues of the federal budget from privatization and utilization of federally owned property made Rub. 31.19 billion, including Rub. 7.8 billion received at the expense of lease of federal property, Rub. 10.25 billion – as dividends on federally owned shares, Rub. 9.9 billion made the RF share in JV Vietsovpetro, Rub. 2.3 billion as lease payments for land, Rub. 0.9 billion as transfer of the state share in profits of federal state unitary enterprises. The proceeds from sales of property and blocks of shares in joint stock companies carried out by the Russian Federal Property Fund and regional property funds in RF subjects made Rub. 91.2 billion, although more than 80 % of this amount were received from two transactions made in December of 2002 (blocks of shares in Lukoil and Slavneft). Proceeds from the sale of land made Rub. 0.6 billion.

Although the new law on privatization came into effect only in the spring of 2002, the privatization program for 2002 is based primarily on the innovations stipulated by this law. The enactment of the law (first of all, the modernization of the set of instruments allowing the sale of minor blocks of shares and non-liquid assets) presents legal grounds for a massive reduction of state owned objects, the necessity of which had been discussed since mid-1990s. This development also concerns SUEs, the number of which (especially taking into account the approval of law No. 161-FZ of November 14, 2002. “On state and municipally owned unitary enterprises,” which shall become a powerful incentive for elimination of this organizational and legal form) the Property Ministry is planning to reduce to 2.5 thousand by the end of 2003. Moreover, reorganization processes (mergers, liquidations, reorganization into joint stock companies, partial sales) shall be applied to subsidiaries of SUEs.

Table 1

Privatization and Utilization of State Owned Property in 1995 through 2003 (in current prices)⁵

	1995	1996	1997	1998	1999	2000	2001	2002	2003 (plan)
Actual number of privatized enterprises									
	6000	5000	3000	2583	595	320	170	2200 (plan)	1063 (plan)
Revenues from privatization of property (non-renewable source)									
Approved budget, Rub.	4,991 bil. total revenues	12,3 trillion все доходы	6,525 trillion все доходы	8,125 bil. c	15 bil. e	18 bil.	18 bil.	35 bil.	51
Actual revenues, Rub.	7,319 trillion A	1,532 trillion	18, 100 trillion B	15,442 bil. d	8,547 bil.	31,368 bil.	10,11 bil.	91,2 bil. f	-
Actual revenues from the utilization of state owned property (from renewable sources)									
Dividends on blocks of shares in federal ownership, Rub.	92,8	118 (35 JSC)	270,5	0,575 (200 JSC)	0,848 (600 JSC)	3,675 (1050 JSC)	6,478	10,25 (708 JSC)	10,5
Lease revenues, Rub.	116,7	н. д.	305	466	2,191	3,427	4,896 – property; 3,917 – land	7,843 – property; 2,3 – land	7,3
payments (revenues) from state owned enterprises, Rub.	-	5	26	0,783 – “Vietsovpetro”	5,675 – “Vietsovpetro”	11,687 – “Vietsovpetro (VS)”	13,622 – “VS”; 0,209 – profits of 131 SUEs	9,9 – “VS”; 0,9 - profits of SUEs 809	12,3 – “VS”; 2,5 - profits of SUEs
Total, Rub. billion	209,5	123	601,7	1,824	8,714	18,789	29,122	31,19	-
Aggregate revenues from privatization and utilization of state owned property									
Actual revenues, Rub.	7,529 trillion	1,655 trillion	18,702 trillion	17,266 bil.	17,262 bil.	50,157 bil.	39,233 bil.	122,39 bil. (plan for the year 70,6 bil.)	-

⁵ a - - the approved budget was adjusted in December of 1995, 70.8 per cent of the actual revenues were derived at the expense of loans-for-shares auctions; b - including \$ 1.875 billion for shares in “Svyazinvest”; c - adjusted to Rub. 15 billion in April of 1998 (at the governmental level); d – including Rub. 12.5 billion for 2.5 per cent of shares in “Gazprom”; e – since 1999 proceeds from privatization are not included in budgetary revenues; f – including the revenues from the sale of shares in Lukoil and Slavneft in December of 2002, US \$ 0.775 and US \$ 1.86 billion respectively.

Although the Property Ministry made rather ambitious plans for 2002, the major revenues are still derived from single transactions. At the same time, the typical situation is that final selection of enterprises planned for privatization does not depend on the approved program and sales of shares in such enterprises are made spontaneously depending on a number of objective and subjective factors.

The results of the auction for the block of shares in VNK were made public on May 24, and the victory of YUKOS was not a sensation. Due to the specifics of this transactions (YUKOS was the majority shareholder in VNK), the final price of the block was only by US \$ 0.4 million above the starting price (US \$ 225 million). The major competitor of YUKOS – TNK – withdrew from the auction after a number of scandals and trials. Moreover, there were practically no guarantees that YUKOS would return shares in a number of enterprises to TNK subsidiaries before the auctions.

As in 2000 and 2001, the government planned to sell 5.9 % (50 million) shares in Lukoil as ADRs at the London Stock Exchange in August of 2002. However, the Board of Directors of the Company of project privatization responsible for the transaction considered the bid insufficient (although it was close to the market price considering the current quotations at RTS). However, the transaction was completed in December of 2002. According to estimates, the placement took place at the maximal possible price (US \$ 15.5 per share, demand exceeded supply twofold, the total proceeds from the placement made US \$ 775 million). Therefore, the state still owns a 7.6 % block of shares in the company, which it does not plan to sell as yet. The prospects of sale of the residual block of shares are related, in particular, to the dynamics of the average price of shares in the company in 2003, what depends both on oil prices on world markets, and the implementation of the restructuring program for the company. It shall be mentioned that many developments relating to the operations of the company in 2002 (cancellation of the Iraqi contract in the framework of the production sharing agreement concerning the deposit “West Kurna – 2,” withdrawal from the consortium “Azeri-Chirag-Gyuneshli,” the sale of the tanker fleet of ice class, the anticipatory redemption of bonds convertible into Lukoil shares initiated by the “British Petroleum” in January of 2003, the refusal to participate in privatization of Slavneft in spite of the submitted application, etc.) are not interpreted in favor of the prospects of company’s further development. It shall be also noted that, in contradistinction to the overwhelming majority of largest Russia’s oil companies, the shares in Lukoil freely circulated on the market may make, according to estimates, from 52 % to 54 % of its authorized capital in the beginning of 2003.

As in previous years, it was planned to sell shares in the Svyazinvest holding, however, these plans were delayed until 2003. It is expected that the process of merger of holding’s companies and creation of seven interregional operators may be completed only by end-2002. Besides, the possibility of increase in capitalization of the holding and, respectively, effective privatization of the block of shares remaining in the state ownership are related to the tariff reform and social burden on the regional companies.

As concerns the 19.68 % of shares in Slavneft, initially it was envisaged to hold a simple auction in October or November of 2002 (approximate size of the block was at about US \$ 300 to 350 million). The pre-privatization scandals concerning the appointment of the Slavneft management and constant changes in the planned scheme of privatization, as in many other cases, determined the problematic nature of this transaction. Alongside the acute clash of interests of different financial and industrial clans and the “international” aspect of privatization (10.83 % of shares owned by Belorussia), it is important to take into account the fact that Slavneft is the last Russian oil state-dominated company planned for privatization (privatization of Rosneft has not been planned as yet). Russia owned 75 % of shares (55.27 % was owned by the Property Ministry, 19.68 % was owned by the Russian Federal Property Fund). The closed joint stock company “DKK” is the nominal holder of 13.18 % of shares owned by a trust company (Sibneft and TNK own 25 % of shares in this company each, other shareholders are unknown).

The struggle over this privatization deal had started long before the auction. In April of 2002, M. Gutsieriev was replaced by Yu. Sukhanov, representing the interests of Sibneft, as the President of the company. The purchase of the blocking interests in Yaroslavlnefteorgsintez and Megionneftegaz by the tandem of Sibneft and TNK became an apparent warning to potential competitors (especially taking into account the specifics of corporate conflicts). While the government discussed different schemes of privatization, an active buying up of shares in Slavneft subsidiaries continued in 2002, what would permit to replace the respective boards of directors even before privatization and carry out additional issuance of shares. Control over subsidiaries also makes less possible fierce competition in the course

of privatization of the holding and creates favorable prerequisites for the consolidation (transition to the single share) after the completion of the privatization transaction and obtaining controlling interest in the consolidated company. The last “pre-sale” stage was the purchase of the Belorussia-owned block of shares in Slavneft by Sibneft and TNK without competition and at a price only slightly exceeding the starting price. There is also information that the debt of Slavneft as calculated per metric ton of extracted oil significantly increased in 2001 through 2002.

In the summer of 2002, the principal privatization plan envisaged the sale of 19.68 % of shares in 2002, and the sale of the block of shares “5.27 % minus one share” in 2003, what allowed to retain state control. However, according to estimates, the sale of the controlling interest would ensure greater transparency and intensification of competition (as confirmed by privatization of 85 % of shares in ONAKO). An alternative would be the development of the market of company’s shares on the threshold of privatization.

As a result, on December 18, 2002, the controlling block of shares (74.95 %, or more than 3.5 billion of ordinary shares) was put up for the auction, however, the competitiveness of the transaction is in doubt. The auction was won by the company “Investoil” representing the interests of Sibneft and TNK, which offered US \$ 1.86 billion (the starting price was at US \$ 1.7 billion), or Rub. 58.7 billion. Although according to various estimations the block of shares could bring US \$ 2 to 4 billion, the controlling threshold established by Sibneft and TNK (blocking interests in the holding and subsidiaries) somewhat limited the maximal potential proceeds from the transaction. However, an acute competition and higher revenues could have taken place, therefore, the last stage of struggle for Slavneft was the removal of potential competitors at the stage of submission of applications. Although we do not know what arguments were put forward by Sibneft and TNK, LUKOIL, Surgutneftegaz, and YUKOS having sufficient resources for participation in the auction refused to participate practically a day before the date of the auction referring to unspecified financial, economic, and legal problems. The company acting on behalf of Rosneft (although the right of the latter to participate in the auction was rather doubtful) was not permitted to participate by the decision of a regional court. A most dangerous competitor – Chinese company CNPC had to recall the application under the threat that the transaction could be invalidated (in spite of the preceding promotion campaigns aimed to attract foreign investors, before the auction there was carried out a massive pressure campaign (including proposals to officially prohibit participation of foreign companies with large state participation in Russian privatization)⁶. As a result, 7 companies were prohibited to participate in the auction by courts, while 7 other companies acted (in some way) on behalf of Sibneft and TNK. Therefore, the problem of large privatization transactions in Russia traditionally remains outside technical procedures (choice of the effective method of sale), but directly depends on administrative and political resources of potential competitors.

As the result, the tandem of winners obtained 98.96 % of shares in Slavneft. There are various options of further reorganization of Slavneft in interests of the winners (division of assets, merger with Sibneft with respective compensation for TNK, etc.), however, it would be prematurely to make concrete conclusions. At the same time, the attitude towards the remaining minority shareholders of Slavneft became apparent already in the beginning of 2003. In accordance with Article 80 of the law “On joint stock companies” the purchaser of respective block of shares shall propose the minority shareholders to buy their shares at the market price not below the weighted average over 6 months prior to the date of purchase, however, the winner of the auction intends not to use the offer.

The prognosis plan (program) of privatization of federally owned property for 2003 was approved by the RF government (Resolution No. 1155-r of August 20, 2002, as amended on October 9, 2002). The target privatization revenues in 2003 shall be at about Rub. 51 billion. For the data on renewable sources see Table 1 (in accordance to federal law No. 176 of December 24, 2002). Revenues from privatization of land shall make about Rub. 2.2 billion.

⁶ Another option is to use Presidential decree No. 2284 of December 24, 1993, “On state program of privatization of state and municipal enterprises in RF” (as amended on April 3, 2002). One of the provisions of the decree stipulates that the government shall decide on the participation of foreign investors in a number of privatization transactions, however, the resolution of the RF government of October 9, 2002, on privatization of Slavneft does not envisage possible participation of foreign investors.

According to the Privatization Program, it is planned to privatize shares in 628 joint stock companies (including the completion of privatization of 598 joint stock companies, what makes 95 % of the total number of enterprises planned for privatization in 2003) and 435 SUEs. As concerns other joint stock companies, it is envisaged to retain in state ownership blocks of shares making respectively 51 % and 25.5 % of their authorized capitals. Privatization of SUEs (the RF Property Ministry reviews the conversion of SUEs into joint stock companies as the main priority of 2003) shall be carried out by the way of their conversion into open joint stock companies or by selling their property complexes. In 2003, privatization of SUEs and joint stock companies shall be most intensive in the agri-industrial, fuel and energy (FEC), and defense and industrial complexes. As concerns FEC, it is primarily envisaged to sell shares in joint stock companies belonging to oil and natural gas complex and power engineering, while privatization process in the coal mining industry shall be practically completed. As concerns the agri-industrial complex, taking into account the relatively higher share of privatized enterprises, privatization will focus on shares in joint stock companies engaged in production and supply of bread products and refrigerating integrated enterprises. A considerable part of SUEs and JSCs planned for privatization consists of enterprises of sea, river, and motor transport. Among large enterprises selected for privatization in 2003 are Svyazinvest (25.5 % minus 2 shares), as well as Magnitogorsk metallurgical integrated works (17.84 %), trading port "Pevek," "Baikal" airlines, and a number of others. In 2003, there shall be also sold state owned shares in 6000 (714 registered) commercial banks previously owned by SUEs, the greater part of which was transferred to the balance sheet of the RF Property Ministry.

Alongside with the "launching" of new privatization instruments stipulated by the current legislation, resolution of the RF government No. 845 of December 3, 2002, which stipulates that professional operators of the securities market shall be permitted to participate in privatization of state owned property (in fact, it concerns the right of broker companies, which would win special tenders, to act as intermediaries in the process of sales of shares at the stock exchange). It is apparent that this decision is primarily aimed at the acceleration of sales of minority blocks of shares remaining in the state ownership. At the same time, this decision rises again the traditional problem of departmental approach to the selection of professional operators of the securities market for participation in privatization transactions.

On the whole, it is necessary to note that at present the Concept of managing state owned property and privatization (1999) needs a serious revision, first of all, from the viewpoint of formation of a single system of management of state owned property (assets) in the RF, which would permit to achieve property (material) ensuring of fulfillment of state functions and optimization of the structure of federally owned property. The idea of formation of such a single system basing on the classification of federally owned property and improvement of new mechanisms of management of its component objects shall become the basis for the further elaboration of the normative and legal grounds of privatization and management of state owned property.

A. D. Radygin

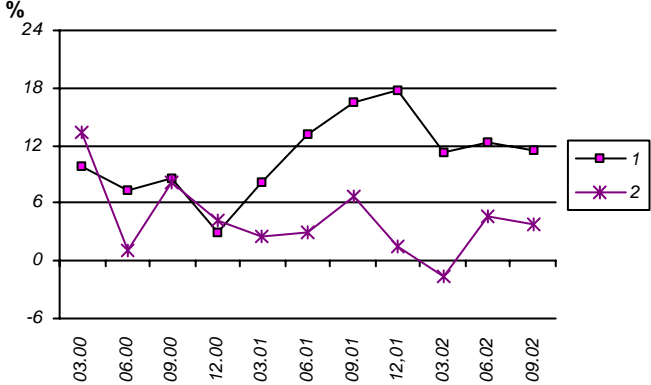
Household Deposits: Dynamics in 2002

The dynamics of bank household deposits⁷ in 2002 provides evidence that this segment of banking services experiences a certain recovery. While after the crisis of 1998 the share of household deposits in bank liabilities (without Sberbank) declined almost twofold (by end-1999 it was at 5.6 %), by end-2001 this indicator increased up to 8.4 %, and by October of 2002 – up to 10.9 %. In case only the banks attracting household deposits were reviewed, these indicators would make 8.6 % and 11.3 % respectively (see Table 1). The amount of bank household deposits in comparable prices in the first 9 months of 2002 (without Sberbank) increased by 39 % (what is somewhat below the figures registered in the respective period of 2001, when the increase made 42.4 %). As Figure 1 demonstrates, the increase in the household deposits outpaces the rate of growth in assets since late 2000, respectively, banks gradually recover the pre-crisis level of household deposits in their balance sheets.

At this background, the amount of household deposits in Sberbank in comparable prices has increased only by 18.7 % over the first three quarters of 2002. As a result, the share of Sberbank, as

⁷ Here and below without banks under ARCO management.

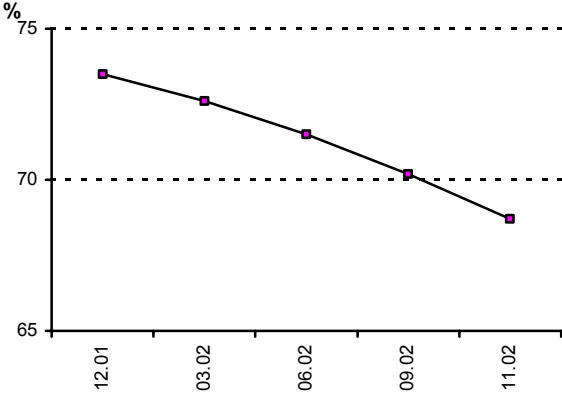
concerns this sector of banking services, continued to decline and made 69.8 % as compared with 73.5 % in the beginning of the year (without taking into account the funds related to card accounts). The process of decline in the Sberbank share was relatively even (see Fig. 2), i.e. the reduction of rates related to Ruble and forex denominated deposits carried out by Sberbank in August did not significantly affected depositors' behavior. Outside Sberbank, about 8 % of household deposits are made with Alfa Bank, while Bank of Moscow, which practically doubled the amount of attracted household deposits over the three quarters of 2002, concentrates 5.6 % of market.



1- Household deposits
2 -Assets

Estimated on the basis of data provided by STIiK.

Fig. 1. The rate of growth in household assets and deposits in comparable prices without Sberbank (quarter on quarter change, in %)



Estimated on the basis of data provided by STIiK.

Fig. 2. The share of Sberbank in the total amount of household deposits in 2002

Household deposits play a greater role in balance sheets of regional banks (see Table 1): on the average, the share of household deposits in the liabilities of these banks was two times higher than in Moscow-based banks and almost 90 % of regional banks attract household deposits (in the capital the respective indicator makes only 83 %). At the same time, due to the high concentration of banks in Moscow their share in the total amount of household deposits made 62.5 % by late September of 2002.

Table 1

The share of household deposits in bank liabilities (in %)*

	Banks of Moscow and Moscow Oblast				Regional banks				Operating banks (without Sberbank)			
	01.00	01.01	01.02	10.02	01.00	01.01	01.02	10.02	01.00	01.01	01.02	10.02
Household deposits	4.7	4.7	7.0	9.2	9.6	9.2	13.6	18.0	5.8	5.8	8.6	11.3
Including forex deposits	3.7	3.7	5.4	7.2	4.2	3.8	5.6	7.4	3.8	3.7	5.5	7.3
Including Ruble deposits	1.0	1.0	1.6	2.0	5.4	5.4	8.0	10.6	2.0	2.1	3.1	4.0
<i>Memorandum:</i> Number of banks attracting household deposits	533	535	546	541	627	617	639	624	1160	1153	1175	1165
Average amount of assets, Rb. bln.	1412	2150	2852	3387	348	601	781	905	837	1321	1744	2057

* values at the beginning of a month for banks attracting household deposits

Estimated on the basis of data provided by STiIK.

In the first nine months of 200w, the Moscow-based banks have increased the total amount of attracted household deposits by 55 % - from Rub. 110 billion to Rub. 169 billion. The amount of household deposits in regional banks has increased by 52 % (from Rub. 69 billion to Rub. 102 billion).

However, Moscow and regional banks significantly differ in terms of currency of household deposits. While the share of forex denominated household deposits in Moscow banks stable dominates making about 80 %, in regional banks this ratio is different: forex denominated household deposits make slightly over 40 % of the total amount of household deposits. At the same time, as the data presented in Table 2 demonstrate, after a decline registered in 2000 and 2001, in 2002 there was observed a certain increase in the share of forex denominated deposits in comparison with Ruble denominated deposits (the sample does not include Sberbank). As concerns Sberbank, there the attraction of household forex denominated deposits continued to outpace the increase in Ruble denominated deposits.

Table 2.

The currency structure of household deposits

Household deposits	Operating banks without Sberbank	Sberbank	Operating banks without Sberbank	Sberbank	Operating banks without Sberbank	Sberbank	Operating banks without Sberbank	Sberbank
	01.01.00		01.01.01		01.01.02		01.10.02	
Forex	66.1	21.1	63.4	23.6	63.7	25.5	64.2	27.6
Ruble	33.9	78.9	36.6	76.4	36.3	74.5	35.8	72.4

Estimated on the basis of data provided by STiIK.

As concerns the time structure of household deposits in 2002, it has significantly changed in comparison with the situation in the beginning of the year (see Table 3). In 2002, there continued an increase in the share of fixed deposits, while the share of demand deposits declined respectively. The share of demand deposits decreased from 23 % to 19 % across all banks over the first 3 quarters (without Sberbank). As the data presented in Table 3 demonstrate, a high share of demand deposits in this sample is determined by the extremely high share of Ruble denominated demand household deposits in commercial banks.

Table 3

Time structure of household deposits of residents*

Household deposits	Operating banks with Sberbank				Operating banks without Sberbank			
	01.01.00	01.01.01	01.01.02	01.10.02	01.01.00	01.01.01	01.01.02	01.10.02
Demand deposits**	28.8	29.5	23.2	18.8	34.1	37.1	33.2	29.3
Including card accounts	2.6	2.2	1.6	1.0	8.7	9.6	5.1	3.1
Up to 3 months	8.9	6.3	4.8	3.7	14.8	9.8	7.6	5.4
3 to 6 months	49.2	41.4	32.8	29.6	19.9	21.7	21.6	18.3
6 to 12 months	8.1	11.4	14.7	17.6	17.0	21.6	27.3	32.5
Year and more	5.0	11.4	24.5	32.8	14.2	9.8	10.3	14.5
Total	100	100	100	100	100	100	100	100
Forex deposits								
Demand deposits	28.0	25.4	22.1	18.8	34.7	34.5	28.2	23.9
Including card accounts	4.9	3.6	1.4	1.0	8.6	8.4	2.8	1.9
Up to 3 months	7.9	4.6	4.0	2.7	15.8	9.7	8.0	5.3
3 to 6 months	40.3	41.5	35.0	26.8	15.5	18.4	20.0	16.2
6 to 12 months	16.0	20.0	24.4	27.8	19.1	26.5	32.6	38.3
Year and more	7.8	8.5	14.5	23.8	14.9	10.9	11.2	16.3
Total	100	100	100	100	100	100	100	100
Ruble deposits								
Demand deposits	29.1	31.4	23.7	18.8	33.1	41.2	41.1	38.4
Including card accounts	1.5	1.6	1.7	1.1	8.8	11.5	8.8	5.3
Up to 3 months	9.4	7.2	5.3	4.3	13.0	9.9	7.1	5.4
3 to 6 months	53.0	41.4	31.6	27.0	28.2	27.1	24.1	21.7
6 to 12 months	4.7	7.3	9.4	11.4	12.8	13.8	19.0	22.9
Year and more	3.8	12.7	30.0	38.5	12.9	8.0	8.8	11.6
Total	100	100	100	100	100	100	100	100

* the share of household deposits belonging to non-residents in the total amount of household deposits is on the average below 1 %.

** balances of card accounts are included in demand deposits.

Estimated on the basis of data provided by STiK.

As in the preceding year, time deposits with Sberbank are made for longer terms. Deposits termed for more than a year dominate in Sberbank. The structure of Sberbank deposits affects the time structure of deposits in aggregate balances of banks: the share of the amount of funds deposited for this term is the largest (32.8 %). However, without Sberbank, the most popular Ruble and forex denominated deposits are those termed from 6 to 12 months. At the same time, this term also dominates the forex denominated deposits with Sberbank (see Table 3).

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An Analysis of Military and Related Expenditures of the Federal Budget for 2003*

It seems feasible to begin the traditional analysis of planned military expenditures with an analysis of their validity. Moreover, as it will be shown below, these expenditures for 2003 became more transparent. Thus, it is natural to find out if the substantiation of the expenditures is also open.

As concerns the "Prognosis of social and economic development of the Russian Federation in 2003," which was submitted to the State Duma as a part of the package of documents supplemented to the federal budget for 2003 (FB-03), it contains Section 8 entitled "Economic Aspects of National Security." However, the subject matter of the section does not answer its title. The section, contrary to the Concept of the RF National Security, focuses on threats and risks related to national security only in the sphere of civilian economy. The section fails to take into account economic aspects of neutralization of other threats and risks.

As a result, the feasibility of planned expenditures included in some most important sections of FB-03 is absolutely unsubstantiated. This lack of substantiation of military expenditures in the federal budget can not be explained by references to secrecy requirements, since the national security concept

* This article was prepared with assistance of RGNF (Project No. 02-02-00062)

of the Russian Federation clearly defines all threats to the Russia's national interests without classifying them as military and non-military threats, while the necessity of economic substantiation of measures aimed at parrying the totality of all threats and minimization of expenditures were listed as priority requirements.

The present approach to the prognostication of economy and substantiation of the budget without mentioning military needs of the state, which have not changed since the Soviet times, hampers the possibility to evaluate the rationality of the levels of federal budget expenditures earmarked for the ensuring of military security.

No elaboration of the "Prognosis of social and economic development of the Russian Federation in 2003" was carried out in the process of preparation and approval of FB-03.

The structure of military expenditures is determined by the budget classifier, which has routinely underwent non-motivated changes. Although the military organization of the state was defined by the Military Doctrine and a number of other documents, these definitions were not used in the budget. There are no clear criteria of military expenditures.

Yet another substantial drawback resulting from the annual changes in the structure of expenditures is related to the impossibility to precisely evaluate their dynamics. Therefore, the assessments of the dynamics of expenditures shown below are approximate. Since no motives behind the changes in the classifier are available, the impression is that certain forces in the state are not interested in a precise analysis of budgetary dynamics.

The bulk of **military expenditures in the RF** concentrates in sections "National Defense" and "Law Enforcement and State Security." "Military Reform" is a composite section as concerns its functional subject matter. On the one hand, it reflects expenditures earmarked for the continuing reduction of the size of the RF military organization, on the other hand, this section includes more and more expenditures aimed at the improvement and strengthening of the military organization.

As concerns section "National Defense," for the results of the analysis of the federal budget for year 2003 in comparison with respective expenditures of the federal budget for year 2002 (FB-02), see Table 1. Sources of information include: Supplement No. 6 to FB-03 and Supplement No. 5 to FB-02. Expenditures (in Rub. millions) presented in FB-03 are shown in normal fonts, while their values as adjusted for estimated inflation (11 %) in comparison with price levels registered in 2002 are presented in *italics*. The difference between levels of expenditures was calculated in prices of 2002. The share of expenditures was evaluated in relation to the aggregate expenditures (RFB) in FB-03 and estimated size of GDP in FB-03.

Table 1

No.	Sections and subsections	Code	Amount in FB-03 (Rub. mil.)	Difference between expenditures of FB- 03 and FB-02 (Rub. mil.) and increment in expenditures (in %)	Share / change in share in comparison with FB-02 in %	
			<i>Same in prices of 2002</i>		In relation to RFB	In relation to GDP
1	National defense	0400	344525 <i>310329</i>	26105 + 8,4%	14,7 / + 0,1	2,64 / 0,0
1.1	Development and maintenance of RF Armed Forces	0401	325564 <i>293301</i>	29313 + 10,0	13,9 / + 0,4	2,5 / + 0,1
1.2	Military program of the RF Ministry for Nuclear Energy	0402	13012 <i>11726</i>	- 2271 - 16,2	0,6 / - 0,1	0,1 / 0,0
1.3	Ensuring mobilization and extra- military preparedness	0403	4161 <i>3749</i>	498 + 15,2	0,2 / 0,0	0,0 / 0,0
1.4	Preparation of and participation in ensuring collective security and peace making activities	0404	1436 <i>1294</i>	- 1434 - 52,6	0,1 / 0,0	0,0 / 0,0
1.5	Ensuring the operation of national defense related industries	0407	302,5 <i>272,5</i>	- 30 - 0,1	0,0 / 0,0	0,0 / 0,0

As the data in Table 1 demonstrates, the expenditures included in the section "National Defense" of FB-03 have significantly increased in comparison with the respective figures observed in FB-02 (by 8.4 % in comparable prices). Accordingly, the shares of these expenditures in the aggregate expenditures of the Russian state have also increased, while the shares of these expenditures in terms of shares of GDP have remained practically without change and are still far below the level targeted yet in 1998 -- at 3.5 % of GDP.

The expenditures included in section “Law Enforcement and State Security” were increased to a much greater extent (by 26.8 % in relative values, including a 35.5 % increase of expenditures for state security, or, in comparable prices adjusted for inflation by 24.1 % and 32 % respectively). At the same time, the share expenditures for item 05 has increased from 1.7 % to 1.9 % of GDP. No substantiation of this increase was presented.

As concerns expenditures included in this section, it shall be noted that expenditures for so called “other troops” being a part of the RF military organization and financed from this section have also increased. For the analysis of these expenditures, see the upper part of Table 2.

The RF government also paid certain attention to other components of the RF military organization. The major outlays are presented in the lower part of Table 2.

The sources of information used for the analysis of these expenditures shown in respective rows of Tables 2 and 3 are as follows:

1* – Supplement 6 to FB-03 and Supplement 5 to FB-02,

2* – Supplement 7 to FB-03 and Supplement 6 to FB-02,

3* – Article 94 of FB-03 and Article 92 of FB-02.

Table 2

No.	Sections and subsections	Code So- urce of inform ation	Amount in FB-03 (Rub. mil.)	Difference between expenditures of FB- 03 and FB-02 (Rub. mil.) and increment in expenditures (in %)	Share / change in share in comparison with FB-02 in %	
			<i>Same in prices of 2002</i>		In relation to RFB	In relation to GDP
2	Expenditures for the military organization included in item “Law Enforcement and State Security”					
	Total expenditures for law enforcement and state security, <i>including</i> :	0500 1*	244644 220400	46537 + 26,8	10,4 + 1,5	1,9 + 0,2
2.1	Troops of the RF Interior Ministry	0502 1*	18490 16658	3087 + 22,7	0,8 + 0,1	0,1 0,0
2.2	State security agencies	0505 1*	47842 43101	11288 + 35,5	2,0 + 0,1	0,4 + 0,1
2.3	Border Service (agencies and troops)	0506	24065 21680	4122 + 23,5	1,0 + 0,1	0,2 0,0
3	Military expenditures included in other sections of the Federal Budget					
3.1	Maintenance, military training, and logistics of MES forces (troops) (without fire service)	1302 2*	4071 3668	250 + 7,3	0,17 0,0	0,03 0,0
3.2	Federal special construction service of the RF	0707 2*	1059 954	315 + 49,3	0,05 + 0,02	0,0 0,0
3.3	Mobilization preparedness of the economy	2300 1*	500 450	- 50 - 0,1	0,0 0,0	0,0 0,0
3.4	Civil defense	1203	66 59,5	37,1 + 165	0,0 0,0	0,0 0,0
3.5	Military reform	2501	15800 14234	- 745 - 4,5	0,61 / - 0,13	0,12 / - 0,08

The results of the analysis of expenditures related to the past military activities are presented in Table 3. Among these expenditures, the amount earmarked for military pensions was increased most significantly – by 52 %, since the size of these pensions had been risen.

Some expenditures presented in the tables, for instance, for mobilization preparedness of the economy, conversion of the defense industries, and the financing of the program “State housing certificates” (SHC) nominally remained at the same level as in 2002. However, respective expenditures in comparable prices were reduced by the rate of inflation, which is expected to be at 11 % on the average. No explanations were given as concerns the fact that these expenditures of FB-03, especially expenditures for SHC, had not been adjusted for inflation.

Table 3

No.	Sections and subsections	Code Source of informa tion	Amount in FB-03 (Rub. mil.)	Difference between expenditures of FB- 03 and FB-02 (Rub. mil.) and increment in expenditures (in %)	Share / change in share in comparison with FB-02 in %	
			<i>Same in prices of 2002</i>		In relation to RFB	In relation to GDP
4.1	Military pensions	1804 1*	67721 61100	20826 + 52	2,9 + 0,6	0,5 + 0,1
4.2	Utilization and liquidation of armaments, including the fulfillment of international obligations	2200 1*	10760 9694	- 621 - 6,0	0,5 0,0	0,1 0,0
4.3	Conversion of defense industries	0704 1*	250 225	- 25 - 0,1	0,0 0,0	0,0 0,0
4.4	Financing of the SHC program (in addition to the expenditures set forth in the section "Military reform")	4*	5400 4865	- 535 - 9,5	0,23 - 0,06	0,04 0,0

Different aggregate indicators of expenditures, including expenditures for national defense, law enforcement, maintenance and development of other troops, military formations and agencies, and, sometimes, expenditures related to past military activity, are often used for the analysis. Some of these amounts are presented in Table 4.

Table 4

No..	Expenditures	Amount in FB-03 (Rub. mil.)	Share of expenditures in FB-03 in % (share / change in share in comparison with FB- 02)	
			In relation to the amount of expenditures in FB-03	In relation to GDP in FB-03
1	Total direct military expenditures	441889	18,8 + 0,2	3,40 + 0,04
2	Aggregate direct and indirect military expenditures related to the present and past military activity	525950	22,4 + 1,0	4,00 + 0,20
3	Total expenditures for national defense, law enforcement, and state security	575372	24,5 + 1,3	4,40 + 0,3
4	Amount of direct and indirect federal expenditures related to present and past military and law enforcement activity and state security	770594	32,9 + 4,5	5,9 + 0,9

Whatever method of summing is chosen (see for the results in the Table), the increase in expenditures in whatever way relating to military activity of the state is noticeable. This trend is characteristic not only in comparison of FB-03 and FB-02, it is a stable trend.

This trend is noticeable over a long period starting after 1998, when Russia overcame the consequences of economic turmoil and later attempts of terrorist, bandit formations to ruin the state. The nation has realized the importance of strengthening of its military potential and creation of stability not only for its own survival, but also for normal development of civil economy.

The data on the dynamics of expenditures for defense and security in 1999 through 2002, and comparisons with the expenditure levels in 2003 are presented in Table 5.

Table 5

Sections of the Federal Budget	Years				
	1999	2000	2001	2002	2003
Expenditures listed in section "national defense" (in prices of the budget year / in prices of 1999), Rub. mil.	93702	140852	214688	281970	344525
Increase in relation to the preceding year, %	-	25,1	28,6	15,2	10,5
Increase in relation to 1999, %	0	25,1	60,7	85,2	104,1
Expenditures listed in section "Law Enforcement and State Security (in	51324	79802	131621	165999	244644

Sections of the Federal Budget	Years				
	1999	2000	2001	2002	2003
prices of the budget year / in prices of 1999), Rub. mil.	51324	66391	92329	102144	135618
Increase in relation to the preceding year, %	-	29,4	39,2	106	32,8
Increase in relation to 1999, %	0	29,4	79,9	99,0	164, 2

In the course of calculation there were used data on the dynamics of consumer price indices, presented in the “Prognosis of social and economic development of the Russian Federation in 2003,” submitted by the RF Government to the State Duma as a supplement to the draft FB-03.

However, taking into account the apparent favorable influence of state security on the national economy, it shall be once more refer to the statement made in the beginning of this analytic study. Any favorable process of the type we study in this paper can not be permanent. The experience of the Soviet Union is an evidence that over-militarization may ruin national economy.

Therefore, in the course of substantiation of the budget, it is necessary to take into account the totality of interests, the totality of threats, and parrying measures. It is absolutely inadmissible and damaging for national interests to separate the review of processes of substantiation of civil and military spheres of the economy.

The draft FB-03 makes excessively secret military expenditures of the federal budget. Secret expenditures made 23 % of the total budget expenditures. As concerns expenditures for development and maintenance of the RF Armed Forces, 99.88 % of their total amount were classified, while all the data on the expenditures for internal troops and border troops were secret.

In accordance with the IET proposal, a considerable part of these expenditures was declassified.

It would be feasible to use the results of the present analysis in different sectors of the economy cooperating with the military sector or those planning to establish such cooperation. Besides, it seems useful for state agencies to take into account these results in the course of working out the next draft budget.

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