

**RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES**  
**May 2003**

**MONTHLY BULLETIN**

**Moscow**  
**2003**

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## The State of the Federal Budget

In the 1<sup>st</sup> quarter of 2003, the revenues of the state budget (cash execution) made 20.9 % of GDP, while expenditures made 17.7 % of GDP (see Table 1). Therefore, the federal budget surplus made 3.2 % of GDP.

*Table 1*

### The monthly execution of the federal budget of the Russian Federation (in % of GDP<sup>1</sup>, in comparable prices)

	III'02	IV'02	V'02	VI'02	VII'02	VIII'02	IX'02	X'02	XI'02	XII'02	I'03	II'03	III'03	IV'03
Revenues														
Corporate profit tax	1,5%	1,9%	1,9%	1,7%	1,7%	1,7%	1,6%	1,7%	1,6%	1,6%	1,2%	1,1%	1,4%	
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%	0,0%	
VAT, special tax and excises	4,0%	3,9%	3,6%	3,5%	3,5%	3,3%	3,2%	3,1%	3,1%	3,1%	2,4%	2,7%	2,8%	
Tax on foreign trade and foreign trade operations	9,3%	9,3%	9,3%	9,3%	9,3%	9,1%	9,0%	8,9%	8,9%	8,9%	11,2%	10,1%	9,9%	
Other taxes, duties and payments	6,8%	6,9%	7,0%	7,0%	7,0%	7,0%	6,9%	6,9%	6,9%	6,9%	8,5%	7,4%	7,2%	
Total- taxes and charges	2,5%	2,4%	2,3%	2,3%	2,2%	2,1%	2,0%	2,0%	1,9%	2,0%	2,7%	2,7%	2,6%	
Non- tax revenues	3,2%	3,0%	2,9%	2,9%	2,9%	2,8%	2,8%	2,8%	2,9%	3,0%	3,4%	3,4%	3,4%	
Revenues, total	8,7%	8,7%	8,4%	1,8%	2,0%	2,0%	2,0%	2,1%	2,1%	2,1%	0,5%	1,7%	2,0%	
Expenditure	19,6%	19,9%	19,6%	19,3%	19,4%	18,9%	18,5%	18,6%	18,5%	18,6%	18,8%	19,0%	19,4%	
Public administration	1,4%	1,3%	1,2%	1,3%	1,4%	1,4%	1,4%	1,6%	1,4%	1,4%	17,5%	8,5%	1,3%	
National defense	20,9%	21,2%	20,9%	20,6%	20,9%	20,4%	20,0%	20,2%	20,1%	20,1%	20,8%	20,6%	20,9%	21,0%
International activities														
Judicial power	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,5%	0,3%	0,3%	0,4%	
Law enforcement and security activities	1,9%	2,3%	2,4%	2,5%	2,5%	2,5%	2,4%	2,4%	2,5%	2,7%	1,5%	2,1%	2,6%	
Fundamental research	0,4%	0,4%	0,4%	0,4%	0,4%	0,3%	0,3%	0,3%	0,3%	0,3%	-0,3%	0,0%	0,2%	
Services provided for the national economy	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,2%	0,2%	0,2%	0,1%	0,1%	0,1%	
Social services	1,0%	1,2%	1,2%	1,3%	1,4%	1,4%	1,4%	1,4%	1,5%	1,7%	1,1%	1,4%	1,7%	
Servicing of public debt	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,3%	0,3%	0,1%	0,2%	0,2%	
Other expenditure	0,4%	0,5%	0,6%	0,7%	0,8%	0,8%	0,8%	1,2%	1,3%	1,5%	0,2%	0,4%	0,5%	
Expenditure, total	4,8%	5,3%	5,2%	5,2%	5,2%	5,1%	4,9%	5,5%	5,6%	5,6%	1,5%	1,8%	2,0%	
Loans, redemption exclusive	3,4%	2,6%	2,5%	2,4%	2,3%	2,4%	2,4%	2,2%	2,0%	2,0%	1,7%	2,9%	3,0%	2,3%
Expenditure and loans, redemption exclusive	3,6%	3,9%	4,0%	4,0%	4,0%	3,9%	3,8%	3,9%	3,9%	3,8%	6,6%	7,1%	7,0%	
Budget deficit (-)	16,1%	16,9%	17,1%	17,2%	17,2%	17,1%	16,9%	17,8%	18,0%	18,7%	12,7%	16,4%	17,7%	18,1%
Domestic financing	4,8%	4,3%	3,8%	3,4%	3,7%	3,3%	3,1%	2,4%	2,1%	1,4%	8,1%	4,2%	3,2%	2,9%
Other taxes, duties and payments	-2,7%	-2,0%	-1,8%	-1,6%	-1,8%	-1,3%	-1,2%	-0,5%	-0,2%	0,6%	-6,6%	-1,7%	-1,0%	-0,5%
Total- taxes and charges	-2,1%	-2,3%	-1,9%	-1,8%	-1,9%	-1,9%	-1,9%	-1,9%	-1,9%	-2,0%	-1,4%	-2,5%	-2,2%	-2,4%
Non- tax revenues	-4,8%	-4,3%	-3,8%	-3,4%	-3,7%	-3,3%	-3,1%	-2,4%	-2,1%	-1,4%	-8,1%	-4,2%	-3,2%	-2,9%

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

As compared with the figures registered in January through March of 2002, the budget revenues practically did not change in January through April of 2003, while expenditures increased by 0.4 p.p. and budget surplus respectively decreased by 0.3 p.p. At the same time, without SST the budgetary revenues increased by almost 1.2 p.p. of GDP and made 18.1 % of GDP.

In April of 2003, VAT accounted for the major share of federal tax revenues – 34.4 % of the total tax revenues what is by about 2 p.p. above the level observed in the respective period of 2002.

According to preliminary estimates, the cash execution of federal budget revenues made 21 % of GDP in January through April of 2003, what is by 0.2 p. p below the respective level observed in January through March of 2002. At the same time the cash execution of expenditures made 18.1 % of GDP (16.9 % of GDP in 2002); therefore, the surplus made 2.9 % of GDP (4.3 % of GDP in 2002).

According to the preliminary estimates of the Finance Ministry, in terms of fulfilled funding<sup>2</sup> the expenditures of the federal budget in January through April of 2003 made 20.2 % of GDP (see Table 2),

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

<sup>2</sup> 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).

while on May 1 of 2002 this indicator was at 19.1 % of GDP. As a result, the surplus of the federal budget in terms of fulfilled funding in the first four months of 2003 has also decreased by 1.3 p.p. in comparison with the figures registered in the respective period of 2002 and made 0.8 % of GDP.

Table 2

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

	II02	IV02	V02	VI02	VII02	VIII02	IX02	XI02	I03	II03	III03	IV03
Total	20,9%	21,2%	20,8%	20,5%	20,5%	20,5%	20,0%	20,1%	21,4%	21,2%	20,9%	20,0%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,6%	0,6%	0,6%
National defense	2,4%	2,7%	2,7%	2,7%	2,7%	2,7%	2,6%	2,6%	2,5%	3,2%	3,3%	2%
International activities	0,4%	0,5%	0,4%	0,4%	0,4%	0,3%	0,3%	0,3%	-0,4%	0,1%	0,1%	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%	2%
Law enforcement and security activities	1,4%	1,5%	1,5%	1,6%	1,9%	1,6%	1,6%	1,7%	1,9%	2,3%	2,3%	2%
Fundamental research	0,2%	0,3%	0,3%	0,3%	0,2%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	3%
Services provided for the national economy	0,8%	0,9%	1,0%	1,0%	1,1%	1,1%	1,0%	1,5%	0,6%	0,8%	0,9%	9%
Social services	5,3%	5,9%	5,7%	5,5%	5,6%	5,4%	5,2%	5,7%	2,6%	2,8%	2,7%	9%
Servicing of public debt	3,4%	2,7%	2,5%	2,4%	2,6%	2,4%	2,4%	2,0%	1,7%	3,0%	3,0%	3%
Other expenditure	3,9%	4,0%	4,6%	4,2%	4,0%	4,0%	4,0%	3,8%	7,0%	7,8%	7,3%	3%
Total expenditure	18,6%	19,1%	19,4%	18,9%	19,1%	18,6%	18,2%	18,7%	16,9%	21,1%	20,8%	2%
Профицит (+) / дефицит (-)	2,3%	2,1%	1,4%	1,6%	1,4%	1,8%	1,7%	1,4%	4,5%	0,1%	0,1%	0,8%

According to the estimates of the Revenue Ministry, in April of 2003 tax revenues of the federal budget made Rb. 123.1 billion (without the single social tax). In real terms the revenues made 280.4 % of the level registered in January of 1999, while the respective indicator was at 277.8 % in 2002 and 267.5 % in 2001 (see Table 3).

Table 3

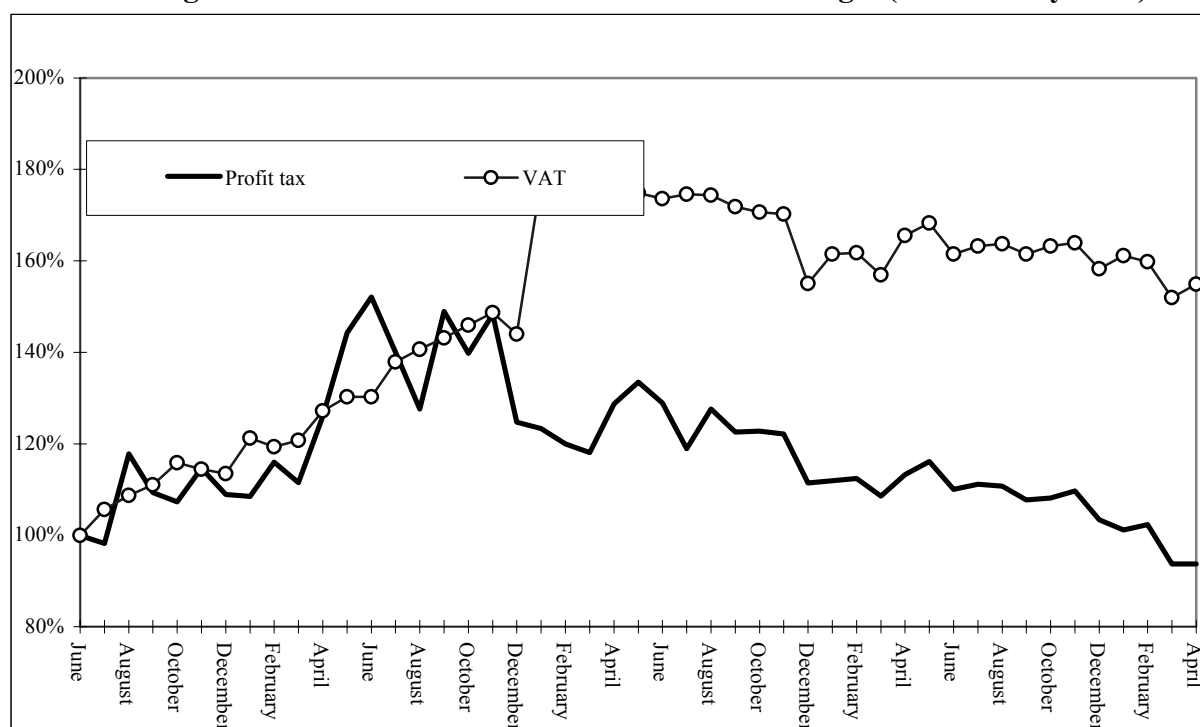
**Actual tax revenues to the federal budget, according to the data of the MTC  
(in % of the data for January of 1999)<sup>3</sup>.**

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%	250,2%
2003*											
I			II				III			IV	
230,0%			229,2%				265,5%			280,4%	

\* Без учета ЕСН.

<sup>3</sup> 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 dynamics of real arrears relating to major debts since June of 1999 is presented in Fig. 1. The debts related to the payments due to the federal budget made for VAT Rb. 236.1 billion as on May 1, 2003, the arrears of the profit tax made Rb. 30.6 billion. On the whole, the dynamics observed over the last 2 years and the latest data still demonstrate a gradual decrease in the level of accumulated arrears as concerns the profit tax. At the same time, an increase in the VAT arrears in April of 2003 was caused by the fact that this month is the last term of payment of tax liabilities for the reporting year, what directly corresponds to the general structure of the seasonal component of the VAT arrears time series.

*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%
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	XII
Taxes	28,7%	23,6%	24,3%	26,5%	26,6%	25,9%	26,4%	25,9%	25,2%	25,4%	25,4%	25,5%
Revenues	32,9%	31,3%	31,4%	33,6%	33,6%	32,7%	33,3%	32,5%	31,7%	32,0%	32,1%	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%	31,1%
Deficit	14,6%	7,7%	5,4%	5,3%	5,2%	3,8%	4,2%	3,7%	3,3%	2,7%	2,4%	1,0%
2003												
	I				II				III			
Taxes	25,6%				24,4%				25,6%			
Revenues	32,0%				30,3%				31,5%			
Expenditures	20,7%				25,3%				27,7%			
Deficit	11,3%				5,0%				3,8%			

\* Без учета ЕСН

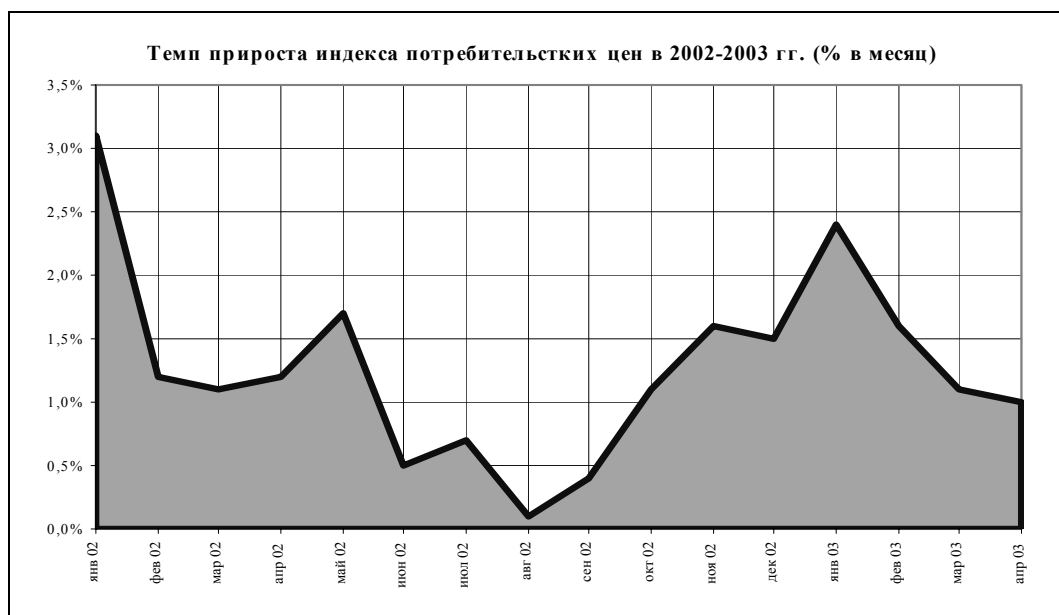
The revenues of the consolidated budget in March of 2003 made 31.5 % of GDP, including tax revenues (without SST) at 25.6 % of GDP (see Table 4). Expenditures of the consolidated budget increased by 1.7 p. p. in comparison with the figures registered in March of 2002 and made 27.7 % of GDP. The surplus of the consolidated budget in March of 2003 made 3.8 % of GDP, what is below the level observed in March of 2002 (5.4 % of GDP).

S. Batkibekov

## Monetary Policy

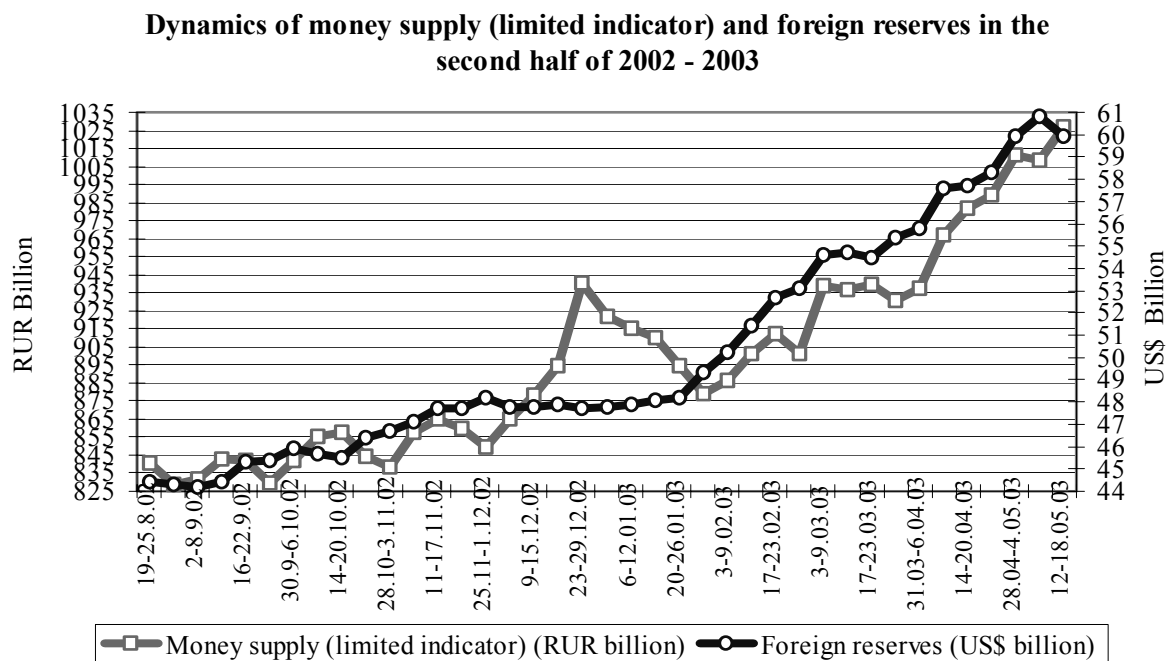
In April, 2003, inflation was one percent, or 6.2 percent recalculated since the beginning of the year (see Fig. 1). According to the State Committee for Statistics of the RF, price growth rates were especially high in the field of payable services to the population (1.8 percent) and foodstuffs (one percent). Service prices have grown 12.6 percent since the beginning of the year. In April, 2003, in seven constituent entities of the RF prices for goods and services grew over 1.5 percent. The greatest growth of prices for goods and services, 3.1 percent, has been marked in Buryatiya (tariffs for chargeable services have grown 13.7 percent over the period). In Moscow and St. Petersburg consumer prices have grown 1.9 percent in April, or 5.9 percent and 8.1 percent since the beginning of the year, respectively.

Figure 1



Foreign reserves continued to grow in April – May, 2003 (see Fig. 2). As at 1 May 2003 they amounted to US\$ 58.3 billion, a growth of 22.2 percent since the beginning of the year or 5.2 percent in April. In the first half of May the amount of foreign reserves grew another US\$ 1.6 billion (+2.7 percent), reaching US\$ 59.9 billion on 16 May.

Figure 2.



In April the limited indicator of the limited indicator of the money supply grew from RUR 930.4 to 988.9 billion (+6.2 percent). During the first three weeks of May the money supply grew another 3.9 percent. The broad indicator of the money supply grew eight percent in April (from RUR 1284.5 to 1386.8 billion). Thus, the broad indicator of the money supply grew 12.5 percent since the beginning of the year, while in the corresponding period of 2002 it contracted 1.1 percent. The dynamics of the money supply can be above all explained by the fact that the Central Bank has been accumulating foreign reserves (see Fig. 2).

Besides, in the following month US\$ 2,006.187 million were allocated for repayment of the government internal foreign currency loan (Minfin Bonds) and US\$ 264.995 million were allocated for coupon payments. Total Russian payments under the external debt amounted to US\$ 5.6 billion during the January – April period.

Since the Bank of Russian is using REPO transactions as a monetary policy tool on an ever wider scale, as of this month we will be presenting data on the results of Central Bank’s usage of this tool. It is worth reminding that a REPO transaction is a sale of financial assets with a commitment to buy these assets back after a certain period of time at a predetermined price.

The procedure for REPO transactions has been established in the normative documents of the Bank of Russia valid from 22 September, 1999: Instruction of the Bank of Russia # 639-Y “On Introducing Changes and Additions to the Regulation “On the Servicing and Circulation of Issues of Government Short-term Couponless Bonds”” of 17 September, 1999 and Instruction of the Bank of Russia # 640-Y “On Conducting Repo Transactions with GKO-OFZs between Dealers” (Published in the “Bulletin of the Bank of Russia” # 59). In accordance with these documents it is proposed that:

- only dealers-credit institutions that for the past three months have been financially stable, have entered into a “General Agreement on Participation in Transactions with GKO-OFZ” and have a portfolio of base GKO-OFZ issues with the market value at least RUR 40 million shall be allowed to engage in REPO transactions;
- GKO-OFZ issues included in the ломбардный list with the term to maturity and/ or the next coupon payment of at least 15 days shall be regarded base issues for REPO transactions;
- REPO transactions may be entered into only for a term of one or two days, and subsequently for seven and 14 days.

Stock-exchange modified REPO transactions (SMR) are a new instrument of monetary policy used by the Bank of Russia. They are conducted in order to provide liquidity. In the course of such an operation the Bank of Russia sells individual issues of government bonds that it currently owns with a commitment to buy them back. An SMR transaction includes two stages:

- 1) the Bank of Russia sells government securities at an auction;
- 2) the Bank of Russia buys back previously sold government securities on the basis of an irrevocable public offer.

In January the amount of REPO transactions with the Bank of Russia was high due to Rouble deficit in the middle of the month. The amount of direct REPO transactions grew 24 percent as opposed to December, reaching RUR 31.98 billion. This is 2.5 times more than the turnover in the government bond market. The amount of reverse REPO transactions also grew to RUR 709.16 billion (153 times as compared to December, 2002).

Due to the fact that banks had large amounts of excessive liquidity in February, the amount of direct REPO transactions with the Bank of Russia fell 8.5 times as compared to January, reaching only RUR 3.77 billion. Reverse REPO transactions did not exceed RUR 70 billion.

In March direct REPO transactions with the Bank of Russia amounted only to RUR 48.33 million due to excessive Rouble liquidity. The amount of reverse REPO transactions carried out by the Central Bank of Russia fell to RUR 68.5 billion (72 percent of trade volume at the auction on government securities).

In April, in order to eliminate excessive Rouble liquidity, the Central Bank of Russia actively engaged in placing bonds from its portfolio on conditions of repurchase. Hence, repurchase auctions conducted by the CB RF in April demonstrated the greatest turnover. E.g., the total volume of REPO transactions was RUR 147.5 billion in April. At five out of six auctions the demand for securities from the CB RF portfolio on condition of repurchase exceeded the offer.

*P. Trounin*

### **Investment in fixed assets**

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In January through April of 2003, the amount of investment in fixed assets made Rub. 460.1 billion increasing by 10.9 % in comparison with the figures registered in the respective period of the preceding year. Early this year, the investment activity is characterized by more intensive dynamics than in the beginning of 2002.

The expansion of the investment demand in the 1<sup>st</sup> quarter of 2003 is determined by the aggregate influence of a number of current business factors.

The intensive development of the export oriented sector of the economy in the situation of extremely favorable conditions formed on the world markets of hydrocarbon raw materials and metals initiated the expansion of investment demand. The balanced result of the economy at large increased 1.9 times as compared with the figures registered in the 1<sup>st</sup> quarter of 2002. Profits of industries made Rub. 179.0 billion, at the same time, the share of fuel industries made about 30 % of this amount. As the proceeds of the economy grew, the share of investment in fixed assets in GDP increased by almost 2 percentage points in comparison with the figures registered in the first quarter of 2002 and made 11.8 % of GDP.

The financial results of operations across industries improve at the background of gradual squeezing of inefficient owners, what results in the rationalization of financial flows and formation of additional sources of investment resources. Since early 2003, the positive effect of the tax reform implemented in 2002 and a number of measures aimed to prevent “capital flight” has started to show. In comparison with the figures registered in the 1<sup>st</sup> quarter of 2002, the amount of Russian investment abroad decreased by 28.7 %. The favorable changes in the legal and normative base resulted in the recovery of the trend towards outpacing growth in foreign investment in comparison with domestic investment. In the first quarter of 2003, foreign direct investment in the Russia’s economy increased by 24.7 % as compared with the figures observed in the respective period of the preceding year and made US \$ 1.03 billion.

The reduction of the refinancing rate of the Bank of Russia from 25 % in March of 2002 to 18 % in February of 2003 resulted in lower levels of yields from investment of assets in financial instruments and increased the attractiveness of investment in the real sector of the economy. The source of support of investment activity in the beginning of 2003 was the expansion of crediting of the real sector on the part of the banking system. The low real cost of credit resources allowed enterprises to attract considerable borrowed funds for financing of investment projects.

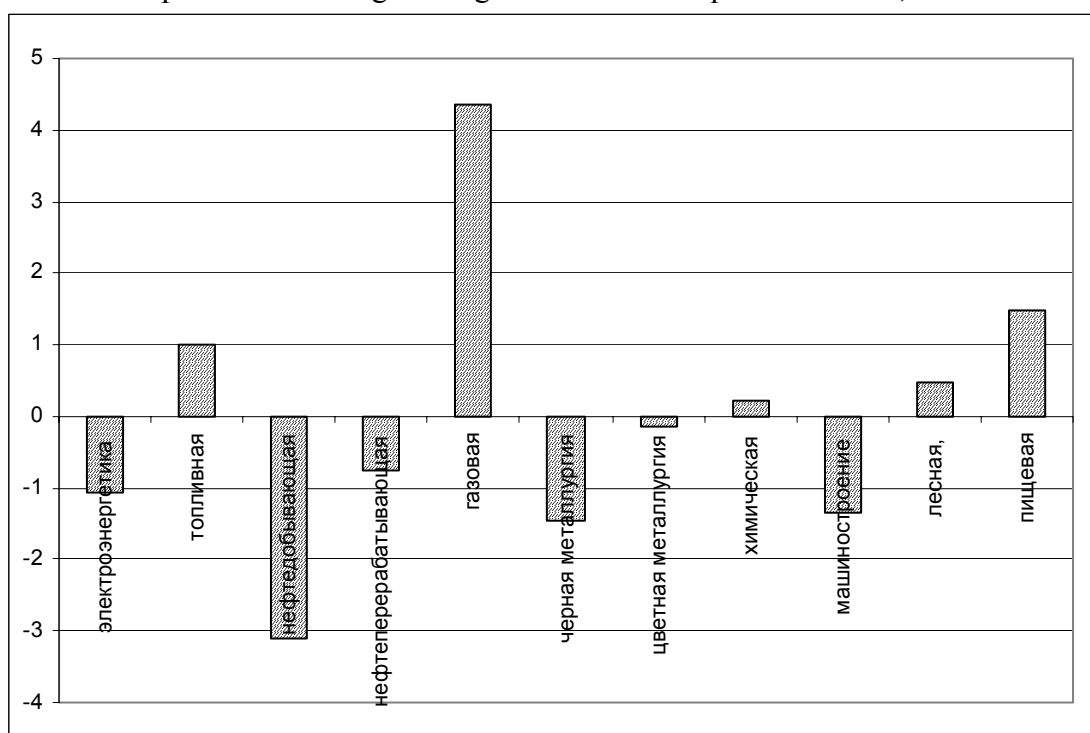


As household incomes grew, there formed a significant potential for private investment. Household savings in the form of cash deposits, securities, and purchase of foreign exchange increased to 21.3 % of the total amount of household incomes as compared with 16.5 % registered in the 1<sup>st</sup> quarter of 2002 and 9.6 % observed in the 1<sup>st</sup> quarter of 2001.

The changes in the structure of investment in fixed assets occurred at the background of increasing share of manufacturing industries. The share of investment in fixed assets in industry has increased to 50.2 % as compared with 47.9 % registered in the 1<sup>st</sup> quarter of 2002, while the respective figures in construction made 3.8 % as compared with 3.2 %. As concerns transport and communications, there the decrease in the share of investment expenditures made about 1.2 percentage points.

The growth in the share of investment in industry was accompanied by changes in the industrial, reproduction, and technological structures of investment expenditures. On the whole, the sectoral structure of investment in industry remains unfavorable.

*Figure* Changes in the structure of investment across industries in the 1<sup>st</sup> quarter of 2003 as compared with the figures registered in the 1<sup>st</sup> quarter of 2002, in %



The specific weight of investment in mechanical engineering makes 6.0 % of the total amount of investment in industry, while the respective indicator of food industry makes 9.2 % and light industry – 0.4 %. The aggregate share of investment in fuel industry and metallurgy exceeds 65 %.

This year, the structural shifts in investment are determined by the increasing share of fuel industry, by the recovering business activity in natural gas industry, and food industry. At the current technological, reproduction, and age structure of fixed assets, the level of their physical and moral deterioration, the amount and structure of investment does not correspond to the conditions of effective modernization of fixed assets.

*O. Izryadnova*

## The Real Sector: Factors and Trends

In accordance with the Regulations of elaboration and presentation of its data, the RF Goskomstat has published more precise annual data and revised nominal and real amounts of base indicators of national accounts in 1995 through 2002. The revision of the time series was accompanied by the methodological harmonization of the indicators of production and GDP utilization in current and constant prices across the whole time series. Besides, the statistical data relating to the retail trade turnover, amount of paid services to households, foreign trade turnover, and the balance of payments were actualized. The time series covering the whole period under observation is built on the basis of bridging periods of 1995 through 2000 and 2000

through 2002 calculated, accordingly, in average annual prices of 1995 and 2000. As a result of the verification of the data, there were adjusted nominal amounts and dynamics of the real GDP amount. Major changes were introduced as concerns the period from 1995 till 2000. According to the adjusted data, in 1999 GDP grew by 6.4 % and in 2000 – by 10.0 %, what is by 1 percentage point above the previously published values of the respective indicators. On the whole, as concerns the period from 2000 till 2002, the values of the amount of GDP and its individual components in current prices underwent no significant changes in comparison with the previously published data. In 2002, the GDP amount made Rub. 10863.4 billion and increased by 4.3 % in comparison with the figures registered in the preceding year.

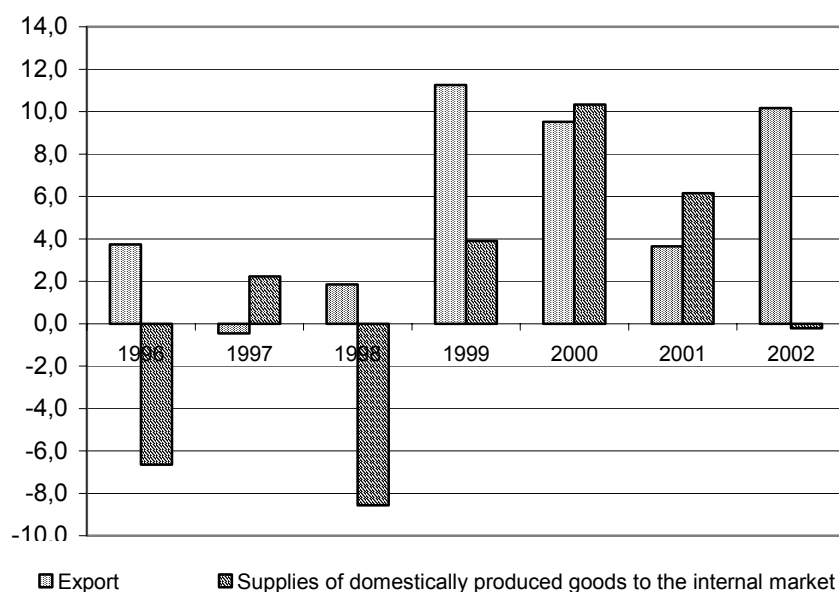
Table 1

**Changes in the dynamics of GDP utilization as broken down by the components in % of the values registered in the preceding year, in constant prices**

	1996	1997	1998	1999	2000	2001	2002
Gross domestic product	-3,6	1,4	-5,3	6,4	10,0	5,0	4,3
Expenditures for final consumption	-2,6	2,8	-2,1	-1,2	5,6	6,9	7,1
Of households	-4,9	5,0	-3,4	-2,9	7,3	9,9	8,6
Of state agencies	3,1	-2,4	1,0	3,1	2,0	-1,7	2,4
On not-for-profit organizations	0,6	-0,8	0,5	-1,4	1,6	1,9	4,5
Gross accumulation	-14,0	-4,1	-45,2	-6,6	75,2	16,5	1,7
Gross accumulation of fixed capital	-22,2	-7,9	-12,4	6,4	18,1	10,5	3,0
Net exports	22,0	-5,9	131,8	79,2	-15,9	-13,6	-4,5
Exports	3,7	-0,5	1,9	11,2	9,5	3,6	10,2
Imports	1,3	0,4	-17,4	-17,0	32,4	18,0	19,1

Source: RF Goskomstat

Figure 1 Changes in the dynamics of supplies to the internal and external markets in 1996 through 2002, in % of the figures registered in the preceding year, in constant prices



The presentation of the assessments of the real GDP in constant prices, including such its components as exports and imports, allow to adjust the estimates of the impact of external and domestic demand on the rates of economic growth in the post-crisis period. While in the period from 1999 till 2001 the accelerated development of the Russia's economy occurred at the background of simultaneous growth of supply of the domestic and foreign markets, in 2002 high dynamics of growth in GDP was to a considerable extent determined by the intensive expansion of exports. The specific feature of economic development taking place in 2002 was shrinking supply of domestic products on the internal market. The comparison between the dynamics of export of fuels and mineral and raw material resources and the rates of production of

manufacturing industries demonstrate that since 2001 the trend towards a decrease in the share of domestically manufactured products has recovered in the structure of formation of commodity resources of the domestic market.

The economic situation in the 1<sup>st</sup> quarter of 2003 formed under the impact of the favorable external business situation. According to the Ministry for Economic Development, the average monthly active balance of trade made US \$ 4.9 billion in the first quarter, what was significantly above the values of the respective indicators of the preceding year and was comparable with the record levels registered in 2000. The growth in proceeds of the economy derived at the expense of export returns in the combination with the significantly increased inflow of foreign capital in the private sector created an additional incentive for expansion of domestic demand.

According to the preliminary estimates of the Ministry for Economic Development, in the first quarter of 2003 the increase in GDP made 6.4 % as compared with 3 % registered in the respective period of the preceding year. In contradistinction to 2002, this year there were registered outpacing rates of growth in production of goods in comparison with the output of services. The increase in production of goods made 6.7 % as compared with 2.9 % observed in the respective period of 2002, while output of services grew by 6.0 % as compared with 3.3 % registered in the preceding year. The intensive growth in the output of products and services was supported by increasing business activity in industry and construction. The amount of industrial output grew by 6 %, while the amount of construction works increased by 13.6 %. In the Russia's economy, there is recovering the trend towards the outpacing growth in investment as compared with the dynamics of GDP and expenditures for final consumption. In the Russia's economy, there recovered the trend towards outpacing rates of growth in investment as compared with GDP dynamics and expenditures for final consumption. While admitting that such high rates of growth in the beginning of this year are explained by low levels of the indicators observed in 2002, the new factors stimulating growth in production shall be also taken into account.

In the beginning of this year, there is observed an improvement of the structure of industrial growth. While fuel and raw material industries maintain their leading positions, they began to produce a stimulating effect on production in the sector of manufacturing industries. Therefore, the export oriented sector of industry to a certain extent transforms growth in external demand in expansion of domestic demand. For instance, in January through April of 2003 the increase in output of mechanical engineering made 5.7 %, while the growth in the industry of construction materials and food industry made 3.5 % and 4.2 % respectively. It shall be noted that a specific feature of mechanical engineering is the acceleration of rates of output of machinery and equipment not only for processing industries, but also for the industries of the consumer complex and the sphere of services. The intensive development of products of mechanical engineering for light and food industries, growth in production of household appliances, supplies to the industries relating to communications and instrument making are supported by accelerating processes of modernization of fixed assets across the respective industries, creates new niches for domestic producers on the internal market, and transforms the competitive environment. It may be assumed that the enhancing business activity across manufacturing industries and the investment complex occurring in early 2003 was the natural reaction of domestic businesses to the shrinking of the internal market of domestic products.

The presently formed situation is characterized, on the one hand, by the exhaustion of the potential of relatively inexpensive increase in output via utilization of idle production capacities, and, on the other hand, by the diminishing effectiveness of investment in traditional spheres. Yields of state securities and interests on deposits are at present practically negative, while export of capital and investment on world stock markets are not attractive options. Taking into account the high capacity of the Russia's market, there are forming prerequisites for investment in the real manufacturing. The stability of rates of economic growth in the short and medium term perspective and diversification of the economy will to a considerable extent depend on the effectiveness of the effort to improve the investment and business climate in the country.

*O. Izryadnova*

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## **IET Business Survey: Industry**

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The slowdown of industrial growth registered in April continues. In May, the growth in effective demand almost stopped. However, the adjustment of output allowed enterprises to avoid hoarding of finished stocks. After the pre-May decline in optimistic forecasts, enterprises again begin to hope for a growth in their sales,

output, and profits. The plans of purchase of machinery and equipment for the 3<sup>rd</sup> quarter retained the level of optimism registered in the preceding quarter.

The slowdown of industrial growth registered in the April IET survey was confirmed three weeks later by the official data. The RF Goskomstat informed that the dynamics of the whole volume of production (taking into account the excluded influence of the labor time fund) in April made 95.2 % in comparison with the figures observed in March of 2003. The Center for macroeconomic analysis and short term forecasting (CMASTF) after the adjustment for the seasonal factor evaluates the April results as 100.2 %. Since the beginning of the year, the amount of production has increased by 4.4 % (April figures as compared with December data, adjusted for the seasonal factors). The lesser intensity of industrial recovery was caused by the return to the model of development basing on the export oriented and raw materials industries. According to the CMASTF experts, in April more than 2/3 of the increase in output occurred at the expense of growing production of power engineering, fuel industry, and non-ferrous metallurgy.

However, the results of the May survey again do not provide grounds for optimism. The rates of increase in cash sales fell almost to zero in May. Enterprises across all industries with the exception of metallurgy and food industry report a slowdown in growth. An absolute decline sales continues in forestry, wood working, pulp and paper, and light industries. At the same time, it shall be noted that in May there are many non-working days and this fact may somewhat improve the month's results as viewed by the traditional quantitative statistics. The slowdown of increase in effective demand did not affect the dynamics of barter and other non-cash types of demand. They continue to decline and gradually lose their importance. The shares of responses "normal" increase in April and May by 4 points and at present makes 41 %. It is the best value registered over the last seven months.

In May, the rates of decline in real profits decelerated by several balance points. However, in the Russia's industry at large profits continue to fall. Some growth was registered only in metallurgy and industry of construction materials.

Production has also stopped to grow. The May balance was at zero by 21 points below the level observed in April. Growth in output was retained only in metallurgy, mechanical engineering, construction industry and food industry. In other industries, there prevail enterprises decreasing their output.

Enterprises still consider insufficient effective demand and shortage of working capital as the major limits to growth in output. Non-payments, formerly the most widespread problem, have lost in "popularity" more than two times. Only 25 % of enterprises listed them among the obstacles to growth, while almost the same number of enterprises consider competitive imports a limit to their production. The frequency of reports mentioning the latter indicator has increased from 3 % in 1999 to 20 %. At the same time, the shortage of raw materials and semi-finished products, to the contrary, decreased to its historical minimum. Only 14 % of enterprises consider this factor as an obstacle to increase in output, while in the winter of 1998 – 1999 it was mentioned by 35 % of enterprises.

Restrained growth in output allowed enterprises to increase the share of normal evaluations of their finished stocks. In May, this indicator reached 55 %. The surveys have not registered so many enterprises satisfied with their finished stocks since March of 1992. The share of such reports is especially high in metallurgy (70 %), construction industry (68 %), and mechanical engineering (60 %). The balance of evaluations (above the norm – below the norm) also indicates that the situation relating to finished stocks improves. In May, the balance decreased by almost 8 points, however, it remains positive (i.e. enterprises having excessive finished stocks prevail in the industry at large). A similar trend was registered across the majority of industries, while enterprises in metallurgy and food industry reported a shortage of finished stocks.

In the second quarter, surveys registered certain recovery of purchases of domestic machinery and equipment. The balance increased by 5 points and has become positive for the first time since in February of 2002 there was started separate (domestic and imported products) monitoring. A growth in purchases started across practically all industries with the exception of power engineering and light industry, where reports about a decrease in such purchases prevailed. An increase in purchases of imported machinery and equipment was registered only in metallurgy, forestry complex, and industry of construction materials.

After the pre-May decline in optimistic forecasts, enterprises again begin to hope for a growth in their sales, output, and profits.

On the whole, the balance of forecasts of effective demand increased by 9 points across industries. An improvement was registered in all industries with the exception of construction materials industry, which adjusted its overoptimistic expectations from + 75 % to + 48 %.

In the second quarter, the estimates of barter, promissory note, and offset operations maintained negative values. Enterprises intend to eliminate the remnants of such transactions. A certain growth in barter, promissory notes and offsets may be expected only in industry of construction materials, while in power engineering there is possible an increase in promissory notes and offsets.

Production plans of enterprises have also changed to the better both in the industry at large and at the level of individual industries. Only industry of construction materials diminished the planned output following the adjustment of forecasts of demand. However, even after the revision these plans remain most optimistic. Hopes for growth in output also prevail across food industry, chemistry, and petrochemistry.

The plans of purchase of machinery and equipment for the 3rd quarter retained the level of optimism registered in the preceding quarter. On the whole, the industry at large and individual industries expect a moderate growth in purchases. The majority of enterprises intending to purchase domestic machinery and equipment were registered in non-ferrous metallurgy and construction industry, while plans to purchase imported equipment prevail in food industry, non-ferrous metallurgy, construction industry, chemistry, and petrochemistry.

*S. Tsukhlo*

### **Regions: Dynamics of Industrial Output**

While the average national growth in industrial output in the 1<sup>st</sup> quarter of 2003 made 6.0 % (as compared with the figures registered in the 1<sup>st</sup> quarter of 2002), this indicator varied across individual regions from a growth by 39.8 % to a decline by 34.0 %. The differences among regions are mostly determined by the situation existing in each subject of the Russian Federation and not by the general trends of development of individual industries in the country – among the regions both demonstrating a decline in industrial output and the highest rates of growth are RF subjects with very different structures of industrial production (see Table 1).

*Table 1*

#### **Regions demonstrating the most and least favorable industrial output dynamics in the 1<sup>st</sup> quarter of 2003\***

Regions demonstrating most significant rates of growth in industrial output	IOI, 1 <sup>st</sup> quarter of 2003 in % of 1 <sup>st</sup> quarter of 2002	Regions demonstrating a decline in industrial output	IOI, 1 <sup>st</sup> quarter of 2003 in % of 1 <sup>st</sup> quarter of 2002
Kamchatka oblast	139,8	Republic of Komi	99,9
Leningrad oblast	125,6	Republic of Altai	99,7
Kursk oblast	120,8	Rostov oblast	99,2
Kaliningrad oblast	119,0	Stavropol krai	98,9
Chita oblast	119,0	Kirov oblast	98,7
Republic of Mordovia	118,6	Primorski krai	98,4
Karach-Cherkesian Republic	118,1	Novgorod oblast	96,6
Orenburg oblast	117,8	Murmansk oblast	96,2
Republic of Buryatia	115,8	Republic of Karelia	93,7
Tomsk oblast	115,8	Ulyanovsk oblast	93,1
Pskov oblast	113,9	Tula oblast	92,2
Moscow oblast	113,6	Samara oblast	90,9
Republic of Udmurtia	113,2	Republic of Sakha (Yakutia)	85,0
Yevreyskaya AO	112,6	Magadan oblast	68,0
Orel oblast	112,2	Republic of Ingushetia	66,0
Republic of North Osetia Alaniya	112,1		
City of Moscow	112,0		

\* without autonomous okrugs

IOI – industrial output index

In spite of the fact that in the 1<sup>st</sup> quarter of 2003 the situation of export oriented industries was more favorable in comparison with the industries oriented towards the domestic market, among regions demonstrating highest rates of growth in industry there are few those specializing in fuel industry, ferrous

and non-ferrous metallurgy, for instance, the Orenburg oblast (although the production of natural gas in the oblast has even somewhat declined), the Tomsk oblast (where volumes of extraction of oil and natural gas have increased by more than 40 %), not included in the table the Nenetsian AO, where at the expense of narrow specialization (oil extraction) the volume of industrial output has increased by 35 %. At the same time, some raw materials regions are among outsiders, for instance, the Republic of Komi (where extraction of coal and natural gas fell at the background of growing extraction of oil).

There is yet another example of absolutely different situations existing in the framework of the same industry across regions: fish industry. While in the country at large the volume of fish and sea products yields have on the average decreased by 9.2 %, in the Kamchatka oblast the respective yields increased by 50.3 % (this development has accounted for the fact that this region is leading in terms of growth in industrial output). At the same time, the Primorski krai, also specializing in fish industry was placed among regions characterized by a decline in industrial output (in this RF subject have decreased both the yields of fish and sea products – by 3.9 %, and the volume of fish processing).

Since the preceding year, there has persisted the trend towards relatively high rates of growth in industrial output in the regions of the Central Russian and North West, to a considerable extent due to their sales market capacities or location near to such markets. The list of leaders in terms of industrial output dynamics are the city of Moscow and Moscow oblast, Kursk, Orel, Leningrad, Pskov, and Kaliningrad oblasts (in the latter there has increased the production of a number of products of light and food industries, mechanical engineering, there also existed a favorable situation in motor industry). However, the rates of industrial growth in the city of St. Petersburg were rather modest, while in the Novgorod oblast the volumes of industrial output even declined. Among outsiders there was also registered the Tula oblast.

On the whole, in the 1<sup>st</sup> quarter of 2003 there were registered 21 regions demonstrating a decline in industrial output. The list includes, alongside with the regions presented in the table, six autonomous okrugs (Komi Permyak AO, Taimyr AO, Evenk AO, Ust' Orda Buryat AO, Aginski Buryat AO, and Chukotka AO (i.e. all autonomous okrugs with the exception of three okrugs involved in extraction of oil and natural gas and the Koryak AO, where, as in the Kamchatka oblast proper, there increased yields of fish and sea products). The decline in industrial output in predominantly agrarian Ingushetia was caused by (among other factors) the slump in the fuel industry (the oil extraction decreased by 27.9 %). In the Magadan oblast there was registered a noticeable slump in a number of industries – in non-ferrous metallurgy (the leading industry of the region), where the volume of production declined by 42 %, the volume of production of electrical power decreased by 16.3 %, coal extraction fell by 16.3 %, while the yields of fish and sea products diminished by 27.8 %.

The Samara and Ulyanovsk oblasts specializing in motor industry shall be specifically mentioned among the regions experiencing slump of industrial output. The unfavorable situation in this industry has affected the situation in the regional industries on the whole. While the average national decline in production of cars made 19.1 %, in the Samara oblast this indicator was registered at 21.8 %, while in the Ulyanovsk oblast it made 17.4 %.

The favorable situation, which until recently has existed in raw materials industries as compared with manufacturing industries, may be observed via changes in the regional shares in the national amount of industrial output (see Table 2). In the 1<sup>st</sup> quarter of 2003, as compared with the respective period of 2002, there significantly increased the share of the Tyumen oblast (it shall be noted that it occurred at the expense of the Khanty Mansi AO, the share of which grew from 7.21 % to 8.34 %, while the share of the Yamal Nenets AO declined from 3.26 % to 2.99 %), and the Chelyabinsk and Vologda oblasts specializing in ferrous metallurgy. Taking into account certain exceptions, the shares of regions specializing in industries oriented towards the domestic market have decreased, especially noticeably in the case of the city of Moscow and the Samara oblast.

Table 2

**Regions leading in terms of their share in the national volume of industrial output in the 1<sup>st</sup> quarter of 2002 and 2003\***

Regions	Share in industrial output, 1 <sup>st</sup> quarter of 2003, in %	Regions	Share in industrial output, 1 <sup>st</sup> quarter of 2002, in %
Tyumen oblast	11,80	Tyumen oblast	10,92
City of Moscow	5,49	City of Moscow	6,35
Sverdlovsk oblast	4,40	Samara oblast	4,44
Moscow oblast	3,82	Sverdlovsk oblast	4,44
Samara oblast	3,70	Moscow oblast	4,03
Chelyabinsk oblast	3,63	Republic of Tatarstan	3,62
Republic of Tatarstan	3,54	Krasnoyarsk krai	3,44
City of St. Petersburg	3,53	City of St. Petersburg	3,27
Krasnoyarsk krai	3,41	Chelyabinsk oblast	3,18
Republic of Bashkortostan	2,83	Republic of Bashkortostan	2,80
<i>Total top 10l</i>	<i>46,15</i>	<i>Total top 10l</i>	<i>46,50</i>
Kemerovo oblast	2,74	Nizhni Novgorod oblast	2,57
Perm oblast	2,65	Perm oblast	2,56
Nizhni Novgorod oblast	2,29	Kemerovo oblast	2,53
Irkutsk oblast	2,10	Irkutsk oblast	2,19
Vologda oblast	2,03	Vologda oblast	1,76
<i>Total top 15</i>	<i>57,95</i>	<i>Total top 15</i>	<i>58,11</i>

\* without autonomous okrugs

Table 3

**Characteristics of industrial output across federal okrugs**

Federal okrugs	IOI, 1 <sup>st</sup> quarter of 2003 in % of 1 <sup>st</sup> quarter of 2002	Share in the national industrial output (in %)	
		1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002
Central federal okrug	109,0	21,98	22,43
North West federal okrug	108,7	12,03	11,64
Southern federal okrug	103,2	6,27	6,53
Privolzhski federal okrug	105,0	22,01	22,73
Ural federal okrug	110,0	20,16	18,89
Siberian federal okrug	110,7	12,53	12,35
Far East federal okrug	102,4	5,02	5,43
<b>Russian Federation</b>	106,0	100,00	100,00

As concerns federal okrugs, in the 1<sup>st</sup> quarter of 2003 the Far East federal okrug continued to lag behind in terms of its industrial output dynamics (see Table 3), although a positive development is the fact that there was registered a growth and not decline in production. It shall be taken into account that in the 1<sup>st</sup> quarter of 2003 the maximal values of the industrial output index were registered in the Siberian federal okrug previously lagging behind the European Russia in terms of the rates of industrial growth. In contradistinction to the figures observed in the 1<sup>st</sup> quarter of 2002 (similarly to the annual figures of 2002), the North West federal okrug lost its leading positions in terms of growth in industrial output. The differences among the federal okrugs in terms of the industrial output dynamics are to a considerable degree determined by their industrial specialization. Growth in raw materials industries primarily accounted for the leading positions taken by the Siberian federal okrug, closely followed by the Ural federal okrug, where fuel industry and metallurgy makes the lion share in the structure of industrial output. The specific feature of the Ural federal okrug is that its share in the national amount of industrial output has increased most significantly (in the 1<sup>st</sup> quarter of 2003 as compared with the figures registered in the 1<sup>st</sup> quarter of 2002). At the same time, the shares of the Southern, Privolzhski, and Far East federal okrugs diminished.

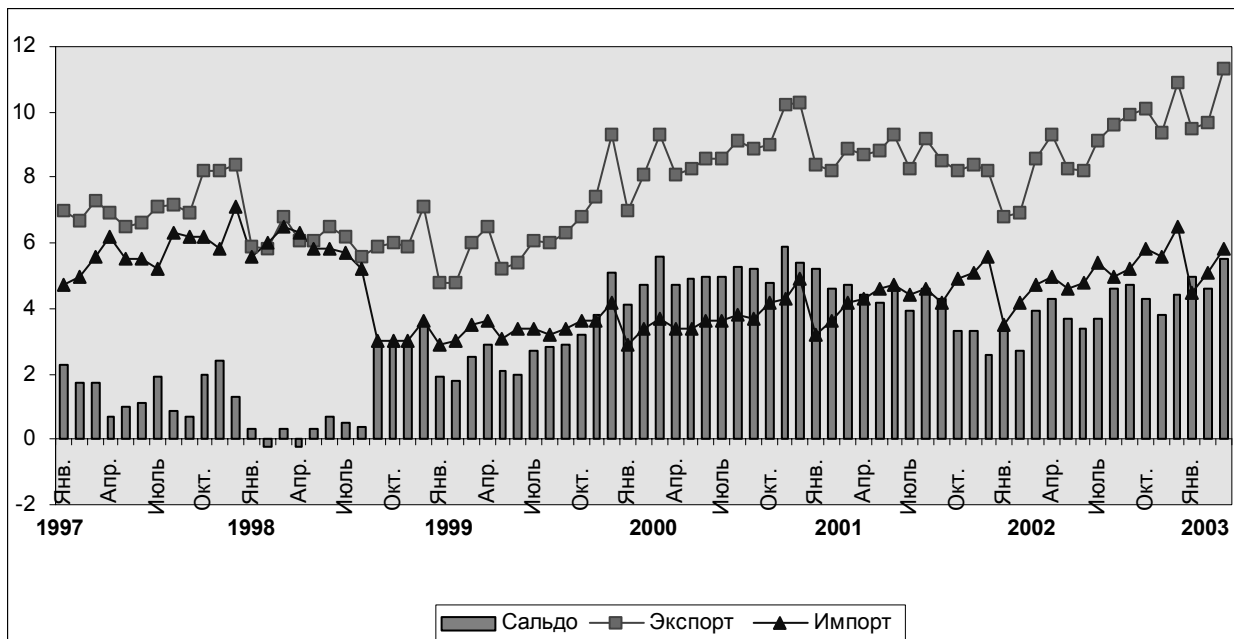
## Foreign Trade

In March of 2003, the Russia's foreign trade turnover grew by 27.8 % in comparison with the figures registered in the respective month of the preceding year and made US \$ 17 billion (according to the balance of trade methodology). At the same time, exports made the record high US \$ 11.3 billion and exceeded the respective indicator observed in the preceding year by 35.5 %. Imports also demonstrated stable high rates of growth. In March of 2003, there was imported goods worth US \$ 5.7 billion, what is by 21.8 % above the levels registered in the respective period of the preceding year.

The active balance of trade made US \$ 5.5 billion, while last March this indicator made US \$ 3.9 billion.

As compared with the figures registered in the preceding month, the foreign trade turnover increased by 15.5 % as exports grew by 16.5 % and imports increased by 13.7 %.

*Figure 1. Main indicators of Russia's foreign trade (in Rub. bln.)*



Source: RF Goskomstat

The increase in exports is determined by the business situation on the world raw materials markets favorable for Russia's exporters. For instance, on the world oil market in the 1<sup>st</sup> quarter of 2003 there prevailed the trend towards a rise in prices. The conflict in Iraq has reduced the importance of economic factors determining the balance of demand and supply. For instance, the average world price of oil (Urals) exceeded the price registered in the respective period of the preceding year by 50.8 % and therefore the effectiveness of the Russian export of oil and other energy resources has significantly increased.

Since mid-March, there has been observed a certain decrease in oil prices. For instance, the average world price of oil (Urals) made US \$ 28.9 per barrel (a decrease by 5.6 % in comparison with the February figures), while Brent prices made US \$ 29.15 per barrel (a decrease by 9.1 %). In the short term perspective the situation in Iraq will remain the major factor affecting the world situation on oil markets and until it is settled, the prices probably remain unstable.

According to the results of the monitoring of the world markets carried out in March and April of 2003, the average price of Urals oil made US 25.4 per barrel, or US \$ 185.76 per metric ton. As a result, the export duty on oil shall be significantly reduced from US \$ 40.3 to US \$ 26.8 per metric ton since June 1, 2003. There was introduced a unified export duty at US \$ 24.1 per metric ton on oil products exported from the RF territory in countries outside the customs territory of the Customs Union. Previously, the export duty on oil related commodities was at US \$ 36.3 per metric ton.

Contract prices of Russian natural gas demonstrated an upward trend. In March of 2003, the average monthly contract price of Russian natural gas increased almost 2 times in comparison with the figures registered in the respective period of the preceding year, however, it declined by 10 % as compared with the February figures.



The situation on the market of ferrous metals was rather favorable for Russian exporters. In March of 2003, the average European prices of major types of merchant rolled shapes increased by 7.7 % in comparison with the figures observed in February, while the prices of sheet rolled products grew by 2.7 %.

In the 1<sup>st</sup> quarter of 2003, there was observed a recovery on the world markets of non-ferrous metals. In spite of a certain decrease in prices of major types of non-ferrous metals occurring in March, the average monthly prices of nickel, copper, and aluminum increased by 35.3 %, 7.4 %, and 1.4 % respectively in comparison with the figures registered in the 1<sup>st</sup> quarter of 2002.

*Table 1*

**The average monthly world prices in March of the respective year**

	1996	1997	1998	1999	2000	2001	2002	2003
Oil (Brent), USD / metric ton	139	139,8	94,5	99,4	195,9	185,9	175,7	212,2
Natural gas, USD / thous. m <sup>3</sup>	-	66,8	77,5	75,7	101,0	185,7	107,0	205,6
Gasoline, USD / metric ton	215,5	230,4	166,8	188,3	333,5	318,0	279,5	359,0
Copper, USD / metric ton	2584,7	2424,8	1772	1477,1	1779,1	1780,3	1605	1681,6
Aluminum, USD / metric ton	1600,8	1635,5	1441,3	1251,1	1584,2	1511,2	1403,17	1393,1
Nickel, USD / metric ton	7955,7	7929,5	5380	4934,5	10269,6	6140,3	6503,33	8402,4

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

The increase in the amount of imports primarily resulted from the growing volumes of imported products, while the level of contract prices increased insignificantly.

The growth in imports was observed across all commodity groups: foodstuffs – by 19.6 %, chemical products – by 23.7 %, textile products and footwear – 1.5 times, products of mechanical engineering – by 13.2 %.

In the 1<sup>st</sup> quarter of 2003, there was noted a significant improvement of Russia's terms of trade with foreign countries (the ratio between price indices of exports and imports) resulting from a more significant rise in prices of staple Russia's exports in comparison with the prices of imported goods.

In March of 2003, the turnover of Russia's trade vis-à-vis CIS countries made US \$ 2.75 billion. While in the preceding year exports grew at rates outpacing increase in imports, in March of this year these rates became equal and made slightly above 24 % as compared with the figures registered in March of 2002. This month, the amounts of exports made US \$ 1.62 billion, while imports made US \$ 1.13 billion.

Since May 9, Russia has introduced a new antidumping duty on the zinc plated flat bar rolled iron and steel with zinc or aluminum and zinc plating imported from Ukraine. The duty has been set at 24.3 % of the customs value of the respective products for the term of 2.5 years. The customs shall compensate suppliers in the amount of the difference between the temporary antidumping duty and the present regular duty. The temporary antidumping customs duty was introduced in August of 2002 for a 4 month term and made 31.8 % of the customs value. From May of 2000 till April of 2001, the average dumping margin relating to the rolled products imported from Ukraine made almost 50 %.

As a result of the bilateral negotiations with Moldova, a CIS member country, this Republic confirmed that in 2003 the expansion of its trade with Russia, which traditionally is the major trading partner of Moldova, remains its priority in the external economic operations. In the course of negotiations held in 2003 there was achieved certain progress as concerns the Russia's consent to abolish currently existing exceptions from the free trade regime relating to five positions. For instance, it was planned to again extend the free trade regime to Moldavian sugar. Until that time the Republic may be granted import quotas at 32 to 35 thousand metric tons a year.

On May 20, the third Russian version of the final report of the WTO working group on Russia's accession to this organization was submitted to its Geneva office. This document presented by the applicant shall be discussed by all WTO member countries before July 7, so the working group could issue the recommendation for the Ministerial conference. However, it is already clear that Russia will not be accepted in 2003. The accession was postponed for an indefinite term. The Russian Government planned to join WTO at the 5<sup>th</sup> Ministerial conference of WTO member countries to be held in the Mexican town of Cancun on September 10 till 14 of this year.

In the beginning of 2003, there were agreed about 75 % to 80 % of obligations pertaining to the access of goods to the Russia's market. However, recently there has been achieved no further progress. The main problem is that Russia rejected the European request to abolish the monopoly price determination on the

market of energy resources, especially natural gas. Besides, the parties failed to agree about the issues of support of agriculture (Russia continues to defend its right to subsidize its agriculture at about US \$ 16 billion a year), free access of foreign banking, insurance, and transport services to the Russia's market. Besides, Russia refuses to enter the non-binding WTO agreement on civilian aircraft.

At its next conference to be held in Cancun, WTO intends to set forth more strict rules of accession, for instance, as concerns the protection of intellectual rights. Therefore, Russia will have to hold additional negotiations and its accession seem to be postponed for an indefinite term.

Since Russia is not a member of the World Trade Organization, the terms of access to external markets applied to Russian commodities sometimes are not fair. For instance, at present 77 restrictive measures against Russian goods (including 47 antidumping duties, 17 quota restrictions, 4 price restrictions, 3 special countervailing duties, 3 import prohibitions, 1 restriction of the nomenclature of imports) are in force in the world. Besides, at present 30 antidumping and special protective investigations concerning Russian commodities and exporters are in progress.

*N. Volovik N. Leonova*

### **Forecasting certain macroeconomic indicators**

**Forecasting tax revenues.** The actual data on tax revenues in March of 2003 permits to evaluate the accuracy of forecasts published in the preceding issues and adjust the applied forecast models. The addition of the new point to the time series of tax revenues does not change the trend of the time series of aggregate tax revenues, VAT, and the income tax revenues received by the consolidated budget and the aggregate tax revenues of the federal budget. For the time series "profit tax revenues of the federal budget" the addition of the new point results in the growing trend towards an increase in tax revenues.

For the comparison between the predicted values and actual data in accordance with the ARIMA and REM models, see Table 1.

*Table 1.*

**Comparison of predicted values and actual data obtained in March of 2003**

	Consolidated budget of RF				Federal budget of RF	
	Total tax revenues	Profit tax revenues	VAT revenues	Income tax revenues	Total tax revenues	Profit tax revenues
Actual data (Rub. billion)	276.6	54.2	67.6	33.0	171.8	19.8
ARIMA (forecast in % of the actual data)	90.65%	36.25%	115.01%	106.87%	80.51%	63.51%
REM (forecast in % of the actual data)	104.91%	198.66%	113.65%	95.93%	120.73%	191.96%

The most accurate forecasts for March of 2003 were obtained for the income tax revenues (the mean relative error for both types of models - the divergence between the predicted and actual values – is below 6 %) and the aggregate tax revenues of the consolidated budget (the respective value is below 7 %). The obtained predictions of the VAT revenues turn out to be above the actual data both for the ARIMA model and the REM model, what may be explained by the significant dispersion of the actual data pertaining to this indicator in 2003. For instance, in March of 2003 the real growth in the VAT revenues in comparison with the figures registered in the respective month of 2002 made –10 %, while in the first two months of 2003 the respective value is estimated to be only at 2 %. The mean relative error of the estimated forecasts of the aggregate revenues of the federal budget does not exceed 20 % for both types of models. The least accurate forecasts of the revenues were obtained for the profit tax revenues of the federal and consolidated budgets, what, as in the case of the value added tax, is caused by the lack of a relatively stable structure of the seasonal component in the time series of these indicators.

According to the forecasts made basing on the REM and ARIMA models (see Table 2), the average increase in the income tax revenues in May through July of 2003 in comparison with the figures registered in the respective period of the preceding year makes about 0.3 p. p. of GDP. As concerns the value added tax, over the analyzed period on the average the respective revenues grew by 0.4 p. p. of GDP according to the REM model and by 0.2 p. p. of GDP according to the ARIMA model. Our calculations indicate that the trend

towards growth in VAT revenues persists this year in spite of the relative decline in the revenues registered in March of 2003 as compared with the figures observed in the respective period of 2002. The predicted average decline in the profit tax revenues of the consolidated budget in May through July of 2003 in comparison with the figures registered in the respective period of the preceding year will make about 0.8 p. p. of GDP in accordance with the REM model and 0.3 p. p. of GDP in accordance with the ARIMA model. To the contrary, the revenues of the federal budget generated by the profit tax will on the average increase by 1 and 1.8 p. p. of GDP according to the REM and the ARIMA models respectively. At the same time, on the whole, proceeding from the obtained forecasts of the REM model, the amount of aggregate revenues of the consolidated budget shall increase by 1.3 p. p. of GDP on the average and will not change in comparison with the figures registered in the preceding year according to the ARIMA model.

The constantly changing seasonal component of the time series indicates unstable dynamics of both aggregate tax revenues and the profit tax revenues. Therefore, it seems that more accurate forecasts of these indicators may be made basing on the REM model.

Table 2

**Forecast of tax revenues in January through May, January through June, and January through July of 2003 (in % of GDP)**

	Consolidated budget of RF				Federal budget of RF	
	Total tax revenues	Profit tax revenues	VAT revenues	Income tax revenues	Total tax revenues	Profit tax revenues
Actual values of tax revenues						
January – May of 2002	26.4%	5.1%	7.0%	3.1%	15.9%	1.9%
January – June of 2002	25.9%	4.7%	6.9%	3.1%	15.7%	1.7%
January – July of 2002	26.2%	4.7%	7.0%	3.2%	15.8%	1.7%
January – December of 2002	25.5%	4.2%	6.9%	3.3%	15.5%	1.6%
REM model forecast						
January – May of 2003	27.8%	4.7%	7.3%	3.3%	16.9%	1.8%
January – June of 2003	27.2%	4.4%	7.3%	3.4%	16.7%	1.7%
January – July of 2003	27.6%	4.4%	7.4%	3.5%	16.9%	1.7%
ARIMA model forecast						
January – May of 2003	26.1%	4.1%	7.2%	3.4%	17.5%	1.5%
January – June of 2003	26.2%	4.0%	7.1%	3.4%	17.7%	1.5%
January – July of 2003	26.0%	4.0%	7.1%	3.5%	17.7%	1.6%

Table 3

**Forecast of living standards in May, June, and July of 2003**

	Average gross monthly pension in real terms (1994.01=100)	Real disposable cash incomes (1992.12=100)	Real wages and salaries (1993.01=100)
Actual data			
May 2002	97.06	84.02	92.12
June 2002	96.77	92.00	97.55
July 2002	96.28	96.14	99.70
ARIMA model based forecast			
May 2003	107.83	98.49	101.54
June 2003	110.16	100.47	104.11
July 2003	111.94	103.91	105.68
ARIMA model based forecast in per cent of the actual data obtained in the respective period of 2002			
May 2003	111.09%	117.23%	110.23%
June 2003	113.84%	109.20%	106.72%
July 2003	116.26%	108.08%	106.00%

**Forecast of living standards.** According to the ARIMA model based estimates (see Table 3), the average increment in the average gross monthly pension will make about 14 % in May through July of 2003 as compared with the figures registered in the respective period of 2002. The average growth in real disposable

cash incomes is estimated to make about 8 %. The respective indicator of the increment in real wages and salaries will be below 8 %.

Table 4.

**Forecast of the retail trade turnover and GDP in May, June, and July of 2003**

	Amount of retail trade turnover	Amount of GDP
Actual values (Rub. billion)		
May 2002	288.5	849.0
June 2002	295.2	870.3
July 2002	307.4	953.0
ARIMA model based forecast		
May 2003	340.16	1008.21
June 2003	344.46	1041.84
July 2003	356.62	1129.03
ARIMA model based forecast in per cent of the actual data obtained in the respective period of 2002		
May 2003	117.91%	118.75%
June 2003	116.69%	119.71%
July 2003	116.01%	118.47%

**Forecast of the monthly amounts of retail trade turnover and GDP.** According to the obtained results (see Table 4), the estimated monthly average real increment in the amounts of the retail trade turnover will not exceed 3 % in May through July of 2003 as compared with the figures registered in the respective period of the preceding year. The respective value for GDP will make about 5 %.

*A. Yudin*

**Principles of the analysis of social and economic outcomes of transition to the contract based army\***

A specific feature of post-industrial societies is the transition from a conscript to contract based army. It is a normal process related to the transformation of the demographic and social structure of society. The first conscript army in Europe originated in Sweden, later - to mention only large countries – in France. The transition to the conscript army occurs in agrarian societies. For a young man who grew at a farm the conscription is the only way to a town, opportunity of socialization, elementary education, a career. For a long time, this has been the case in the Soviet Union, while in China even today conscription of a young man from a rural area is seen as a social success. Conscription

Quite different situation arises in the countries being at the stage of post-industrial development. These countries where populations are urbanized and do not need the army as an instrument of social adaptation. The conscript system starts to contradict the social institutions and behavioral standards. The society is actively searching for legitimate ways to protect children from mandatory conscription. Measures aimed to prevent these attempts give rise to social conflicts and massive corruption. When the state attempts to adopt laws limiting privileges relating to conscription, it only increases payment for draft evasion.

In the 21<sup>st</sup> century Russia, the reform of the recruitment system of its Armed Forces, the transition to the contract based army reflects the realities of the present stage of development, at which the country is today. Any attempts to preserve the recruitment system as it is in the present situation may only aggravate both military and social problems in the army and in the society. Therefore, in order to thoroughly evaluate the variants of transition to the contract based army it would be feasible to present a brief description of the variants proposed by the General Staff of the Armed Forces of the RF (GS AF RF) and IET, while singling out the specifics of transition as set forth by different variants and analyzing social and economic outcomes of implementation of respective variants of the reform.

The concept of the GS AF RF. The principal difference between the concepts under comparison is that the GS AF RF sets the priority to the task to make more combat capable only the part of the RF Armed Forces, which it considers the most important. This part includes troops of constant combat readiness belonging to the ground forces, airborne assault troops, and marine corps, where serve about ¼ of the total number of enlisted personnel and non-commissioned officers of the RF Armed Forces.

The concept elaborated by the GS AF RF recommends to start the reform of the RF Armed Forces after the completion of the full complex of preliminary measures relating to

- replenishment of materials and equipment,
- maintenance, use, and repairs of armaments and military equipment,
- capital construction, capital and current repairs of infrastructure objects and depot zones of military bases, garages, and storage facilities,
- settlement of current problems of combat and special training.

In accordance with these priorities, the expenditures for contract based recruitment of the personnel of the selected units of constant combat readiness shall include not only bonuses to the respective money allowance and funds necessary for conversion of barracks into hostels and construction of residential housing for contracted servicemen having families, but also funds for preliminary measures.

One hundred twenty billion Rubles will be expended to create in the RF Armed Forces a situation where  $\frac{1}{4}$  of the total number of soldiers, seamen, sergeants, and petty officers serving in formations and units included in the category of constant combat readiness are serving under contract and on more favorable terms. At the same time, about  $\frac{1}{4}$  of the total number of servicemen (those presently servicing under contracts, the larger part of them in other arms and troops, including those on combat alert) will have to serve on present terms of service and payment, while  $\frac{1}{2}$  of the Armed Forces will be made of conscripts, a half of whom (in other words  $\frac{1}{4}$  of the total strength) will be drafted to training military units and training units of usual troops, while the rest (after the primary training) – in other military units, which the Defense Minister called “regular forces.”

The military leadership will have to extend the difference in the standards of social security of enlisted personnel and non-commissioned officers of the RF Armed Forces serving in different units to the officer corps as well.

As a result, the tension in the society caused by the mandatory conscription and present service conditions will be preserved, moreover, there will arise new tensions among the servicemen caused by significant differences in pay for their service and housing standards.

IET concept. In contradistinction to the concept promoted by the GS AF RF, IET experts propose to consider social and economic problems alongside with the military issues as priorities of the reform. It is proposed to make contracts with all servicemen of regular forces so the strength of soldiers, seamen, sergeants, and petty officers made 400 thousand, what would make  $\frac{3}{4}$  of the present total military personnel.

The rest (approximately  $\frac{1}{4}$  of the total strength, what corresponds to the present number of conscripts at their first half year of service) shall be drafted, but only for 6 months and only for the elementary military training, after completion of which conscripts would be made a responsible offer to serve further under a contract. Only those who, first, volunteer to serve, and, second, are recognized as professionally fit and respectively qualified in accordance with the results of the training shall serve in the regular forces. The rest shall be demobilized and transferred in the military trained mobilization resource (reserve) after the completion of the training.

The terms of contract service shall be attractive in order to select those merited on the basis of competition.

In the case the expenditures will be reduced to money allowance, which shall be by 10 to 20 per cent above the average national pay and to the costs of conversion of barracks into hostels and payment of funds for rent of housing for servicemen having children, the aggregate expenditures for the transition to the new system of recruitment will approximately make Rub. 91 billion till year 2007.

The expenditures for money allowances of all contracted servicemen (about 155 thousand previously recruited servicemen and the new recruits, what the IET experts considered to be of principal importance) were estimated proceeding from the extra pay increasing the level of money allowances up to the value by 10 per cent exceeding the average national pay. The average monthly pay was assumed to correspond to the estimates of the RF Ministry of Economic Development.

The expenditures defined as the extra pay to commanders were calculated proceeding from the necessity to introduce such an extra pay in order to eliminate the imbalance in the pay of officers and contracted soldiers. The calculations proceed from the assumption that these expenditures shall relate only to the officers commanding soldiers serving under contracts. This extra pay shall provide incentives for the service of exactly such officers and eliminate the permanent shortage of such officers in the Armed Forces.

Contracted enlisted personnel and non-commissioned officers shall live in hostels situated in the territory of military objects. As concerns contracted servicemen having families, the GS AF RF concept envisages that they shall be granted housing financed by the Armed Forces, while the IET concept sets forth that only servicemen with children or dependents shall be paid in order to rent housing.

Specific features of the IET variant.

1. It shall be noted that the transition to the contract military service is fully correspond to the RF Constitution and the existing legislative base. The IET concept in a natural way integrates two types of military service relating to the discharge of the Constitutional duty (Article 59 of the RF Constitution) to defend the Fatherland.

— for the majority of citizens there is the draft, which in the nearest future will be transformed in a short term military service, in the process of which the citizen shall take the oath of enlistment and have the primary military training to be prepared for further voluntary military service and combat action in the case of a large scale war;

— for the citizens who due to their beliefs or religion can not agree to serve in the Armed Forces or take arms there is the alternative civilian service. At the same time, these citizens performing public works shall simultaneously gain experience of non-combat assistance to combatants defending their Fatherland in the cases of aggression or terrorist acts. The spheres most suitable for the alternative civilian service may include health care, sanitary and ecological activities, fire protection, liquidation of the consequences of natural and technological catastrophes, certain types of construction works, etc.

2. For the citizens of military age liable to military service, the servicemen drafted after the completion of the transition to the contract based recruitment into training military units for military training and education, and their family members the advantages may be formulated as follows:

— a shorter term of military service by conscription (6 months in stead of 2 years);

— a shorter term of military service (3 months in stead of 2 years) for the persons who got training in the Russian defense sports and technical organization (RDSTO) in the case of the presentation of a document certifying that such a person has completed the respective military training and was positively attested in the course of service – training;

— predominantly territorial principle of recruitment to training military units and the possibility to meet family members;

— the persons serving and training in military units are of the same draft;

— absence of senior servicemen and therefore the phenomenon of “bullying” on the part of “old timers” (harassment of recruits);

— training of draftees by the specially selected and trained commandeers and instructors.

3. The privates and non-commissioned officers serving under contracts may expect:

— a considerable rise in money allowances. Further, it is planned to pay such bonuses, which would guarantee the competitiveness of the military organization as an employer on the labor market;

— accommodation of all servicemen in hostels, housing financed by the military, or provision of compensations for the rent of housing for their family members (only in the case the serviceman has children or dependents);

— opening of savings account for purchase of housing for private use for permanent residence after the discharge from the military service of servicemen having served more than 10 years;

— preferential terms of entering higher education establishments after the expiration of the contract term and demobilization.

4. Officers, and Army and Navy non-commissioned officers are guaranteed that:

— their money allowances paid in the period of reform shall be annually increased to be in the future at the level of salaries of public federal officials of the respective rank and category;

— additional money bonuses in the case they command enlisted personnel and non-commissioned officers of the RF Armed Forces and serve in military units where all personnel is serving under contracts;

— additional money bonuses in the case they belong to the permanent personnel of training military units;

— their subordinates volunteering to serve further after graduation from the training in military units will be better trained and have a complex of incentives for professional discharge of their military duty.

5. The merits of the recommended system of recruitment for civilian employers are as follows:

— the term of conscription will be decreased 4 times, so the labor market will expand;

— after the completion of the military service (training), persons will acquire socially useful special knowledge and professional skills.

6. After the transition to the recruitment of the RF Armed Forces with enlisted personnel and non-commissioned officers on the contractual basis, in the regular forces it will become normal that servicemen of different ages serve and perform combat missions together, including the situation where commanders are younger than their subordinates. As the war experience demonstrates, such practice is also necessary at the time of mobilization deployment and regrouping of troops at the time of war and permits to avoid many problems relating to non-typical age differences between commanders and their subordinates.

The variant of transformation of the system of recruitment to the RF military organization proposed by IET permits not only to eliminate many negative phenomena of the present crisis situation of the military organization, but also create prerequisites for the improvement of combat capabilities of the Army and the Navy, ensure the national defense capability and maintain the international security.

On the whole, the transition to the new system of recruitment recommended by IET shall bring in the future not only military, social, and economic, but also economic advantages. The merits of the concept promoted by IET, which ensures professionalism of regular military forces and at the same time training of military reserves, practically excluding such a phenomenon as harassment of recruits (at a very reasonable cost) seem to be quite obvious for the majority of RF citizens and will be supported by them. However, there exist rather influential forces, which actively protest against any increase in military expenditures, even for reasonable reforms, lobbying for the interests of various categories of recipients of budgetary funds.

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