

**RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
JUNE 2000**

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Economy and politics in June 2000

In June 2000, the political and economic situation in the country was emerging in the direction of strengthening the center's political and economic role at the expense of regions.

In the political sphere, this trend has manifested itself primarily in debates at the both Houses of the Parliament of President's legislative initiatives on changing the principles of formation of the Federation Council. The debate outcome, as of late- June, allows several remarks with regard to the current balance of political forces in Russia.

First, it has become evident that the new State Duma is not «pro-governor» (i. e. elected with the help of and therefore dependent on the regional authorities' position). Nevertheless, until the very recent time, the Federation Council has maintained its political weight higher than the State Duma which would discredit itself by an excessive 'ideologization' and, at the same time, inconsistency in its actions.

Secondly, the new Duma clearly showed its orientation towards the executive authorities' position. MPs were not confused by both the lack of a distinct new mechanism of formation of the Federation Council and a dual position of would- be members of the Upper Chamber who, de-facto, would be political envoys not holding responsible before their electorate.

Third, the senators were unpleasantly surprised by the change in the balance of forces and a sharp weakening of their position. The improvement of the regions' economic state, strengthening of the regional authorities' financial base in the wake of a new wave of property redistribution (through bankruptcy procedures, etc.), which has expanded over recent years, and, finally, the support extended by the regional authorities to Mr. Putin during his campaign.

— all those factors gave heads of the federation's Subjects certain grounds to hope for at least the maintenance status quo with regard to their powers and the level of their dependence upon the federal center's 'policy, if not keeping their role of some 'stabilizer' of the country's political life. However, the position of the State Duma and the economic strengthening of the central power have constrained the regions' possibility in this conflict.

Hence, in the fourth place, the executive power represented by President and the government demonstrated the maintenance of its position of a leading player on the political field.

At the same time, considering the fact that the federal executive power's strength primarily is based upon the relative economic prosperity and, only consequently, on the Duma's and population's support, one should note several problems that are pregnant with the complication of the situation.

The country still feels the absence of a clear comprehensive program of the government. The ongoing (and procrastinated) open debates between the government and CBR on preferable principles of exchange and monetary policy that take place on the background of a large- scale monetary issuance has already entailed the accelerating inflation rate, which is yet minimal by its absolute value, though dangerous in the conditions of a shaky political environment. The potential possibility of the revision of privatization results (ignorance of the «Norilsky Nickel» case by the Cabinet representatives) is capable of cross out all the government's efforts to improve the investment climate by lifting the tax burden (should the government's amendments to the Tax Code be passed).

T. Drobyshevskaya

State of the federal budget

**The monthly execution of the federal budget of the Russian Federation
(in prices of January 1998)**

Table 1

	1998	I'99	II'99	III'99	IV'99	XII'99	I'00	II'00	III'00	IV'00
Revenues										
Corporate profit tax	2592	1061	989	2095	3272	4693	2719	2831	5253	6383
Personal income tax		3	3	4	269	1408	550	603	713	710
VAT, special tax and excises	14811	9849	8016	9751	11400	19932	13824	15428	15075	16622
Tax on foreign trade and foreign trade operations	3714	1631	2467	3043	3008	4511	5184	6793	7214	7312
Other taxes, duties and payments	298	174	511	345	516	864	540	576	779	654
Total- taxes and charges	21416	12718	11986	15238	18464	31408	22817	26231	29034	31681
Non- tax revenues	11736	1645	65	2760	2627	8351	3240	3002	3973	4438
Revenues, total	33152	14362	13413	16672	21092	39759	26057	29233	33007	36119
Expenditure										

Public administration	1388	131	504	574	628	1542	106	724	890	860
National defense	5566	1562	2140	4352	3916	9273	47	8625	7982	5512
International activities		530	1052	868	1500	5629	1227	2008	1345	1090
Judicial power	557	17	127	119	219	614	47	171	226	224
Law enforcement and security activities	3408	302	1678	1649	2270	4957	1326	2846	2911	2824
Fundamental research	486	10	420	287	365	1340	54	303	371	420
Services provided for the national economy	3082	54	758	1103	2154	3477	447	940	1405	2072
Social services	5985	1660	2756	2950	3496	5655	2183	3074	4700	4399
Servicing of public debt	5604	5473	3733	6153	5068	9660	6314	4552	5121	4921
Other expenditure	15569	2828	2151	3118	3217	9559	4734	3752	5242	4760
Expenditure, total	41644	12566	15318	21173	22833	51705	21113	22400	30194	27082
Loans, redemption exclusive	-8493	1796	1382	1771	1556	-713	91	862	1557	196
Expenditure and loans, redemption exclusive	38213	14187	16700	22944	24388	50991	21204	23263	31750	27278
Budget deficit (-)	-5061	175	-3287	-6272	-3297	-11233	4853	5970	1257	8841
Domestic financing	1765	-7249	1254	1350	-337	10297	-822	-4335	3480	-585
External financing	3296	7074	2033	4922	3634	936	-4024	-1640	-4736	-8256
Total financing	5061	-175	3287	6272	3297	11232	-4846	-5976	-1257	-8841

The data on the execution of the federal budget between January through April 2000 are represented in table 1. The deflation of indices was made using CPI. As the Table shows, the level of tax revenues and the general level of revenues in real terms are substantially, more than 150%, superior to the respective index of 1999. That became possible, apart from the growth in tax revenues from large taxpayers, thanks to the renewal of the growth in world prices for export commodities and to timely paying in full of current payments due.

Between January to April 2000, the level of the federal budget revenues made up 18.2% of GDP (see also the statistical Appendix available in the Russian version) and expenditure — 15.1% of GDP, including non-interest expenditure — 12.1% of GDP. The level of budget profit thus made up 3.1% of GDP.

According to the preliminary data on execution of the federal budget of the Russian Federation between

January to May 2000 the amount of revenues made up Rb. 413 bln. (51,9% of the annual plan or 18.7% of GDP), the amount of expenditure – Rb. 367 bln. (42.9% of the annual plan or 16.6% of GDP), including Rb. 295 bln. (13.4% of GDP) of non-interest expenditure, the level of profit – Rb. 46 bln. (2.1% of GDP), with the primary profit accounted for 118 bln. Rb. (5,3% of GDP).

The tax revenue to the federal budget for the first five months 2000 in quota by MTC is accounted for about Rb. 261 bln. (63% of revenues), controlled by SCS – Rb. 130 bln. (31%) and that controlled by the Ministry of Finance – about Rb. 6 bln.

The tax revenue to the federal budget for May 2000 in quota by MTC is accounted for about Rb. 52 bln., or Rb. 58.4 bln. targeted budget funds inclusive.

Table 2

The actual tax revenue to the federal budget, according to MTC (in prices of January 1998)

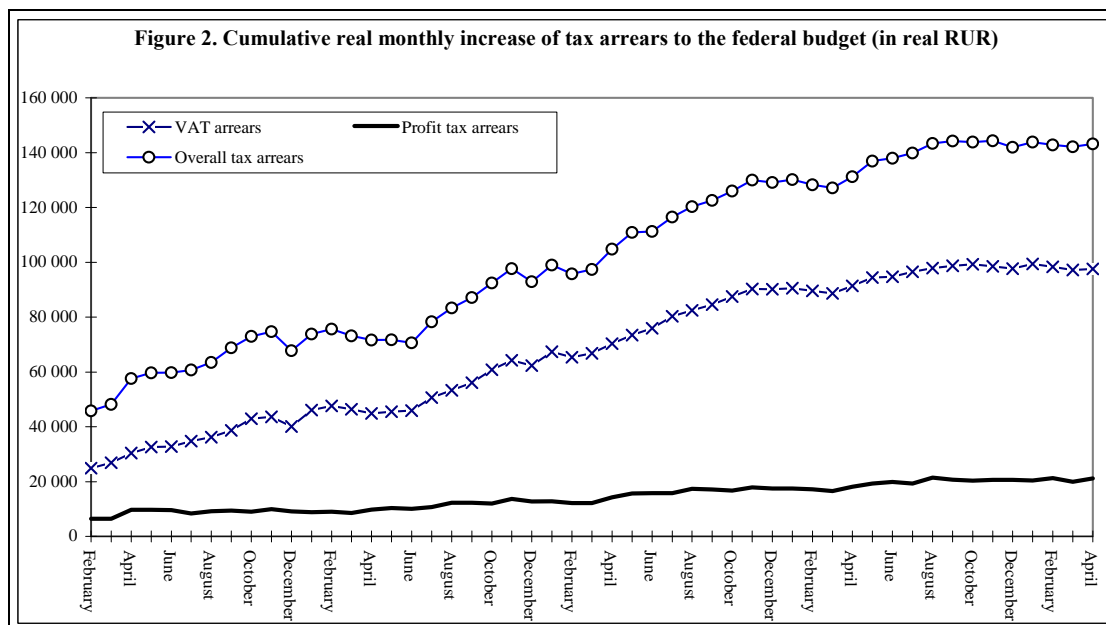
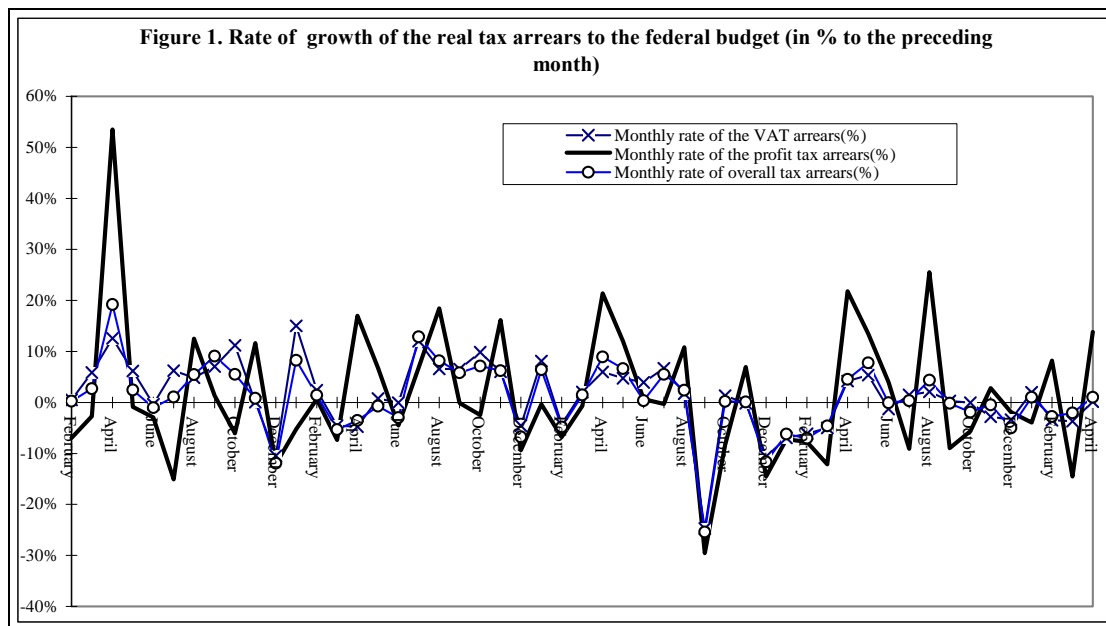
1998	1999												2000			
XII	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	I	II	III	IV
21542	10067	11586	12281	12287	10524	11369	12785	12838	12514	14238	16190	21455	15030	16161	18247	20714

Execution of consolidated budget between 1998 through 2000 is represented in Table 3.

Table 3

Execution of the consolidated budget of RF in comparable prices (prices of January 1998)

1998												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	30126	33495	37888	45434	43139	40949	41345	35716	25597	28621	33866	50482
Revenues	34978	38540	45684	51720	50198	48945	48502	44052	32081	34197	39069	67225
Expenditure	44836	37683	60997	60148	58386	64209	58078	46184	32366	38604	45711	71973
Deficit	-9858	857	-15313	-8428	-8188	-15264	-9576	-2132	-285	-4407	-6642	-4748
1999												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	21766	21622	30452	36691	32072	36152	37183	37947	33622	37038	48002	62535
Revenues	24864	24555	34416	42411	38693	43643	43953	45894	42105	44934	56431	76974
Expenditure	23174	28026	40726	44441	42940	46870	43805	45186	42243	42101	48357	94741
Deficit	1690	-3471	-6310	-2030	-4247	-3227	148	707	-138	2834	8075	-17767
2000												
	I	II	III	IV								
Taxes	34257			74621				124007				108508
Revenues	40177			86605				144825				122997
Expenditure	32667			73598				130479				102306
Deficit	7510			13007				14347				20691



S. Batkibekov

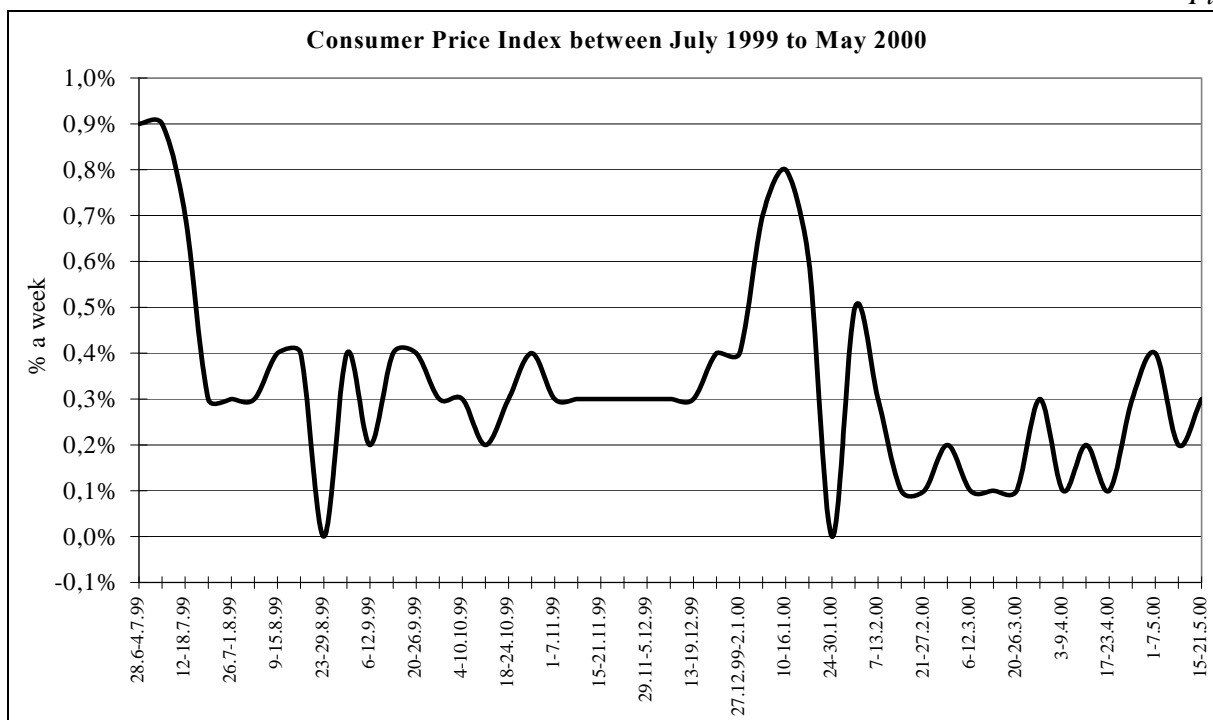
Monetary Policy

In April - May 2000 the rates of consumer prices growth slightly accelerated (see Fig. 1). In April 2000 the CPI increment amounted to 0.9% (0.6% in March). The highest growth rates were recorded across prices for non-food goods and services – 1.5% and 2.1%, respectively. Prices for food stuffs grew up by 0.3%.

According to preliminary estimates, in May the increment in consumer price index is likely to make up 1.1–1.3%. In our view, the current acceleration of inflation rates could be attributed to following factors. First, in April – May the intensive money issuance, which has been observed since January 2000 and

related to accumulation of foreign reserves by the CBR, began to affect prices. Unless a liquid market for government securities is renewed, the CBR is quite constrained in sterilization of growing money supply. Second, during last several months one could see a gradual increase in real income of population and a decline in wage indebtedness. Hence, the demand constraints have become less tight, and the structure of relative prices for goods was changing towards some acceleration in price growth rate for non-essential goods (non-foods goods, services).

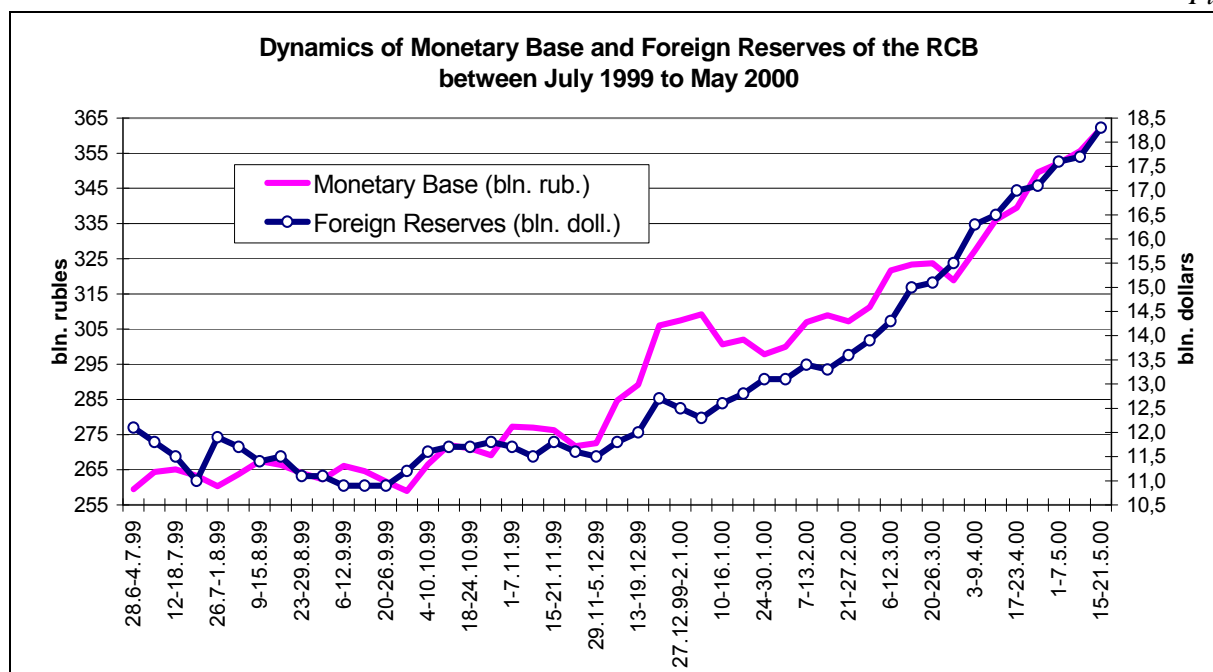
Figure 1.



By the second decade May 2000, the CBR foreign reserves reached 18.3 billion US\$ (see Fig. 2). Thus, at present the reserves cover the volume of import for 7–8 months. That is the highest value of the indicator since 1992 (in 1997 – at most 3.5–4 months). The

accumulation of foreign reserves by the CBR was accompanied by an accelerating growth of money base (see Fig. 2). In April the narrow money base grew up by 9.63% (from 318.9 to 349.6 billion rubles), for the first three weeks of May – by yet 3.58%.

Figure 2.



S. Arkhipov, S. Drobyshevsky

Financial Markets

The government securities market. A gradual decline in prices was observed in April - May 2000 at the market for the Russian debt securities (see Figs. 1 and 2). Until mid-May, the Minfin bonds fell down to the level of mid-March, prices for eurobonds - to the level of the first half February 2000. Therefore, the quotations of securities lowered at 5–10 percentage points. Prices for eurobonds matured in 2001 are the only stable ones, yields to maturity on that tranche do not exceed 13.2–13.5% annualised.

It is evident that one should not expect any considerable increase in prices for the Russian

securities during the forthcoming months, given the situation at the world financial markets. The forthcoming rise of the basic rates in the USA, UK and Europe as well as the threat of instability at the world stock market do not favour investments in emerging markets securities. The ongoing quite high political risks in Russia do not allow the assumption of overvaluation of the current level of yields on the Russian debt, despite the tendency towards the rise in the country's credit rating.

Figure 1.

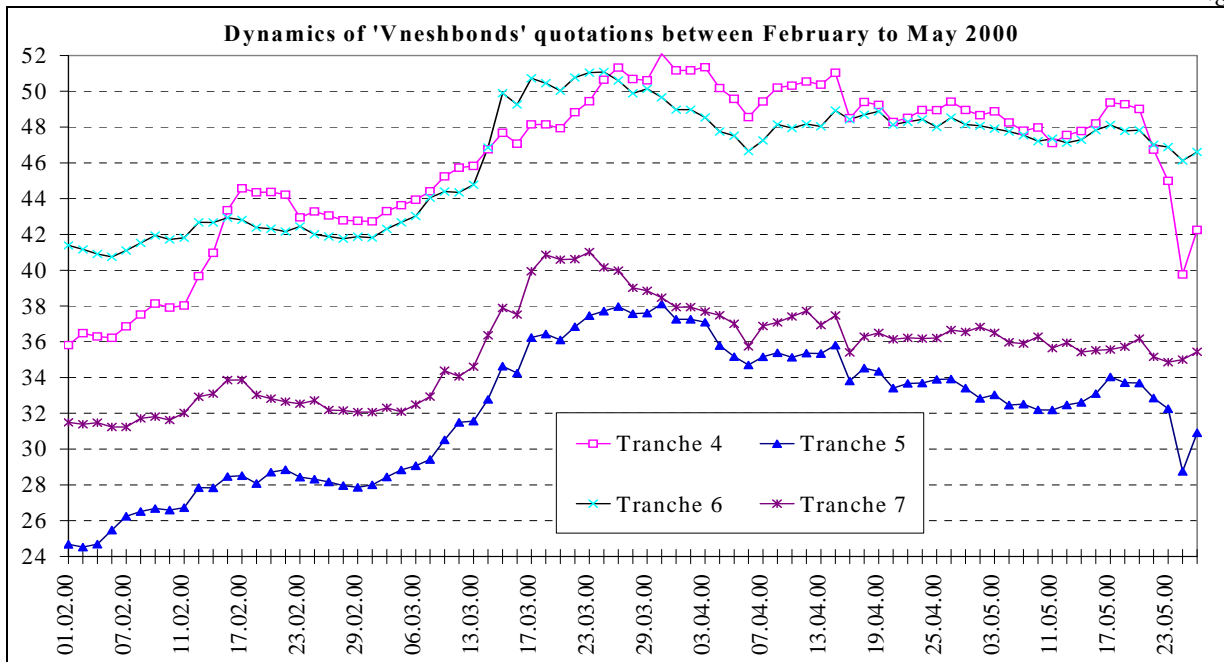
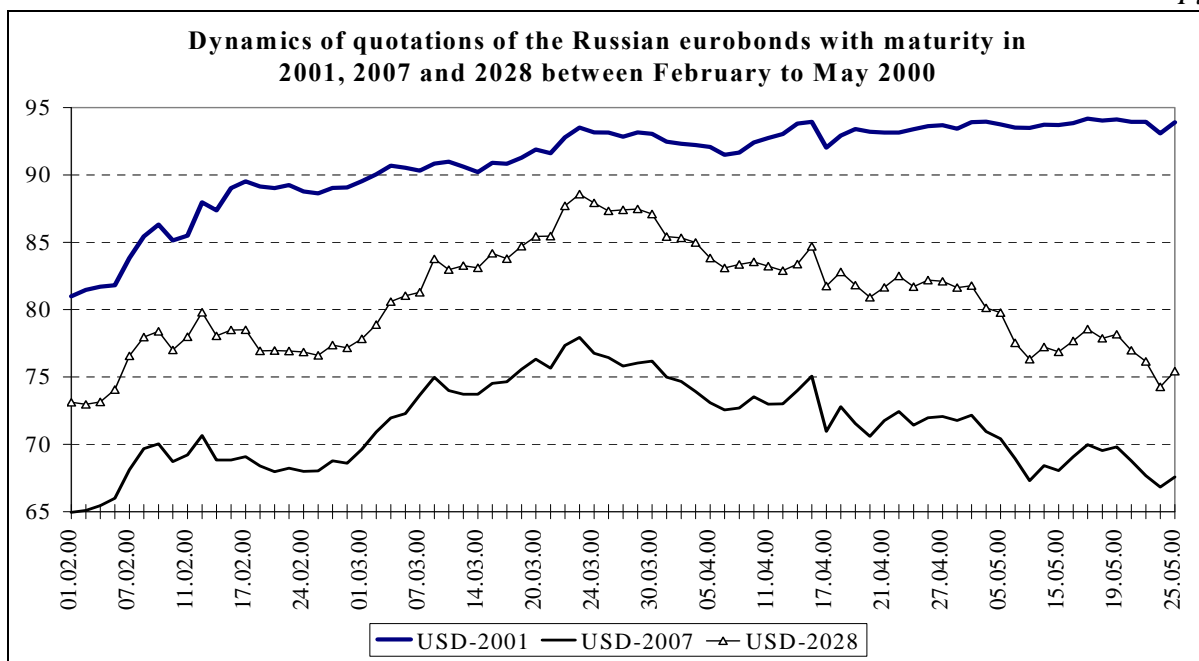


Figure 2.



The average level of yields at the GKO-OFZ market currently is about 30–40% annualised, the short-term spot rates (on securities matured in 2000) do not exceed 10–15% annualised. Meanwhile, the liquidity of the secondary market for domestic debt is still extremely low: the weekly turnovers are chiefly at the level of 2–3 billion rubles.

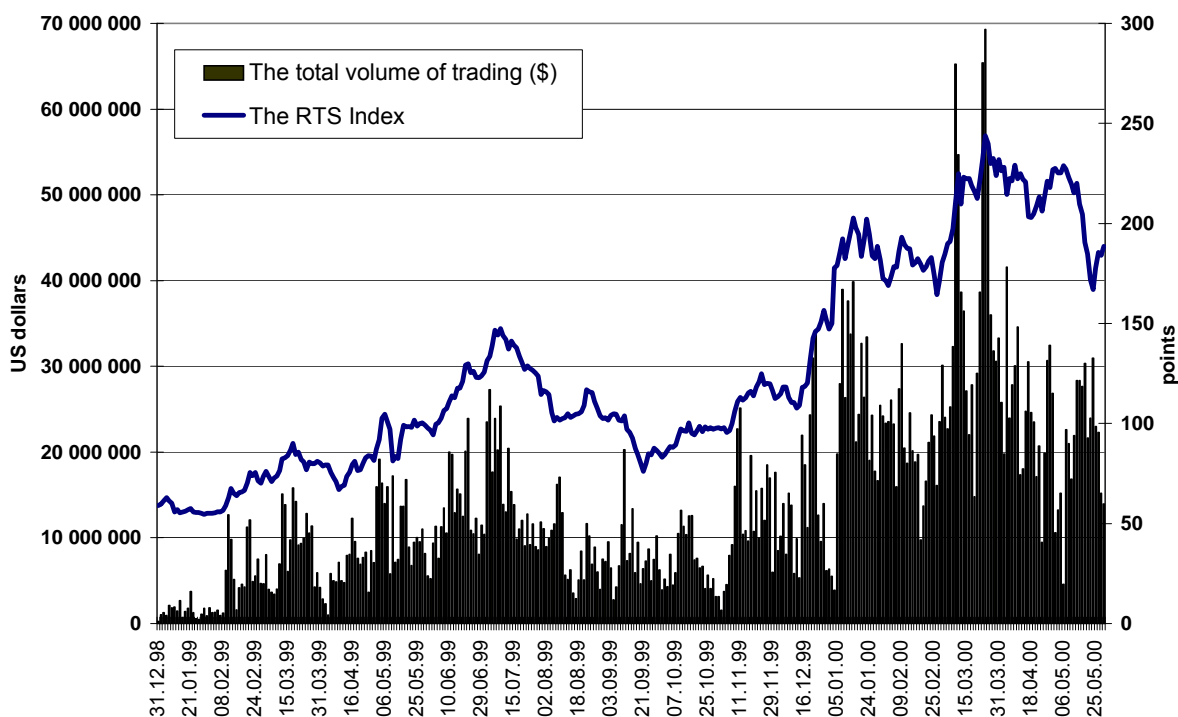
Stock market. In May 2000 the Russian stock market once again demonstrated a dramatic drop in quotations. Between May 6 to May 24 the RTS Index fell from 229 to 167 points, i.e. by 27%. The situation of uncertainty at the US and European financial markets was the main reason for this drop. At the same time, in May one observed a number of strongly positive for the stock market factors: the inauguration of the Russian President, the end of the formation of the Government; the submission of quite important bills to the State Duma and the growth in Russia's credit rating. Nevertheless, due to fluctuations at the international financial markets, internal factors have not had any notable influence on investors' attitudes to the Russian stock market.

On the one hand, it is evident that with volatility at the financial markets of developed countries being high, serious foreign investors

usually decrease the volume of their assets at the emerging markets. On the other hand, it is rather striking that domestic investors have focused all their attention rather on daily fluctuations of Nasdaq Composite Index than on the internal situation. It is most likely that in the meantime the Russian stock market remains indifferent to the level of stabilization of major stock indices, the euro exchange rate and the oil price at the international markets, for per se is what matters the fact of stabilization of these rates. It allow the international investors some time to analyze the new situation at the emerging markets and to reallocate their assets.

In April 2000, the RTS Index dropped insignificantly: from 231.88 to 226.87 points, i.e. by 2.16% (see Fig.3). In mid-May prices for the Russian stocks were falling. As of the third week of May the RTS Index fell to the level of early 2000 (167 – 177 points). However, by late May stock prices grew. According to the preliminary estimations, during last month the RTS Index dropped from 226.87 to 190 points, i.e. by 16.25%.

Figure 3.



Some fall in the trading turnover in the RTS, which took place in May 2000 resulted from both the

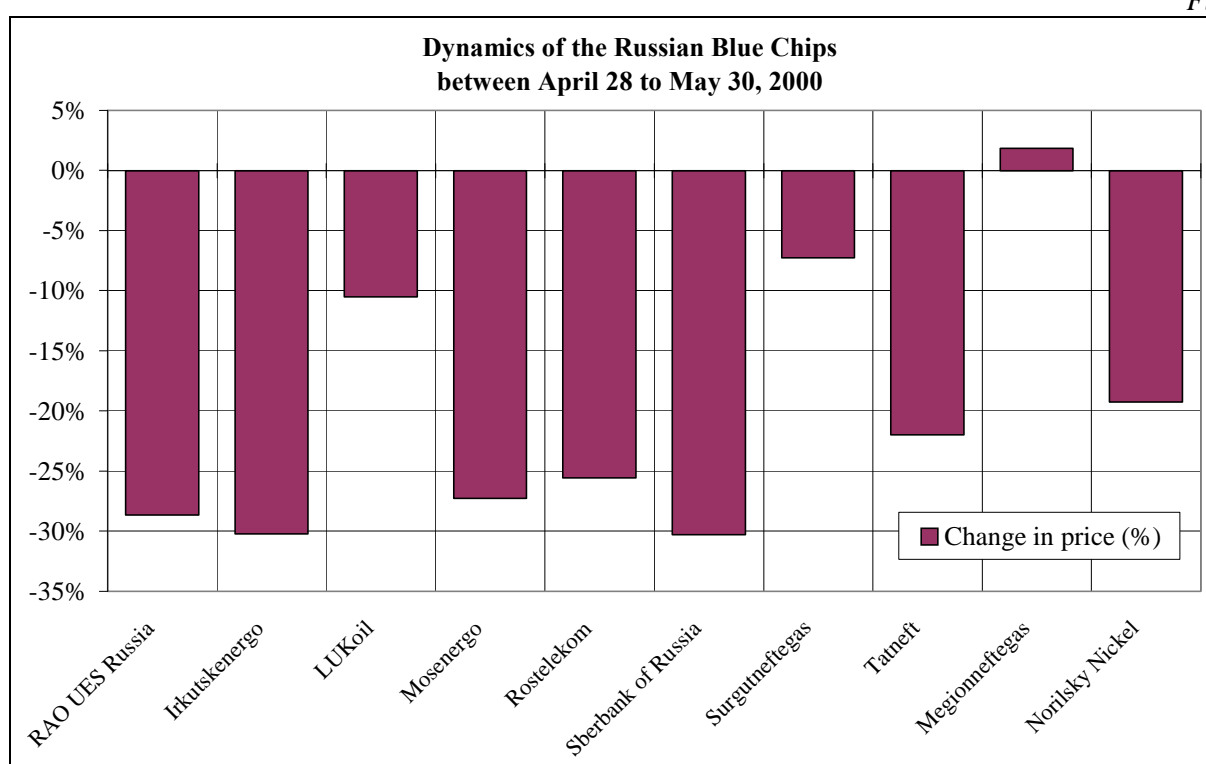
alleviation of the investors' interest in this segment of the Russian financial market and from a number of

holidays in the beginning of the month. According to preliminary estimations, in May 2000, the total turnover in the RTS made about \$414 mln. That is at 17.2% inferior to the respective index registered in April (499.4 mln.). Thus, over last month the monthly turnover became minimal for 2000. Nevertheless, the trading turnover in the RTS registered in May 2000 was at about 25% superior to the maximal monthly turnover for 1999 fixed in July.

Due to the drop in the turnover in the RTS in May 2000, the aggregate share of the most liquid stocks in the structure of trades in the RTS has slightly grown compared to the to the respective index registered in the previous month. In particular, during the third week of May, the share of the five most liquid stocks made 80.35% against 76.77% registered in April 2000.

In May 2000, quotations of the Russian *blue chips* demonstrated the similar dynamics (see Fig. 4). During the month it was stocks of 'Rostelecom' (-25.56%), 'Mosenergo' (-27.26%), RAO 'UES Russia' (-28.67%), 'Irkutskenergo' (-30.21%) and 'Sberbank of Russia' (-30.27%), quotations of which fell most appreciably. Nevertheless, it should be noted that from early 2000 to the present moment the investments in the Russian blue chips are still profitable. In particular, despite of the drop in May, between January to May 2000 the price for common stocks of RAO 'UES Russia' grew by 48%, price for 'LUKoil' stocks – by 33%, 'Mosenergo' stocks – by 32%, 'Rostelecom' stocks – by 30%.

Figure 4.



In May 2000, the main factors which influenced the situation at the Russian stock market were related to the situation at the world stock markets. At the same time, one should also note the impact of the internal factors. The latter will undoubtedly influence the domestic stock market over next months.

Firstly, in May 2000, the uncertainty at the world financial markets still was the main factor which induced the fall in quotations of the Russian stocks (see Fig. 5). The rapid changes at the American and European markets brought down an attractiveness of portfolio investments in emerging markets.

As we noted in the previous report, a mismatching between the growth rates in the US and the EC

economies as well as a risk of further increase in the US Federal Rate became the reason for negative expectations of investors at the stock markets. On May 16, the FRS raised its discount rate by 0.5 percentage points, up to 6.5% annualized¹. This measure was expected by investors, however, the risk of raising interest rates in the USA remains still very high. The high rate of the US GDP growth in the 1Q 2000 and a low unemployment rate still bear a threat of inflation. In June the further increase in the FRS discount rate is

¹ Last time the FRS discount rate was increased at 0.25 percentage points on March 22, 2000.

very likely, which makes both European and overseas investors nervous.

On May 25, 2000, the European Central Bank kept the interest rate on short-term bank credits at the level of 3.75% annualized. One should note that there are different motives in the current FRS and ECB policies. At present the main goals of the European CB are stimulation of economic growth in EC countries and protection of the Euro, on while the contrary, the FRS

goals are slowing down the economic growth rate and lowering inflation rates in the US economy. Despite a number of decisions in the field of interest rate policy, the FRS did not succeed in its move. However, the negative consequences of uncertainty about costs of the capital borrowing became evident both to American and European markets. (see. Tab. 1). Thus, the destabilization in the world stock markets, which was sacrificed to the goals of FRS, so far was futile.

Figure 5.

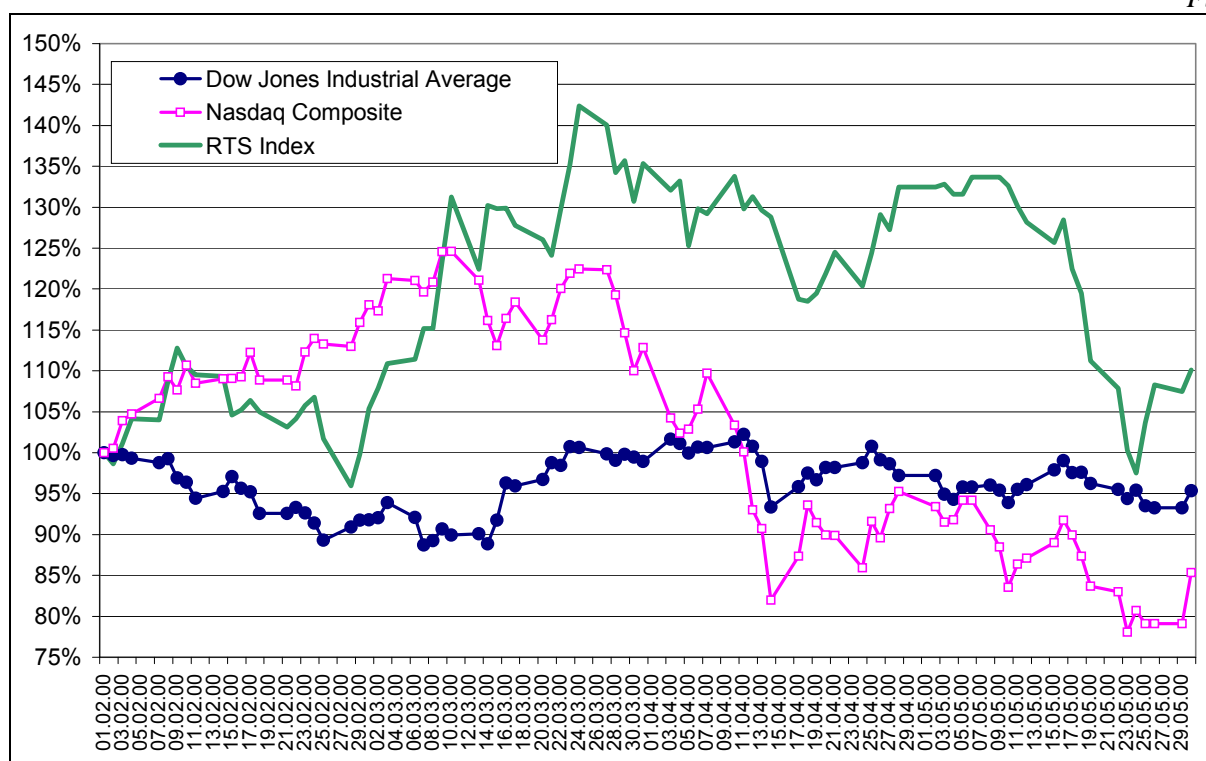


Table 1.

Dynamics of the Foreign Stock Indexes

as of May 29, 2000	value	the change in value during the last week (%)	the change in value during the last month (%)
The Dow Jones Industrial Average (USA)	10527.13	1.01%	-1.90%
Nasdaq (USA)	3459.33	9.32%	-8.62%
S&P 500 (USA)	1422.42	3.53%	-1.65%
Bovespa Index (Brazil)	15248.55	12.23%	-1.78%
IPSA (Chile)	99.26	-0.89%	3.45%
Nikkei-225 (Japan)	16228.90	-0.55%	-11.99%
Seoul Composite(South Korea)	691.26	1.69%	-8.15%
DAX-30 (Germany)	7119.26	2.77%	-5.78%
CAC-40 (France)	6325.49	2.88%	-3.61%
Swiss Market (Switzerland)	7754.30	-0.91%	3.02%
FTSE 100 (UK)	6359.60	4.48%	-0.22%
ISE National-100 (Turkey)	15769.47	1.19%	-18.74%

Secondly, the favorable situation at the world oil market in May 2000, had a weak impact on the Russian stock market. At the same time, as one can see in Fig. 4, the prices for the Russian oil companies'

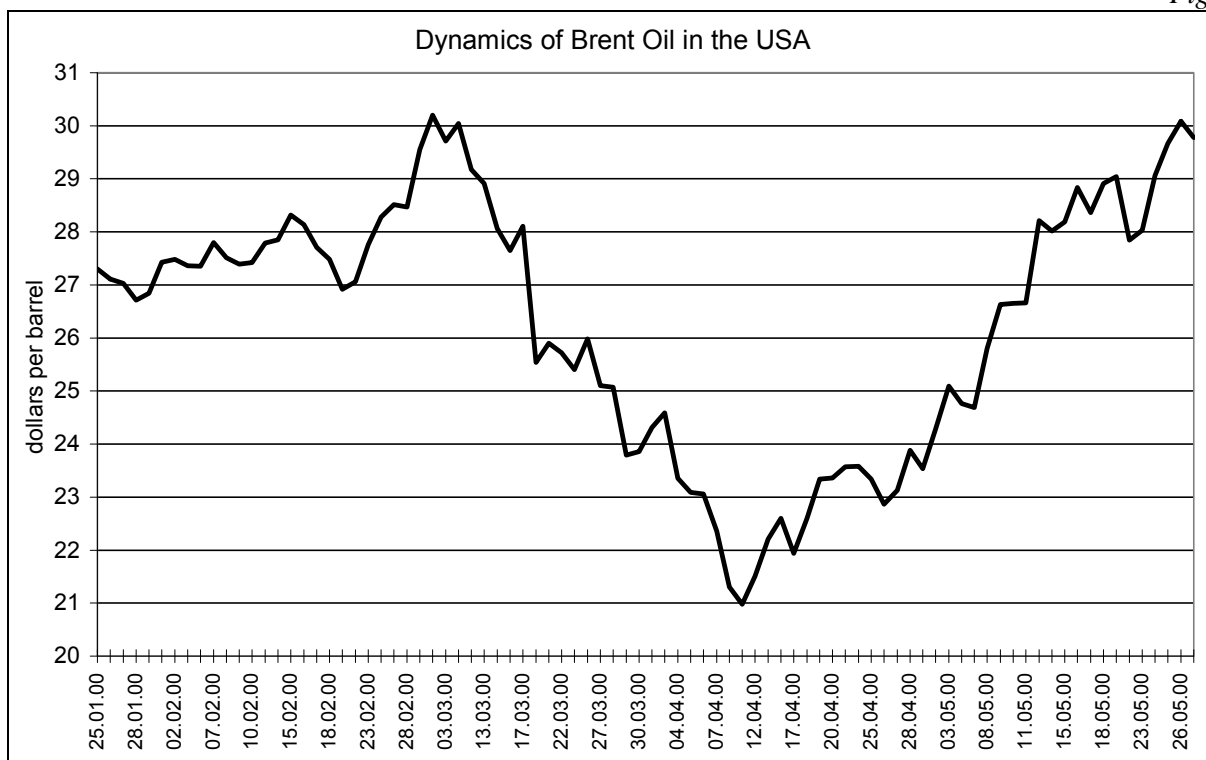
stocks fell to a less extent compared to prices for other liquid stocks.

Between 1st to 30th of May, the price of shortest oil futures (Brent) at the NYMEX rose from 23.53

\$/barrel to 29.78 \$/barrel, i.e. by about 26.6%. As it is shown in Fig. 6, the oil prices were steadily falling or steadily rising during the last three months. In both cases the prevailing pattern raised a serious concern on the part of investors and the OPEC members. It is evident that the introduction of the mechanism of decline or growth in volume of oil output, should the

oil price falls below 22\$/barrel or rise above 28 \$/barrel, will be in the focus of attention at the forthcoming OPEC summit in Vienna, on June 21, 2000. Thus, should OPEC approve such a decision, risks of investments in the Russian oil industry will be rather lower.

Figure 6.



Thirdly, on May 8, 2000 the international rating agency 'Fitch IBCA' has increased the credit rating of Russia from *CCC* to *B-* (the limited credibility matching the current volume of issued debt). Against a background of a new instability twist at the financial markets of developed countries, the increase in the Russian credit rating did not attract an investors' interest. Nevertheless, the Russian stock market perceived rather the improvement in the economy, politic situation and investment climate, which allow the international rating agency to made its decision as the most important signal than the fact of the change in the rating.

As early as at the beginning of summer, in addition to the increase in the Fitch IBCA credit rating, there would be a number of positive factors that would influence to the Russian stock market, namely: the appointment of well-known Mr. Kasyanov to the post of Prime-minister, the completion of the Cabinet formation, a real beginning of mobilizing consensus between the executive power and the legislature on political and economical problems, the growth in oil

prices at the international markets and in the foreign reserves of the Russian Central Bank and, finally, the forthcoming G-8 Summit in Okinawa. Perhaps at the Summit Russia and seven developed countries would discuss the problem of the restructuring of the Russian debt to the Paris Club. Thus, after completion of the current instability at the international financial markets, the Russian stock market would became more attractive to foreign investors.

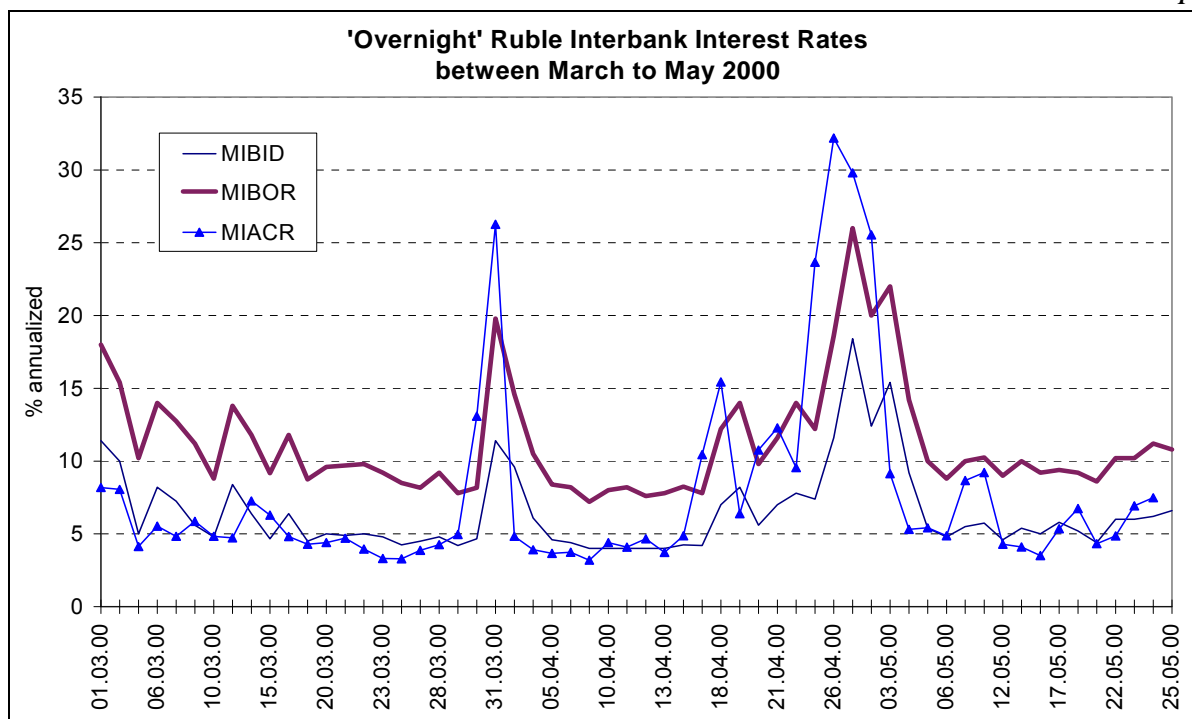
Interbank loan market. The situation at the market for ruble interbank loans in April - May 2000 was rather stable (see Fig. 7). A temporary increase in rates on credits was observed in late-April - early-May only, when the end-of-month factor coincided with long holidays. The rates on 'overnight' credits over the period concerned rose up to 25–33% annualized. In mid-May the cost of borrowing at the interbank market once again fell to 5–7% annualized.

One should note that in April - May 2000 there was practically no interrelation between rates at the interbank loan market and volumes of balances on corresponding accounts of commercial banks at the

CBR. The balances fluctuated within the range up to 8 billion rubles per day, and were determined mainly by

the Bank of Russia's actions at the foreign exchange market.

Figure 7.



Foreign exchange market. In May 2000 the situation at the Russian foreign exchange market was rather stable. The factors which positively influenced to the market were as follows: the growth in the international oil prices, the growth in the RCB's foreign reserves (for details, see the section on the Monetary Policy) and the decline in political risks. Thus, meanwhile there are all necessary conditions for stabilization of the ruble exchange rate in place. However, on May 17, 2000, Mr. Kasyanov stated that the continuous strengthening of ruble is inadequate to the interests of the Russian economy. The statement entailed some growth in the demand for dollars and led to a number of attacks against the ruble exchange rate in the second half of May. The RCB's interventions at the exchange market have smoothed the fluctuations. Nevertheless, the question as to what the further exchange rate policy of the Russian Central Bank and its correlation to the economic policy of the new Russian Government will be remains unanswered for many investors.

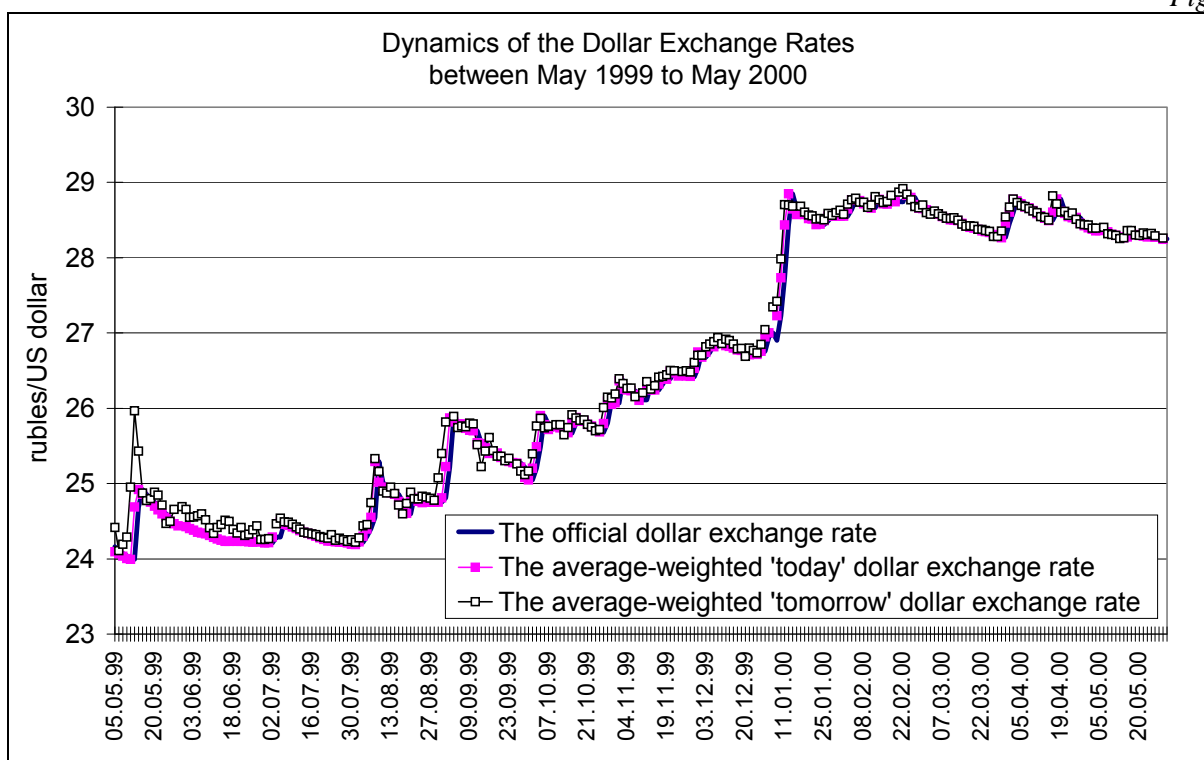
In April 2000, the official dollar exchange rate dropped from 28.46 rubles/\$ to 28.43 rubles/\$ (see

Fig.8). That corresponds to -0.11% a month. The 'today' dollar exchange rate in the SELT dropped from 28.6019 rubles/\$ to 28.3950 rubles/\$, i.e. by 0.72%. The 'tomorrow' dollar exchange rate dropped from 28.6754 rubles/\$ to 28.4333 rubles/\$, i.e. by 0.84%.

In May 2000, the official dollar exchange rate dropped from 28.43 rubles/\$ to 28.25 rubles/\$, i.e. by 0.63%. According to preliminary estimations, in May the 'today' dollar exchange rate in the SELT dropped from 28.3950 rubles/\$ to 28.245 rubles/\$ (as of May 30), i.e. by 0.53% a month. The 'tomorrow' dollar exchange rate fell from 28.4333 rubles/\$ to 28.257 rubles/\$ (as of May 30), i.e. by 0.62%.

In May 2000, because of long holidays the trading volumes in the SELT dropped. According to the preliminary estimations, in May the overall trading volume of the most liquid 'today' and 'tomorrow' contracts made up 86.2 bln. rubles and 87.0 bln. rubles, respectively. If so, the total volume of turnover by these contracts in the last month should be at about 16.6% inferior to the respective index registered in April 2000.

Figure 8.



In May 2000 the 'euro/dollar' exchange rate at the international financial markets has grown. In particular, between May 3 to May 30 the euro exchange rate grew from 0.8943 euro/\$ to 0.9351 euro/\$, i.e. by 4.56%. This process manifested itself in the change of the growth pace in the 'euro/ruble' rate.

In April 2000, the official euro exchange rate dropped from 27.13 rubles/euro to 26.2 rubles/euro, i.e. by 3.43%. The 'today' euro exchange rate in the SELT fell from 27.4222 rubles/euro to 25.9235 rubles/euro, i.e. by 5.47% a month. The 'tomorrow' euro exchange rate dropped from 27.275 rubles/euro to 26.2 rubles/euro, i.e. by 3.94% a month (see Fig.9).

In May 2000, the official euro exchange rate dropped insignificantly: from 26.2 rubles/euro to 26.19

rubles/euro, i.e. by 0.04%. According to preliminary estimations, in May the 'today' euro exchange rate in the SELT grew from 25.9235 rubles/euro to 26.3533 rubles/euro (as of May 30), i.e. by 1.66% (21.81% annualized). The 'tomorrow' euro exchange rate in the SELT grew from 26.2 rubles/euro to 26.42 rubles/euro (as of May 30), i.e. by 0.84% (10.55% annualized).

The growth in the 'euro/ruble' exchange rate resulted in the growth in the trading volume by euro in the SELT. According to preliminary estimations, in May the total trading volume by 'today' and 'tomorrow' contracts on euro in the SELT made up 2.547 bln. rubles. That is at about 23.6% superior to the respective index registered in April.

Figure 9.

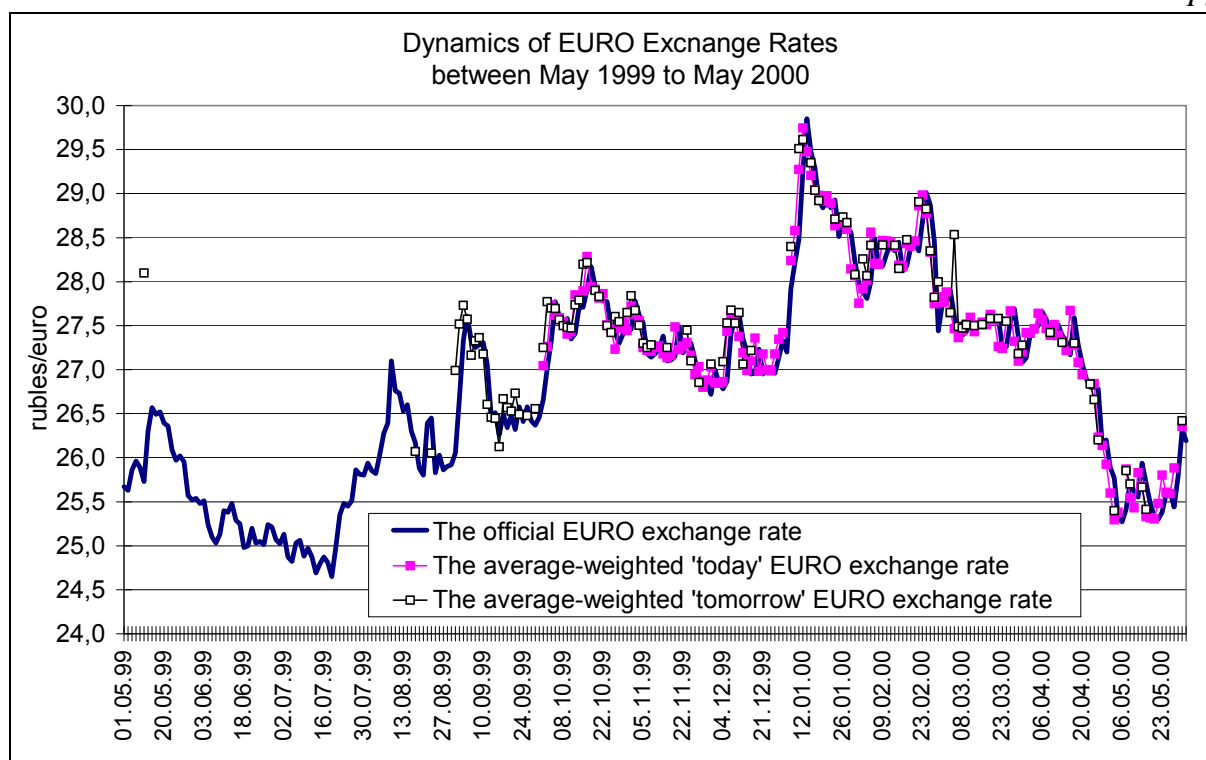


Table 2.

Indicators of Financial Markets.

month	January	February	March	April	May*
inflation rate (monthly)	2.3%	1.0%	0.6%	0.9%	1.2%
annualised inflation rate by the month's tendency	31.4%	12.7%	7.44%	11.35%	15.39%
the RCB refinancing rate	45%	45%	33%	33%	33%
annualized yield to maturity on OFZ issues	45.50%	33.13%	30.53%	27.71%	28%
volume of trading in the secondary GKO-OFZ market a month (billion rubles)	8.52	19.46	17.91	14.69	10
yield to maturity on Vneshbonds issues by the end of the month (% a year):					
4 th tranche	42.52%	35.40%	28.22%	31.44%	38%
5 th tranche	25.51%	23.50%	18.25%	20.67%	22%
6 th tranche	20.16%	20.12%	16.65%	17.38%	18%
7 th tranche	16.85%	16.49%	14.34%	14.57%	15%
8 th tranche	–	–	16.28%	16.89%	19%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					
overnight	38.14%	14.40%	26.26%	25.54%	10%
1 week	18.0%	20.0%	9.0%	–	10%
official exchange rate of ruble per US dollar by the end of the month	28.55	28.66	28.46	28.43	28.25
official exchange rate of ruble per Euro by the end of the month	28.23	27.44	27.13	26.2	26.19
average annualized exchange rate of ruble per US dollar growth	5.74%	0.39%	-0.70%	-0.11%	-0.63%
average annualized exchange rate of ruble per euro growth	3.67%	-2.80%	-1.13%	-3.43%	-0.04%
volume of trading at the stock market in the RTS for the month (millions of USD)	489.5	441.5	810.8	499.4	414
the value of the RTS Index by the end of the month	172.31	170.93	231.88	226.87	190
growth in the RTS Index (% a month)	-3.04%	-0.80%	35.66%	-2.16%	-16.25%

*/ estimated

S. Arkhipov, S. Drobyshevsky

Dynamics of main indicators of the Russian banks' performance over the first four months 2000

The evaluation of dynamics of main indicators of the Russian banks' performance over the first four months 2000 shows that the impact of the trends that emerged yet in 1999 is still in place- that is, the growth in assets in both current and permanent prices along with lower indices of banks' capitalization; the concentration of assets within the banking sector, and, most notably, to a significant extent beyond the Russia banks; the decline in the role of the population as a source for banks' resources, especially beyond Sberbank. However, some new trend have emerged, for example, the share of balances on budgetary accounts and extrabudgetary funds of different levels in the banks' liabilities grew more than twice. Let us consider these trends in a greater detail.

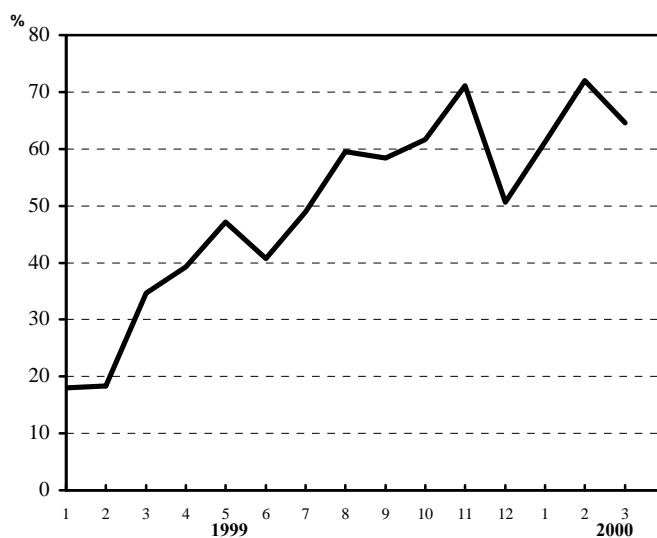
The share of loans to the non- banking sector in assets fell by 2.3 per cent points (from 38.2 to 35.9% of assets) relative to the beginning of 2000, while the share of funds placed with banks – non- residents and with CBR. As of May 1, 2000, the amount of banks' capital with CBR, FCR inclusive, made up almost Rb. 200 bln., thus showing a 45.% growth over the four months. As a result, FCR concentrated almost 12% of the banks' assets, and it was deposits which showed the highest growth rate- more than 11 times. Naturally, such a dynamics of funds placed with CBR feeds an excessive liquidity of the banking system. However, a scrutinized analysis of this segment of the market for banking services shows that the problems concerns only a very narrow circle of banks. The deposits with

CBR were placed by not more than 40 banks, and 70% of the respective funds falls on Sberbank and Vnesheconombank, and the dynamics of the index in question mostly was determined by decisions made by Sberbank. Should the latter be ignored, the remaining banks have demonstrated «only» a four-fold growth, and over a half the respective amount falls on banks of Tymen Oblast, Bashkiria, and those Moscow banks, of which oil companies are major shareholders. Thus, the growth in funds deposited by the banks with CBR finds itself under a strong impact of factors that are external relative to the banking system. As concerns the growth in FCR (from 5.3% of the amount of the banks' liabilities, as of January 1, 2000 up to 6.4%, as of May 1, 2000), in addition to its direct anti-inflationary effect, it also has a reverse impact that raise the cost for credit resources for borrowers.

The assets placed with foreign banks make up a. 80% of the total amount of the Russian banks' foreign assets. During the period in question, their hard currency component was growing a rate that approximately corresponded to the growth rate in assets, and their share in the amount of assets practically has remained unchanged (a. 21%). At the same time, the obligations towards banks- non-residents in USD equivalent fell USD 350 mln. (as per cent to assets, their share from 10.5% to 8.8%), which induced the growth in net foreign assets. The dynamics of this index in 1999 trough 1st Quarter 2000 was represented on Fig.1.

Fig.1.

Net foreign assets of Russian banks as % to capital (as defined by the IMF)



Source: Bulletin of banking statistics

Similar to 1999, the resource base was expanding at the expense of the growth in balances on legal entities'

settlement and current accounts, providing that it was the governmental funds which became a 'locomotive

of growth». The balances on budgets' and extrabudgetary funds' accounts grew by almost 2.5 times over the five months, while the assets grew by 17.4%. However, with all this impressive dynamics, the role of this factor in the change of the structure of banks' resource base is not that big. The contribution of the growth in balances on the accounts of governmental structures to the overall growth of liabilities may be accounted for a. 13%, while, as of May 1, 2000, the share of budgetary and quasi-budgetary funds in the banks' total amount of liabilities made up 3.8%. The general picture is under the impact of rather a narrow circle of banks, and in the number of cases still it is likely to show consequences of the financial crisis.

The growth in capital was lagging behind the assets' growth rate, and the operating banks' total balance capital did not grow at all in constant prices over the four months. As a result, the ratio capital to assets fell. The quantitative estimates of the process find themselves under a strong impact of both the selection of capital index and the sample of banks. Thus, according to our calculations the most favorable for banks index of balance capital to assets slid from 14.6 to 13%. Should the banks rehabilitated under ARCO procedures as well as Sberbank be excluded, the value of the index should be a. At the level of 6 per cent points, however, the trend to its lowering is still in place.

L. Mikhailov, L. Sycheva, E. Timofeev

Investment in the real sector

During the period between January to May 2000 the volume of investment made up Rb. 292.5 bln. and grew by 14.0% compared with its respective period of the prior year. The current level of investment activity in the economy can be attributed to the favorable impact of the ongoing positive dynamics of GDP and basic industry branches' output of produce and services, the improvement of the enterprises' financial state, growth in the budgetary revenues, slowdown of inflation rate, and a gradual normalization of the situation in the banking sector.

With the renewal of economic activity, one notes changes in the structure and sources of financing investment in capital assets. The growth in the share of accumulation fund become a positive aspect of the formation of investment resources at the expense of

the enterprises' own capital. With the growth in the production scope and increase in profitability rate enterprises can expand their investment potential with regard to implementation of investment projects on reconstruction and technical modernization at the expense of their own and attracted capital. In addition, in the course of the change in the investment environment, the share of credit and borrowed capital in the structure of sources of financing grows, and the role of the budgets of the Federation's Subjects. One can assume that with the envisaged adoption this year of the Budget for development and the related system of issuance of the governmental guarantees to private investors who invest in the most efficient and profitable projects, the said positive trends would develop further on.

Table

Structure of investments in capital assets by sources of financing, as % to the result

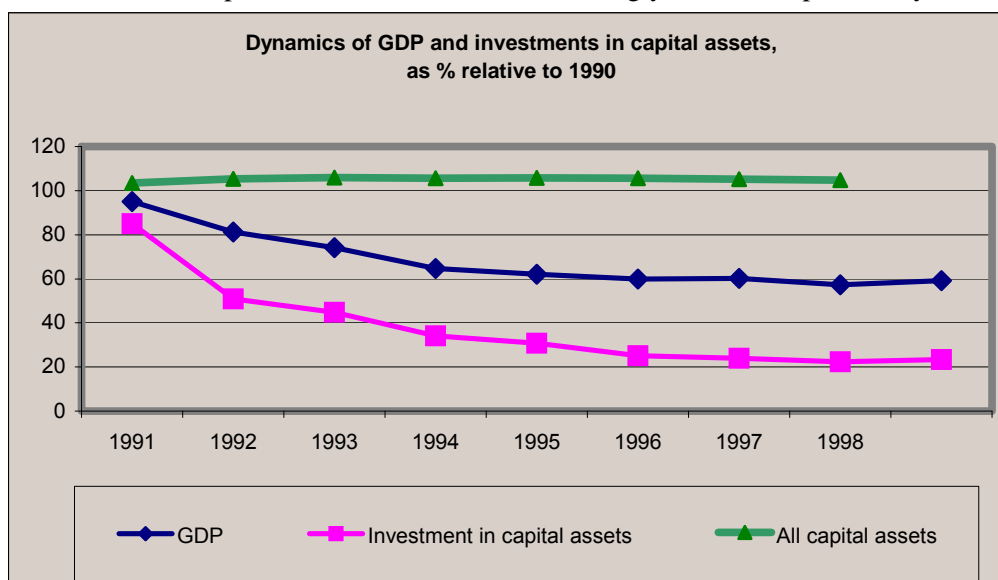
	1999				2000
	January-March	January-June	January-September	January-December	January-March
Investment	100	100	100	100	100
Including by sources of financing					
Own capital	59,7	56,1	53,5	53,4	57,0
Of which:					
Accumulation fund	11,8	13,1	14,2	16,2	18,3
Attracted capital	40,3	43,9	46,5	46,6	43,0
Of which:					
Banking credits	7,2	5,1	5,7	4,3	5,8
Borrowed capital of other organizations	4,3	5,4	5,5	5,7	7,8
Budgetary capital	14,0	16,7	17,6	17,4	18,6
including:					
From the federal budget	4,0	4,8	7,0	6,6	4,5
From the budgets of the Federation's Subjects	9,1	9,9	9,7	9,8	13,2
Extrabudgetary funds' capital	5,6	8,7	9,5	8,8	2,8

With the renewal of economic growth in the change of investment environment, it is the processes of

production restructuring that play a substantial part. Such processes are aimed at increasing the enterprises'

competitiveness. In this regard, the problems of diversification of investment flows and increase of efficiency of use of investments and the accumulated capital assets become especially urgent. The evaluation of the dynamics of investment over the last decade shows that at present the investments in capital assets make up a.1/4 of the level registered in the pre-reform 1990, while the volume of capital assets in the

economy practically have remained unchanged since that time, which can be attributed to both the specifics of capital assets re-valuation and a sharp deterioration of reproduction characteristics. Since 1990 through 1998 the coefficient of renewal of capital assets in the industrial sector has fallen from 6.9% to 1.41, while the average age of the industrial equipment has grown, accordingly, from 1.3 up to 15.2 years



The production potential accumulated has an extremely low production and technological characteristics and needs the intensification of the reproduction processes.

In this respect, the retirement of the excessive, obsolete and idle equipment, with the exemption of that from taxation and depreciation deductions may become an instrument increasing the enterprises' investment attractiveness. The solution of this pressing problem is related to the formation of the amortization policy aimed at elimination of contradictions between the normative and legislative base with actual economic conditions for reproduction of capital assets. Thus, in particular, providing the current age structure

of the stock of machinery and equipment, it would be expedient to revise the depreciation norms to have them comply with the modern term of service as well as to expand the practice of the use of the accelerated depreciation method, along with granting the enterprises a right for selecting criteria of its calculation by their own by main kinds of capital assets.

In addition, given that the capital accumulation is limited, the investing in new technology and production renewal suggests a consequent transformation of the tax system and elimination of the great number of current tax regimes.

O. Izryadnova

Foreign investments in the Russian economy

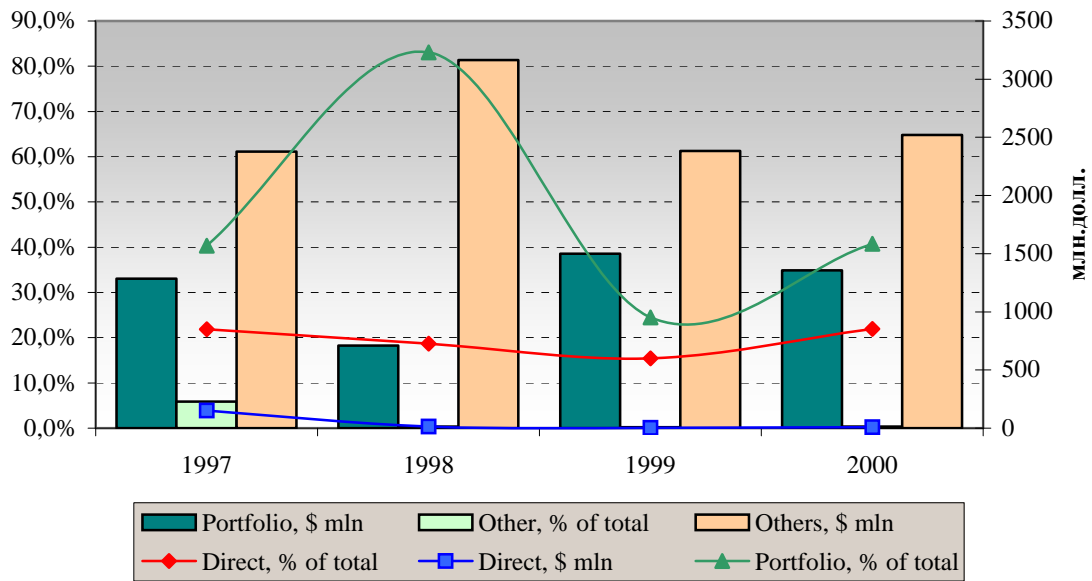
The first quarter of 2000 is characterized by the growth of foreign investors' activity in Russia. In total foreign investments during first three months of the year are estimated to reach \$2,445 million, which is \$889 million (57%) higher than the analogous index for the previous year.

In the structure of foreign investment inflow in the Russian economy in the first quarter of the year 2000, the highest increase is registered for 'other' investments, which grew by \$631 million, or by 66,2%, in comparison with the respective period of 1999. The respective index for direct investments is

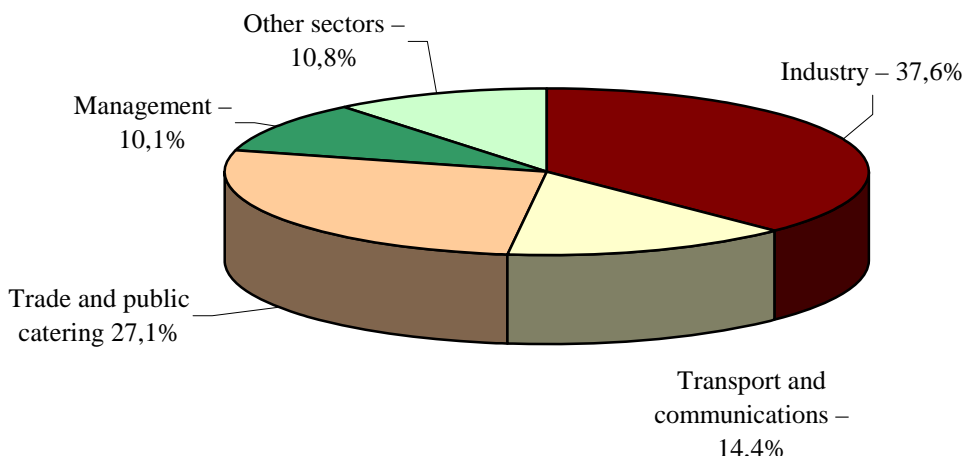
estimated at the level of \$253 million (+42,2%) respectively. Portfolio investments, as compared with the first quarter of the year 1999, grew by \$5 million (2,7 times), totaling \$8 million.

As concerns the branch structure, the highest growth in foreign investments registered in the area of trade and public catering, where investments stood at \$663 million in the first quarter of 2000, which is 2,4 times higher than the index for the respective period of 1999. The volume of foreign investments in transport and communications grew by \$198 million (more than 2,2 times), totaling \$351 million.

The structure of foreign investments in the Russian economy during the first quarter of the respective year



Inflow of foreign investments into the sectors of the economy in the 1st quarter of 2000



Still the largest investors in the first quarter of 2000 are the USA, Germany and Cyprus. Thus, the Americans invested in the Russian economy \$361 million (in the first quarter of 1999 – \$202 mln.). Businessmen of Germany invested in Russia \$344 million, which is \$105 million higher (44%) than the respective index for the previous year. Cyprus’s investments over the period concerned are estimated to reach \$299 million (1st quarter of 1999 — \$202 mln.)

In May 2000 the rating agency «Fitch IBCA» raised Russia’s rating by two points in the sovereign rating index, which indicates the growing interest of investors in investing capital in the Russian economy, in the wake of V. Putin being elected the President. Projects of large-scale investment programs of large credit companies testify to this interest. E. g. the European Bank for Reconstruction and Development envisages to invest in Russia about €500 million to €700 million over next two years.

E. Ilyukhina

Main trends in the real sector

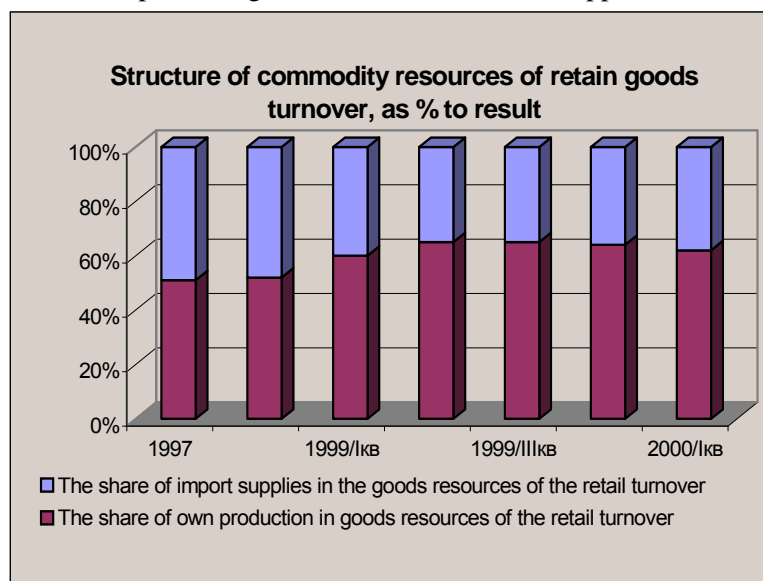
According to the results of the 1st Quarter of 2000, the increment in the gross domestic product makes up 8.4% compared with the respective period of the prior year. As compared with the period between January to May 1999, the output of products and services of basic industry branches grew by 8.7%, including the volume of industrial output- by 10.4%, transport cargo turnover- by 5.7%, retail trade turnover- by 7.6%. It should be noted that the growth rate of investment in capital assets exceeds the dynamics of GDP, output and services of the basic industry branches of the economy. However, even in that case by the results of the 1st Quarter 2000, the share of investment in capital assets in GDP is approximately at the level of the prior year. The insufficient level of investment activity presents a factor that inhibits the economic growth rate. Despite the growth in savings, potential investors still hold a «sit-and- wait» stand, considering the activation of processes in the sphere of legislation and the adoption of the economic program by the government.

The economic situation is shaping up against the background of a favorable development of processes in the domestic and external markets. Providing the current level of using production capacities, the orders for the output of products by industrial enterprises ensure their formation of production program for the forthcoming 2 months, and by construction companies—for 4 months. When compared with the period between January to May 1999, the growth in output is noted practically in all the industry branches. With the maintenance of the domestic demand, the wholesale and retail trade sector experience growth in

their turnover. Between January to May 2000, the increment in the turnover of retail trade made up 7.6% relative to its respective period of the prior year, while by wholesale trade the respective index reached 6.6%.

The comparative analysis of the structure of formation of commodity resources of retail and wholesale trade shows that the trend to the growth in the share of exports in the overall share of export in the total volume of industrial enterprises' sales is characteristic of the period between 199- 2000, and that takes place against the background of the declining share of import in resources for the use in the domestic market.

According to results of the 1st Quarter 2000, the share of domestic goods in the structure of commodity resources made up 62%. That was determined by the fact that the growth rate of output of consumer goods was superior to the general indices throughout the industrial sector: as compared with the period between January to May 1999, the increment in the light industry made up 37.3%, and in the food- processing sector- 13.3%. The production of sophisticated home appliances and durable consumer goods, which are manufactured using import assembly parts and by foreign firms' licenses maintains its rapid growth rate. However, one should note that the comparative analysis of the structure of formation of resources of the retain turnover shows that after a systematic decline in the share of import supplies over 1999, the 1st Quarter 2000 shows an opposite trend. That can be considered an alarm bell for the efficiency of import- substitution processes, which have failed to find investment support.



O. Izryadnova

IET monthly trend survey: June 2000

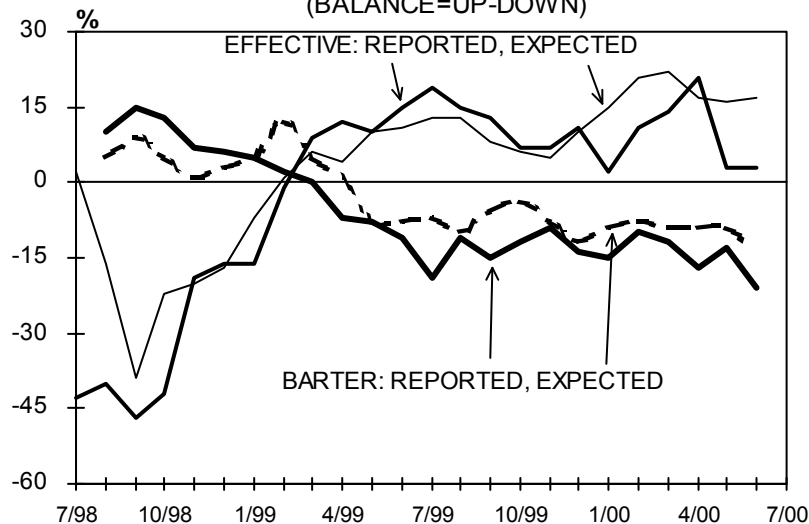
According to the IET survey on 1,000 largest enterprises, in June the situation in the Russian industry maintained signs of a forthcoming decline. The minimal growth in effective demand in combination with the more intensive contraction in barter has led to the discontinuation of the growth in aggregate demand. However, the rate of growth in output grew slightly, and enterprises' projections remain fairly optimistic. Nevertheless, the estimates of finished produce in stock testify to the ongoing problems with sales of that.

In June, the growth in effective demand has failed to restore its rate noted prior to May 2000. The balance of reports remained on the same level. The share of reports about decline in sales grew up to 17% thus

making up the worst value since January 1999. In June, an absolute growth in monetary sales was registered only in the sector for electric power, metallurgy, chemicals, petrochemicals, and construction industry, while the other sectors showed the prevalence of reports regarding the decline in the number of such transactions.

The volume of barter transactions continue to fall. In June the respective intensity rate grew by yet 8 points and has become the highest since the beginning of the registering of this index in August 1998. The slowdown in barter operations was noted only in the non-ferrous metallurgy, while in the other sectors the prevalence of reports regarding the fall in barter transactions grow.

EFFECTIVE AND BARTER DEMAND TRENDS
(BALANCE=UP-DOWN)



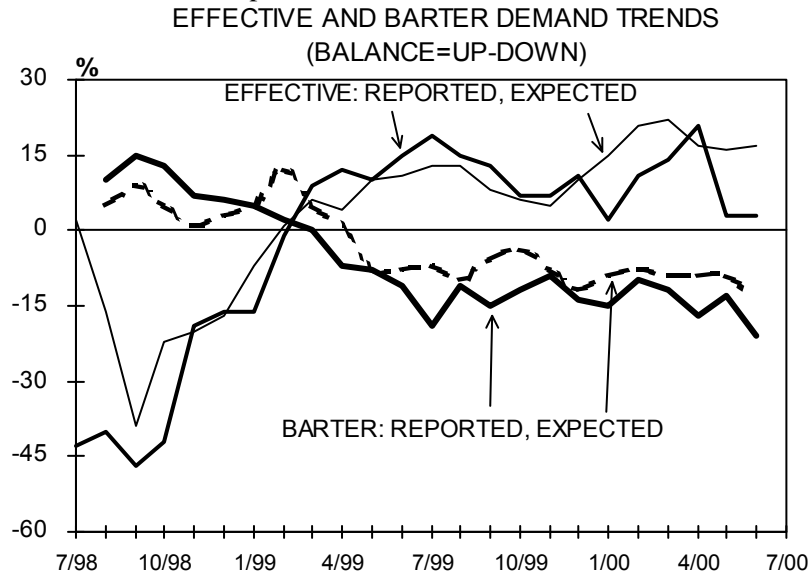
The slowdown in the growth in effective demand in combination with the yet mote intensive decline in barter has led to the discontinuation of the growth in aggregate demand. It is for the second time over 2000 the survey registered an absolute (though minimal) contraction in this index by the industrial sector on the whole. In June, the growth in the aggregate (effective + barter) demand was maintained only in the ferrous metallurgy, construction industry, fuel and food- processing sectors, while the other sectors reported decline in the respective index.

In June, the intensity of the growth in output grew by 9 points after the fall in May 2000. An absolute contraction in output remained only in the sector for electric power and light industry. In the other sectors surveys registered growth, the intensity of which was maximal in the construction industry and non-ferrous metallurgy.

In June, the estimates of finished produce in stock remained unchanged. The prevalence of reports

«below norm» remained on the same level. However, since the beginning of the year this prevalence shrank notably, which may be attributed to two reasons. One is that the enterprises have proved to be capable of completing their stock of raw materials and began to work under future contracts (the improvement of the situation with non- payments and low demand as factors that constrain the growth in output testify in favor of this reason). As a result, the enterprises' sufficiency with raw materials showed some growth. In April 2000, the estimates of these stocks proved to be the best since early- 1994. However, the frequency of the mentioning of reports on the lack of liquid assets as a constraint of the production growth slid insignificantly. To operate in a normal mode, enterprises still lack the capital they earned by selling their produce, while banking credits are still hardly accessible. The other reason may be contraction in effective demand and the enterprises' unwillingness to get themselves involved in barter transactions once

again, which makes producers lower the optimism of their forecasts and estimates of their stock of reserves.



In 2000 the growth in producer prices for industrial produces slows down at 2-3 balance points a month. In June, the minimal price rise was registered in the non-ferrous metallurgy, forestry, wood-working, paper and pulp sectors, and light industry, while the most intensive price rise was noted in the sector for electric power, ferrous metallurgy and construction industry.

The forecasts of change in output grew by several points once again at the expense in electric power and the growth in optimism in the non-ferrous metallurgy and light industry.

After the sector for electric power adjusted their expectations, the projections of change in prices got back to the level noted between March to April. As to the other sectors the forecasts have not changed, except the construction industry which shows a seasonal renewal.

The forecasts in the change in effective demand did not change by the industrial sector as a whole over the

last three months. The major part of enterprises still hope for maintenance their volume of sales, while the others mostly envisage the growth in monetary sales. However, at the branch level (in the sector for chemicals, petrochemicals and non-ferrous metallurgy) one registered forecasts of an absolute fall in sales. The other industry branches reported either more optimistic forecasts, or their projections remained unchanged.

In June the forecasts of the change in barter operations became most pessimistic for the whole period of their registering since August 1998. During the forthcoming months, the most intensive contraction in the volume of barter transactions may become possible industrial sector. At the branch level the surveys registered either stable forecasts or the growth in hopes for lowering barter.

S. Tsoukhlo

Oil and gas sector

The characteristic feature of 2000 became a notable growth in output in the oil sector. Between January to May 2000 the overall oil output made up 104.4% compared with its respective period of the prior year, and the volume of primary oil refining made up 106.1%. The output of petrol, diesel fuel and black oil also grew significantly (See Table 1). The investment activity in the sector also grew notably; between January to May, the volume of operational oil drilling grew by 59.4% compared with its respective period of

the prior year, prospecting drilling- by 34.5%, and placement of new wells into operation- by 36.2%. As concerns the proportional weight of idle wells in the operational fund slid: as of June 1, 2000, it made up 23.6% (as of June 1, 1999, — 26.1%). Since the period of January to May 1999 the intensity of processing in the oil –refining sector has grown from 68.9% to 69.7% this year.

Table 1

Output of oil, petroleum derivatives and oil gas, as % to their respective period of the prior year

	2000 January-May	1999	1998
Oil	104,4	100,3	99,0
Gas condensate	106,6	104,7	105,0
Primary oil refining	106,1	102,9	92,5
Petrol	107,2	102,2	95,7
Diesel fuel	108,8	104,2	95,5
Black oil	103,0	94,8	89,0
Oil gas, . bln. Cub. m	103,1	103,2	99,1

Source: Goskomstat of RF

During the first month of 2000 the dynamics of domestic price for oil in USD equivalent was characterized with their gradual growth and their rapprochement to the pre-depreciation level (Table 2, Fi.1). In April the domestic oil price reached USD 42/t., for diesel fuel- USD 140.5/t., and for black oil- USD 46.4/t. The price for petrol that had reached its

maximum in November 1999 (USD 180.7/t.) declined gradually over the first months of this year (to USD 148.2/t.). Despite the growth in domestic prices, because of high international prices, the correlation between the domestic oil prices (producer prices) and export price did not exceed 21-24%.

Table 2

**Domestic prices for oil and petroleum derivatives in USD equivalent
(average wholesale prices of enterprises, USD/t.)**

	1998 June	1998 December	1999. June	1999 December	2000 April
Oil	46,0	16,4	20,7	37,0	42,0
Petrol	162,6	63,4	76,0	171,9	148,2
Diesel fuel	147,3	52,9	78,2	125,0	130,5
Black oil	68,3	22,0	24,2	46,1	46,4

Source: calculated by the data of Goskomstat of RF

The sales of main kinds of petroleum derivatives in the domestic market grew notably. This trend obviously is related to the growth in the domestic demand for fuel caused by the ongoing economic growth. At the same time the Russian oil exports to the CIS countries were decreased, and the export of petroleum derivatives fell substantially (Table 3). The

share of export in the commodity resources of diesel fuel between January to April was 38.9%, black oil- 23.8%, petrol- 9.4%. because of high international prices, the proportional weight of oil and petroleum derivatives in the total value of the Russian exports made up 32-34%.

Table 3

Export of oil, petroleum derivatives from Russia, as % to the respective period of the prior year

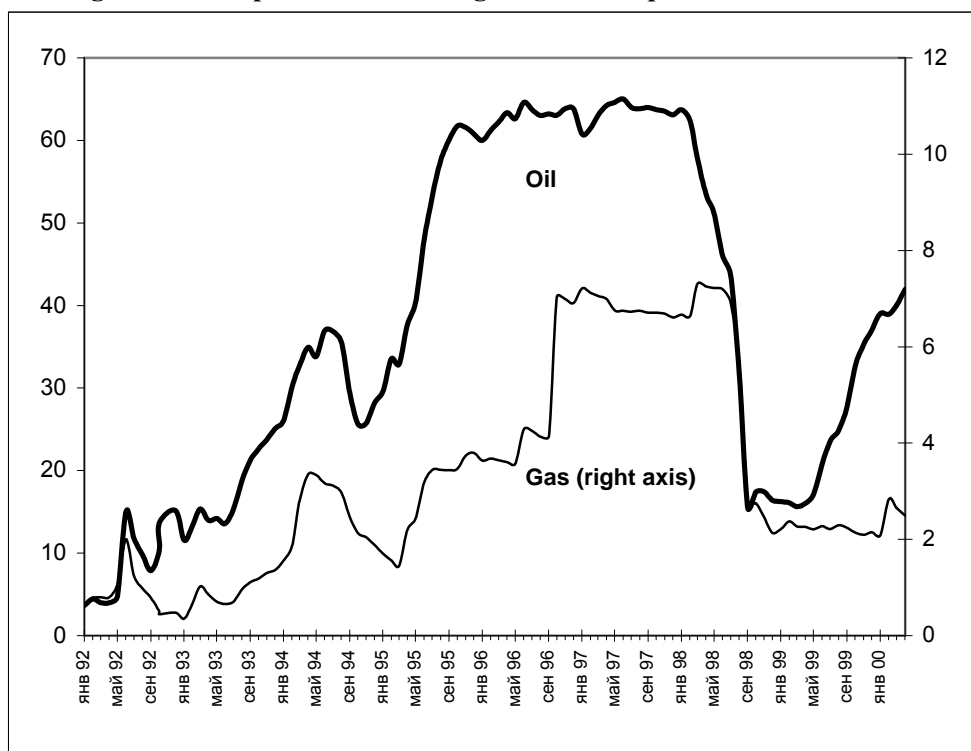
	2000. January- April	1999 January- April
Oil exports, total	101,5	106,3
Oil exports outside the CIS	106,8	104,8
Oil exports to the CIS	72,6	115,3
Export of petroleum derivatives, total	88,9	115,9
Export of petroleum derivatives outside the CIS	88,7	114,3
Export of petroleum derivatives to the CIS	91,9	145,0

Source: Goskomstat of RF

During the first months of 2000 the import of petroleum derivatives tended to decline: this, between January to April the import of petrol made up just 84.2% of the last year's level, providing that the proportional weight of import in the petrol resources fell to 0.4%, while the import of petrol and black oil was close to zero.

The growth in output and investment in the Russian oil sector this year can be attributed to the present high international oil prices and growth in the domestic demand. The projections of the international prices and the Russia economic dynamics allow to count on the maintenance of the favorable external and internal conditions for the oil sector's development in the short run.

Enterprises' average wholesale prices for oil and gas, in USD equivalent, USD/t., USD/cub. m. Thos.



Source; calculated according to the data of Goskomstat

Yu. Bobylev

Situation in the agrifood sector

In January-May 2000 the agricultural production growth rates averaged 1.2%. They slightly declined (by 0.1%) since weather conditions did not favor spring planting. In general the growth is slowing down: in January-February 2000 it amounted to 101.6—101.9% due to better indicators in the livestock sector, in 1999 – to 102.4%. The basic contributor to this trend is poor planting performance. First, the schedule of summer crops planting is behind the recent years' average (Picture 1). It's worth noting that the current lagging behind is really due to unfavorable weather and not to shortage of inputs or deteriorating market situation – the purchase of fuels and oils by farms increased as compared to the last year (the purchase of diesel fuel is up by one third). This means that agricultural producers do not intend to cut planting areas and only weather conditions are deterring field works.

Second, late frosts affected winter crops. In April the RF State Statistical Committee reported that plantings perished at 9.4% of planted areas, in May – already at 12.4%. Still, the losses are below those in 1999 (19%) that was even less favorable.

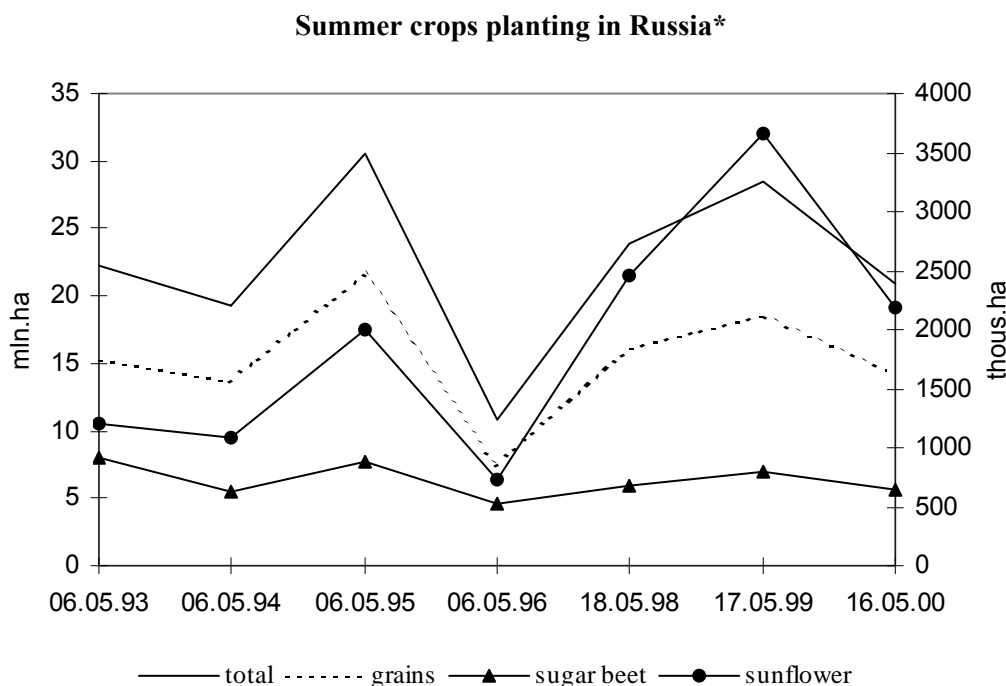
Progress in the livestock sector is still slow. In January-May 2000 the production of meat was up 2.6%, of milk – 0.1%, of eggs – 5.7%. One can speak

of a steady stagnation and even growth in this sector. The number of pigs is increasing and that of other animals has stabilized (the statistical data demonstrate a certain decline which is, however, much smaller than in all the preceding periods, and given that producers are apt to underreport the livestock population one can speak of stabilization). The livestock and poultry productivity indicators are also ameliorating: in January-May the production of milk per cow increased by 4.5%, the production of eggs per laying hen — by 9.3%.

At the same time after a rather long period of growth (that started in August 1999) the gross milk production began to drop in March and the production of milk per cow actually stopped to increase since April-May.

Since October 1999 the production of milk grows slower than its marketing by agricultural enterprises. It means that shadow turnover is shrinking and milk market becomes more transparent.

The increase of meat (especially pork) production is most notable in agricultural enterprises: in January-March they produced over 1/5 more pork. It means that production is gradually shifting from labor consuming household plots to more intensive meat producers.



* — total planted areas – million hectares, planted areas of selected crops – thousand hectares.

Source: Data of the RF State Statistical Committee for corresponding years.

Foreign investments in Russian agriculture remain scarce — about 2 million US dollars in January-March 2000. Almost one third of them originated from Cyprus, actually being the repatriated Russian capital. The contribution of Dutch investors was nearly the same, about 1/4 of investments came from France and almost 7% — from China.

The price parity for agriculture deteriorated. In April 2000 as compared to December 1999 prices for agricultural commodities rose by 5.4%, retail food prices — by 5% while prices for inputs (in economy in general) — by 18.1%. This fact is surely aggravating the financial situation of agricultural producers.

In January-March agriculture got only 46% of the planned amount of federal budget allocations. At the same time budget outlays in general amounted to 102.7%. Thus, the agrarian sector is losing its priority in budget financing: except for 1998 the percentage of planned budget funds received by it was higher than in other sectors.

Food industry continues to grow. In January-April the food production index amounted to 112.8% while the general industrial production index equaled 105.5%. However, the sector's growth is slowing down. It's still worth noting, that the production in

meat industry is up for the first time since the start of reforms.

The food industry growth is supported by bigger foreign investments. In January-March the sector got 400 million dollars of direct foreign investments, or 8.1% of the total funds directly invested by foreigners in the Russian economy. One third of them was provided by German investors, 10% — by Dutch, 14% — by those registered in Cyprus and 12.3% — by British investors. Thus, the capital repatriation factor in food industry is less important than in agriculture.

The growth in Russian agrifood sector is primarily due to higher real incomes of population that in January-April increased by 7.7%. The retail food sales are also expanding — during the first four months this year their volume was up 7.2%.

The imports of basic agrifood commodities have almost recovered to the pre-crisis level but for the time being do not supplant Russian producers in the domestic market. Given high rates of real incomes growth, the slowing down in agriculture may signal that the sector's technological level is hampering its further development. Under these circumstances the dynamically developing food industry may again switch to imported raw products.

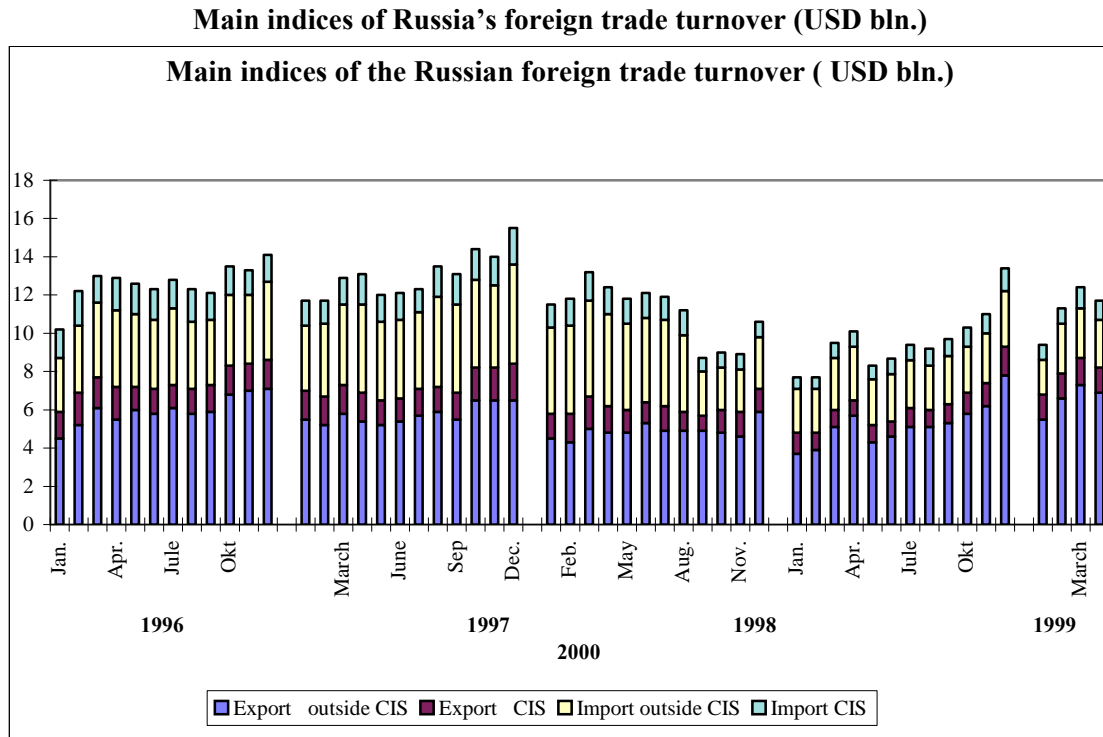
Serova E.

Foreign trade

Between January to April 2000 Russia's foreign trade turnover grew by 28.2% vs. its respective period of the prior year and made up USD 44.8 bln. During the period concerned Russian exports grew by 43.1% relative to their respective period of the prior year and

made up USD 31.6 bln, while imports showed a 2.4% and reached USD 13.2 bln. The positive balance of the foreign trade thus made up USD 18.4 bln., which as much as twice superior to the respective index of the prior year's analogous period.

Chart 1



Source: Goskomstat of RF

During the period in question Russia exported to far- Abroad countries goods worth a total of USD 26.3 bln., or at 43.7% more than last year. The volume of export supplies of traditional Russian exports to the said countries grew notably, particularly, the physical volume of crude oil supplies grew by 7%, petrol- 17%, natural gas- 2%, coal- 63%, iron ore- 10%, rolling from ... — 3%, copper- 32%, nickel- 29%, aluminum- 7%, mineral fertilizers—6%, synthetic caoutchouk— 26%, round timber- 3%, sawed timber- 32%, glued plywood- 20%, cellulose- 42%, machinery and equipment (by costs)- 18%. It was the price rise for key commodities compared with the period of January to April 1999 that played a significant part in the growth of the Russian exports to Far- Abroad countries. Thus, the price for fuel and energy goods grew by 99%, metals- by 34%, while the export of diesel fuel fell by 14%, black oil- by 6%, casted iron and intermediaries from... by 4%.

The world prices for raw materials- from oil to sunflower seeds should grow against the background of a general renewal of the world economy. Thus, according to the World Bank, in 2000 the price for oil should grow by 33% and reach the annual value of

USD 24/barrel (against 18.7, according to the results of 1999); the WB projects a 4% price rise for grain, metal; and mineral raw materials, while the overall growth in the world economy is envisaged to make up 3.5% vs. the earlier forecasted 2.9%, providing that the developing countries should raise their output by 4.6%.

In January to April 2000, the Russian import from Far- Abroad states fell by 6.8% (to USD 9.5 bln) relative to its respective period of the prior year., with a 10.4% fall (USD 190.8 mln). in April vs. March. According to the specified data of the State Customs Committee, during the period in question the customs authorities registered import goods worth a total of USD 1,650.5 mln.

In April the import volume slid by all the commodity groups, except food stuffs. It was the contraction in purchases of chemicals which proved to be most significant- by 19% (to USD 341.6 mln.), import supplies of machinery and equipment- by 14.6% (to USD 592.2 mln.)

The growth in the import of food stuffs and related raw materials by 0.6% (up to USD 453.6 mln.) in April can be attributed to 1.7 times growth in purchases of grain crops, and a 41% growth in procurements of

sugar and dairy products against a 46.8% fall in purchases of meat and by-products, 43.4% of vegetable oil, 37.7% of alcohol and alcohol-free products, and 4.6% of tobacco.

In April the import of pharmaceutical produce slid by 16.9%, organic and non-organic chemicals- by 30.2%, polymers and kaoutchouk- — by 20.6%.

As concerns the import of machine-building products, it fell, as follows: electric equipment- by 22.8%, means of ground transportation- by 14%, technological equipment- by 5.7%, while it was only tools and optical equipment the purchases of which grew (by 25.3%).

The import supplies of textiles and footwear fell by 5.3% (to USD 6.1 mln.) The fall in import volume took place by all kinds of goods of the group, except chemical threads and cotton (a 7.4% and 63.6%, respectively). The import of textile clothes fell by 30%, textile materials- 21.7%, chemical threads- by 17.2%, footwear – by 3.2%.

Between January to April 2000 the volume of mutual trade between Russia and CIS countries made up USD 9 bln., providing that export reached USD 5.3 bln. while import made up 3.7 bln. Thus, compared with the respective indices of the prior year, the Russian export grew by 40%, while import supplies showed a 36.3% growth. Hence, Russia's balance of trade with the CIS countries was positive and made up USD 1.6 bln.

Given that last year Russia's trade turnover with the CIS states fell by almost one-fourth compared with 1998, this year the situation has improved slightly. Among positive factors one can also note the growth in industrial output in a number of CIS countries as well as the growth in the volume of mutual investment between Russia and the CIS countries, which this year have peaked USD 400 mln.

It is energy sources that remain the main item of the Russian export, providing that this year the oil supplies to the neighboring countries grew and reached 1 mln. t., worth a total of USD 115.91 mln. While raising its export oil supplies Russia, at the same time, is going to revise the terms and conditions of the transit of the Kazakh oil through its customs territory and to cut off quotas for its transportation significantly. In the meantime, the transit oil is no subject to export duties,

and, should in 2000 its volume reach the planned 14 mln. t., the Russian budget would lose a USD 250 mln.

The Russian budget may also suffer a loss because of the exemption from VAT of commodities exported to the CIS countries. The problem of principles of VAT collection in the trade with the said countries has remained unresolved for a long time and was settled on the bilateral grounds. Such commodities often would happen to become subject to double taxation. Russia has practiced the collection of the tax by the place of the good's origin, however, since July 2000, the country plans to introduce the principle of the country of destination which is widely practiced worldwide. However, in the conditions of the transparency of customs barriers within the Commonwealth, this year the Russian budget may lose a USD 300 mln.

In the structure of Russia's foreign trade over the period January to April 2000, 33.9% of the Russian foreign trade turnover fell on the EU countries (including Germany- 9.7%, Italy- 5.7%, UK- 4.2%, Netherlands- 3.7, Finland- 3.0%), while on the CIS countries—19.6% (including Ukraine- 7.3%, Belarus- 7.0%, Kazakhstan- 3.1%), and yet 15.1% fell on the countries- members of the Association of the states of the Economic Union (including the US- 5.8%, China- 3.8%, Japan- 2.5%), 14.6% on the countries of the Central and eastern Europe (including Poland- 3.7%, Hungary- 1.9%, the Slovak Republic- 1.7%, Lithuania and the Czech Republic- 1.6% both).

At its session, the Government Commission for Protection Measures in the foreign trade and tariff and customs policy made a preliminary decision to raise the export customs duty rate for oil from 20 to 27 EURO/t. effective as of August 1. Should during late- July the international prices grow over USD 29/ barrel, the a. m. rate would be raised up to EURO 34/t.

In compliance with the current procedures, the final decision will be published precisely in one month prior to the date of introduction of new rates- on July 1. The export duty for black oil would consequently be raised from EURO 12 up to 20/t.

The export duty rate for liquid gas will remain unchanged and make up EURO 40/t.

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