

**RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
JUNE 2002**

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The State of the Federal Budget

According to the preliminary estimates of the Finance Ministry, in January through May of 2002 the revenues of the federal budget made Rub. 820.0 billion, and expenditures (in terms of fulfilled financing) – Rub. 767.1 billion.

Table 1

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

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

Table 2

**The monthly execution of the federal budget of the Russian Federation
(in % GDP, actual financing)**

	I'01	II'01	III'01	IV'01	V'01	XI'01	I'02	II'02	III'02	IV'02	V'02
Total	16,2%	16,9%	16,9%	17,5%	17,8%	17,6%	22,2%	21,0%	20,9%	21,3%	20,8%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
National defense	2,4%	2,5%	2,8%	2,8%	2,9%	2,9%	1,7%	2,4%	2,4%	2,7%	2,7%
International activities	0,5%	0,4%	0,2%	0,2%	0,2%	0,3%	0,4%	0,2%	0,4%	0,5%	0,4%
Judicial power	0,2%	0,2%	0,1%	0,1%	0,1%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%
Law enforcement and security activities	1,7%	2,0%	1,9%	1,8%	1,8%	1,7%	1,6%	1,4%	1,4%	1,5%	1,5%
Fundamental research	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,2%	0,3%	0,3%
Services provided for the national economy	0,5%	0,9%	1,0%	1,0%	1,1%	1,4%	0,3%	0,6%	0,8%	0,9%	1,0%
Social services	2,4%	2,6%	2,5%	2,7%	2,6%	2,3%	5,0%	5,7%	5,3%	5,9%	3,4%
Servicing of public debt	3,2%	5,5%	4,7%	4,3%	3,9%	2,6%	1,9%	3,4%	3,4%	2,7%	2,5%
Other expenditure	3,7%	3,5%	3,2%	2,5%	2,7%	3,0%	3,5%	4,0%	3,9%	4,0%	6,9%
Total expenditure	15,3%	18,3%	17,2%	16,4%	16,2%	15,0%	15,5%	18,7%	18,6%	19,2%	19,5%
Profit (+) / deficit (-)	0,9%	-1,4%	-0,3%	1,1%	1,7%	2,6%	6,8%	2,3%	2,3%	2,1%	1,3%

The data on the execution of the federal budget in the first quarter of 2002 are presented in Table 1¹. As of May 1, 2002, the revenues of the federal budget accounted for 21.2 % of GDP, including tax revenues at

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

19.9 %, while expenditures made 16.9 % of GDP (19.2 % of GDP in terms of fulfilled funding²), including non-interest ones – 14.3 % of GDP (16.5 % of GDP in terms of fulfilled funding). The level of budget surplus accounted for 4.3 % of GDP (2.1 % of GDP in terms of fulfilled funding, 1.3 % of GDP in May).

The indicators of revenues collected in January through April of 2002 somewhat increased as compared to the figures registered in the 1st quarter. The tax revenues in January through April of 2002 made 16.0 % of GDP (without the single social tax).

The expenditures for the servicing of the public debt in January through April of 2002 made 2.6 % of GDP (significantly below 3.7 % observed in 2001). As concerns other expenditures of the federal budget, it shall be noted that in April the expenditures for national defense increased, and therefore the gap between the figures registered in this period and the indicators of the preceding year continued to narrow (2.3 % of GDP in April and 1.9 % of GDP in March).

As concerns the fulfilled funding, the expenditures in the first five months of 2002 made 19.5 %, what by 3.3 p. p. of GDP exceeds the expenditures in the preceding year.

As on June 1, according to preliminary estimates, the balances of accounts on accounting the federal budget funds (without regard to the funds accumulated on personal accounts of recipients of budget funds) diminished by Rb. 10.0 bln.

Table 3

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

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
218,7%			187,1%			234,8%			277,8%		240,9%

The dynamics of actual tax debts to the federal budget is presented in Figure 1³. In May, there was registered an increase in tax revenue arrears of the federal budget, relating to both profit tax and VAT.

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

³ Since 2001 the form of the MTC's presentation of the respective statistical data has been changed, and the data on debts to the federal budget across all the taxes are no longer available. Since January of 2002 the practice of balancing the data on the arrears against the amount of tax surplus has been ceased. In this relation the figure presents the data on the gross unbalanced tax arrears for comparability purposes.

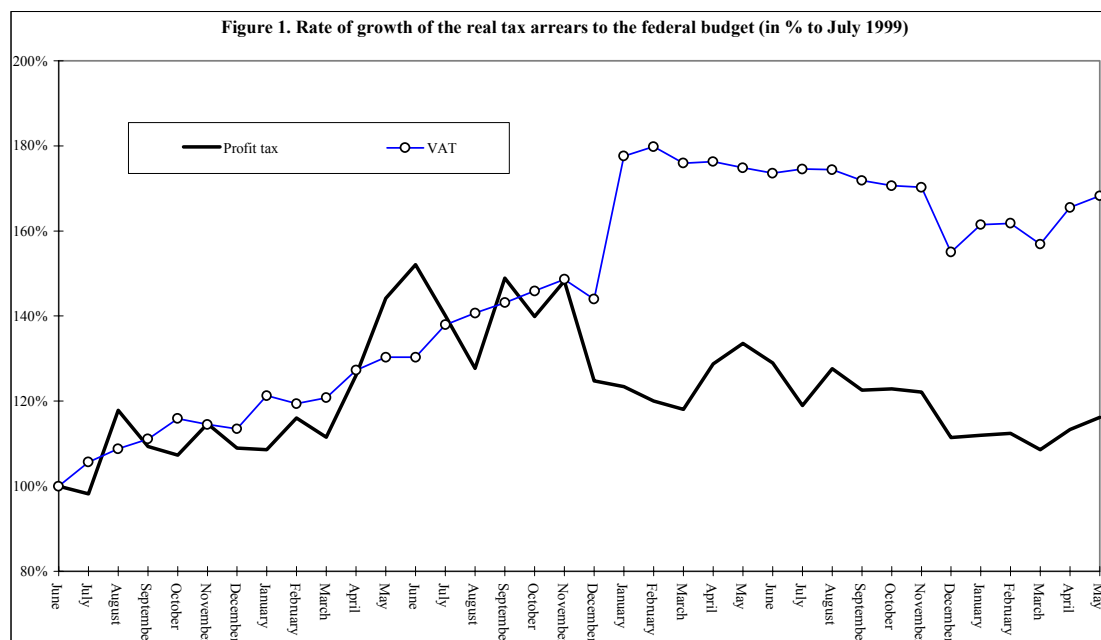


Table 4

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		
Taxes	28,7%			23,6%			24,3%			26,5%		
Revenues	32,9%			31,3%			31,4%			33,6%		
Expenditures	18,3%			23,7%			26,0%			28,4%		
Deficit	14,6%			7,7%			5,4%			5,3%		

* Без учета ЕСН

The level of tax revenues of the consolidated budget in January through April of 2002 somewhat increased in comparison with the 1st quarter of 2002, what is a natural development in the beginning of the 2nd quarter. Besides, the surplus of the consolidated budget still exceeds the level observed in the preceding year, although it declined in comparison with levels of preceding months. Уровень налоговых поступлений в консолидированный бюджет за январь-апрель 2002 года вырос по сравнению с показателем за I квартал 2002 г, что вполне естественно для начала II квартала. Кроме того, профицит

консолированного бюджета по-прежнему превышает уровень прошлого года, хотя разрыв за последние месяцы и сократился.

The estimate of tax revenues of the consolidated and federal budgets is presented in the table⁴. The estimate was revised as compared to the indicators presented in the preceding bulletin basing on the new data on the execution of the consolidated and federal budgets.

	ВВП	Всего налоговых поступлений в консолидированный бюджет РФ (без ЕСН)	Всего налоговых поступлений в федеральный бюджет РФ (без ЕСН)	Всего поступлений налога на прибыль в консолидированный бюджет РФ	Всего поступлений налога на прибыль в федеральный бюджет РФ	Всего поступлений подоходного налога в консолидированный бюджет РФ	Всего поступлений НДС
ARIMA							
Июнь	3935,5	34,2%	20,0%	7,8%	2,8%	3,8%	8,3%
Июль	4808,1	32,7%	19,3%	7,4%	2,6%	3,7%	8,0%
Август	5759,9	31,4%	18,6%	6,9%	2,5%	3,7%	7,8%
REM							
Июнь	3935,5	33,1%	20,2%	6,9%	4,0%	2,7%	8,4%
Июль	4808,1	32,4%	19,8%	6,8%	3,9%	2,6%	8,1%
Август	5759,9	32,0%	19,2%	7,0%	3,8%	2,6%	7,9%

The major developments in the sphere of budgetary policy in June was the publication of the budgetary address of the President and approval of the key budget parameters for year 2003 by the government. According to the draft parameters (as on June 20, 2002), the revenues of the enlarged government will make 38.96 % of GDP, the expenditures – 35.31 % of GDP (including non-interest expenditures at 32.95 % of GDP). The level of surplus of the federal budget will make 3.37 % of GDP, revenues – 15.77 % of GDP, expenditures – 12.4 % of GDP, including non-interest expenditures at 10.2 % of GDP. The draft budget for 2003 is calculated basing on the estimated GDP at Rub. 12 trillion 850 billion, proceeding from the average annual Rub. 34.0 / US \$ exchange rate and oil prices (URALS) at US \$ 21.5 per barrel.

S. Batkibekov

Monetary Policy

In May 2002 the consumer price index grew by 1.7%, thus it was 0.5 percentage points higher than in the previous month. In total, the inflation rate was 8.4% for five months of 2002. The commodity structure of consumer prices growth allocated like: food stuffs – 2.2%, non-food goods – 1.2%, services – 1.0%. Prices for fruits and vegetables were rising in May at the highest pace (15.0%) and they added most to the food stuff price index growth. Excluding fruits and vegetables, the food stuff price index rose by 0.4%. Therefore, the inflation in the month was mainly due to seasonal factors.

Among non-food goods we should mark out a spike of petroleum prices, which induced a wide public response. In May the petroleum retail price index amounted to 110.7%. In particular, low-octane petroleum sorts like A-76 (AI-80 etc.) went up by 12.5%, AI-92 (AI-93 etc.) – by 10.5%, and high-octane sorts (AI-95 and higher) – by 6.3%. The price growth for fuel varied across regions. The highest pace was fixed in Ulianovsk region – 52.8%. In June the prices continued growing. The weekly increment of petroleum prices between June 3 to June 10 made 3.7%, and between June 10 to June 17 – 2.0%.

Nevertheless, the final CPI growth rate in June was below the respective May's figure (see Fig. 1). According to preliminary estimates, the consumer price index rose at most by 1.0–1.2%.

⁴ For the description of models see the preceding bulletins.

FIGURE 1.

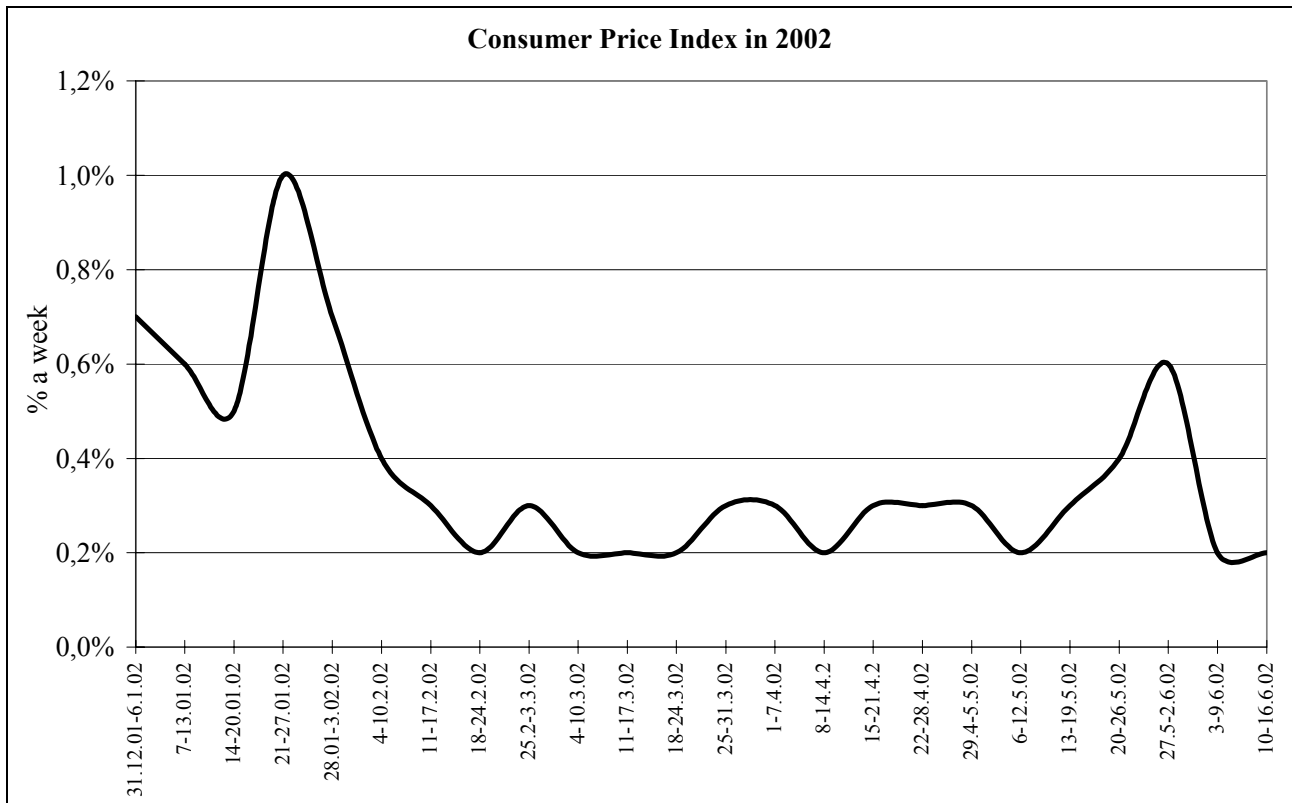
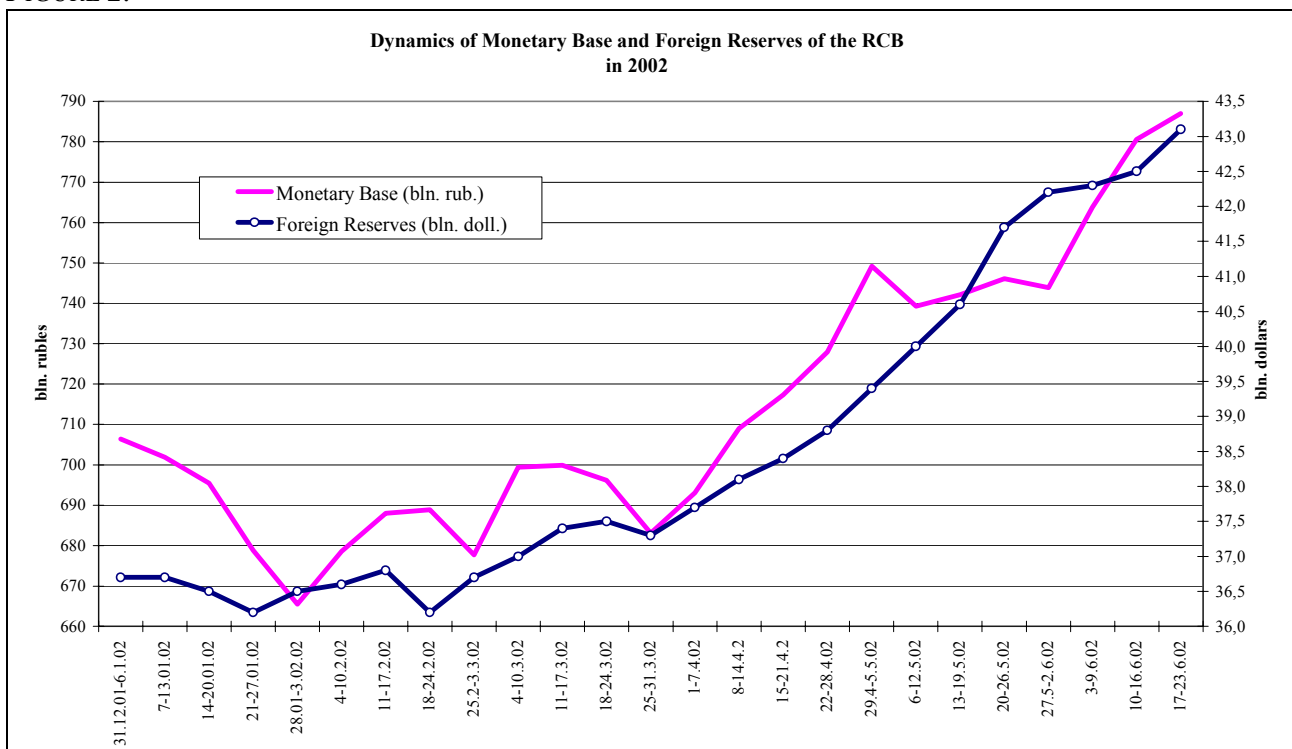


FIGURE 2.



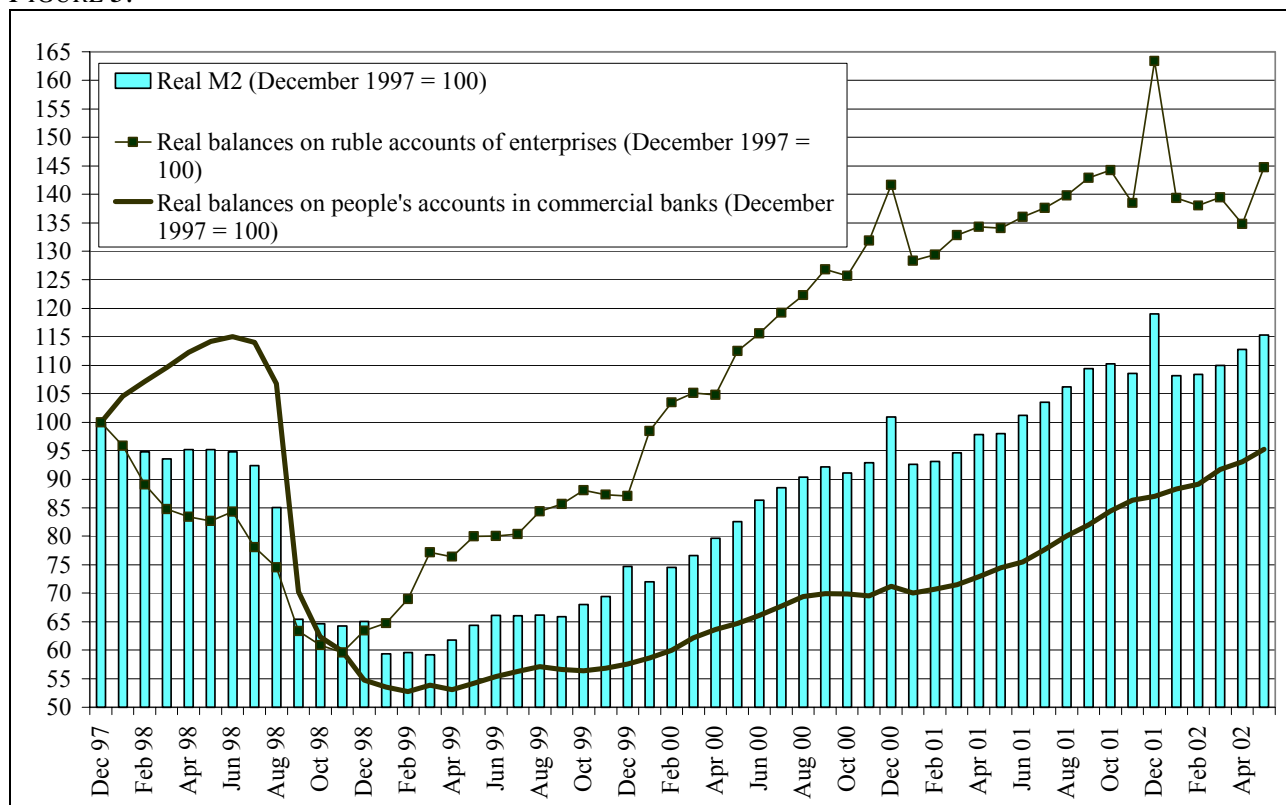
In early-summer 2002 the inflation process was influenced by both monetary and non-monetary factors. Monetary factors, as usual during last years, are related to the foreign exchange market. The foreign reserves of the Russian Central Bank continued growing (see Fig. 2). Being \$42.2 billion in the end of May, the reserves grew up to the new historical maximum – \$43.1 billion – by June 21. Thus, the supply of foreign exchange dominated in the market. It is worth noting that according to the CBR’s preliminary estimates, in the second quarter of 2002 the capital account of the Russian balance of payment is going to be positive.

Correspondingly, the growth of monetary base also continued (see Fig. 2). Thus, in May 2002 the reserve money grew by 60 billion roubles (from 917.7 billion to 977.7 billion), or by more than 6.5%. The growth was mainly due to balances on correspondent (+29.3 billion roubles) and deposit accounts (+34.3 billion roubles) of commercial banks.

Among non-monetary factors, in addition to petroleum prices, we should mention the regular Government decision (20.06.2002) on increase in tariffs on production of natural monopolists. In July 2002 the tariffs on gas will be increased by 15%. The tariffs on electricity (in the Federal Wholesale Electricity Market) will be increased by 2.4%, on freight service – by 6.8%. The Government also adopted reference points for increase in tariffs in 2003. It is assumed that their growth will overtake the planned inflation rate. The highest increase falls on gas – up to 20%.

In late June the Bank of Russia published data on dynamics of M_2 including May's figure, which testified the tendency to a growth of real money balances held on (see Fig. 3). By the very beginning of June 2002 the M_2 (deflated by CPI) reached the level of 115% against December 1997. It is worth noting that during seven months running the real money balances grew at the expense of rising balances on individuals' accounts in banks as balances on firms' accounts fluctuated around the level of 140% against December 1997. By end of May 2002 deposits of individuals in real terms got the level of 95% against December 1997 and grew by 9.5% for five months.

FIGURE 3.



S. Drobyshevsky.

Financial Markets

The market for government securities.

In the market for the Russian foreign debt in June 2002 one could see a fall in quotations of securities (see Figs. 1 and 2) caused, first of all, by development of situation in Brazil. The threat of default on the Brazilian foreign debt, assuming Brazil is the largest issuer of debt liabilities, stipulated for re-estimation of investment risks in emerging markets. Hence, the rise of yields affected the Russian securities as well despite clear positive signs from Russia (growth of foreign reserves and acknowledgement of Russia as a market-economy country by the European Union). Namely, in the second half of June yields on Minfin bonds and eurobonds (across all terms of maturity) grew by about one percentage point.

FIGURE 1.

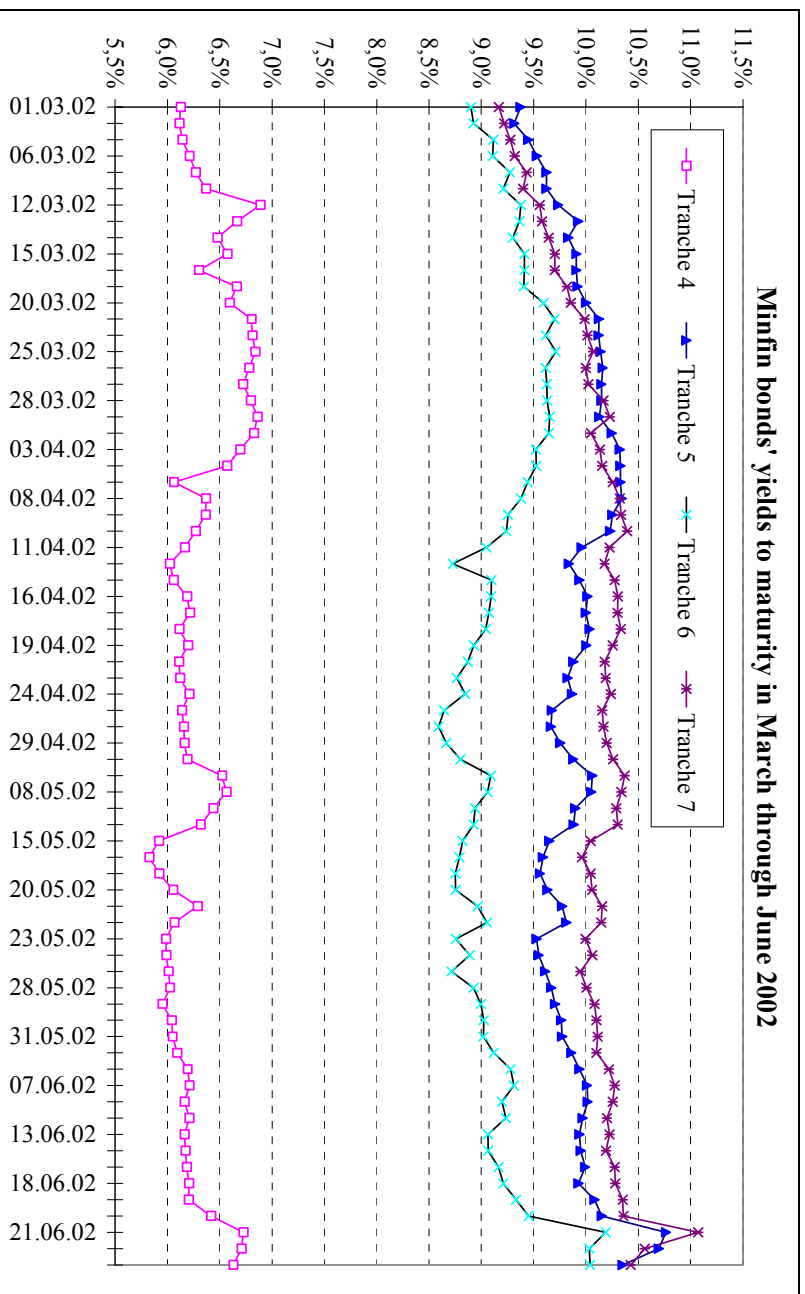
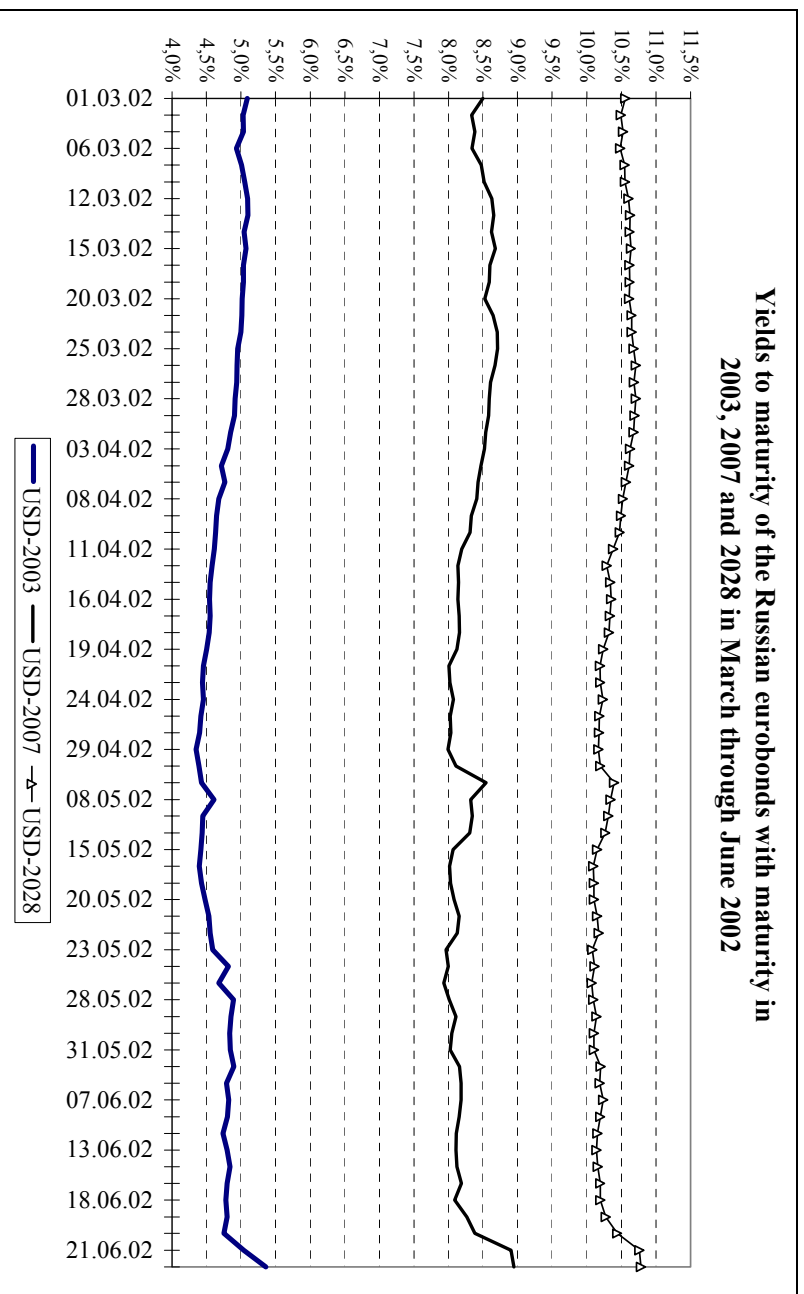


FIGURE 2.

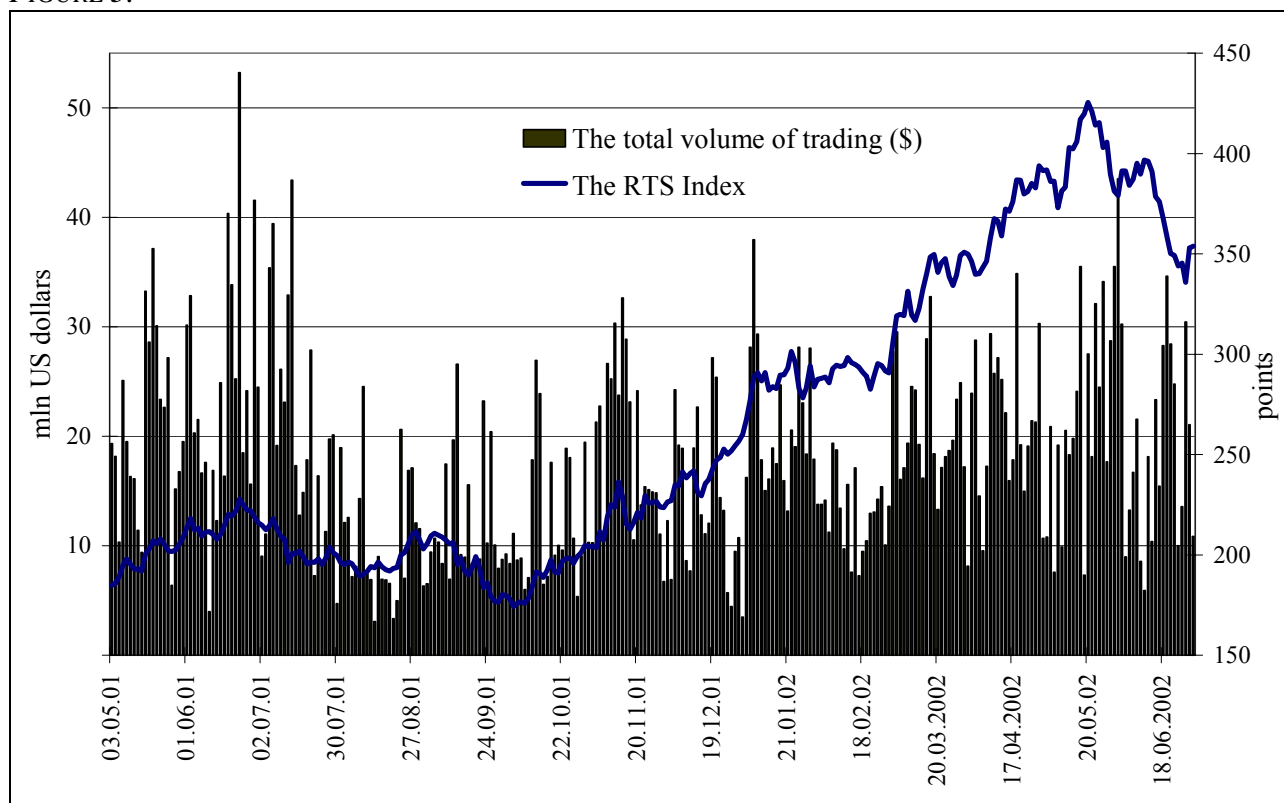


The market for corporate securities.

The situation in the market. In early summer the Russian stock market, which had resisted to negative external factors during a long time, surrendered. Unfavorable development of the US stock indices, the next crisis in Latin America stipulated for a fall in the RTS to April's level. However, we should point out that there was no fundamentals for a deterioration of situation in the Russian stock market: the main macroeconomic indicators demonstrate positive dynamics. Taking into account seasonal decline in investors' activity, one can hope for a growth of stock prices in the nearest future.

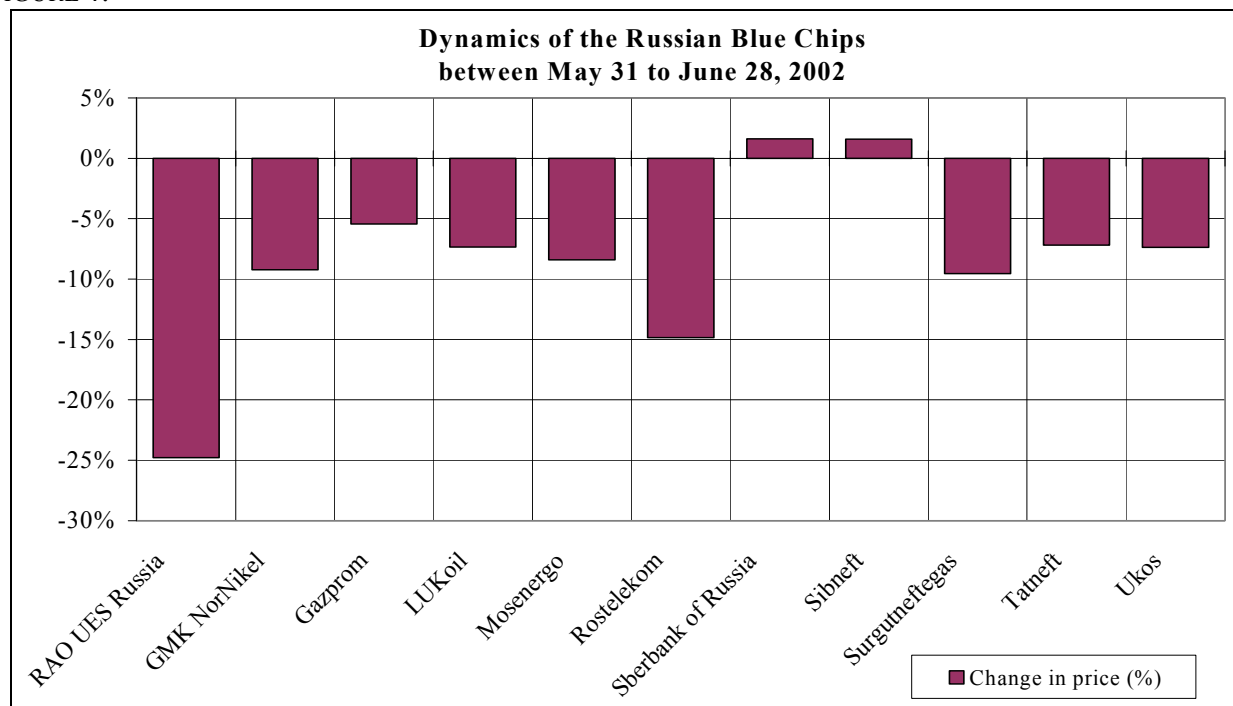
In June the RTS Index dropped by 37.58 points (-9.58%); the trade volume fell by more than \$100 million (-24.18%) against the previous period and made up \$344.3 million. The average daily turnover equaled \$18.1 million. In the first decade of the month the RTS Index was rather stable: its variation was equal to 12.51 points (3.2%). On June 10 the stock index reached the maximum value in the month – 396.7. After that the Index fell sharply at high trade volumes. As early as on June 14 the Index slid to 378.65 (-3.17%), while the trade volume amounted to \$23 million; from June 18 to 21 the RTS Index dropped by more than 6% at the total trade volume of \$116.13 million (one third of the monthly turnover). The negative dynamics was mainly caused by news from South America. By the way, it is worth noting that the turnovers on the MICEX did not change so rapidly, i.e. the bearish tendency was induced by non-residents. On June 26 the RTS Index slid further to 335.89 points, but by the end of month the stock quotations grew once again and the Index was fixed at the level of 353.79 points. The rise in late-June was caused by an increase in major stock indices and positive dynamics of oil prices and favorable corporate news.

FIGURE 3.



In June the leaders among *blue chips* were “Sberbank” (1.62%) and “Sibneft” (1.58%). The prices of “Gazprom” were those which declined to a minor degree (-5.44%). They were followed by stocks of “Tatneft” (-7.2%), “LUKoil” (-7.34%) and “YUKOS” (-7.37%). The list was closed with “Rostelecom” (-14.84%) and RAO “UES Russia” (-24.8%). Among the “second echelon” the leaders were stocks of TH “TsUM” (+21.67%) and “Rosneft-Purneftegaz” (+11.11%). The leader of the previous month dropped at most in June (-30.6%).

FIGURE 4.



In June, the share of common stocks of RAO “UES Russia” in the total RTS turnover slid to 26.1% (in May – 27.13%), the share of “YUKOS” grew up to 16.49% (10%), while the share of “LUKoil” stocks dropped to 16.48% (21.31%), the share of “Surgutneftegas” was 14.41% (13.4%) and “Tatneft” - 6.24% (6.54%). Overall in June the total share of the five most liquid stocks in RTS rose up to 79.73% (in June – 78.38%).

Between June 3 to June 28, 2002, the trade volume with “Gazprom” stocks via RTS terminals exceeded \$133 million (more than 135 million shares). Overall 11 thousand deals were struck.

In June the list of top five biggest Russian corporations by capitalisation did not change (according to the RTS data): “Gazprom” – \$23.1 billion, “YUKOS” – \$20.6 billion, “Surgutneftegaz” – \$13.9 billion, “LUKoil” – \$13.8 billion and “Sibneft” – \$8.5 billion.

On June 18 the RTS added the common and preferred shares of “Surgutneftegaz” to the list of the second level. Thus, the total share of securities listed in the RTS amounted to 35 (7 – in the list of the first level and 28 – in the list of the second level).

Between June 3 to June 21 the turnover in the FORTS equaled 5.6 billion rubles (29.3 thousand deals, 1.14 million contracts). The execution day on June 2002 term contracts in the RTS was on June 17. After the June contracts were executed, now in the market there are traded standard contracts with execution in September and December 2002.

The trade volume in the secondary corporate bond market (MICEX) rose against May and made up about 2.92 billion rubles. The share of TNK bonds (5th issue, 1st tranche) equaled 22.7%, TNK (4th issue, 1st tranche) – 12.24%, CSFB (2nd issue) – 10.02%, RITEK (3rd issue, 1st tranche) – 6.49% and “Slavneft” (2nd issue) – 5.47%. The overall share of five the most liquid bonds in the MICEX turnover amounted to 56.92%. Among initial offerings we should note bonds of “Alfa-finance” (one billion rubles).

External factors having impact on the Russian stock market. The US administration officially claimed that Russia would get the status of a “country with market economy”. The respective decision was adopted by the US Ministry of Trade. The US Minister of Trade D. Evans said the acknowledgement “reflects huge economic changes which went in Russia during last decade”. The acknowledgement of Russia as a market-economy country means that Russia gets equal rights in trade discussions with the main trade partners of the USA. Earlier similar decision was adopted by the EC officials. The European Community also supports Russia’s accession to the WTO and its participation on equal principals in other international organizations.

In June the US stock markets fell down: the DJIA lost 798.43 points (8.04%), and NASDAQ – 191.74 points (-11.87%). Primarily, the fall is attributed to unfavorable news on financial results of the US corporations.

On the regular meeting in June the Fed decided to leave the Federal Funds rate unchanged – at the level of 1.75%.

The international rating agency “Moody’s” reported Russia’s rating had a positive long-term trend and the agency did not exclude its upgrade during next 18 months. Another biggest rating agency “Standard & Poor’s” stated that it also can revise the long-term rating of Russia during next three months. In February 2002 the agency gave a positive forecast on Russia’s rating, i.e. assuming possible revision of the rating during next six to thirty-six months.

FIGURE 5.

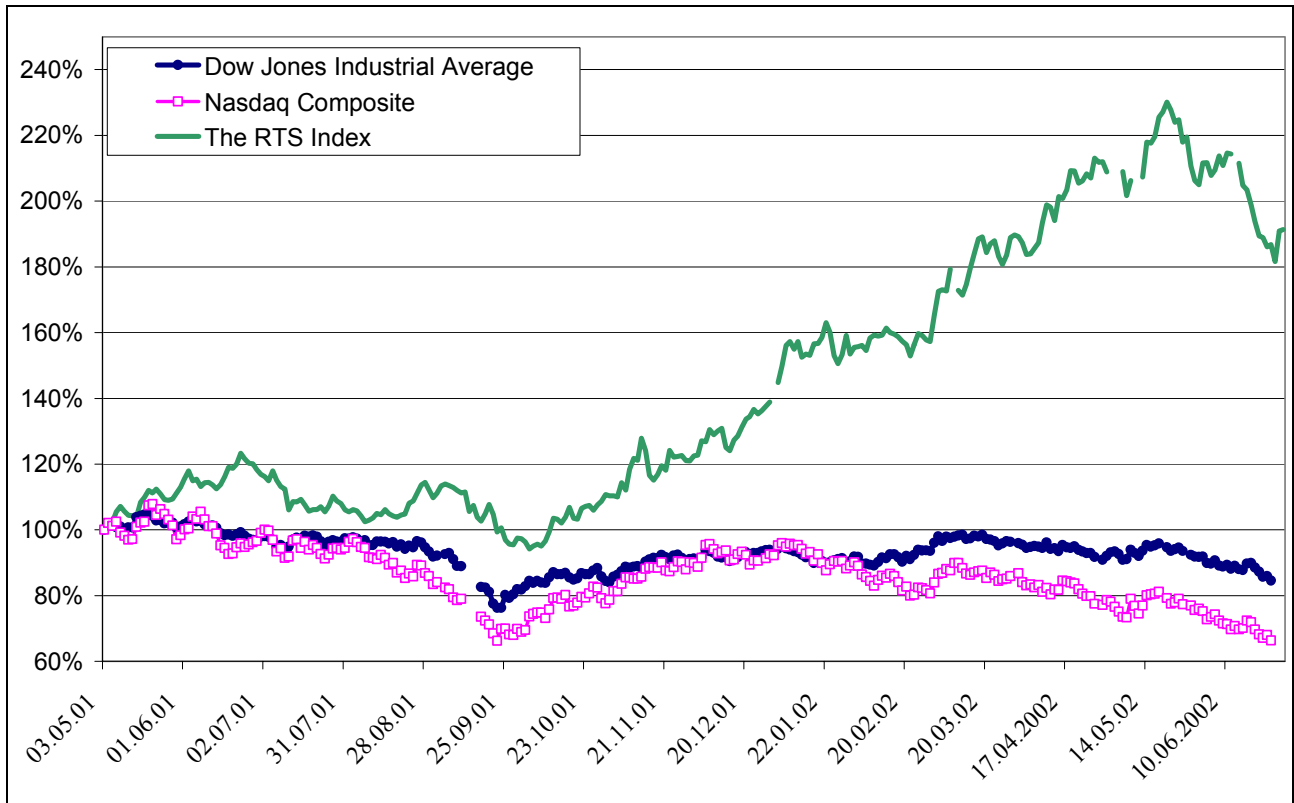
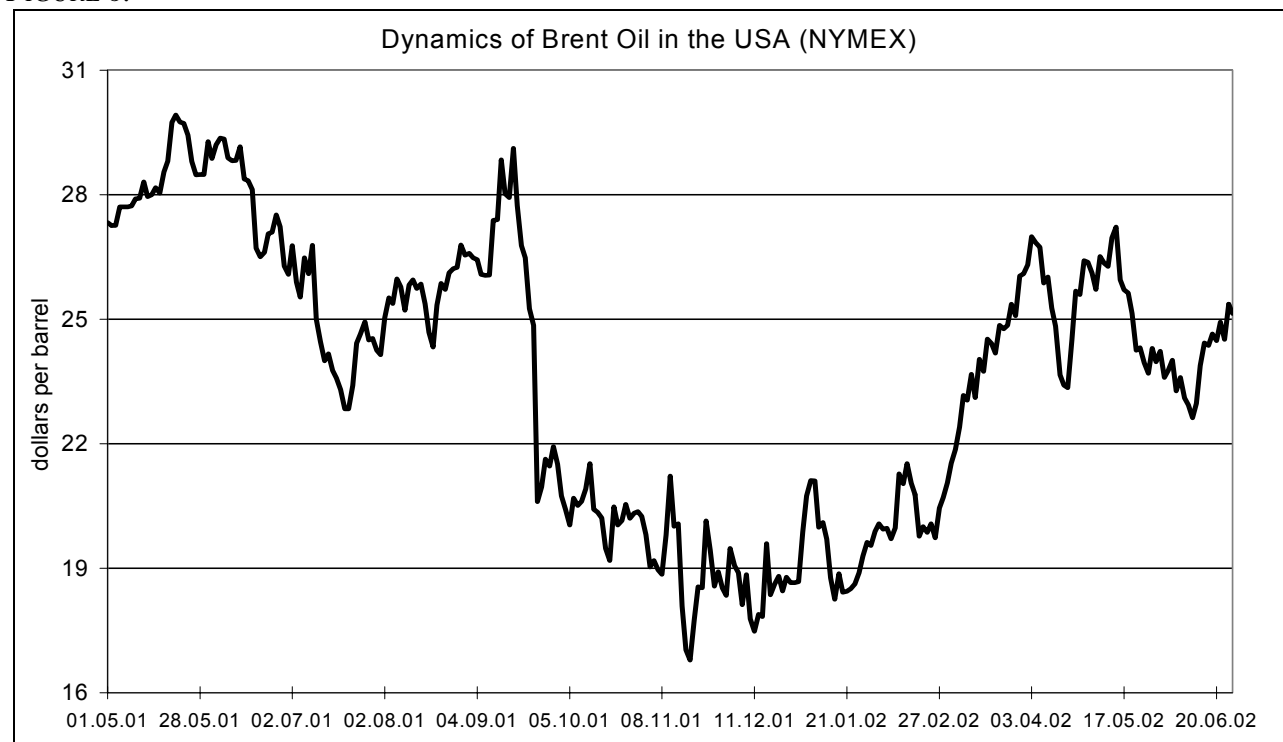


FIGURE 6.



The first month of the summer began with a fall in oil prices. By June 11 the price of Brent dropped to a two-month minimum – 22.62 \$/bbl. The dynamics can be explained by a decline in demand for fuel from the US consumers and independent oil-producers' refusal to impose export restrictions. However by the end of the month the oil price exceeded the level of 25 \$/bbl once again. This fact was facilitated by the news from Norway about strikes in the oil company and possible stoppage of oil export as well as by unpredicted reduction in the US oil reserves.

At the OPEC summit on June 26 the oil ministers came to a conclusion on keeping the current level of oil production.

Corporate news.

MMC “Norilsky Nickel”. The press-cutting service of the MMC “Norilsky Nickel” reported the Board of Directors decided on dividends recommended for approval at the shareholders' meeting. Starting from this year, the dividend are supposed to amount to 20-25% of net consolidated profit, calculated according to the international accounting standards.

By June 15, 2002, the MMC “Norilsky Nickel” finished the purchase of 38,761,525 common shares of the company. The shares were purchased between May 15 to June 15, 2002, according to the decision of the shareholders' meeting (as of March 29, 2002) aimed at reduction in the charter capital and removal of cross-shareholding between RAO “Norilsky Nickel” and MMC “Norilsky Nickel”.

“Mosenergo”. The international rating agency “Standard & Poor's” confirmed the long-term rating of “Mosenergo” at B- level (forecast – stable) basing on analysis of operational and financial results for 2001 as well as taking into account prospects for development of the Russian energy sector.

TABLE 1. DYNAMICS OF THE FOREIGN STOCK INDEXES

as of June , 2002	value	change for last month (%)	change since beginning of the year (%)
RTS (Russia)	345,44	-11,71%	32,84%
Dow Jones Industrial Average (USA)	9126,82	-8,04%	-9,97%
Nasdaq Composite (USA)	1423,99	-11,87%	-28,34%
S&P 500 (USA)	976,14	-8,53%	-15,92%
FTSE 100 (UK)	4631	-8,93%	-11,66%
DAX-30 (Germany)	4202,97	-12,77%	-18,55%
CAC-40 (France)	3766,4	-11,89%	-18,56%
Swiss Market (Switzerland)	5781,4	-12,07%	-9,92%
Nikkei-225 (Japan)	10496,67	-10,77%	-0,44%
Bovespa (Brazil)	10706	-16,76%	-21,15%
IPC (Mexico)	6354,26	-9,63%	-1,74%
IPSA (Chile)	88,82	-4,44%	-18,59%
Straits Times (Singapore)	1565,8	-6,34%	-3,70%
Seoul Composite(Korea)	755,92	-5,08%	8,97%
ISE National-100 (Turkey)	9094,77	-12,67%	-34,01%
Morgan Stanley Emerging Markets Index	320,681	-7,39%	1,03%

Despite substantial improvements in “Mosenergo”'s financial state during last two years (the receipts grew by more than 1.5 times in US dollar terms, the accounts payable and receivable went down, barter near vanished, the company is more likely to pay off eurobonds this autumn), the upgrade was restrained by susceptibility of the company to politically-oriented system of tariff setting and uncertainty due to energy sector restructuring.

“Mosenergo” reported its results for 2001 according to GAAP. The consolidated net profit made up \$9 million against the loss of \$3 million in 2000. The sales rose up to \$1.487 billion against \$1.087 billion in

2000. The operational profit in 2001 amounted to \$140 million, and net profit per share equaled \$0.00032 against the loss of \$0.0001 in 2000.

“Tatneft”. On June 28, 2002, the annual shareholders’ meeting of “Tatneft” decided on dividends for 2001 equaled 100% of face-value on preferred stocks and 10% of face-value on common stocks. The face-value of the share is one ruble.

The net profit of “Tatneft” (according to GAAP) in 2001 dropped to 21.15 billion rubles from 23.73 billion rubles in 2000. The net income per common share in 2001 fell from 9.6 rubles to 10.5 rubles in 2000.

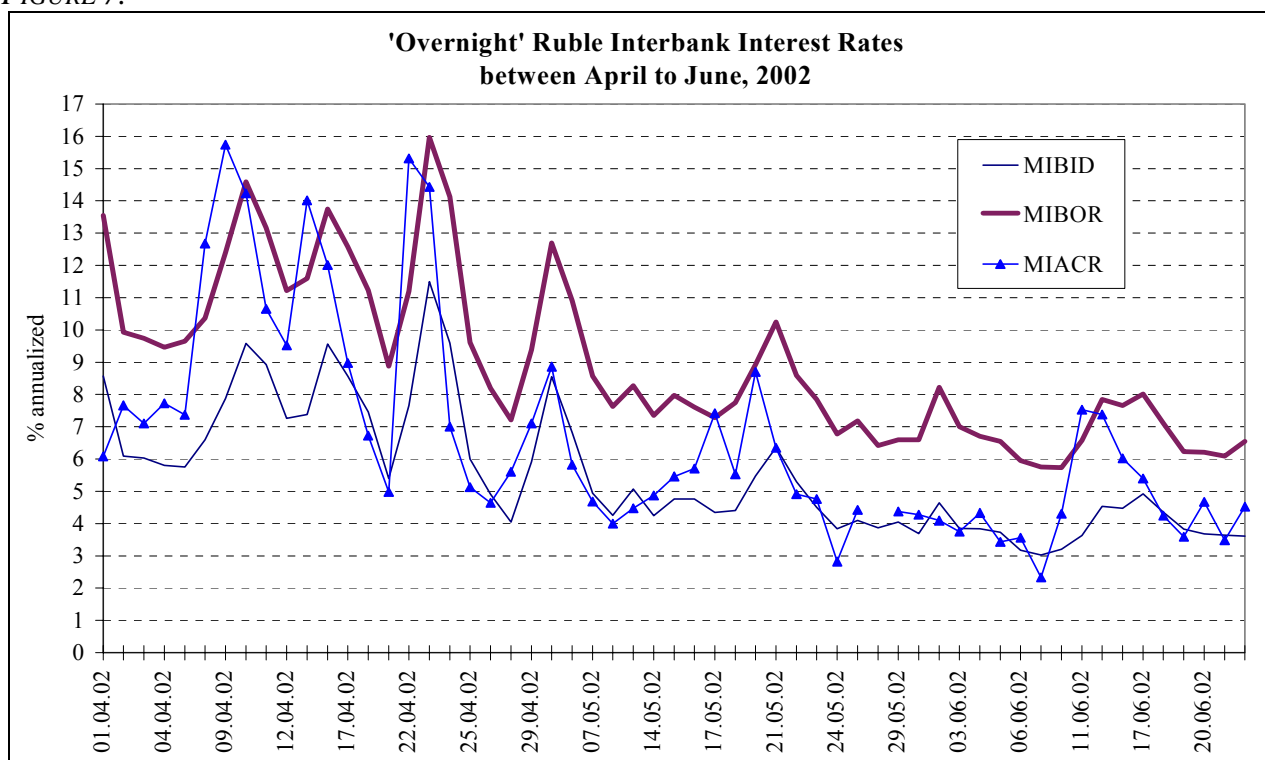
“Sberbank”. On June 21, 2002, the annual shareholders’ meeting approved the dividends for 2001 (105.7% – on common share and 114% – on preferred share).

The balance profit of “Sberbank” (according to international accounting standards) in 2001 amounted to 38.1 billion rubles, i.e. near two times higher its balance profit in 2000 (19.7 billion rubles). The net profit also grew twice – up to 27.4 billion rubles (in 2000 it was 13.3 billion rubles). The net assets rose by 40% for the year and equaled 771.6 billion rubles. The capital (according to international standards) reached 81.4 billion rubles (the capital grew by 1.6 times against 2000 – 49.4 billion rubles). So high financial results (according to international accounting standards) can be explained by an increase in quality of loan portfolio acknowledged by auditors. The long-term loans given to the real sector grew by 1.6 times and reached 59 billion rubles.

The interbank loan market.

In May and June 2002 the market for ruble interbank loans demonstrated a substantial fall in interest rates (see Fig. 7). E.g., rates on overnight credits fell to 2–5% annualized at rather low variation. Namely, the highest cost of borrowing did not exceed 8% annualized. The main factor that contributed to the rates’ reduction was a growth of balances on correspondent accounts of commercial banks in the Bank of Russia: during most of the period exceeded 80 billion rubles, while in March and April 2002 they sank to 60–70 billion rubles. It is evident that the main source of the liquidity in the market was the Russian Central Bank, which increased supply of rubles through foreign exchange market operations.

FIGURE 7.



Foreign exchange market.

In June 2002 the situation in the forex market was calm. Commercial banks despite growth of liquidity did not raise demand for dollars, and the Russian Central Bank was, actually, a single buyer in the market (see

section *Monetary policy*). Therefore, pace of ruble devaluation remained at the previous level (0.3–0.5% per month). That rate provides for gradual appreciation of ruble real exchange rate.

In total, in June 2002, the official dollar exchange rate grew from 31.3071 rubles/\$ to 31.4471 rubles/\$, i.e. by 0.45% (5.50% annualized, see Fig. 8). The ‘today’ dollar exchange rate in the SELT increased from 31.3371 rubles/\$ to 31.4924 rubles/\$ (as of June 24), i.e. by 0.51%. The ‘tomorrow’ dollar exchange rate went up from 31.3376 rubles/\$ to 31.4899 rubles/\$ (as of June 24), i.e. by 0.49%. According to preliminary estimates, in June the trading volumes by dollar amounted up to 125 billion rubles.

FIGURE 8.

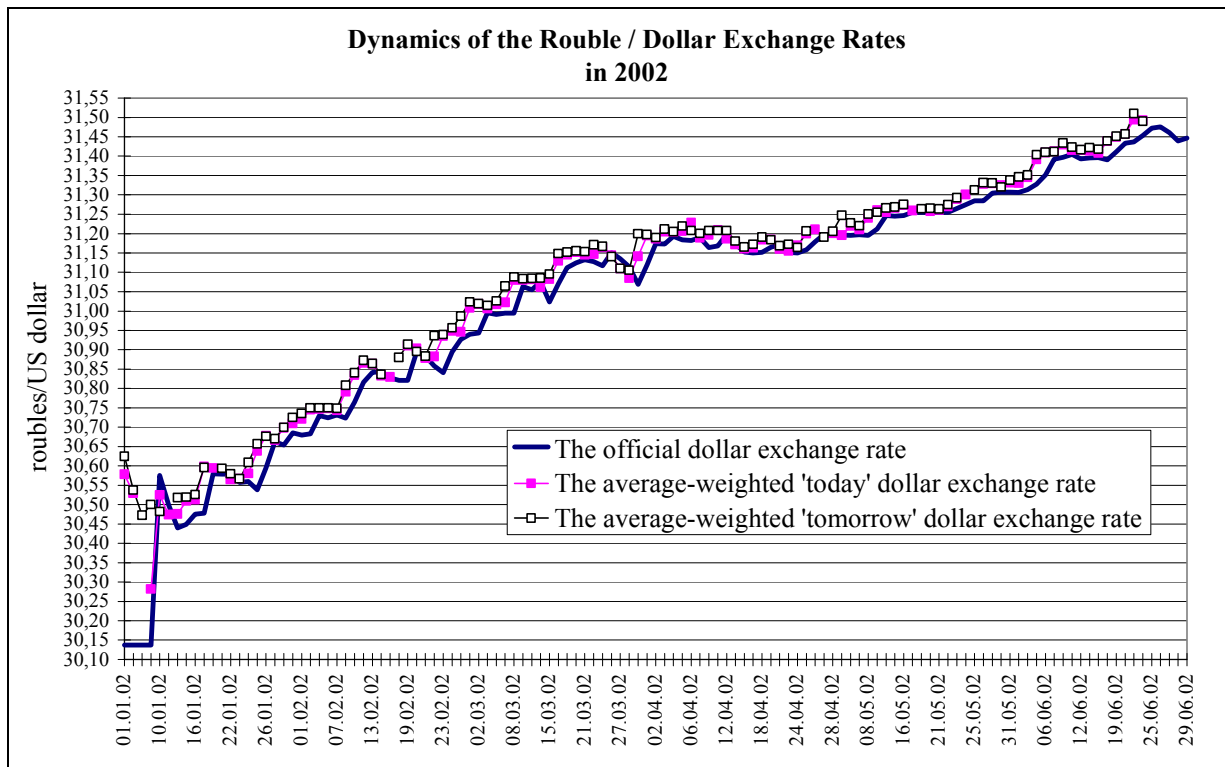
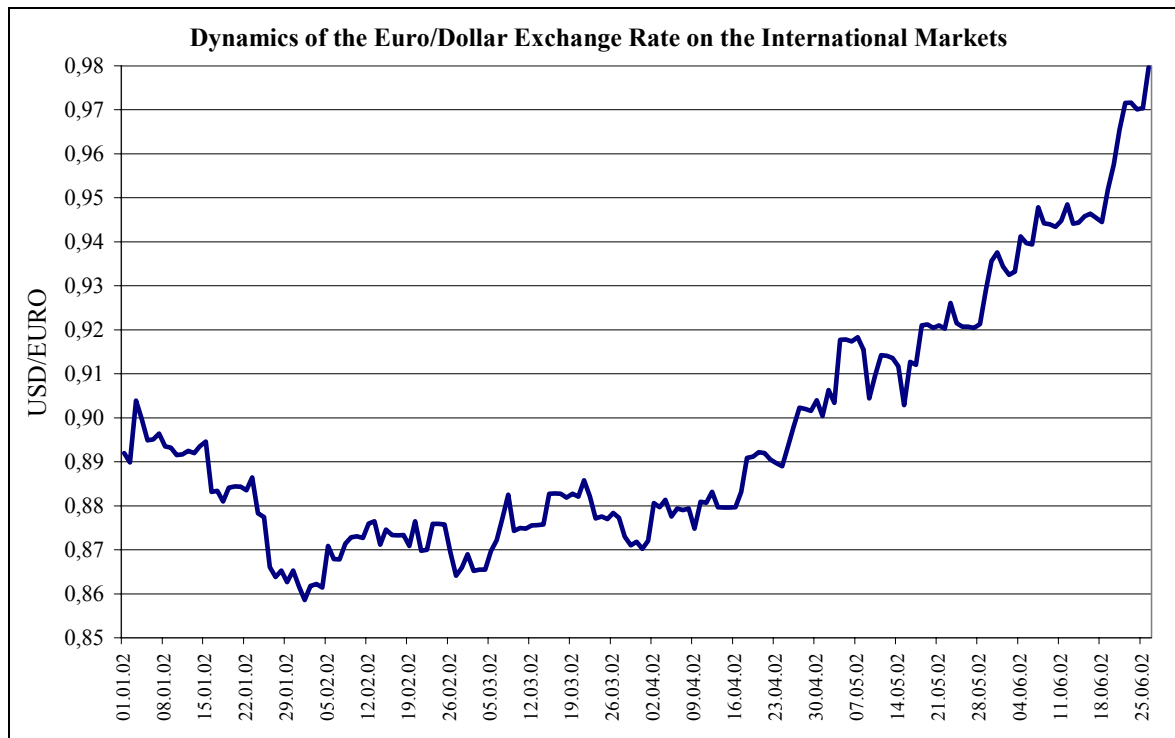


FIGURE 9.



In June 2002 the position of the European currency against the US dollar became well stronger (see Fig. 9). By end of the month the exchange rate got the level of 0.98–0.99 \$/euro. The latter was the highest value since February 2000. As we mentioned in the previous report, the main causes of the situation are a record deficit of the US current account. At the same time, other fundamentals (rates of economic growth, inflation and expectations) in Europe are worse than those in the USA.

In June, the ruble/euro official exchange rate fell from 29.3254 rubles/euro to 31.0792 rubles/euro, i.e. by 6.18% over the month. According to preliminary estimates, in June 2002, the total trading volume on euro made up to about 3.7 billion rubles.

FIGURE 10.

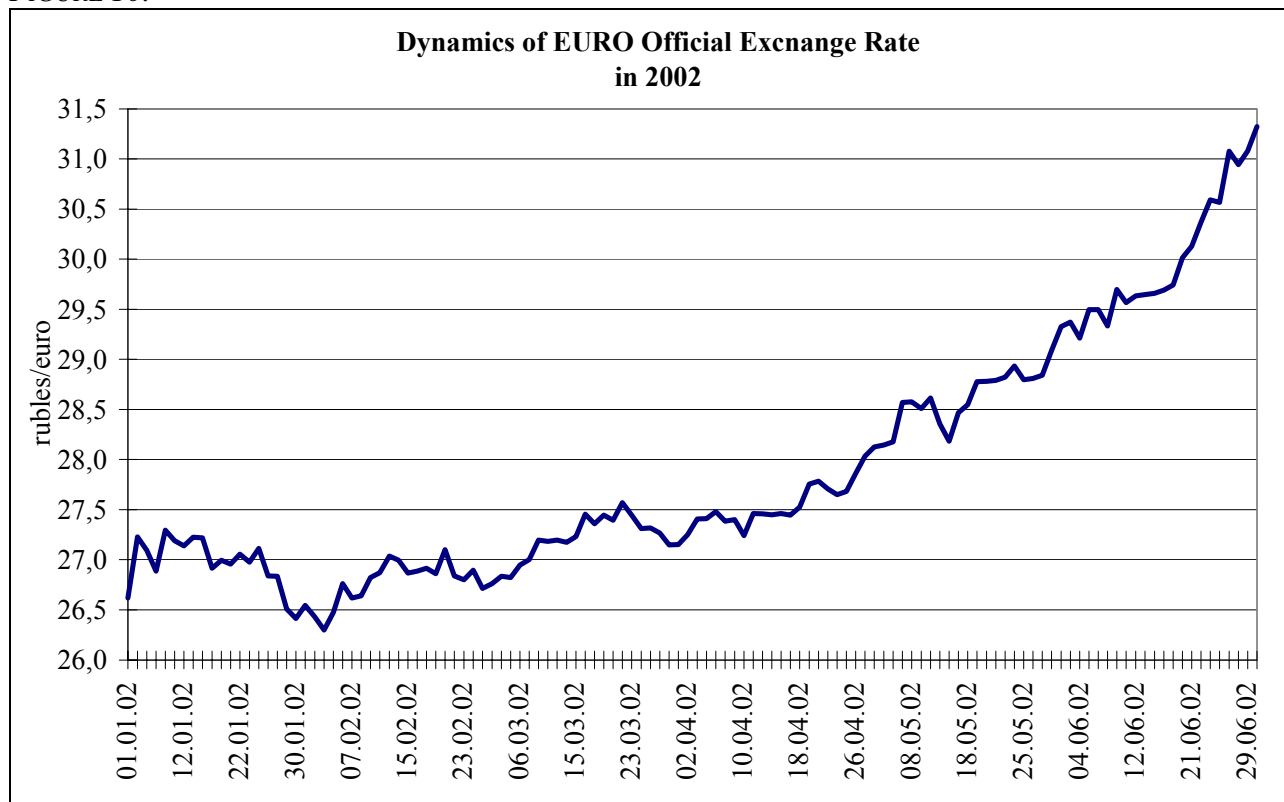


TABLE 2. INDICATORS OF FINANCIAL MARKETS.

	February	March	April	May	June*
Inflation rate (monthly)	1.2%	1.1%	1.2%	1.7%	1.1%
Annualised inflation rate by the month's tendency	15.39%	14.03%	15.39%	22.42%	14%
The RCB refinancing rate	25%	25%	23%	23%	23%
Annualised yield to maturity on OFZ issues	13.84%	15.80%	16.64%	15.61%	15%
Volume of trading in the secondary GKO-OFZ market a month (billion roubles)	6.11	4.78	11.33	14.98	13
Yield to maturity on Minfin bonds by the end of the month (% a year):					
4th tranche	5.97%	6.86%	6.19%	6.05%	6.6%
5th tranche	9.35%	10.13%	9.88%	9.77%	10.5%
6th tranche	8.96%	9.65%	8.80%	9.02%	10.1%
7th tranche	9.16%	10.23%	10.26%	10.11%	10.5%
8th tranche	8.75%	9.63%	8.92%	9.09%	10%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					
Overnight	39.64%	17.79%	8.86%	4.09%	4.5%
1 week	14.55%	22.84%	12.34%	7.08%	9%
Official exchange rate of ruble per US dollar by the end of the month	30.9404	31.1192	31.1963	31.3071	31.4471

Official exchange rate of ruble per Euro by the end of the month	26.7120	27.1515	28.1453	29.3254	31.0792
Average annualized exchange rate of ruble per US dollar growth	0.83%	0.58%	0.25%	0.36%	0.45%
Average annualized exchange rate of ruble per euro growth	0.63%	1.65%	3.66%	4.19%	6.81%
volume of trading at the stock market in the RTS for the month (millions of USD)	247.1	426.3	468.9	454.1	344.3
the value of the RTS Index by the end of the month	290.75	350.75	386.10	391.26	353.79
growth in the RTS Index (% a month)	1.12%	20.64%	10.08%	1.34%	-9.58%

* Estimates

S. Drobyshevsky, D. Skripkin

Deposits of Enterprises and Organizations: Dynamics in the 1st quarter of 2002

The total amount of the market of deposits of Russian enterprises and organizations made almost Rub. 270 billion by the beginning of 2002. It increased by almost 22 % over the preceding year. Almost 2/3 of the time deposits of enterprises are forex denominated. In the early 2002, their share made 72 %. The share of Ruble denominated deposits increased from 25 % to 28 % over the year. Alongside with deposits, enterprises also use deposit certificates, however, the total amount of such instruments makes less than 10 % of the amount of time deposits, therefore, deposit certificates are not included in this survey.

The share of non-resident enterprises in the total amount of deposits of enterprises is less than 10 %, therefore, only deposits of resident enterprises and organizations are included in the survey.

In the early 2002, the total amount of deposits of resident enterprises and organizations made almost Rub. 100 billion⁵, including Rub. 25 billion worth of deposit certificates. In the 1st quarter of 2002, there was observed a decrease in the amount of deposits of resident enterprises and organizations across all functioning Russia's banks (excluding Sberbank) from Rub. 227.3 to Rub. 216.4 billion (without deposit certificates). At the same time, the amount of Ruble denominated deposits decreased more than the forex component (Ruble denominated deposits decreased by 8.5 % as compared with the 4 % decline in forex denominated deposits).

Similarly to 2001, in the early 2002 only slightly more than half of the banks attracted deposits of enterprises and organizations. In the early 2002, the shares of two leaders – Surgutneftegazbank and the Moscow International Bank (MIB) made 20.3 % and 17.4 % of the total amount of deposits respectively. Sberbank accounted for 6.8 %. Therefore, the share of three leaders made 44.5 % of the market, while 10 largest market participants accounted for 64.4 % of the total amount of deposits. According to the data of the 1st quarter of 2002, Surgutneftegazbank and MIB exchanged their rankings. However, the rankings of banks leading in terms of forex denominated deposits remained the same, although their shares in this segment of banking services slightly increased (29.2 % and 22.1 %).

The market of Ruble denominated deposits, similarly to the forex denominated deposits, still orients towards short term deposits. According to the data pertaining to the beginning of the year, the deposits for less than 3 months accounted for the major part of the market (see Tables 1 and 2). For instance, the share of up to 3 months Ruble denominated deposits of an average Russian bank made 40 %, while forex denominated deposits termed less than 3 months made 44.4 %. In the 1st quarter of 2002, the share of Ruble denominated deposits termed more than a year significantly increased – from 28.5 % to 34.1 % (growth by 19.6 %).

The increase in the share of long term deposits in the 1st quarter of 2002 occurred at the background of a significant decrease in the share of Ruble denominated funds attracted for up to 3 months: the share of these deposits in the total amount of funds deposited by resident enterprises with an average Russian bank decreased from 40 to 31.5 % by April (see Table 1).

In the 1st quarter of 2002, similar changes were observed in the time structure of forex denominated deposits (see Table 2). The share of funds attracted for time less than 3 months decreased from 44.4 % to 32 %, while the share of forex denominated deposits termed for a longer time increased from 20.9 % to 29.9 %.

⁵ Here and below without banks under ARCO management and Vneshekonombank.

The shift towards longer terms occurred primarily due to the changes in the policies pursued by Moscow based banks. As Tables 3 and 4 demonstrate, longer terms of Ruble denominated deposits are more typical for regional banks, and the share of Ruble denominated deposits termed more than one year did not change significantly over the observed period (35.1 % in the beginning of the year and 35.7 % by the end of the 1st quarter). The share of deposits termed less than 3 months decreased, while the share of deposits termed 6 to 12 months increased simultaneously. While for regional banks the decrease in the share of Ruble denominated deposits termed less than 3 months in the total amount of deposits in the 1st quarter made 15 %, in the average Moscow bank this share decreased by ¼ (from 51.4 % to 38.5 %). Even more clear differences between regional and Moscow based banks may be observed in terms of the structure of forex denominated deposits. While in the average regional bank the share of forex denominated 3 months decreased only by 2 %, in the average Moscow based bank this share declined by more than 40 %.

Yet another typical difference of bank groups formed by the territorial principle is the domination of short term deposits (up to 3 months) in the structure of forex denominated deposits of regional banks – by the beginning of April their share made 79.3 % as compared to 12.1 % in the average Moscow based bank. As concerns long term forex denominated deposits, the proportion is reverse. While the average Moscow bank demonstrates the maximal share of forex denominated deposits termed more than a year (38.9 %), in regional banks this indicator makes only 8.6 %. However, this time structure of forex denominated deposits with regional banks was formed due to the influence of one bank – Surgutneftegazbank, which attracted more than 90 % of forex denominated deposits for up to 3 months. Therefore, the present time structure on the regional market of forex denominated deposits can not be reviewed as a trend.

Thus, the general situation on the market of deposits of enterprises and organizations by the end of the 1st quarter was as follows: the most popular term of Ruble denominated deposits with Moscow based banks was up to 3 months; however, the share of such deposits fell from 51.4 % to 38.5 % over this quarter. The share of similar deposits with regional banks also declined, however, the share of deposits termed 6 to 12 months increased.

Table 1

**Time structure of Ruble denominated deposits of enterprises as on January 1, 2002 and March 1, 2002
(in %, without deposit certificates).**

Deposits of resident enterprises:	Banks attracting deposits of enterprises		
	01.02		04.02
	All functioning banks	All functioning banks without Sberbank	All functioning banks without Sberbank
Demand deposits	2.7	2.6	2.2
Up to 90 days	40.2	40.0	31.5
91 to 180 days	14.6	14.1	13.8
181 days to 1 year	15.0	14.8	18.4
More than 1 year, of which	27.5	28.5	34.1
Over 3 years	14.6	15.4	19.0
<i>Memorandum:</i>			
Average amount of assets, (current prices, Rb. bln)	3416	2450	2711
Number of banks	797	796	734

Note: Estimated on the basis of data provided by STiK

* values at the beginning of a month for banks attracting deposits of resident enterprises and organizations

Table 2.

Time structure of forex denominated deposits of enterprises as on January 1, 2002 and March 1, 2002
(in %, without deposit certificates).

Deposits of resident enterprises:	Banks attracting deposits of enterprises		
	01.02		04.02
	All functioning banks	All functioning banks without Sberbank	All functioning banks without Sberbank
Demand deposits	0.7	0.7	2.2
Up to 90 days	43.3	44.4	32.0
91 to 180 days	5.6	4.4	6.6
181 days to 1 year	29.6	29.6	29.3
More than 1 year, of which	20.8	20.9	29.9
Over 3 years	9.2	9.9	10.6
<i>Memorandum:</i>			
Average amount of assets, (current prices, Rb. bln)	10301	6971	6963
Number of banks	230	229	233

Note: Estimated on the basis of data provided by STIiK

* values at the beginning of a month for banks attracting deposits of resident enterprises and organizations

Table 3.

Time structure of Ruble denominated deposits of enterprises as on January 1, 2002 and March 1, 2002
(in %, without deposit certificates).

Deposits of resident enterprises:	01.02		04.02	
	Moscow and Moscow oblast banks	Regional banks	Moscow and Moscow oblast banks	Regional banks
Demand deposits	3.8	1.0	2.5	1.6
Up to 90 days	51.4	24.0	38.5	20.4
91 to 180 days	11.1	18.2	11.8	17.1
181 days to 1 year	10.0	21.7	14.1	25.2
More than 1 year, of which	23.7	35.1	33.1	35.7
Over 3 years	16.3	14.2	20.6	16.5
<i>Memorandum:</i>				
Average amount of assets, (current prices, Rb. bln)	4430	1025	4791	1113
Number of banks	333	463	319	415

Note: Estimated on the basis of data provided by STIiK

* values at the beginning of a month for banks attracting deposits of resident enterprises and organizations

Table 4.

Time structure of forex denominated deposits of enterprises as on January 1, 2002 and March 1, 2002
(in %, without deposit certificates).

Deposits of resident enterprises:	01.02		04.02	
	Moscow and Moscow oblast banks	Regional banks	Moscow and Moscow oblast banks	Regional banks
Demand deposits	1.1	0.0	3.1	0.0
Up to 90 days	20.7	81.0	12.1	79.3
91 to 180 days	5.6	2.4	8.5	2.2
181 days to 1 year	41.9	10.7	37.4	9.9
More than 1 year, of which	30.7	5.9	38.9	8.6
Over 3 years	15.6	1.2	14.3	1.7
<i>Memorandum:</i>				
Average amount of assets, (current prices, Rb. bln)	10038	3153	10047	3071
Number of banks	127	102	130	103

Note: Estimated on the basis of data provided by STiK

* values at the beginning of a month for banks attracting deposits of resident enterprises and organizations

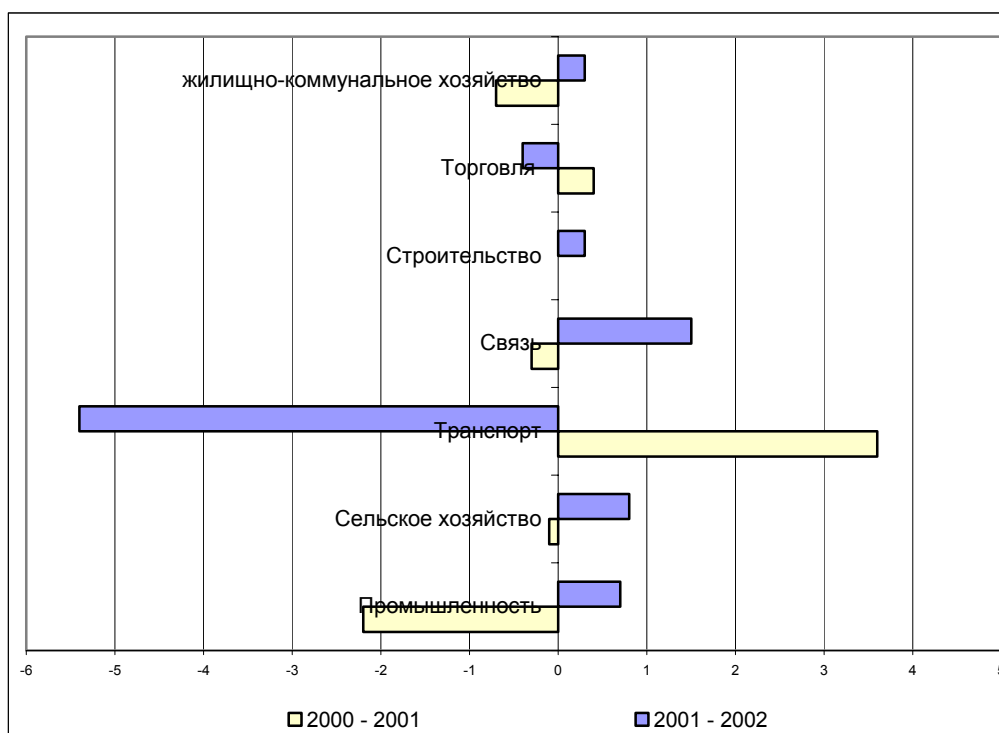
Ye. Marushkina, Ye. Timofeyev

Investment in the real sector

The international ranking agency Fitch has increased the long term forex ranking of the RF and the ranking of Russian Eurobonds to BB- (from B+). The ranking agency Fitch has stated that the increase in payments relating to the sovereign debt in 2003 does not present a serious problem, even if oil prices fall significantly.

In January through May of 2002, the amount of investment in fixed assets from all sources of financing made Rub. 468.5, or 101.7 % of the level registered in the respective period of the previous year.

FIGURE 1. CHANGES IN THE STRUCTURE OF INVESTMENT IN FIXED ASSETS ACROSS THE SECTORS OF THE ECONOMY IN THE 1ST QUARTER OF 2000 THROUGH 2002, IN % OF THE RESPECTIVE QUARTER OF THE PRECEDING YEAR



The major factor constraining investment activity was a trend towards a decline in internal sources of investment resources of the real sector of the economy related to a decrease in profitability observed since the 4th quarter of 2001. Besides, the changes in the taxation of profits, and the abolishment of privileges relating to a considerable number of spheres of investment activities were also among the factors affecting investment activity.

The lesser intensity of investment inflows in the real sector of the economy in 2002 was observed at the background of changes in the sectoral structure of investment. The share of investment in fixed assets of manufacturing industries increased from 52.4 % in 2001 to 54.1 %. The changes in proportions of investment across the sectors of the economy was practically completely determined by a considerable decrease of investment in transport.

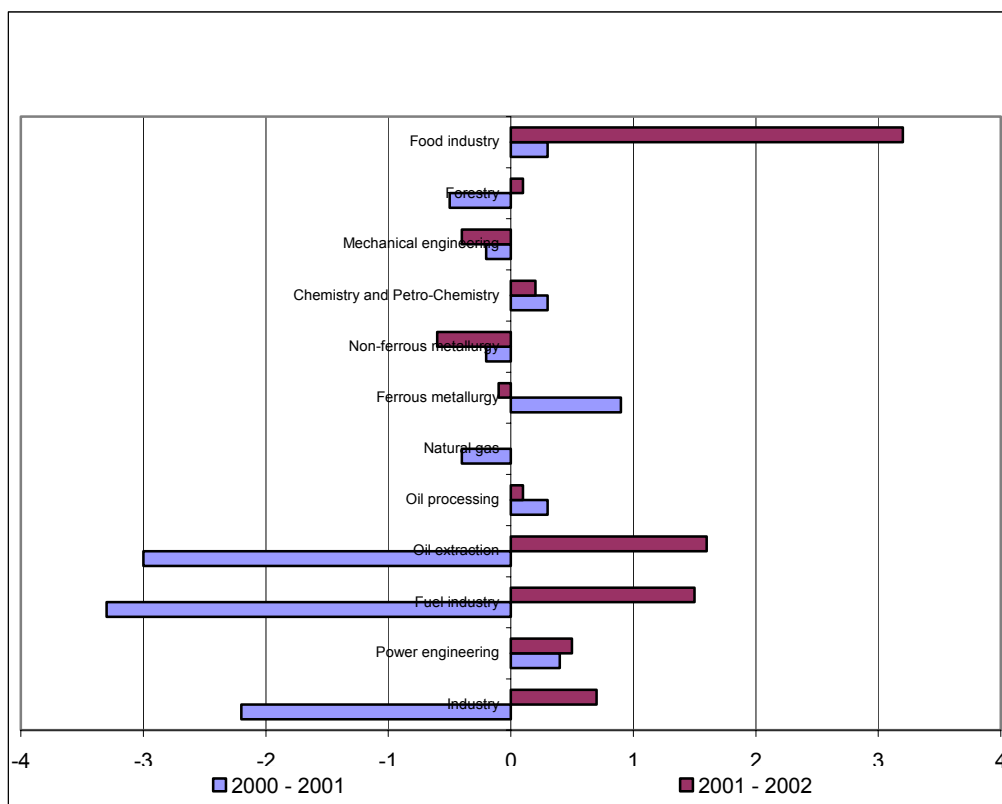
In 2002, investment in industry and communications grew at outpacing rates. The change in the structure of investment across industries was characterized by an increase in the share of the fuel complex and food industry.

In spite of an increase in the share of oil extracting industry in the total amount of investment in the economy from 16.2 % in the 1st quarter of 2001 to 17.8 % in the respective period of this year, the industry demonstrated deteriorating indicators of the reproduction of fixed capital. In January through April of 2002, the commissioning of drilling wells decreased by 2.1 %, production drilling contracted by 15.9 %, and surveying drilling fell by 35 %.

Taking into account the traditionally high concentration of profits in the export oriented industries of the oil and raw materials sectors and the lack of mechanisms of inter-sectoral flow of capitals, it may be hardly expected that the rate of investment would increase and radical changes would occur in the nature of the reproduction of fixed capital. An analysis reveals that the deficit of capacities is forming in a whole number of industries: oil processing, chemical complex, ferrous and non-ferrous metallurgy, and mechanical engineering.

FIGURE

CHANGES IN THE STRUCTURE OF INVESTMENT ACROSS INDUSTRIES IN THE 1ST QUARTER OF 2000 THROUGH 2002, IN % OF THE RESPECTIVE QUARTER OF THE PRECEDING YEAR



As the rate of growth in output and profits of enterprises decelerated, there were observed changes in the structure of the sources of financing of investment. The share of internal funds of enterprises allocated for the financing of investment decreased by 4 p. p. in comparison with the figures registered in the 1st quarter of

2001. The decrease of the share of bank credits and other borrowings in the structure of borrowed funds persists. In the situation, where the internal funds in the real sector of the economy are limited and it is impossible to borrow funds for a long term, the Russia's economy reproduces the conditions provoking the shrinking of internal investment demand.

Table

**Structure of investment in fixed assets across sources of financing,
in % of the result of the quarter of the respective year**

	1 st quarter		
	2000	2001	2002
Investment in fixed assets	100	100	100
Including			
Internal funds	57,0	49,6	53,6
Of which:			
Profits at the disposal of organizations	18,3	23,5	21,4
Amortization	18,2	21,8	27,3
Borrowed funds	43,0	50,4	46,4
Of which:			
Bank credits	5,8	4,4	3,8
Borrowings from other organizations	7,8	6,2	4,0
Budgetary means	18,6	18,8	18,1
Including:			
Federal budget	4,5	4,3	3,7
Budgets of RF subjects	13,2	13,4	13,1
Extra-budgetary funds	2,8	4,9	1,9

Source: RF Goskomstat

O. Izryadnova

Foreign investment in the Russia's economy

As of April 1, 2002, the accumulated foreign capital in the Russia's economy, including the investment from CIS member countries, made US \$ 34.44 billion.

The total amount of foreign investment in the non-financial sector of the Russian economy (not taking into account the monetary and credit regulating authorities, commercial and savings banks, and including Ruble denominated investment in US \$ equivalent made US \$ 3789 million in the 1st quarter of 2002, what was by 39.4 per cent more than in the respective period of the preceding year. In spite of a considerable inflow of foreign investment in January through March, this year is characterized by an increase in export of capital as compared with the respective period of the last year:

	1 st quarter, US \$ mil. (as of April 1)				Change in comparison with the respective period of the preceding year		
	1999	2000	2001	2002	2000	2001	2002
Investment accumulated by the beginning of the period	35 338	29 253	32 005	35 624	-17,2%	9,4%	11,3%
Investment received over the period	1 556	2 445	2 718	3 789	57,1%	11,2%	39,4%
Investment accumulated by the end of the period	26 019	27 672	31 893	34 436	6,4%	15,3%	8,0%
Total withdrawal (repayment) of investment over the period	10 875	4 026	2 830	4 977	-63,0%	-29,7%	75,9%

Source: RF Goskomstat

The growth in the amounts of exported capitals is related, first of all, to the increase in the amount of other investment, which are mainly formed at the expense of credits received from not direct investors, observed in the previous years. For instance, in the 1st quarter of 2002, the amount of "other" investment also grew more

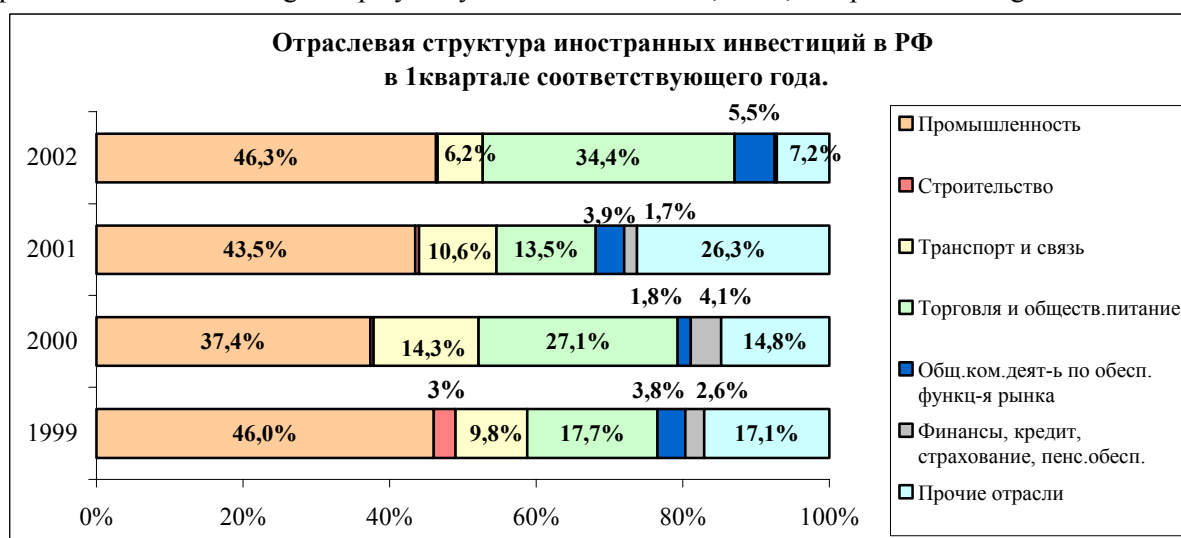
than direct and portfolio investment in absolute terms (by US \$ 1.16 billion as compared with the figures registered in the 1st quarter of 2001).

In comparison with the preceding year, the structure of foreign investment in the 1st quarter of 2002 changed: the specific weight of direct investment declined, while the share of “other” investment grew:

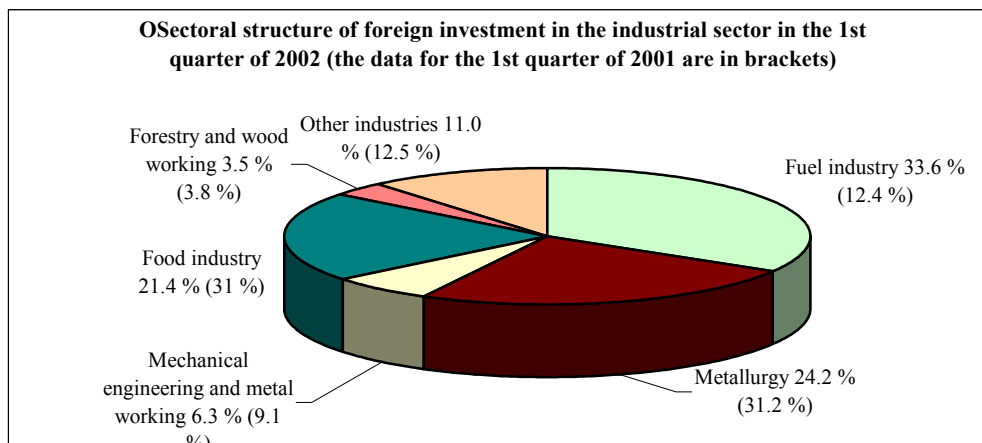
	1 st quarter			
	Total	Direct	Portfolio	Other
US \$ mil.				
1999	1556	600	3	953
2000	2446	853	8	1585
2001	2718	962	45	1711
2002	3789	829	88	2872
In % of the total				
1999	100%	38,6%	0,2%	61,2%
2000	100%	34,9%	0,3%	64,8%
2001	100%	35,4%	1,7%	63,0%
2002	100%	21,9%	2,3%	75,8%
In % of the respective period of the preceding year				
1999	-60,8%	-17,4%	-80,0%	-70,5%
2000	57,2%	42,2%	166,7%	66,3%
2001	11,1%	12,8%	462,5%	7,9%
2002	39,4%	-13,8%	95,6%	67,9%

The negative development in the investment sphere was the fact that the amount of direct investment fell for the third quarter running. For instance, in the 3rd and 4th quarters of 2001, as compared with respective periods of 2000, these amounts declined by 70 and 16.9 % respectively. In the 1st quarter of 2002, this indicator made –13.8 %. The positive fact is that the rates of decrease in direct investment in the Russia’s economy decelerate.

This year, the sectoral structure of foreign investment in the Russia’s economy is characterized by the persistence of the leading role played by the industrial sector, trade, and public catering.



The amount of foreign investment in industry in the 1st quarter of 2002 made US \$ 1755 mil., what is by 48.5 % above the level registered in January through March of 2001. At the same time, investment in fuel industry increased four times and made US \$ 589 mil.

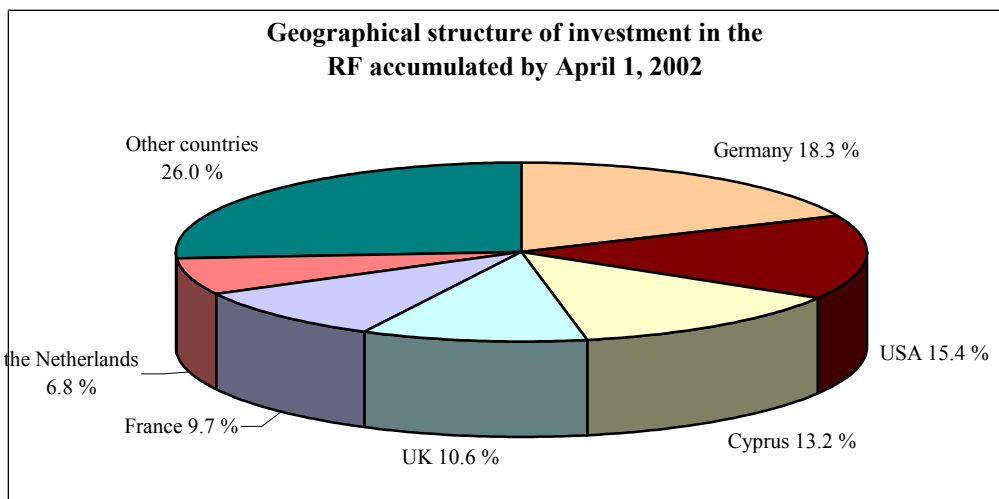


In spite of the decline in the specific weight of a number of industries, the investment in the industrial sector as broken down by industries increased in absolute terms. Foreign investment in metallurgy made US \$ 425 mil. (US \$ 369 mil. in the 1st quarter of 2001), in food industry - US \$ 375 mil. (US \$ 367 mil. in the 1st quarter of 2001), in mechanical engineering and metal working - US \$ 111 mil. (US \$ 108 mil. in the 1st quarter of 2001), in forestry, wood working, and pulp and paper industry – US \$ 62 mil. (US \$ 45 mil. in the 1st quarter of 2001).

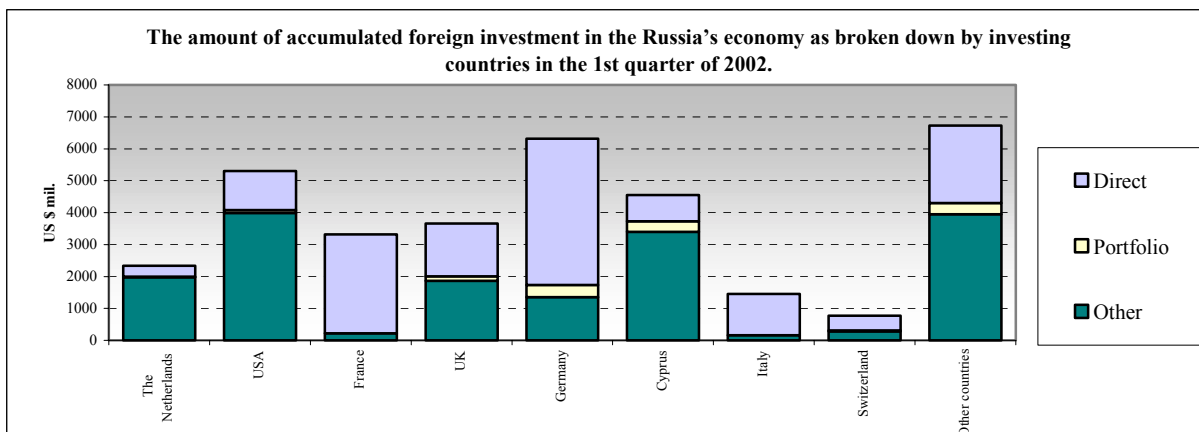
The major part (82.5 %) of foreign direct investment was made in the industrial sector, trade, and public catering. Foreign direct investment in industry made 49.1 % of the total direct investment in the Russia's economy in the 1st quarter of 2002 (40.3 % in the 1st quarter of 2001), in trade and public catering – 33.4 % (24.4 % in the 1st quarter of 2001, 11 % in the 1st quarter of 2000).

Germany (18.9 % of attracted foreign investment in the 1st quarter of 2002), Cyprus (18.4 %), UK and the Netherlands (8.9 % each), USA (8.7 %), and France (8.7 %) were leaders in the geographical structure of foreign investment in the Russia's economy in the 1st quarter of 2002. On the whole, in January through March of 2002, 81 countries invested in Russia (88 countries in the 1st quarter of 2001, 89 countries in the 1st quarter of 2000).

The geographical structure of accumulated foreign capital (as on April 1, 2002) significantly differs from the similar structure of foreign investment in Russia made in January through March of 2002.



Among major countries-investors, UK and the Netherlands demonstrated the largest increase in the amount of accumulated foreign investment (as on April 1, 2002, in comparison with the figures registered on April 1, 2001): +55.9 % and +42.7 % respectively. At the same time, the accumulated investment from UK and the Netherlands decreased by 4 % and 8 % respectively since the beginning of the year. As on April 1st, 2002, investment from the USA decreased the most (-17.7 % in comparison with the figures registered on April 1, 2001, and 05.8 % in comparison with the figures registered in the beginning of 2002).



In the 1st quarter of 2002, capitals from Germany were primarily invested in trade and public catering, where German business persons invested US \$ 515 mil., or 72 % of the aggregate German investment made in January through March of 2002. Investors from USA preferred to make investments in the industrial sector (40 % of investment from USA), the main part of which (63.2 %) was made in mechanical engineering and metal working.

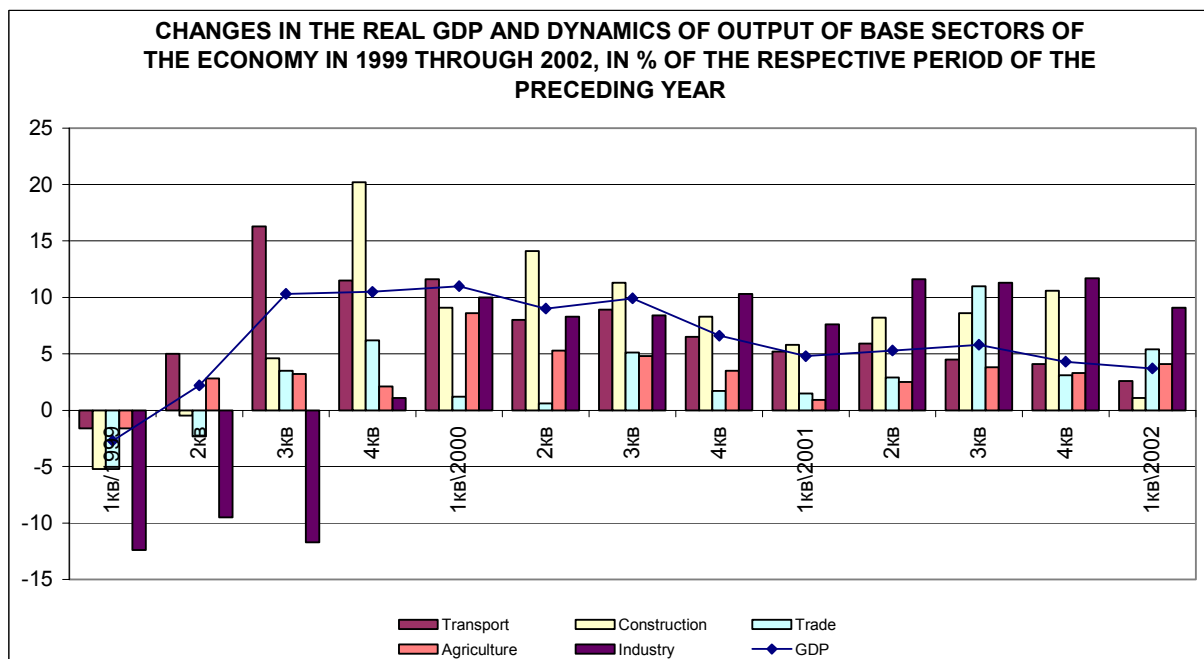
Both the increase in the Russia's credit ranking (the international agency Fitch increased the RF sovereign credit ranking from "stable" to "positive" this spring) and the decision to recognize the market status of the Russia's economy may have a positive effect on the investment climate in the country.

E. Ilyukhina

The real sector of economy: factors and trends

According to the results of planned data revision published by Goskomstat, the amount of GDP in the 1st quarter of 2002 increased by 3.7 % in comparison with the figures registered in the respective period of the preceding year and made Rub. 2265.9 billion in current prices. The stable growth of GDP has been registered since the 2nd quarter of 1999 and is supported by dynamic development of the base economic sectors.

FIGURE



The changes in the external business situation and growth of world prices of hydrocarbon raw materials have positively affected the dynamics of macroeconomic indicators. In January through March of 2002, the increase in output of the base sectors of the economy made 3.6 % as compared to the figures registered in the

respective period of the preceding year. In comparison with January through March of 2001, the industrial output increased by 3.0 %, agriculture – by 4.6 %, construction – by 2.9 %, freight turnover – by 2.1 %.

In contradistinction to 2001, this year the structure of GDP utilization was significantly affected by outpacing rates of growth in consumer demand in comparison with investment demand. In January through May, the turnover of retail trade increased by 9.2 %, while investment in fixed assets grew by 1.7 %. The consumer demand was expanding at the background of low inflation rates. The consumer price index made 108.4 % in comparison with the figures registered in December of 2001, as compared with 110.9 % in the respective period of the preceding year. Over five months, the rate of increase in prices across all types of services (118.4 %) is higher than the consumer price index. Since the gap in the dynamics of prices of goods and services still exists, taking into account the 20 % increase in tariffs on natural gas planned for June, it may be expected that this trend will persist.

This May, inflation rates in the sector of non-food goods remained in the interval of the averages registered in the 4th quarter of 2001 and in January through April of 2002. A certain acceleration of rates of growth in prices of non-food goods was caused by an increase in gasoline prices and the seasonal increase in prices of construction materials. At the same time, there was registered the minimal rise in prices of paid services in 2000 through 2001. The factor behind this development was the deceleration of rates of growth in prices of services of the housing and public utilities down to 1 %. Tariffs on other regulated services also grew more slowly than the average level: communications and public conveyance went up by only 0.6 %.

In January through May of 2002, the increase in real disposable incomes made 8.7 %, while real wages and salaries grew by 18.5 %. The outpacing growth of wages, salaries, and other fixed payments, which form household incomes for less well-to-do strata and groups of the populace, as compared with the dynamics of real incomes, facilitates a decrease in the social and economic differentiation of the society. At the same time, the influence of factors providing for the outpacing dynamics of retail trade turnover in comparison with real disposable cash household incomes gradually wears out and the respective rates of growth of these two indicators become more even. This May, retail trade turnover decreased by 2.2 %, while the real disposable household incomes fell by 15.1 %.

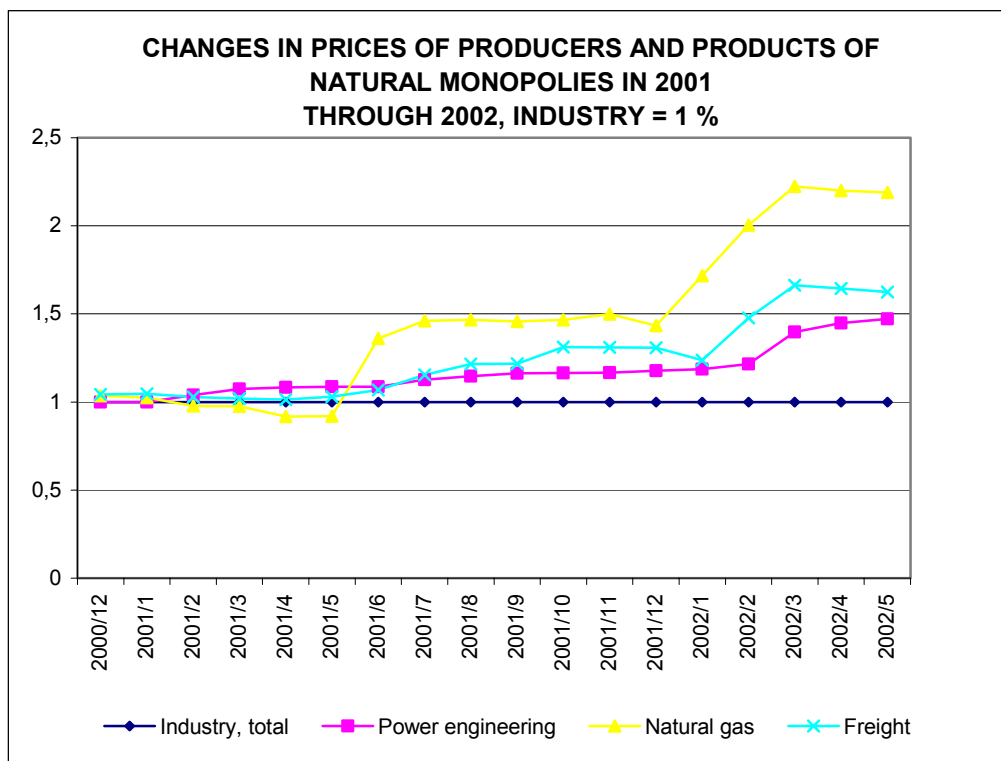
In January through May of 2002, the persistence of positive dynamics of industrial output was supported by increase in output across practically all industries. The accumulated potential of growth in the export oriented sector of the economy compensated for the slowdown in the rates of growth of final demand goods. The increase in production of the export oriented sector in January through May made 6.6 %, including 5.6 % in fuel industry and 9.1 % in non-ferrous metallurgy. The situation on the domestic market is formed at the background of outpacing rates of growth in production of intermediate goods in comparison with final demand goods. While industrial output increased by 3.0 % in comparison with the figures registered in January through May of 2001, the growth in output of the investment complex made 1.0 %, and the industries of the consumer complex showed a 5.6 % increase.

The current shift from external factors of economic growth to internal ones causes many problems, since the capacity to maintain sustainable growth in the framework of the existing structure of production is close to exhaustion. The situation is aggravated by the fact that the trend to a deceleration of rates of growth of production in mechanical engineering, light, and food industry occurs at the background of gradual Ruble appreciation, what generates an expansion in the share of imports in the formation of resources of the investment and consumer markets. As compared with the 1st quarter of 2001, the share of imports in the formation of commodity resources of trade with non-food goods increased by 8 p. p. The share of investment in purchase of imported equipment made 22.7 % of the total amount of investment in the active part of fixed assets at the background of outpacing rates of growth in imports in comparison with domestic production.

In April through May of 2002, after a prolonged period, when the trend towards lower inflation rates dominated, there was registered a hike in producers' prices. It shall be stressed that this development was a natural result of the increase in tariffs and prices of natural monopolies. The rise in producers' prices made 2.2 % in April and 2.5 % in May. The relative change in price proportions was also caused by a significant rise in prices of products of fuel industry (by 8.0 % this May). The increase in prices of fuel products was both aimed to equalize domestic and external prices in relation to the changes in the external business situation, and related to the growing demand for gasoline on the domestic market. Besides, in May there became noticeable the delayed effect of the increase in prices on the wholesale electric energy market by 20 % on costs. The fuel and energy intensive industries reacted to this development most sharply. The prices in non-ferrous metallurgy increased by 19.0 % since the beginning of the year (as compared with a 3.9 % decrease in prices observed in the respective period of 2001).

As a result, in January through April the balanced financial result of large and medium sized organizations across all sectors of the economy decreased by 42.9 % (in industry – by 50.3 %) in comparison with the level registered in the respective period of the preceding year. The factors behind the decreasing profitability of industry were the diminishing profitability of export operations, growing production costs caused by outpacing rates of growth in costs of fuels, electric power, and wages. The practice reveals that inflation surges related to consumer goods inevitably result in increases in producers' prices, while in the present situation this development coincides with the preceding inflation wave generated by the dynamics of prices and tariffs of natural monopolies, what may result in a further transformation of price proportions. In this situation, the level of business activity will depend on the higher rates of utilization of competitive capacities and efficient management of stocks. However, evaluating the short term perspectives of development, it is necessary to take in account the fact that in May there was registered an increase in demand for investment in fixed assets by 16.5 %, while the output of mechanical engineering grew by 15 % (in comparison with respective figures registered in April). In the industrial sector, the normalization of the structure of payments continued, the share of money in the payments for goods grew, and the amount of outstanding debts of enterprises and organizations decreased. Therefore, it may be concluded that the accumulated potential allows to rather flexibly deal with short term development problems. However, the estimate for the whole year shall take into account the fact that deteriorating financial standing of enterprises in the situation of increasing inflation will result in contraction of business and investment activity.

FIGURE



O. Izryadnova

Oil and Natural Gas Sector

In the first half-year of 2002, the development of oil and natural gas sector was characterized by the persistence of the trend towards increasing production of oil and oil products formed in 2000 through 2001. In January through March, the total volume of oil output increased by 8.4 % in comparison with the figures registered in the respective period of the preceding year, while the output of primary processed oil increased by 1.1 %. For the first time in the last years, there was registered an increase in extraction of natural gas (see

Table 1). At the same time, due to a certain surplus of oil output and decreasing world oil prices (in the 4th quarter of 2001 and in January through March of 2002, the average world price of Russian oil was at US \$ 18 to 19 per barrel), there was observed a significant dip in investment activity: in January through April of 2002, the volume of production drilling fell by 15.9 % as compared with the respective period of the preceding year, while surveying drilling decreased by 35.3 %. The commissioning of new oil wells was down by 2.1 %. The specific weight of idle wells in the total number of oil wells fell somewhat and made 22.2 % (it was 22.6 % as on May 1, 2001). The degree of processing of oil in the oil processing industry decreased from 69.9 % in January through April of 2001 to 68.5 % in the respective period of this year. The share of high octane gasoline in the total amount of motor gasoline increased from 42.8 % in January through April of 2001 to 45.8 % this year.

Table 1

Oil, oil products, and natural gas output, in % of the respective period of the preceding year				
	1999	2000	2001	2002 January – March
Oil	100,3	105,9	107,7	108,4
Gas condensate	104,7	103,8	106,7	111,1
Primary oil processing	102,9	102,7	103,2	101,1
Motor gasoline	102,2	103,6	100,6	98,2
Diesel fuel	104,2	104,9	102,0	102,4
Furnace fuel oil	94,8	98,3	104,2	104,6
Natural gas, cub. m. billion	99,7	98,5	99,2	102,5
Oil gas, cub. m. billion	103,2	102,5	105,0	104,5

Source: RF Goskomstat.

A rapid growth of oil extraction in the situation of limited domestic demand resulted in a certain surplus output of oil in the country. As a result, in 2001 and early 2002 there was observed a significant decrease in domestic prices of oil and oil products, both in real and nominal terms. Domestic oil prices in dollar terms decreased from US \$ 56 to 58 per metric ton in early 2001 to US \$ 39.4 per metric ton this March. Gasoline price, which reached the peak (US \$ 200 per metric ton) in the 4th quarter of 2000, demonstrated a clear downward trend over the whole last year and made only US \$ 109.9 per metric ton in April. As a result, the domestic gasoline price was almost 35 % below the pre-devaluation level. However, in the last months, the dynamics of domestic prices of oil and oil products changed under the influence of increasing production costs and growing world prices. Since April, there has been registered an increase in domestic oil prices (both in Ruble and US \$ terms), since May, there was observed also a growth in the price of motor gasoline. In the last few months, prices of natural gas were practically at the pre-devaluation level (see Table 2).

Table 2

Domestic oil, oil products, and natural gas prices (in US \$) in 1999 through 2002 (average wholesale prices of enterprises, US \$ / metric ton)

	1999 Dec.	2000 Dec.	2001 Dec.	2002 Jan.	2002 Feb.	2002 March	2002 April	2002 May
Oil	37,0	54,9	49,9	47,4	40,2	39,4	40,7	42,7
Motor gasoline	171,9	199,3	151,5	139,2	122,7	113,2	109,9	133,3
Diesel fuel	125,0	185,0	158,5	135,1	123,3	119,3	126,9	154,0
Furnace fuel oil	46,1	79,7	47,1	39,3	33,3	33,8	37,1	60,7
Gas, US \$ / thos. c. m.	2,2	3,1	4,8	5,7	6,5	6,3	6,5	6,4

Source: calculated on the basis of RF Goskomstat data.

In the 1st quarter of 2002, the oil exports were limited due to Russia's obligations to decrease oil supplies on the world market in order to support the OPEC measures aimed at the restoration of a world oil price level acceptable for oil producing countries. At the same time, oil exports increased by 16.0 % and export of oil products grew by 10.7 % in comparison with the figures registered in the 1st quarter of 2001 (see Table 3 and Fig. 1). In the 1st quarter, the share of exports in commodity resources of diesel fuel made 53.9 %, furnace fuel oil – 36.9 %, motor gasoline – 10.9 %. However, the growth of exports in physical terms could not compensate for the decline in world oil prices. In the 1st quarter of 2002, the aggregate value of export of oil and base oil products made US \$ 6.91 billion, what was by 13.5 % below the level registered in the 1st

quarter of the preceding year. At the same time, there was registered a decline in natural gas exports to CIS countries. The import of oil products also significantly contracted. For instance, in the 1st quarter of 2002, imports of motor gasoline made only 18.9 % of the level registered in the respective period of the preceding year, while the specific weight of imports in the gasoline resources fell from 0.6 % in the 1st quarter of 2001 to 0.1 % this year.

Table 3

Export of oil, oil products, and natural gas from Russia, in % of the respective period of the preceding year

	2000 January - March	2001 January - March	2002 January - March
Oil, total	103,3	106,5	116,0
including:			
Export to non-CIS countries	110,5	104,9	106,3
Export to CIS countries	66,9	120,0	186,2
Oil products, total	87,4	102,9	110,7
Including:			
Export to non-CIS countries	87,3	103,7	112,4
Export to CIS countries	88,5	89,6	80,9
Natural gas, total	110,6	83,2	97,8

Source: RF Goskomstat.

Since January 1, 2002, OPEC member countries and some countries outside this organization have started to limit oil extraction and exports, what resulted in a growth in world oil prices in the 1st quarter of 2002. In March, world oil prices were at US \$ 22 to 24 per barrel, and in the 2nd quarter stabilized at US \$ 24 to 25 per barrel. (see Table 4).

Table 4

World oil prices in 1999 through 2002, US \$ per barrel Мировые цены на нефть в 1999-2002 гг., долл./барр.

	1999	2000	2001	2001 4 quart	2002 Jan.	2002 Feb.	2002 March	2002 April
Brent, UK	17,97	28,50	24,44	19,42	19,48	20,22	23,73	25,66
Urals, Russia	17,30	26,63	22,97	18,78	18,36	18,87	22,07	23,92
OPEC oil basket	17,47	27,60	23,12	18,33	18,39	18,96	22,60	24,68

Source: OECD International Energy Agency.

At the OPEC conference of June 26, 2002, the member countries decided to maintain oil quotas introduced on January 1, 2002, in the 3rd quarter. Both this decision of OPEC and recovery observed in large industrially developed economies allow to expect that oil prices will remain at a rather high level in the short term. According to the last forecast (June, 2002) of the US Department of Energy, world oil prices defined as the average US oil import price will make about US \$ 25.5 per barrel in the second half of 2002, and US \$ 26.5 per barrel in 2003 (see Table 5). In the case this forecast is correct, it would mean the persistence of rather favorable external conditions for the Russia's oil industry and the national economy on the whole.

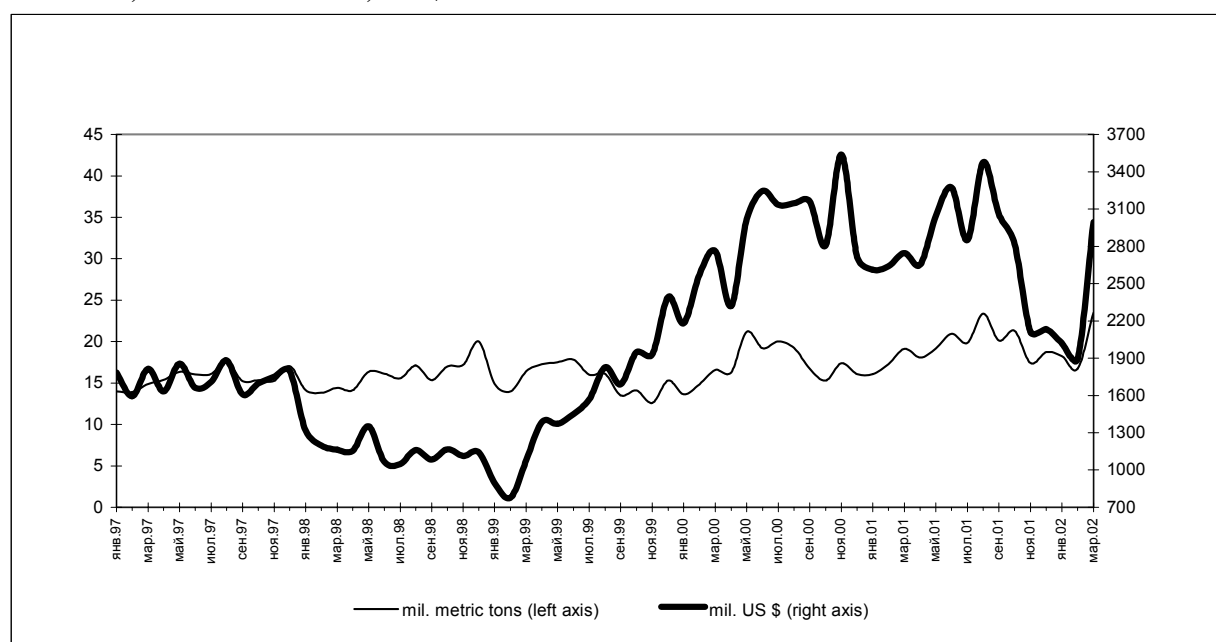
Table 5

World oil prices in 1999 through 2003

	1999	2000	2001	2002 (estimate)	2003 (estimate)
US import oil price, US \$ / barrel	17,22	27,72	22,02	23,66	26,47

Source: U.S. Department of Energy/Energy Information Administration.

FIG. 1. EXPORT OF OIL AND OIL PRODUCTS IN PHYSICAL AND VALUE TERMS IN 1997 THROUGH 2002, MIL. METRIC TONS, US \$.



Source: calculated on the base of RF Goskomstat data.

Yu. Bobylev

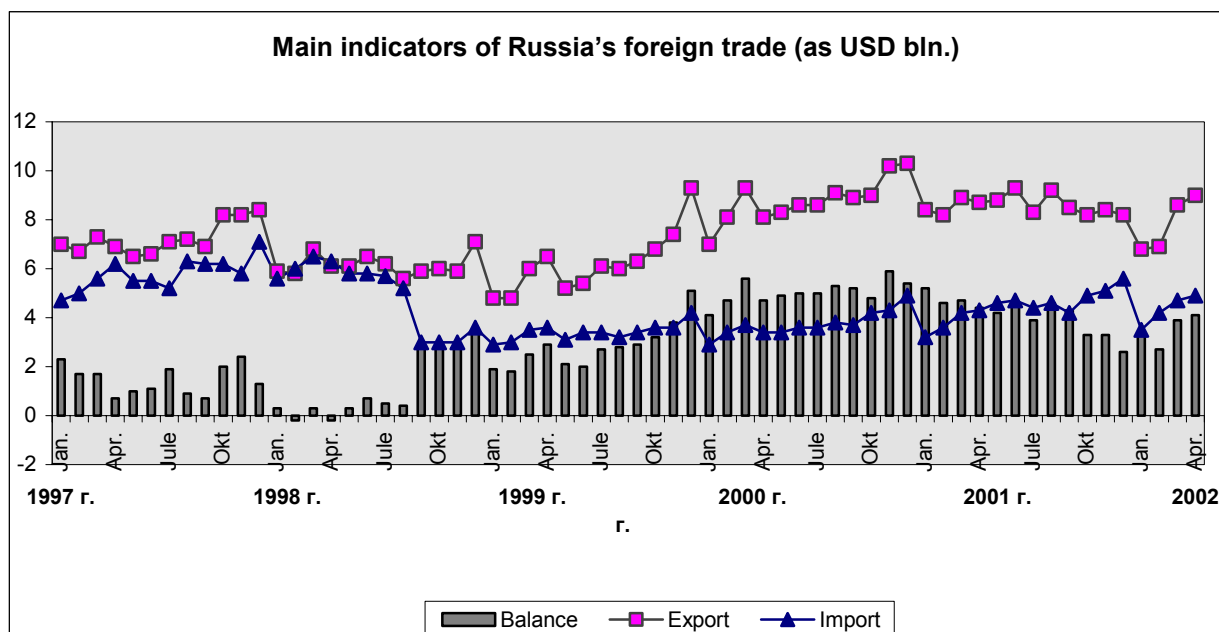
Foreign trade.

In April of 2002, the Russia's foreign trade turnover increased by 8.2 % (including exports - by 5.8 % and imports - by 13 %). In April, the amount of exports made US \$ 9.0 billion, what is the maximum value registered over the last 9 months. The key factors behind the increase in the export of goods were the gradual recovery of the world economic situation, especially in USA, and a significant improvement of dynamics of prices of Russia's staple exports, first of all, oil prices.

Although the rates of growth in imports somewhat decelerated in comparison with the figures observed in the last year, they remain rather high. In April, imports made US \$ 4.9 billion (imports from countries outside of CIS made US \$ 3.9 billion). Machinery, equipment, and means of transportation (36.9 %) and foodstuffs (26.9 %) comprise the major part of imports from countries outside of NIS.

As compared with the figures registered this March, the foreign trade turnover in April of 2002 increased by US \$ 611 mil. (4.6 %) at the expense of growth in exports by US \$ 432 mil. (5 %) and in imports by US \$ 179 mil. (3.8 %). As a result of outpacing growth in exports, in April the balance of trade increased by 6.6 % in comparison with the March figures, however, it remains somewhat below the level observed in April of 2001 due to the outpacing annual rate of growth in imports (US \$ 4.1 billion as compared with US \$ 4.2 billion in April of 2001).

In the first two months of 2002, oil prices were rather volatile. However, in March and April the upward trend became stable. Among key factors accounting for a rise in oil prices were OPEC plans to retain restrictions on oil sales in the second quarter at the level set for the preceding quarter, and the fact that other oil extracting countries (including Russia) supported this decision, falling volumes of Iraq oil, and information that stocks of crude oil and oil products in the USA sharply decreased. Besides, the deteriorating political situation in the Middle East, the statement of Iraq about the suspension of oil deliveries for 30 days, and irregular oil supplies from Venezuela also affected oil prices. In April of 2002, the average BRENT price made US \$ 25.7 per barrel, what is by 1.6 % above the price registered in the respective period of the preceding year. World URALS (exchange) prices made US \$ 18.4 per barrel in January, US \$ 18.9 in February, US \$ 22.2 in March, and US \$ 23.9 in April, as compared with US \$ 18.8 in the 4th quarter of 2001.



As compared to January through February, in March and April of 2002 the situation on the world market of ferrous metals was characterized by a certain increase in business activity as the general economic situation improved. In April of 2002, the prices of reinforcing steel and commercial steel remained at the level registered in March, while prices of hot and cold rolled steel in rolls increased (on the average, by 15 % and 10 % respectively). An increase in price was observed on the majority of markets of non-ferrous metals in March, however, in April the prices somewhat decreased. The aluminum and copper prices of the London Metal Exchange decreased by 2.5 % and 0.9 % respectively in comparison with the March figures. However, nickel (an increase by 6.4 %) and tin (an increase by 4.7 %) prices were an exception. A significant rise in nickel prices may be explained mainly by the fact that producers refrained from deliveries at low prices.

Table 1.

The average monthly world prices in April of the respective year

	1996	1997	1998	1999	2000	2001	2002
Oil (Brent), USD / metric ton	155,2	125,38	101,36	114,43	167,2	191,2	187,9
Natural gas, USD / thous. m ³	-	70,2	91,0	78,1	109,0	185,7	121,7
Gasoline, USD / metric ton	252,5	162,4	135,1	139,7	288,5	356,9	290,9
Copper, USD / metric ton	2574,9	2369,7	1775,3	1539,9	1710,1	1689,4	1620,8
Aluminum, USD / metric ton	1590,2	1554,0	1413,5	1318,0	1448,0	1493,7	1370,3
Nickel, USD / metric ton	8053,9	7312,4	5352,5	5239,5	9657,1	6303,1	6940,6

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

As concerns Russia's trade with CIS countries, in April there persisted the trend observed in the first quarter of 2002: imports continued to fall (US \$ 1.03 billion - a decrease by 11.5 % in comparison with the figures registered in the respective period of 2001), while exports grew by 1.4 % and made US \$ 1.26 billion.

The decline in imports is primarily related to the decrease in import of foodstuffs due to the increasing consumption of Russia-made foods. For instance, the import of sugar (90 % of which is imported from CIS member countries) fell by 13.5 %. The total sugar imports in the first 4 months of this year made 103 thousand metric tons at the average price US \$ 374.4 per metric ton, what is US \$ 18.2 less than in the preceding year. Besides, the imports of condensed milk and butter also declined more than 2.5 times, while tea imports fell by more than 30 %.

In June, the Council of the Heads of Customs of the Eurasian Economic Community member countries, held in Brest, discussed the issue of unification of the procedure governing the payment of customs duties and taxes. The RF State Customs Committee had elaborated and presented a special draft of the agreement stipulating that

customs payments relating to the movement of goods under the customs control among the member countries of EvrAzES should be deposited with the respective customs authority, or guaranteed by banks.

Belorussia is planning to introduce a new customs tariff since July 1. Belorussia will introduce unified import tariffs. In fact, it means that in Belorussia there will be in force the same import tariffs, as in Russia. Therefore, according to Russian and Belorussian customs authorities, there will be completed the formation of the common customs space.

At present, in spite of the fact that these two countries signed a special bilateral agreement, there are discrepancies with regard to almost 4 thousand items in imports and more than 1 thousand items in exports.

In June, there were successfully completed certain common activities of the RF State Customs Committee and its Ukrainian partners. The customs authorities reached important agreements in the area of control over the Russia's exports of energy resources and cooperation in the sphere of customs statistics. Thus, at present the discrepancies pertaining to the amount of mutual trade make 5 % on the average, especially significant are discrepancies related to the supplies of ferrous metals, which make over 1/4 of the total Ukrainian exports to Russia.

On June 19 and 20, in Geneva, there was held the 15th meeting of the Working group for Russia's accession to WTO. The parties failed to reach a compromise with regard to telecommunications, financial services (including insurance, banking, services rendered on stock exchanges), energy resources prices, measures of support for agriculture.

Russia refused to increase RAO UES tariffs to the European level and open markets of banking, insurance, and telecommunication services. Russia intends to introduce a transitional period, i.e. it will be ready to open its markets of financial services and telecommunications in 10 years after its accession to WTO. It is quite apparent, that a sharp increase in tariffs on energy resources will very negatively affect the Russia's economy. Besides, the request to open the Russia's financial market, although this measure is much less dangerous, encounters a firm negative response on the part of Russian bankers and insurers.

The EU representatives find Russia's proposals unacceptable, especially those limiting the property of foreign companies to 49 % in the sector of telecommunications and to about 25 % in the sector of insurance and broker services. A similar limitation is expected with regard to the sector of banking services.

Already in July, Russia will ready to present its answers to the questions put forward by the EU at the meeting. At the same time, there shall be held negotiations with USA, Canada, and EU. In September and October, it is planned to conduct consultations pertaining to technical barriers to trade, sanitary and phyto-sanitary standards, agriculture, intellectual property. The results of these negotiations will be used in the process of elaboration of the second version of the report of the Working group for Russia's accession to WTO.

N. Volovik, N. Leonova

On the progress of reforms in June of 2002

In spite of the fact that the government considerably intensified its activity in May, not many significant developments were registered in the sphere of economic reforms. At the same time, the State Duma, where the government was very active at the end of the spring session, was a major newsmaker in this regard.

Among the significant developments, there shall be noted the operative reaction of the government to the Presidential address to the Federal Assembly. In June, the government worked on its action plan (approved in March) in order to adjust it to the President's proposals (in fact, orders). As a result, a number of items was added to the plan.

Among new measures added to the plan, a special attention shall be paid to the elaboration of a law stipulating the list of information the state bodies shall publish under the legal duty. The government has already set up a special working group to elaborate this law. Among other additional measures is the intensification of work on the general principles of local government elaborated in the framework of the Presidential commission for the delimitation of powers among the federal center, RF subjects, and local governments. The Ministry for Economic Development has already started to work on the law on the improvement of control and oversight function of the state.

The elaboration of a law on medical insurance encounters difficulties, since the Ministry for Economic Development, the Finance Ministry, the Labor Ministry, The Ministry for Public Health, Fund of Mandatory Medical Insurance (FMMI), and the Fund of Social Insurance (FSI) can not agree on the concept of the future system of mandatory medical insurance. In the case these agencies fail to reach a consensus, required in the framework of the present administrative system, the law will be delayed again.

The passing of the law on the turnover of farm lands in the third reading on June 26 was a most important economic and political development of the year. The State Duma has made some amendments to the initial version, the most important of which was the ban on the sale of land to foreigners, what was “the prices of the consensus,” necessary to adopt the law.

The government places considerable hopes in the law as concerns the investors, who will be more interested to invest in agriculture and related industries, and the general improvement in business climate on the whole, since the approval of the law, leaving aside its economic content, is even more important as a signal of serious plans of the government to continue reforms.

On June 26, the State Duma passed in the third reading the next law on the pension reform – “On the investment of funds for the financing of the accumulating part of the labor pensions in the Russian Federation,” and in the first reading the law “On principles of technical regulation in the Russian Federation,” which shall considerably decrease the sphere of mandatory certification.

No problems were encountered in the course of passing in the first reading of three laws aimed to reform the railroad transport: “On the railroad transport in the Russian Federation,” “The transport charter of the railroad transport of the Russian Federation,” and “On amendments to the RF federal law ‘On natural monopolies.’”

On June 20, the State Duma passed in the second reading a most complex and controversial law – “On insolvency (bankruptcy).” The third reading planned for June 27 was delayed and there is the risk it will be delayed until the autumn session of the Duma.

Therefore, in June, the State Duma was the main center of reforms, while the government focused on less principal issues (except the amendments to the Governmental action plan, mentioned above). The work on the concept of the migration policy in the Russian Federation, which was planned for this summer, was delayed on the request of one of the chief developers of the concept (the Ministry of Interior), since it needed time to get used to the role of the main ideologist of migration policies after it had been vested with some functions of the former Ministry of Federation Affairs. On June 15, the government issued five resolutions (listed in the governmental action plan) with regard to the single state registry of legal entities, forms of application for the state registration, and other documents necessary for the state registration of legal entities in accordance with the federal law “On registration of legal entities.”

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