

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
June 2003

MONTHLY BULLETIN

Moscow
2003

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On the progress of reforms in May and June of 2003

On June 6, the Ministry of Economic Development submitted to the Government the elaborated draft of the new medium term program of social and economic development for years 2003 through 2005. Although the new draft takes into account the stipulations of the Presidential Address, it does not mention anything concerning the doubling of GDP. Nevertheless, this omission may be justified, since 2010 is far beyond the time horizon of the program. At the same time, the new section "Terms of the implementation of the reform," which is the major novation in comparison with the preceding version, was added to the draft program. The new section sets forth extremely short terms of implementation of a number of key reforms (including the administrative, tax and budgetary, and other reforms), what, according to the authors of the program, is a necessary prerequisite for acceleration of the rates of economic growth. In June, this draft program will most probably be approved by a resolution of the Government of the Russian Federation, however, it is difficult to judge what the final version of the text would be, since, for instance, the preceding version of the draft program submitted by the Ministry for Economic Development in April, was significantly "edited" by the governmental administrative apparatus.

The following of the key avenues of reforms implemented by the Government in May and June may be specifically mentioned.

In the framework of the implemented reform of public service, in May of 2003 the RF President signed the federal law "On the system of public service in the Russian Federation." The law determines the legal and organizational principles of the system of public service in the Russian Federation.

A significant problem encountered by small businesses is the considerable number of different checks and inspections. In May of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the first reading the draft federal law "On amendments to Article 7 of the federal law 'On protection of the rights of legal persons and individual entrepreneurs in the course of state control (supervision),' " presented by the Government of the Russian Federation. According to the bill, it is planned to introduce a moratorium on scheduled inspections of small businesses for the first three years of their operation.

In May of 2003, the Government of the Russian Federation issued its resolution "On the authorized federal executive agency in the sphere of the use of electronic digital signature." In accordance with this resolution, the functions of the authorized federal executive agency in the sphere of the use of electronic digital signature were vested with the Ministry of the Russian Federation for communications and informatization. The approval of this resolution is an important step towards an enhancement of efficiency of functioning of the state administration system.

Development of local government is a pressing problem. A key avenue in this sphere is the formation of the necessary legislative base. In June of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the second reading the draft federal law "On the general principles of organization of local government in the Russian Federation."

One of the most important issues pertaining to the enhancement of efficiency of the state administration system is the division of powers among different levels of government. In June of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the third reading the draft federal law "On the general principles of organization of legislative (representative) and executive bodies of state power in subjects of the Russian Federation."

One of the key avenues of the activities of the Government of the Russian Federation is the continuation of the tax reform.

In June of 2003, the President of the Russian Federation signed the federal law "On amendments to the section two of the Tax Code of the Russian Federation, amendments to some other legislative acts of the Russian Federation, and abolishment of certain legislative acts of the Russian Federation." The bill supplements the Tax Code of the Russian Federation with the article "The system of taxation pertaining to implementation of production sharing agreements."

In June of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the first reading the draft federal law "On amendments to articles 21, 22, 25, 26, 26², and 26³ of the Tax Code of the Russian Federation and some other legislative acts of the Russian Federation on taxes and fees." This draft law envisages the abolishment of excises on natural gas and an increase in the tax rates on extraction of mineral resources in the course of extraction of natural gas, as well as the indexing of the rates of excises.

In June of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the third reading the draft federal law "On amendments to article 21 of the Tax Code of the Russian Federation," which stipulated a reduction of the rates of the value added tax.

One of the most important avenues of the tax reform is the abolishment of the unnecessary and ineffective tax control over expenditures of individuals. In June of 2003, the State Duma of the Federal Assembly of the Russian Federation

passed in the third reading the draft federal law “On the abolishment of provisions of RF legislative acts concerning tax control over expenditures of individuals” submitted to the State Duma by the Government of the Russian Federation.

In June of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the first reading the package of draft federal laws submitted to the State Duma by the Government of the Russian Federation, which concerned the reform of the system of property taxes. For instance, the bills stipulated that the Tax Code should be supplemented with article 25.1 “The tax on gifts and inheritance” and article 30 “The tax on property of organizations.”

The state of the market infrastructure to a considerable extent determines the state of the investment and business climate. This fact determines the priority nature of institutional and infrastructure reforms. In 2003, the major attention is paid to the reform of the financial system and natural monopolies.

The work relating to the reform of railroad transport. In May of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the first reading the draft federal law “On amendments to the RF federal law ‘On railroad transport in the Russian Federation’” and “On amendments to the RF federal law ‘On the transport charter of the railroad transport of the Russian Federation’” submitted to the State Duma by the Government of the Russian Federation. The bills are aimed to eliminate unjustified expenditures of the federal budget and ensure the interests of the Russian Federation as concerns national defense and security of the state, as well as to define more precisely certain stipulations of these federal laws. Besides, in May of 2003, the Government of the Russian Federation by its resolution approved the plan of measures aimed at the implementation of the program of structural reforms of the railroad transport in 2003 through 2005.

As concerns the sphere of reforming of the housing and public utilities complex, in May of 2003, the President of the Russian Federation signed the federal law “On amendments to the law of the Russian Federation ‘On the basic principles of federal housing policy’ and other legislative acts of the Russian Federation as concerns the improvement of the system of payments for housing and public utility services.”

In June of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the third reading the draft federal law “On communications” (the new version), submitted to the State Duma by the Government of the Russian Federation.

An important problem encountered by Russian entrepreneurs is protection and turnover of information pertaining to commercial secrets. In May of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the first reading the draft federal law “On commercial classified information,” submitted to the State Duma by the Government of the Russian Federation. The bill regulates relations pertaining to the classification of information as a commercial secret, turnover of such information, and protection of its confidentiality.

It is impossible to ensure high rates of qualitative economic growth without increasing the degree of openness of the economy. The key avenues of the activities of the Government of the Russian Federation in this sphere are: the completion of the harmonization of the Russia’s legislation with the WTO rules and regulations, further liberalization of the external economic sphere, and a number of other measures.

In May of 2003, the President of the Russian Federation signed the Customs Code of the Russian Federation corresponding to the WTO rules and regulations.

In June of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the second reading the draft federal law, submitted to the State Duma by the Government of the Russian Federation, “On special protective, anti-dumping, and countervailing measures concerning commodity imports,” which fully harmonized measures protecting Russia’s producers from imports to the WTO rules and regulations.

Much attention was paid to the social sphere. The key objectives for year 2003 are: the reform of health care and education, which primarily account for the quality of human capital, and continuation of the pension reform.

There was continued the work on formation of the legislative base of the pension reform.

In June of 2003, the Government of the Russian Federation adopted a resolution concerning realization of the right of an insured person to choose the investment portfolio (managing company) in accordance with the federal law “On investment for financing of the accumulated part of the labor pension in the Russian Federation.” In particular, this resolution approves the Rules of information of insured persons on the state of the special part of the individual personal account and the procedure of submission of applications of insured persons concerning the choice of the investment portfolio (managing company).

In June of 2003, the State Duma of the Federal Assembly of the Russian Federation passed in the second reading the draft federal law, submitted to the State Duma by the Government of the Russian Federation, “On the minimal amount of payment for labor.” The bill envisages that the minimal amount of payment for labor shall be increased up to Rub. 600 per month since October 1, 2003.

Besides, in June of 2003, the Government of the Russian Federation submitted to the State Duma of the Federal Assembly of the Russian Federation the draft federal law “On amendments to article 1 of the federal law ‘On the tariff

rate (salary) of the first pay grade of the Single Tariff Scale pertaining to the remuneration of labor of employees of organizations in the budgetary sphere.” The bill envisages that the tariff rate of the first STS pay grade shall be set at Rub. 600 since October 1, 2003.

As concerns the sphere of education, one of the most important avenues of activities in this area is the introduction of special education programs in general education establishments implementing programs of secondary (complete) general education, what will permit more completely take into account the requirements of the labor market and create conditions allowing to ensure that students may consciously choose their future occupations. In June of 2003, the Government of the Russian Federation adopted its resolution approving this experiment. The experiment is aimed at the creation of the system of specialized (profile) education of students of the higher grades of general education school, approbation of the new content and forms of organization of educational process.

O. Fomichev

The State of the Federal Budget

In the first four months of 2003, the revenues of the state budget (cash execution) made 21 % of GDP, while expenditures made 17.7 % of GDP (see Table 1). Therefore, the federal budget surplus made 3.3 % of GDP.

Table 1

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

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

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

As compared with the figures registered in January through April of 2002, the budget revenues decreased by 0.2 p. p. of GDP in January through April of 2003, while expenditures increased by 0.8 p. p. and budget surplus respectively decreased by 0.9 p. p. At the same time, without SST the budgetary revenues increased by 0.8 p. p. of GDP and made 18.1 % of GDP.

VAT accounted for the major share of federal tax revenues – 34.2 % of the total tax revenues what is by about 2 p.p. above the level observed in the respective period of 2002.

According to preliminary estimates, the cash execution of federal budget revenues made 21.3 % of GDP in January through May of 2003, what is by 0.4 p. p below the respective level observed in January through

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

May of 2002. At the same time the cash execution of expenditures made 17.9 % of GDP (17.1 % of GDP in 2002); therefore, the surplus made 3.4 % of GDP (3.8 % of GDP in 2002).

According to the preliminary estimates of the Finance Ministry, in terms of fulfilled funding² the expenditures of the federal budget in January through May of 2003 made 19.9 % of GDP (see Table 2), while on June 1 of 2002 this indicator was at 19.4 % of GDP. As a result, the surplus of the federal budget in terms of fulfilled funding in the first four months of 2003 has also decreased by 0.1 p.p. in comparison with the figures registered in the respective period of 2002 and made 1.3 % of GDP.

Table 2.

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

	III'02	IV'02	V'02	VI'02	VII'02	VIII'02	IX'02	XII'02	I'03	II'03	III'03	IV'03	V'03
Total	20,9%	21,2%	20,8%	20,5%	20,5%	20,5%	20,0%	20,1%	21,4%	21,2%	20,9%	0%	21,3%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,6%	0,6%	0%	0,6%
National defense	2,4%	2,7%	2,7%	2,7%	2,7%	2,7%	2,6%	2,6%	2,5%	3,2%	3,3%	0%	3,1%
International activities	0,4%	0,5%	0,4%	0,4%	0,4%	0,3%	0,3%	0,3%	-0,4%	0,1%	0,1%	0%	0,3%
Judicial power	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0%	0,2%
Law enforcement and security activities	1,4%	1,5%	1,5%	1,6%	1,9%	1,6%	1,6%	1,7%	1,9%	2,3%	2,3%	0%	2,2%
Fundamental research	0,2%	0,3%	0,3%	0,3%	0,2%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0%	0,3%
Services provided for the national economy	0,8%	0,9%	1,0%	1,0%	1,1%	1,1%	1,0%	1,5%	0,6%	0,8%	0,9%	0%	1,0%
Social services	5,3%	5,9%	5,7%	5,5%	5,6%	5,4%	5,2%	5,7%	2,6%	2,8%	2,7%	0%	2,7%
Servicing of public debt	3,4%	2,7%	2,5%	2,4%	2,6%	2,4%	2,4%	2,0%	1,7%	3,0%	3,0%	0%	2,1%
Other expenditure	3,9%	4,0%	4,6%	4,2%	4,0%	4,0%	4,0%	3,8%	7,0%	7,8%	7,3%	0%	7,4%
Total expenditure	18,6%	19,1%	19,4%	18,9%	19,1%	18,6%	18,2%	18,7%	16,9%	21,1%	20,8%	2%	19,9%
Профицит (+) / дефицит (-)	2,3%	2,1%	1,4%	1,6%	1,4%	1,8%	1,7%	1,4%	4,5%	0,1%	0,1%	0,8%	1,3%

According to the estimates of the Revenue Ministry, in April of 2003 tax revenues of the federal budget made Rb. 103.1 billion (without the single social tax). In real terms the revenues made 234.3 % of the level registered in January of 1999, while the respective indicator was at 239.6 % in 2002 and 252.2 % in 2001 (see Table 3).

Table 3

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

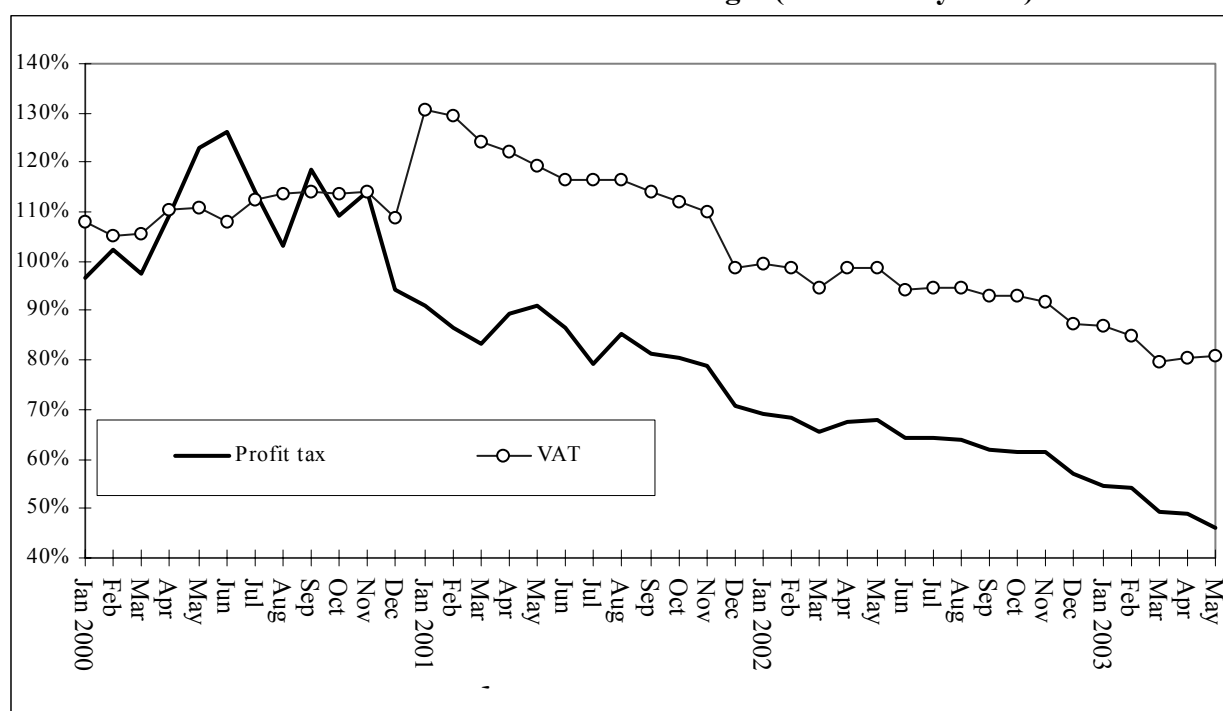
1999														
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII			
100,0%	115,1%	122,0%	122,1%	104,5%	112,9%	127,0%	127,5%	124,3%	141,4%	160,8%	213,1%			
2000														
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII			
149,3%	160,5%	181,3%	205,8%	233,1%	186,9%	181,0%	186,4%	173,1%	181,1%	201,7%	254,1%			
2001														
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII			
204,4%	198,4%	227,6%	267,5%	252,2%	233,3%	231,9%	235,6%	219,4%	237,5%	247,3%	360,6%			
2002*														
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII			
218,7%	187,1%	234,8%	277,8%	239,6%	218,0%	284,4%	246,5%	254,8%	299,7%	241,0%	250,2%			
2003*														
I			II			III			IV			V		
230,0%			229,2%			265,5%			280,4%			234,3%		

* Без учета ЕЧН.

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

Figure 1.
Real tax arrears to the federal budget (in % to July 1999)



The dynamics of real arrears relating to major debts since June of 1999 is presented in Fig. 1. The debts related to the payments due to the federal budget made for VAT Rb. 238.5 billion as on June 1, 2003, increasing by almost Rub. 2.5 billion as compared with the figures registered in the preceding month, while the arrears of the profit tax made Rb. 30.6 billion. On the whole, the dynamics observed over the last 2 years and the latest data still demonstrate a gradual decrease in the level of accumulated arrears as concerns not only the profit tax, but VAT as well.

Table 4

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

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

Deficit	9,1%	4,2%	3,7%	4,7%	5,4%	4,4%	4,4%	4,1%	3,5%	3,5%	3,8%	3,9%
2002												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	28,7%	23,6%	24,3%	26,5%	26,6%	25,9%	26,4%	25,9%	25,2%	25,4%	25,4%	25,5%
Revenues	32,9%	31,3%	31,4%	33,6%	33,6%	32,7%	33,3%	32,5%	31,7%	32,0%	32,1%	32,1%
Expenditures	18,3%	23,7%	26,0%	28,4%	28,4%	28,8%	29,1%	28,9%	28,4%	29,3%	29,7%	31,1%
Deficit	14,6%	7,7%	5,4%	5,3%	5,2%	3,8%	4,2%	3,7%	3,3%	2,7%	2,4%	1,0%
2003												
	I			II			III			IV		
Taxes	25,6%			24,4%			25,6%			27,4%		
Revenues	32,0%			30,3%			31,5%			33,4%		
Expenditures	20,7%			25,3%			27,7%			28,8%		
Deficit	11,3%			5,0%			3,8%			4,5%		

* Без учета ECH

The revenues of the consolidated budget in April of 2003 made 33.4 % of GDP, including tax revenues (without SST) at 27.4 % of GDP (see Table 4). Expenditures of the consolidated budget increased by 0.4 p. p. in comparison with the figures registered in April of 2002 and made 28.8 % of GDP. The surplus of the consolidated budget in March of 2003 made 4.5 % of GDP, what is below the level observed in April of 2002 (5.3 % of GDP).

S. Batkibekov

The Monetary Policy

In May 2003, the inflation rate kept declining. In the first five months of 2003, the consumer price index (CPI) rose by 7.1 percent. Thanks to the active policy pursued by the Central Bank of the Russian Federation, in particular, expansion of operations with government securities on reverse REPO terms, the volume of the monetary base kept reducing early in June, despite growth in gold and foreign exchange reserves. The rate of refinancing set by the Central Bank of Russia was reduced to 16 percent per annum.

Chart 1. Growth rates of the CPI in the 2002-2003 period (% , per month)



In May, the inflation rate in Russia amounted to 0.8 percent (see Chart 1). According to data furnished by the State Statistics Committee of the Russian Federation, the most significant price rise was observed in fees charged for paid services to individuals (+ 1.5 percent) and prices of foods (+0.7 percent). In January-May 2003, the inflation rate was a mere 7.1 percent, as against 8.4 percent in the corresponding period in 2002. The reference consumer price index, which excludes short-term erratic price fluctuations, which are due to

the effects of individual factors of an administrative, event-driven and seasonal nature, amounted in May to 100.6 percent (104.0 percent since the beginning of the year).

According to our forecasts, in June the rate of growth in consumer prices went down to 0.5 percent – 0.6 percent. So, in the first six months of 2003 the inflation rate in the Russian Federation did not exceed 7.5 – 7.6 percent. It is to be remembered that according to the forecast of the Government of the Russian Federation this year CPI growth will be no more than 12 percent.

In May 2003, gold and foreign exchange reserves increased by 8 percent on the April figure (+ 4.8 billion USD) (see Chart 2) and amounted to 64.7 billion USD as of June 1, 2003. So, gold and foreign exchange reserves grew by 35.4 percent since the beginning of the year. However, in the first two weeks of June gold and foreign exchange reserves of the Central Bank of Russia went down by 1.7 percent (- 1.1 billion USD).

In May, the volume of the monetary base (in its narrow definition) increased from 988.0 billion rubles to 1,049.5 billion rubles (+ 6.1 percent) (see Chart 2). In the first two weeks of June, despite reduction of gold and foreign exchange reserves the volume of monetary base increased by four percent. So, in the first five months of 2003 the monetary base (in its narrow definition) grew by 13.8 percent. In January-May 2003, the M2 money supply increased by 14.8 percent, as against 5.2 percent in the similar period in 2002 (it is to be noted that in 2002 increase in the M2 money supply amounted to 32.3 percent).

In May, the volume of reserve funds as such increased by 8.5 percent, from 1,421.8 billion rubles to 1,542.6 billion rubles. In the first five months of 2003, that index rose by 22.18 percent (it amounted to 1,262.6 billion rubles as of the beginning of the year).

Chart 2. Dynamics of the monetary base proper and gold and foreign exchange reserves in the second half of 2002 and in 2003.



According to data furnished by the Ministry of Finance of the Russian Federation, in June the volume of payments in relation to the foreign national debt amounted to 2,096.7 mil USD, including 1,667.9 mil USD for debt repayment and 428.8 mil USD for debt servicing. In June, 1.25 billion USD was allocated for redemption of Eurobonds and 352.8 mil USD for payment of interest thereon. In June, the total volume of payments of the Russian Federation under its debt to official creditor-countries, banks and companies amounted to 302.5 mil USD, including 235.8 mil USD for repayment of the debt and 66.7 mil USD for payment of interest thereon. Under its debt to international financial institutions, Russia paid in June 191.4 mil USD, including 182.1 mil USD for repayment of the debt and 9.3 million USD of interest thereon. On June 10, the last coupon of Russian Eurobonds (issued in 1998 with the total nominal volume of 1.25 billion USD) was redeemed.

In May 2003, the total volume of papers placed on Stock-Exchange Modified REPO (SEM REPO) terms amounted to 73.9 billion rubles, which was 50 percent less than the previous month. It is to be noted that at four out of five SEM REPO papers auctions demand in such papers as were sold on REPO terms from the Russian Central Bank's portfolio considerably exceeded the supply. The highest demand was in papers with maturity terms of three months. At the auctions, between 52 percent and 97 percent of securities offered were placed.

In May 2003, the Bank of Russia announced its intention to extend the term of borrowing of funds from banks for the purpose of ensuring more effective sterilization of excessive ruble liquidity. On May 29, 2003, the Central Bank of the Russian Federation held an auction of three-month deposits with credit institutions, which are residents of the Russian Federation. According to the resolution of May 27, 2003 of the Monetary Committee of the Central Bank of Russia, the cut-off rate at the auction of three-month deposits should not exceed 9 percent per annum. On May 30, the Board of Directors of the Central Bank of Russia approved limits on reverse REPO operations (that is, sale of bonds to banks on conditions of obligatory repurchase thereof) for a term of six months.

On June 21, 2003 the Bank of Russia set a rate of refinancing of 16 percent per annum. According to the Department of Foreign and Public Relations of the Central Bank of Russia, that was in accordance with a decision taken by the Board of Directors of the Bank of Russia. It is also to be noted that starting from June 21, 2003 the interest rate on overnight settlement credit was set at 16 percent per annum.

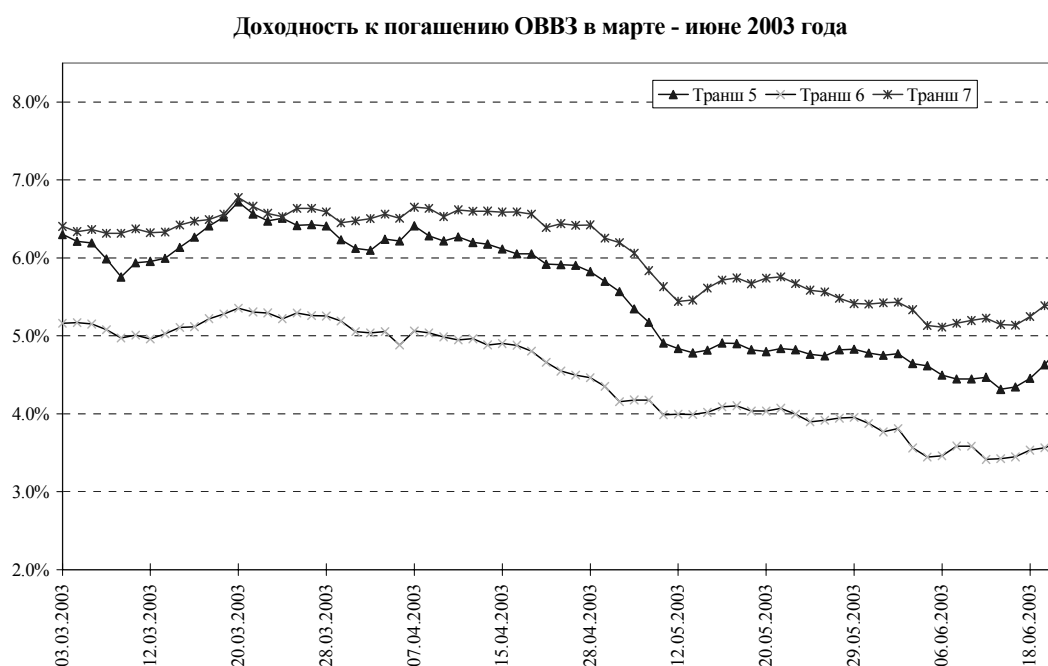
P. Trunin

Financial Markets

Public Securities Market

In the first two and a half weeks of June 2003, prices of Russian hard-currency bonds continued to grow: the prices of Eurobonds reached new historical highs. For instance, on June 16 the yield to maturity of RUS-9 went down to 6.54 percent per annum, and of RUS-28, to 6.29 percent per annum. The rise in prices of Russian bonds can partially be explained by expectations of reduction of interest rates in the US. Later, by June 20, a certain adjustment of prices was observed on the market with the prices of most types of bonds going down a little. In particular, as of June 20, yields of Russian bonds were as follows: 7th OVVZ tranche, 5.41 percent; 5th OVVZ tranche, 4.84 percent; RUS-28, 6.70 percent; RUS-30, 6.88 percent; RUS-18, 6.14 percent.

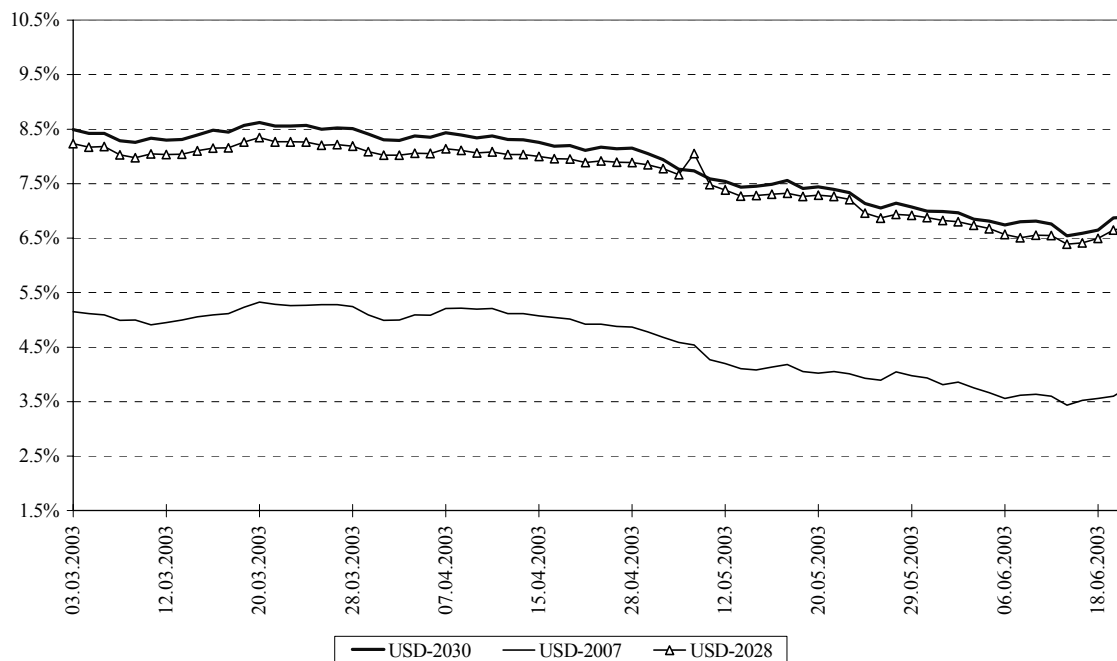
Chart 1. OVVZs' Yield to Maturity in March-June 2003



On June 10, the Ministry of Finance of the Russian Federation fully redeemed the Eurobond issue of the Russian Federation issued in June 1998 in the amount of 1.25 billion USD.

Chart 2. Yield to Maturity of Russian Eurobonds Maturing in 2003, 2007 and 2028 in March-June 2003

Доходности к погашению российских евробондов со сроками погашения в 2003, 2007 и 2028 гг. в марте - июне 2003 года



In the June 2-6 period, a certain drop in prices was observed on the Russian public bond market, which was accompanied by a record-high volume of sales. The average volume of secondary sales amounted to 3 billion rubles. In just one day, on June 11, deals worth 19.6 billion rubles were transacted, with sale of securities placed under modified exchange REPOs accounting for 15.6 billion rubles of that amount. The total volume of sales in the June 2-21, 2003 period amounted to 71.7 billion rubles. The drop in prices on the domestic government bonds market can be explained by cash outflow to the stock market, whose attractiveness grew in the month under review.

The first week of June saw several placements of GKO-OFZ securities. In particular, on June 4 an auction was held for placement of an additional issue of OFZ-AD 46014 with maturity on August 29, 2018 and nominal value of 9 billion rubles. The nominal demand amounted to 8.43 billion rubles, while the amount of placement, to 5.3 billion rubles. The cutoff price was set at 109.532% (income of 7.74 percent per annum). The same day, placement was carried out of an additional OFZ-FD 27023 issue with a nominal of 7 billion rubles and maturity on July 20, 2005. The cutoff price was set at 103.05% (yield to maturity of 6.67 percent per annum). The demand amounted to 6.5 billion rubles, the volume of placement, to 6 billion rubles. As of June 21, duration of the market portfolio amounted to 868.16 days.

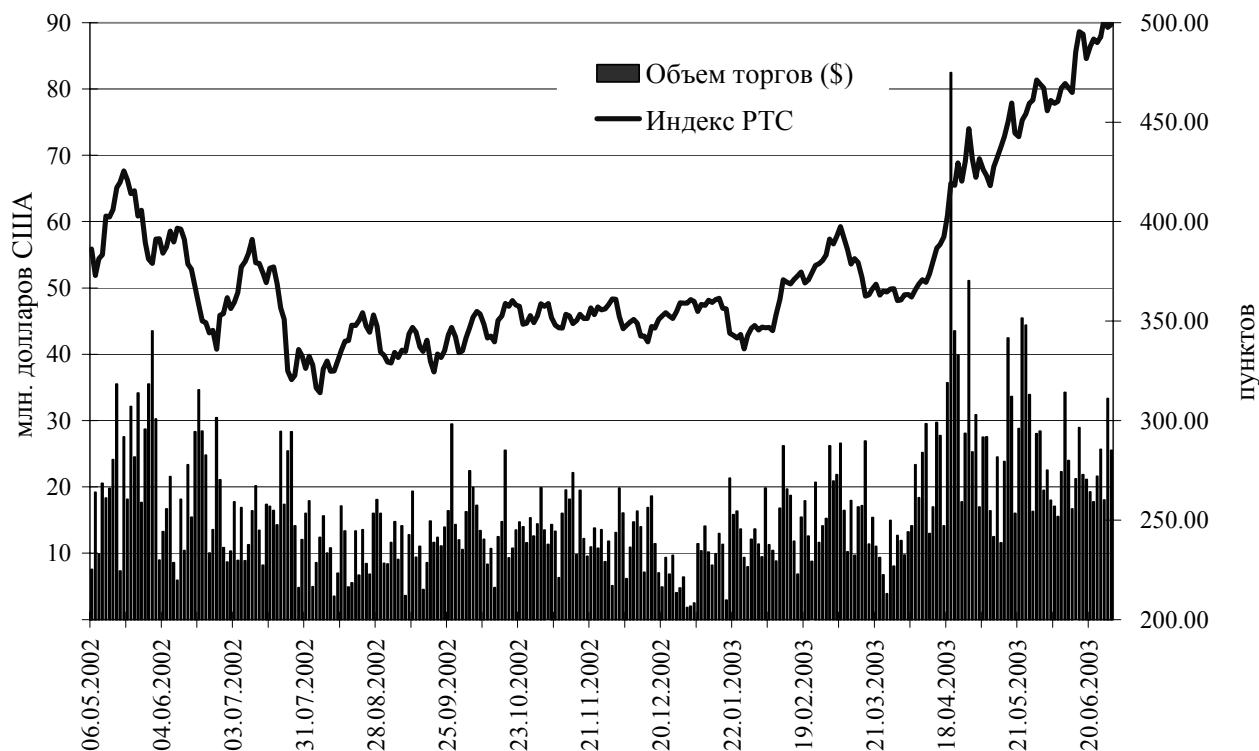
Corporate Securities Market

The market situation. Throughout June, stock prices were steadily growing on the Russian stock market. In the period from May 30 to June 27, the RTS Index rose by 32.19 points (which was a 7-percent increase). In June, that index reached another post-crisis maximum of 502.11 points⁴ (closing of trades on June 25), while trading volumes in the above period amounted to 424.5 mil USD. The average daily volume amounted to 22.3 mil USD, which is four mil USD less than the May 2003 figure (26.4 mil USD). The maximum daily trade volume (34.241 mil USD) was registered on June 9, while the minimum daily trade volume (15.52 mil USD), on June 5. Throughout the first week of June, the RTS Index grew to the level of 467.06 points (Friday, June 6). On June 9, the index rose by 2.43 points, however, within the following two days (which preceded a national holiday) it fell to the level of 464.83 points. After the holiday, the index grew sharply

⁴ The last time the index reached a higher level was on October 27, 1997.

and on June 17 reached the level of 495.50 points. In the next few trading days, the index fell somewhat and on June 21 it was at the level of 491.78 points. However, at the end of the month the growth resumed and the index reached a psychologically important level of 500 points.

Chart 3



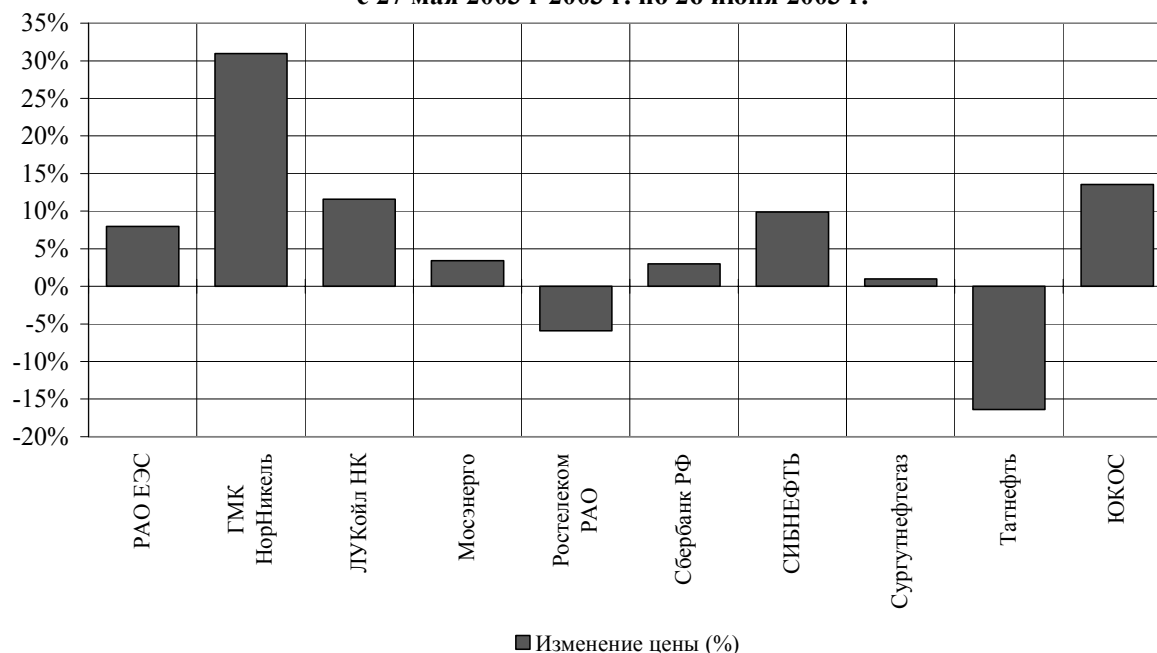
In the period of from May 30 to June 27, the highest growth in prices was observed with shares of the GMK Norilsk Nickel, which yielded in that period 30.96 percent, as against 11.63 percent in May. Among the factors behind that swift growth in those shares' prices were acquisition by the Norilsk Nickel of Stillwater, a US-based company (see below) and better than expected 2002 business results of the Norilsk Nickel. The rates of growth in prices of oil companies' shares were lower, but they were much higher than in May. For example, Yukos shares appreciated in value by 13.57 percent, as against 6.25 percent in May, LUKoil shares, by 11.59 percent, as against 1.84 percent in May and Sibneft shares, by 9.87 percent, as against 1.55 percent in May. In June, prices of Surgutneftegas shares rose by a mere 1.02 percent. The only exception among oil companies (from the group of so-called 'blue chips') was Tatneft; its shares in the above period fell in value by 16.38 percent, which is the steepest downturn in prices among the more liquid shares. It is to be remembered that previously shares of Tatneft had demonstrated the highest rates of price growth (27.47 percent).

Throughout June, strategic buying in of shares of power generation companies was observed, since those shares are likely to become the principal means of acquisition of shares in generating companies to be established in future. In particular, shares of the RAO UES appreciated in value by 7.98 percent and shares of Mosenergo, by 3.44 percent.

In the period under review, shares of the Savings Bank of Russia grew by 3 percent, while shares of Rostelecom fell in value by 5.9 percent (in May, income related to fluctuations of the above shares' prices amounted to 19.2 percent and 30.14 percent, respectively). In the case of Rostelecom, it is likely that prices of its shares were affected by the Company's poor 2002 financial results.

Chart 4

Динамика котировок российских голубых фишек
с 27 мая 2003 г по 26 июня 2003 г.



In June, shares of the RAO UES retained their leading position in the volume of trade; deals with shares of that power generation holding accounted for 34.59 percent of the total volume of trades, as against 41.93 percent in May. Rating second and third in the volume of trades were, respectively, shares of LUKoil (17.46 percent, as against 12.71 percent in May) and shares of Yukos (10.76 percent, as against 9.95 percent in May). In June, shares of the Norilsk Nickel and Tatneft accounted for 8.51 percent and 8.06 percent of the total trading volume, respectively. In the June 2-27 period, the aggregate share of the five most liquid papers accounted for 79.36 percent of the total RTS volume, which is somewhat lower than the May 2003 figure (82.33 percent).

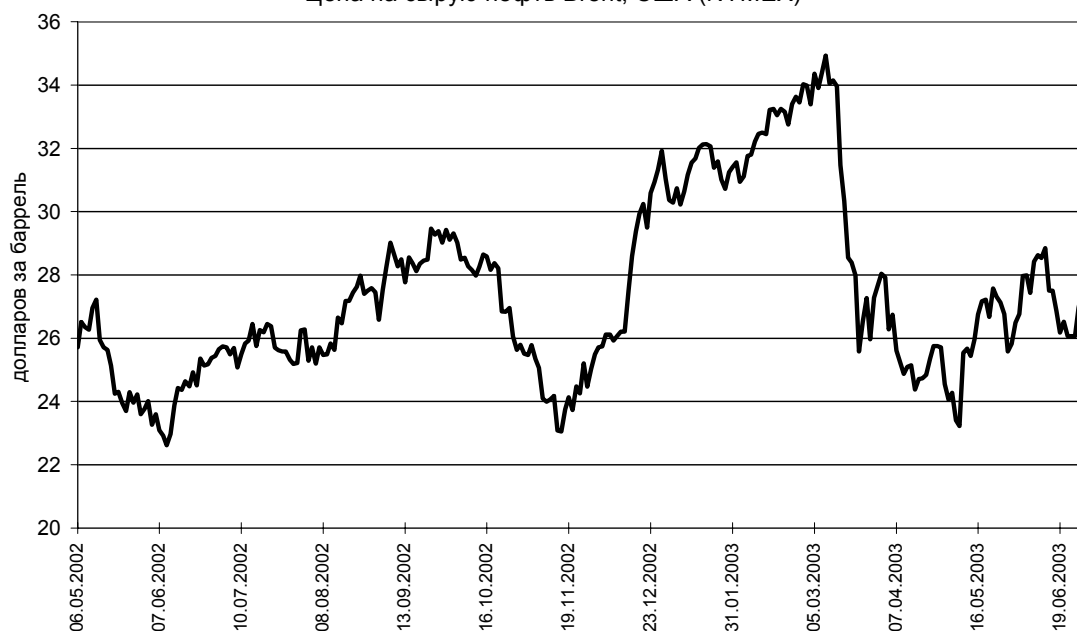
As of June 27, according to RTS data, the five largest issuers as regards capitalization were as follows: Yukos (31.1 billion USD), LUKoil (16.7 billion USD), Surgutneftegas (14.9 billion USD), Sibneft (12.4 billion USD) and the GMK Norilsk Nickel (7.2 billion USD).

Forward market. In the June 2-27 period, the volume of trading in FORTS forward contracts amounted to 17.3 billion rubles (58 thousand deals and 2.5 million contracts), of which futures contracts accounted for 16.25 billion rubles. The maximum trading volume was observed on June 10 (1,438 billion rubles), while the minimum trading volume (503.78 mil rubles) on the forward market, on June 27.

Exogenous factors of the dynamics of the Russian stock market. Throughout June, prices of oil on the international market continued to grow. Growth in oil prices was observed in the first week of June; by June 9, oil prices reached a three-month high of 28.85 USD/barrel (Brent oil). The major, fundamental factors behind the growth in oil prices were fluctuations of reserves of petroleum products, particularly, gasoline in the USA, and market expectations of reduction by the OPEC of oil production quotas. However, the decision to leave the export quotas of the cartel's member-states unchanged (which decision was taken at an OPEC summit on June 11) was followed by a drop in oil prices to 27.51 USD/barrel (by June 16). The summit participants motivated that decision by lingering uncertainty in respect of the timing of resumption of supplies of the Iraqi oil to the market and the fact that there was no danger of overproduction of oil at the moment. It is to be noted that a statement made by the International Energy Agency (IEA) also contributed to adjustment of oil prices. According to that statement, oil reserves of the more industrialized countries were somewhat larger (by 79 mil barrels) than previously believed. In the following few days, a small price adjustment was observed and by June 21 oil prices amounted to 26.07 USD/barrel.

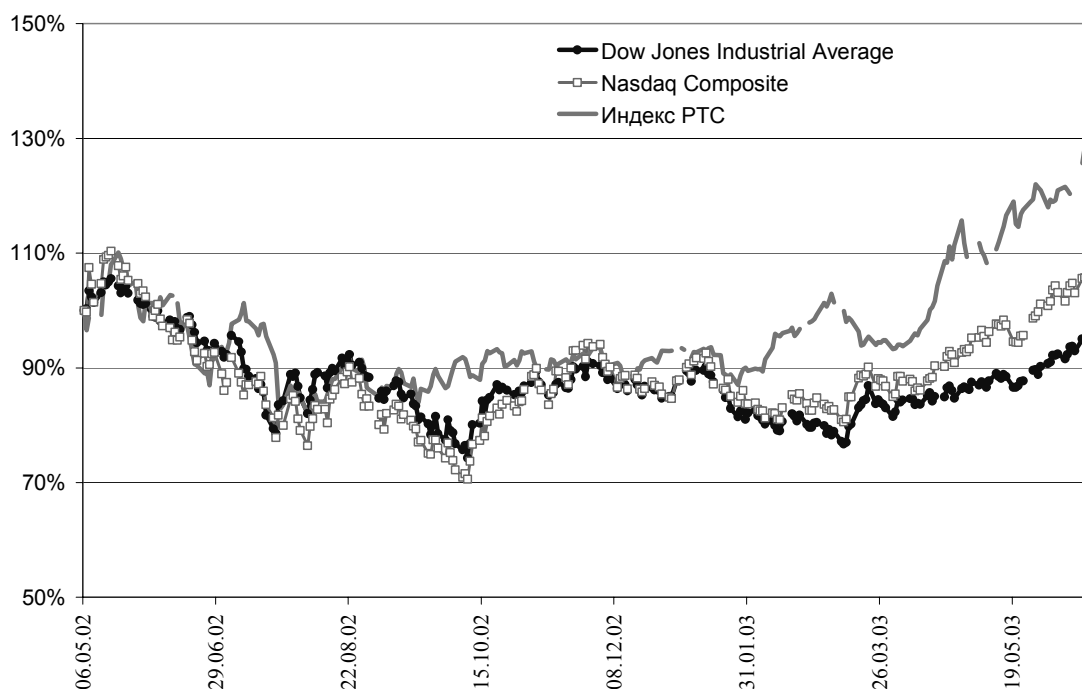
Chart 5

Цена на сырую нефть Brent, США (NYMEX)



In future, growth in oil prices can be related to the results of the preliminary forecasts by experts from the IEA and the American Petroleum Institute (API). According to the former forecast, crude oil reserves in the USA dropped by four mil tons, while according to the latter, by nine mil tons. In addition to that, news came of possible industrial action in Nigeria where negotiations between the oil industry trade unions and the government had failed to resolve the dispute. Those factors contributed to growth in prices of crude oil; on June 27, the price of Brent oil on the international market amounted to 27.06 USD/barrel.

Chart 6



In June, positive trends were observed on the international stock markets.

In particular, the Dow Jones Industrial Average grew from the beginning of the month by 3.0 percent and from the beginning of the year, by 6.89 percent, while NASDAQ, by 3.30 percent and 18.77 percent, respectively. Growth of the major stock market indices was also observed with European stock markets. For example, the FTSE 100 (the UK) grew in a month (year) by 0.75 percent (3.76 percent), the DAX 30

(Germany), by 5.69 percent (4.31 percent) and the CAC-40 (France), by 4.65 percent (-0.15 percent). At the same time, negative rates of growth were observed with stock markets of some developing countries: the Bovespa Index in Brazil fell by 0.74 percent, while the ISE National-100 in Turkey, by 6.87 percent. Despite that, however, in June stock markets of developing countries, on the whole, were characterized by sustained growth, which was evidenced by a 5.26 percent increase of the Emerging Markets Free Index of the Morgan Stanley Capital International.

It is to be noted that among the factors which contributed to growth of the US stock market indices were publications of a number of statistical reports which pointed to the fact that the economic situation was gradually improving. In particular, the consumer price index remained unchanged, the number of building permits and the number of building contracts grew much faster than had been forecasted and the industrial output increased for the first time in months. Another factor, which had an important role to play in the dynamics of stock market indices was reduction by the US Federal Reserve of the interest rate. On June 25, the US interest rate was reduced to one percent per annum (that is, by 0.25 interest points).

Generally speaking, the dynamics of stock markets in Europe echoed the situation on the US market; the growth of indices was largely explained by expected improvement of the macroeconomic situation in the USA and, consequently, growth in exports from Europe. In addition to that, on June 5 by resolution of the European Central Bank the prime interest rate was reduced from 2.5 percent to 2 percent. However, that measure did not have much effect on the dynamics of share prices on European trade floors, since the above information had already influenced the current prices. According to a Merrill Lynch survey, many managers of investment funds believe that fast growth in share prices (which has been observed since mid-March) is to come to an end unless there is a positive change in the EC countries' economies.

Corporate news

The OAO GMK Norilsk Nickel

For the first time since its foundation, the Company has had the annual 2002 financial report published in conformity with the IAS. According to the above report, the Company's net profit amounted to 315 mil USD, which figure is much higher than had been forecasted (219 mil USD). In absolute terms, this year's dividends amount to 0.68 USD per share, which is nearly equivalent to the last year's figure.

Another favorable factor for the Company has been the GMK Norilsk Nickel's decision to purchase 51 percent of stocks of the Stillwater Company (USA's largest producer of palladium), which decision has been approved by shareholders of Stillwater and the US Federal Trade Commission. This will probably permit Norilsk Nickel to sell palladium directly to US-based autoworks under long-term contracts. In addition to the above, the Company has officially announced its decision to participate in a tender (sanctioned by the Ministry of Economic Development of the Russian Federation) for development of Sukhoi Log, one of Russia's largest gold deposits.

The OAO Mosenergo

The Company had had the 2002 financial results (prepared in conformity with the IAS) published, thus showing the net loss of 72 mil USD and operation costs in the amount of 1.76 billion USD. The Company's operation profit amounted to 9.4 billion USD. In 2002, Mosenergo's revenues grew by 20.6 percent; that can mostly be explained by a 17.6 percent increase in the average power rates and also a certain increase in sale of power to consumers (which was made possible by additional procurement of power at the FORAM. The Company's own rate of production fell by 0.2 percent. The Company's rate of profitability from the main line of business amounted to 0.2 percent, as against 3.0 percent in 2001.

The NK LUKoil

On June 6, the Company made public its 2002 business results. Despite the growth in revenues, the Company's net profit fell by 5.6 percent and amounted to 1,843 billion USD. The above figure was smaller than forecasted by the NK LUKoil's management in autumn 2002 (at that time, it was believed that the Company's net profit would exceed two billion USD). Despite reduction in such expenditures as were under the management's direct control, growth in the Company's tax payments and transportation costs resulted in reduction in net profit. In particular, growth in exports of oil products with the use of alternative means of transportation, particularly, rail carriage and shipment was observed. Taking into account the fact that the ratio between expenses on the above means of transportation and expenses on pipeline transportation is three to one, growth in exports resulted in considerable a 54 percent increase in transportation costs (or a 47 percent increase per barrel).

The OAO NK YUKOS

The annual meeting of shareholder approved the 2002 dividends in the amount of 9.89 rubles per common share, including the sum of paid out intermediary dividends (5.70 rubles per share). The remaining sum of the dividends (4.19 rubles per share) will be paid until August 31, 2003 to all shareholders registered in the register of shareholders as of May 3, 2003. The meeting of shareholders also elected a new Board of Directors; Mr. S. Kukes, president of the OAO THK was elected its chairman.

The OAO Rostelekom

In June, the Company made public its 2002 financial statements (in accordance with the IAS). The above statements showed that not only the Company's revenues did not grow at all, but also profits fell sharply by 69 percent to 37.2 billion USD. One of the main factors behind that reduction in profits was the Company's non-monetary expenditures, such as reserves against debts (24.9 mil USD), additional depreciation (24.9 mil USD) and an exchange loss (29.5 mil USD). The annual meeting of shareholders approved the decision to pay out dividends for the year 2002 in the amount of 0.54 rubles per common share and 1.27 rubles per preferred share. It is to be noted that the State Duma of the Russian Federation passed in the third reading the law on communications, which law practically seals monopoly of the OAO Rostelekom on the non-mobile communications market, so it is sure to remain in the next few years.

The OAO Transneft

Transneft and the Savings Bank of Russia signed an agreement of intent, which provides for extension by the latter of loans (in the amount of up to 900 mil USD) for financing of investment projects of Transneft. In June, under the above agreement, the Savings Bank of Russia will extend to Transneft a 10 billion ruble loan for the term of five years for financing of the project of expansion of the Baltic pipeline system.

The OAO Surgutneftegaz

On Tuesday, June 10, it became known that shareholders of the OAO NK Surgutneftegaz passed a resolution at the extraordinary meeting of shareholders to transform the OAO NK Surgutneftegaz into the OOO NK Surgutneftegaz.

The OAO Gasprom

Gasprom published its 2002 consolidated audited statements, which were prepared in accordance with the Russian accounting standards. In 2002, the Company's revenues amounted to 602.1 billion rubles, which is a 26.9 percent increase on the 2001 figure. The Company's net profit fell by 25.6 percent and amounted to 53.5 billion USD.

Table 1

Dynamics of International Stock Market Indices

Data as of June 20, 2003	Value	Change within the month (%)	Change since the beginning of the year (%)
RTS (Russia)	487.89	7.07%	35.23%
Dow Jones Industrial Average (USA)	9200.75	3.40%	6.89%
Nasdaq Composite (USA)	1644.72	3.39%	18.77%
S&P 500 (USA)	995.69	2.97%	9.53%
FTSE 100 (UK)	4160.1	0.75%	3.76%
DAX-30 (Germany)	3238.98	5.69%	4.31%
CAC-40 (France)	3190.11	4.65%	-0.15%
Swiss Market (Switzerland)	4936.8	3.83%	0.76%
Nikkei-225 (Japan)	9120.39	6.71%	4.67%
Bovespa (Brazil)	13131	-0.74%	13.17%
IPC (Mexico)	7080.69	5.33%	13.74%
IPSA (Chile)	1245.38	0.27%	20.89%
Straits Times (Singapore)	1519.16	10.03%	13.71%
Seoul Composite (South Korea)	686.22	5.78%	8.04%
ISE National-100 (Turkey)	10783.91	-6.87%	1.75%
Morgan Stanley Emerging Markets Free Index	336.277	5.26%	15.08%

The Foreign Exchange Market

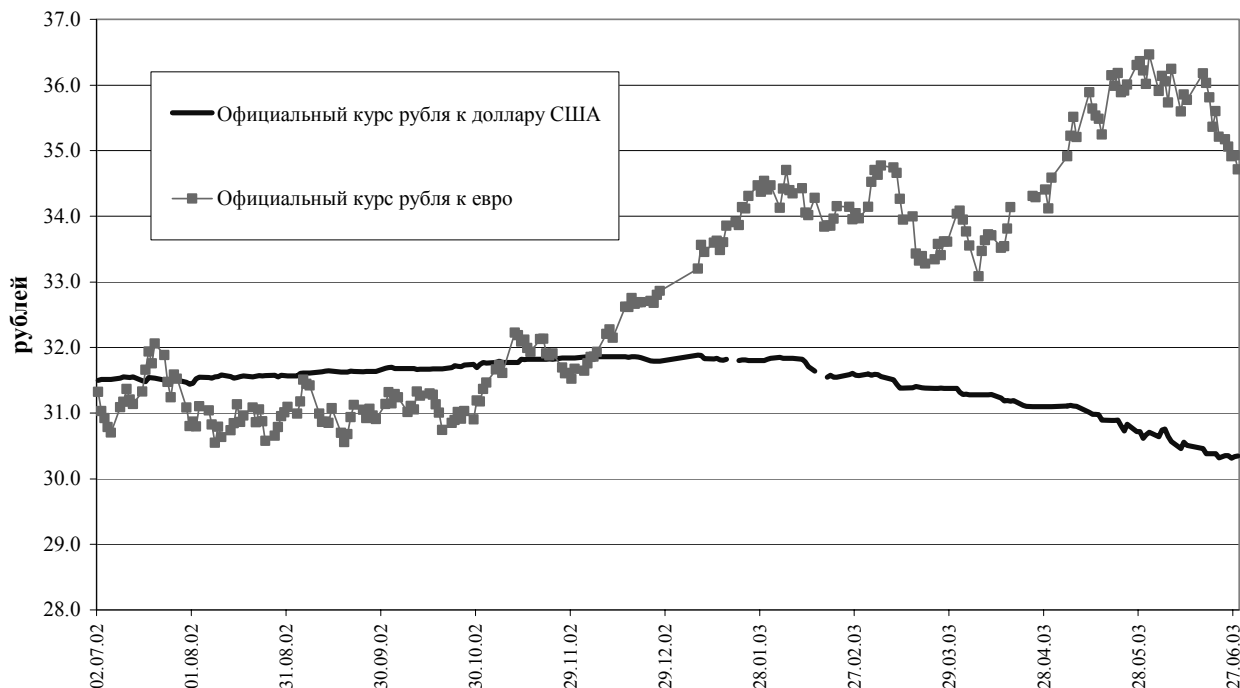
Throughout June, the USD continued to depreciate against the RUR, which depreciation was caused by low investment attraction of the USD, increase in the investment influx in Russia and unstable exchange rate of the USD on the international market. In the June 4 - 30 period, the USD exchange rate fell by 39 kopecks (-1.27 percent) from 30.74 rubles to 30.35 rubles for a USD. The total USD trading volume at the Electronic

Batch Trade Session (EBTS) amounted to 7.55 billion USD. In the June 2-21 period, the maximum high USD trading volumes was observed on June 18 (941 mil USD).

Ruble liquidity in the banking sector in general remained the same as in May. In the June 1-21 period, correspondent account balances of commercial banks did not fall below 138 billion rubles. Within the period under review, the MIACR rate amounted to about 1.36 percent per annum.

CHART 7. Dynamics of the official exchange rate of the USD to RUR and EURO

Динамика официального обменного курса рубля к доллару США и евро



In the May 31 – June 23 period, the USD exchange rate on the international market went down by two cents (-0.017 percent) to 1.158 USD/EURO. The dynamics of the exchange rate were much affected by expectations of further reduction by the US Federal Reserve of the interest rate.

In the June 4-28 period, the EURO/RUR exchange rate fell by 1.19 rubles (3.94 percent) from 35.91 RUR/EURO to 34.71 RUR/EURO. In the June 2-21 period, the total EURO trading volume at the EBTS amounted to 137.23 mil EURO. In the above period, the maximum EURO trading volume was observed on June 19 (14.07 mil EURO), while the minimum volume, on June 21 (0.2 mil EURO).

CHART 8. Dynamics of the EURO/USD exchange rate on international foreign exchange markets

Динамика курса евро к доллару на мировых валютных рынках



Table 2.

Financial Markets Indicators

Month	February	March	April	May	June*
Monthly inflation	1.6%	1.1%	1.0%	0.8%	0.5%
Inflation rate for the year estimated on the basis of inflation rate in the month	20.98%	14.02%	12.68%	10.03%	6.2%
Rate of refinancing of the Central Bank of Russia	18%	18%	18%	18%	16%
Average yield to maturity on all issues of OFZ securities (% per annum)	9.66%	8.85%	8.03%	6.44%	
Volume of the GKO-OFZ securities market per month (billion rubles.)	34.53	33.45	20.83	20.68	
Yield to maturity of OFZ securities as of the end of the month (% per annum):					
5 tranche	6.31%	6.23%	5.57%	4.78%	4.9%
6 tranche	5.19%	5.19%	4.18%	3.87%	3.7%
7 tranche	6.43%	6.45%	6.19%	5.40%	5.5%
8 tranche	5.32%	5.25%	4.78%	4.17%	4.0%
Yield to maturity of eurobonds as of the end of the month (% per annum):					
2003	2.40%	2.72%	1.05%	2.13%	–
2005	3.62%	3.68%	3.22%	2.74%	2.6%
2007	5.16%	5.09%	4.68%	3.93%	3.8%
2010	6.38%	6.27%	5.85%	5.27%	5.3%
2018	7.53%	7.33%	7.20%	6.43%	6.2%
2028	8.22%	8.08%	7.78%	6.88%	6.7%
2030	8.51%	8.41%	7.94%	6.99%	6.9%
Inter-Bank Lending-MIACR rate (% per annum as of the end of the month) on overnight loans	2.16%	3.71%	3.46%	1.81%	1.7%
Official USD exchange rate as of the end of the month (RUR/USD)	31.5762	31.3805	31.1000	30.7090	30.3483

Month	February	March	April	May	June*
Official EURO exchange rate as of the end of the month (RUR/EURO)	34.0549	33.5865	34.1447	36.4669	34.7124
Gain of the official USD exchange rate in the month (%)	-0.77%	-0.62%	-0.89%	-1.26%	-1.17%
Gain of the official EURO exchange rate in the month (%)	-1.13%	-1.38%	1.66%	6.80%	-4.81%
Stock market volume in RTS in the month (mil USD):	276.19	304.35	601.40	497.74	450
Value of the RTS-1 Index as of the end of the month	383.23	363.68	429.16	467.1	503.51
Change in the RTS-1 Index in the month (%)	10.24%	-5.10%	18.00%	8.84%	7.79%

* Estimation

D. Polevoi

Enterprises and organizations: the state of payments

In the 1st quarter of 2003, the trends towards a decline in payment arrears observed in the economy did not undergo significant changes. The decline in outstanding and accumulated creditor indebtedness continued. In March of 2003, the accumulated amount of outstanding indebtedness of organizations and enterprises in the economy made about 12 per cent of GDP (in 1998, in the period of the acute crisis, this indicator made 46 per cent (see Figure 1).

Figure 1. The level of accumulated payment arrears (as the share of GDP): dynamics in 1993 through 2002.



Creditor indebtedness of enterprises and organizations, in % of GDP

Outstanding creditor indebtedness, in % of GDP

The same for four sectors

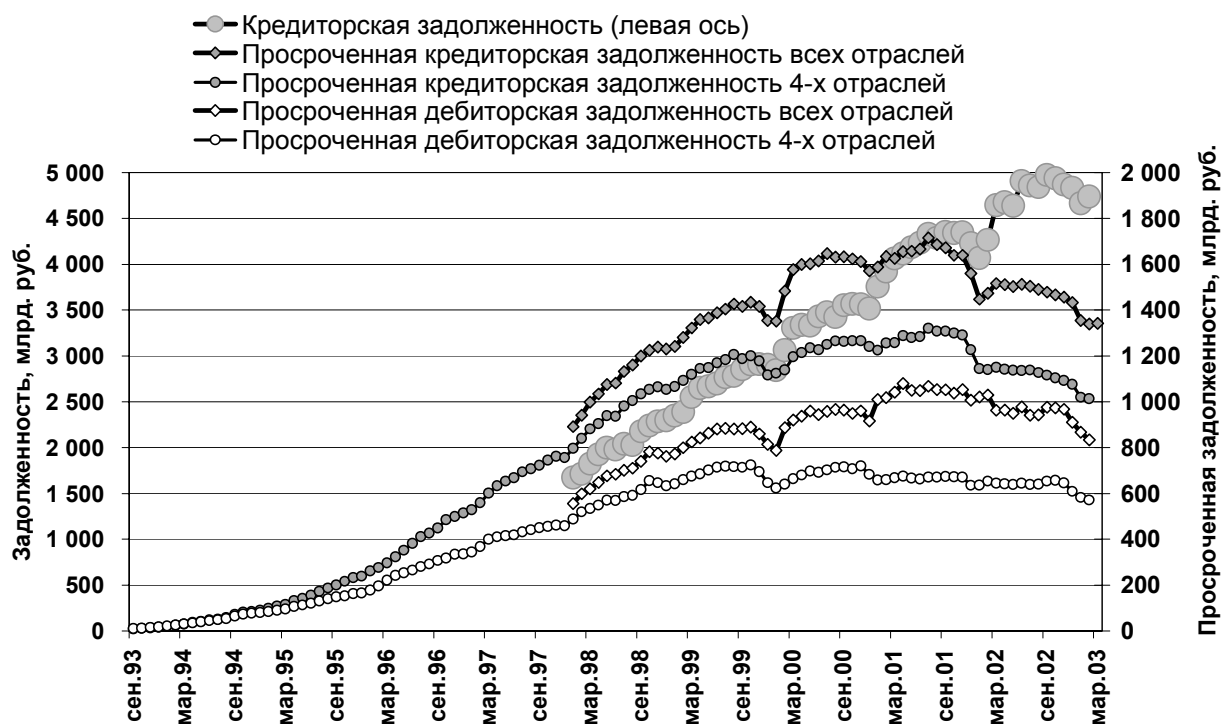
* - prior to (including) 1997 for four sectors.

** - preliminary data.

Source: RF Goskomstat, calculations of the authors.

Note: the aggregate outstanding indebtedness of enterprises and organizations includes outstanding creditor indebtedness and the outstanding debts to the banking system. The creditor indebtedness is calculated as the sum of debts to suppliers, budgets of all levels, and extra-budgetary funds, indebtedness relating to wages and salaries, and debts to other creditors. Prior to 1998, the RF Goskomstat published payment arrears statistics for four sectors of the economy (industry, agriculture, transport, construction). Since 1998, the aggregate indebtedness in the economy has been calculated across all sectors of the economy.

Figure 2. Dynamics of outstanding creditor and debtor indebtedness across all sectors of the economy and branches of industry, agriculture, construction, and transport (4 sectors) in current prices.



Indebtedness (Rub. billion)

Outstanding indebtedness (Rub. billion)

Creditor indebtedness (left axis)

Outstanding creditor indebtedness of all sectors

Outstanding creditor indebtedness of four sectors

Outstanding debtor indebtedness of all sectors

Outstanding debtor indebtedness of four sectors

Source: RF Goskomstat, calculations of the authors.

The share of outstanding indebtedness in the total indebtedness continues to decline and makes less than 30 per cent (the maximum – 55 per cent was observed in 1998, see Fig. 3).

In the first 3 months of 2003, the amount of outstanding creditor indebtedness declined by 6.3 per cent (Rub. 90.5 billion). In the respective period of 2002, the outstanding creditor indebtedness decreased by 2.8 per cent, while the total decline in outstanding creditor indebtedness in 2002 made 8.2 per cent. Taking into account small amounts of debts written off to financial results (see Table 1), the decline in payment arrears is related to the restructuring and direct repayment of debts.

Table 1.

Amounts of outstanding indebtedness of economic agents written off to financial results.

Период	Кредиторская задолженность, списанная на прибыль			Дебиторская задолженность, списанная на убыток		
	всего, млн. руб.	в % к просроченной кредиторской задолженности	в % к приросту просроченной кредиторской задолженности (включая списанную)	всего, руб.	в % к просроченной дебиторской задолженности	в % к приросту просроченной дебиторской задолженности (включая списанную)
1997	874	0,1%	0,4%	1 921	0,4%	1,5%
1998	2 777	0,2%	0,7%	7 990	1,0%	3,2%
1999	5 597	0,4%	4,3%	12 420	1,5%	19,1%
2000	6 598	0,4%	3,0%	21 955	2,4%	17,8%
2001	10 185	0,7%	-774,5%	25 783	2,6%	22,1%
2002	12 861	0,9%	-11,2%	24 000	2,6%	-33,1%
2/2003*	1 120	0,1%	-1,2%	2 210	0,3%	-3,0%

* - according to the results of the first two months of 2003

Source: RF Goskomstat, calculations of the authors.

Figure 3. Dynamics of the share of outstanding creditor indebtedness in the total creditor indebtedness.



Share of outstanding creditor indebtedness (for four sectors)

Share of outstanding creditor indebtedness (all sectors)

Sep. 93 Mar. 94 Sep. 94 Mar. 95 Sep. 95 Mar. 96 Sep. 96 Mar. 97 Sep. 97 Mar. 98 Sep. 98 Mar. 99 Sep. 99 Mar. 00 Sep. 00 Mar. 01 Sep. 01 Mar. 02 Sep. 02 Mar. 03

Source: RF Goskomstat, calculations of the authors.

The transition to cash types of payments presupposes an increase in transactional demand for cash balances. It seems that this circumstance is a factor behind a stable growth in money supply over the last few years. Since 2001, the amount of money supply has reached its highs registered over the period starting in 1993 (see Figure 4). Another factor behind this development was expansion of bank crediting of the real sector, what contributed in substitution of the commercial crediting and contraction of payment arrears.

Figure 4. Dynamics of increment in outstanding indebtedness and money supply (M2).



Increments in outstanding creditor indebtedness for 4 sectors (deflated)

Money supply M2 (in real terms)

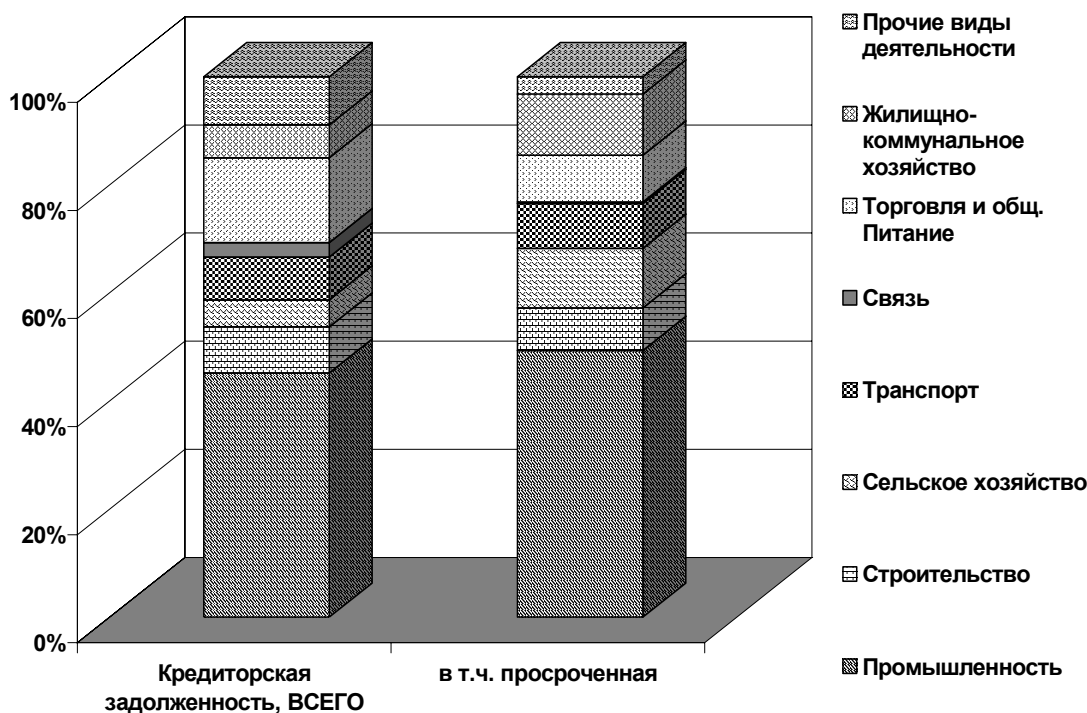
Indebtedness, Rub. billion (in prices as of January 1, 2000)

M2, Rub. billion (in prices as of January 1, 2000)

Source: RF Goskomstat, CB of RF, calculations of the authors.

As concerns the sectoral structure, debts of industry stable make the major share of the total and outstanding indebtedness. At the same time, while the share of the industrial sector makes about 42.5 per cent in the total amount of creditor indebtedness, it makes 48.7 per cent in the total outstanding indebtedness (the figures as in February of 2003). It shall be noted that the share of industry has somewhat increased in comparison with the figures registered in October of 2002. Similarly, housing and public utilities, agriculture, and transport (since January of 2002) have accounted for a larger share in the outstanding creditor indebtedness than in the total amount of indebtedness. This ratio indicates that repayment of commercial credits in these sectors is more often delayed as compared with other sectors. For instance, outstanding debts make 65 per cent in creditor indebtedness of agriculture and 55 per cent of indebtedness of housing and public utilities. On the average, this indicator makes 28 per cent in Russia.

Figure 5. Structure of creditor indebtedness across base sectors of the economy by the end of February, 2003.



Creditor indebtedness, total
Including outstanding creditor indebtedness
Other types of activities
Housing and public utilities
Trade and public catering
Communications
Transport
Agriculture
Construction
Industry

Source: RF Goskomstat, calculations of the authors.

Among industries, the leaders in terms of their share of outstanding indebtedness in the aggregate creditor indebtedness are coal industry (68 per cent, see Table 2), power engineering (46 per cent), light industry (48 per cent), and microbiological industry (69 per cent). However, while the amounts of indebtedness of two latter industries are relatively small, debts of power engineering and branches of fuel industry total to about one third of the total indebtedness in the economy on the whole. The largest consumer of commercial credits in absolute terms are branches of mechanical engineering and metal working, as well as fuel industry. It shall be noted that an increase in the amount of outstanding debts of natural gas industry was observed in November of 2000 through February of 2003.

Table 2.

Structure of creditor indebtedness across industries as in end of February of 2003.

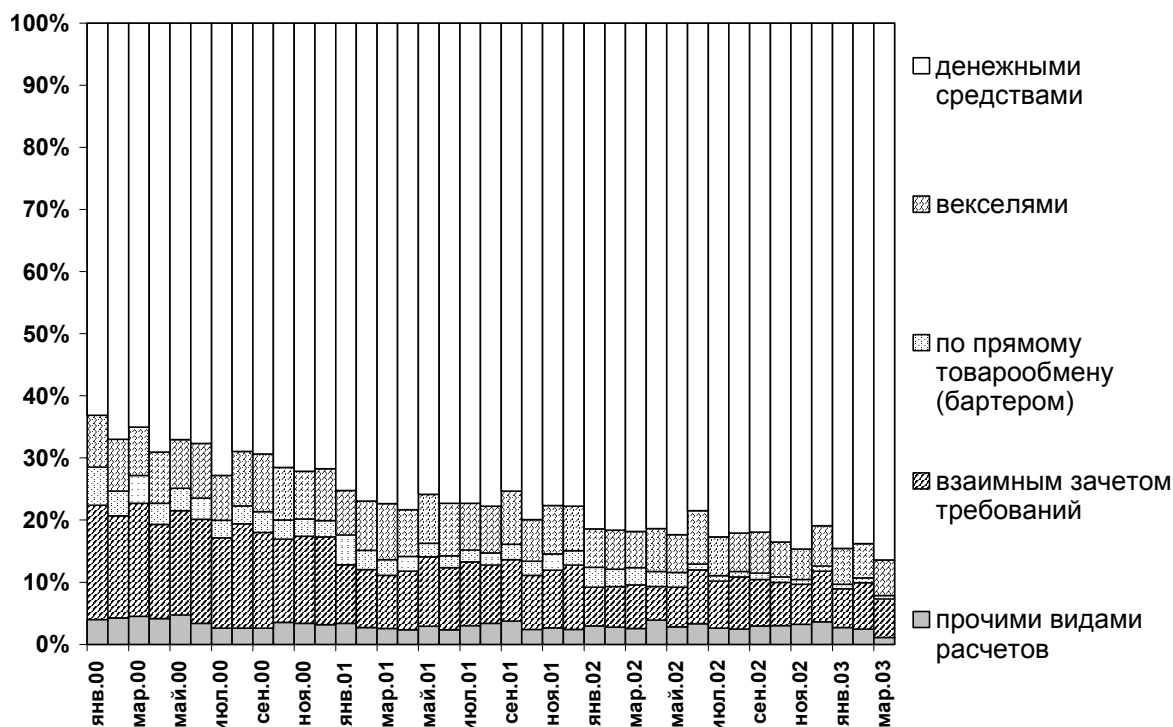
Industries	Creditor indebtedness		Share of outstanding indebtedness in the total indebtedness, %		Share of creditor indebtedness of the industry in the aggregate indebtedness of the industry on the whole, %	Share of outstanding creditor indebtedness of the industry in the aggregate indebtedness of the industry on the whole, %
	Total, Rub. billion	Including outstanding debts, Rub. billion	February of 2003	Memorandum, January of 2003		
Industry, total	2015,40	653,30	32,42%	32,80%	100,00%	100,00%
Including, power engineering	243,80	113,90	46,72%	45,20%	12,10%	17,43%
Fuel industry	514,10	124,90	24,29%	26.1%	25,51%	19,12%
Including						
Oil extracting industry	186,30	11,10	5,96%	6.8%	9,24%	1,70%
Oil processing industry	80,60	9,80	12,16%	19.6%	4,00%	1,50%
Natural gas (extraction and processing or natural and casing head gas)	159,40	43,70	27,42%	25.2%	7,91%	6,69%
Coal industry	86,20	59,20	68,68%	71.6%	4,28%	9,06%
Ferrous metallurgy	114,60	35,90	31,33%	32.2%	5,69%	5,50%
Non-ferrous metallurgy	127,90	41,50	32,45%	33.9%	6,35%	6,35%
Chemistry and petrochemistry (without chemical pharmaceutical industry)	107,90	41,60	38,55%	40.2%	5,35%	6,37%
Mechanical engineering and metal working	551,40	176,00	31,92%	32.5%	27,36%	26,94%
Forestry, woodworking, and pulp and paper industry	54,50	22,60	41,47%	41.9%	2,70%	3,46%
Industry of construction materials	53,90	24,30	45,08%	46.7%	2,67%	3,72%
Glass, porcelain, and faience industry	6,70	2,30	34,33%	36.4%	0,33%	0,35%
Light industry	33,00	15,90	48,18%	50.0%	1,64%	2,43%
Food industry	154,10	28,30	18,36%	17.9%	7,65%	4,33%
Including fish industry	25,50	7,00	27,45%	26.1%	1,27%	1,07%
Microbiological industry	3,90	2,70	69,23%	66.7%	0,19%	0,41%
Flour, grits, and combined fodder industries	11,90	3,50	29,41%	30.8%	0,59%	0,54%
Medical industry	8,90	2,10	23,60%	25.9%	0,44%	0,32%
Printing industry	5,00	0,20	4,00%	4.1%	0,25%	0,03%

Source: RF Goskomstat, calculations of the authors.

Energy monopolies played a significant role in the decrease in payment arrears as they significantly diminished the use of all types of non-cash payments for shipped and purchased products. Even a greater decrease in barter operations in favor of offsets may be singled out among major changes in the structure of payments for shipped products of monopolistic enterprises⁵. The share of cash payments made by these enterprises has stabilized at about the level of 85 per cent (see Figure 6).

⁵ According to RF Government Resolution No. 10 of January 6, 1998, the RF Goskomstat conducts statistical monitoring of payments of largest Russia's taxpayers: "UES of Russia," "Gazprom," "Aeroflot – Russian international airlines," organizations of the federal railroad transport, and industrial monopolistic organizations.

Figure 6. Monopolistic enterprises: the structure of payments for shipped products.



Cash payments
 Promissory notes
 Direct exchange of goods (barter)
 Offsets
 Other types of payments

Source: RF Goskomstat, calculations of the authors.

At the same time, certain new trends are alarming. First of all, these concerns are related to the factors of growth in outstanding indebtedness⁶. For instance, since 2002 there has been observed a stable increase in the share of loss making enterprises in the economy (see Fig. 7). The share of loss making enterprises in the economy in February of 2003 increased by 4 per cent to 4.5 per cent across the sectors of economy in comparison with the figures registered in the preceding year. In February of 2003, the share of loss making enterprises in industry made 40.4 per cent (as compared with 36.3 per cent registered in February of 2002), while in construction this indicator made 42.1 per cent (37.9 per cent in February of 2002), and in transport – 57.3 per cent (52.8 % in February of 2002).

According to calculations⁷, ineffectiveness, financial insolvency of enterprises was a key factor behind the generation of payment arrears in the economy, which indicated the existence of a “channel of financing of bad firms.” This relationship was most characteristic for the period prior to 1998. After the crisis, the share of ineffective enterprises constantly decreased, and the statistical significance of this factor diminished. Although no increase in payment arrears has been registered, this danger still exists.

⁶ According to the results of econometric studies, the growth in payment arrears is, in particular, related to ineffectiveness of domestic producers, shrinking of bank crediting, etc. See, for instance, R. Entov, A. Radygin, V. Mau, S. Sinelnikov-Murylev et al. “Razvitiye rossiyskogo finansovogo rynka i novye instrumenty privlecheniya investitsiy (Development of the Russian financial market and new instruments attracting investment),” IET, 1998, pp. 96 – 149; O. Lugovoi, D. Semenov “Neplatezhi v Rossiyskoi Federatsii (Payment arrears in the Russian Federation),” IET – USAID, 2000; R. Entov, L. Lederman, O. Lugovoi, A. Zolotareva ‘Payment arrears in the Russian Economy and Regions’, CEPRA, 2001.

⁷ Ibidem.

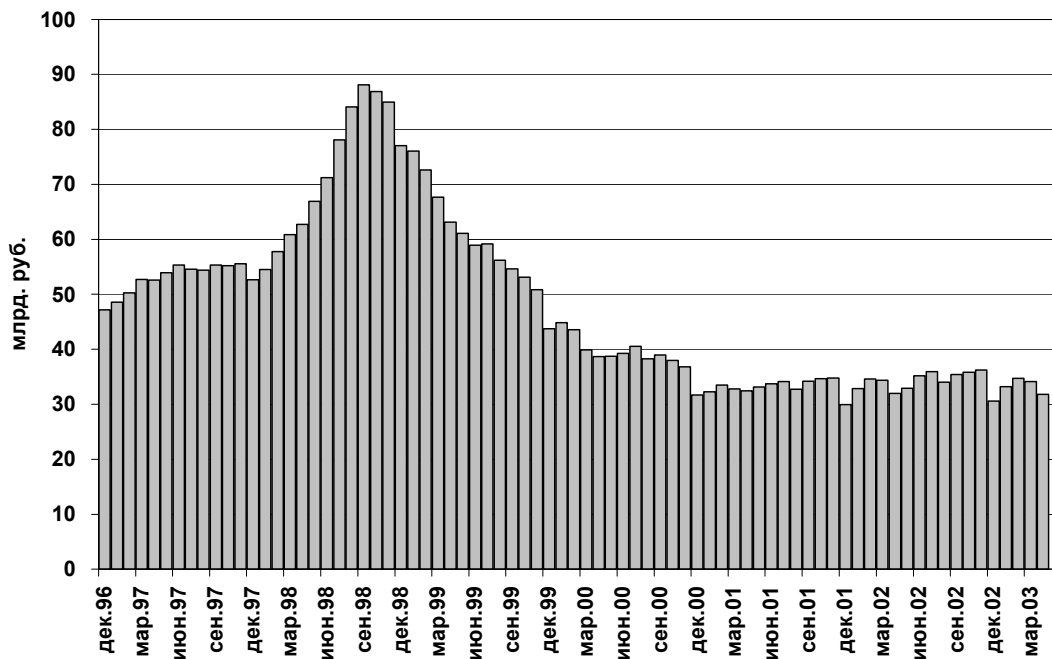
Figure 7. Changes in the share of loss making enterprises across industries (seasonal differences to respective periods of the preceding year).



Industry TransportConstruction

Outstanding wage and salary indebtedness has remained stable since 2000 at about Rub. 30 billion to Rub. 40 billion (in current prices, see Figure 8). The annual growth in this indicator in terms of current prices (figures registered in April of 2003 to figures registered in April of 2002) made 0 per cent.

Figure 8. Dynamics of outstanding indebtedness of organizations relating to wages and salaries⁸



Rub. billion

Source: RF Goskomstat, calculations of the authors.

⁸ Outstanding indebtedness of enterprises and organizations pertaining to industry, construction, agriculture, transport, education, health care, culture and arts, science and science servicing, housing and public utilities, and, since August of 1998, organizations of social security system, state power of the RF subjects, local governments, and public safety militia. The data are presented as registered at the end of respective months.

It seems that the factors, which prevented a surge in payment arrears in spite of a growth in the number of loss making enterprises and real Ruble appreciation⁹, include, first, normalization of state finances, expansion of bank crediting, positive shifts in the area of contract law, in particular, bankruptcy laws, and the reverse effect of the multiplier¹⁰ in the course of the payment arrears settlement.

O. Lugovoi

The Real Sector: Factors and Trends

In the first three months of 2003, the output of base sectors of the economy increased by 7.2 per cent. The growth in production resulted from the stimulating influence of external and domestic demand. The high level of business activity was observed across practically all sectors of the economy: the amount of industrial output grew by 6.7 per cent, the retail trade turnover increased by 8.9 per cent, investment in fixed assets grew by 11.8 per cent.

The growth in real household incomes and the changes in the structure of their utilization are additional characteristics of economic recovery. In January through May of 2003, the real disposable cash household incomes increased by 14.3 per cent, real wages and salaries – by 9.4 per cent as compared with the figures registered in the respective period of the preceding year. The lower rates of growth in retail trade turnover as compared with the rates of increase in real household incomes are determined by the intensifying trend towards higher rates of savings.

As concerns the final demand sectors, the changes in proportions is accompanied by the growing share of investment sectors. However, in spite of a more rapid rates of increase in investment, the gap between the gross savings and accumulation makes about 10 per cent of GDP.

In the first 5 months of 2003, the increase in output of the base economic sectors made 7.2 per cent in comparison with 3.7 per cent registered in the respective period of the preceding year. The high level of business activity was observed across practically all sectors of the economy. As compared with January through May of 2002, the amount of industrial output grew by 6.7 per cent, the amount of completed construction works – by 14.3 per cent, the retail trade turnover increased by 8.9 per cent, while the freight turnover grew by 7.0 per cent. The growth in production resulted from the stimulating influence of external and domestic demand.

The growth in real household incomes and the changes in the structure of their utilization are additional characteristics of economic recovery. In January through May of 2003, the real disposable cash household incomes increased by 14.3 per cent, real wages and salaries – by 9.4 per cent as compared with the figures registered in the respective period of the preceding year. The lower rates of growth in retail trade turnover as compared with the rates of increase in real household incomes characteristic of this year are determined by the intensifying propensity of the population for saving. The share of expenditures for purchase of goods in the total amount of household incomes decreased by 4.1 percentage points in comparison with the figures registered in January through April of 2002, while the share of savings in the form of bank deposits and securities increased by 1.2 percentage points and purchase of foreign exchange grew by 2.4 percentage points. Taking into account the formed trends, in 2003 the real disposable cash household incomes will make about 109 to 110 per cent of the level registered in 2002.

Accelerating rates of economic development in the end of 2002 and early 2003 were positively affected by the favorable situation on the world market of energy resources. The increase in the amounts of exports made 130.1 per cent as compared with the figures registered in the respective period of the preceding year. Although there was observed simultaneous growth both in volumes and amounts of exports, the influence of the price factor was decisive. At the background of a certain decrease in the average world oil prices in April and May of 2003, there is observed a contraction of amounts of export of goods in the Russia's economy. At the same time, the indicator of import of goods also demonstrated a trend towards certain deceleration of the rates of growth over the last few months, although on the whole over the period since the beginning of 2003, imports grew by 20.1 per cent in comparison with the figures registered in the respective period of the

⁹ For the statistical evaluations of the relationships between the dynamics of the real Ruble exchange rates and payment arrears see IET studies referred to above. According to the basic hypothesis, the growth in real exchange rate results in decline in the profitability of domestic production, what facilitates a growth in payment arrears determined by ineffective production.

¹⁰ For details concerning the multiplicative effects of spreading of indebtedness see: Lugovoy O. "Arrears in a Transition Economy: the Mechanism of Contagion", RECEP, Russian Economic Trends 2002-Q2 pp. 19-30.

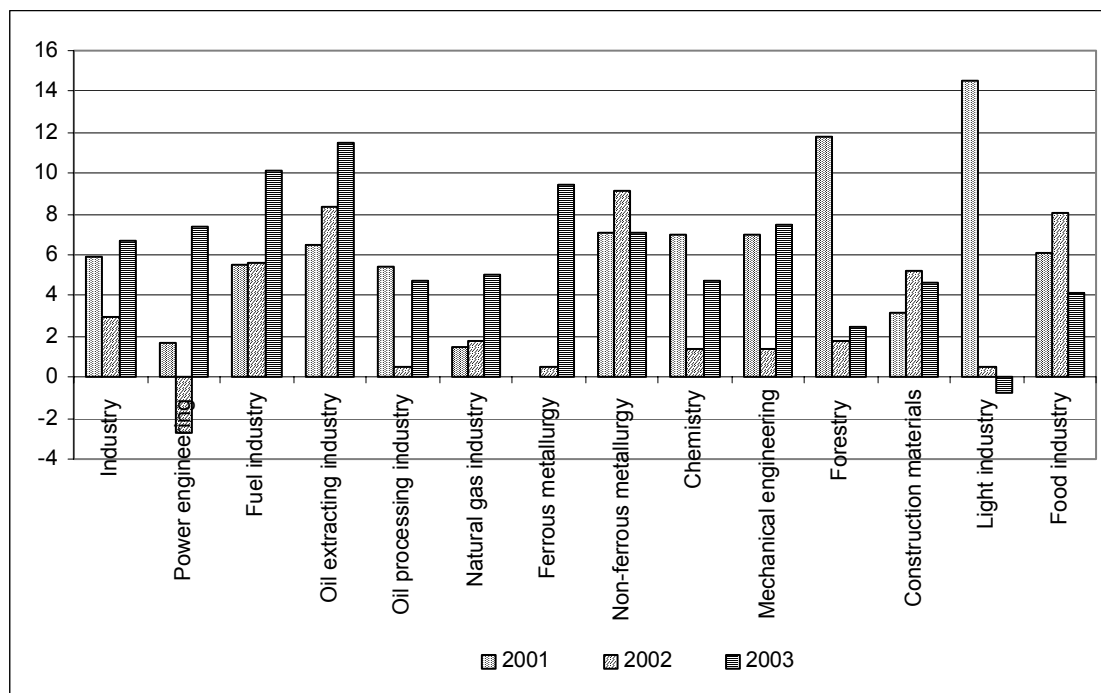
preceding year. The monthly balance of trade made about US \$ 5 billion in January through May, what was significantly above the level observed in 2002 and is comparable with the indicators registered in 2000.

Due to the favorable external economic situation, the financial standing of enterprises belonging to the real sector of the economy improved. In January through April of 2003, the balanced financial results increased by 82.1 per cent in comparison with the figures registered in the respective period of 2002, including industry – by 72.1 per cent, or Rub. 80.2 billion. The growth in the balanced profits in industry was completely determined by the increase in the results of financial activities of export oriented industries: fuel industry, ferrous and non-ferrous metallurgy, and the chemical and forestry complex.

The growing proceeds of exporters favorably affected the character of development of other sectors of the economy and permitted to overcome the trend towards a deceleration of investment activity formed in 2002 and 2001. The growth in investment in fixed assets made 11.8 per cent in January through May of 2003 as compared with 2.3 per cent registered in the respective period of 2002.

The accelerating rates of growth in investment in fixed assets may be explained by short term factors. As risks lowered as a result of the consistent improvement of the normative and legislative base and more predictable policies pursued by the authorities, these developments determined the changes in the motivation of activities of potential investors. An analysis of dynamics of investment demonstrates that as economic growth recovered, private Russian and foreign investors broaden their presence on the Russia's market. Basing on the results of the 1st quarter of 2003, foreign investment in Russia increased by 65.4 per cent as compared with the figures registered in the respective period of the preceding year. Besides, since 2002 there was observed a sharp decline in the outflow of private capitals from Russia. In April and May of 2003, the inflow of capitals from abroad exceeded the export of capital and private investment in foreign assets. However, in spite of certain acceleration of the rates of investment demand, there remains a significant idle potential: the gap between the gross saving and accumulation makes about 10 per cent of GDP.

Figure 1. Changes in output dynamics across the base industries in 2001 through 2003, in % of January through May of the preceding year.



The outpacing growth in external and investment demand in comparison with the dynamics of other components of GDP utilization determined the specifics of structural shifts in the economy. As concerns industry, there the acceleration of the rates of increase in output was accompanied by the growing impact of oil extracting industry and metallurgy. As compared with the figures registered in January through May of 2003, the increase in output of fuel industry made 10.1 per cent, of ferrous metallurgy – 9.4 per cent, non-ferrous metallurgy – 7.1 per cent. This year, the intensive increase in production in the export oriented sector retains its dominating influence on the dynamics of economic growth.

As concerns the final demand sectors, the changes in proportions is accompanied by the growing share of investment sectors. The consequences of the cars overproduction crisis were compensated by an increase in production and export of defense products, recovery of business activity in metallurgy and railroad mechanical engineering, and production of equipment for the industries belonging to the consumer complex. In January through May of 2003, the amount of production in mechanical engineering increased by 7.5 per cent, while the aggregate output of final demand goods changed by 5.7 per cent.

The deceleration of the rates of growth in output of food industry to 104.1 per cent observed in January through May of 2003 as compared with 108.1 per cent registered in the respective period of 2002 negatively affected the character of production of final demand goods and output of light industry.

Deceleration of the rates of growth in output of consumer goods occurs at the background of increasing effective household demand. In January through May of 2003, the turnover of retail trade made 108.9 per cent as compared with the figures registered in the respective period of the preceding year. In contradistinction to the preceding year, practically all increase in turnover resulted from growing sales of non-food goods. As compared with the figures observed in January through May of 2002, the increase in sales of non-food products made 10.6 per cent, while sales of food goods increased by 7.0 per cent. The widening gap between the rates of growth in domestic production and increasing household demand was bridged at the expense of a higher share of imported goods in commodity resources of retail trade turnover. In the 4th quarter of 2002 and in the 1st quarter of 2003, imported goods made over 50 per cent of the total commodity resources of retail trade, as compared with 41 per cent registered in the 1st quarter of 2002. The decrease in the share of domestic products in retail trade turnover demonstrates that in the post-crisis period the processes of restructuring and diversification of industries belonging to the consumer complex, especially light industry, did not correspond to the dynamic changes in the indicators characterizing living standards and effective household demand. In this situation, the expansion of consumer imports rather compensates low business activities of domestic businesses in this sector of the economy than is a factor braking the development of the domestic production.

This year, the Russia's economy is characterized by exceptionally high macroeconomic indicators. Investment growth became a major factor facilitating economic recovery. At the same time, business activity is supported by increasing crediting of the real sector on the part of the banking system and foreign investors. This development fully corresponds to the evaluations of the international ranking agency Fitch, which in May increased long term ranking of Russia's liabilities to "BB+" from "BB-." The forecast of the long term ranking, which remained "positive" over 12 months, is now changed to "stable," what provides grounds for positive evaluations of economic growth till the end of the year.

O. Izryadnova

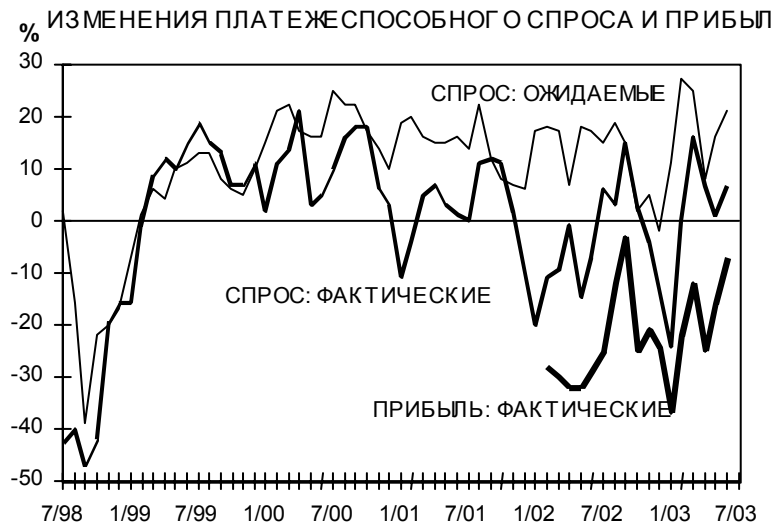
IET Business Survey: Industry

The official data provided by the state statistics confirmed the conclusions concerning the dynamics of base indicators of the Russia's industry obtained basing on the business surveys conducted by IET. In the second half of June, the RF Goskomstat admitted that in May the growth of production in domestic industry practically stopped. The index of industrial output made 99.6 per cent as compared with the figures registered in April (102.1 per cent as adjusted for exclusion of the labor time fund).

According to the evaluations of the Center for Macroeconomic Analysis and Short Term Prognostication (CMAS TP), in the 1st quarter of 2003 the major contribution to the increase in industrial output was made by fuel industry (20 per cent), ferrous and non-ferrous metallurgy (24 per cent), mechanical engineering (36 per cent). The share of other industries made less than one fourth of the increase in the total industrial output. In April and May three industries – fuel (22 per cent), food (29 per cent), and construction materials (12 per cent) – accounted for almost two thirds of growth in the total industrial output. Mechanical engineering (where on the whole there was registered a decline in output basing on the results of two months) and metallurgy were excluded from the list of leaders.

However, according to IET surveys the first June results provide evidence that there begin to appear obvious signs of recovery in the Russia's industry. First, the rates of growth in cash sales started to recover. The balance of changes in effective demand became positive and significantly different from zero. The absolute values of this indicator in the industry at large are formed primarily at the expense of growth in demand in the industry of construction materials, mechanical engineering, chemistry, petrochemistry, and

food industry. At the same time, in other industries of the manufacturing sector the amounts of sales either continue to decline or remain at the previous levels.



CHANGES IN EFFECTIVE DEMAND AND PROFITS
 DEMAND: EXPECTED
 DEMAND: REPORTED
 PROFITS: REPORTED

However, even this change in the dynamics of sales proved to be enough to improve evaluations of amounts of sales according to the scale “above the norm – below the norm.” The balance of evaluations increased up to –50 per cent, what is the best value for the last nine years (see Fig.). The June survey registered a growth in the share of evaluations “normal” up to 46 per cent. It is also the maximal value observed since 1993. At the same time, the balances of evaluations of amounts of non-cash types of demand have remained negative since the beginning of 2002, what bears testimony to the enterprises’ readiness to increase amounts of such transactions.



BALANCE OF DEMAND EVALUATIONS
 BALANCE = % ABOVE NORM - % BELOW NORM)
 BARTER
 PROMISSORY NOTES AND OFFSETS
 EXPORT
 EFFECTIVE

Second, production has immediately reacted to the growth in sales. In June, the rates of output at once increased by 23 balance points and exceeded the indicators observed in April and May. In 2003, only in March surveys registered higher rates of growth. In June, production increased across all industries with the

exception of power engineering and the forestry complex. The highest values of the indicators were registered in the industry of construction materials, food industry, and mechanical engineering.

Third, the rates of decline in real profits of enterprises have significantly decelerated. In June, the balance increased by 9 points; however, on the whole this indicator retained negative values across industries – according to enterprises' assessments, this financial indicator continued to fall. Some growth in profits was registered only in construction industry, mechanical engineering, chemistry, and petrochemistry.

Fourth, the evaluations of finished stocks did not change in June in spite of the outpacing rates of growth in output as compared with the increase in demand. This is an evidence that enterprises expect that sales will continue to grow in the next few months and do not plan significant changes in the rates of growth in output. In other words, finished stocks on hand will be used to rapidly execute new orders. A shortage of finished stocks was registered only in non-ferrous metallurgy.

In June, the estimates of changes in effective demand further improved by 5 balance points, on the whole in May and June the increase made 13 points. The hopes for increase in sales at the moment prevail across all industries with the exception (due to the seasonal factors) of power engineering.

In June, the plans of changes in output practically did not change. As concerns the industry at large, across almost all industries (with the exception of power engineering and non-ferrous metallurgy) there are still prevailing intentions to increase output. The correspondence of these plans with the estimates of changes in sales in the industry at large makes 73 per cent. The maximal value of this estimated indicator was registered in power engineering (83 per cent), while the minimal value was observed in metallurgy (60 per cent). Among other responses there prevail more optimistic (as compared with demand) plans of changes in output. The production plans not supported by demand are especially large in ferrous metallurgy, the forestry complex, and glass industry.

The forecasts of changes in profits (the monitoring of this indicator started 3 months ago) were positive for the second month running. Across industries, there started to prevail enterprises expecting a growth in their profits. In June, the most optimistic expectations were registered in non-ferrous metallurgy, the industry of construction materials, food industry, and mechanical engineering.

S. Tsukhlo

Foreign investment in the Russia's economy

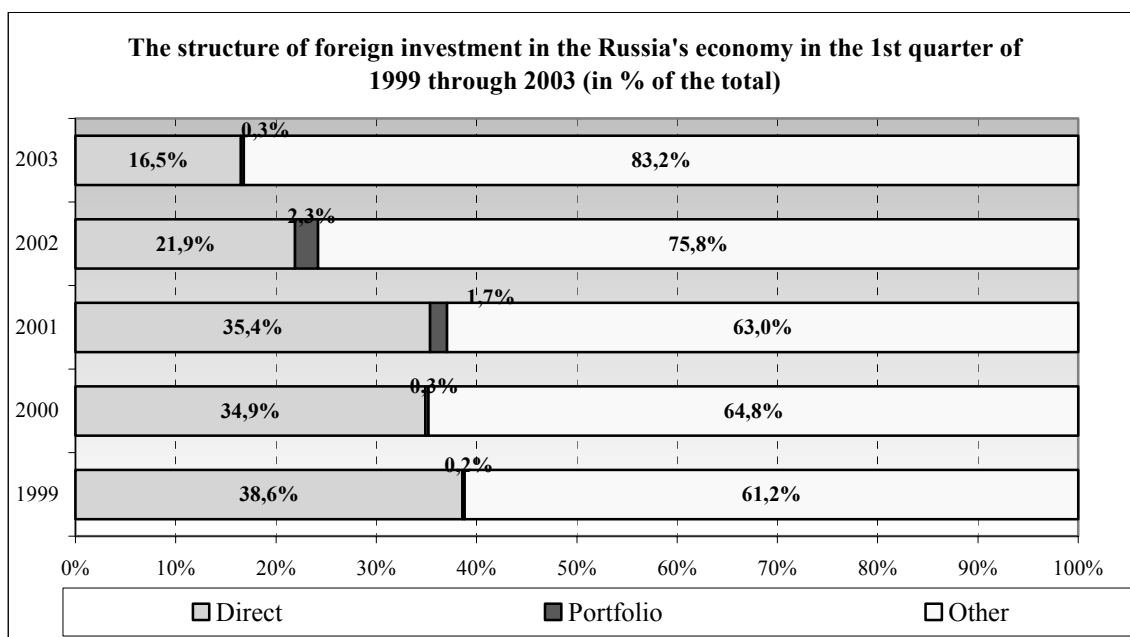
In spite of the fact that the current year is characterized by increasing outflow of capital (+ 23.9 per cent as compared with the figures registered in the respective period of the preceding year), in 2003, for the first time in the few preceding years, the amount of foreign investment in the Russia's economy exceeded the amount of exported capital: in the 1st quarter of this year, there were registered US \$ 3124 million worth of Russian investment abroad, what is by 28.7 per cent below the level observed in the 1st quarter of 2002 and is two times less than the amount of foreign investment in the Russia's economy registered in January through March of 2003. At the same time, in the structure of foreign investment there continues a growth in investment in the form of credits (other investment).

In the 1st quarter of 2003, the amount of foreign direct investment made US \$ 1034 million, what is by 24.7 per cent above the respective indicator observed in the 1st quarter of 2002. The growth in "other" investment made 81.6 per cent this year and exceeded the amount of direct investment 5 times. This disproportion resulted in a decline in the specific weight of direct investment in the aggregate amount of investment in the Russia's economy in the 1st quarter of 2003 to 16.5 per cent.

The results of the 1st quarter of 2003 indicate significant changes in the sectoral structure of foreign investment made in the Russia's economy over this period. Construction and agriculture became leaders in terms of the rates of growth in investment, although the absolute values registered in these spheres are insignificant (construction accounted for investment in amount of US \$ 30 million, agriculture – US \$ 31 million). The investment in these spheres of economy increased by 3.8 and 7.8 times respectively as compared with the figures registered in the preceding year. In January through March of 2003, investment in communications increased 2.6 times up to US \$ 459 million.

The most significant increase in investment in the 1st quarter of 2003 was registered in the sphere of trade and public catering. The respective investment grew by US \$ 1980 million (2.5 times) as compared with the figures observed in the 1st quarter of the preceding year and made US \$ 3282 million. Therefore, the specific weight of trade and public catering exceeded 50 per cent of the aggregate amount of foreign investment in the Russia's economy in January through March of 2003.

At the background of a significant growth in the aggregate amount of foreign investment in the Russia's economy in the 1st quarter of 2003, investment in industry declined by 1.6 per cent, what resulted in a decrease in the share of industry in the aggregate foreign investment to 27.6 per cent.



Source: RF Goskomstat.



Source: RF Goskomstat.

Table 1

Sectoral structure of foreign investment in the Russia's economy in the 1st quarter of 2001 through 2003

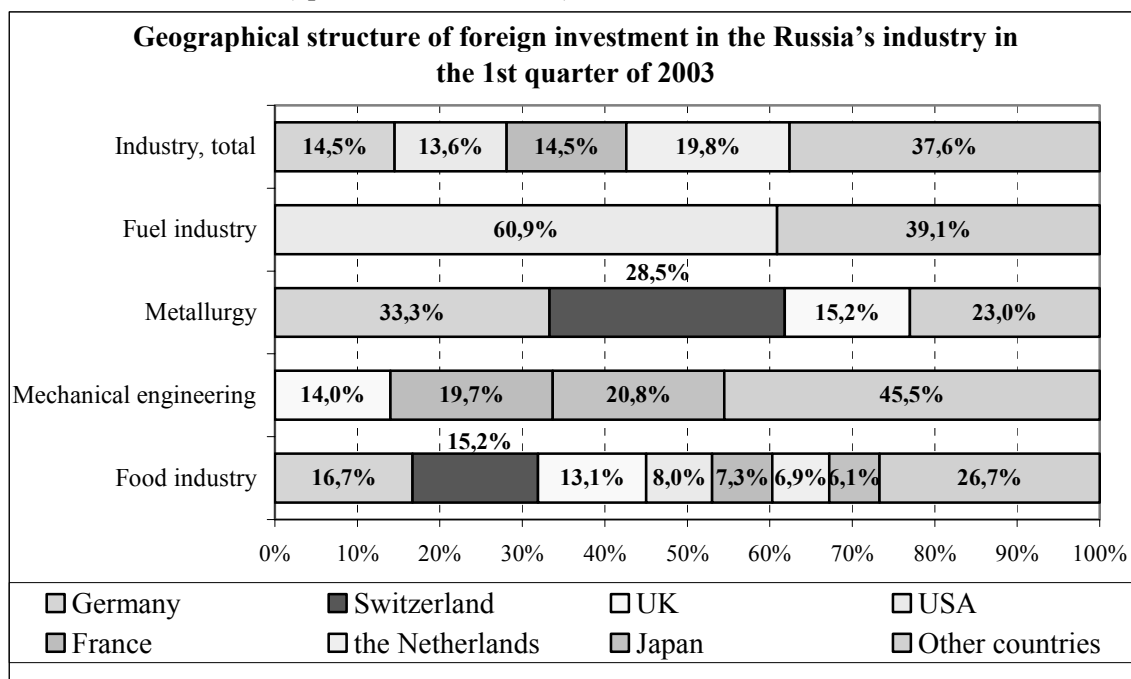
	US \$ mil.			Changes in comparison with the preceding year, %			% of the total		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Industry, total, including:	1182	1755	1727	29,3%	48,5%	- 1,6%	100%	100%	100%
Fuel industry	147	589	456	30,1%	300,7%	-22,6%	12,4%	33,6%	26,4%
Metallurgy	369	425	691	117,1%	15,2%	62,6%	31,2%	24,2%	40,0%

Mechanical engineering and metal working	108	111	69	27,1%	2,8%	-37,8%	9,1%	6,3%	4,0%
Food industry	367	375	242	-8,3%	2,2%	-35,5%	31,0%	21,4%	14,0%
Forestry, wood working, pulp and paper industry	45	62	62	-18,2%	37,8%	0,0%	3,8%	3,5%	3,6%
Other industries	146	193	207	60,4%	32,2%	7,3%	12,4%	11,0%	12,0%

Source: RF Goskomstat

The structure of foreign investments in industry, as well as the respective structure of their aggregate amount is characterized by the prevalence of “other” investment (72.6 per cent). However, in contradistinction to the structure of the total amount of foreign investment, where there was registered a decline in the share of foreign direct investment, the share of the latter in the structure of foreign investment in industry increased from 23.2 per cent to 26.6 per cent, since at the background of declining investment in industry, foreign direct investment in industry increased by 13 per cent in the 1st quarter of 2003 as compared with the figures registered in the 1st quarter of 2002. At the same time, the amount of “other” investment in industry declined by 6.5 per cent over the period under observation and made US \$ 1253 million.

As concerns the regional distribution of foreign investment, Germany increased its investment 2.2 times (up to US \$ 272 million) in comparison with the figures registered in the 1st quarter of 2002, while investment from Switzerland grew 2.5 times (up to US \$ 262 million), and investment from the United Kingdom increased 2.1 times (up to US \$ 227 million).



Source: RF Goskomstat.

As in 2002, in the 1st quarter of 2003 the major countries investing in the Russia's economy were Germany, Cyprus, USA, UK, France, and the Netherlands, whose share made 73.9 per cent of the aggregate amount of foreign investment accumulated by April 1, 2003 (74 per cent by April 1, 2002, 78.1 per cent by April 1, 2001).

Table 2

**Foreign investment in the Russia's economy as broken down
by major investing countries in the 1st quarter of 2003.**

	US \$ million.			Change to the respective period of 2002, in %		
	Inflow	Outflow	Accumulated by April 1	Inflow	Outflow	Accumulated by April 1
Germany	2 720	306	10 560	280,4%	- 37,6%	67,3%
Cyprus	625	739	5 513	- 10,6%	- 49,1%	21,1%
USA	174	398	5 298	- 47,3%	- 38,7%	-0,2%
UK	812	868	4 998	139,5%	76,4%	36,6%
France	157	396	2 794	- 51,8%	37,5%	- 15,8%
The Netherlands	189	387	2 652	- 43,9%	- 29,1%	13,7%
Japan	113	41	1 060	68,7%	- 65,8%	63,8%
Switzerland	327	431	1 027	97,0%	155,0%	33,9%
Other countries	1 151	2 599	9 129	42,1%	237,1%	21,1%

Source: RF Goskomstat.

As in the 1st quarter of 2002, this year the major amount of investment from Germany (about 95 per cent) were "other" foreign investment, 73 per cent of this investment was made in the sphere of trade and public catering. As concerns the structure of accumulated investment from Germany, "other" foreign investment also prevail making 76 per cent. The share of foreign direct investment makes only 20.4 per cent.

This year, investment from Cyprus and the United Kingdom are also primarily credits and loans ("other" investments account for 80 per cent and 85 per cent of the total investment from these countries made in the 1st quarter of 2003). At the same time, the share of "other" investment from Cyprus and the United Kingdom made only 27 per cent and 55 per cent of their respective investments in the Russia's economy accumulated by April 1, 2003. British investors were primarily interested in investment to such sectors of the Russia's economy as trade and public catering (US \$ 457 million, or 56.3 per cent of the total investment from the United Kingdom made in January through March of 2002) and industry (US \$ 227 million, or 28 per cent). About 65 per cent of investment from Cyprus (US \$ 406 million) were also made in the sphere of trade and public catering.

Switzerland, which almost doubled its investment in the Russia's economy in 2003, made 80 per cent of its investment (US \$ 262 million) in industry, 90.5 per cent of this amount were "other" investment.

As concerns the structure of investment from the Netherlands made in the Russia's economy in the 1st quarter of 2003, more than 75 per cent of these investments were direct investments. At the same time, this year Dutch businesspersons preferred to invest in industry (US \$ 119 million, or 63 per cent of investment from the Netherlands made in the 1st quarter of 2003), communications (US \$ 20 million, or 10.6 per cent), and construction (US \$ 15 million, or 7.9 per cent).

One of the largest international ranking agencies Fitch increased the long term forex and domestic currency ranking of the RF by two grades at once (up to BB+) in mid-May, what is an evidence that foreign investors trust Russia more and what will facilitate a further enhancement of investment activity in Russia.

E. Ilykhina

Regions: attracting foreign investment

As concerns the regional structure of attracted foreign investment (see Table 1), in the 1st quarter there sharply increased the share of Moscow – two times in comparison with the figures registered in the 1st quarter of 2002 and 1.5 times as compared with the figures registered in 2002 on the whole. At the same time, although the share of Moscow in foreign direct investment increased, this growth was rather insignificant (by 3.5 to 4 percentage points). Moscow is not the only example of the instability of foreign investment inflow, which is a general trend perceptible for all Russia's regions (this concerns both foreign investment at large and foreign direct investment). It shall be noted that in the 1st quarter of 2003 not only

traditionally less attractive underdeveloped national autonomies, but also the Volgograd, Kirov, Ulyanovsk, Kurgan, Chita, Kamchatka oblasts and Chuvash Republic failed to attract foreign direct investment.

Table 1

Regions leading in terms of absolute amounts of attracted foreign investment in the 1st quarter of 2003 shares of regions in the attracted foreign investment)

Foreign investment, total		Foreign direct investment	
RF subjects	Share, %	RF subjects	Share, %
RF	100	RF	100
City of Moscow	64,07	City of Moscow	41,58
Sverdlovsk oblast	5,47	Sakhalin oblast	22,70
Chelyabinsk oblast	5,36	Moscow oblast	11,20
Sakhalin oblast	3,82	Nenets AO	3,10
Moscow oblast	3,24	Yamal Nenets AO	2,87
Omsk oblast	2,54	Leningrad oblast	2,06
City of St. Petersburg	2,05	Rep. of Tatarstan	2,04
Khanty Mansi AO	1,85	City of St. Petersburg	1,72
Nenets AO	1,44	Astrakhan oblast	1,46
Samara oblast	1,09	Tomsk oblast	1,46
		Sverdlovsk oblast	1,28

Note: the table includes regions whose share in attraction of foreign investment makes over 1 per cent.

Table 2

Regions leading in terms of per capita amounts of foreign investment in the 1st quarter of 2003

Foreign investment, total		Foreign direct investment	
RF subjects	US \$ per capita	RF subjects	US \$ per capita
Nenets AO	2000	Nenets AO	711
City of Moscow	470	Sakhalin oblast	402
Sakhalin oblast	410	Yamal Nenets AO	58
Chelyabinsk oblast	93	City of Moscow	50
Khanty Mansi AO	81	Moscow oblast	18
Sverdlovsk oblast	75	Astrakhan oblast	15
Omsk oblast	75	Tomsk oblast	14
Kamchatka oblast	74	Leningrad oblast	13
Yamal Nenets AO	58	Novgorod oblast	11
RF average	44	Rep. of Mordovia	11
Leningrad oblast	37	RF average	7
Moscow oblast	32	Kostroma oblast	6
City of St. Petersburg	28	Rep. of Tatarstan	6
Rep. of Sakha (Yakutia)	27		
Samara oblast	21		
Novgorod oblast	21		

Note: the table includes the regions where the amounts of per capita foreign investment exceed US \$ 20 and per capita foreign direct investment exceed US \$ 5.

A rather interesting facts are the significant decline in the share of City of St. Petersburg both in the total amount of foreign investment, and foreign direct investment (as compared with the figures registered in the 1st quarter of 2002 and in 2002 on the whole), it means that the interest to this city in relation to its anniversary has not had an effect on the inflow of foreign investment as yet. The shares of the Krasnodar krai and Republic of Yakutia (as well as the share of the Omsk oblast in the total amount of foreign investment) shrunk even more perceptibly. An interesting situation is observed in the Republic of Tatarstan – the share of this region in the total amount of foreign investment sharply diminished, however, in terms of its share in foreign direct investment the Republic appears among the leaders (previously, a specific feature of Tatarstan was the lesser share of foreign direct investment in the total amount of foreign investment in this region).

As concerns the attracted foreign investment in per capita terms (see Table 2), in the 1st quarter of 2003 the Nenets AO retained its position as the absolute leader, and its lead over other regions was almost the same as in 2002 on the whole. The rest leading regions mainly retained their positions, although some of them changed places (as compared with 2002, Tatarstan and the Krasnodar krai are out of the list, while there were included the Leningrad, Samara, and Novgorod oblasts). In terms of per capita amounts of foreign direct investment, the first five regions retained their positions (the Nenets AO, the Sakhalin oblast, the

Yamal Nenets AO, the city of Moscow, and the Moscow oblast), however, on the whole the ratio between regions in terms of the amounts of attracted foreign direct investment is less stable than in terms of the total foreign investment.

In the 1st quarter of 2003, Moscow retains its leading position in terms of its share in the total amount of foreign investment in fixed assets, and is closely followed by the Yamal Nenets AO (see Table 3). At the same time, while in Yamal the role of budgetary financing is very insignificant (only 3 per cent), in Moscow the share of funds provided from the Moscow budget makes more than half of all investment in fixed assets (52.7 per cent), while internal funds of enterprises account for only one fifth of the total investment (20.1 per cent), what is one of the lowest indicators among Russia's regions.

Table 3

**Regions leading in terms of attracted foreign investment
in fixed assets in the 1st quarter of 2003**

RF subjects	Share in the all-Russian amount of investment, %	RF subjects	Per capita investment, Rub. thous. per person
City of Moscow	11,65	Nenets AO	75,6
Yamal Nenets AO	10,32	Yamal Nenets AO	60,9
Khanty Mansi AO	9,45	Khanty Mansi AO	19,9
City of St. Petersburg	5,13	Chukotka AO	14,9
Moscow oblast	4,63	Sakhalin oblast	14,0
Krasnodar krai	2,90	Evenk AO	11,1
Sakhalin oblast	2,73	Rep. of Sakha (Yakutia)	4,8
Sverdlovsk oblast	2,43	Tomsk oblast	4,6
Rep. of Tatarstan	2,23	City of Moscow	4,1
Rep. of Bashkortostan	2,13	Amur oblast	3,7
Samara oblast	2,06	Rep. of Komi	3,5
Nizhni Novgorod oblast	1,90	City of St. Petersburg	3,4
Perm oblast	1,89	Leningrad oblast	3,1
Leningrad oblast	1,70	Kaliningrad oblast	2,4
Chelyabinsk oblast	1,70	Khabarovsk krai	2,4
Tomsk oblast	1,63	Taimyr AO	2,3
Rep. of Sakha (Yakutia)	1,56	Moscow oblast	2,2
		Vologda oblast	2,2

Note: the table includes the regions, whose share in the investment in fixed assets makes more than 1.5 per cent and per capita investment in fixed assets exceeds the average regional indicator (Rub. 2.1 thous. per person).

In the 1st quarter of 2003, the total amount of investment fixed assets in Russia made 110.2 per cent of the level registered in the 1st quarter of 2002. In the overwhelming majority of regions there was observed positive dynamics of investment attraction, however, in 25 regions the amounts of investment in fixed assets declined. The most significant downfall, as well as the most considerable increase in investment was registered in scarcely populated national autonomies. In the Chukotka AO, investment grew 7.9 time, in the Evenk AO – 4.9 times; naturally, in both cases such growth resulted from the attraction of extra-budgetary funds; the share of internal funds of enterprises and organizations in the Evenk AO made 0.2 per cent, in the Chukotka AO – 1.3 per cent (these figures may be considered as apparent characteristics of the phenomenon of regions-corporations).

Among the regions demonstrating most rapid rates of growth (1.5 times and over) in investment in fixed assets (in the 1st quarter of 2003 as compared with the figures registered in the respective period of the preceding year), there are rather many regions situated in Central Russia, which include the Ivanovo, Tambov, Tula, and Moscow oblasts (most probably, in this case to some extent it is the effect of their favorable geographical location, at the same time, Moscow accounts for a rather modest increase in investment – only 3.1 per cent). The list of leaders in terms of rates of growth in investment includes the Leningrad oblast and the city of St. Petersburg (apparently, in the latter case there may be perceived the effects of the growth in the share of federal investment – 16.2 per cent in the 1st quarter of 2003 as compared with 3.2 per cent registered in the 1st quarter of 2002), raw materials regions – the Sakhalin oblast, the Yamal

Nenets AO, as well as the Chita oblast and Mordovia. The investment in the Kaliningrad oblast increased more than twofold (the specific feature of this region is a highest share in investment of internal funds of enterprises and organizations in fixed assets – 84.6 per cent, and, therefore, the regime of special economic zone continues to play its positive role).

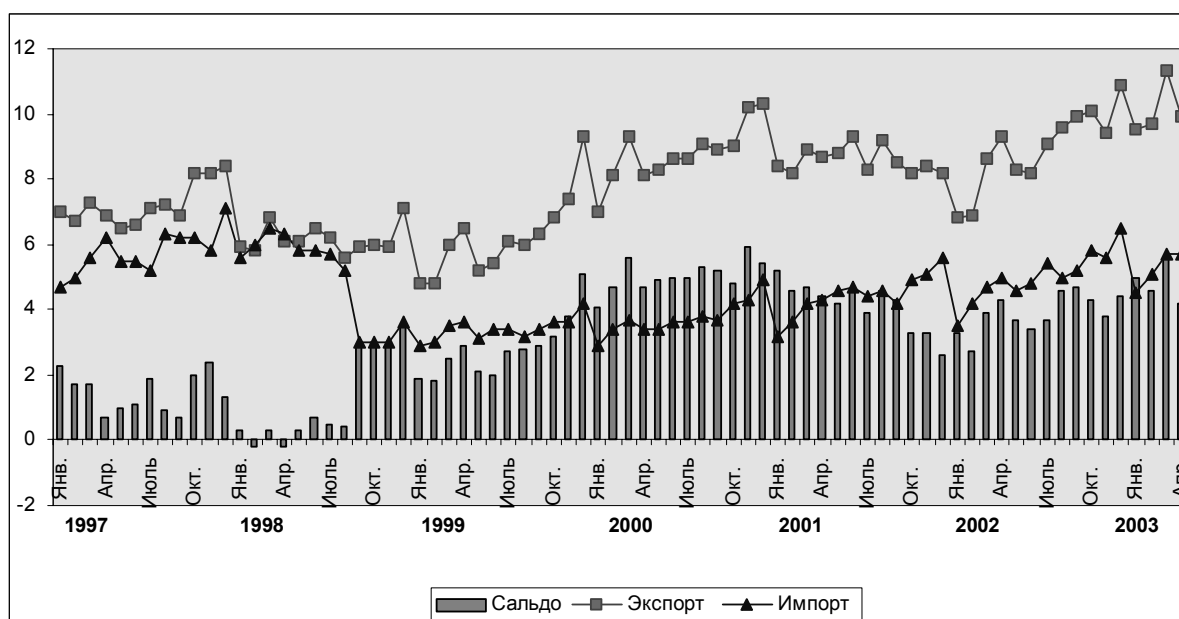
However, as concerns federal okrugs, the leader in terms of rates of growth in investment is the Far East okrug. (there was registered an increase in investment by 52.9 per cent). Not only the Sakhalin oblast, but also the Amur oblast (an increase in investment 2.5 times) made a significant contribution in this growth, while a downfall in investment in the Far East was registered only in the Primorski krai. The North West federal okrug closely followed the leader (a growth by 47.2 per cent), while the rates of increase in investment in the Siberian federal okrug (27.0 per cent) were significantly above the national average. In the Central federal okrug the rates of growth in investment were rather close to the national average (10.7 per cent), while the Ural and Privolzhski federal okrugs demonstrated more modest rates of increase in investment (5.6 per cent and 4.0 per cent respectively). The least favorable situation was observed in the Southern federal okrug, where there was registered a decline in investment in fixed assets by 7.4 per cent (the amount of investment grew only in 4 regions of Southern Russia out of 12), Kalmykia and Dagestan accounted for the most significant downfall in investment – by 61,8 per cent and 24.6 per cent respectively).

O. Kuznetsova

Foreign Trade

In April of 2003, the foreign trade turnover increased by 9.2 per cent, including exports – by 5.0 per cent and imports – by 11.7 per cent as compared with the figures registered in the preceding month. In April, exports made US \$ 9.876 billion, while imports made US \$ 5.733 billion. As compared with the figures registered in the respective period of the preceding year, the foreign trade turnover decreased by 3.7 per cent and made US \$ 4.143 billion.

Figure 1. Main indicators of Russia's foreign trade (in US \$ bln.)



Source: RF Goskomstat

In April of this year, the situation on the world commodity markets sharply deteriorated for Russian exporters as compared with the preceding month – the world prices of staple Russian exports decreased by 10.1 per cent on the average. The world price of oil (Urals) decreased by 21 per cent as compared with the level registered in March of 2003 to Us 22.8 per barrel. On the average, prices of oil products declined by 24.8 per cent, while the price of diesel fuel decreased by 28.6 per cent, gasoline – by 27.1 per cent, furnace oil – by 13.5 per cent.

In order to stabilize the world oil market for the period of the seasonal slump in demand for energy resources, on April 24 of 2003, the extraordinary OPEC session took the decision to reduce oil extraction by 2 million barrels per day since June 1.

In April of 2003, there was observed a certain increase in prices on the market of ferrous metals. For instance, on the European market the average monthly prices of staple types of solid rolled shapes increased by 6 per cent, while the prices of major types of sheet rolled products grew by 1 per cent as compared with the figures registered in March of 2003. Natural gas prices grew by 7.8 per cent, while the prices of non-ferrous metals decreased (aluminum – by 4.3 per cent, copper – by 4.9 per cent, nickel – by 5.8 per cent). However, evaluating the general situation, it shall be noted that the business situation in April of 2003 was better for Russian exporters than in April of 2002.

Table 1.

The average monthly world prices in April of the respective year

	1996	1997	1998	1999	2000	2001	2002	2003
Oil (Brent), USD / metric ton	155,2	125,38	101,36	114,43	167,2	191,2	187,9	180,5
Natural gas, USD / thous. m ³	-	70,2	91,0	78,1	109,0	185,7	121,7	192,5
Gasoline, USD / metric ton	252,5	162,4	135,1	139,7	288,5	356,9	290,9	305,4
Copper, USD / metric ton	2574,9	2369,7	1775,3	1539,9	1710,1	1689,4	1620,8	1598,5
Aluminum, USD / metric ton	1590,2	1554,0	1413,5	1318,0	1448,0	1493,7	1370,3	1332,8
Nickel, USD / metric ton	8053,9	7312,4	5352,5	5239,5	9657,1	6303,1	6940,6	7915,3

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

In April of 2003, exports diminished by 12.6 per cent in comparison with the figures registered in the preceding month due to the decline in the amounts of export of energy resources. Import remained at the practically same level as in the preceding month (an increase by 1 per cent).

In January through April of 2003, as compared with the figures observed in the respective period of the preceding year, there took place an improvement of conditions of Russia's trade vis-à-vis foreign countries (the ratio between the export and import price indices) resulting from a considerable rise in prices of the staple Russian exports as compared with the increase in prices of imported goods.

In April of 2003, the amount of Russia's trade vis-à-vis CIS member countries made US \$ 2.87 billion, at the same time, exports grew by 33.6 per cent as compared with the figures registered in the respective period of the preceding year and made US \$ 1.72 billion, while imports grew by only 12.9 per cent in comparison with the last April figures and made US \$ 1.15 billion.

As concerns the sphere of food imports, which made one fifth of the total volume of products imported from CIS countries, it shall be noted that the volumes of import of sunflower oil fell dramatically. Thus, in April of 2003, the volume of import of this product made 6.5 thousand metric tons, what was 1.5 times below the indicators observed this March and 3 times less than in April of 2002. As before, the major importer of sunflower oil to Russia remains Ukraine. At the same time, the export of sunflower oil from Russia also decreased to 8.1 thousand metric tons, what was by 19 per cent below the figures registered in March of 2003. However, this volume was almost two times above the volume exported in April of 2002. Kazakhstan is one of the major importers of Russian sunflower oil, which this month imported 2.7 thousand metric tons of sunflower oil.

This June, representatives of Ukraine, Russia, Kazakhstan, and Belorussia discussed the progress of elaboration of the concept of the common economic space for these four countries. The participants of the meeting focused on the analysis of harmonization of national legislation building the basis for the further work on economic unification. Experts presented reports on the benefits each country will have after creation of the common economic space. At the first stage of establishment of the new economic union it is planned to introduce the single tariff system for the whole territory of these countries. At the second stage of unification it is planned to transit to the common customs union, where there will be introduced unified customs tariffs.

At the same time, the member countries of another integration association – the Eurasian Economic Community – held the meeting of the Integration committee, where there were discussed the priority avenues of the EvrAzES development in 2003 through 2006, the mechanism of protection of domestic markets of the Community member states in the situation where special protective, antidumping, and countervailing

measures are not applicable to the sphere of mutual trade, as well as issues pertaining to formation of the common customs tariff.

There was continued the work on creation of a legislative base permitting to protect domestic producers from unfair competition on the part of foreign partners. The RF State Duma passed in the second reading the bill "On special protective, antidumping, and countervailing customs duties on imported goods" at its meeting held on June 18, 2003.

The draft law vests the Government with the right to introduce preliminary special duties on imported goods, as well as antidumping and countervailing duties. The document does not regulate relations concerning rendering of services and granting of exclusive rights for objects of intellectual property, as well as investment and foreign currency controls.

Any introduction of a special protective, antidumping, or countervailing measure in relation to import of goods shall be preceded by an investigation aimed at the evaluation of the damage suffered by the Russian economy. The investigation may be initiated basin o applications submitted by domestic producers of competing goods or by an association of Russian producers. The application shall be supplemented with evidence proving that Russian producers have suffered certain losses.

In contradistinction to the law currently in force, the new law shall primarily contain stipulations of direct operation, while the procedures governing investigations became more ordered and transparent. The terms of investigations have been limited, the list of documents to be submitted prior to the investigation is exhaustive. There has been introduced exceptions in the provision according to which it had been necessary to present a joint application of companies together producing more than 51 per cent of goods in order to start the investigation. Now, for the industries where the share of small businesses is high (for instance, agriculture), it is sufficient to submit an application signed by several companies.

At present, the government does not often uses its right to protect domestic producers. On the whole, this year there were carried out about 10 investigations, less than half of which resulted in the introduction of protective measures. After the bill is passed into law, there number of investigations bringing positive results should increase.

In June of 2003, the Government again increased customs duties on used foreign cars as applicable to individuals. In the resolution "On equalization of customs duties paid by legal entities and individuals in the course of import of used cars in the RF customs territory," it is noted that the increase in customs duties has been carried out in order to "equalize customs duties paid by legal entities and individuals in the course of import of used cars in the RF customs territory."

At present individuals have significant privileges. Originally, import duties on foreign cars of this age group were introduced in 1999 as a temporary measure in order to help people after the crisis. However, at the moment this privilege became the basis of the whole business operating at the expense of unfair competition between individuals and legal entities favorable for the former.

After this document is enacted, cars manufactured 3 to 7 years ago with motors of working capacity below 1000 q. cm. shall be imported in the Russian customs territory subject to the duty imposed in the amount of Euro 0.85 per 1 q. cm. of the motor working capacity. As concerns cars of similar age, but with motors of working capacity more than 1000 and less than 1500 q. cm., the import duty shall be imposed at Euro 1 per 1 q. cm., while the duty on cars where the working capacity of the motor is above 1800 and below 2300 q. cm. will make Euro 1.75 per 1 q. cm. At the same time, the import duty on cars with motors of working capacity above 2300 q. cm. but below 3000 q. cm. shall be set in the amount of Euro 2 per 1 q. cm. of the motor working capacity, and the cars where motor capacity is above 3000 q. cm., the duty shall make 2.25 per 1 q. cm.

The resolution shall be enacted in one month since the day of its official publication. Under the previous procedure of import of used cars in the RF, individuals paid the single rate – Euro 0.85 per 1 q. cm. of the motor working capacity below 2500 q. cm., or Euro 1.4 per 1 q. cm. in the case the working capacity of the motor exceeded 2.5 thousand q. cm. For legal entities, the increased import duties on used cars were introduced yet in mid-2002.

It is necessary to note that over 5 months of 2003, individuals imported 127.600 cars worth US \$ 13 million in the Russian customs territory. The largest number of cars was imported to the Far East (57.5 thousand), North West (33.7 thousand), and Central (22.5 thousand) regions.

N. Volovik N. Leonova

Forecasting certain macroeconomic indicators

Below are presented the results of forecasting the real wages and salaries and real disposable cash household incomes, as well as monthly amounts of retail trade turnover, and GDP. For the estimates of these indicators, there were used the statistics from the collection “Short Term Economic Indicators of the Russian Federation” published by the RF Goskomstat. The estimated values were calculated basing on the time series models (models of the ARIMA class). For the evaluation of all three indicators there were chosen data pertaining to the time intervals from January of 1999 till April of 2003. Besides, there is analyzed the accuracy of forecasts of monthly tax revenues calculated previously.

Besides, there are presented the results of prognostication of the tax revenues of the consolidated (singling out profit tax, VAT, and the income tax) budget and revenues of the federal budget generated by the profit tax. At the same time, there is analyzed the accuracy of forecasts of time series of monthly tax revenues.

According to ARIMA model based forecasts (see Table 1), the average growth in real disposable cash incomes is estimated to be at the level of 9 per cent over the respective period. The indicator of growth in real wages and salaries, according to the obtained forecasts, shall be below 8 % as compared with the level registered in the respective period of the preceding year.

Table 1.

Forecast of living standards in June, July, and August of 2003.

	Real disposable cash household incomes (1992.12=100)	Real wages and salaries (1993.01=100)
Actual data for the respective period of 2002		
June of 2003	92.82	97.55
July of 2003	97.00	99.70
August of 2003	97.78	97.71
ARIMA model based forecast		
June of 2003	102.22	104.39
July of 2003	105.60	106.05
August of 2003	104.94	105.30
ARIMA model based forecast in per cent of the actual data obtained in the respective period of 2002		
June of 2003	110.13%	107.01%
July of 2003	108.86%	106.37%
August of 2003	107.33%	107.77%

Forecast of the monthly amounts of retail trade turnover and GDP.

For forecasting the monthly GDP amounts in addition to the data provided by the RF Goskomstat there were also used the indicators of the RF budget estimated by the RF Finance Ministry.

According to the obtained results (see Table 2), the estimated monthly average real increment in the amounts of the retail trade turnover will not exceed 6 % in June, July, and August of 2003 as compared with the figures registered in the respective period of the preceding year. The respective value for GDP will make about 5 %.

Table 2

Forecast of the retail trade turnover and GDP in June, July, and August of 2003.

	Amount of retail trade turnover	Amount of GDP.
Actual values for the respective period of 2002 (Rub. billion)		
June of 2003	297.8	870.3
July of 2003	310.1	953.0
August of 2003	324.3	1021.0
ARIMA model based forecast (Rub. billion)		
June of 2003	361.71	1046.28
July of 2003	373.10	1135.29
August of 2003	386.33	1209.75
ARIMA model based forecast in per cent of the actual data obtained in the respective period of 2002		
June of 2003	121.46%	120.22%
July of 2003	120.32%	119.13%
August of 2003	119.13%	118.49%

Forecast of tax revenues

The average increase in the income tax revenues in June, July, and August of 2003 (see Table 3) in comparison with the figures registered in the respective period of the preceding year makes about 0.2 percentage points (p. p.) of GDP according to the ARIMA model and 0.3 p. p. of GDP according to the REM model. As concerns the value added tax, over the analyzed period on the average the respective revenues grew by 0.3 p. p. of GDP according to the REM model and by 0.1 p. p. of GDP according to the ARIMA model. The predicted average decline in the profit tax revenues of the consolidated budget in June through August of 2003 in comparison with the figures registered in the respective period of the preceding year will make about 0.5 p. p. of GDP in accordance with the REM model and 0.7 p. p. of GDP in accordance with the ARIMA model. Similarly, the revenues of the federal budget generated by the profit tax will on the average decline by 0.2 p. p. of GDP in comparison with the figures registered in the respective period of the preceding year. At the same time, as concerns the indicator of the aggregate revenues of the federal budget in June, July, and August of 2003, there is expected an increase in revenues by 0.8 p. p. of GDP according to the averaged forecasts made basing on the both applied models.

Table 3

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

	Amount of the aggregate tax revenues of the consolidated budget of RF	Amount of the profit tax revenues of the consolidated budget of RF	Amount of VAT revenues	Amount of income tax revenues of the consolidated budget of RF	Amount of the aggregate tax revenues of the federal budget of RF	Amount of the profit tax revenues of the federal budget of RF
Actual values of tax revenues in respective periods of 2002						
January – June of 2002	25.9%	4.7%	6.9%	3.1%	15.7%	1.7%
January – July of 2002	26.2%	4.7%	7.0%	3.2%	15.8%	1.7%
January – August of 2002	25.9%	4.6%	7.0%	3.2%	15.6%	1.7%
January – December of 2002	25.5%	4.2%	6.9%	3.3%	15.5%	1.6%
REM model based forecast						
January – June of 2003	26.8%	4.2%	7.3%	3.3%	16.4%	1.5%
January – July of 2003	27.1%	4.3%	7.3%	3.4%	16.6%	1.5%
January – August of 2003	26.8%	4.1%	7.3%	3.4%	16.3%	1.4%
ARIMA model based forecast						
January – June of 2003	26.9%	3.9%	7.1%	3.4%	16.9%	1.5%
January – July of 2003	27.1%	4.0%	7.1%	3.5%	16.6%	1.5%
January – August of 2003	26.6%	3.9%	7.0%	3.4%	16.3%	1.4%

S. Ponomarenko, A. Yudin

