

**INSTITUTE FOR THE ECONOMY  
IN TRANSITION**

**RUSSIAN ECONOMY**  
**in 2002**

**TRENDS AND OUTLOOKS**

**(ISSUE 24)**

**Moscow**  
**March 2003**

**Institute for the Economy in Transition**  
**Founded in 1992**

**Director: Yegor T. Gaidar**

**The publication of the present paper was sponsored with the grant from  
the United States Agency for International Development (USAID)**

**ISBN 5-93255-107-0**

**Publisher license ИД № 02079 of 19 June 2000**  
**To purchase a hard copy, please contact us at tel. 229-5565**

**Gazetny per., 5, Moscow 103918**  
**Tel.(095) 229-6413, FAX (095) 203-8816,**  
**E-MAIL: root@iet.ru, WEB-page: <http://www.iet.ru>**

**© Institute for the Economy in Transition, 2003.**

**Editor- in- Chief:** Ye.Gaidar

**Editorial Board:** S. Sinelnikov- Murylev, N. Glavatskaya,, K. Mezentseva

**Texts by:**

*Introduction:* Ye. Gaidar

*Section 1.1:* V.Mau, V. Novikov

*Section 2.1:* S. Drobyshevsky, O. Lugovoy

*Section 2.2 and 2.3.3:* I. Trunin

*Section 2.3.1:* S. Batkibekov, E. Sharipova

*Appendix 1:* S. Batkibekov, S. Ponomarenko

*Section 2.3.2:* S. Batkibekov, S. Drobyshevsky, O. Izryadnova, P. Kadochnikov, E. Sharipova

*Section 2.4.1:* S. Drobyshevsky

*Section 2.4.2:* A. Shadrin

*Section 2.4.3:* D. Skripkin

*Appendix 2:* L. Anisimova, S. Batkibekov

*Appendix 3:* E. Shkrebel

*Appendix 4:* S. Batkibekov, P. Kadochnikov, D. Nekipelov, S. Sinelnikov- Murylev,

*Section 3.1.1:* Yu. Bobylev, O. Izryadnova, T. Logacheva

*Section 3.1.2:* O. Izryadnova

*Section 3.2:* S. Tsukhlo

*Section 3.3:* O. Izryadnova, E. Ilyukhina

*Section 3.4 and Appendix 5:* N. Karlova, T. Tikhonova, E. Serova, I. Khramova, O. Shik

*Section 3.5:* I. Dezhina

*Section 3.6:* I. Rozhdestvenskaya, S. Shishkin

*Section 3.7:* N. Volovik, N. Leonova, S. Prikhodko

*Section 4.1 and Appendix 6:* A. Radygin, N. Shmeleva

*Section 4.2 and 4.3:* G. Malginov, A. Radygin

*Section 4.4:* G. Malginov

*Section 4.5:* A. Radygin

*Section 4.6:* E. Marushkina, L. Mikhailov, L. Sycheva, E. Timofeev

*Section 4.7:* G. Malginov, G. Sternik (The Russian realtor guild)

*Appendix 7:* S. Zhavoronkov, A. Shadrin, K. Yanovsky

*Translation:*

L. Lauchis, N. Kirillov, A. Oshis, A. Panfilov, L. Todorov

*Koppekmap:*

S. Khoroshkina

*Computer design:*

A. Astakhov, V. Yudichev

*Data collection and acquisition:*

V. Avralov

# Table of Contents

|  |     |
|--|-----|
| <b>Introduction. Economic Growth and Challenges of the Coming Decade</b> .....                                   | 7   |
| <b>Section 1. The Socio-political Background</b> .....   | 14  |
| 1.1. Economic policy in 2002 and the prospects for national elections .....                                      | 14  |
| <b>Section 2. Monetary-credit and Budgetary Sphere</b> .....   | 32  |
| 2.1. Monetary Policy .....   | 32  |
| 2.2. Balance of Payments .....   | 54  |
| 2.3. Public Finances .....   | 58  |
| 2.3.1. State Budget.....   | 58  |
| Appendix 1. Forecasting Tax Revenues in 2002 .....   | 64  |
| 2.3.2. Federal Budget for 2003 and Macroeconomic Forecast of Social<br>and Economic Development of Russia .....  | 68  |
| 2.3.3. Interbudgetary Relations and Sub-National Finance .....   | 77  |
| 2.4. Russia's financial markets.....   | 90  |
| 2.4.1. The public debt market .....  | 90  |
| 2.4.2. The Market for Municipal and Subfederal Borrowings.....   | 94  |
| 2.4.3. The Stock Market.....   | 107 |
| Appendix 2. A Review of Changes in the Legislation Regulating<br>Taxation Issues in the Russian Federation ..... | 116 |
| Appendix 3. Reforming the Taxation of Small Businesses .....   | 141 |
| Appendix 4. Analysis of Certain Results of the Personal Income<br>Taxation Reform .....                          | 151 |
| <b>Section 3. The Real Sector</b> .....  | 154 |
| 3.1. Production Macrostructure .....   | 154 |
| 3.1.1. GDP Production: Dynamics and Structure .....  | 154 |
| 3.1.2. Use of the GDP: Dynamics and Structure .....  | 177 |

|  |            |
|--|------------|
| 3.2. Situation in the Industrial Sector .....  | 184        |
| 3.2.1. Dynamics of the Principal Types of Demand in Industrial<br>Products in 2002 .....       | 184        |
| 3.2.2. Development of Competition in Russian Industry<br>in the Post-Default Period.....       | 193        |
| 3.2.3. Relationship Between Different Types of Competition<br>at the Microeconomic Level ..... | 204        |
| 3.3. Investment Process in the Real Sector of the Economy .....                                | 214        |
| 3.4. Agrifood Sector.....  | 230        |
| 3.4.1. Production trends in agriculture, upstream and downstream sectors .....                 | 231        |
| 3.4.2. Financial performance of agricultural producers .....                                   | 233        |
| 3.4.3. Agricultural and food markets.....  | 235        |
| 3.4.4. Foreign trade in agricultural and food commodities .....                                | 246        |
| 3.4.5. Changes in the agricultural policies .....  | 249        |
| 3.4.6. Outlook for agrifood sector development in 2003 .....                                   | 259        |
| Appendix 5. Producer support estimate.....   | 259        |
| 3.5. Status of the Research and Development Sphere .....                                       | 262        |
| 3.6. The Social and Cultural Sphere .....  | 280        |
| 3.6.1. Public health.....  | 283        |
| 3.6.2. Education.....  | 288        |
| 3.7. Foreign economic activities.....  | 296        |
| 3.7.1. Russia's foreign trade with countries outside the CIS .....                             | 299        |
| 3.7.2. Russia's foreign trade with CIS-countries.....  | 312        |
| <b>Section 4. Institutional and Macroeconomic Challenges .....</b>                             | <b>320</b> |
| 4.1. The Dynamics of the Privatization Process in Russia .....                                 | 320        |
| Appendix 6. New Privatization Methods and Their<br>Legal Provisions .....                      | 324        |

|  |     |
|--|-----|
| 4.2. Key Issues for Improving the Current Privatization<br>Legislation in the Russian Federation ..... | 329 |
| 4.3. State property management .....   | 335 |
| 4.4. Sectoral Peculiarities of Unitary State Enterprises .....   | 349 |
| 4.5. Certain Trends in the Corporate Sector Development .....  | 362 |
| 4.6. The Banking Sector .....  | 380 |
| 4.7. The National Market for Housing in 2002 and up to 2003. ....                                      | 401 |
| Appendix 7. The Progress in the Administrative Reform Area .....                                       | 413 |