RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
January 2002

MONTHLY BULLETIN

Moscow
2002

5 Gazetny pereulok, Moscow 103918, Russian Federation
Phone: (095) 203-88-16 Fax: (095) 202-42-24 E- Mail: todorov@iet.ru

The state of the federal budget

Table 1 The monthly execution of the federal budget of the Russian Federation (in comparable prices)

	XI`00	00	I`01	II`01	III`01	IV`01	V`01	VI`01	VII`01	VIII`01	IX`01	X`01	XI`01
Revenues													
Corporate profit tax	2,5%	2,5%	1,4%	1,5%	1,9%	2,4%	2,6%	2,6%	2,5%	2,6%	2,5%	2,4%	2,4%
Personal income tax	0,4%	0,4%	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	7,0%	7,2%	9,0%	9,2%	9,0%	9,1%	9,3%	9,3%	9,2%	8,9%	8,6%	8,7%	8,9%
Tax on foreign trade and foreign trade operations	3,2%	3,2%	3,6%	4,1%	4,1%	4,0%	3,9%	4,0%	3,9%	3,9%	3,8%	3,7%	3,7%
Other taxes, duties and payments	0,3%	0,4%	1,1%	0,9%	0,8%	0,8%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	5,1%
Total- taxes and charges	13,3%	13,7%	15,2%	15,7%	15,7%	16,3%	16,6%	16,6%	16,4%	16,1%	15,6%	15,5%	15,8%
Non- tax revenues	2,2%	2,3%	1,0%	1,1%	1,1%	1,2%	1,3%	1,2%	1,3%	1,3%	1,3%	1,3%	1,3%
Revenues, total	15,5%	16,0%	16,2%	16,9%	16,9%	17,5%	17,8%	17,8%	17,7%	17,3%	16,8%	16,8%	17,1%
Expenditure													
Public administration	0,3%	0,4%	0,1%	0,2%	0,3%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%
National defense	2,6%	2,7%	1,3%	2,0%	2,2%	2,5%	2,7%	2,7%	2,7%	2,6%	2,6%	2,6%	2,6%
International activities	0,3%	0,3%	0,3%	0,3%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Judicial power	0,1%	0,1%	0,0%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%
Law enforcement and security activities	1,3%	1,5%	0,7%	1,1%	1,3%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%	1,5%
Fundamental research	0,2%	0,2%	0,0%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Services provided for the national economy	0,6%	0,9%	0,1%	0,3%	0,6%	0,6%	0,8%	1,0%	1,0%	1,0%	1,0%	1,0%	1,1%
Social services	1,7%	1,9%	1,3%	1,6%	1,9%	2,1%	2,0%	2,1%	2,1%	2,1%	2,0%	2,1%	2,1%
Servicing of public debt	2,6%	2,4%	3,2%	5,5%	4,7%	3,7%	3,3%	3,2%	2,9%	3,2%	3,2%	2,9%	2,7%
Other expenditure	2,8%	3,0%	3,3%	3,1%	2,9%	3,0%	3,1%	3,2%	3,1%	3,0%	3,0%	3,0%	3,0%
Expenditure, total	12,5%	13,5%	10,4%	14,4%	14,2%	14,1%	14,2%	14,5%	14,2%	14,3%	14,1%	13,9%	13,9%
Loans, redemption exclusive	3,0%	2,5%	5,8%	2,5%	2,6%	3,4%	3,7%	3,3%	3,5%	3,1%	2,7%	2,9%	3,2%
Expenditure and loans, redemption exclusive	-0,5%	0,0%	-3,7%	-0,8%	-0,6%	-1,1%	-1,7%	-1,3%	-1,1%	-1,2%	-0,9%	-0,6%	-0,9%
Budget deficit (-)	-2,5%	-2,4%	-2,1%	-1,7%	-2,1%	-2,3%	-2,0%	-2,0%	-2,4%	-1,9%	-1,8%	-2,3%	-2,3%
Domestic financing	-3,0%	-2,5%	-5,8%	-2,5%	-2,6%	-3,4%	-3,7%	-3,4%	-3,5%	-3,1%	-2,7%	-2,9%	-3,2%

Table 2. The monthly execution of the federal budget of the Russian Federation (in % GDP, actual financing)

	I`01	II`01	III`01	IV`01	V`01	VI`01	VII`01	VIII`01	IX`01	X`01	XI`01
Total	16,2%	16,9%	16,9%	17,5%	17,8%	17,9%	17,7%	17,3%	16,8%	16,8%	16,9%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
National defense	2,4%	2,5%	2,8%	2,8%	2,9%	2,9%	2,9%	2,9%	2,8%	2,8%	2,8%
International activities	0,5%	0,4%	0,2%	0,2%	0,2%	0,2%	0,3%	0,2%	0,2%	0,2%	0,3%
Judicial power	0,2%	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%
Law enforcement and security activities	1,7%	2,0%	1,9%	1,8%	1,8%	1,8%	1,8%	1,7%	1,7%	1,7%	1,6%
Fundamental research	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,7%	0,3%	0,3%
Services provided for the national economy	0,5%	0,9%	1,0%	1,0%	1,1%	1,3%	1,2%	1,3%	1,2%	1,2%	1,2%
Social services	2,4%	2,6%	2,5%	2,7%	2,6%	2,6%	2,5%	2,5%	2,3%	2,4%	2,3%
Servicing of public debt	3,2%	5,5%	4,7%	4,3%	3,9%	3,2%	2,9%	3,2%	3,2%	2,9%	2,7%
Other expenditure	3,7%	3,5%	3,2%	2,5%	2,7%	3,3%	3,2%	3,2%	2,6%	3,1%	3,0%
Total expenditure	15,3%	18,3%	17,2%	16,4%	16,2%	16,3%	15,7%	15,9%	15,5%	15,2%	14,8%
Proficit (+) / deficit (-)	0,9%	-1,4%	-0,3%	1,1%	1,7%	1,6%	2,0%	1,5%	1,3%	1,6%	2,1%

The data on the execution of the federal budget over the 11 month of 2001 are presented in Table 1[1]. As of December 1, the revenues to the federal budget 2001 accounted for 17.1 % of GDP, including tax revenues – 15.8%, while expenditures made up 13.9 % of GDP (14.8% of GDP in terms of fulfilled funding[2]), including non- interest ones 11.2 % of GDP (12.1 % in terms of fulfilled financing). The level of budget surplus accounted for 3.2 % of GDP (2.1 % of GDP in terms of fulfilled funding).

Between January through November 2001 the execution of the federal budget was characterized with the 2.5 per cent points excess of the level of tax revenues over the respective index of 2000, which, again, can be attributed to the rise in collection of indirect taxes, primarily VAT and excises (at 1.7 p.p.), and taxes levied on foreign trade (0.5 p.p.).

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

[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)

The comparison of the budget execution indexes over the 11 months of 2001 with those of 2000 allows noting as follows: expenditures on public debt servicing practically became equal to those of the prior year (2.7% of GDP v. 2.6 % of GDP).. At the same time between January through November the government paid off Rb. 164 bln. (2.0% of GDP) of the principal foreign debt and paid another Rb. 177.5 bln.-worth (2.2% of GDP) in interest payments, plus Rb. 70 bln. – worth (0.9% of GDP) of domestic debt and Rb. 44 bln.. – worth (0.5% of GDP) interest payments on that. The expenditures on support of the economy's sectors nearly doubled compared with the prior year (from 0.6% of GDP up to 1.1% of GDP).

As of early December, the balances of accounts on accounting the federal budget funds (without regard to the funds accumulated on personal accounts of recipients of budget funds) grew up to Rb. 103.7 bln. (1.3% of GDP) .

Table 3. Actual tax revenues to the federal budget, according to the data of the MTC (in prices of January 1998).

1999											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
10067	11586	12281	12287	10524	11369	12785	12838	12514	14238	16190	21455
2000											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
15030	16161	18247	20714	23469	18817	18219	18762	17422	18232	20306	25579
2001											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
20580	19978	22917	26959	25311	23491	23342	23716	22088	23907	24892	36298

The dynamics of actual tax debts to the federal budget is given in Fig. 1. Since 2001 the form of the MTC's presentation of the respective statistical data has been changed, and the data on debts to the federal budget across all the taxes are no longer available.

Figure 1. Rate of growth of the real tax arrears to the federal budget (in % to the preceding month)

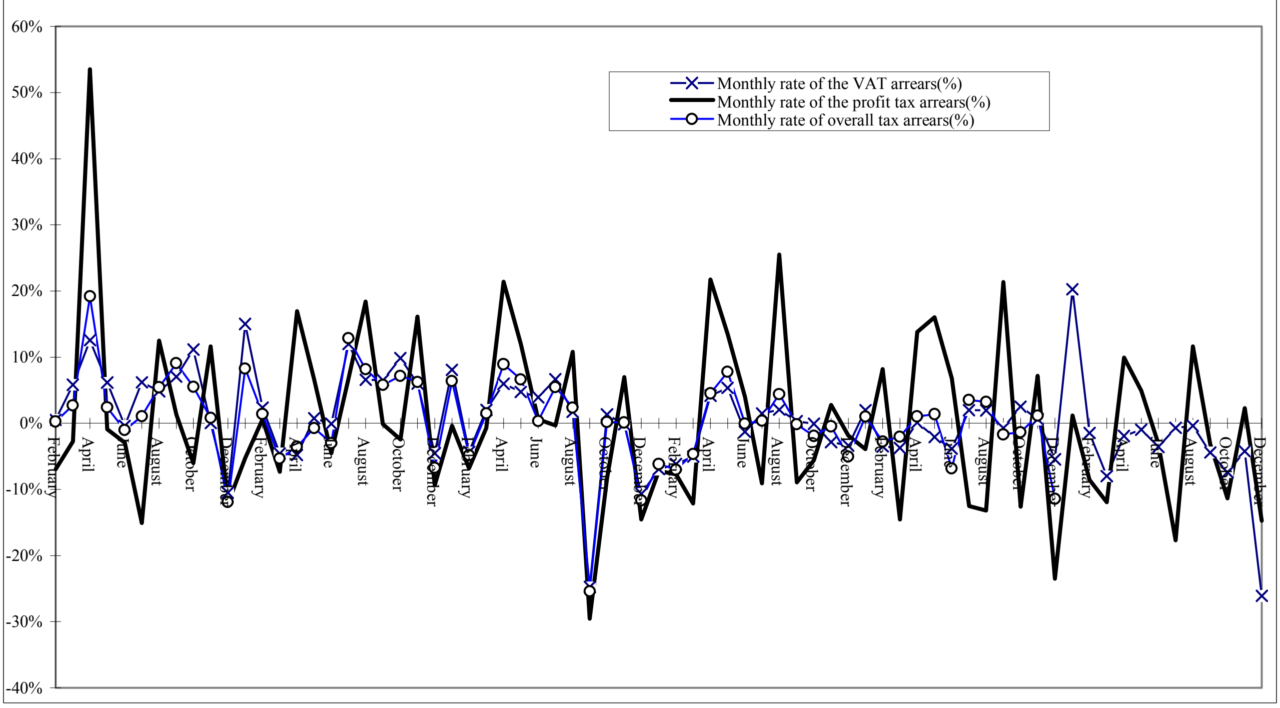


Figure 2. Cumulative real monthly increase of tax arrears to the federal budget (in real RUR)

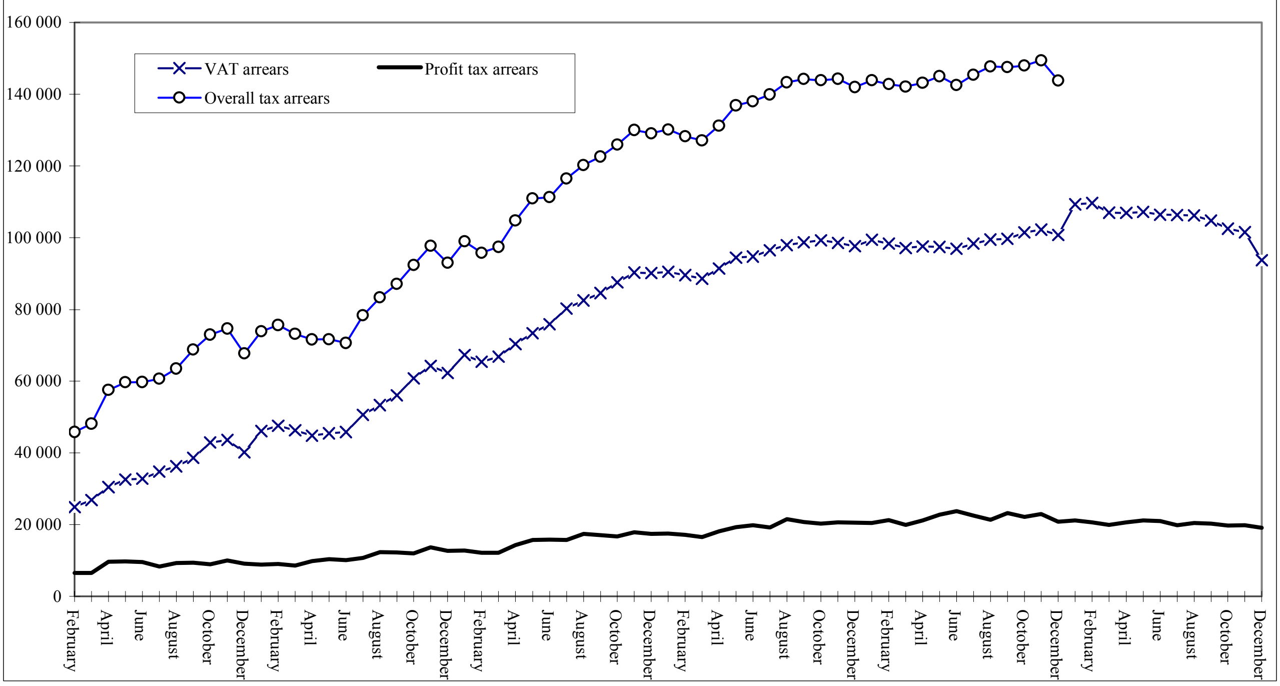


Table 4.

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

The execution of the consolidated budget between 1998 through 2001 is represented in Table 4. In November, revenues to consolidate budget proved to be higher than the their level noted over the past two months at more than 0.5% of GDP, while expenditures remained roughly at the same level. So, the consolidated budget surplus accounted for 3.8% of GDP, of which 0.5% of GDP fell on regional budgets.

S. Batkibekov

Monetary Policy

In December 2001 the increment of the CPI amounted to 1.6%. It is worth noting that it was seasonal factors that contributed greatly to the acceleration of price rise. Specifically, it was the prices for food stuffs that showed the highest growth pace in December – 2.0%. At the same time, prices for non-food goods and services increased by 0.9% and 1.4%, correspondingly. Thus, in 2001 the inflation rate in Russia (according to the consumer price index) roughly accounted for 18.6%

(20.1% in 2000). That is the second lowest value of the index for the whole period of observation (in 1997 – 11%). Compared with 2000 the rate of consumer price rise declined by about one and a half percentage points. However, the variation of monthly CPI growth rates in 2001 was well greater than in 2000.

Overall, we would like to highlight three main features of inflationary process in the Russian economy in 2001:

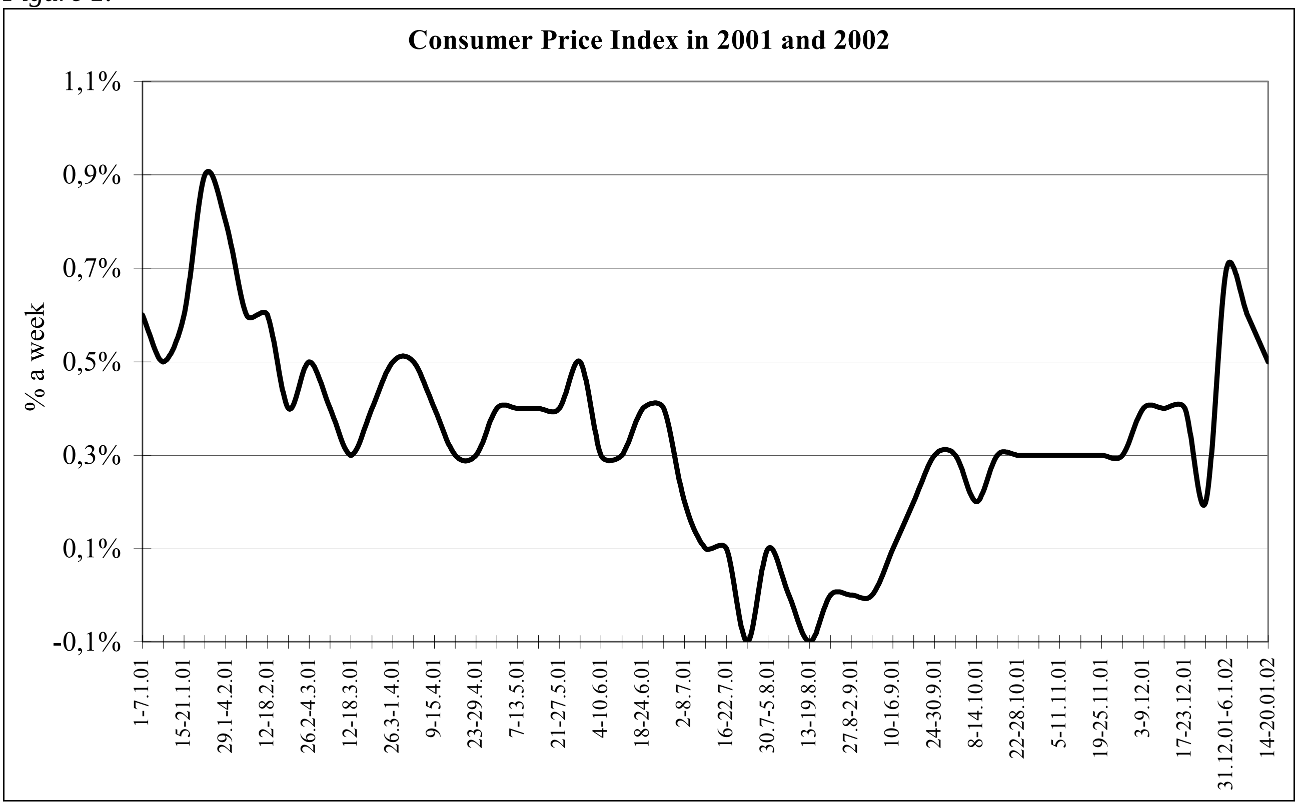
first, non-monetary factors played a far greater role, specifically, regulation (rise) of prices and tariffs for natural monopolists' services for population. Thus, the sectoral structure of the CPI indicated that the prices for food stuffs grew by 17.1%, for non-food goods – by 12.7%, while prices for services grew by 36.9% (in particular, prices for housing services – by 56.8%). At the same time, between January to November 2001 the producer price index increased just by 10.3%

second, in 2001 the intra-annual inflation cycle, which had originated from the foreign debt payments, got broken. In particular, the RF Ministry of Finance's need in foreign exchange to pay debts to the Paris Club became clear as early as in February and March rather than in April or May. Thus, monetary expansion of the Bank of Russia and increase of money supply at expense of funds from the RF Ministry of Finance accounts hindered disinflation in the second quarter;

third, as inflation decelerated, the impact of seasonal factors became stronger, including fall in pace of price rise in summer and early autumn and inflation acceleration in the early beginning and end of the year. In August 2001 the CPI accounted for 0%, while between October through December 2001 the index made up about 1.5% per month, i.e. it was higher than the year average (1.4% per month).

In January 2002 the inflation rate accelerated at a usual pace (see Fig. 1). But this year the inflation jump in January was less intensive than in 2001. According to the tendency noted over the first three weeks, in January the CPI rose by about 2.5–2.6% (in January 2001 – 2.8%). Partly it was related to the fact that the Government's decisions on increase in prices and tariffs for natural monopolists' services were finally approved only in the end of the month, and the inflationary «wave» has not yet spread over the economy.

Figure 1.

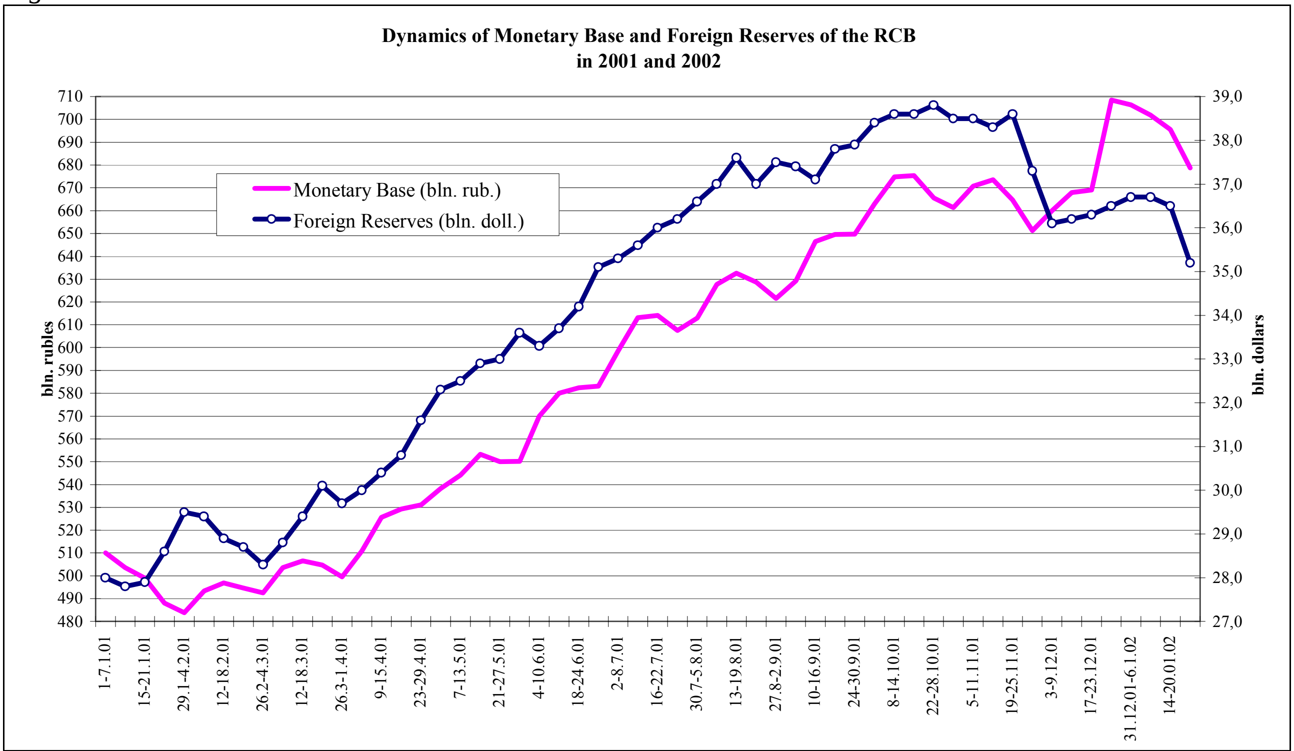


A substantial positive trade balance helped the Bank of Russia accumulate its foreign reserves at more than $8.5 billion (by about 31%), from $28 billion to $36.6 billion. The share of gold in reserves declined over the year from 13% to 11% (in the third quarter it even fell to 10–10.5%). In 2001 the narrow monetary base grew by 36.4%.

In December 2001 and January 2002 the narrow monetary base followed its traditional seasonal pattern (see Fig. 2). Specifically, in late December one could observe a sharp rise in the monetary base, generated by the rise in demand for cash on the eve of the New Year holidays. In December the narrow monetary base eventually grew by 8.78%.

As usual, in January the Bank of Russia contracted money supply. Specifically, the narrow monetary base shrank by 4.2% for three weeks. The main tool of money withdrawal was selling foreign exchange from the CBR's reserves. They fell by $500 million over the period in question. However we should note that this year the sale of foreign exchange was rather forced by speculative attack against rouble in the forex (see section *Foreign exchange market*). According to our estimates, sometimes interventions exceeded $200–300 million, followed by the CBR appearing at the market as a buyer of foreign exchange.

Figure 2.



S. Drobyshevsky.

Financial Markets

The market for government securities

Concluding outcomes of 2001, one can outline a clear tendency to decline of yields in the market for the Russian foreign debt liabilities. The fall of yields on Minfin bonds was the most significant: specifically, the yield on the 4th tranche (maturity – May 2003) dropped from 32% to 10% annualised over the year; the yield on eurobonds-2003 declined from 15% to 6.5% annualised. So, in 2001 the range of rates on the Russian foreign debt bonds narrowed from 11–32% to 5–13% annualised, while the prices for the Russian debt liabilities peacked their historical maximums.

In January 2002 the quotations of all Russian securities soared up quickly (see Figs. 1 and 2). Specifically, yields to maturity on the Minfin bonds fell from 10–13% to 7.5–12% annualised, and on eurobonds – to 4.7–11% annualised. In our view, such a spike of prices on the Russian debt liabilities was mainly due to a rise in demand for securities on the part of international investment funds. Russia's sound economic performance a, high rate of economic growth against a general slowdown in the world economy, a low probability of default on foreign debt encouraged investors to extend their limits on the Russian securities. Taking into account the country's current sovereign rating and permanent uncertainty in the oil market and in the emerging markets, we assume the growth of quotations will stop shortly and expect adjustment to occur yet in February.

Figure 1.

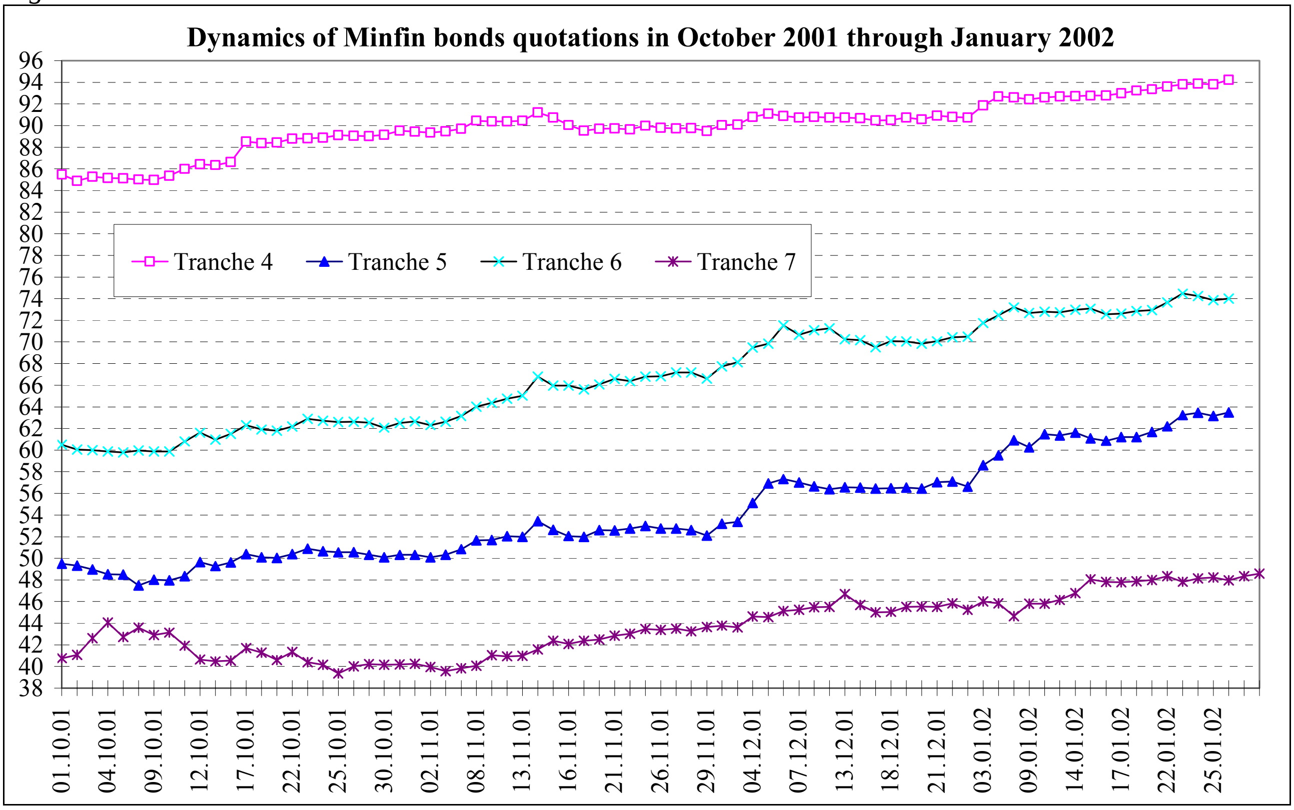
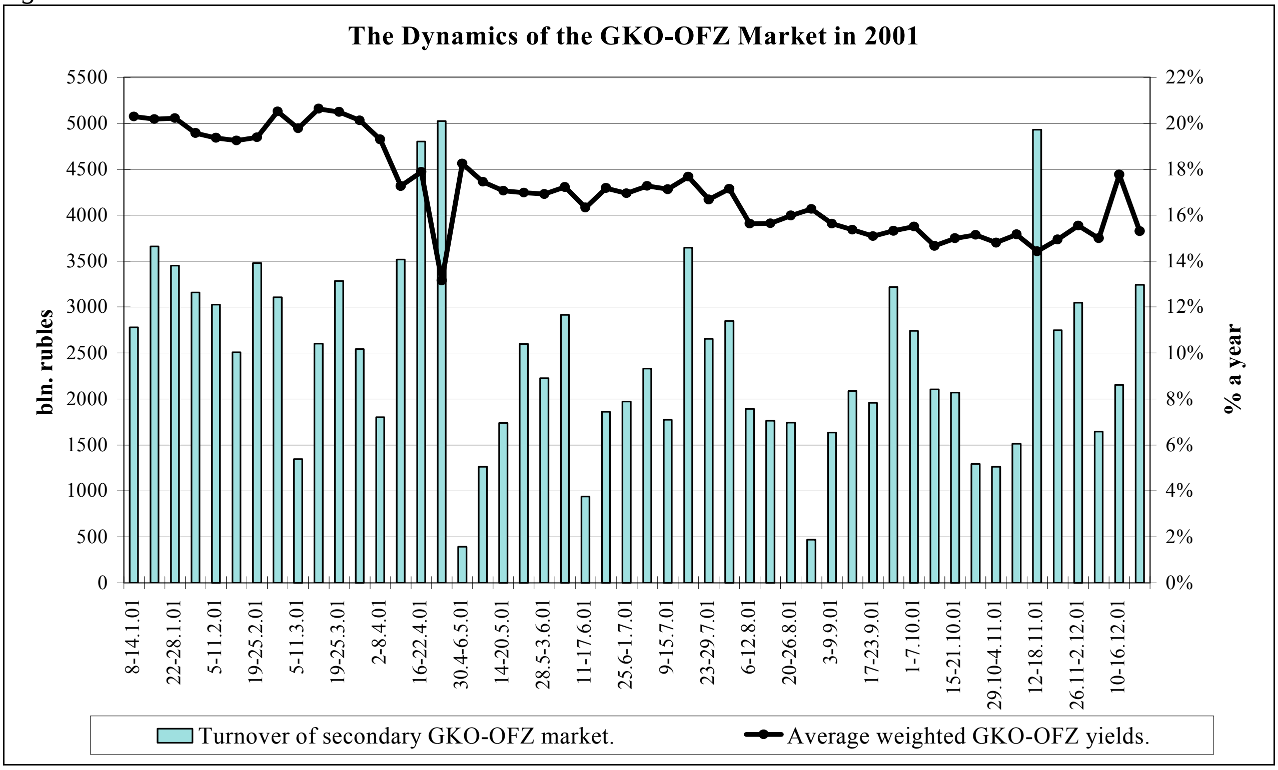


Figure 2.

In 2001, the market for domestic debt demonstrated a smooth decline in the yields, with trade volumes still being relatively low (see Fig. 3). Overall, during the year the average-weighted GKO-OFZ yield to maturity slid from 20% to 14–15% annualised. The mean weekly trade volume amounted to about 2–2.5 billion roubles. Through the whole year the real GKO-OFZ yield to maturity remained negative, and the demand for government securities was low.

Figure 3.



In 2001 the RF Ministry of Finance held 18 auctions on placement of new securities, including three auctions on conversion of OFZ №25030 into new bonds. The issuer offered 13 issues of GKO (maturity between 4 to 12 months) and 4 issues of OFZ (maturity between 2 to 3.5 years). The total supply of new securities amounted to 80 billion roubles while the claimed demand was about 79.2 billion roubles. The RF Ministry of Finance placed about 61% of supply. The gain reached 45.4 billion roubles (over $1.5 billion). The average-weighted auction yield (excluding one special issue for non-residents) roughly accounted for 15.81%. So, taking into account actual inflation rates, the real costs of borrowing in the domestic market by the RF Ministry of Finance was negative.

Stock market

In January the Russian stock market demonstrated an upward trend. Between December 29 and January 30 the RTS Index grew by 23.63 points (9.09%), the turnover exceeded $405 million, i.e. accounted for more than 40% than in the previous month. On January 8 the daily turnover peacked the half-year maximum – $37.9 million[3]. The average daily trade volume in the RTS amounted to $21.4 million. The RTS Index grew rapidly during the first decade of the month (between December 29 to January 9 the Index soared up by 11.8%). The highest daily growth increment was fixed on January 8 and was equal to 4.3%. After that the RTS Index also demonstrated rapid growth and on January 22 it reached the next maximum – 301.45 points (last time it was on May 8, 1998 when the Index exceeded the level of 300 points). However, in the end of month the Index slid from the height and fell sharply. On January 25 the decline (relative to the last maximum) amounted to 23.11 points (-7.6%).

The leaders among ***blue chips*** (on January 30) were stocks of “YUKOS” (17.67%) and “Sibneft” (17.13%), followed by “ LUKoil” (14.84%), “Rostelecom” (14.05%) Sberbank (8.0%). The list is closed with stocks of “Aeroflot” (-0.28%), “Tatneft” (-4.78%) and MMC “Norilsky Nickel” (-8.36%).

In January the share of RAO “UES Russia” common stocks in the total RTS turnover was 30.12% (in December – 31.11%, correspondingly,), the share of “LUKoil” stocks was 19.89% (18.09%), “YUKOS” – 8.6% (14.71%), “Surgutneftegas” – 7.86% (7.21%), “Rostelecom” – 4.88% (2.45%). On the whole, in January, the total share of the top five most liquid stocks in RTS decreased to 71.34% (in December – 75.03%). We should note investors being keen on acquiring stocks of the “second” echelon, specifically, stocks of regional telecoms and energy companies. During the month in question the trade volume with “Gazprom” shares through RTS terminals rouhgly amounted to t $49.8 million (86 million shares). In total, 4806 deals involving the company’s stock were stricken..

[3] Last time the trade volume exceeded this value on July 12, 2001.

Figure 4.

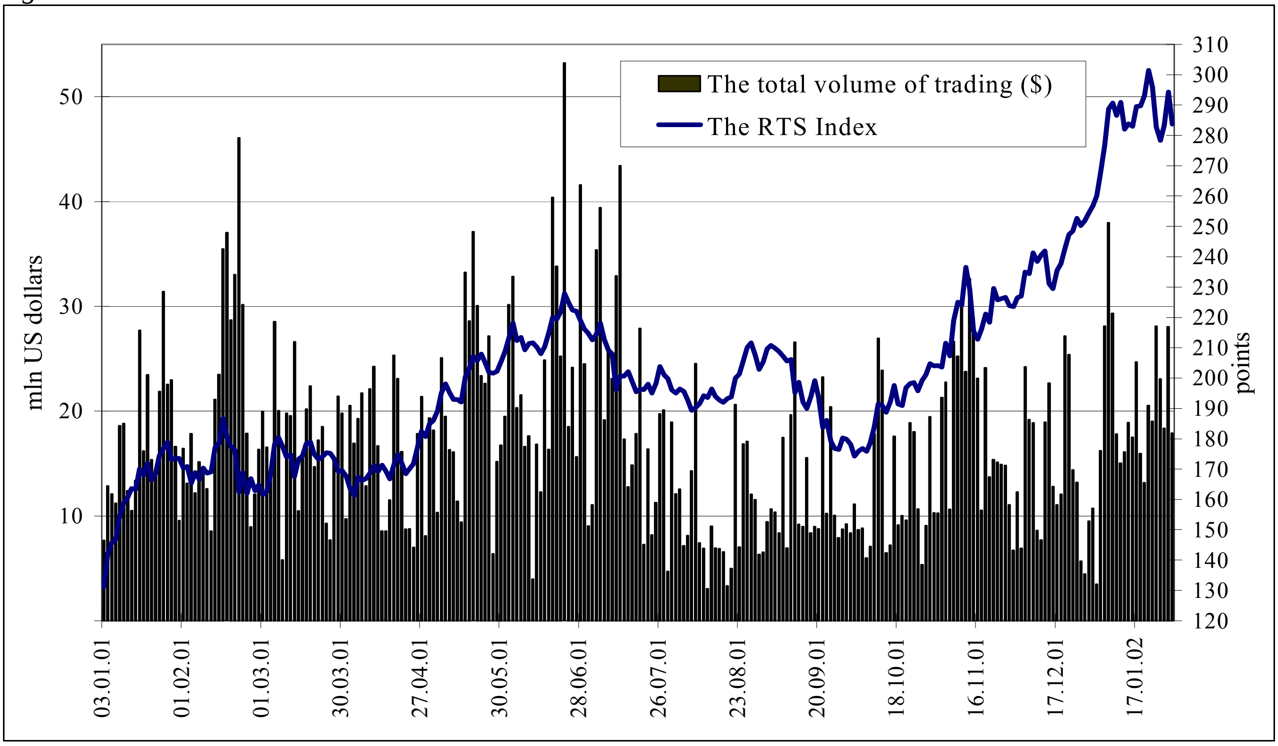
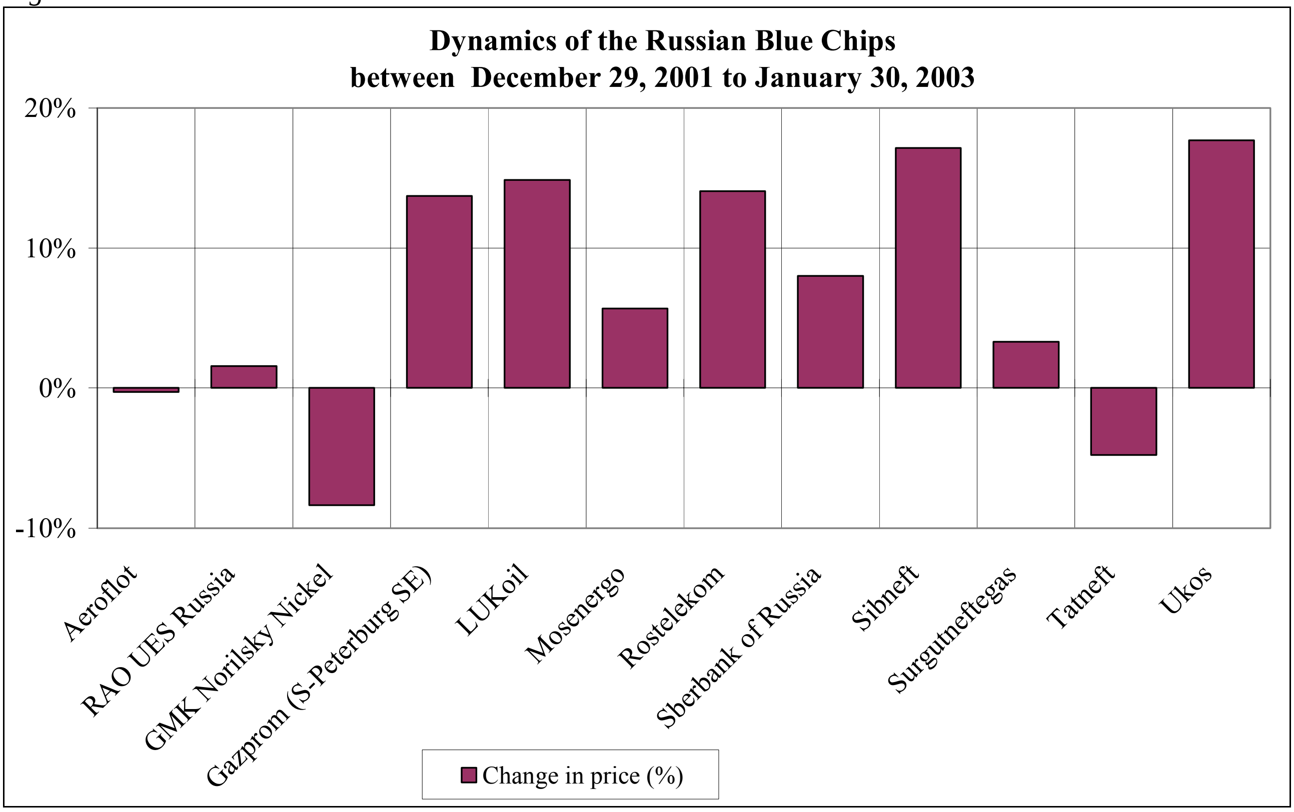


Figure 5.



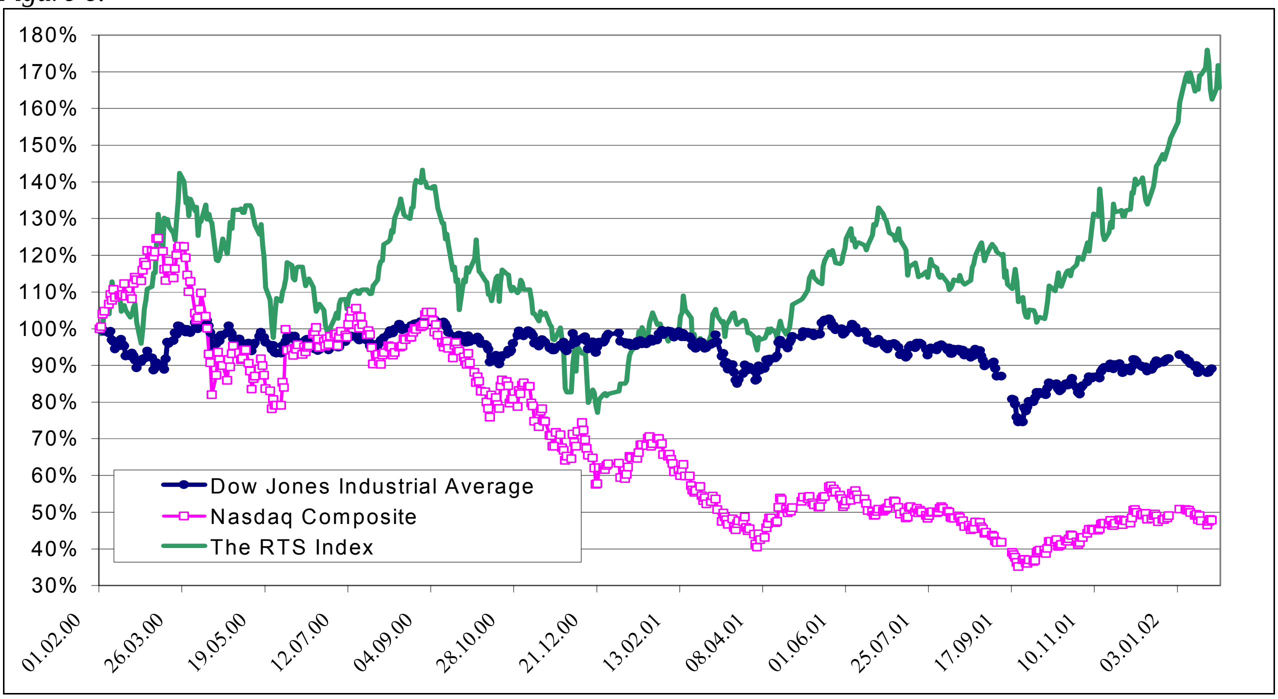
In January the trade activity in the RTS forward section (FORTS) intensified once again. On January 28, 2002, the volume of open interest amounted to 687 million roubles (103,308 contracts). That was a historical maximum. The open interest on futures equalled 671.2 million roubles (100146 contracts), and on options – 15.6 million roubles (3,062 contracts). On January 30 there was the record breaking t turnover in FORTS – 425.7 million roubles (83,403 contracts), with the trade volume on futures reached 424.4 million roubles (83,138 contracts), i.e. 1.5 times higher than the previous maximum. In total, between January 8 to January 25 17,224 contracts were negotiated (456.4 thousand contracts) worth a total of 2.566 billion roubles, including 16992 deals with futures (453.6 thousand contracts, 2.555 billion roubles). The trade volume on investment indices futures (the trades started on December 3, 2001) amounted to 274.2 million roubles (613 deals, 20.7 thousand contracts).

External factors. We should note that the rapid growth of the Russian market went on against rather a pessimistic background. In January the world economy continued to show negative trends. The German Institute for Economic Studies (DIW) lowered its forecast on the German economy growth rate for 2002 to 0.6% instead earlier forecasted 1.3% y and that of the euro zone – to 1.1% instead of 1.6% in 2001. The ECB Head Wim Duisenberg argued that the German budget deficit, which had come "dangerously closer" to the upper limit (3%), raised great concerns.

The Head of the Saint-Louis Federal Reserve Bank W. Pool reported on January 11 that it was still early to argue about the end of the recession in the US economy, however, the latest data indicated that it would take place shortly. He also told that the existing data implied the end of slump in the computer production. Besides, similar tendencies were found in industrial production. However, the situation in the labour market still remained hard. On the same day the Fed Head A. Greenspan gave a talk before the Bay Area Council that pooled more than 250 firms' chiefs from the US West Coast. He evaluated the situation in the US economy and stressed that though some signs of stabilisation were already in place , the factors hindering overcoming the recession were still strong. Such pessimistic view of the Fed Chairman caused sales of the American securities. The DJ stock index fell by 0.8% and closed below the 10000 point, while another index – NASDAQ – decreased by 1.21%.

The biggest US corporations' reports did not also bring about confidence to investors. Thus, on January 18 the US stock market opened with a decrease in quotations caused by reports of hi-tech giants Microsoft and IBM on fall in their profits in the fourth quarter, and the one by Sun Microsystems – about losses in the second quarter of financial year and a decrease in sales.

Figure 6.



However, by end of month the prospects for development of the world biggest economy became less vague. The unexpected growth of the USA GDP in the IVQ, 2001, amounted to 0.2%, while in the IIIQ, 2001, the GDP fell by 1.3%. In total, in 2001 the GDP grew by 1.1% compared with 4.1% in last year. Therefore, formally there is no recession in the USA, as it should imply a fall in GDP lasting over two quarters running l, while in 2001 the US GDP experienced a fall only in the IIIQ . It is worth noting that the above figures constitute very preliminary estimates and are subject to revision. The second Greenspan's address over the month (on January 24) to the Senate Budget Committee was much more optimistic. The Fed Head argued that once underwent a slump, the US economy was gradually getting rid of obstacles to growth renewal and one could already expect higher business activity hence.

On its first meeting this year held on January 29-30 the Fed Open Market Committee decided on keeping the key interest rate unchanged (ie1.75%).

In the beginning of the month the oil prices rose sharply, because of closing short position, cold weather in the USA and cutbacks in oil production by OPEC and independent oil producers. On January 2 the price of Brent futures for February grew by $1.10 up to 21.00 $/bbl on the IPE, on the NYMEX the price of American light futures for February rose by $1.17 up to 21.01 $/bbl.

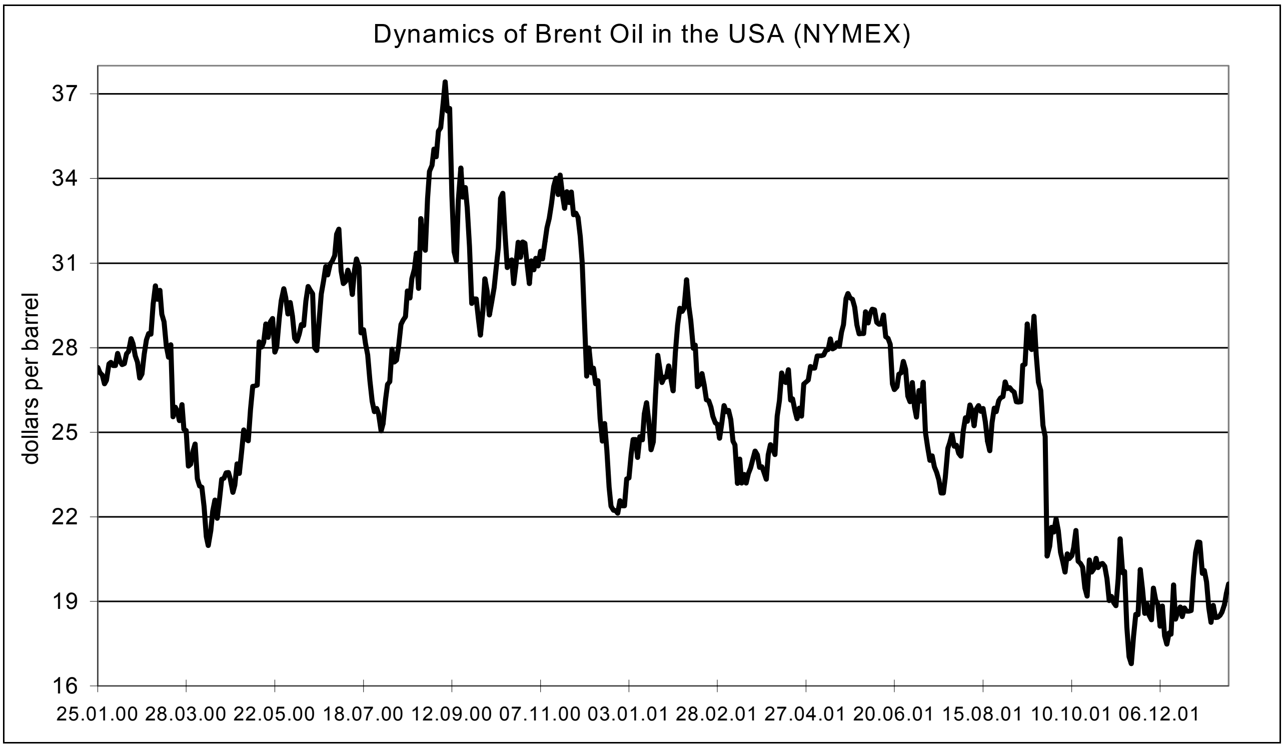
An additional incentive generating growth of oil prices in the end of the first week of 2002 was an information on the fall in the US oil reserves . The USA is the largest oil consumer worldwide. Another factor of oil price growth is the continuous cold winter in the Northern hemisphere. In addition, OPEC started to cut down its oil extraction in the very beginning of the year.

On January 7 the Saudi Minister of oil industry of Ali al-Naimi acknowledged that actually OPEC refused to support oil prices within the range of 22-28 $/bbl and would focused rather on clearing demand and supply to avoid a further sharp downfall of prices. After his statement the oil prices went down in the world market. On the IPE the price of Brent futures for February fell by 15 cents to 22.03 $/bbl, on the NYMEX the price of American light futures for February declined by 14 cents to 21.48 $/bbl.

Moreover, the warmer weather in the US North turned the oil market down. The American Oil Institute reported the oil and petroleum reserves soared in the USA during the week between January 4 to January 11. This fact also provoked a fall in oil prices.

On January 21 the Iran Minister of oil B. Zangane stated that the current price of oil did not satisfy OPEC and on its next meeting the issue of a further cutback in oil production would be discussed. OPEC plans to increase oil prices in the second half of the year due to expected end of recession in the US and the European economies.

FIGURE 7.



Corporate news

<u>"Sibneft"</u>. "Sibneft" plans to increase its oil output in 2002 up to 26.1 million tons from 20.6 million tons in 2001. This should enable " the company" to get the 5th position in Russia by oil extraction in 2002. The company reported it was granted the syndicated credit ($175 million) from the Western banks. The credit was arranged by the French "Societe Generale" and the Dutch "ING Bank". The credit will be repaid with revenues from sales of oil and oil products, but the funds are to be invested in liquid and fixed capital.

<u>"Gazprom"</u>. The corporation's export revenues in 2001 grew by $3 billion compared to 2000 and amounted to $14.5 billion. That is the highest value for the whole history of the company. "Gazprom"

plans to hold the annual shareholders meeting on June 28, 2002, while on February 4 the Board of Directors would have to approve the date and the place of the meeting. The Board also is to consider the shareholders' proposals as to the meeting agenda. The key items are election of the new Board of Directors and approval of dividends for 2001. It is expected the company will pay dividends being twice higher compared to those paid in 2000 (the latter was 0.3 roubles per share).

"Svyazinvest". The telecommunication holding reported in 2001 its consolidated net profit amounted to about 9 billion roubles (preliminary estimate). That is at 17.8% higher than the 2000 profit. "Svyazinvest" plans to issue ADR (2nd level)by seven united inter-regional communication companies not earlier than in mid-2003. The issuance is aimed at attraction of new funds as well as shaping the company's favourable image and rise of its capitalisation. So far, the ADR (the first level) have been issued by all the noted seven inter-regional companies.

"Aeroflot". The largest Russian air company expects its net profit in 2001 should make up 0.8-1 billion roubles (according to the Russian accounting standards) compared with 1.24 billion roubles in 2000.

"YUKOS". In mid-January the prices of company's stocks demonstrated a quick growth encouraged by news on possible purchase of a stake in "YUKOS by the French -Belgian "TotalFinaElf". Specifically, between January 9 to January 17 in RTS the quotations grew by 4.8%, up to $5.90.

The "YUKOS" Head M. Khodorovskiy told the company planned to increase the oil extraction by 21.7% compared to 2001, ie up to 68-70 million tons.

Table 1.Dynamics of the Foreign Stock Indexes

as of January 25, 2002	value	change for last week (%)	change for last month (%)
RTS (Russia)	278.34	-3.94%	8.41%
Dow Jones Industrial Average (USA)	9840.08	0.70%	-2.93%
Nasdaq Composite (USA)	1937.70	0.38%	-2.49%
S&P 500 (USA)	1133.28	0.51%	-2.39%
FTSE 100 (UK)	5193	1.29%	-0.94%
DAX-30 (Germany)	5156.63	0.67%	-0.07%
CAC-40 (France)	4484.31	0.80%	-3.03%
Swiss Market (Switzerland)	6372.10	1.24%	-0.71%
Nikkei-225 (Japan)	10144.14	-1.45%	-3.78%
Bovespa (Brazil)	13162	-1.58%	-3.06%
IPC (Mexico)	6831.43	3.50%	5.63%
IPSA (Chile)	97.61	1.11%	-10.53%
Straits Times (Singapore)	1730.83	4.16%	6.45%
Seoul Composite(Korea)	774.68	9.35%	11.67%
ISE National-100 (Turkey)	12871.10	-1.08%	-6.61%
Morgan Stanley Emerging Markets Index	328.449	2.45%	4.20%

Foreign exchange market.

In 2001 the official rouble exchange rate went down by 7.03%, from 28.16 to 30.14 roubles per USD. The year average RUR/USD exchange rate, according to our estimates, was about 29.18 roubles per dollar.

In January 2002 the rapid rouble devaluation, which began in mid-December 2001, continued. As the trades in the forex started, the US dollar showed a 1.45% rise just in the first day, from 30.14 to 30.575 roubles per USD. Consequently, the attacks against rouble continued, despite commercial banks' experiencing certain shortages with liquidity . In January the Bank of Russia intervened in the market regularly to smooth down dynamics of rouble exchange rate. Our indirect estimate of its intervention was up to $1.3 billion of foreign reserves. However, the final decline in foreign reserves turned to be modest: most likely the Bank of Russia arbitrated between the morning and the noon trade sessions and purchased foreign exchange as the rouble exchange rate went up. In addition, recently one could note a growth of non-forex component of reserves, that is, gold. Nevertheless, the proportion between the volume of interventions and the decline in foreign reserves raises many questions.

In total, in January 2002, the official dollar exchange rate grew from 30.14 roubles/$ to 30.685 roubles/$, i.e. by 1.81% (24.0% annualised, see Fig. 8). The 'today' dollar exchange rate in the SELT increased from 30.1453 roubles/$ to 30.6774 roubles/$ (as of January 28), i.e. by 1.77%. The 'tomorrow' dollar exchange rate grew from 30.1646 roubles/$ to 30.6766 roubles/$ (as of January 28), i.e. by 1.70%. According to preliminary estimates, in January the trading volumes by dollar in the SELT did not exceed 160 billion roubles.

Figure 8.

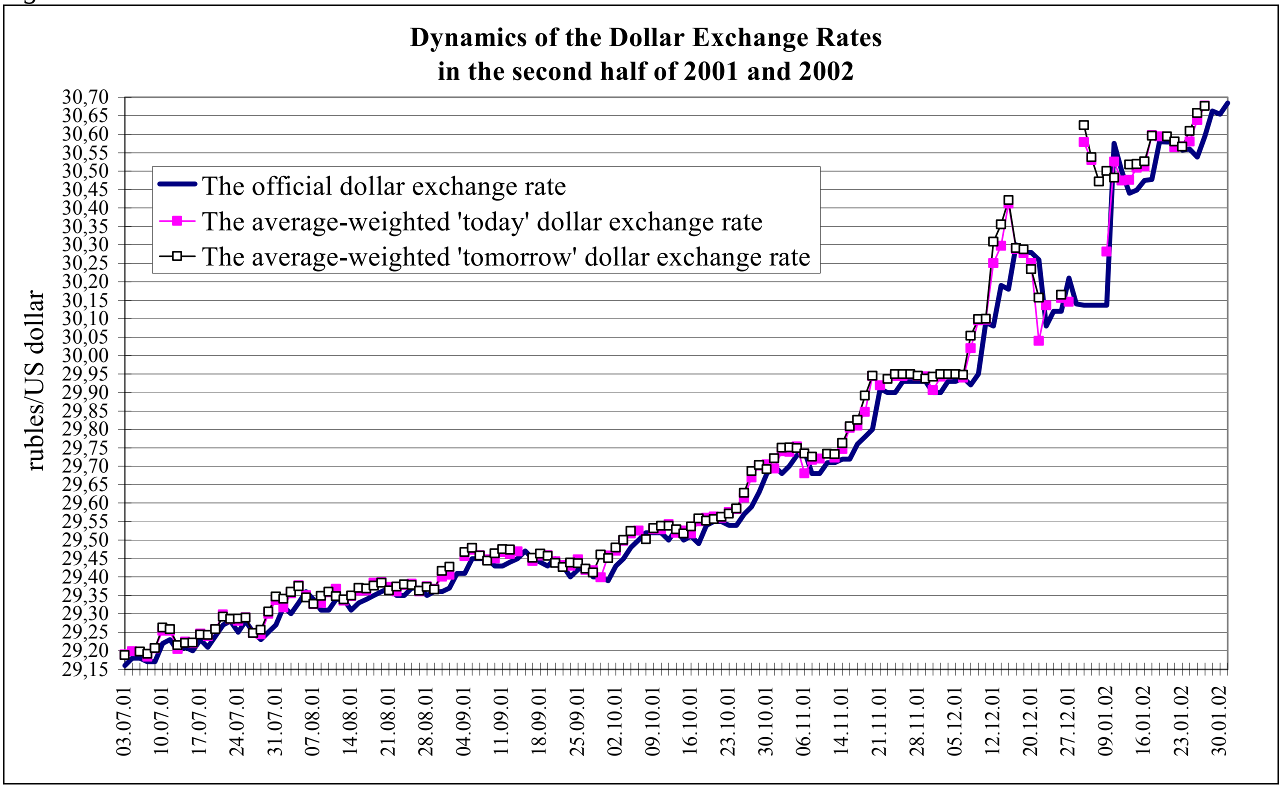
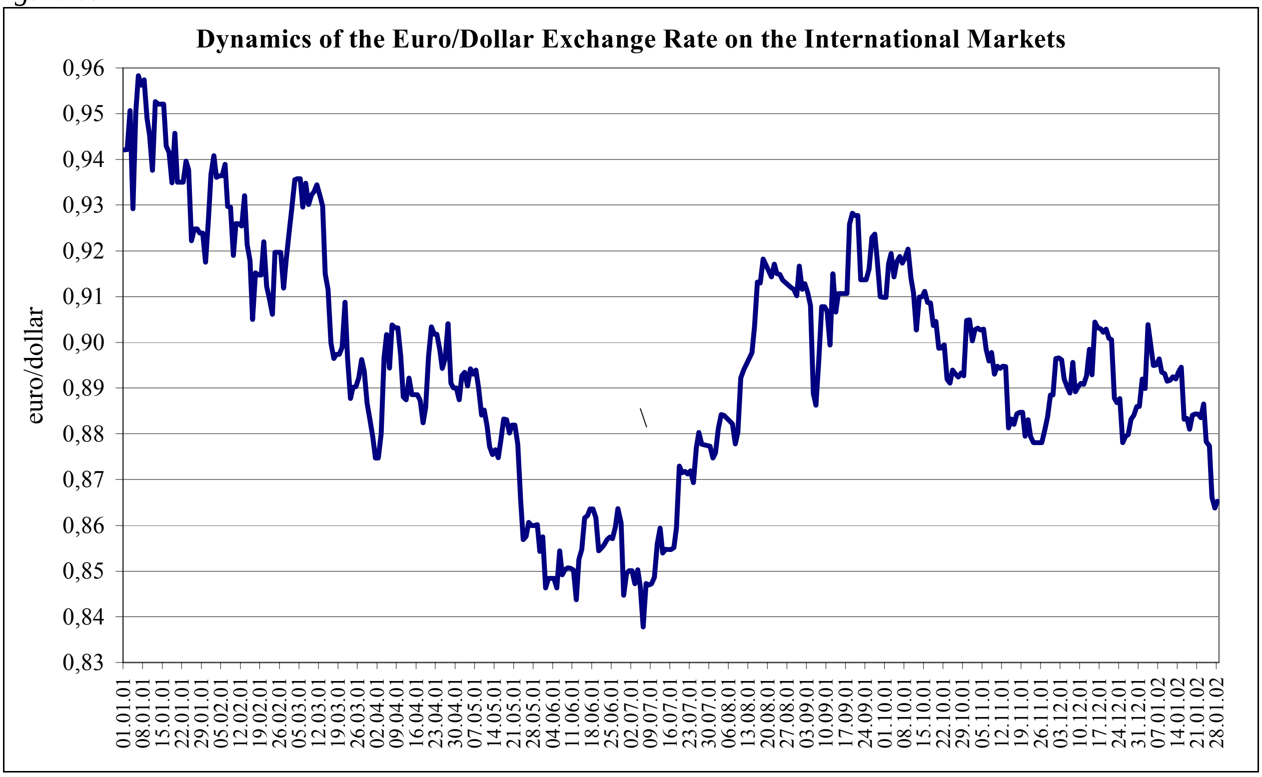


Figure 9.



Despite positive comments by the ECB and the EMU countries officials, the launch of cash euro, had a loose impact on dynamics of the euro exchange rate in the world forex market. After a short period of growth in the very beginning of 2002, the euro/$ exchange rate once again fell sharply (see Fig. 9). By the end of January the exchange rate slid to the minimum level since July 2001 (about 0.86 $/euro). The main reasons for the new fall of the European currency were the worsening macroeconomic situation in the euro-zone and intensification of political disagreements between the EU members (in particular, Italy's opposition stand regarding the issue of the EU enlargement).

In January 2002 the euro/rouble exchange rate continued its fluctuation within the range of 26.5 to 27.5 roubles per euro (see Fig. 10). Actually, this side trend has remained during last six month, since August 2001. In January, the rouble/euro official exchange rate rose from 26.617 roubles/euro to 26.5456 roubles/euro, i.e. by 0.27%, over the month. According to preliminary estimates, in January 2002, the total trading volume on euro in the SELT made up about 2.5 billion roubles.

Figure 10.

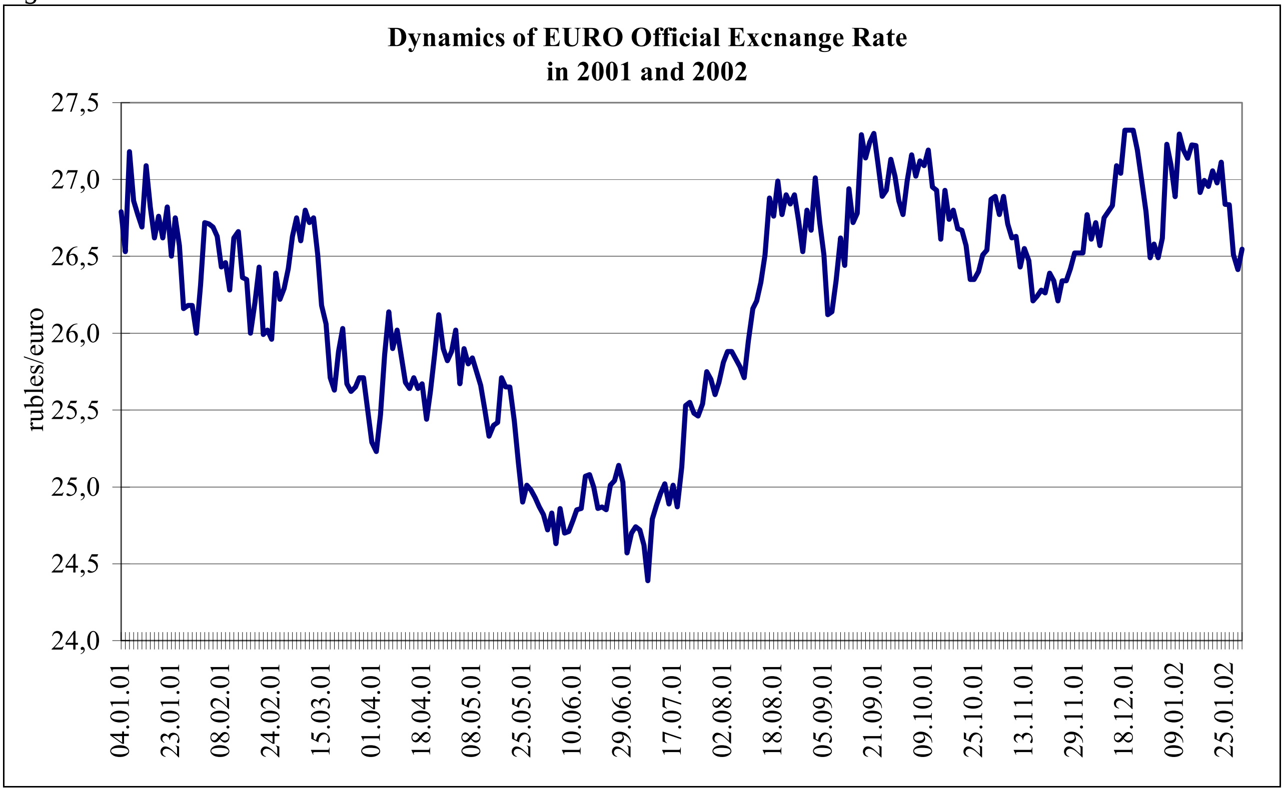


Table 2. Indicators of Financial Markets.

	September	October	November	December	January*
inflation rate (monthly)	0.6%	1.1%	1.4%	1.6%	2.5%
annualised inflation rate by the month’s tendency	12.07%	14.03%	18.16%	20.98%	34.5%
the RCB refinancing rate	25%	25%	25%	25%	25%
annualised yield to maturity on OFZ issues	15.33%	15.07%	14.91%	15.84%	14.5%
volume of trading in the secondary GKO-OFZ market a month (billion roubles)	8.89	9.14	12.56	10.20	5.5
yield to maturity on Minfin bonds by the end of the month (% a year):					
4th tranche	13.19%	10.61%	10.57%	10.20%	7.5%
5th tranche	15.86%	15.53%	14.62%	13.36%	11.5%
6th tranche	15.63%	14.76%	12.84%	11.86%	11%
7th tranche	15.07%	13.92%	13.24%	12.54%	12%
8th tranche	14.75%	14.29%	12.88%	11.93%	10.5%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					
overnight	27.88%	24.76%	19.80%	24.66%	6%
1 week	29.03%	19.03%	16.24%	23.97%	7%
official exchange rate of ruble per US dollar by the end of the month	29.39	29.70	29.93	30.14	30.685
official exchange rate of ruble per Euro by the end of the month	26.86	26.87	26.52	26.617	26.5456
average annualized exchange rate of ruble per US dollar growth	0.07%	1.05%	0.77%	0.70%	1.81%
average annualized exchange rate of ruble per euro growth	0.71%	0.04%	-1.30%	0.37%	-0.27%
volume of trading at the stock market in the RTS for the month (millions of USD)	249.9	279.0	394.2	277.0	419.6
the value of the RTS Index by the end of the month	180.25	204.04	226.49	260.05	287.53
growth in the RTS Index (% a month)	-12.25%	13.20%	11.00%	14.82%	10.57%

* Estimates

S. Drobyshevsky, D. Skripkin

Investment in the real sector

The steady positive dynamics of output and groth in domestic and external demand have changed the situation in the investment sector. At the same time investment operations appear one of the most notable evidences of contradiction nature of results of the period between 2000 through 2001.

The growth in ivestment became possible mostly thanks to favorable external conditions for Russian exporters. Accordingly, the structure of investmnt expenditure on reproduction of capital assets finds the proportions of the fuel and energy, and transport complexes, and the conjoined machine-engineering subsectors and those involved in the production of construction material growing..

With investment demand growing, the fact that the domesti machine-enginnering sector is uncapable to saturate th market with its qualitative produce has become especially visible. The shortages of modern eqipment have become a significant factor constraining industrial growth. The expansion of the competitive import of machinery and equipment, along with a notable trend to buying second-hand technical means became especially characteristic of 2001.

Considering a low investment activity in the retrosepective period, one should admit that the scope of investment in capital assets does not corresond to the actual need in production renewal and modernization, which affects the economy on the whole. Once challenged by the need of investment manouvre in favor of the sector that ensure a greater value - added output, thus capable to ensure competitiveness, the national economy has failed to accomplish that

The dynamics of investment was also battered by the ongoing low level of the population's income. The current level of doemstic effective consumer demand onstrained possibilities for increase in output of goods and services, plus, since late 2000 the dynamics of investment activity found itself under the impact of the slowdown of profit growth rates, inflation acceleration, and a significant price rise for products and services provided by natural monopolies.

The rise in savings in the economy has intensified the rpoblem of their transformation. It is enterprises' own capital that remained a main sourse of their investing, while the absence of structural tansformations did not allow to normalize interaction between the financial and real sectors. With the financial sector reform pace being slow, the banking capital's contribution to disbursement of credits to the real sector continues to fall.

Despite a relatively favorable combination of world prices and ongoing Rb. devaluation effects, investment climate in the country has not experienced any changes. With continuous high risks and unstable legal field, some estimates showed that the level of capital flight out of Russia practically remained the same.

In the conditions of economic growth it became evident that the management of investment is not coordinated with dynamic proccesses of restructuring of the national economy. The legal base that should guarantee protection of property rights and corporate governance should be improved, competition conditions should become equal, administrative control over markets and transparency of the overall economic activity should be enhanced, otherwise they would constrain the level of investment activity of the private national and foreign capital.

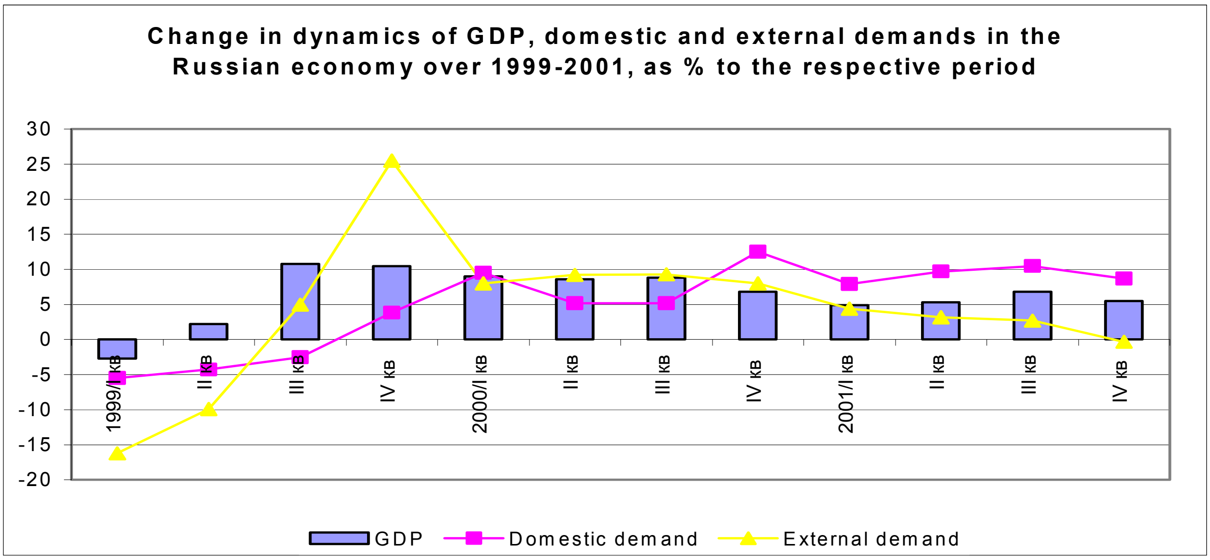
O. Izryadnova

The real sector

Between 1999 through 2001 the Russian economy was characterized with very high growth rates. Economic growth has taken place thanks to a favorable state of affairs in the foreign trade are and a domestic socio-economic stability. The actual growth rates of the real sector have proved to be substantially higher than the planned indices formed the basis of the budget for 2001. According to preliminary results of 2001 vs. 2000, the increment in GNP accounted for 5.5%, in investment in capital assets- 8.7%, in gross industrial output- 4.9%. The growth in production of goods is back-upped by the market services infrastructure developed over the decade of reform. When compared with 2000, the commercial cargo turnover grew by 3.1%, the wholesale trade turnover - by 6.5%, while the volume of communication services rose by 15.1%.

The development of the sector for services focused on the consumer market is characterized by acceleration of its growth rates compared to the prior year. In 2001, the increment in the retail trade goods turnover made up 10.8%, while the volume of paid services to population accounted for 1.8%. As a result, in 2001 the index of the consumer market growth proved to be at 7.6% over the respective index of 1997.

The economic growth in the country highlighted a clear asymmetry of rise in production, population's incomes and final demand, which does not allow an unambiguous estimate of the economic situation. Given that between 1999 through 2000 the expansion of households' demand was constrained by a low level of the population's effective demand, in 2001 the situation changed and nearly 2/5 of the increment in GDP can be attributed to the rising population's final consumption. The renewal of demand in 2001 found itself under a positive impact of raising real salaries and wages by 19.8%, and the real amount of pensions due - by 22.6% . The poverty level fell to 27.2% of the overall population vs. 30.2% noted in 2000. However despite the pro-active social policy, the main parameters of living standards still have been substantially lower than those of 1997. In 2001, the population's real incomes roughly accounted for 83.% of the 1997 level.

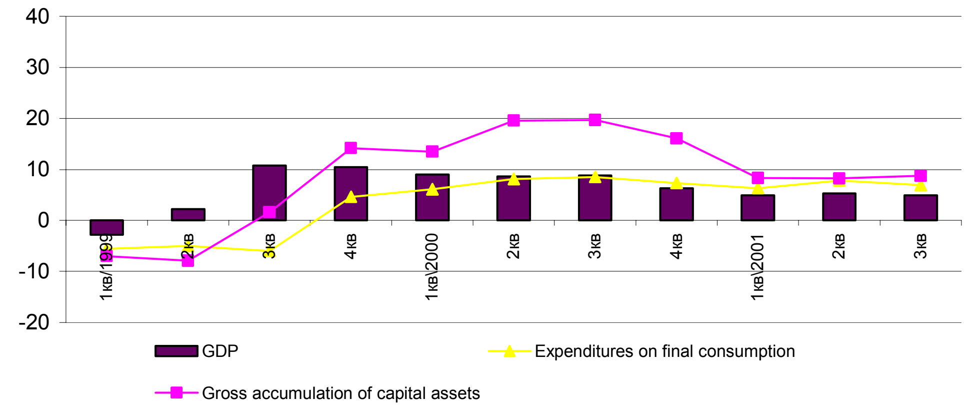


Whilst analyzing stability of the Russian economy, one should emphasize that changes in the structure of domestic demand were taking place against the background of the advanced rise of gross savings and investment in capital assets. It was favorable factors on the domestic and external markets that formed the motivation to production development and expansion. With a high profitability rate of production and export operations in place, since 1999 the trend to growth in the share of gross national savings in GDP has renewed. In 2001, the respective index of accounted for 36.4% vs. 30.5% in 1999 and 23.7% in 1997. The rise in revenues guaranteed fulfilling the government's obligations on a timely financing budget expenditure and the public debt servicing without emergency borrowings on the domestic ad external financial markets.

The specifics of the economic rise noted between 2000 through 2001 became an advance growth in domestic demand relative to external. According to preliminary data, in 2001 the share of domestic demand in GDP rose up to 86.2% vs. 79.6% in 2000. On the one hand, practically a double compression of import supplies against the pre-crisis level has allowed the room for an intense development of the domestic production and growth in incomes of producers of goods and services. However, on the other hand, the favorable state of affairs in the world markets and the economy's rising receipts encouraged growth in the magnitude of consumer and investment demands. Between 2000 through 2001 almost 1/4 of increment in GDP was explained by the rise in investment activity.

Despite positive dynamics of investment growth, the latter prove o be clearly insufficient for the purpose of pursuance a pro-active economic policy. The situation in the investment sphere is further deteriorated by the economy's need both in the rise in the scale of investment and identification of the strategy of their attraction to the sectors traditionally experiencing shortages with competitive capacities. With enterprises' incomes growth rates slowing down, the current unfavorable proportions reproduce themselves. Considering a traditionally high income concentration within the export-oriented sector and the absence of mechanisms for inter-sectoral capital flows, it is processing industry branches, with their deficit of competitive capacities that have proved to be most vulnerable in this regard.

Change in the dynamics of consumption of GDP, across its components, between 1999-2001, in compara-ble prices, as % to the respective period of the prior year



Between 2000 to 2001 the expansion of domestic demand as back-upped by inertia-driven rise in output of rather a narrow segment of the economy's sectors. In addition, it was oriented towards raising the level of utilization and introduction into operation of spare production capacities. The lack of substantial progress in terms of placing new production capacities in operation basically has not allowed a consistent implementation of the import-substitution policy and diversification of export flows. Given that the slowdown of export physical volume rates by late 2000 could be attributed to the state of affairs in the world markets for minerals, an intense rise in import supplies over 2001 is related to mere domestic problems. It is a low competitiveness of the sectors focused on domestic demand that firms barriers to maintaining high rates of economic growth and makes out the factor of the national economy's excessive dependence on its mineral exports.

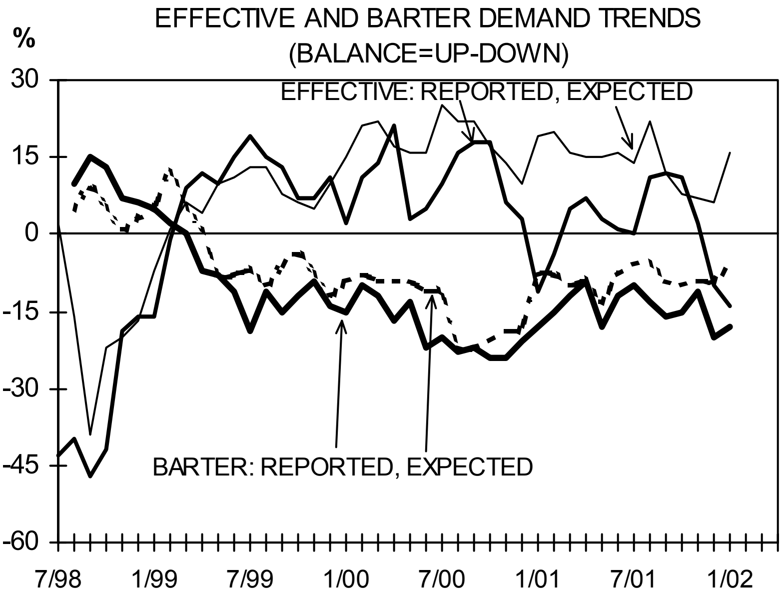
The deterioration of the price situation in the world mineral markets in late 2001 has determined intensification of the trend to the fall in the value and physical volumes of Russian exports. The overall volume of Russian exports this year roughly accounts for USD 104 bln., or 98.6% of the level noted over the prior year. As a result, according to the data of the RF Ministry of Economic Development and Trade, in 2001 net exports should account for 94.2% of the respective index of the prior year. It is the alarm bell for the national economy, as contraction in net exports, as a rule, leads to slowdown of economic growth. Th emergence of this trend takes place against the backdrop of such processes, as enterprises' falling incomes, rise in production costs, due to an intense rise in prices and tariffs for products and services of natural monopolies and acceleration of growth rates of salaries and wages relative to labor productivity rates.

O. Izryadnova

IET Monthly Trade Survey: January 2002

In January production demonstrated an adequate reaction to contraction in effective demand that continued for the second month running: the output began to fall, too. In such conditions enterprises began to estimate volumes of non-cash deals as insufficient and planned their increase. However, it will be expansion of effective demand that should form the basis for growth in output and employment envisaged over the forthcoming months.

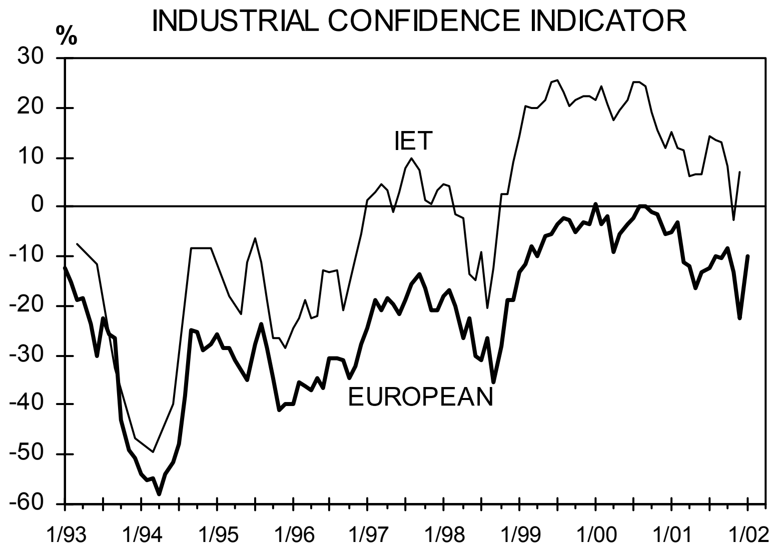
In January 2002 effective demand for industrial products continued, and the sales contraction rate rose by another 4 points and eventually exceeded the value reported in January 2001. The intensity rate of the fall in the index has not been noted since March 1999, when the national industrial sector experienced the start of the post-default rise in effective demand and output. The rise in cash sales remained only in the sector for electricity, while other sectors reported its fall, which became especially intense in the sectors for chemicals and petrochemicals, ferrous metallurgy, and construction materials. Nonetheless enterprises have succeeded with increasing the share of cash in their settlements. According to preliminary estimates, in January 2002 the share of cash settlements accounted for 78%.The intensity of fall in non-cash kinds of demand for industrial products practically remained unchanged. The volumes of barter, promissory note and off-set deals still fall in all the sectors.



In January enterprises reported an absolute contraction in output, the intensity of which exceeded the respective indexes of January 2001. January usually is a calm month for the national real sector, which implies annual seasonal slump. However, there are a number of factors that raise concerns: first, effective demand began to slide down yet in December, and the January slump appeared just its continuation. Second, the intensity of the December decline proved to be unexpectedly high. It was September 2001 when enterprises began to forecast slowdown in the growth of their sales and production, however, it was not so serious at that time, which can be proved by their estimates of output and demand. In December, the share of the "below norm" reports grew, while the share of normal estimates fell, except those of effective demand. Third, enterprises feel that volumes of cash sales of industrial products begin to be insufficient, which has resulted in a change in balance of estimates of barter demand, which became negative (i.e. the "below norm" reports exceeded the "above norm" reports. Russian producers began to lack barter. Such a situation was first registered in April 2001, however at that time the balance accounted for just –1%, while in January 2002 it made up – 5%. All the sectors noted lack of barter, except those for electricity and forestry. All the sectors also lack promissory notes and off-sets, except the sector for electricity.

However the last survey also registered some positive signals, which primarily should be attributed to stock of finished goods. In January enterprises fairly sharply changed their estimates of this indicator. The respective balance of estimates fall by 16 points over the month and became notably lower than some 10% level of excessive stock noted over last year, give that the volume of stock practically remained the same in January. Fort the national industrial sector the stock of finished goods mostly plays the role of buffer to satisfy some unexpected rises in demand, thus smoothing down fluctuations of growth in output. That is the way a. 50% of Russian enterprises use their stock of finished goods, while their "buffer function", to accumulate products, should an unexpected drop in prices for raw material occur, is used just by 17% of national producers. In other words, a possible (as enterprises envisage it) rise in sales over the forthcoming months is most likely to require consumption of almost all the finished products currently in the Russian industrial sector's stock.

Forecasts of changes in output testify to enterprises being keen to renew an intense growth in output in spring. In January the balance of forecasts grew by 20 points at once and became the best (most optimistic) over the past 12 months. A sharp improvement of production forecasts was registered in all the sectors, except electricity, while the most optimistic expectations were reported by the sectors for machine engineering, chemicals, petrochemicals, and forestry. The forecasts of changes in employment also showed growth in optimism – the respective balance grew by 8 points over the past half year.



According to enterprises, the growth in employment and output will be based, primarily, on rise in effective demand, and they forecast a sharp hike in their cash sales. In January (after the 4-month decline) the balance of forecasts grew by 12 points at once. Practically all the sector, except the ones for electricity and forest complex, envisage an absolute rise in their sales.

Another component of production growth may be formed by an absolute growth in volumes o deal involving promissory notes and off –sets. It was for the second time over the past two years of monitoring that a positive balance of forecasts of changes in this indicator was registered across the industrial sector on the whole, while on the sectoral level the rise in such deals is forecasted by the sectors for ferrous metallurgy, chemicals, petrochemicals, and forestry complex.

It is a low demand for industrial products and shortages with liquid assets that enterprises consider main obstacles to production growth. The frequency of referring to the latter reason between 2001 to 2002 finds itself at the lowest level over the whole period of holding surveys, however it remains the most widespread obstacles among others. At the same time insufficient demand that was holding the first line in 1999-2000 currently is mentioned as often as the leader – deficit of liquid assets.

The index of industrial optimism computed according to the European harmonized methodology has never reached positive values. The reason for that is one of the three components of this particular aggregate indicator – the balance of estimates of effective demand- has always had high negative values. Russian enterprises still consider volumes of effective demand for their products extremely low and opt for the “below norm” response. High negative values of the balance of estimates of demand overweight a positive contribution of the other components of the European index of industrial optimism – estimates of stock of finished goods and envisaged changes in output. In such a situation it appears expedient to replace estimates of effective demand in the composition of the optimism index with another indicator also describing dynamics of sales, however, not being so steadily pessimistic, - for instance, actual changes in effective demand. The noted indicator is of the biggest interest, as long as description of the Russian industrial sector’s state. In this case the IET’s index of industrial optimism acquires a more adequate dynamics.

S. Tsoukhlo

The New Regime of Taxing Agricultural Producers

At the end of December 2001 the President of the Russian Federation signed the Federal Law "On introducing amendments and supplements to the Part II of the RF Tax Code and to some other RF legislative acts on taxes and duties". This document authorizes the transition to single agricultural tax, the rationality of which has been debated in the agrarian establishment and the RF Legislative Assembly for several years. A similar bill has already been voted down by the Council of the Federation. A special conciliatory commission revised it and reintroduced to the State Duma. This time the passage of the law was record prompt for the Russian legislative procedure: on December 20 the bill was adopted by the State Duma, on December 26 it was approved by the Council of the Federation and on

December 29 - signed by the President. The country was preparing to celebrate the New Year, and those primarily affected by the Law had simply no time to realize the fact of its enactment. Today many agricultural producers face drastic deterioration of tax regime and try to protest. But it's too late to do anything: the Law comes into force in February 2002.

What are the fundamentals of the new law?

Farm producers will now have to pay a special single agricultural tax that replaces the bulk of former taxes and duties and the amount of which depends on land area. Land is appraised on the basis of cadastre values. The single agricultural tax incorporates all taxes (except VAT, personal property taxes, various duties and excises) and transfers to the Pension Fund. The payable tax equals one fourth of the amount of taxes and duties currently being combined in the single tax, that is calculated on the basis of 2001 performance. In other words, the tax regime for farm producers remains soft. The newly set tax period is three months.

In fact, this tax basing on land area in hectares is a sort of single tax on presumptive income. The presumptive tax is levied on small enterprises (that are legally defined as "the ones engaged in entrepreneurship without registering as legal entities"). There are few such small producers in the modern Russian agriculture. It's true that up to one half of gross (but not commodity!) agricultural output is produced in individual household plots but the absolute majority of them are legally not subject to taxation. There are also private farmers but their share in the sector's gross output is only 7-8%. Besides, the most productive private farms are relatively large cultivating thousands of hectares and employing dozens of workers. And, finally, the basic agricultural producers are large-scale enterprises. Moreover, the number of very large farms incorporated in agroholdings (controlling hundreds of thousand hectares) in the past 2-3 years notably grew. And these giants will now pay presumptive tax! It's absurd but still is the fact.

There is no doubt that the presumptive tax could be useful if applied to small private farmers. However, the effective legislation doesn't specify its application to farm activities. And that's exactly what the legislators should have corrected.

Since Part II of the Tax Code does not envisage any profit tax exemptions for agriculture, this tax is also included in the single tax. The amount of single agricultural tax is based on the previous period performance, i.e. it includes tax that agriculture should have (but legally did not) pay on profits actually received in 2001. As a result farms that were most profitable last year will now bear the heaviest tax burden.

Moreover, the new law doesn't treat "agricultural entities of industrial type (poultry, greenhouse, fur farms, livestock complexes, etc.)" as agricultural producers despite their being the most intensive ones. This means that beginning from 2002 their tax burden becomes much heavier since they start to pay profit tax in full while other agricultural producers get the privilege of paying only one fourth of all the taxes and duties due. The situation has already triggered protest of poultry farms, livestock complexes, greenhouse farms, etc.

But that's not all. The federal legislation doesn't enumerate "industrial enterprises" - this work is to be done by legislative bodies of the Federation's constituent members. Since inclusion into such a list deprives a farm of noticeable tax privileges, this procedure becomes a rather powerful tool for influencing large agricultural enterprises. By the way, it came up quite in time: in recent years the effectiveness of pulling such strings as commodity credits, leasing arrangements and other subsidy mechanisms in regions greatly diminished and now they are being replaced with the "tax bludgeon".

One more provision of the law also causes concern. It states that the single agricultural tax is imposed on "agricultural land being owned, possessed and (or) used" (i.e an agricultural producer has corresponding titles to land). In other words, rented land areas are not subject to taxation. But nowadays most agricultural producers rent farmland by renting land shares. Land shareholders are not agricultural producers: they are either employees, or pensioners, or rural social workers, renting their shares to farms. This means that all land rented in the form of shares gets exempted from taxation and an agricultural enterprise pays the single tax only on owned or used land areas the share of which is relatively small.

And finally, the rational for establishing a 3-months tax period is arguable. In case the lawmakers really wanted to improve taxation in agriculture, they would have proposed to change the payment period for all taxes rather than to introduce the single agricultural tax to be paid every 3 months. It's a common knowledge that agricultural production is seasonal. Producers get major money receipts in the second half of a year after the crop is harvested and marketed. In the first half of a year they primarily spend their funds. Thus it would be most adequate to collect the bulk of taxes (or the single agricultural tax) at the end of a marketing year. (By the way, this is the case in Ukraine - the only country of the world (except Russia) applying the single agricultural tax). The transition to 3-months period of tax payment in agriculture doesn't improve the situation in this regard and the reasons for altering the traditional monthly period are not clear.

These are not all the problems posed by the single agricultural tax introduced in December. It's not for the first time that we write about the erroneousness of single tax in the sector (e.g. see April 2001 Monthly survey) and here we'll skip reiteration.

In other words, the special regime of taxing agriculture creates new problems in the agrarian sector rather than solves the existing ones. Thus we dare suppose (and hope) that it won't be effective for long.

E. Serova

Foreign trade

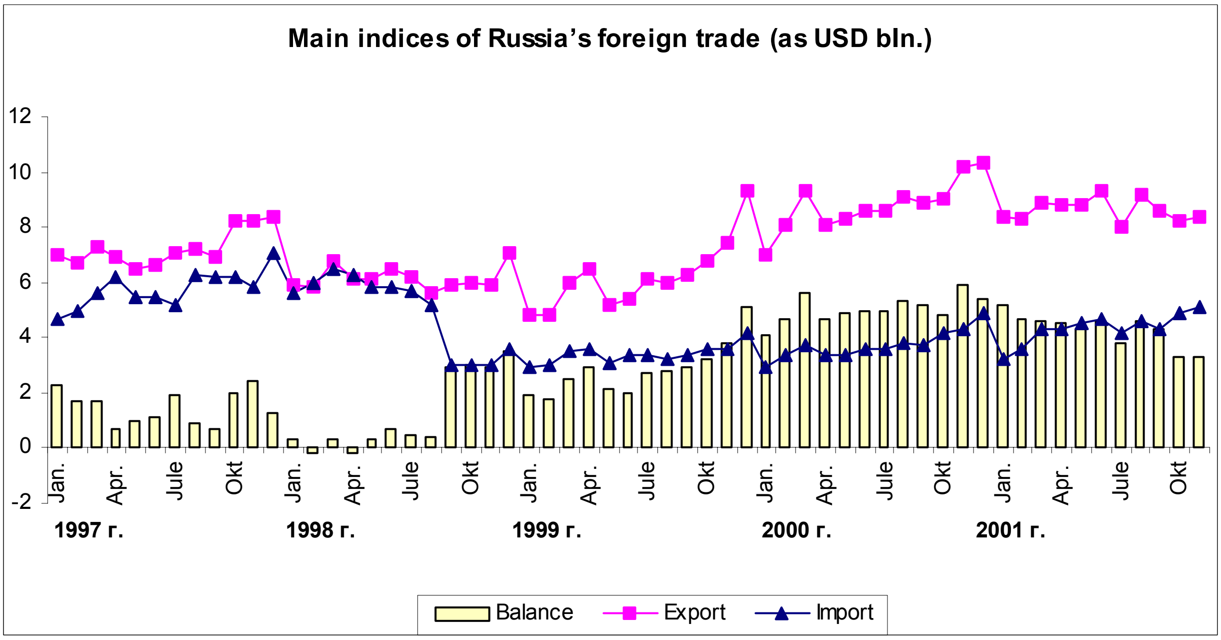
In November 2001 Russian exports grew by 2.4% compared to the prior month, however when compared with the respective index of the prior year, the exports demonstrated a visible fall - at 17.6%. This became the lowest index over the past 29 months. In November, the exports accounted for USD 8.4 bln. vs. 8.2 bln. in October and 10.2 bln. in November 2000.

Russian imports accounted for USD 5.1 bln vs. 4.9 bln. in October and 4.3 bln. in November 2000. The November 2001 index appeared a peak value since July 1998 (at that time, the respective index accounted for USD 5.7 bln.).

It is growing living standards that form one of the factors of the continuous rise in imports (according to results of the 11 months of 2001, the growth in population's real disposable income accounted for 6.3% vs. its respective level of the prior year). Interestingly, the process of a real appreciation of the Rb. that has slowed down over the 2nd half 2001 has not yet had a notable effect on import dynamics.

In November 2001, the foreign trade balance stood at USD 3.34 bln. vs. 3.38 bln. in October and 5.84 bln. in November 2000, thus appearing the minimal value noted since September 19999.

The above data illustrate the ongoing trend - that is, a gradual contraction of the positive foreign trade balance against the backdrop of growing imports and falling exports.



Source: Goskomstat of RF

Russia's foreign trade indices still remain tied up to the state of affairs on the markets for minerals. They change following the price fluctuations for energy sources and metals. In November 2001 the prices for major Russian exports proved to be substantially lower compared with the respective period of he prior year: Brent oil fell by 24.4% in the European market, while gas prices drop by 50.7%, gasoline prices- by 28.7%, non-ferrous metals lost 22.4% of their 2000 price on average (with nickel prices slid by 29.5%, copper - 2.6%, and aluminum- 15.1%).

Table 1. The average monthly world prices in October respective year

	1996	1997	1998	1999	2000	2001
Нефть (Brent), UDS/баррель	22,8	17,8	11,5	24,1	25,6	19,35
Натуральный газ, UDS/1 млн.БТЕ	3,093	2,393	2,251	2,558	5,767	2,843
Бензин, UDS/галлон	0,6691	0,5648	0,3739	0,6986	0,7649	0,5454
Медь, UDS/т	2273,3	1834,7	1601,6	1748,1	1914,4	1481,0
Алюминий, UDS/т	1459,9	1535,5	1305	1470,7	1562,5	1326,6
Никель, UDS/т	6920	6099	4202	7984,2	7315,4	5159,7

According to the data for 2001, Russia's foreign trade turnover with the CIS countries accounted for USD 2.32 bln. and remained positive, with exports accounting for 1.27 bln and imports - 1.05 bln. In November 2001, import supplies from the CIS countries continued their fall, due to changed taxation procedures in the course of importation of goods from the Commonwelath countries. So, given that in October the import decline rate was 16%, in November it grew up to 21.2%.

The changes in Russia's trade with its neighbors may have an immediate impact yet in the not-so-distant future. Specifically, given that in 2000 Russia would introduce anti-dumping barriers against import Ukrainian steel pipes, in 2001, vice versa, Ukraine is keen to protect its market from an unlimited supply of Russian goods, particularly cars.

At present there are a few enterprises in Ukraine that produce Lada cars. The cards are certified and enjoy a stable demand, with their sales more than tripled over 2001. However in 2001 Ukrainian car producers argued that there was a cause and sequence relation between the growing volumes of import of Russian passenger cards and a serious damage caused to them. Pursuance to the claim raised by "Ukravtoprom" association, the Ukrainian Ministry of Economy launched a special investigation with regard to importation of cars with engine volume between 1 to 1.5 Thos. cub. cm. The Ukrainian government plans to introduce quotas shortly. It is envisaged that it is the annual import of 8.4 Thos. Russia Lada cars that would appear a reasonable quota. This should help get the local car-manufacturing industry out of the critical state.

As concerns Russia's trade relations with the other CIS countries, it was the making of a decision on transition to a single data base of their customs authorities, including to development of a common assortment of foreign trade operations.

In January 2002 Russia participated in the new round of negotiations on its accession to WTO. The members of the Task Force on this matter were provided with the Review of trade and policy mode in Russia and proceeded with discussion on pricing mechanisms, specifically with regard to natural monopolies. According to the countries- members of WTO, low prices for electricity and gas constitute a specific form of subsidizing local producers, particularly exporters, thus granting unjustified competitive advantages to them.

The criticism raised with regard to economic role played by customs duties appeared unexpected to the Russian delegation. The Task Force indicated that in compliance with part 1 of Russia's Tax Code, customs duties are interpreted as one of major fiscal mechanisms (which is fully adequate to the Russian realities), while the WTO members consider customs duties primarily as a regulatory mechanism for export and import volumes.

The EC countries put forward a number of other requirements. The European Commission demanded from Russia guarantees with regard to its regions' specifics: should any region pass a law contradicting the WTO provisions, the federal authorities will have to force the region to abandon that. EC has also raised some other conditions which usually are not mandatory for a country's accession to WTO: specifically the EC demands from Russia to cancel charges for using Russia's air zone by Western aircompanies; as well, the Commission insists on Russia's joining the agreement on civil aviation that provides zero level of import duties for aircraft and assembly part and refusal from the state support of aviation. Obviously, such demands usually do not appear mandatory for accession to WTO.

Nonetheless, it is the agrarian sector that remains one of he most complex issues at negotiations. Though agricultural products constitute the problematic sector at negotiations of tariffs, the main pretensions of the WTO arerelated to general mechanismsof of regulation of the agrarian market and provision of support to agrarian producers. The Task Force members questioned why the government so loosely employ the bankruptcy mechanism in this particular sector and what budget loans go for.

Australia and New Zealand insist on computing the level of state support of agriculture on the basis of the past 3 years when Russia was undergoing default and decline in its budget volume. So, in their view, the level of state support should account for under USD 1 bln. annually, while Russian hoped for USD 1.62 bln. In addition, the noted nations completely reject the need in regulation of the agrarian market by means of tariff quotas and export subsidies.

The RF Government Resolution "On introduction of amendments to Resolution of the RF Government on December 9, 2000, # 939" became effective as of February 1, 2002. The Resolution, as amended, reads that the customs duty rate for crude oil and some crude petroleum derivatives imported from the territory of RF outside the borders of the nations- members of the Customs Union is set at the level of USD 8/1,000 kg.

In compliance to the RF Government Resolution of December 21, 2001 "On measures o protection of Russian caramel producers", for the period between January 26, 2002 through July 26, 2003, boiled sweets, caramel and analogous sweets imported to Russia's customs territory will become subject to a special 21% duty, but not less than USD 0.18/kg. The special duty will be charged over the effective import duty rate levied on the noted goods.

The special duty was introduced in order to preclude damages to Russian caramel producers caused by the rising caramel import supplies. The special duty will not be levied on the goods originated from Belarus, except in the cases such goods have been allowed for free circulation in the Belarus's territory without the special duty paid, or should the duty paid though not transferred to Russia's federal budget in a due course.

N. Volovik, N. Leonova

Privatization: results of 2001 and new trends

Since 1999 revenues from sales of public property have not been included in the revenue part of the federal budget. In 2001, minimal receipts from the noted sales should have accounted roughly for Rb. 18 bln. In compliance with Art. 24 of federal law # 150-FZ "On the federal budget for 2001", revenues from the property owned by government or from respective operations should make up Rb. 26.8 bln., particularly dividends on shares – 2bln., rental payments – 5.6 bln., payments (incomes) from public enterprises – 9, 4 bln. The latter relates primarily to the Russian-Vietnamese joint-stock company "Vietsovpetro" rather than to profits generated by public unitary enterprises.

Apart from annual conflicts with regard to the government's powers and concrete objects considered for privatization, the problem of formation of the list of enterprises subject to privatization in 2001 appeared complicated due to Art. 100 of the federal budget law for 2001. According to the latter, in 2001 the shares of those AOs whose capital assets' value as per balance sheet (considering a consolidated budget with assets of daughter and subsidiary companies) exceeded 50 mln. minimal wage rates, as of January 1, 2000, were not subject to sales in 2001 until the enforcement of a federal law on state privatization program. Overall it was intended to put up for sale about 700 stakes.

As it was noted over the past years, the traditional budget orientation of the privatization process determined seasonality of main receipts from privatization deals in 2001. In the 1st quarter, the overall receipts amounted to Rb. 5.11 bln. (at 1/3 more than envisaged), however, receipts from sales accounted just for 1/7 of the noted amount. The aggregate receipts over 10 months of 2001 made up Rb. 28.5 bln., including those from sales of assets and stakes- 8.4bln. (though with account of sales held in the Subjects of RF), 3.9 bln.- rental payments, and another 12 bln. – in income on Russia's share in Vietsovpetro. By mid-December 2001 revenues from privatization accounted just for Rb. 9.3 bln., or a half of the amount planned for 2001, while the crucial privatization deals, as usual, fell on the fall of the year.

After a few years of inert debates, in 2001 the government launched privatization of the oldest insurance giant – OAO "Rosgosstrakh". It was yet in 1996 when the plan to sell control block of the OAO to the company's top management raised a broad criticism. At present the OAO has 80 daughter insurance companies and 2,500 subsidiary branches. The company also is licensed to carry out 69 kinds of insurance operations and, as of April 1, 2001 its assets stood at Rb. 850 mln. The privatization strategy underwent several changes, thus, along with the company's informational closeness and problems of manageability of its regional network, forming a negative factor for investors. However, in 2001 50% minus 1 share was put up for sale in 2001, provided the sale would be carried out in 3 stages.

As a result, in September 2001 "Troyka-Dialogue", which most likely represented interests of a consortium of investors, acquired a 9% stake of OAO at an auction for Rb. 201 mln. with the starting price of Rb. 153 mln. Consequently, on December 22, Troyka-Dialogue acquired another 39% of shares worth a total of Rb. 1.03 bln. with the starting price being 1 bln., and on december 25 – 1% of shares (25.003 mln. with the starting price of 25 mln.) The fall in budget revenues against the starting price with every new auction is evident. To acquire the noted shares, "Troyka'Dialogie" was granted with a technical credit against the OAO's shares as a collateral. It is intended in the future to increase the stock package owned by the consortium up to the control one and to get the OAO's shares to the "blue chip" level. However, the lack of clarity about the consortium members so far does not allow an unambiguous identification of the purpose of the acquisition – whether it was a strategic investment or portfolio investment for the purpose of its further sale once capitalization is increased.

The majority of the privatization deals, both those accomplished in 2001 and deferred to 2002, highlighted corporate control and governance problems as their crucial component.

Privatization practically is over in the aluminum sector. In august 2001 The Russian Fund for Federal Property (RFFI) sold the 14% stake of Novokuznetsk Aluminum Plant to Russky Aluminum for USD 6.02 mln. As any analogue deal with a residual package, the deal became possible only after RA acquired 66% shares of the Plant. The qualified control RA gained over the plant allow the company to ignore the remaining minority stockholders (especially after VAC's decision made in October 2001- see the Section on corporate governance), however problems with "alien" creditors (in control of up to 50% of the plant's debts) and the former owners (seeking a USD 3 bln. compensation in the court for false bankruptcy of NAP by structures of Russky Aluminum).

It was the sale of shares of "Kuzbassugol" holding (the 3rd biggest national coal producer, 17 coal mines, 3 concentrating mills, 62 back-up facilities) that appeared the largest deal in 2001. The shares (a 79.73% stake) were offered in two lots (39.73 and 40%) at special auctions, thus complicating the possibility of a non-recurrent consolidation of control. At the same time one had to submit his application for participation in the second auction prior to the conclusion of results of the first one. In this particular case the RF Ministry of State Property proved to be a successful gambler playing on competitors' interests, which ensured unquestionably positive results for the budget.

The struggle for the holding's shares started yet at the stage of discussion of conditions. In early 2001 the Kemerovo oblast authorities had a stock package directly sold to "Belon" coal trader, which allowed an early forecast of the outcome of the deal in favor of members of "Russian steel" ("Evrazholding" and Novoliptesk Metallurgical Plant, or NMP). Nonetheless, by summer the alliance formed by Magnitogorsk Metallurgical Plant and Severstal managed to convince the authorities to introduce competition-based procedures that suggested a victory through offering the highest price. After approval of conditions of the deal in June 2001 there were also some attempts to strip the holding off assets through bankruptcy procedures At the same time both the auction procedures and the final balance of forces just intensified the corporate struggle and, most likely, ensured its continuation over time. With account of earlier acquired shares, the stock package of the holding in possession MMK and Severstal accounted for 52%, while another 44% was hold by NMK and Belon (apparently affiliated with NMK). The controlling alliance that put maximal efforts to ensure its autonomy and security by buying the holding plans to establish a joint managing company. At the same time its competitors, apart from 44% of the holding's shares also have control and blocking stakes in a number of holding's daughter companies . Each alliance holds 5 seats in the holding's Board of Directors, while the 11th one is fixed for the RF Ministry of Energy as the government representative managing the "Golden Share". The Director General (as of December 2001) granted key posts in the company to representatives of the former alliance, while the Kemerovo oblast authorities supporting the latter one appealed to the RF Ministry of State Property with a request to delegate them the rights for the "Golden Share". The immediate effect of the confrontation became series of failures to hold stockholders meetings and the problem with regard to holding a meeting of the Board of Directors and electing Director General.

The privatization of the national coal sector should be over in 2002 after the possible sale of a 38.41% stake of "Vorkutaugol" holding. It is Severstal, the biggest consumer of the holding's products and owner of a 15% stake of that that may become a main pretender for that, however, the repetition of the noted scenario with Kuzbassugol may become possible.

It has been noted for several years that stock packages of Slavneft (19.68%), Vostoschanaya neftyanaya Compania (VNK)- (36.817%) and Svyazinvest (25% minus 2 shares) have been in the list of potential objects for privatization, with respective deals deferred for the next years. Further privatization of Svyazinvest may become possible only after the holding restructuring and its presale preparation.

According to the privatization program for 2002 approved by the RF government on August 2, 2001, the sales of Slavneft's shares was deferred to 2002 (with the control block to remain in the government property). The struggle for this stock package has been already underway since 2001. First, pursuant to the claim brought by Ost-West Handelsbank AG, yet in August 2001 Slavneft's assets worth a total of USD 2.6 mln. were arrested. The claim is related to Slavneft's refusal to repay to the bank a credit extended to its daughter company against Slavneft's guarantees. Interestingly, the control block in the German bank belongs to the Bank of Russia. This case can result either in a lower starting price, or in postponement of the term of privatization. Secondly, the governmental ruling on the sale of the holding's stock package automatically eliminates the problem of transition of the holding towards single share which could have ended up not earlier than in 2003 and, according to some estimates, lead to 3-4 fold rise in its capitalization. Apparently this appears profitable both to the government (acceleration of the sale in the conditions of uncertain prospects for oil prices) and to the holding's management, as the latter struggles for control over the company with TNK. The transition towards single share would allow TNK (with account of its 12.5% share in Slavneft plus blocking stakes in its two daughter companies) to get 33% of shares of the united company and then, in the course of privatization, to buy other shares to ensure a control block, which would obviously imply lowering the government share in that.

RFFI has prolonged the auction on selling shares of VNK (with the starting price of USD 225 mln.) announced in December 2001 until February 14, 2002. It is YUKOS, whose general strategy is a maximal consolidation of its assets that appears a real pretender for the shares. However, the fact that YUKOS is in possession of another 54% of shares of VNK allows questioning whether the sale of the stake is profitable for the government. As well, TNK has also declared its intention to take part in the auction yet in December 2001,- however, from the perspective of corporate struggle, its decision notably discredits unofficial statement issued by the Accounting Chamber of RF regarding YUKOS stripping off VNK's assets (Achinsky Oil Refinery and Tomskneft). According to the data as of January 2002, the deal will not be accomplished until the clarification of the issue.

As noted above, the privatization program for 2002 (a mandatory component of the passing of the budget) was approved by the government yet on August 2, 2001. The quantitative side of that is given in Table 1. It is the sales of 19.68% of Slavneft's shares, 17.77% of shares of Magnitogorsky metallurgical Plant and 85% of NORSI-Oil that may become the biggest deals. Roughly as much as 40% of enterprises planned for privatization in 2002 fall within the fuel and energy sector that formed the favorite source for fulfillment the annual privatization plan.

The original forecast of revenues from property sales with account of necessary organizational measures and favorable state of affairs envisaged some Rb. 18 bln., but then it was increased up to Rb. 35 bln. According to 2002 budget law # 194-FZ of December 31, 2001, the budget task on revenues from the use of public property (dividends and rental payments) and enterprises' operations (joint ventures' incomes, contributions from the federal unitary enterprises) for 2002 made up Rb. 29 bln., upon adjustment introduced by the RF Ministry of State Property in December 2001 – 36 bln., including: rental payments 4 (once adjusted –6), dividends 7.6 (10), rental payments for land – 4.4 (6), deductions from profits of federal unitary enterprises – 0.5 (1.2), joint venture Vietsovpetro – 12.4 (12.4)

Table 1. The RF Property, as of 2001

	The RF government property, total	**As % of the total number of registered in RF**	**Due for privatization in 2002, as units**
State unitary enterprises	9718	12	152
Joint-stock companies whose stock packages are owned by the RF government	3949	0,91	365
Including the respective government share in their authorized capital accounting for:			
- 100 %	88		
- over 50 %	625	-	4
- 25-50 %	1393	-	26
- under 25 %	1843	-	118
- Golden share	542	-	217

Source: data from the draft privatization program for 2002 submitted to the RF Government by the RF Ministry of Property in August 2001. According to the data from the register of the Ministry, as of Sept. 1, 2001, the figures are slightly different: 9,855 FUEs, 34, 868 public institutions, 4,308 stock packages in AOs, 3,317 incomplete construction objects. According to some other estimates, the AOs with the government share outnumber 6,000, while the register of FUEs is far from completion. In 1999, the Ministry argued there were roughly 14,000 FUEs, which, considering the current reorganization and privatization rates, does not allow trustworthiness of the official data for 2001 as well.

It is the prevailing focus on delegating government representatives to boards of directors of joint – stock companies rather than managing state unitary enterprises that constitutes a relatively new approach practiced by the RF Ministry of State Property. Accordingly as long as the medium-term period is concerned, it is envisaged to proceed with incorporation and gradual sales of shares of an absolute majority of FUEs, with not more than 1-2 thousand of them retain in government ownership. As usual, there are discussions as to whether the government should "“if the burden” of owning an absolute majority of minority stakes that do not allow the authorities to exercise management functions but require certain costs.

In addition to privatization of incorporated FUEs and traditional sales of minority stakes, it is likely that 2002 would witness a sharp contraction in the list of strategic enterprises whose privatization was prohibited. As a result, the RF government should own shares of not more that 1-2% of the most significant Aos.

In addition to a considerable number of statutes passed between 2000 to 2001 pursuant to the 1999 Concept for management of public property, the government envisages crucial innovations for 2002. First, to raise budget revenues through profits of FUEs, the government needs a strict formulation of principles of deduction of their profits to the federal budget. There are several approaches to this problem in existence by January 2002. Specifically, the Accounting Chamber of RF suggests a uniform 95% deduction rate for all such enterprises, while the RF Ministry for Economic Development and Trade suggests computation of individual rates for each enterprise. Finally, according to government Resolution of February 3, 2000, # 104 (amended on February 16, 2001) “On strengthening control over operations of the federal unbitary enterprises and shares of open-end joint –stock companies in federal ownership” it is necessary to carry out a sectoral computation of indicators of FUEs’ economic efficiency and amount (share) of profits due to be transferred to the federal budget. The respective executive body of RF is responsible for ensuring such a computation in coordination with the RF Ministry for Economic Development.

Another important innovation may become adoption of the “Regulation of protection of rights of the Russian Federation as an owner” which provides the transfer of the institution of government representatives to the professional grounds. There are two obvious components of such a transfer: tightening requirements to pretenders for such a position in Board of Directors of AOs and identification o of sources of financing of their operations. The third component that has not been tackled as yet is development of a system of responsibility measures. Such a system should particularly include the possibility of introduction of amendments to the Criminal Code of RF concerning protection of the state interests, should the noted professional representative exercise their duties in an “unduly” fashion.

As it can be seen from notes to table 1, it is a trivial examination of state property that remains a necessary condition for furthering the reform. In addition to a quantitative account, it is necessary to ensure a clear distinction between levels of power with regard to their enjoying certain rights for state property. According to the Department for the Account of State Property of the RF Ministry of State Property, in 2001 there were over 300 AOs whose shares are owned by the federal government, however their stockholders’ rights are exercised, on behalf of the Russian Federation, regional agencies managing state property or other entities not granted with the respective legal powers.

Adoption of a new law on privatization forms a separate issue. The final adoption of the law was scheduled for 2001 (with the 1st reading held on June 21, 2nd- November 29, 3rd – November 30, and the reading in the Federation Council – on December 5, 2001). However President Putin postponed the singing of the bill for 2002. Apart from the procedural collision (the bill has not been signed, however, it has not been returned o ver the term due). There is another problem: according to some sources, the Presidential Administration is not satisfied with the list of objects transferred under President’s competence.

At the same time, to a significant extent the privatization program for 2002 is based on innovations provided by the law. To increase the budget effect from privatization, it is envisaged to proceed with the individual strategy of sales, analysis of the market (effective demand), and application of new privatization methods. Although the focus on “unique” large deals on liquid stock packages by means of auctions is retained, should they prove to be ineffective, it will be possible to employ such new methods as sales through public offer, with no competition in place or by results of trust. There also are two in principle new matters: sales of land sites as an integral part of the privatized property (as dictated by the Land Code of RF) and increase in capital assets at the expense of intellectual property rights (which is important specifically in the case of privatization of MIC enterprises).

The successful passing of this bill became possible thanks to a compromise multi-level system of decision making with regard to privatization of objects. While it is President whose competencies embrace strategic enterprises (nuclear plants, MIC, etc.) and particularly the list of objects whose privatization is prohibited), the federal natural monopolies (the Ministry of Railway Transportation, RAO UES, and RAO Gasprom fall within the powers of the State Duma, while the other federal enterprises are subject to the RF government's rulings. As concerns privatization of regional and municipal property, the framework of a uniform approach suggested by the federal law provides that it is an authorized local agency that deals with this process. In light of this, the bill lacks traditional prohibitive lists, which implies the possibility of privatization of practically any object. Accordingly, there will be no conflicts between the Duma and the government with respect to annual approval of the list of objects to be privatized and the annual (over 1998- 2001) failure to pass the privatization program bills. It is envisaged that annually in August the government should submit to the Duma the draft budget with the program of privatization of federal objects for the next year.

Despite the noted positive innovations, the bill raises ambiguous attitude. According to some analysts, first, the bill extends possibility for bureaucrats' arbitrary actions (specifically, the possibility to amend conditions of a tender and the winner's obligations upon signing the respective contract) and intensifies inequality between potential participants, regardless the principle of participants' equity stipulated in p.1 of Art. 2 (especially with respect to procedures of implementation of privatization methods); second, the bill sets more sophisticated and labor-intensive procedures of privatization of the enterprises whose privatization is not prohibited. In other words, essentially, this concerns a considerable volume of stock packages remained in the government ownership and not sold yet, due to various reasons. If such restrictions appear justified, as long as 700 strategic objects are concerned, their effect with regard to non-blocking minority stakes that should be sold by any means can be questioned.

Finally, a permanent absence of a clear privatization strategy (apart from budget tasks) appear a clearly negative factor. Once being designed, it should be based on the clear awareness of which enterprises and sectors should be retained in the government ownership under any circumstances. Once this strategy completed, one could then start discussing the list of sales for a short-, medium and longer-term perspective. Such a list should obviously comprise both the sub-list of actually salable and attractive objects and the sub-list of non-liquid objects (due both to financial and economic indicators and already formed property structure). As well the Russian privatization suffers from traditional defects, specifically, transparency of deals and actual equity between participants in the conditions of systemic corruption, and in this case sales procedures appear a secondary matter.

A. Radygin