RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
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The State of the Federal Budget

In 2002, the revenues of the state budget (cash execution) made 20.1 % of GDP, while expenditures made 18.7 % of GDP (see Table 1). Therefore, the federal budget surplus made 2.0 % of GDP.

Table 1

The monthly execution of the federal budget of the Russian Federation (in % of GDP[1], in comparable prices)

	2001	I`02	II`02	III`02	IV`02	V`02	VI`02	VII`02	VIII`02	IX`02	X`02	XI`02	XII`02	2002
Revenues														
Corporate profit tax	2,4%	1,4%	1,4%	1,5%	1,9%	1,9%	1,7%	1,7%	1,7%	1,6%	1,7%	1,6%	1,6%	
Personal income tax	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	
VAT, special tax and excises	0,0%	4,9%	4,4%	4,0%	3,9%	3,6%	3,5%	3,5%	3,3%	3,2%	3,1%	3,1%	3,1%	
Tax on foreign trade and foreign trade operations	9,4%	9,3%	9,1%	9,3%	9,3%	9,3%	9,3%	9,3%	9,1%	9,0%	8,9%	8,9%	8,9%	
Other taxes, duties and payments	7,1%	6,9%	6,4%	6,8%	6,9%	7,0%	7,0%	7,0%	7,0%	6,9%	6,9%	6,9%	6,9%	
Total- taxes and charges	2,2%	2,4%	2,6%	2,5%	2,4%	2,3%	2,3%	2,2%	2,1%	2,0%	2,0%	1,9%	2,0%	
Non- tax revenues	3,7%	3,2%	3,3%	3,2%	3,0%	2,9%	2,9%	2,9%	2,8%	2,8%	2,8%	2,9%	3,0%	
Revenues, total	0,6%	9,7%	9,1%	8,7%	8,7%	8,4%	1,8%	2,0%	2,0%	2,0%	2,1%	2,1%	2,1%	
Expenditure	16,2%	20,4%	19,6%	19,6%	19,9%	19,6%	19,3%	19,4%	18,9%	18,5%	18,6%	18,5%	18,6%	
Public administration	1,4%	2,1%	1,6%	1,4%	1,3%	1,2%	1,3%	1,4%	1,4%	1,4%	1,6%	1,4%	1,4%	
National defense	17,6%	22,4%	21,2%	20,9%	21,2%	20,9%	20,6%	20,9%	20,4%	20,0%	20,2%	20,1%	20,1%	21,4%
International activities														
Judicial power	0,5%	0,1%	0,2%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,5%	
Law enforcement and security activities	2,7%	1,0%	1,5%	1,9%	2,3%	2,4%	2,5%	2,5%	2,5%	2,4%	2,4%	2,5%	2,7%	
Fundamental research	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,3%	0,3%	0,3%	0,3%	0,3%	
Services provided for the national economy	0,1%	0,0%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,2%	0,2%	0,2%	
Social services	1,6%	0,6%	0,9%	1,0%	1,2%	1,2%	1,3%	1,4%	1,4%	1,4%	1,4%	1,5%	1,7%	
Servicing of public debt	0,3%	0,0%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,3%	0,3%	
Other expenditure	1,3%	0,1%	0,3%	0,4%	0,5%	0,6%	0,7%	0,8%	0,8%	0,8%	1,2%	1,3%	1,5%	
Expenditure, total	2,3%	3,7%	4,8%	4,8%	5,3%	5,2%	5,2%	5,2%	5,1%	4,9%	5,5%	5,6%	5,6%	
Loans, redemption exclusive	2,6%	2,0%	3,4%	3,4%	2,6%	2,5%	2,4%	2,3%	2,4%	2,4%	2,2%	2,0%	2,0%	1,7%
Expenditure and loans, redemption exclusive	3,0%	2,9%	3,3%	3,6%	3,9%	4,0%	4,0%	4,0%	3,9%	3,8%	3,9%	3,9%	3,8%	
Budget deficit (-)	14,7%	10,9%	15,0%	16,1%	16,9%	17,1%	17,2%	17,2%	17,1%	16,9%	17,8%	18,0%	18,7%	12,6%
Domestic financing	2,9%	11,5%	6,2%	4,8%	4,3%	3,8%	3,4%	3,7%	3,3%	3,1%	2,4%	2,1%	1,4%	8,7%
Other taxes, duties and payments	-0,1%	-11,2%	-4,6%	-2,7%	-2,0%	-1,8%	-1,6%	-1,8%	-1,3%	-1,2%	-0,5%	-0,2%	0,6%	-6,7%
Total- taxes and charges	-2,8%	-0,4%	-1,6%	-2,1%	-2,3%	-1,9%	-1,8%	-1,9%	-1,9%	-1,9%	-1,9%	-1,9%	-2,0%	-2,0%
Non- tax revenues	-2,9%	-11,5%	-6,2%	-4,8%	-4,3%	-3,8%	-3,4%	-3,7%	-3,3%	-3,1%	-2,4%	-2,1%	-1,4%	-8,7%

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

For more detailed information on the key trends relating to the parameters of the budget execution and major factors affecting the budgetary situation in 2002 see the IET annual report. However, it shall be noted the following.

As compared with the figures registered in 2001, the budget revenues increased by 3.5 p.p., while expenditures grew by 4.0 p.p. and budget surplus decreased by 1.5 p.p.

In 2002, VAT accounted for the major share of federal tax revenues – 37 % of the total tax revenues, or 44 % of tax revenues without SST, what is at the level observed in 2001.

According to preliminary estimates, the cash execution of federal budget revenues made 21.4 % of GDP in January of 2003, what is below the respective level observed in January of 2002. At the same time the cash execution of expenditures made 12.9 % of GDP (10.9 % of GDP in 2002); therefore, the surplus made 8.7 % of GDP (11.5 % of GDP in 2002).

According to the preliminary estimates of the Finance Ministry, in terms of fulfilled funding[2] the expenditures of the federal budget in January of 2003 made 16.9 % of GDP (see Table 2), while in January

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).

of 2002 this indicator was at 15.5 % of GDP. As a result, the surplus of the federal budget in terms of fulfilled funding in January of 2003 has also decreased in comparison with the figures registered in January of 2002 and made 4.5 % of GDP.

Table 2

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

	I`02	II`02	III`02	IV`02	V`02	VI`02	VII`02	VIII`02	IX`02	XII`02	I`03
Total	22,2%	21,0%	20,9%	21,2%	20,8%	20,5%	20,5%	20,5%	20,0%	20,1%	21,4%
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	1,7%	2,4%	2,4%	2,7%	2,7%	2,7%	2,7%	2,7%	2,6%	2,6%	2,5%
International activities	0,4%	0,2%	0,4%	0,5%	0,4%	0,4%	0,4%	0,3%	0,3%	0,3%	-0,4%
Judicial power	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Law enforcement and security activities	1,6%	1,4%	1,4%	1,5%	1,5%	1,6%	1,9%	1,6%	1,6%	1,7%	1,9%
Fundamental research	0,3%	0,3%	0,2%	0,3%	0,3%	0,3%	0,2%	0,3%	0,3%	0,3%	0,3%
Services provided for the national economy	0,3%	0,6%	0,8%	0,9%	1,0%	1,0%	1,1%	1,1%	1,0%	1,5%	0,6%
Social services	5,0%	5,7%	5,3%	5,9%	5,7%	5,5%	5,6%	5,4%	5,2%	5,7%	2,6%
Servicing of public debt	1,9%	3,4%	3,4%	2,7%	2,5%	2,4%	2,6%	2,4%	2,4%	2,0%	1,7%
Other expenditure	3,5%	4,0%	3,9%	4,0%	4,6%	4,2%	4,0%	4,0%	4,0%	3,8%	7,0%
Total expenditure	15,5%	18,7%	18,6%	19,1%	19,4%	18,9%	19,1%	18,6%	18,2%	18,7%	16,9%
Профицит (+) / дефицит (-)	6,8%	2,3%	2,3%	2,1%	1,4%	1,6%	1,4%	1,8%	1,7%	1,4%	4,5%

According to the estimates of the Revenue Ministry, in January of 2003 tax revenues of the federal budget made Rb. 97.3 billion (without the single social tax). In real terms the revenues made 230.0 % of the level registered in January of 1999, while the respective indicator was at 218.7 % in 2002 and 204.4 % in 2001 (see Table 3).

Table 3

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

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

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

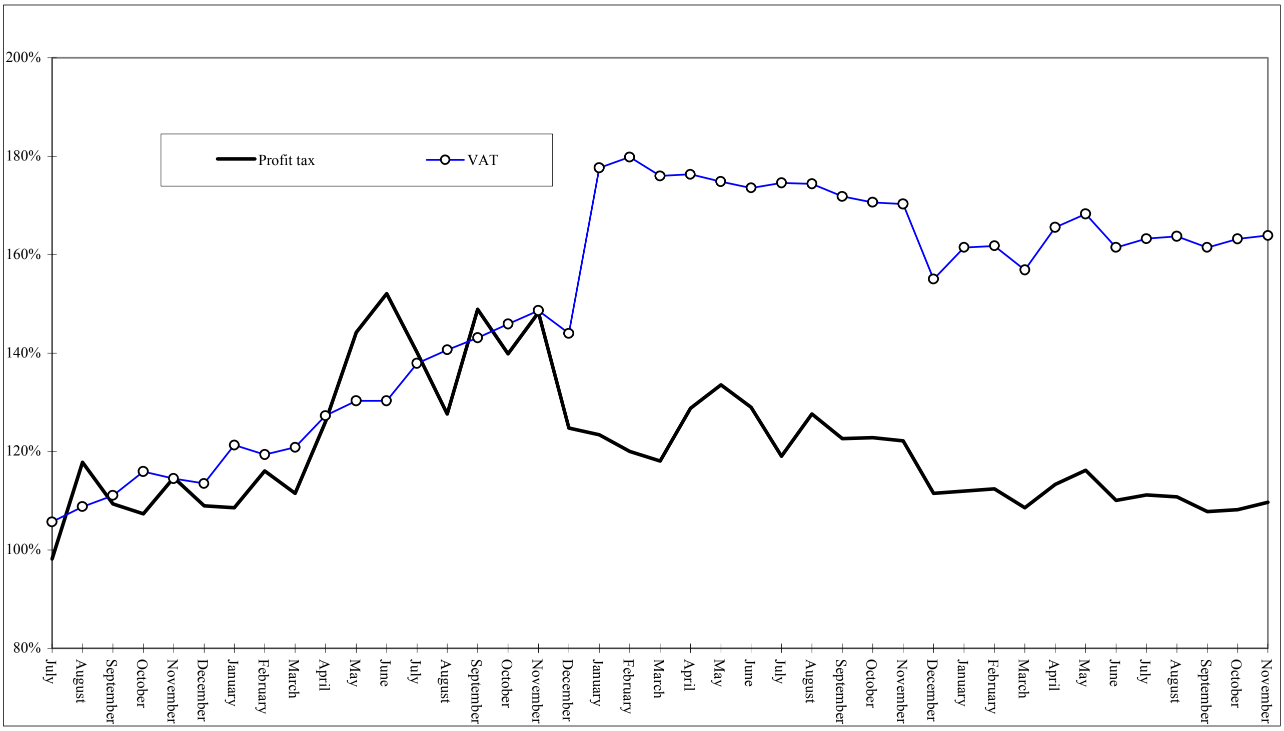


Fig. 1. Rate of growth of the real tax arrears to the federal budget (in % to July 1999)

The debts related to the payments due to the federal budget made for VAT Rb. 245.6 billion as on February 1, 2003, the arrears of the profit tax made Rb. 33.0 billion. The dynamics of real arrears relating to major debts since June of 1999 is presented in Fig. 1. On the whole, the data demonstrate a gradual decrease in the level of accumulated arrears as concerns the profit tax and stabilization of VAT arrears.

The revenues of the consolidated budget in 2002 made 32.1 % of GDP, including tax revenues (without SST) at 25.5 % of GDP (see Table 4). Expenditures of the consolidated budget increased by 5.5 p.p. in comparison with the figures registered in 2001 and made 31.1 % of GDP. The surplus of the consolidated budget in 2002 was 1.0 % of GDP, what is the record low in the last two years.

Table 4

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

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

2001												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	22,7%	23,6%	23,9%	25,4%	26,4%	26,0%	26,1%	25,9%	25,0%	24,8%	25,4%	27,1%
Revenues	25,9%	27,1%	27,4%	29,3%	30,5%	29,8%	29,9%	29,7%	28,3%	28,2%	28,8%	29,5%
Expenditures	16,8%	22,8%	23,7%	24,7%	25,1%	25,3%	25,5%	25,6%	24,9%	24,7%	25,0%	25,6%
Deficit	9,1%	4,2%	3,7%	4,7%	5,4%	4,4%	4,4%	4,1%	3,5%	3,5%	3,8%	3,9%
2002												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	28,7%	23,6%	24,3%	26,5%	26,6%	25,9%	26,4%	25,9%	25,2%	25,4%	25,4%	25,5%
Revenues	32,9%	31,3%	31,4%	33,6%	33,6%	32,7%	33,3%	32,5%	31,7%	32,0%	32,1%	32,1%
Expenditures	18,3%	23,7%	26,0%	28,4%	28,4%	28,8%	29,1%	28,9%	28,4%	29,3%	29,7%	31,1%
Deficit	14,6%	7,7%	5,4%	5,3%	5,2%	3,8%	4,2%	3,7%	3,3%	2,7%	2,4%	1,0%

* Без учета ЕСН

S. Batkibekov

Monetary Policy

In January 2003 the Consumer Price Index amounted to 2.4 percent, that is its maximal value for the last twelve months (see Figure 1). The commodity structure of consumer price growth testifies to the assumption on seasonal reasons for price increase acceleration. E.g., prices for foodstuffs increased by 2.5 percent in January. However, without taking into consideration the fruit and vegetables group, the foodstuff price increase did not exceed 1.3 percent. Prices for paid public services have also substantial growth of 4.4 percent, including housing and communal services: 7.2 percent. The latter may be also referred to the seasonal factors, as traditionally the increase in administered prices takes place at the beginning of the year.

According to our estimates, in February 2003, like in 2002, the inflation growth fell down to 1.2 -1.4 percent.

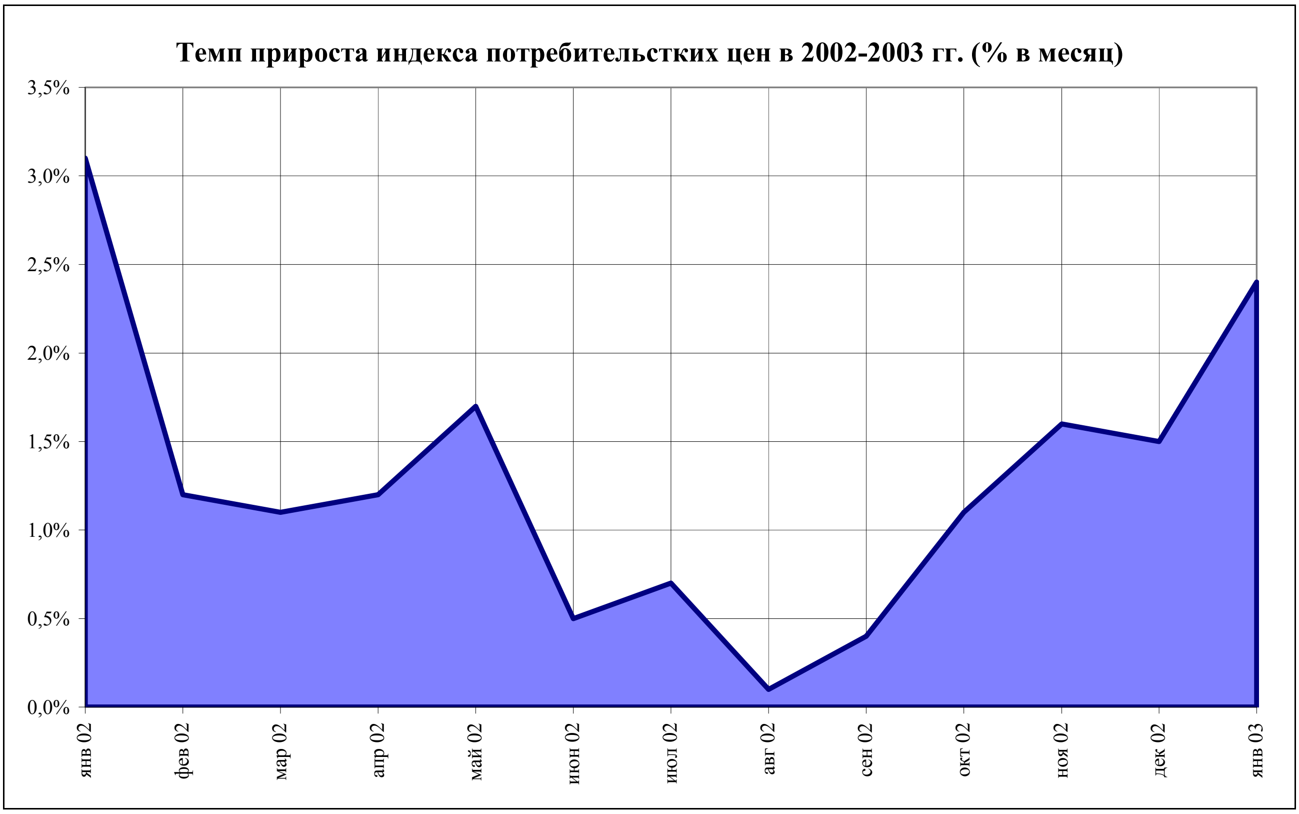


FIGURE 1. CONSUMER PRICE INDEX GROWTH RATES IN 2002 - 2003 (PERCENT PER MONTH)

In January 2003 the volume of narrow monetary base reduced by 6.5 percent, from RUR 940 up to 879 billion, which is the most intense contraction of the money offer since 1998. However, in the first half of February, 2003, the narrow monetary base grew again, approximately by 2.5 percent, owing, first of all, to accumulation of gold and currency reserves of the RF Central Bank (see Figure 2). Despite the substantial

RF external debt payments (more than US$ 3 billion in the course of two months) and the weakening exchange market support (see Section "Exchange Market"), the Bank of Russia has been increasing its gold and currency reserves at more than one billion US$ per week during the second half of January and in February, 2003. Hence, the total reserves reached US$ 52.7 billion by February 23, 2003, exceeding the total as of January 01, 2003, nearly by US$ 5 billion (+10.3 percent).

As for the decisions in the monetary policy in February 2003, it is necessary to emphasize the decrease in the CB RF refinance rate down to 18 percent, which is a historic minimum for this index. However, it should be mentioned that the changes of refinance rate do not determine the dynamics of government bond yields and credit rates, but continue to follow them.

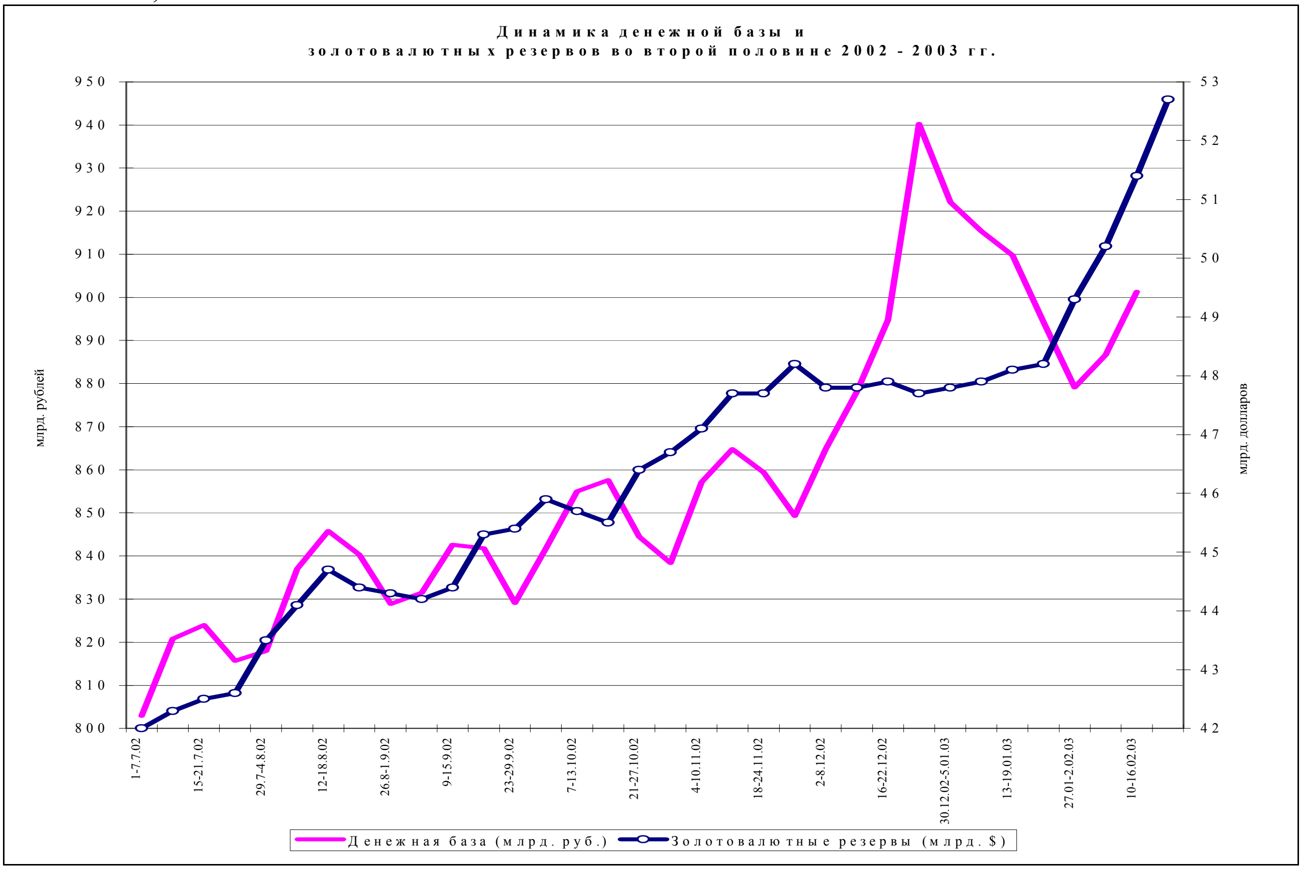


FIGURE 2.

S. Drobyshevski

Financial markets

The Market for Government Securities

In February 2003 a substantial growth of quotations for Russian Eurobonds and Minfin bonds was observed. The quotations for the most of securities reached their historical maximum. Such factors as high oil prices, a substantial growth of gold and currency reserves, a favorable economical and political situation in Russia and positive development prospects determined investor interest in Russian bonds. News about the establishment of a joint venture between British Petroleum and the Russian TNK resulted in substantial increase in prices for Russian debts. The establishment of the new joint company is an evidence of positive changes in foreign investors' interest in Russian economy. The successful placement of Gazprom bonds has also made its favorable effect on Russian Eurobond prices. The following bonds should be named among the growth leaders: Minfin, the 7th tranche (5.33 percent), Minfin, the 5th tranche (3.17 percent), RUS-28 (6.70 percent), RUS-18 (5.70 percent), RUS-30 (3.97 percent).

The RF Ministry of Finance made external debt payments in the amount of US$ 1.99 billion in February. The RF Ministry of Finance reported that the exchange of the second tranche of the former USSR commercial debt is scheduled for May-July. In December 2002, the first tranche of this debt was exchanged for the additional RF Eurobond issue with maturities in 2010 and 2030. The commercial debt of the former

USSR in the amount of US$ 200-400 billion can be offered for exchange within the second tranche. At the same time, the RF Ministry of Finance would prefer that the largest possible volume of the remaining debt be exchanged in the second tranche.

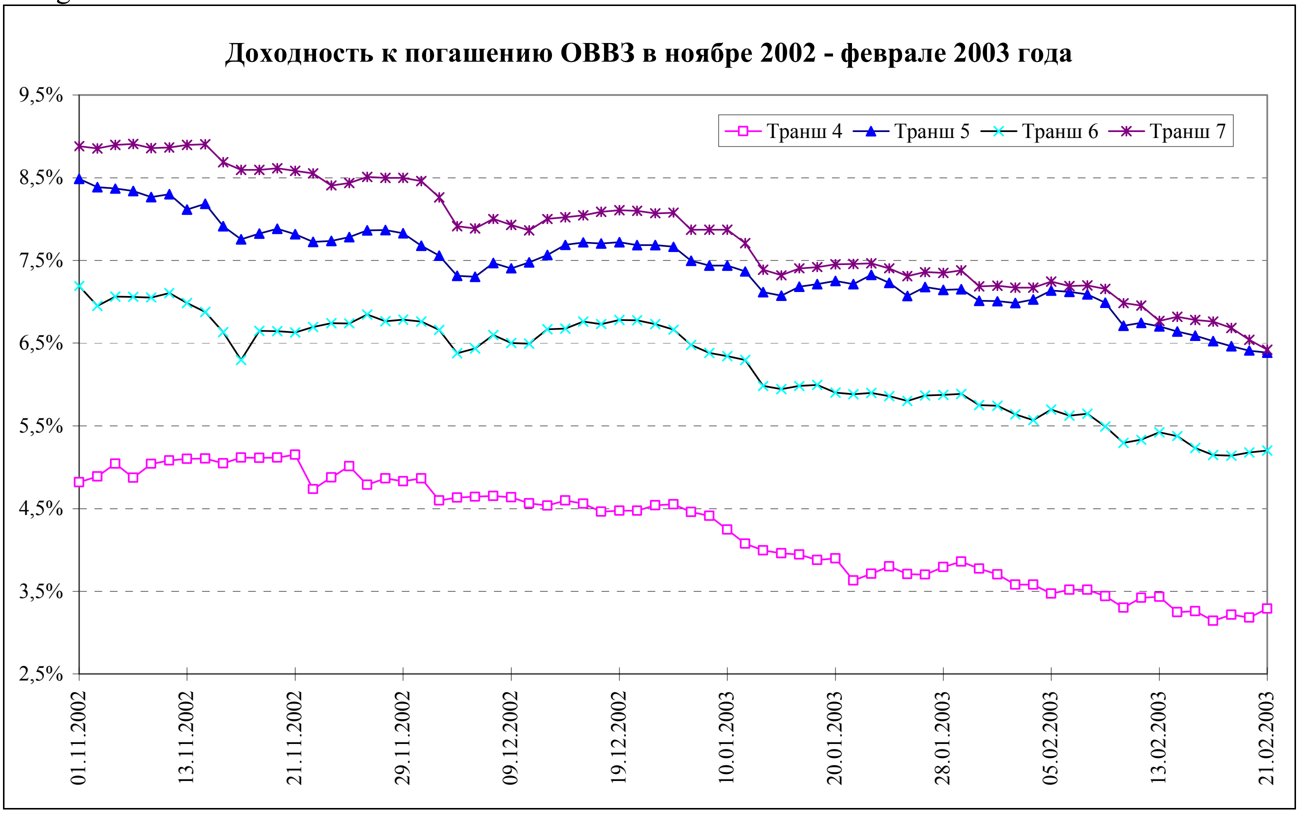


FIGURE 1. YIELD TO MATURITY OF MINFIN BONDS IN NOVEMBER 2002 – FEBRUARY 2003.

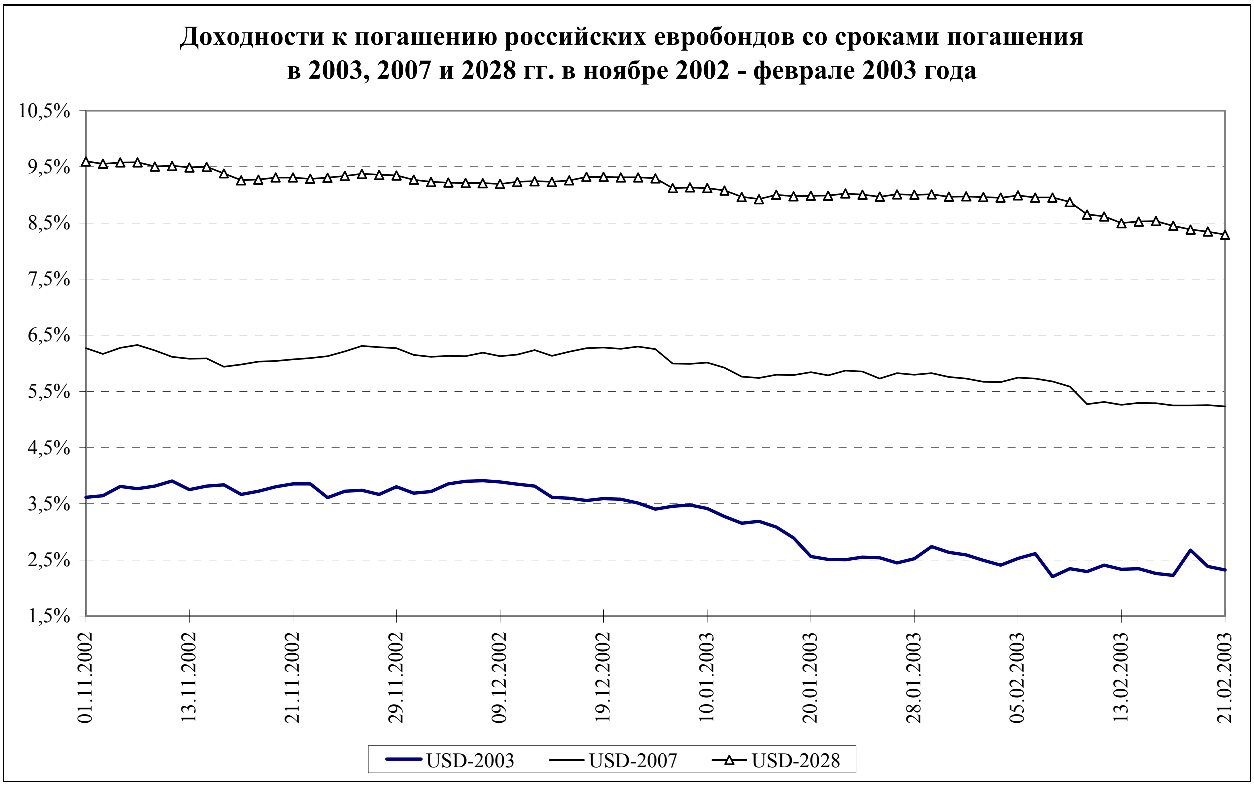


FIGURE 2. YIELD TO MATURITY OF RUSSIAN EUROBONDS MATURING IN 2003, 2007 AND 2008 IN NOVEMBER 2002 - FEBRUARY 2003.

A sudden increase in market players' activity was observed during this month at the GKO-OFZ secondary market, which was caused by the free Rouble liquidity, as well as by statements of Central Bank representatives on the leveling strategy of internal and external market yields. Additional Rouble funds in the amount exceeding RUR 106 billion entered the market as a result of coupon payments and OFZ-FD 27007 issue redemption. On February 05 the Ministry of Finance issued a security with the longest term: OFZ 46002 with maturity in 2012. The placement of this issue gathered a record number of market participant orders: nearly RUR 21 billion, while the stated volume was RUR 11 billion. The yield of long-term OFZs dropped below 12 percent p.a. During the first week of February the yield of all government bonds decreased by 1 percent on average, which resulted in the similar yield decrease in sub-federal and corporate debt sectors. From the 3rd until the 7th of February the turnover in the Rouble bond market amounted to ca. RUR 16 billion. During the second week of February, having risen in price by more than 6 percent, the bonds of series № 46002 became quotation growth leaders and provided the investors with a weekly income equal to 330 percent p.a. The market participants made 297 deals to the amount of RUR 2.1 billion with these securities, though the share of additional placement by the Ministry of Finance was only 9 percent of this amount. Altogether, during the week, the yield on these government securities amounted to ca. 72 percent p.a. The trade turnover reached RUR 12.7 billion from the 13th until the 17th of January. The total trade volume in Rouble government bonds doubled in February as compared to January, and amounted to RUR 64 billion.

Totally, on the 25th of February the nominal volume of GKO-OFZ amounted to RUR 246.906 billion, the money volume: RUR 259.054 billion, and the duration of market portfolio: 673.58 days.

The Market for Corporate Securities

The Stock Market.

In February the Russian corporate securities market demonstrated the long-expected growth. Adoption of a block of significant laws on reforms in power industry, large investments into the Russian company TNK made by British Petroleum, successful placement of Gazprom Eurobonds, as well as some other internal corporate news were the reason for the increase in the cost of Russian assets. The external news was mainly negative. The unsteady situation on the leading world trade floors was conditioned by political instability. The continued US - Iraq, as well as the US - North Korean conflicts make investors choose investment objects with greater caution and seek for more secure ways of investing funds.

At the end of the month, the RTS index increased greatly (9.43 percent), amounting to 378.14 points on 25 February. The trade volume also increased as compared to the previous month and amounted to US$ 235 million. The average annual volume amounted to $14.7 million. The RTS index dynamics can be subdivided into four periods: from the beginning of the month until 6 February the index was at the level of 347 points. Then the stock index started to rise sharply and reached 370.71 points (7.38 percent) by 11 February. Market players' growing interest in Russian assets was caused by the adoption in the 2nd hearing of a block of laws on reforms in the power industry, news on large BP investments into TNK, and Yukos' publications about positive financial results. After that and until 20 February the stock index fluctuated between 368 and 372 points, and at the end of the month again increased up to 378.14 points (2 percent), which was conditioned by the adoption in the 3rd hearing of a block of laws on reforms in the power industry and a successful placement of ten-year Gazprom bonds. The minimum turnover was registered on 17 February, $6.8 million, the maximum turnover was $26.1 million (11 February).

During the period under review the most of Russian blue chips demonstrated positive dynamics. As of 25 February the growth leaders were Mosenergo securities (12.05 percent), followed by Rostelecom stock (15.7 percent), RAO UES (14.66 percent) and Yukos (14.01 percent). More moderate increase in prices was observed for the following shares: Gazprom (13 percent), Sberbank (11.02 percent), Tatneft (10.56 percent) and Sibneft (10,42 percent). In the outsider group in February were Surgutneftegaz (6.21 percent), MMC Norilsk Nickel (2.74 percent) and Lukoil (1.61 percent). Such dynamics of Lukoil stock was conditioned by financial results of the company’s activity, which turned out to be worse than investors had expected.

The proportion of RAO UES common stock in the total RTS trade volume in the considered period was maximal: 30.43 percent (28.18 percent in the previous month, correspondingly). These are followed by Yukos securities: their volume doubled and reached 16.44 percent (8.66 percent). The share of Lukoil common stock decreased up to 15.47 percent (18.59 percent); Surgutneftegaz: 7.69 percent (11.65 percent); MMC Norilsk Nickel: 5.53 percent (12.47 percent). The total proportion of the five most liquid stocks in the overall RTS February turnover slightly decreased, reaching 75.56 percent (79.55 percent in January).

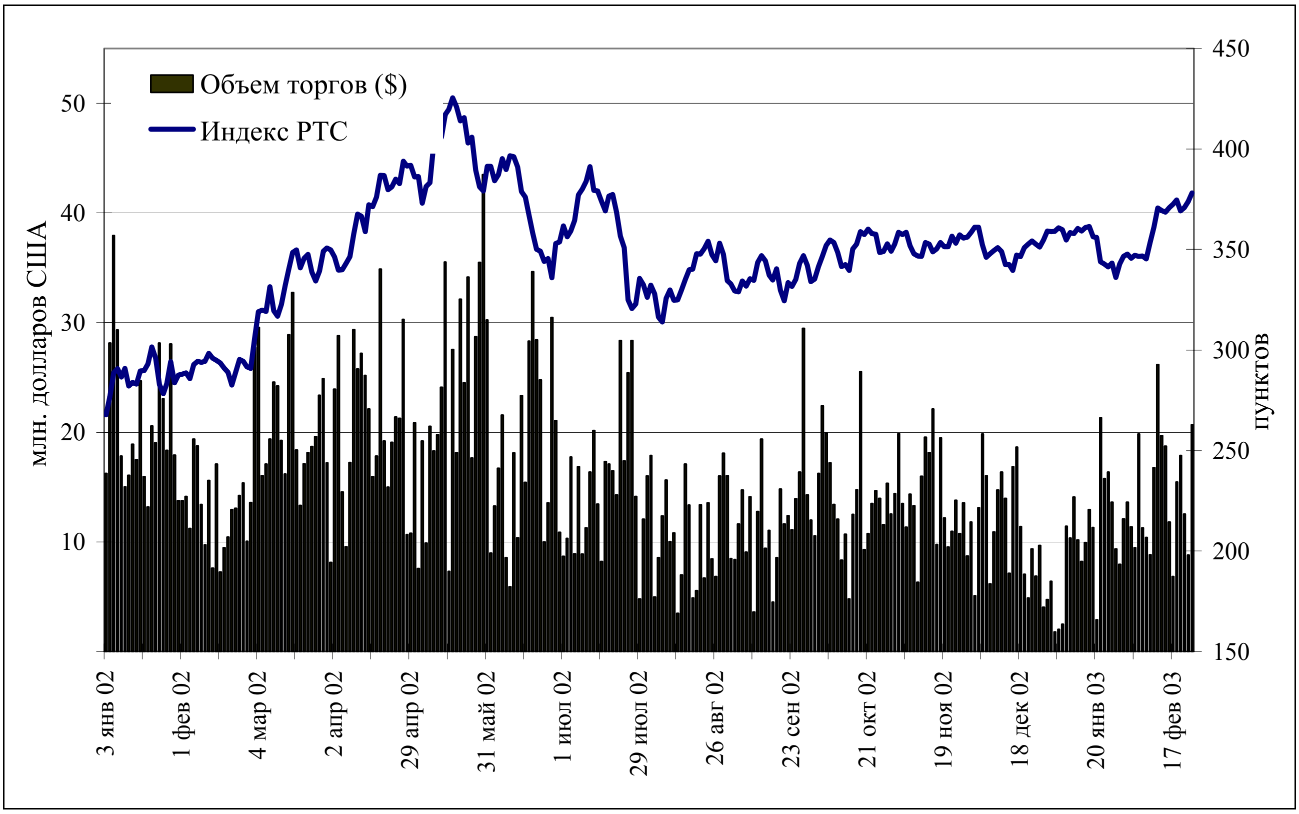


FIGURE 3.

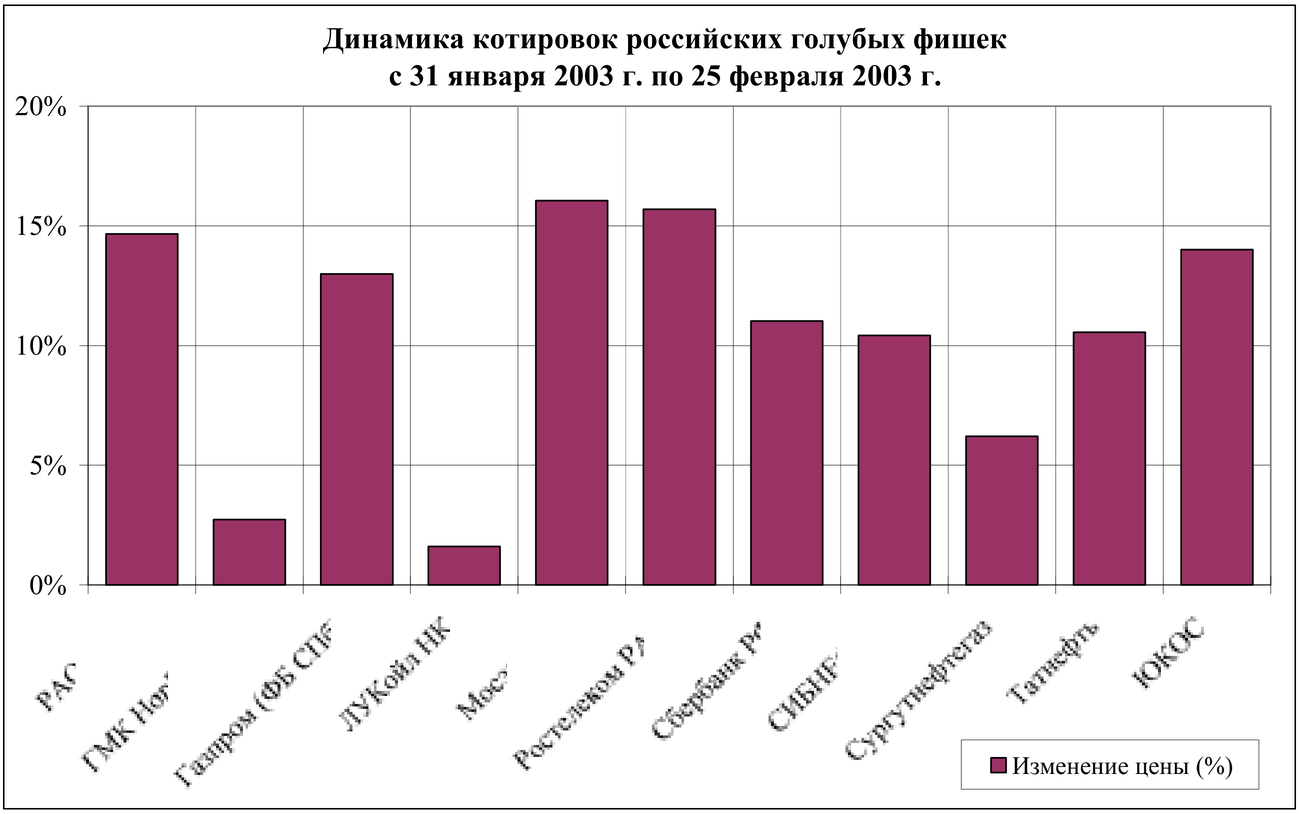


FIGURE 4

In the period from 1 until 25 February 2003, the volume of trade in Gazprom stock via RTS terminals more than doubled as compared to January and amounted to US$ 84.8 million (ca. 107.3 million shares); a total of 10.5 thousand deals were concluded with the company's securities. At the end of February the five most capitalized Russian companies were as follows: Yukos: US$ 23.7 billion; Gazprom: US$ 19.2 billion; Lukoil: US$ 12.4 billion; Surgutneftegas: US$ 11.4 billion; and Sibneft: US$ 10.2 billion (all data according to RTS).

The Market for Term Contracts.

In February the FORTS market grew to new historic highs: on 19 February a record trade volume in open positions was observed: 393.7 thousand contracts (among them, the futures contracts fall at 342 thousand and options fall at 51.7 thousand) for the total of RUR 1.721 billion, which exceeds the maximal index as at January 13, 2003, by 13 percent. The total turnover in term contracts practically did not change within the period from 1 until 25 February as compared to the similar period in the previous month and amounted to RUR 7.74 billion (45.3 thousand deals, 1.84 million contracts); futures contracts accounted for RUR 7.55 billion (43.3 thousand deals, 1.84 million contracts) in that amount. The average daily trade volume was RUR 515.7 million, the number of deals: 3021.

Corporate bonds.

The decline of US$ rate and excess of short-term liquidity resulted in sharp quotation growth of Rouble instruments, including corporate bonds. This market segment experienced a sharp rise in trade turnover and quotation growth. For example, the average yield on corporate bonds was nearly 70 percent p.a. within the period from 10 until 14 February. For the first three weeks of February the turnover in corporate bonds amounted to RUR 9.19 billion. The following securities are in the highest demand on the secondary market: TNK 5v1t (RUR 685 million), Gazprom-2 (RUR 470 million), Gazprom (RUR 383 million), TNK 5v1t (RUR 215 million) and IRKUT-2 (RUR 152 million). The following initial placements in February are noteworthy: the 3rd series of MGTS bonds (RUR 1 billion), VolgaTelecom (RUR 1 billion), OAO Mechel (RUR 1 billion), Salavatnefteorgsintez (RUR 300 million).

External Factors of the Russian Stock Market Dynamics.

On the whole, black gold prices have increased by more than 7 percent during the month. As of 26 February the price for one barrel of Brent crude oil amounted to $33.63. The substantial reduction in Venezuela crude oil deliveries, the expectations of the forthcoming war in the Persian Gulf and the lowest ever industry oil reserves in the USA for the last 28 years resulted in futures price exceeding the level of US$ 33 / barrel for Brent oil (March) (IPE, London) on 13 February, up to US$ 33.06 / barrel, which became a new record maximum since November 27, 2000. The information about a strike of oil industry workers in Nigeria and fears of possible reductions in oil deliveries from this country contributed to oil quotation growth on 18 February. On the other hand, it should be noted that the long-term strike in Venezuela stopped and oil production gradually recovered. OPEC increased oil production by 1.5 million barrels per day from 01 February.

FIGURE 5. PRICE FOR BRENT CRUDE OIL, USA (NYMEX)

In its regular meeting, the US Fed Open Market Commission decided to keep the federal funds key interest rate on the same level of 1.25 percent. For the first time since November, 2001, the Bank of England decreased its interest rate by 0.25 percent up to the lowest level since 1995: 3.75 percent, which, according to the Bank's Monetary Policy Committee, shows increasing concerns about growth rates in the European and the world economies on the whole.

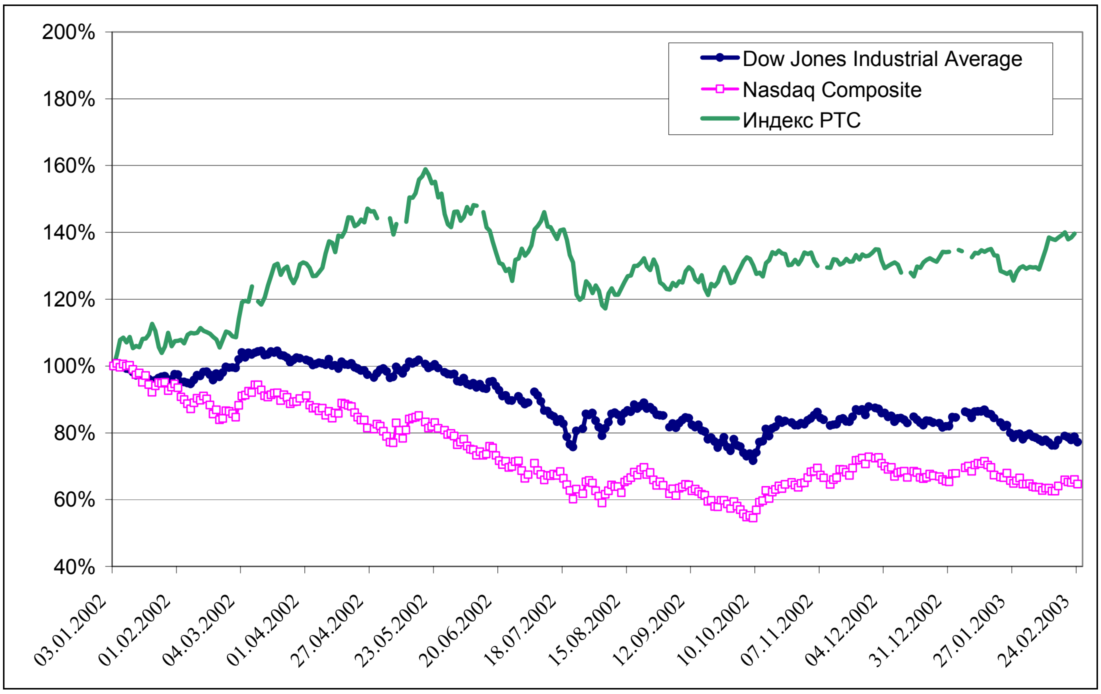


FIGURE 6.

Corporate News

OAO VolgaTelecom

Standard & Poor’s upgraded the long-term credit rating of OAO VolgaTelecom from "B-" up to "B". The reason for the upgrading was the completion of consolidation of fixed communications operators in the Volga region, which resulted in improvement of VolgaTelecom market position and the company’s business indicators. S&P’s analysts specify that the new company, with an income of nearly US$ 345 million in 2002, will get additional advantages from its increased activity, economies of scale, stronger market positions and easier access to capital market. Therefore, OAO VolgaTelecom has become the most reliable communication regional operator, according to the S&P rating.

OAO TNK

On February 11, TNK (the Tyumen Oil Company) and BP announced the greatest deal in the history of the domestic business. The TNK assets were pooled with the Russian assets of BP, the world's third-largest oil production company. Everyday oil production volume of the new holding will amount to 1.2 million barrels, and proven oil reserves are 9.5 billion barrels. Thus, the newly formed holding will join the third biggest oil and gas companies of the country.

BP will pay US$ 3 billion for the 50 percent share in the united entity and, additionally, will transfer shares in the amount of more than US$ 3.75 billion. The amount of the deal shows that western investors are ready to pay a higher price for the assets Russian oil companies: one barrel of the new holding's reserves was assessed at US$ 3, whereas other domestic oil companies’ prices for one barrel are US$ 1- US$2.

OAO Gazprom

Gazprom published its IAS financial activity results in the Quarter 3, 2002. The consolidated revenues amounted to US$ 4.05 billion, that is 2 percent higher as compared to last year's corresponding index. The net gains adjusted for income from inflation and deferred taxation amounted to US$ 691 million.

OAO Gazprom has successfully placed its new 10-year bond loan for US$ 1.750 billion. The bonds were placed at nominal value with the coupon 9.625 percent payable twice a year. The joint lead-managers of the issue and joint managers of order books were Dresdner Kleinwort Wasserstein and Morgan Stanley.

OAO Sberbank

Fitch has upgraded Sberbank's individual rating from "D" to "C/D", whereas other ratings of the bank remained the same (long-term: "BB-", short-term: "B"). The upgrading testifies to the increase in bank's profitability after 2000 up to the level, which either corresponds with or exceeds other Russian banks' indicators.

OAO Lukoil

Lukoil's net profit according to US GAAP decreased during 9 months of 2002 nearly by 30 percent, to US$ 1.347 billion. The revenues in the reporting period increased by 5.8 percent and amounted to US$ 11.108 billion. Oil export revenues increased by 3.6 percent up to US$ 3.189 billion and oil product export revenues increased by 20.6 percent up to US$ 4.533 billion. The revenues from oil trade in the domestic market decreased 2.2 times, falling down to US$ 362 billion; the revenues from domestic trade in oil products increased by 3.4 percent up to US$ 2.017 billion. Meanwhile, the company's operating costs have decreased in the reporting period from US$ 1.47 to US$ 1.45 billion, and the production has grown by 2 percent, approximately. The production cost of an oil barrel decreased by 6.5 percent, down to US$ 2.61.

Table 1

Dynamics of World Foreign Stock Indexes

As of 24 February 2003	Value	Change During the Month (%)	Change Since the Beginning of the Year
RTS (Russia)	370.3	7.17%	3.14%
Dow Jones Industrial Average (USA)	7858.24	- 2.43%	- 5.79%
NASDAQ Composite (USA)	1322.38	0.11%	-0.98%
S&P 500 (USA)	832.58	-2.70%	-5.37%
FTSE 100 (UK)	3701.8	3.77%	-6.06%
DAX-30 (Germany)	2571.35	-6.42%	-11.11%
CAC-40 (France)	2785.61	-5.18%	-9.08%
Swiss Market (Switzerland)	4181.3	-5.45%	-9.71%
Nikkei-225 (Japan)	8564.95	2.70%	-0.16%
Bovespa (Brazil)	10254	-6.28%	-9.00%
IPC (Mexico)	5913.68	-0.68%	-3.48%
IPSA (Chile)	998.64	-0.33%	-3.06%
Strait Times (Singapore)	1306.79	1.19%	-2.55%
Seoul Composite (Korea)	616.29	2.64%	-1.80%
ISE National-100 (Turkey)	11392.58	3.27%	9.86%
Morgan Stanley Emerging Markets Free Index	287.919	-0.87%	-1.43%

Foreign Exchange Market

Currency offer in February remained steadily high due to a substantial inflow of export revenues. However, against the background of unstable situation at the world markets, investments in the US currency became less attractive, and, therefore, banks are seeking for alternative financial instruments, for example, Rouble securities. The fact that banks refuse to buy currency even if there is surplus Rouble liquidity indicates the changing attitude of the market.

On the whole, in the period from 31 January until 21 February the Ruble-Dollar exchange rate decreased by 28.45 kopecks (0.89 percent), from RUR / US$ 31.8345 as of 31.01.2003 down to RUR / US$ 31.55 as of 21.02.2003. The first week of the month was rather quiet. The RUR exchange rate was near RUR / US$ 31.85, while the trade volume was moderate. Later, some massive currency sales followed. On 12 February, the trade volume was US$ 692 million, and the decrease of the US Dollar exchange rate was 7.4 kopecks, according to SELT results. On 21 February, the trade volume in the SELT was US$ 956 million. The SELT dollar trade volume will amount to RUR 144 billion in February, according to preliminary estimates.

Balances in correspondent accounts were within the range of RUR 80 -100 billion in February. Overnight interbank deposit rates decreased from 3.5 percent – 3.4 percent to 1.7 percent - 1.8 percent over the period.

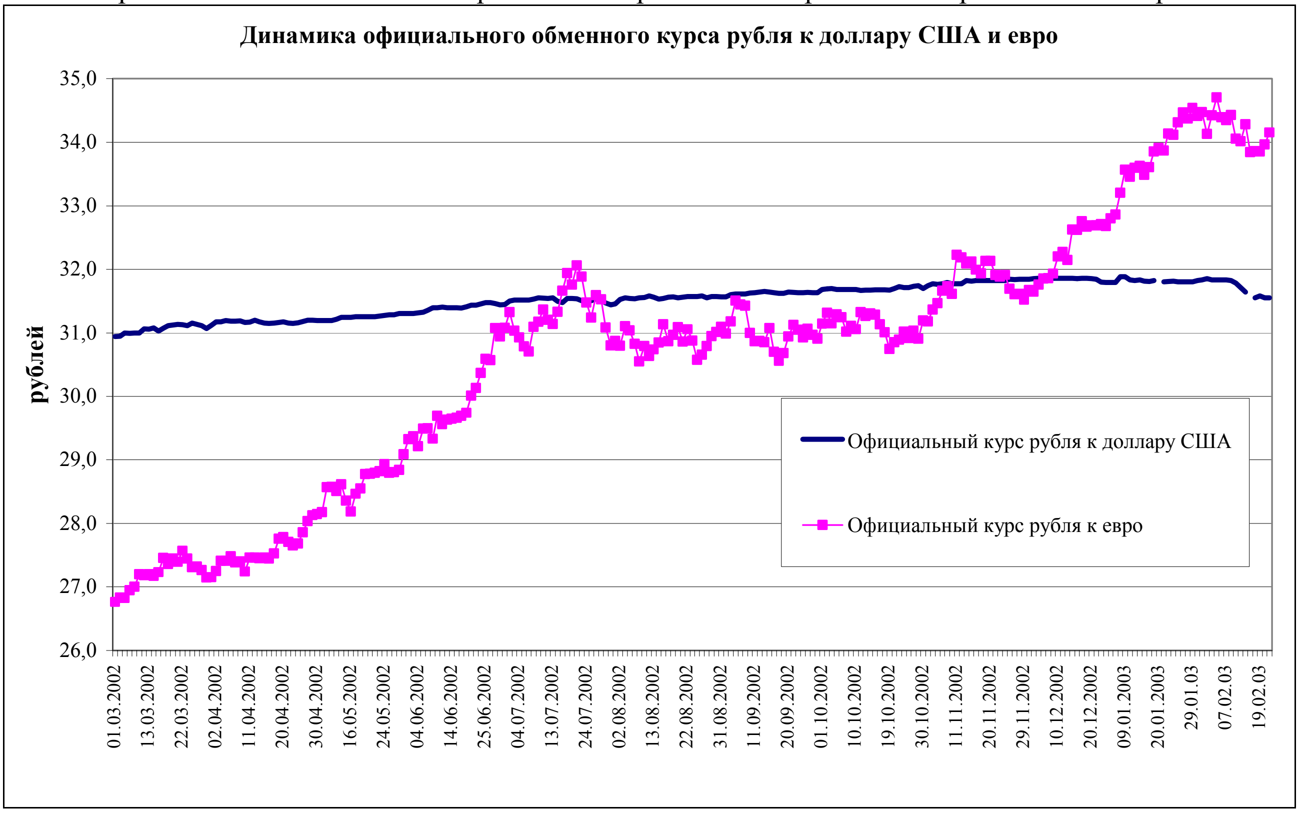


FIGURE 7. THE DYNAMICS OF THE OFFICIAL ROUBLE - DOLLAR AND ROUBLE - EURO EXCHANGE RATE

In the international market, the Euro-Dollar exchange rate slightly decreased as compared to the last week in January. In the period from 31 January until 25 February the Dollar grew in price 0.17 cents (0.16 percent), and at the end of the period its exchange rate decreased to US$ / Euro 1.07980.

The change of Rouble - Euro exchange rate followed the world's leading trade floors. In February, the highest value was RUR / Euro 34.704 (a historic maximum) on 05 February 2003, and the lowest value was RUR / Euro 33.8422 on 17 February 2003. The Rouble - Euro exchange rate changed by RUR - 0.32, or - 0/93 percent, in the course of the month, while the trade volume was RUR 3.4 billion.

FIGURE 8. THE DYNAMICS OF EURO / DOLLAR EXCHANGE RATE ON INTERNATIONAL FOREX MARKETS

Table 2

Financial Market Indicators

Month	October	November	December	January	February*
Monthly inflation rate	1.1%	1.6%	1.5%	2.4%	1.3%
Inflation rate annualized on the basis of this month's trend	14.03%	20.98%	19.56%	32.92%	16.8%
CB RF refinancing rate	21%	21%	21%	21%	18%
Annualized yield to maturity on OFZ issues (% p.a.)	14.98%	14.02%	13.41%	12.31%	9.7%
Volume of trading in the secondary GKO-OFZ market for the month (RUR billion)	18.73	11.15	15.11	11.88	35.0
Yield to maturity on Minfin bonds at the end of the month (% p.a.)					
4th tranche	4.86%	4.83 %	4.55%	3.70%	3.3%
5th tranche	8.46%	7.83%	7.66%	7.01%	6.4%
6th tranche	7.04%	6.78%	6.66%	5.74%	5.3%
7th tranche	9.13%	8.50%	8.08%	7.19%	6.5%
8th tranche	7.68%	6.81%	6.61%	5.82%	5.4%
INSTAR-MIACR rate (% p.a.) on interbank loans at the end of the month:					
Overnight	14.89%	4.68%	10.11%	3.74%	1.74%
Official RUR / US$ exchange rate at the end of the month	31.7408	31.8424	31.7844	31.8222	31.5762
Official RUR / Euro exchange rate at the end of the month	31.1790	31.6736	33.1098	34.4443	34.0549

Average month growth in RUR / US$ exchange rate	0.33%	0.32%	-0.18%	0.12%	-0.77%
Average month growth in RUR / Euro exchange rate	0.88%	1.59%	4.53%	4.03%	-1.13%
Volume of trading at the stock market in the RTS for the month (US$ million)	324.38	260.20	219.92	217.31	300
Value of RTS-1 Index at the end of the month	358.65	361.15	359.07	347.63	381
Change in value of RTS-1 Index during the month (%)	5.47%	0.70%	-0.58%	-3.19%	9.6%

* Estimates

S. Drobyshevski, D. Skripkin

Structure of inflation in the post-crisis period (1999 – 2002)

At present, researchers are more and more interested in the problem of the relationship between the contribution of monetary and non-monetary factors in the rates of growth in consumer prices in the post-crisis years. For instance, it is necessary to mention that in 2002, for the first time since the crisis of 1998, the growth in producers' prices outpaced the growth in consumer prices and made, according to preliminary estimates, 17.7 %.

In order to evaluate the relative contribution of monetary and non-monetary factors in inflation rates observed in 1999 through 2002 there was constructed a cointegration relationship between the accumulated consumer price indices and the nominal money supply M_2 (the level registered in the end of August of 1998 was taken as a unit). This formulation assumes that all components of inflation (i.e. increases in regulated prices and tariffs, changes in demand for real cash balances, and inflationary expectations) except the growth in money supply *per se* are non-monetary factors[4].

The evaluation of the parameters of the cointegration relationship (assuming the presence of a constant term and linear trend) for monthly data demonstrated that 1 % of increase in money supply M_2 results in an increase in CPI by 0.419 % (the standard error is 0.081 %), the slope of the linear trend is minus 0.057 % per month (the standard error is 0.008 %). The decomposition of the increase in the consumer price index taking into account the calculated contribution of monetary and non-monetary factors in 1999 through 2002 is presented in the table.

Contribution of monetary and non-monetary factors in the rates of growth in CPI in 1999 through 2002

	Increase in CPI	**Monetary factors**		**Other (non-monetary) factors**	
		Increase in CPI	share	Increase in CPI	share
1999	36,6%	22,7%	62,1%	13,9%	37,9%
2000	20,1%	23,7%	117,9%	-3,6%	-17,9%
2001	18,8%	13,1%	69,8%	5,7%	30,2%
2002	15,1%	8,6%	57,2%	6,5%	42,8%

As the results presented in the table demonstrate, the constraining impact of money demand on inflation, i.e. a growth in demand for money resulting from increasing economic activity and decreasing inflationary expectations was observed only in 2000, what led to a decline in CPI by 3.6 percentage points in comparison with the value calculated basing on the actual rates of expansion of money supply in this year. Besides, in

[4] Monetary aggregate M_2 was chosen basing on the conclusions made in IET studies: Arkhipov S., Drobyshevsky S. Modelirovaniye dinamiki inflyatsii v 1992 – 1997 gg. (Modeling inflation dynamics in 1992 through 1997) // Ekonomika perekhodnogo perioda. Ocherki ekonomicheskoi politiki postkommunisticheskoi Rossii, 1991 – 1997. M. IET, 1998; Drobyshevsky S., Kotovskaya A. Vnutrenniye aspecty denezhno-kreditnoi politiki Rossii (Internal aspects of the Russia's monetary policy). Nauchnye trudy IET, No. 45R. M.: IET, 2002. Both series (of the price index and money supply) are integrated series of the first order. The Johansen test for cointegration is in favor of the hypothesis about the existence of one cointegration relationship between the observed variables (taking into account the linear trend). The evaluated relationship looks as follows: $P_t = \alpha M2_t + \beta Trend$.

2000 there was observed the largest gap between the rates of growth in the aggregate consumer price index and prices and tariffs (electric energy, rail freight, communications, etc) regulated by the state[5].

On the contrary, in 1999 the tight monetary policy was the key factor constraining inflation in the situation of declining demand for Ruble denominated cash balances and persisting high inflation expectations after the Ruble devaluation in 1998. Therefore, according to our estimates, in the situation of low inflationary expectations and stable demand for real Ruble denominated cash balances the CPI would increase by 22 % to 25 % in 1999 (actual increase made 36.6 %).

The calculations demonstrate that in 2001 and 2002 the expansion of the money supply *per se* resulted in a less significant increase in consumer prices in comparison with the observed values. From our point of view, it is the result of the frequent increases in tariffs and prices of services rendered by natural monopolies in these years. At the same time, the contribution of this factor in the resulting inflation values made about 30 % (5.7 percentage points) in 2001 and about 43 % (6.5 percentage points) in 2002.

Our results are an evidence that at the present time implementation of a consistent monetary policy *per se* is not sufficient to control inflationary processes. The share of increase in prices attributed to non-monetary factors (first of all, increase in regulated prices) becomes comparable with the share of the monetary component. In this connection, coordination of the policy pursued by the Central Bank of Russia with the RF government policies as concerns the regulation of tariffs and prices of services rendered by natural monopolies (electric power, Ministry of Railroads, natural gas), the reform of the system of subsidizing of social services prices (HPU, public conveyance, education, health care), tax policy (first of all, as concerns changes in the indexation of indirect taxes, for instance, excises), and customs policies with regard to imports (import duties) becomes more urgent.

S. Drobyshevsky

The Real Sector: Factors and Trends

According to the Regulations governing the elaboration and presentation of data approved by RF Goskomstat, the Ministry for Economic Development preliminary estimated GDP in 2002, and more precisely calculated GDP in 2001. The adjustment of 2001 GDP primarily concerned the characteristics of the structure of production across sectors of the economy and GDP revenue formation. According to estimates, the amount of the RF GDP of 2002 made Rub. 10863.4 billion in current market prices and increased by 4.3 % in comparison with the figures registered in 2001.

The changes in the structure of GDP produced in 2002 were determined by outpacing rates of growth in services in comparison with dynamics of production of goods. The share of the sector of services made 53.5 % in 2002 and increased by 2.9 p.p. in comparison with the figures registered in 2001. The deceleration of the rates of growth in industrial output from 104.9 % in 2001 to 103.7 % in 2002 and construction from 109.9 % to 102.7 % resulted in the decrease in the share of production of goods in GDP by 1.9 p.p. Structural shifts in production of GDP may be explained both by dynamics of growth across different sectors of the economy and changes in relative prices. While producers' prices grew by 17.1 % in industry and by 12.6 % in construction in comparison with the figures registered in 2001, the index of tariffs on paid household services and freight increased 1.36 times and 1.18 times respectively. The GDP index deflator of 2002 in comparison with prices of 2001 made 115.2 %, including 110.8 % in the sector producing goods and 120.7 in the sector rendering services.

Table 1

GDP structure in 1995 through 2002, in current market prices

	1995	1996	1997	1998	1999	2000	2001	2002
Gross domestic product	100	100	100	100	100	100	100	100
Production of goods	41,3	41,6	39,4	39,4	40,2	40,6	37,3	35,4
Production of services	50,9	49,9	51,9	51,9	49,4	48,0	50,6	53,5
Net taxes on products	7,8	8,5	8,7	8,7	10,4	11,4	12,1	11,1

Source: RF Goskomstat

5 See: Rossiyskaya ekonomika v 2000 godu. Tendentsii i perspektivy (Russian Economy in 2000. Trends and Outlooks). Issue 22. M.: IET, 2001. См.: Российская экономика в 2000 году. Тенденции и перспективы. Выпуск 22. М.: ИЭПП, 2001.

A key specific feature of the development of the Russian economy over the last three years has been the outpacing rate of growth in domestic demand in comparison with external demand. In 2002, according to estimates the share of domestic demand in GDP increased to 90.0 % as compared with 87.2 % in 2001 and 79.9 % in 2000. The expansion of demand on the domestic market occurred at the background of decelerating rates of industrial development and initiated outpacing rates of growth in import of goods of final demand in comparison with dynamics of domestic production. While the deceleration of the rates of growth in volumes of export in 2001 through 2002 may be explained by fluctuations in the business situation on world raw materials markets, the intensive growth in imports observed over the last 2 years is exclusively related to internal problems. Besides, the real Ruble appreciation was a factor behind the growth in imports. Therefore, the outpacing rates of growth in imports in comparison with exports resulted in a decrease in the share of net exports in GDP by 2.1 p.p in 2002 as compared with the figures registered in 2001 and by 9.9 p.p in comparison with the respective indicator in 2000.

Table 2

GDP dynamics as broken down by components of utilization in 1997 through 2002, in % of the preceding year

	1997	1998	1999	2000	2001	2002
Gross domestic product	100,9	95,1	105,4	1090	105,0	104,3
Including:						
Expenditures for final consumption	103,0	98,5	97,6	107,4	107,2	106,9
Of households	105,4	97,6	95,6	109,3	109,9	108,5
Of state agencies	97,6	100,6	103,0	101,4	99,2	102,4
On not-for-profit organizations	98,2	98,4	100,4	100,2	101,9	104,6
Gross accumulation	96,4	71,3	108,5	131,9	119,3	101,6
Net exports	91,2	211,0	172,3	93,8	85,0	95,6

Source: RF Goskomstat

In 2002, the situation where rates of growth in GDP outpaced the dynamics of gross accumulation and investment in fixed assets was restored. While in 2001 gross accumulation of fixed capital increased by 10.5 %, in 2002 this indicator made only 2.9 %. As a result, the share of gross accumulation in fixed capital in GDP in 2002 made 17.9 % and decreased by 0.9 p.p in comparison with the figures registered in the preceding year, at the same time, the share of investment in fixed assets declined by 2.4 p.p. and made 15.3 %. It shall be noted that the decline in investment demand was not related to price factors. Index deflator of final consumption in 2002 made 117.4 %, gross accumulation of fixed capital - 112.3 % as compared with 122.2 % and 122.9 % respectively in 2001. Therefore, growth in final demand occurred at the background of increase in prices of consumer goods and services relatively to investment goods. Investment in fixed assets ceased to have the dominating impact on the rates of economic growth. The redistribution of resources from accumulation to final consumption reflects a decline in the future returns from investment for economic agents in comparison with current consumption. In spite of persisting positive dynamics relating to the growth in investment, they were apparently not sufficient given the current technological, reproduction, and age structure of fixed assets. Besides, because of the persisting significant scope of gross accumulation the problem of its transformation in investment became more urgent. In the situation of economic growth it became evident that investment management is not coordinated with the dynamic processes of restructuring of the Russia's economy. Taking into account the persistence of traditionally high concentration of profits in the export oriented industries sector and the lack of mechanisms of inter-sectoral flow of capitals and accumulation of gross savings for the development of competitive components of the economy it may be hardly expected that radical changes would occur in the nature of the reproduction of fixed capital.

The specifics of GDP formation in 2002 were determined by the outpacing rates of growth in final consumption as compared with the dynamics of gross accumulation and investment in fixed assets. The increase in the real amount of final consumption was by 6.9 % more than in 2001. There persist the dominating influence of the intensive expansion of final household consumption. The household expenditures for final consumption increased by 8.5 % in comparison with the figures registered in 2001. It shall be noted that in spite of the stable growth in expenditures for final consumption occurring over the last three years their share in the GDP structure made 68.3 % and was by more than 8 points below the pre-crisis level.

The changes in the dynamics and structure of GDP revenue formation in 2001 through 2002 occurred under the impact of redistribution of primary revenues in favor of wages and salaries. Although in 2001 and 2002 the share of wages and salaries in GDP increased by 2.5 and 3.7 p.p. respectively, it did not reach the pre-crisis values.

Table 3

Structure of GDP formation as broken down by revenue sources in 1997 thgough 2002, in % of the total

	1997	1998	1999	2000	2001	2002
Gross domestic product	100	100	100	100	100	100
Including:						
Pay to employees (including hidden pay)	50,0	47,2	40,6	40,2	42,7	46,4
Net taxes on production and import	14,5	15,1	16,1	17,1	15,5	13,6
Gross profit of the economy and gross mixed revenues	35,5	37,7	43,3	42,7	41,8	40,0

Source: Goskomstat

The growing gap between wages and salaries and labor productivity initiated an increase in production costs and decline in profitability. Decreasing profit rates was also due to a growth in material costs resulting from rise in wholesale price of and tariffs on products and services of natural monopolies, while producers' prices of final goods changed more evenly. Yet another factor was the relative worsening of the business situation relating to a number of staple Russian exports. As a result, the share of gross profits and gross mixed revenues in GDP declined by almost 2 p.p. in comparison with the figures registered in 2001.

No doubt, changes in tax legislation had a positive impact on economic growth in 2002. However, in the course of implementation of large scale institutional reforms it would be hard to expect fast results relating to improving effectiveness of the resource utilization. For instance, it is demonstrated by the growing gap between dynamics of wages and salaries and labor productivity. In 2002, there occurred practically no growth in labor productivity. While in 2000 through 2001 this gap might be explained by wages and salaries emerging out of shadow, in 2002 these developments primarily related to the deficit of qualified labor force at enterprises. The influence of this factor is expected to increase in the nearest future, and it is evident that labor productivity problems will become of decisive importance.

O. Izryadnova

IET Business Survey: Industry

The stop of the decline in cash sales registered in February has an immediate positive effect on enterprises. The share of cash payments has increased up to 84 %, there was registered an increase in output, the excess of finished stocks has diminished. However, profits continue to decline, as well as purchase of machinery and equipment. At the same time, estimates of changes in sales and production demonstrate considerable optimism and, what is especially important, are closely interrelated.

The decline in effective demand registered over the last three months ceased in February. Therefore, the moderate optimism of January estimates of Russia's enterprises was confirmed. An increase in cash sales was registered across all industries except of light and food industries, power engineering, and construction industry. It is apparent that the decline in two latter industries is of seasonal nature. This fact gives certain hope that the difficult situation observed in the first six months of the preceding year will not recur. It shall be reminded that at that time surveys registered an absolute decrease in effective demand till June. The most intensive growth in sales is observed in chemistry, petro-chemistry, and metallurgy.

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

The dynamics of non-cash types of demand also changed in February. The intensity of change in barter operations (in terms of the balance) decreased from –11 % (the average value in the last six months) to –6 %. The survey even registered an absolute growth in amounts of such transactions in chemistry, petro-chemistry, and construction industry. The rates of decline in promissory notes and offset operations in the industry at large also decreased to the minimum (-1 %). A growth in the respective indicators was registered only in metallurgy and construction industry.

The negative trends of changes in cash sales registered in the end of 2002 did not make enterprises to shift to non-cash payments. In the 4th quarter, the share of cash transactions related to sales of products made 79 %, what was the maximum in the preceding year and over the whole period of monitoring. Power engineering has kept its leading position (95 %) and has been followed by ferrous metallurgy and food industry (89 %). The minimal amount of cash sales was registered in construction industry (72 %).

The enterprises gradually start to restore volumes of output as the decline in sales ceases and the share of cash payments grows. In February, the growth rate of production became positive again (+ 6 % in therms of the balance) and reached the level registered in November and December of 2002. Production still declined only in power engineering (-21 %) and metallurgy (-17 %). The most intensive growth was registered in the forestry complex (+ 33 %), chemistry and petro-chemistry (+ 24 %).

Evaluations of finished stocks also indicate that the standing of industry improves. In February, the excess in finished stocks decreased by 6 points to the average level registered in the last six months of 2002. At the moment, the most considerable excess in finished stocks is observed in chemistry and petro-chemistry (+ 30 %), construction industry (+ 20 %), and mechanical engineering (+ 17 %).

However, enterprises have failed to overcome the negative trends yet: real profits continue to decline. In February, the rate of decline in profits decelerated, however, it remains rather high. Profits continued to grow only in power engineering.

Investment pattern in 2000 through 2002 (in per cent of the total amount)

	2000	2001	2002
Renewal of capacities	40	43	42
Creation of new capacities	11	13	13
Purchase of capacities from third parties	1	1	1
Non-productive investments	3	2	2
Investment in working assets	14	14	16

Source: IET investment survey (12/02 - 02/03)

Purchases of machinery and equipment continue to decline. The balance of changes remains negative and equal for both domestic and imported equipment for the second quarter running. At the same time, 30 % of enterprises do not purchase domestic equipment, while about 40 % of enterprises do not purchase imported equipment. A growth in purchases is registered only in power engineering (domestic equipment), non-ferrous metallurgy and construction industry (imported equipment). Special surveys demonstrate that only 12 to 13 % of investments made by enterprises relate to creation of new production capacities. The major amount of investment in purchase of machinery and equipment is aimed at the renewal of existing assets (see the Table below).

Forecasts of changes in effective demand were at the absolute maximum. Only once (in July of 2000) there were registered more optimistic (by 3 points) estimates of growth in sales in the Russian industry. Over the last three months forecasts increased by 24 points and at the moment make + 22 %. The most optimistic estimates are registered in chemistry and petro-chemistry (+ 73 %), construction industry (+ 66 %), and mechanical engineering (+ 34 %).

At the same time, estimates of output remained in fact at the level observed in the preceding month. Output will grow across all industries with the exception of power engineering. The most intensive increase in output is expected in chemistry and petro-chemistry (+ 73 %), construction industry (+ 70 %), and mechanical engineering (+ 50 %), i.e. the same industries which expect the most rapid growth in sales. The comparison of all estimates of output and demand at the micro-level demonstrated that the same industries primarily plan their output in accordance with the expected dynamics of sales. The correspondence of these indicators in chemistry and petro-chemistry makes 100 %, fuel industry – 91 %, construction industry – 76 %, light and food industry and mechanical engineering – 70 %.

Forecasts of changes in prices lost 4 points of optimism; however, they remain at a most high level registered in the last 24 months. Enterprises planning an increase in prices still prevail across all industries, especially in chemistry and petro-chemistry (54 %), food industry and mechanical engineering (50 %), and construction industry (46 %).

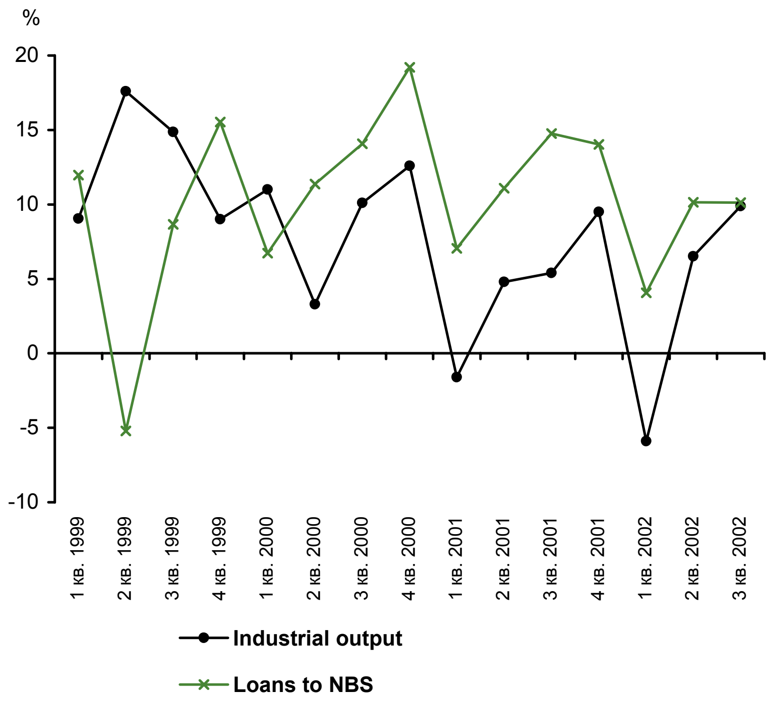
In February, the most optimistic (since the beginning of the monitoring in February of 2002) plans of purchase of both domestic and imported equipment. Enterprises of food industry, ferrous metallurgy, and construction industry primarily plan to purchase domestic equipment, while planned purchases of imported equipment prevail in ferrous metallurgy, chemistry, petro-chemistry, and food industry.

S. Tsukhlo

Crediting of the real sector in 2002

In 2002, the *relative increase in crediting of the non-banking sector* (NBS) *by banks* persisted. As in 2001, the crediting of the real sector of the economy observed in 2002 increased at rates outpacing the general growth in assets. As a result, the share of loans to the non-banking sector in banks' assets has increased from 46.7 % in the beginning of the year up to 48.9 % in early December[6]; however, the rates of growth in terms of constant prices were somewhat below the level registered in 2001. In 11 months of 2002, the growth in the aggregate credit portfolio made 17.3 % (18.9 % over the year) as compared with 25.4 % registered in 2001. In 2002, similarly to 2001 figures, the dynamics of loans closely corresponded with dynamics of industrial output (see Fig. 1). The share of outstanding loans in banks' credit portfolios slightly increased over the year (from 1.7 % in the beginning of the year up to 1.9 % in early December); however, it remained at a rather low level.

[6] Here and below without banks under ARCO management.



Note: changes in indicators were calculated in % of the preceding quarter

Estimated basing on the data provided by Goskomstat and STIiK

Fig. 1. Dynamics of industrial output and loans to clients in 1999 through 2002

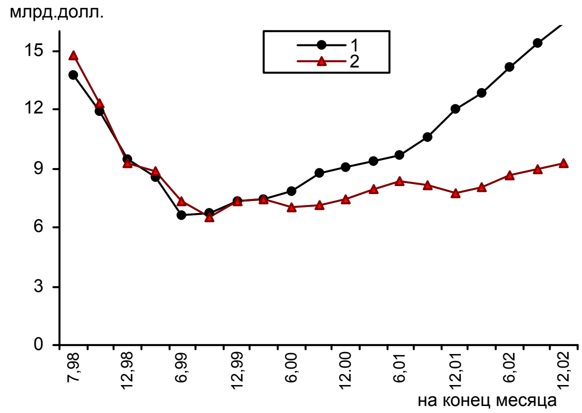
In the case Sberbank is excluded, the trend towards a growth in the share of loans to NBS in banks' assets persist – in the beginning of the year loans to NBS made 44 % of assets, and 48 % in early December, while the share of outstanding loans in loans to NBS made 1.8 % both in the beginning of the year and by the end of November.

In 2002, the outpacing growth in credits to the non-banking sector (as compared to the total increase in assets) was accompanied by a relative *decline in the share of financial resources deposited with the banking sector*. The share of assets deposited with the banking sector in the total amount of assets declined from 31.4 % to 19.8 % in 11 months of 2002 (from 38.8 % to 34.4 % without Sberbank).

About 94 % of the banks engage in crediting of NBS. The share of Sberbank in the amount of loans to NBS makes about 30 %, more than fivefold exceeding the share of the second largest lender Alfa-bank. This ratio was formed due to the domination of Sberbank in the segment of Ruble denominated loans, where its share made 37.2 % as on December 1, 2002. In the segment of forex denominated crediting, the gap between Sberbank and its competitors is not so perceptible. The Sberbank share is 14.8 %, while Vneshtorgbank accounts for 9.9 %. The share of Sberbank in forex denominated credits is somewhat higher in the case only credits granted to resident enterprises are taken into account (16.8 %).

In contradistinction to 2001, in 2002 the growth in forex denominated loans outpaced increase in the Ruble denominated credit portfolio. Therefore, the share of forex denominated credit in the *currency structure of loans to NBS* has increased. While in the beginning of 2002 this share in the total amount of loans to NBS made 32 %, in December it was 34.3 %, correspondingly, the share of Ruble denominated loans decreased from 68 % to 65.7 % (without Sberbank the share of forex denominated loans in the credit portfolio increased from 39.5 % to 41.3 %). At the same time, changes in the ratio between Ruble and forex denominated loans occurred at the background of actively expanding crediting of both types.

Granting forex denominated loans, banks had more and more orient toward the resources of Russia's enterprises and individuals (see Fig. 2). While before the crisis of 1998 the total amount of bank liabilities related to non-residents exceeded the amount of forex denominated loans granted to resident non-banks, in the end of 1999 these indicators became equal, and by the end of 2002 banks' forex denominated liabilities related to non-residents made only 58 % of the amount of forex denominated loans to resident non-banks. In 2002, among factors allowing banks to expand forex denominated crediting of NBS it is necessary to single out a growth in time forex denominated household deposits. The amount of forex denominated household deposits has increased by 49 % in US $ terms in 11 months of the preceding year.

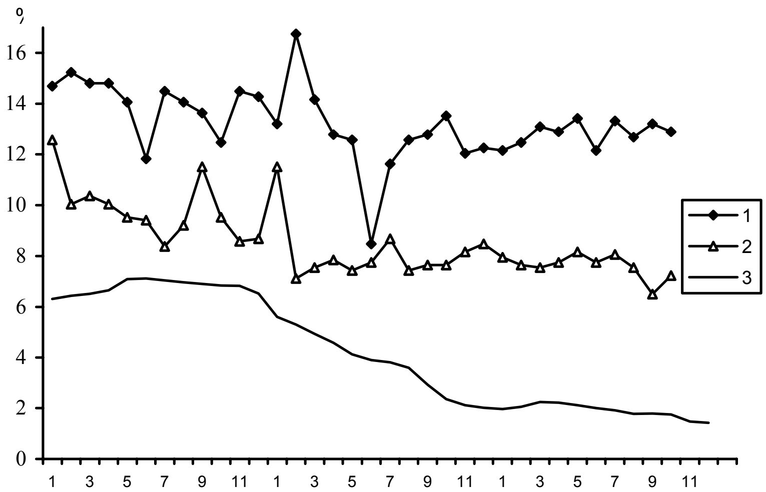


1 – loans to resident enterprises

2 – liabilities relating to non-residents

Fig. 2. Russian banks: forex denominated loans to resident enterprises and liabilities relating to non-residents (US $ billion)

Since banks lack the possibility to attract sufficient resources from world financial markets, it inevitably results in more expensive credits for end borrowers. As Fig. 3 demonstrates, the level of interest rates on forex denominated deposits of individuals termed 6 months to 1 year fluctuated from 6.5 % to 8 % in 2002, while the LIBOR (up to 6 months) rate was below 2.5 %.



1 – weighted average interest rates on forex denominated credits to enterprises (6 months to 1 year)

2 – weighted average forex denominated household deposit rates (6 months to 1 year)

3 – weighted average LIBOR interest rates (6 months)

Calculated basing on the data of CBR and Finmarket

Fig. 3. Weighted average interest rates on forex denominated credits to enterprises (6 months to 1 year), forex denominated household deposits (6 months to 1 year), and LIBOR rates (6 monhts) in 2000 through 2002 (in %, taking into account refinancing).

As concerns the time structure of the aggregate credit portfolio of Russian banks, the trend toward an increase in the share of shorter-termed loans, which became noticeable in 2001, did not develop further. In 2002, the share of loans termed up to 3 months declined from 23.4 % to 22 %. At the same time, the share of both Ruble and forex denominated loans termed over 1 year increased (see Table 1).

Table 1

Time structure of loans to the non-banking sector

Loan type	Structure of good loans to NBS, in %			
	01.01.00	**01.01.01**	**01.01.02**	**01.12.02**
Loans to NBS, total	100	100	100	100
Loans to NBS, up to 90 days	17.8	16.9	23.4	22.0
Loans to NBS, 90 to 180 days	10.8	15.7	14.2	14.6
Loans to NBS, 180 days to 1 year	33.2	34.4	31.1	28.7
Loans to NBS, more than 1 year	38.2	33.0	31.3	34.7
Forex denominated loans	100	100	100	100
Loans to NBS, up to 90 days	9.5	8.0	10.7	9.3
Loans to NBS, 90 to 180 days	9.0	8.4	10.7	12.1
Loans to NBS, 180 days to 1 year	25.1	28.1	28.6	24.8
Loans to NBS, more than 1 year	56.3	55.4	50.0	53.8
Ruble denominated loans	100	100	100	100
Loans to NBS, up to 90 days	24.5	21.7	29.3	28.5
Loans to NBS, 90 to 180 days	12.2	19.6	15.7	15.9
Loans to NBS, 180 days to 1 year	39.8	37.7	32.3	30.7
Loans to NBS, more than 1 year	23.5	20.9	22.7	24.9

Estimated on the basis of data provided by STIiK.

A growth in the share of individuals continues in the *structure of borrowers*. While in 2000 the share of loans to individuals was slightly above 5 % of the total amount of loans, by December of 2002 it has increased to 8.2 % (see Table 2). This trend is characteristic for all Russian banks, and is not specific for the Sberbank credit policy. In 11 months of 2002, Sberbank increased the amount of credits extended to individuals by 65.6 % in current prices, while the respective indicator for other banks increased by 47.3 %.

This year, a decline in the share of credits extended to budgets and state owned enterprises observed in 2001 reversed as this share slightly increased.

Table 2

Structure of loans to NBS as broken down by contractors

Loan type	Structure of loans*, in %			
	01.01.00	**01.01.01**	**01.01.02**	**01.12.02**
Loans to budget and extra-budget funds	5.8	1.7	1.3	1.6
Loans to resident enterprises	82.8	88.1	87.8	86.9
Including Public enterprises	8.4	8.1	5.6	5.9
Non-public enterprises	74.4	80.0	82.2	81.0
Loans to non-resident entrepreneurs	6.1	5.0	3.9	3.4
Loans to individuals	5.3	5.2	7.0	8.2

* including outstanding loans

Estimated on the basis of data provided by STIiK.

In the total amount of *credits to individuals*, loans to entrepreneurs make a rather considerable percentage (19 % by the end of 2001 and 21 % as on December 1, 2002). About 1 % to 2 % make credits extended to non-residents. The rest is loans for consumer purposes, the total amount of which made Rub. 113.3 billion by the end of the period under observation. Sberbank accounts for more than a half of this amount. At the same time the bulk of credits was denominated in Rubles (more than 80 % for all banks and more than 70 % without Sberbank) termed over 1 year (see Table 3). As concerns Sberbank, especially large share of its credits make loans termed over 1 year – the bulk of consumer loans it extends for terms exceeding 3 years. Certain banks, which can not compete with Sberbank in terms of their client bases, try to compete being more operative. While Sberbank spends several days to extend a credit, such banks as Russky Standart and Pervoe O.V.K. try to expand their shares of the market actively promoting so called express crediting and extend the credit the same day the client apply for it. However, the usual terms of such credits make six months to one year, while rates and other servicing expenses are much higher than at more conservative banks[7].

Table 3

Time structure of consumer credits

Type of credit	All banks including Sberbank		All banks without Sberbank	
	01.01.02	01.12.02	01.01.02	01.12.02
Consumer credits, total	100	100	100	100
Up to 90 days and demand credits	7.1	6.3	11.7	11.1
90 to 180 days	2.8	2.9	4.6	5.1
180 days to 1 year	17.8	18.5	27.9	29.5
Over 1 year	72.3	72.3	55.8	54.3
Of which over 3 years	50.6	51.5	31.7	28.2

Estimated on the basis of data provided by STIiK.

More than 85 % of banks extended credits for consumer purposes as on December 1, 2002. On the average, such loans made less than 3 % in the total bank assets (without Sberbank)[8]. In the case banks are broken down by this indicator and the bank with the share of consumer loans above the average is compared with the average bank of the sample of functioning banks without Sberbank, it turns pit that the banks more actively developing this line of business are somewhat smaller in terms of amount of their assets (Rub. 1.2 billion as compared with Rub. 2 billion on the average). Besides, such banks demonstrate a higher share of loans to NBS in their assets (54.6 % as compared with 48 % on the average) and are less inclined to invest in securities (debentures and stocks make 5.4 % in their assets as compared with average 9.9 % for functioning banks without Sberbank).

At the same time, it may be stated that about hundred banks specialize in this type of crediting – the share of consumer credits was above 20 % in the assets of 84 banks. The average amount of assets of banks singled out basing on this criteria is rather small – only Rub. 337 million as on December 1, 2002. Accordingly, their total share in consumer credits extended by banks made only 9.2 %. At the same time, Agrooptbank accounted for more than one third of the total amount of consumer loans extended by this group of banks. For purposes of comparative analysis of the structure of balances of banks singled out basing on the criteria of specialization in consumer crediting this bank was excluded from the sample, since the specifics of its resource base distorted the aggregate structure of the group. Due to the same reasons KMB banks was also excluded, since the basis of its resource base were EBRR funds what naturally is not characteristic of the total group. Exclusion of these two banks resulted in even smaller size of the average assets of this group of banks (see Table 5). Similarly to the group of banks with the share of consumer credits above the average, they demonstrate higher shares of loans to NBS in the assets (53.9 %), while their portfolios of securities are very small (1.7 % of the assets). At the same time, the share of loans to individuals is more than tenfold higher than the average (61.5 % as compared with 6.5 %). As concerns the structure of liabilities, it does not differ much from the average. A higher share of capital is most probably related to the very small amount of assets. A higher share of market instruments – promissory notes and bonds results from the effect of specifics of individual banks on the average indicators of the group. For instance, in the case Prominvestbank is excluded, the average value of the ratio between issued promissory notes and assets declines from 12.2 % to 7.2 %. As concerns the profitability of this policy, both groups demonstrate ROA indicators below the average. Both in the sample of banks with consumer loans above the average and in the sample with the share above 20 % the ratio between profits over 3 quarters and assets registered in the beginning of the year was below the average (3.3 % in annualized terms on the average as concerns functioning banks without Sberbank and 2.2 % in groups actively crediting individuals). The group with the share over 20 % derived significantly higher profits from crediting than the average (see Table 6). This fact is relating not only to the higher share of loans in their assets. In the case the influence of this factor is eliminated, profitability of credit operations in this group remains higher. While the average ratio between interest yields related to loans to NBS and the amount of non-outstanding loans to NBS extended in the beginning of the year made

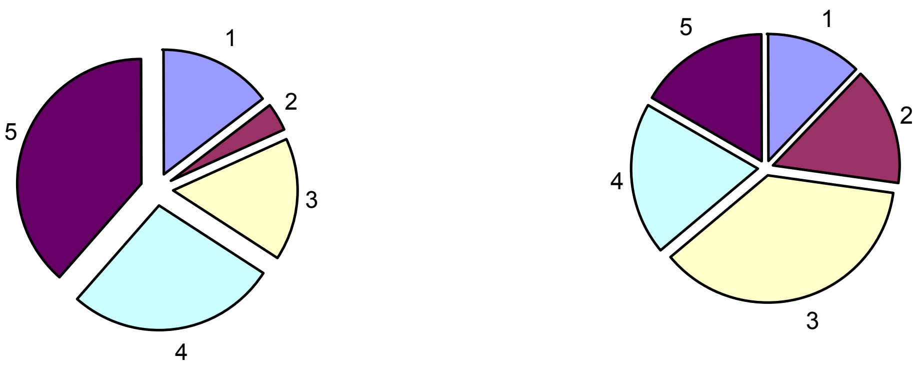
[7] See: Delovoi Peterburg, 01.11.02.

[8] For comparison, in countries of South-Eastern Asia where consumer crediting is booming, credits to individuals make about 40 % of bank assets in comparison with 27 % registered before the crisis of 1997. The amount of mortgage lending carried out by Chinese banks exceeds US $ 30 billion (a fivefold increase in two years) – see The Economist Feb 6th 2003.

15.7 %, this indicator for the group of banks specializing in consumer crediting was 28.2 %, and the ratio between interest yields relating to consumer loans to individuals and the amount of non-outstanding loans of this type made 33.2 %.

Higher revenues of this group of banks corresponded to higher expenditures, both interest and administrative expenditures in this group were above the average. The latter fact may be explained by very small amounts of assets in the group. While on the average administrative expenditures over 3 quarters made 4.8 %, in this group they were at 7.7 %. As a result, profits before taxes were below the average.

72% of banks specializing in consumer crediting are located in regions (see Table 4), what predetermines the very low amount of assets in the group. Both Moscow based and regional banks issue the majority of loans denominated in Rubles. However, the time structure differs significantly. While Moscow based banks extended about two thirds of loans for more than one year, the respective indicator of regional banks makes only 36.2 % (see Fig. 4) and loans termed 6 to 12 months make a similar share.



Moscow banks

Regional banks

1- Up to 3 months
2- 3 to 6 months
3- 6 to 12 months
4- 1 to 3 years
5- over 3 years

Fig. 4. Distribution of consumer credits as broken down by term at Moscow based and regional banks specializing in consumer crediting.

Table 4

Regional distribution of banks specializing in consumer crediting as on December 1, 2002.

Region	Number of banks	Region	Number of banks
Moscow	*25*	Vologda oblast	1
Republic of Dagestan	14	Kabardian-Balkarian Republic	1
Chuvash Republic	4	Kamchatka oblast	1
St. Petersburg	3	Kostroma oblast	1
Rostov oblast	3	Krasnodar krai	1
Samara oblast	3	Magadan oblast	1
Altai krai	2	Nizhny Novgorod oblast	1
Astrakhan oblast	2	Republic of North Osetia	1
Karach-Cherkesian Republic	2	Republic of Tyva	1
Kemerovo oblast	2	Stavropol krai	1
Omsk oblast	2	Tver oblast	1
Orenburg oblast	2	Ulianovsk oblast	1
Republic of Adygea	2	Yaroslavl oblast	1
Republic of Tatarstan	2		
Tyumen oblast	2		
Vladimir oblast	1		

Table 5

Indicators of the structure of balance and credit portfolio of groups as on December 1, 2002.

	All banks without Sberbank	Banks with the share of consumer credits in assets above the average	Banks with the share of consumer credits in assets above 20%
Assets	100	100	100
Funds in banking sector	34.4	32	27.2
Loans to NBS	48	54.6	53.9
Including forex denominated	19.8	16.3	14.5
Including Ruble denominated	28.2	38.3	39.4
Including those to individuals	3.1	8.5	32.8
Including for consumer purposes	2.4	7.1	31.0
Non-outstanding	47.2	54	53.3
Outstanding	0.9	0.6	0.6
Promissory notes (without bank promissory notes)	6.1	6.3	12.1
Debentures and stocks	9.9	5.4	1.7
Including government securities	5.6	2.8	1.3
Other assets	4.8	4.2	4.9
Liabilities	80.3	81.9	75.7
Funds of banking sector	16.7	13.7	9.8
Transaction client accounts and time deposits	46.2	49.9	46.8
Accounts of non-financial sector	24.8	25.1	23.2
Deposits	21.4	24.8	23.6
Deposits of legal entities	9.8	9.4	8.4
Deposits of individuals	11.7	15.4	15.3
Bank debentures	12.4	13.9	15.8
Including promissory notes	10	11	12.2
Other liabilities	5.1	4.5	3.3
Balance capital	19.7	18.1	24.3
Profit *	2.7	1.9	2.1
Structure of loans to NBS			
Loans to enterprises	91.7	81.8	38.1
Loans of budgets and extra-budgetary funds	1.7	2.4	0.4
Loans to individuals	6.5	15.5	61.5
Memorandum:			
Average amount of bank assets (Rub. billion)	2	1.2	0.2
Profit to balance capital*	13.5	10.4	8.6
Number of banks	1322	592	82**

Ratio to assets, if not otherwise indicated.

*- ratio to assets (or balance capital), annualized

** Excluding Agrooptbank and KMB bank

Table 6

Revenues and expenditures in 3 quarters of 2002 (annualized).

	All banks without Sberbank	Banks with the share of consumer credits in assets above the average	Banks with the share of consumer credits in assets above 20%
Indicators in per cent of assets			
Interest yields	9.4	11.2	13.6
Including those relating to loans to NBS	6.8	8.9	11.6
Interest expenditures	4.2	5.2	7.1
Including those relating to time deposits	1.6	2.0	2.4
Net interest yields	5.2	5.9	6.5
Net non-interest revenues	4.3	4.3	4.6
(-) administrative expenditures	4.8	5.7	7.7
Including pay to personnel (including social insurance charges)	2.3	2.7	3.6
Net operational revenues	4.8	4.5	3.4
(-) change in reserves	1.8	2.5	0.9
Net result of non-regular operations	0.4	0.2	0.1
Profits before taxes	3.3	2.2	2.6
Profits before taxes to balance capital	16.8	12.5	8.8
Analytical relationships			
Interest yields on loans to NBS to non-outstanding loans	15.7	19.4	28.2
Interest yields on loans to enterprises to non-outstanding loans to enterprises	16.1	19.0	24.3
Interest yields on loans to individuals to non-outstanding loans to individuals	23.3	24.6	33.2
Interest expenditures relating to time deposits	7.6	7.1	11.1
Interest expenditures relating to time deposits of enterprises to deposits of enterprises	6.3	5.3	12.9
Interest expenditures relating to time deposits of individuals to time deposits of individuals	9.4	10.0	10.8
Memorandum:			
Number of banks	1322	592	82*

* Excluding Agrooptbank and KMB bank

Annualized data, relationships are calculated according to denominator values in the beginning of the period.

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Reforming state unitary enterprises: the trends of 2002

The radical reform of property relations in Russia carried out over the last decade has resulted in a sharp decline in the size of the public sector in the national economy. However, at present the enterprises exclusively owned by the state, i.e. state unitary enterprises (SUE) continue to play an important role in the national economy and are active actors of the property (civil) turnover.

Until September of 1999, when the Concept of management of state owned property and privatization in the RF (further referred to as the Concept), which for the first time introduced state unitary enterprises as an object of the property state policy, was approved, their legal status had been regulated primarily by the Civil Code. At that time the state had no elaborated system of management of such enterprises yet.

In order to enforce the approaches set forth in the Concept, there were approved the *Model charter* of the federal state unitary enterprise (FSUE) and the *contract* with its manager, and introduced the procedures governing coordination with the RF Ministry of Property Relations, new accounting documents for FSUEs. Besides, there were approved the indicators of economic efficiency of such enterprises and the Register of approved and actual values of efficiency indicators.

In the course of the work related to the further introduction of new accounting documents, indicators of economic efficiency, and organization of the Register carried out in 1999 through 2001, there was taken the next logical step as resolution of the RF Government No. 228 "On measures aimed at the improvement of the efficiency of the use of federal property under the economic jurisdiction of federal state unitary enterprises" was approved on April 10, 2002. The resolution stipulated that sectoral federal executive bodies should approve FSUE operational programs, set forth the special form of such a program, the rules of elaboration and approval of operational programs and determination of the share in FSUE profits due to the federal budget.

The FSUE operational program shall consist of 4 sections: 1) a brief outline of the progress in the implementation of the enterprise's operational program in the preceding year and the first six months of the current year; 2) measures aimed at the development of the enterprise as concerns its operations in procurement and marketing, production, finance and investment, and social spheres (the amount of costs and expected effect of measures alongside with the detailed classification of measures related to each sphere); 3) the budget of the enterprise for the planning period (net proceeds from sale of goods, products, works, services (minus VAT and similar mandatory payments), net profits (loss), the share of profits due to the federal budget, and net assets)[9].

The rules governing elaboration and approval of the operational programs and determination of the share in profits of federal state unitary enterprises due to the federal budget were approved simultaneously with the SUE operational program.

It was stipulated that the share of profits due to the federal budget should be calculated by reduction of the amount of net profits (undistributed profits) of the enterprise derived in the preceding year by the amount of the approved enterprise's costs borne in the current year under the operational program in relation to the implementation of measures aimed at the development of the enterprise carried out at the expense of its net profits. In the case there is not approved operational program for the current year (excluding 2002), the share of the enterprise's profits due to the federal budget in the current year shall be determined by reducing the amount of net profits (undistributed profits) by the amount of mandatory payments to the enterprise's funds generated in accordance with the legislation and the charter of the enterprise. Net profits (undistributed profits) shall be determined basing on respective accounting data.

One of the most important factors behind the sluggish development of the situation in the sector of unitary enterprises before September of 1999, when the Concept was approved, was the eight year absence of a special law regulating this organizational and legal form[10].

However, the last autumn the law was approved at last, what was undoubtedly the most important development in the sphere of reforming of property relations in Russia. Law No. 161 FZ of November 14, 2002, "On state and municipally owned unitary enterprises" enacted on December 3, 2002, more precisely defined the stipulations of the RF Civil Code concerning the legal status of state and municipally owned unitary enterprises, the procedures governing the establishment, reorganization, and liquidation of such enterprises, the status of owners of the property of such economic agents, and introduced respective amendments to the rules of the Code.

Similarly to the Civil Code, the law confirms that two types of unitary enterprises may function in the country: those granted economic jurisdiction and those granted operative management rights (public enterprises). The law also grants RF subjects and municipal entities the right to found public enterprises, what had not been stipulated in the RF Civil Code. The principally important fact is that the regulations set forth in the new law embrace not only FSUEs, but also regional and municipal unitary enterprises. Until this law was approved, only federally owned SUEs had been the subject of the whole regulatory and legislative base created in 1999 through 2002.

Among other numerous innovations, there shall be specially mentioned those strengthening state control over unitary enterprises and additional constraints aimed at the tighter financial control. According to the new law, unitary enterprises have to obtain owner's approval in order to:

– establish subsidiaries and branches;
– participate in commercial or not-for-profit organizations;

[9] As concerns enterprises producing most important (strategic) products (works, services), federal executive authorities have the right to introduce additional indicators: volume of sales in relation to 3 to 5 key products (works, services), average number of employees, average monthly payroll, expenditures for social security and health care, implementation of ecological programs.

[10] As Section I of the Civil Code was enacted on January 1, 1995, it was envisaged that founding documents of unitary enterprises should be brought in the agreement with Civil Code provisions on the terms defined in a separate law concerning state and municipally owned unitary enterprises.

– dispose of the investment in (share of) the authorized capital of joint stock companies and stocks owned by unitary enterprises;

– conduct transactions involving loans, warranties, bank guarantees, other encumbrances, assignments of claims, conversions of debts, and establish societies in participation;

– conduct transactions involving the interests of the unitary enterprises' managers and large transactions[11];

– make borrowings.

Unitary enterprises are prohibited to establish affiliates and act as founders (partners) in crediting organizations. The financial resources transferred to the funds created by enterprises may be used only for purposes set forth by federal laws, other regulatory legislative acts, and charters of unitary enterprises. The state or municipally owned enterprise may dispose of movable and unmovable property only in the limits allowing it to conduct operations, the purposes, objects, and types of which are determined by the charter of such an enterprise. Transactions infringing upon this requirements shall be null and void. The affiliates created by unitary enterprises earlier shall be reorganized by the way of merger with the respective founding unitary enterprises within six months after the aforesaid law came into force.

Certain constraints were introduced in relation to the current operations conducted by managers of unitary enterprises. The managers were deprived of the right to be founders (partners) in legal entities, hold offices and engage in other paid activities at state bodies, local governments, commercial and not-for-profit organizations with the exception of educational, scientific, and other creative activities, be as the single executive body or a member of a collegial executive body of a commercial organization except in the cases the participation in a managing body of a commercial organization is an official duty of such a manager, as well as take part in strikes. Managers of unitary enterprises shall be certified in accordance with the procedures set forth by owners of unitary enterprises' property.

The enforcement of the stipulations set forth by the law "On state and municipally owned unitary enterprises" is a most important task in the course of reforming of property relations. Proceeding from the previous experience, it is may be assumed that this task requires a considerable time.

Table 1

The dynamics and sectoral structure of federal state unitary enterprises in 2002 through 2003.

Sectors	As on January 1, 2002		As on January 1, 2003	
	ед.	%	ед.	%
Agriculture and forestry	1368	14,6	1568	16,0
Science and scientific services	1431	15,2	1431	14,5
Transportation and communications	1033	11,0	1033	10,5
Construction	988	10,5	988	10,05
Trade and public catering	909	9,7	909	9,25
Maintenance supply and marketing	692	7,4	892	9,1
Mechanical engineering and metalworking (without medical equipment industry)	879	9,4	879	8,9
Wood, woodworking, pulp and paper industry	229	2,4	229	2,3
Health care, fitness, and social security	226	2,4	226	2,3
Polygraphic industry	219	2,3	219	2,2
Geology and prospecting of mineral resources, geodesy and hydrometerology services	218	2,3	218	2,2
Other industries	1202	12,8	1254	12,7
Total	9394	100,0	9846	100,0

Source: RF Ministry of Property Relations and the data from its web site www.mgi.ru.

At the same time, it is necessary to stress that the absence of the law could not be a barrier to the state as concerns the consolidation of its management control over unitary enterprises via improvement of the

[11] The law sets forth the criteria defining such transactions.

existing regulatory base (introduced in 1999 through 2002), i.e. via elaboration of the model charter and contract with the manager of FSUE and improvement of the efficiency of certification commissions generally oriented towards better retention of state owned property. In this connection, it shall be again stressed that the prospects of enforcing the new law primarily depend on the contents of SUE and MUE charters and contracts with respective managers.

At the same time, it is necessary to note that sectoral executive agencies under the aegis of the Ministry of Property Relations conducted significant work enforcing innovations set forth by the Concept in 2000 through 2002.

First, the number of FSUEs was considerably diminished. In slightly more than two years (in the autumn of 1999 through early 2002) it has diminished by about one third (from 13786 entities to 9394 entities). Although in 2002 the number of FSUEs increased by about 5 %, it remained below 10 thousand entities, i.e. was at the level similar to that registered in the autumn of 2001.

As Table 1 demonstrates, the structure of FSUEs is heterogeneous, there exist four sectors (agriculture and forestry, science and scientific services, transportation and communications, construction); the share of each sector makes not less than 10 % of all enterprises. While the number of FSUEs has stabilized across the majority of sectors, their number in agriculture, forestry, maintenance supply, and marketing has increased considerably during the year.

There are elaborated projects aimed at the merger and enlargement of unitary enterprises, their integration in holding structure in a number of industries (nuclear energy, rail transport, defense and alcohol industries, operation support of air and sea transport, postal service).

Second, there was carried out the adjustment of charters and contracts with managers of FSUEs to the new requirements introduced in 1999 through 2000. As on October 1, 2002, the RF Ministry of Property Relations approved 2843 charters and 1067 contracts with managers of FSUEs, and certified 2246 managers of FSUEs. Comparing these data with the number of FSUEs as on August 1, 2002 (9810 entities) it may be asserted that there were amended charters of about 29 % of enterprises, made contracts with managers of about 11 % of enterprises, and about 23 % of all directors were certified.

Third, the work on the financial aspect of relations between FSUEs and the budgetary system has brought certain results. In 2001, the RF Ministry of Property Relations registered revenues from FSUEs (Rub. 209.6, budgetary revenues from the use of federal property) for the first time since the early 1990s. The law on the federal budget for 2002 for the first time included the part of FSUE profits remaining after the deduction of taxes, mandatory payments, and charges as a non-tax budget revenue setting it at Rub. 500 million.

According to the preliminary data for year 2002, the RF Ministry of Property Relations has transferred to the budget about Rub. 900 million as FSUE profits. Therefore, it may be noted that the budgetary target was exceeded 1.8 times. The number of FSUEs transferring their profits to the budget increased 6.2 times (809 entities as compared with 131 entities in 2001), what was more than the number of joint stock companies, which transferred to the budget the dividends relating to the state owned interest in these companies (708 entities). Unfortunately, no such progress was observed as concerns the absolute amount of budgetary non-tax revenues from these sources. The law on the federal budget for year 2003 sets forth the amount of dividends on the state owned interest in joint stock companies at Rub. 10.5 billion, and the amount of revenues from FSUE profits at Rub. 2.5 billion. In 2001 and 2002, the share of these two sources in the total revenues of the federal budget from privatization and utilization of federally owned property was below 1 %.

The latest initiatives of the RF Ministry of Property Relations concerning the management of the public sector relate to the classification of the state owned property according to such categories as property exclusively in federal ownership, property owned by RF subjects and municipalities since such ownership is necessary in order to execute their public functions, what means that property shall be either owned by the respective public entity, or be operatively managed by public enterprises or organizations and therefore be excluded from the civil law relations. It is permitted to transfer some of federally owned property necessary for the execution of state functions on terms of concession or as an investment in authorized capitals of joint stock companies (on condition that not less than 50 % plus 1 share in such a joint stock company shall be in the federal ownership) and create specialized state not-for-profit organizations on the base of property in the federal ownership.

Other properties shall be recognized as properties deprived of such a status and shall be used for commercial purposes via sales and transfer to trust management of JSC shares not classified as necessary to ensure the state strategic interests, conversion of unitary enterprises in joint stock companies, lease or sale of respective unmovable property, or its inclusion in authorized capitals of newly created joint stock companies.

The practical implementation of this rather radical scenario may encounter a number of obstacles: the difficulties related to the elaboration of objective criteria defining property as necessary for the execution of state functions, specifics of FSUEs economic operations, low liquidity of FSUEs assets, difficulties related to the realization of state property rights in the framework of other organizational and legal forms (open joint stock company, holding structures, public enterprise).

The real progress of privatization may present yet another obstacle. In 4 years (1998 through 2001), when the law on privatization (1997) was in force, there were privatized 663 enterprises (objects) in federal ownership, including sales of unmovable property and land plots. Since the enactment of the new privatization law (No. 178 FZ of December 21, 2001), the government made more ambitious privatization plans as concerns FSUEs (it is planned to privatize 152 entities in 2002 and 435 entities in 2003). The progress of privatization will significantly depend on the efficiency of the new privatization tool kit (sales via public tenders, offers without price announcement, transfer of shares in joint stock companies in trust management, etc.), which were stipulated by the new law.

G. Malginov

Russia: Introduction of Meat Import Quotas

At the end of January 2003 the government introduced quotas on import of basic meat products: beef, pork and poultry meat. Three principal questions arise in this connection: what is the rationale for their introduction, how will they affect domestic producers and consumers and what will be their impact on Russia's position on the world markets.

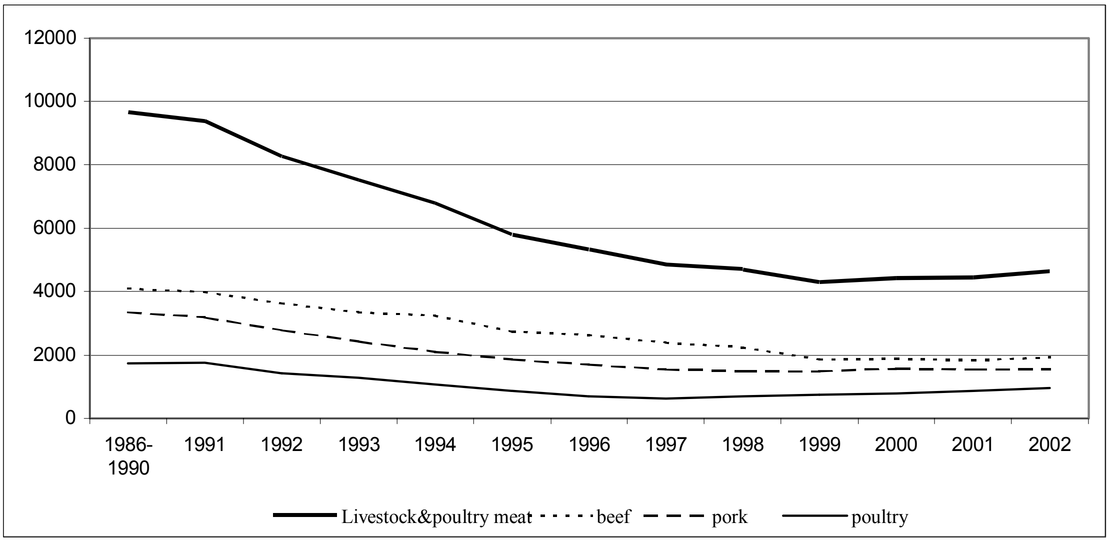
Let's examine the mechanisms of setting quotas. 90% of pork and beef import quotas are distributed between countries-suppliers on the basis of previous supplies (proportionate to the average imports in 2000-2002) while the remaining 10% are sold at quota auctions. The import duties on supply of these commodities to Russia in excess of the quota will be higher. The import of poultry meat is rigidly restricted to the quota volume that is fully distributed between countries-suppliers proportionate to previous imports.

Quotas are introduced evading earlier government decisions that envisaged a preliminary (180 days in advance) informing of market operators about an alteration of customs regime. Additionally, the meat products import is from now on a subject to licensing by the Ministry of Economic Development.

The size of quotas for 2003 is as follows:

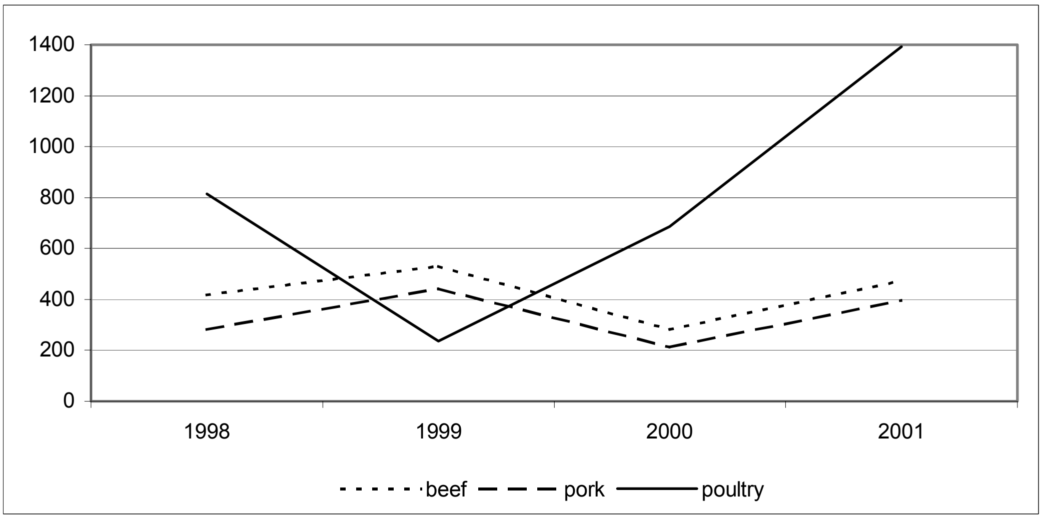
- beef – 315 thousand tons; customs duties on import within the quota equal 15% but not less than 0.15 EUR per kilogram (selected items – 0.2 EUR per kilogram), on import in excess of the quota – 60% but not less than 0.6 EUR per kilogram;
- pork – 337.5 thousand tons; customs duties on import within the quota equal 25% but not less than 0.25 EUR per kilogram (selected items – 0.2 EUR per kilogram), on import in excess of the quota – 80% but not less than 1.06 EUR per kilogram;
- poultry meat – 1050 thousand tons.

The introduction of meat quotas has been discussed in agrarian circles for several years – since domestic production started to grow. In recent years this growth accelerated (Picture 1) but imports expanded as well (the rates of growth of poultry imports are even above those of domestic production) (Picture 2). Still, there is no apparent trend towards higher ratio of imports to domestic production except poultry meat (Picture 3).



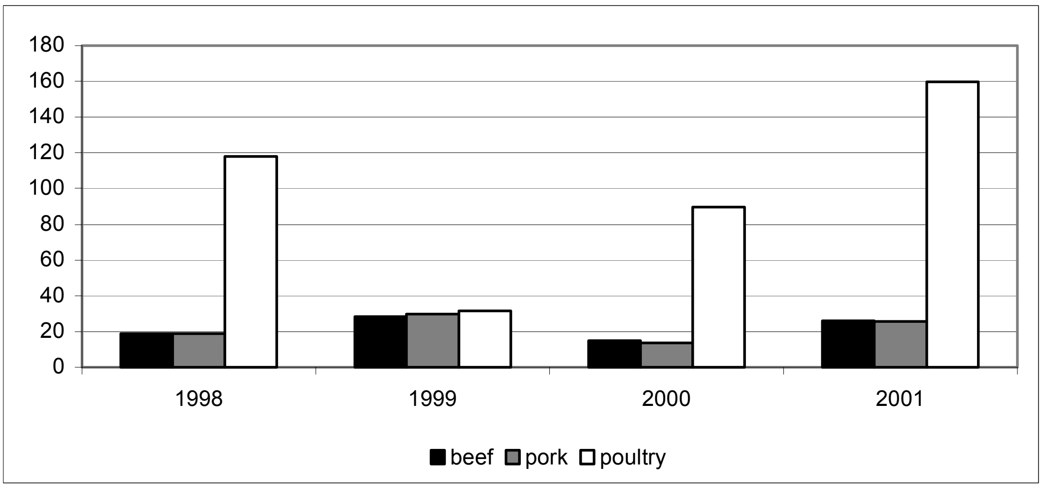
Source: RF State Committee for Statistics.

Picture 1. Gross meat output in Russia



Source: RF State Customs Committee.

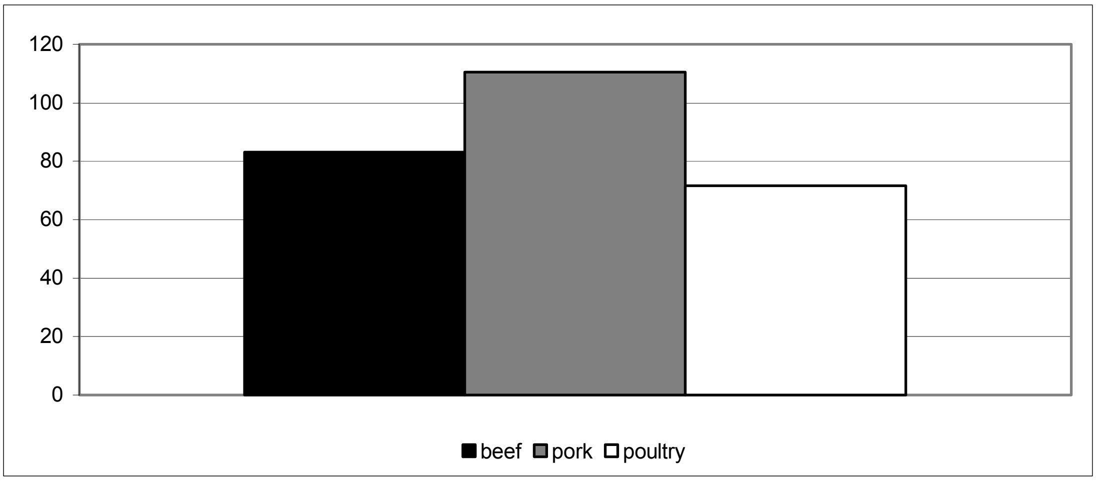
Picture 2. Meat imports to Russia



Source: RF State Committee for Statistics and RF State Customs Committee.

Picture 3. Imports as percent of domestic production

The data on meat imports in 2002 is not yet available, that's why we compare the set quotas with the average import volumes in 2000-2001 (Picture 4). It's easy to notice that the pork quota is quite liberal – it's above the average 2000-2001 indicators, the beef quota exceeds 80% of the previous import volumes while the poultry quota is most restrictive – about 73%.



Source: calculated using provisions of the Government Regulation and the data of RF State Committee for Statistics.

Picture 4. Quotas as percent of average imports in 2000-2001

Taking into account all these facts let's try to answer the named above questions.

First, what is the rationale for introducing quotas? Formally, the respective normative acts declare the goal of protecting domestic producers. However, in 2002 the growth rates in all the meat sub-sectors concerned exceeded the average for 4 years (beginning from 1998) that were not the worst ones. Another matter is that this growth led to the overproduction, lower prices received by producers and the corresponding deterioration of their financial performance in 2002. Still, last year almost all agricultural products were overproduced (e.g. the overproduction problem encountered by milk producers was no easier). In other words, the need to protect just meat producers and just in 2003 is poorly motivated. Besides, protectionist measures of this kind always result in lowering of the sector's competitiveness – one moment quotas are lifted and then domestic producers are left unprotected from foreign expansion, unready for stiff competition.

Quotas could have had sense if they were introduced not in general but against countries dumping their meat on the Russian market. Then it would have been an economically justified measure. In particular, European beef and pork are apparently dumped on the Russian market. The customs statistics evidence that in 9 months 2002 wholesale prices for beef in the EU were 4.5 fold higher, those for pork – 2.5 fold higher than the average import prices for these products at the moment of crossing the Russia's customs border. According to the European law such cases should be regarded as an outright dumping affecting interests of Russian producers. It should be noted that the beef and pork dumping has a direct impact on domestic producers of poultry: the share of poultry meat in the total meat consumption in Russia is far below the US and the European averages since the subsidized import of beef and pork makes these products more affordable than in other countries.

Anti-dumping measures against the European meat could have supported domestic producers as well as played their role in the dialogue with the EU concerning quotas introduced against Russian grain beginning from January 1, 2003. Grain quotas severely restrict Russian export to Europe and thus affect Russian grain producers. Introduction of meat quotas against the EU could have transferred the dialogue on grain quotas from the domain of EU-Russia international relations to the domain of EU-EU internal relations: the share of groups interested in the export of meat to Russia is supposedly higher than that of groups lobbying restriction of grain imports from Russia, and just a mere threat to introduce meat quotas could have fostered alleviation of grain restraints against our country. That was exactly the task of import quotas initially declared by Minister G.Greff. However, Vice-Premier A.Gordeev several times disavowed this statement. Besides, the very mechanism of setting quotas (application against all instead of selected countries, distribution in proportion to previous supplies) evidences that they are not supposed to fulfill this task.

There can also be a fiscal interest in introducing quotas – import constraints are the only agricultural support measure backed by both the Ministry of Agriculture and the Ministry of Finance. It's quite possible that in this respect meat quotas are a substitute for abolished sugar auctions.

The second arising question is the efficiency of quotas for supporting domestic producers. As it has already been mentioned, the size of quotas is rather large. Besides, they are not to be applied against the CIS countries the process of uniting which in the free trade zone has recently accelerated. This means that the effect of constraints on import from the non-CIS countries can be well offset by gray supplies through the CIS countries. According to our estimates, domestic producers won't feel the difference from the introduced quotas. On the other hand, the meat market operators got into a difficult situation – they were given no time for adjusting to the new customs regime. Many meat processing plants use imported raw meat and for them such a decision can be damaging.

Consumers are also unlikely to suffer from higher prices due to the large size of quotas. A price rise could be triggered by quota auctions (as it was the case with sugar auctions) but only 10% of quotas will be sold thereat and so the effect won't be sensible. Still, an upspring of retail prices is quite possible since the introduction of quotas can serve a kind of justification for raising prices. But their growth won't be long-term due to the consumer demand constraints.

The third aspect of introducing quotas is their assessment by the world community. Certainly, the hasty alteration of customs regime in this case cannot be justified by an outburst of imports as stipulated in the WTO Uruguay Round Agricultural Agreement (1994). Such a rush only supports the Russia's reputation as a country with unpredictable agricultural policies.

Thus one can conclude that the introduction of quotas will rather aggravate the Russian agricultural sector's situation than foster its development. The only positive effect can be the replenishment of federal budget.

E.Serova, N.Karlova, O.Shick

Regions: industrial output dynamics

The changes in the balance of growth rates across industries, which occurred in 2002 in comparison with the period from 1999 till 2001 (Table 1), resulted in significant shifts in the character of regional differences relating to industrial output dynamics. While in the pre-crisis years regions (notwithstanding their geographical location) where prevailed export oriented industries demonstrated more favorable output dynamics (in 1999 through 2001 it was true for regions where industries were primarily oriented towards the domestic market, however, the geographical location was an important factor), in 2002, when the rates of growth in fuel industry became maximal for the first time in the post-crisis years, all the factors determining regional differences in terms of industrial output dynamics in the preceding years "overlapped." Besides, while in the preceding years (especially in 2000), industrial output grew practically across all regions oriented towards the domestic market, in 2002 the picture became more complex (growth and decline in output became more dependable on competitive power of individual enterprises).

Table 1

Indices of industrial output across major industries (in %)

Industries	2000	2001	2002
Power engineering	102	102	99,3
Fuel industry, including	105	106	107,0
- oil extracting industry	106	108	108,7
- oil processing industry	102	103	104,7
- natural gas industry	102	100,4	103,2
- coal mining	105	105	96,4
Ferrous metallurgy	116	99,8	103,0
Non-ferrous metallurgy	115	105	106,0
Chemistry and petro-chemistry	115	105	101,6
Mechanical engineering and metal working	120	107	102,0
Wood, woodworking, pulp and paper industry	113	103	102,4
Industry of construction materials	113	106	103,0
Light industry	121	105	96,6
Food industry	114	108	106,5
Total industry	**112**	**105**	**103,7**

The favorable economic and geographic location along with high capacity of the domestic market is a factor explaining the leading positions the Leningrad oblast and the city of St. Petersburg hold in terms of rates of growth in industrial output (see Table 2). The same factors may explain the fact that Moscow has begun to stand out in comparison with other regions for the first time in the post-crisis years. As concerns the Moscow region, in contradistinction to the aforesaid three regions the index of industrial output there was minimal in the last four years; however, this region is still among the leaders in terms of rates of growth in industrial output.

Table 2

Regions demonstrating the most and least favorable industrial output dynamics in 2002

Regions demonstrating most significant rates of growth in industrial output	IOI, 2002 in % of 2001	Regions demonstrating a decline in industrial output	IOI, 2002 in % of 2001
Leningrad oblast	135,6	Perm oblast	99,0
City of St. Petersburg	131,4	Kemerovo oblast	98,3
Chukotka AO	120,5	Samara oblast	97,2
Aginski Buryat AO	115,6	Voronezh oblast	97,0
City of Moscow	114,2	Republic of Altai	96,9
Republic of Buryatia	113,8	Murmansk oblast	96,5
Lipetsk oblast	112,5	Chita oblast	95,0
Republic of Dagestan	112,4	Kurgan oblast	94,3
Tomsk oblast	111,0	Republic of Adygea	93,4
Yevreyskaya AO	111,0	Orel oblast	91,6
Omsk oblast	110,8	Komi-Permyak AO	88,5
Nenetsian AO	110,5	Sakhalin oblast	87,5
Orenburg oblast	110,5	Kamchatka oblast	84,0
Republic of Mordovia	110,0	Taimyr AO	79,8
Krasnodar krai	109,5	Ust'-Orda AO	76,1
Ulyanovsk oblast	108,9	Koryakian AO	74,3
Moscow oblast	108,7	Republic of Ingushetia	73,9
Kaliningrad oblast	108,5	Republic of Kalmykia	72,1
Republic of North Osetia	108,2	Evenk AO	50,0

IOI – industrial output index

The great gap between St. Petersburg and the Leningrad oblast and other regions in terms of the rates of growth in industrial output has determined the apparent leadership of the North West federal okrug (see Table 3). As concerns this okrug, the differences between regions of the former North West and Northern economic areas formed in 2001 became even more apparent in 2002. While the Novgorod and Pskov oblasts make use of their transition location between Moscow and St. Petersburg (these regions demonstrated higher rates of growth in industrial output as compared with the national average), only the oil extracting Nenetsian AO among the regions situated in the former Northern economic area showed rates of growth above the national average (in 1999 and 2000, regions with wood, woodworking, and pulp and paper industries, first of all the Arkhangelsk oblast and Karelia, were among the leaders in terms of industrial output dynamics). As concerns the Kaliningrad oblast, there the positive effect of the special economic zone regime may be a factor behind the favorable development of industrial situation.

Table 3

Indices of industrial output across federal okrugs (in %)

Federal okrugs	**2000**	**2001**	**2002**
Central federal okrug	115	110	107,8
North West federal okrug	123	103	116,4
Southern federal okrug	116	113	103,2
Privolzhski federal okrug	111	105	102,2
Ural federal okrug	111	106	105,4
Siberian federal okrug	109	107	104,0
Far East federal okrug	107	99,9	99,1
Russian Federation	**112**	**105**	**103,7**

The Central federal okrug is the second in terms of rates of growth in industrial output, although many of the regions within the okrug lag behind other regions. In 2002, the dynamics of industrial output in the Vladimir, Ivanovo, Kaluga, and Orel oblasts were below the national average for the first time in the post-crisis years. It seems that the factors behind these developments were the exhausted possibility of growth in domestically oriented mechanical engineering and food industry and the problems plaguing these industries.

In 2002, for the first time since 1998, regions specializing in export oriented industries were among the leaders in terms of rates of growth in industrial output, including the Lipetsk and Belgorod oblasts with developed ferrous metallurgy, as well as the Nenetsian AO, Omsk, and Tomsk oblasts where production includes oil extraction and processing.

Since domestically oriented food industry maintains high growth rates, North Caucasian regions (Dagestan, North Osetia, Kabardian-Balkarian Republic, Krasnodar krai) are among the leaders in terms of rates of growth in industrial output. The factors behind these developments are relatively new fixed assets in food industry, most cheap agricultural produce in the country, and low levels of wages and salaries (the dynamics of agricultural produce were most favorable in the North Caucasus, see Table 4). However, some regions of the Russian South began to lag behind. While the rates of growth in industrial output in the Rostov oblast and Stavropol krai were below the national average, Adygea demonstrated a decline in production (both industrial and agricultural).

Table 4

Indices of volumes of agricultural produce across farms of all types (in %)

Federal okrugs	**1999**	**2000**	**2001**	**2002**		
				total	**crops**	**cattle**
Central federal okrug	98,0	114,0	100,3	102,0	102,6	101,3
North West federal okrug	110,0	104,0	103,0	100,4	99,0	101,6
Southern federal okrug	108,0	110,0	114,5	107,3	109,2	104,8
Privolzhski federal okrug	108,0	102,0	109,6	99,9	97,2	102,8
Ural federal okrug	114,0	97,0	107,0	97,7	92,6	102,6
Siberian federal okrug	102,0	112,0	108,1	99,0	94,4	103,9
Far East federal okrug	94,0	99,9	108,5	103,9	105,0	102,5
Russian Federation	104,0	108,0	107,5	101,7	100,6	102,9

The Far East federal okrug demonstrates a decline in industrial output for the second year running; however, situation differs considerably across Far Eastern regions. A major factor behind the decline is the extremely unfavorable business situation in fish industry (while in Russia at large the volumes of production of fish and other sea products declined by 10.8 % on the average, the respective indicator in the Far East made 19.6 %). Therefore, the regions specializing in this industry (Kamchatka and Sakhalin oblasts, Primorski krai) demonstrated decline or extremely low rates of growth in industrial output. An important fact is that while oil and natural gas extraction grew in Russia on the whole, in the Sakhalin oblast the extraction of oil and natural gas production declined in 2002 (by 13.7 and 2.3 % respectively), what is an illustration of limited effectiveness of production sharing agreements. A positive trend was the persistence of higher (as compared with the national average) rates of growth in industrial output in the Khabarovsk krai.

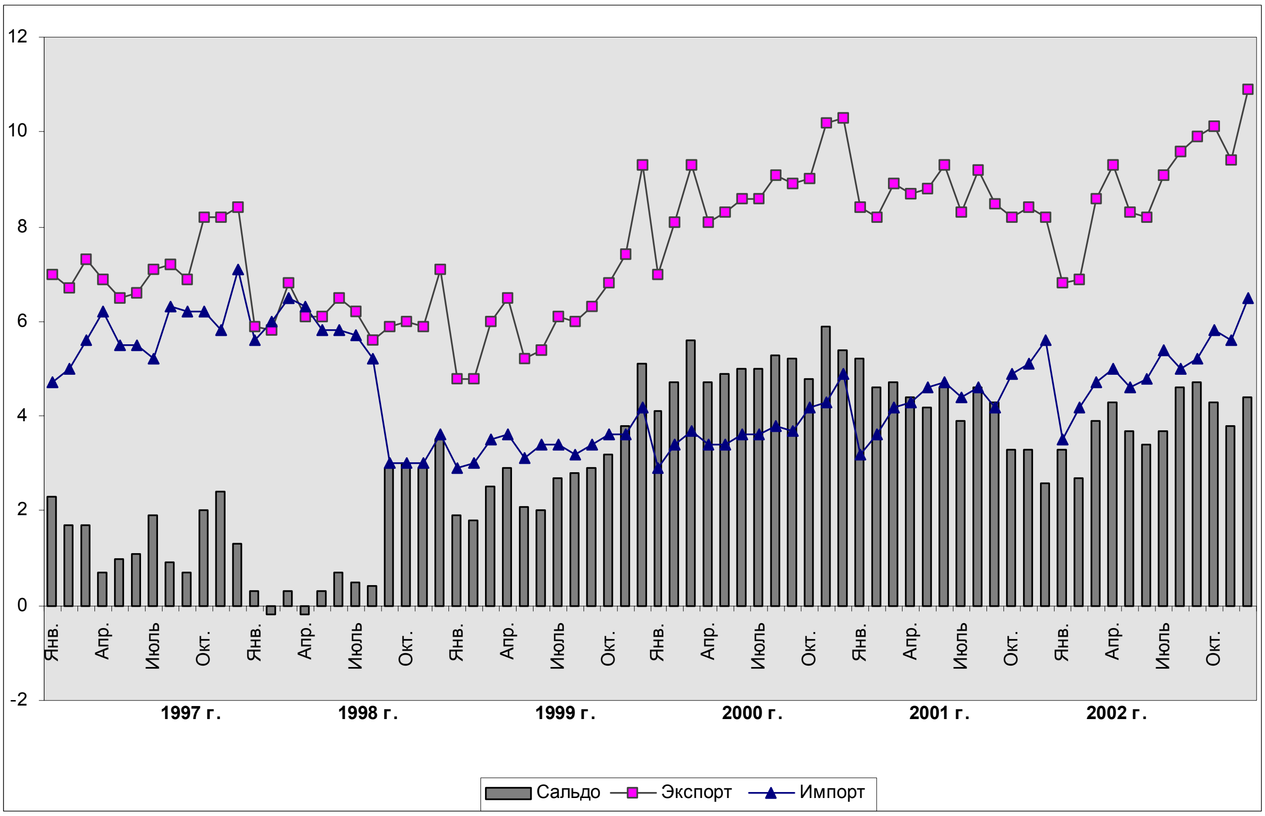
On the whole, in 2002 there were registered 19 regions where industrial output declined (in 2001 there were 9 such regions), among them those specializing in mechanical engineering. An illustrative example is the Samara region, where production of cars fell by 7.8 % (a 4.0 % decline in the country at large). In contradistinction to the situation in the country, a decline in output of steel and rolled products at the background of increasing coal production was registered in the Kemerovo oblast (therefore the Kemerovo oblast is an example of output dynamics depending not on the regional industrial structure, but the situation of individual enterprises).

The fact that national autonomies due to their small sizes demonstrated extremely unstable dynamics of social and economic indicators and were both among leaders and outsiders in terms of the industrial output dynamics in 2002 corresponded to trend registered in the preceding years.

O. Kuznetsova

Foreign Trade

The conditions, under which Russian foreign trade developed in 2002, were rather difficult and was characterized by opposite trends. At the background of the negative impact of external factors – deceleration of the development of the world economy and deteriorating situation on world markets of goods in the first six months of 2002 there was observed a decrease in the amounts of Russian exports. However, in the second half of 2002 the dynamics of development of Russian exports changed as a result of improving business situation on the oil market. In December of 2002 the Russian foreign trade turnover reached the record high in the last 12 years making US $ 10.9 billion. The respective indicator of 2001 was exceeded by 32.9 %.



Source: RF Goskomstat

Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct. Jan. Apr. Jul. Oct.

Balance Export Import

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

The dynamics of oil prices was uneven in 2002. After the September hike in prices (Urals) up to US $ 28.26 per barrel, in November prices fell by US $ 2.03 per barrel. However, this decline was rather short and in December prices began to grow again. On the average, in December Brent oil price made US $ 27.48 per barrel. A significant growth in prices of oil, natural gas, gasoline, and nickel was registered in comparison with the figures observed in December of 2001.

Table 1

The average monthly world prices in December of the respective year

	1996	1997	1998	1999	2000	2001	2002
Oil (Brent), USD / metric ton	22,8	17,8	11,5	24,1	25,6	19,0	27,48
Natural gas, USD / thous. m^3	3,093	2,393	2,251	2,558	8,713	2,694	4,873
Gasoline, USD / metric ton	0,6691	0,5648	0,3739	0,6986	0,7649	0,5398	0,836
Copper, USD / metric ton	2273,3	1834,7	1601,6	1748,1	1914,4	1528,7	1618,6
Aluminum, USD / metric ton	1459,9	1535,5	1305	1470,7	1562,5	1346,3	1376,2
Nickel, USD / metric ton	6920,0	6099,0	4202,0	7984,2	7315,4	5219,5	7255,0

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

The stable expansion of domestic demand in Russia, as well as cheaper food and agricultural imports, were factors behind the persisting high positive dynamics of the import of goods. In December of 2002, Russian imports reached the record high since March of 1998 – US $ 6.5 billion, what was by 16.1 % above the level registered in 2001.

As a result of higher rates of growth both in exports and imports, in December the Russian foreign trade turnover reached US $ 17.4 billion and exceeded the respective indicator of the preceding year by 26.1 %. It was the record high in the last 15 years.

The trend towards a decrease in the Russia's balance of trade observed over the last 2 years reversed in August. In December of 2002, the active balance of trade made US R 4.4 billion, what was by 69.2 % above the respective indicator of 2001.

In December of 2002, the amount of Russia's trade vis-à-vis CIS member countries made US $ 2.89 billion. Similarly to the situation of the preceding year, exports grew at a more rapid rate and by the end of the month reached US $ 1.65 billion thus exceeding the respective indicator of 2001 by 37.7 %. Imports grew by 17 % and made US $ 1.24 billion.

However, the dynamics of imports and exports vis-à-vis CIS member countries observed over the last months of 2002 permits to forecast that this year imports will grow at a faster rate (up to 5 % over the year), while in the preceding year the amount of Russia's imports declined by 5.5 %.

As concerns relations with Russia's CIS partners, it shall be noted that practical implementation of the Customs Union with Belarus is still braked due to disputes concerning customs duties.

Armenia and Russia singed the Agreement on customs cooperation in February of this year, what, no doubt, will positively influence the bilateral trade.

The creation of the common customs space in the framework of EvrAzEs is planned for year 2005, however, at the moment more than 60 % of customs duties are harmonized already. It shall be reminded that five countries – Belarus, Kazakhstan, Kirghizia, Tadzhikistan, and Russia - signed an agreement on the common customs space yet in 1999.

In the end of January, the Government submitted to the State Duma the draft law "On special protective, antidumping, and countervailing customs duties on imports." The new law shall replace the current law "On measures aimed at the protection of the RF economic interests relating to foreign trade with goods," which does not agree with the WTO regulations. The law, adopted in 1997, for instance stipulates that such definition as "heavy damage" may be applied not only in the case of dumping on the part of producers, but also if domestic producers are squeezed out of the market as a result of fair competition.

Moreover, the law fails to distinguish between state intervention measures depending on the concrete circumstances. At the same time, according to the basic WTO document – the General Agreement on Tariffs and Trade – antidumping measures shall be applied basing on the results of respective investigations, while protective measures (simple import duties) shall be introduced only in order to create more favorable conditions for residents.

Russia started to conduct investigations against undesirable imports (a usual practice of developed countries) in 2000; the first investigation concerned import of Ukrainian pipes. In 2002, there were introduced antidumping import duties on Ukrainian and Kazakh galvanized rolled products. The Ministry for Economic Development has found that in 2001 Ukrainian and Kazakh producers were selling rolled stocks at prices, which were 15 % to 16 % below world levels. Temporary antidumping duties were introduced with regard to these producers for the period of investigation. In the end of 2002 the Governmental commission on protective measures in foreign trade recommended the Government to turn temporary duties in permanent ones and set them at 24.3 % of the customs value of steel for Ukrainian producers and 13.6 % for Kazakh producers.

The new law sets forth certain definitions not stipulated previously by the Russian legislation, for instance, "similar goods," "dumping margin," "countervailing measures," since such definitions are necessary in order to conduct objective antidumping investigations.

The bill sets forth detailed regulations governing such investigations. An important innovation is fixed terms of investigation. For instance, according to the bill, the Government should take the decision on the introduction of protective measures within 14 days after the authorized agency (the Ministry for Economic Development) submits its report on the results of the investigation.

The draft law sets forth three types of reaction to undesirable imports. In the case import of a commodity sharply increases, there may be introduced special protective measures (special duties and import quotas). The term for which temporary special duties may be introduced for the period of investigation shall not exceed 200 days. In the case it is found that imports damage the Russian economy, duties or quotas may be introduced for a period up to 4 years.

In the case dumping is detected (export prices are below the respective price on the domestic market), there shall be introduced antidumping duties, which shall be added to the usual import duty. At last, in the case it is found that respective governments subsidize their importers there may be introduced so called countervailing duties set in accordance with estimated amounts of subsidies. The terms of antidumping and countervailing duties shall be 5 years.

Yet another law, which shall be approved in the framework of negotiation process relating to Russia's accession to WTO is the law "On the state regulation of foreign trade operations." The respective bill will be submitted to the State Duma in the nearest future.

The government bill contains a large number of innovations in comparison with the present version of the law. For instance, the draft law stipulates that no decisions concerning regulation of foreign trade operations shall not be approved without consultations with the business community. Besides, all respective decisions shall be made public before the approval. The new law defines the procedures governing the approval of retaliatory measures against discriminatory decisions on the part of RF foreign trade partners. A large section is dedicated to trade in services. This section shall fully correspond to the respective WTO regulations.

Therefore, Russia is practically ready to join WTO and made for it everything it could. All necessary laws are submitted to the State Duma. The market access terms are normal. However, Russia's opponents still adhere to the other point of view. Such problems as price determination relating to energy resources, levels of tariff protection and state subsidizing of agriculture, as well as the degree of the openness of the service market are still the stumbling blocks. It seems that the negotiations go on in circles. Opponents ask the same questions as a year or five years ago.

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