RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
MARCH 2002

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

The state of the federal budget

TABLE 1

The monthly execution of the federal budget of the Russian Federation (as % of GDP, cash execution)

	I`01	II`01	III`01	IV`01	V`01	VI`01	VII`01	VIII`01	IX`01	X`01	XI`01	XII`01	I`02
Revenues													
Corporate profit tax	1,4%	1,5%	1,9%	2,4%	2,6%	2,6%	2,5%	2,6%	2,5%	2,4%	2,4%	2,4%	1,4%
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%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	4,9%
Tax on foreign trade and foreign trade operations	9,0%	9,2%	9,0%	9,1%	9,3%	9,3%	9,2%	8,8%	8,6%	8,7%	8,9%	9,4%	9,3%
Other taxes, duties and payments	6,7%	6,8%	6,7%	6,7%	6,7%	6,7%	6,7%	6,5%	6,4%	6,5%	6,7%	7,1%	6,9%
Total- taxes and charges	2,3%	2,4%	2,3%	2,4%	2,5%	2,5%	2,4%	2,3%	2,2%	2,1%	2,2%	2,2%	2,4%
Non- tax revenues	3,6%	4,1%	4,1%	4,0%	3,9%	3,9%	3,9%	3,9%	3,8%	3,7%	3,7%	3,7%	3,2%
Revenues, total	1,1%	0,9%	0,8%	0,8%	0,7%	0,7%	2,2%	3,0%	3,7%	4,4%	0,7%	0,6%	9,7%
Expenditure	15,2%	15,7%	15,7%	16,3%	16,6%	16,5%	16,4%	16,0%	15,6%	15,5%	15,8%	16,2%	20,4%
Public administration	1,0%	1,1%	1,1%	1,2%	1,3%	1,2%	1,3%	1,3%	1,3%	1,3%	1,3%	1,4%	2,1%
National defense	16,2%	16,9%	16,9%	17,5%	17,8%	17,8%	17,7%	17,3%	16,8%	16,8%	17,1%	17,6%	22,4%
International activities													
Judicial power	0,1%	0,2%	0,3%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,5%	0,1%
Law enforcement and security activities	1,3%	2,0%	2,2%	2,5%	2,7%	2,7%	2,7%	2,6%	2,6%	2,6%	2,6%	2,7%	1,0%
Fundamental research	0,3%	0,3%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,3%	0,4%
Services provided for the national economy	0,0%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,0%
Social services	0,7%	1,1%	1,3%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%	1,5%	1,6%	0,6%
Servicing of public debt	0,0%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,3%	0,0%
Other expenditure	0,1%	0,3%	0,6%	0,6%	0,8%	1,0%	1,0%	1,0%	1,0%	1,0%	1,1%	1,3%	0,1%
Expenditure, total	1,3%	1,6%	1,9%	2,1%	2,0%	2,1%	2,1%	2,1%	2,0%	2,1%	2,1%	2,3%	3,7%
Loans, redemption exclusive	3,2%	5,5%	4,7%	3,7%	3,3%	3,2%	2,9%	3,1%	3,2%	2,9%	2,7%	2,6%	2,0%
Expenditure and loans, redemption exclusive	3,3%	3,1%	2,9%	3,0%	3,1%	3,2%	3,1%	3,0%	3,0%	3,0%	3,0%	3,0%	2,9%
Budget deficit (-)	10,4%	14,4%	14,2%	14,1%	14,2%	14,5%	14,2%	14,2%	14,1%	13,9%	13,9%	14,7%	10,9%
Domestic financing	5,8%	2,5%	2,6%	3,4%	3,7%	3,3%	3,5%	3,1%	2,7%	2,9%	3,2%	2,9%	11,5%
Other taxes, duties and payments	-3,7%	-0,8%	-0,6%	-1,1%	-1,7%	-1,3%	-1,1%	-1,2%	-0,9%	-0,6%	-0,9%	-0,1%	-11,2%
Total- taxes and charges	-2,1%	-1,7%	-2,1%	-2,3%	-2,0%	-2,0%	-2,4%	-1,9%	-1,8%	-2,3%	-2,3%	-2,8%	-0,4%
Non- tax revenues	-5,8%	-2,5%	-2,6%	-3,4%	-3,7%	-3,4%	-3,5%	-3,1%	-2,7%	-2,9%	-3,2%	-2,9%	-11,5%

TABLE 2

The monthly execution of the federal budget of the Russian Federation (as % of GDP, fulfilled financing)

	I`01	II`01	III`01	IV`01	V`01	VI`01	VII`01	VIII`01	IX`01	X`01	XI`01	XII`01	I`02	II`02
Total	16,2%	16,9%	16,9%	17,5%	17,8%	17,9%	17,7%	17,3%	16,8%	16,8%	16,9%	17,6%	22,2%	21,0%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
National defense	2,4%	2,5%	2,8%	2,8%	2,9%	2,9%	2,9%	2,9%	2,8%	2,8%	2,8%	2,9%	1,7%	2,4%
International activities	0,5%	0,4%	0,2%	0,2%	0,2%	0,2%	0,3%	0,2%	0,2%	0,2%	0,3%	0,3%	0,4%	0,2%
Judicial power	0,2%	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,2%	0,2%
Law enforcement and security activities	1,7%	2,0%	1,9%	1,8%	1,8%	1,8%	1,8%	1,7%	1,7%	1,7%	1,6%	1,7%	1,6%	1,4%
Fundamental research	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,7%	0,3%	0,3%	0,3%	0,3%	0,3%
Services provided for the national economy	0,5%	0,9%	1,0%	1,0%	1,1%	1,3%	1,2%	1,3%	1,2%	1,2%	1,2%	1,4%	0,3%	0,6%
Social services	2,4%	2,6%	2,5%	2,7%	2,6%	2,6%	2,5%	2,5%	2,3%	2,4%	2,3%	2,3%	5,0%	5,7%
Servicing of public debt	3,2%	5,5%	4,7%	4,3%	3,9%	3,2%	2,9%	3,2%	3,2%	2,9%	2,7%	2,6%	1,9%	3,4%
Other expenditure	3,7%	3,5%	3,2%	2,5%	2,7%	3,3%	3,2%	3,2%	2,6%	3,1%	3,0%	3,0%	3,5%	4,0%
Total expenditure	15,3%	18,3%	17,2%	16,4%	16,2%	16,3%	15,7%	15,9%	15,5%	15,2%	14,8%	15,0%	15,5%	18,7%
Proficit (+) / deficit (-)	0,9%	-1,4%	-0,3%	1,1%	1,7%	1,6%	2,0%	1,5%	1,3%	1,6%	2,1%	2,6%	6,8%	2,3%

The data on the execution of the federal budget in January 2002 are presented in Table 1(Because of the estimated data on GDP, the indices may be subject to revision). As of February 1, 2002, revenues to the federal budget broke the record value of 22.4% of GDP, including tax revenues – 20.4%, while expenditures made up 11.5 % of GDP (15.5% of GDP in terms of fulfilled financing(The execution of the budget in terms of fulfilled (actual) financing is equal to the sum of 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. exclusive of funds left on their accounts)), including non-interest ones 9.5 % of GDP (13.6 % in terms of fulfilled financing). The level of budget surplus accounted for 11.5 % of GDP (6.8 % of GDP in terms of fulfilled funding).

Such a considerable level of revenues is explained by the fact that since 2002 the part of the single social tax on funding the basic part of labor pensions has become due to collection in the federal budget. The single social tax exclusive, in January 2002 tax revenues accounted for 15.5% of GDP, while revenues on the whole made up 17.6% of GDP.

It also should be noted that the level of revenues from corporate profit tax dropped against late 2002, however it remained on the same level as the one noted in January 2001 – 1.4% of GDP. The level of VAT-related revenues in January 2002 was at 0.2per cent points of GDP compared with the respective index of January 2001, while the collection of taxes levied on foreign trade proved to be lower at 0.4% of GDP vs. January 2001.

The spending on servicing of public debt was substantially lower in January 2002 vs. January 2001 (2.0% of GDP vs. 3.2% of GDP, respectively). While comparing the noted periods, one can note that the structure of federal budget expenditure shows a slight contraction in spending on national defense in shares of GDP (at 0.3 percent points, down to 1% of GDP) as well as a substantial rise in social expenditure related to the funding of subsidies on labor pensions at the expense of the single social tax (2.4% of GDP in terms of fulfilled financing in January 2002). The subsidies excluded, the level of social expenditure in January 2002 was equal to the respective value of January 2001.

Between early 2002 through early February the balances of accounts on accounting the federal budget funds (without regard to the funds accumulated on personal accounts of recipients of budget funds) grew by Rb. 48 bln. (6.6% of GDP) in terms of fulfilled financing.

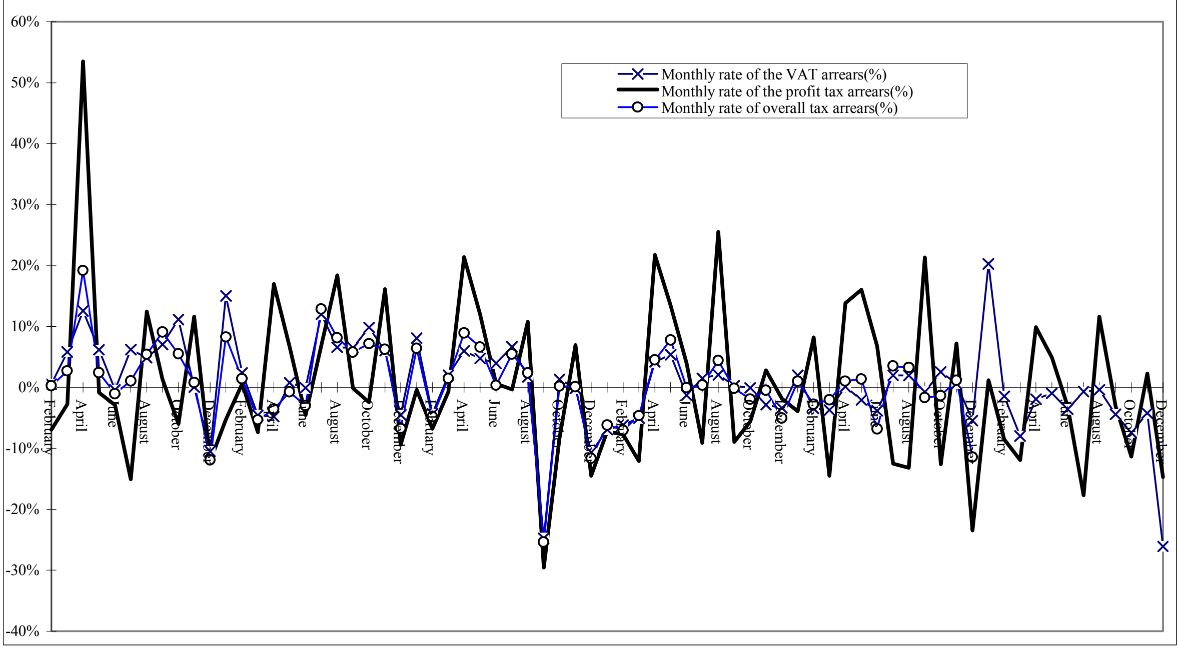
TABLE 3

Actual tax revenues to the federal budget, according to the data of the MTC (as % of the data as of January 1998).

1999											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
40,0%	46,0%	48,8%	48,8%	41,8%	45,1%	50,8%	51,0%	49,7%	56,5%	64,3%	85,2%
2000											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
59,7%	64,2%	72,4%	82,2%	93,2%	74,7%	72,3%	74,5%	69,2%	72,4%	80,6%	101,6%
2001											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
81,7%	79,3%	91,0%	106,9%	100,8%	93,3%	92,7%	94,2%	87,7%	94,9%	98,8%	144,1%
2002											
I						II					
87,4%						74,8%					

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

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



S. Batkibekov

Monetary Policy

In February 2002 the consumer price index grew by 1.2%. Similar to the previous month, it was prices for services that were rising at the most – by 2.7%, while the prices for food stuffs grew by 0.9%, and the prices for non-food goods – by 0.8%.

In March the tendency to a slowdown in consumer prices growth rates was still there (see Fig. 1). We estimate CPI grew by 1.0% over the month. The current inflation rates are substantially lower than those in 2001. So, in 2001 the CPI grew by 2.3% and by 1.9% in February and March, correspondingly. It is evident that during next two or three months inflation rates will be lower than those of April – June 2001 (1.6–1.8% annualised). Therefore, taking into account slower rates of the growth in money supply due to a weaker trade balance and a clear tendency to a larger accumulation of funds on the Government accounts with the CBR, the 2002annual inflation rates are re-estimated closer to the Government projections, i.e. 14–15%.

In March 2002 the CBR intensified accumulation of foreign reserves (see Fig. 2). During the three weeks of the month the CBR's foreign reserves rose roughly by one billion US dollars and reached the level of $37.5 billion. The increment of rouble money supply over the period in question appeared rather modest. Specifically, narrow monetary base grew only by 2.4%, or some16 billion roubles (less than $500 million). It is evident that sterilisation of rouble interventions in the forex market took place mainly by means of increasing funds on Government accounts with the Bank of Russia.

The replacement of the Chairman of the CBR in our opinion will not result in changes in monetary policy. In his inaugural statements Mr. S. Ignatyev, the newly appointed CBR Chairman proved the priority of a policy aimed at accumulation of foreign reserves and a gradual appreciation of tge Russian national currency. At the same time the Bank of Russia has no plans on adjustment of earlier set of money supply growth rates in 2002 as well as on to to expedite the processes of formation of capital market and liberalisation of capital control..

FIGURE 1.

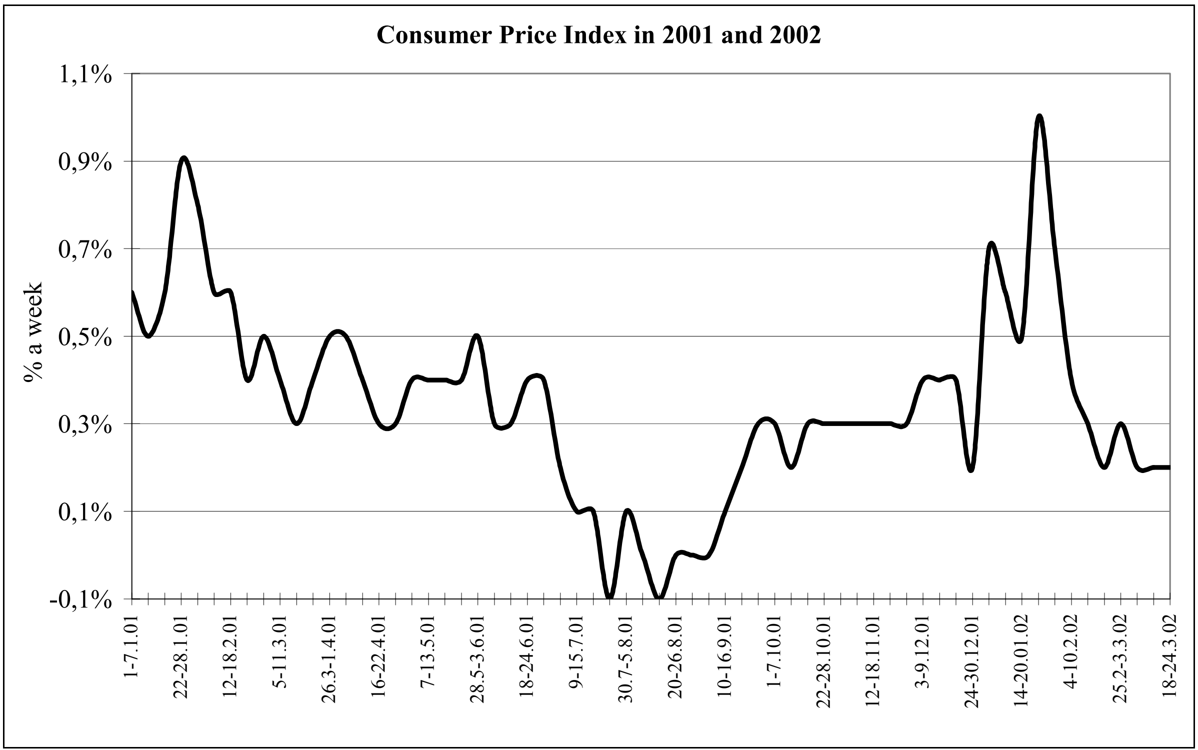
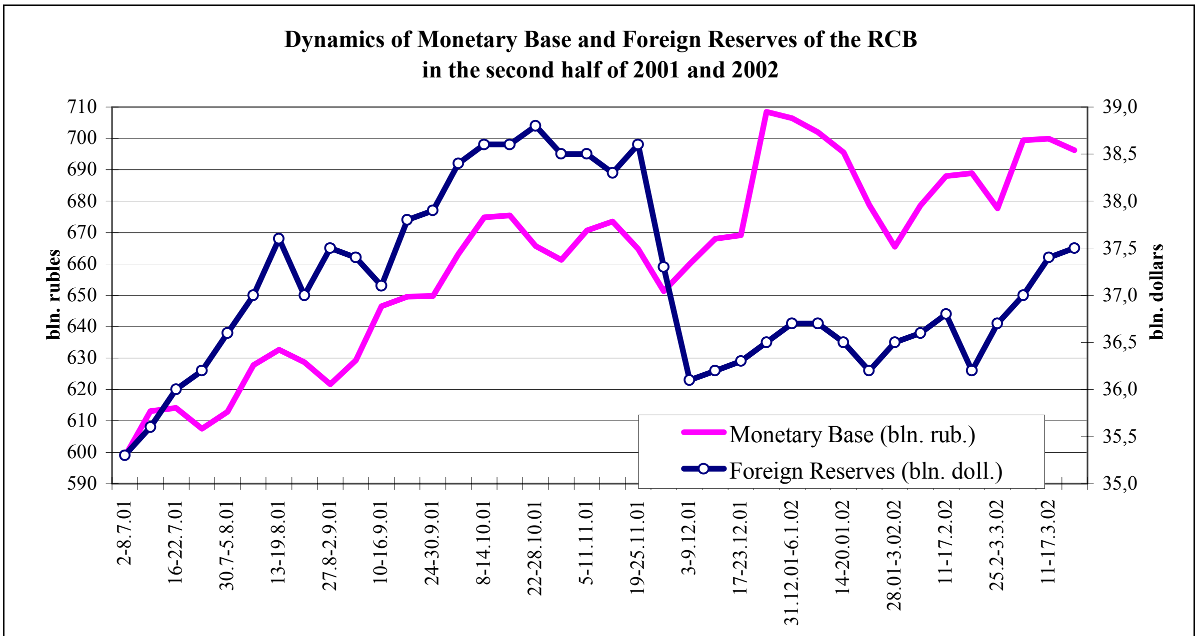


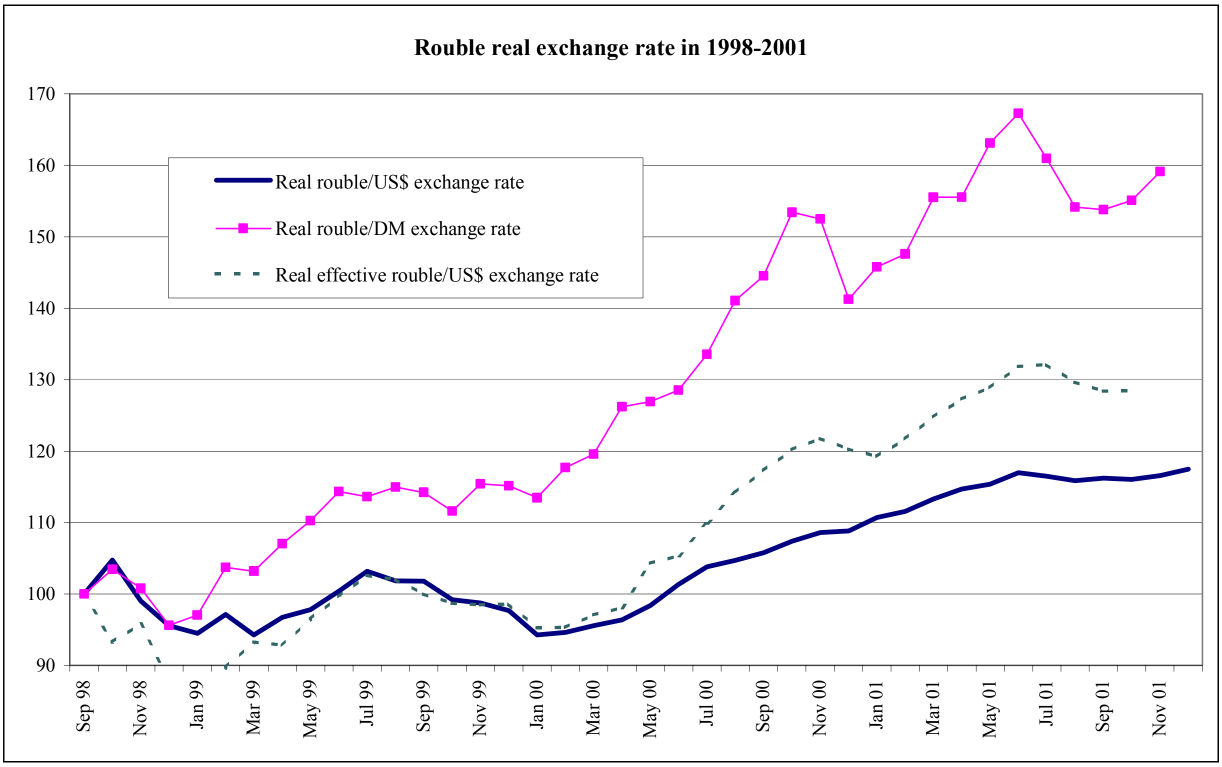
FIGURE 2.



In 2001 the real rouble/USD exchange rate calculated basing on data on changes in nominal RUR/USD exchange rate and CPI growth rates in Russia and in the USA grew by some 8% and reached 117.5% against the real exchange rate reported in September 1998. At the same time we should note that the main part of rouble revaluation fell on the first half of 2001, while since June the real rouble/dollar exchange rate was actually fixed (see Fig. 3).

Alternative indicators testify to even a stronger real appreciation of rouble. So, the real effective rouble/USD exchange rate calculated with account of changes in prices for main Russian exports and imports (i.e. taking into account changes in country's terms of trade), grew by 6.8% during the first ten months of 2001 (while the CPI-based rouble real exchange rate grew by 6.6% over the same period). Hence, as compared to September 1998, the rouble appreciated by 28.5% in real terms. In other words, at present the real rouble exchange rate corresponds to the level of July and August 1995. As long as the DM (and, accordingly Euro)/Rb. exchange rate is concerned, the rouble appreciated by 12.7% during 2001 against that, and now it has reached the level of 160% vs. The respective ratio as of September 1998.

FIGURE 3.



S. Drobyshevsky.

Financial Markets

The market for government securities.

In March 2002 one noted correction in the market for the Russian foreign government debt after a half-year permanent decline in interest rates (see Figs. 1 and 2). During the month the yields to maturity on the Minfin bonds went up by about one percentage point, and yields on eurobonds – by up to 0.5 percentage point. So, the yields on all Minfin bonds issues (except the 4th one) amount to about 10% annualised, while on the 4th issue – about 7% annualised. It was the shortest (matured in 2003) eurobonds whose yields remained unchanged –at the level of 5% annualised.

In addition to technical factors, there was a number of other important reasons underpinning the fall in quotations of Russian securities . First, all positive information on prospects for Russia's economic development in 2002 as well as the upgrade of Russia's sovereign rating by the biggest international rating agencies has been long considered in bond prices . At the same time, the real sector's performance between late 2001 to early 2002 was quite negative. Second, in March the RF Ministry of Finance evidently did not buy back its liabilities, and the aggregate demand for the Russian securities went down. Therefore, one can assume that the decline in yields by one or two percentage points between January to February 2002 was due to buy-back operations, and in March the quotations were back to the level corresponding to risk as estimated by investors. Third, in March the expectations of the Fed to hike its interest rate shortly became stronger. The latter will have a certain buoyant impact on all US-dollar interest rates.

FIGURE 1.

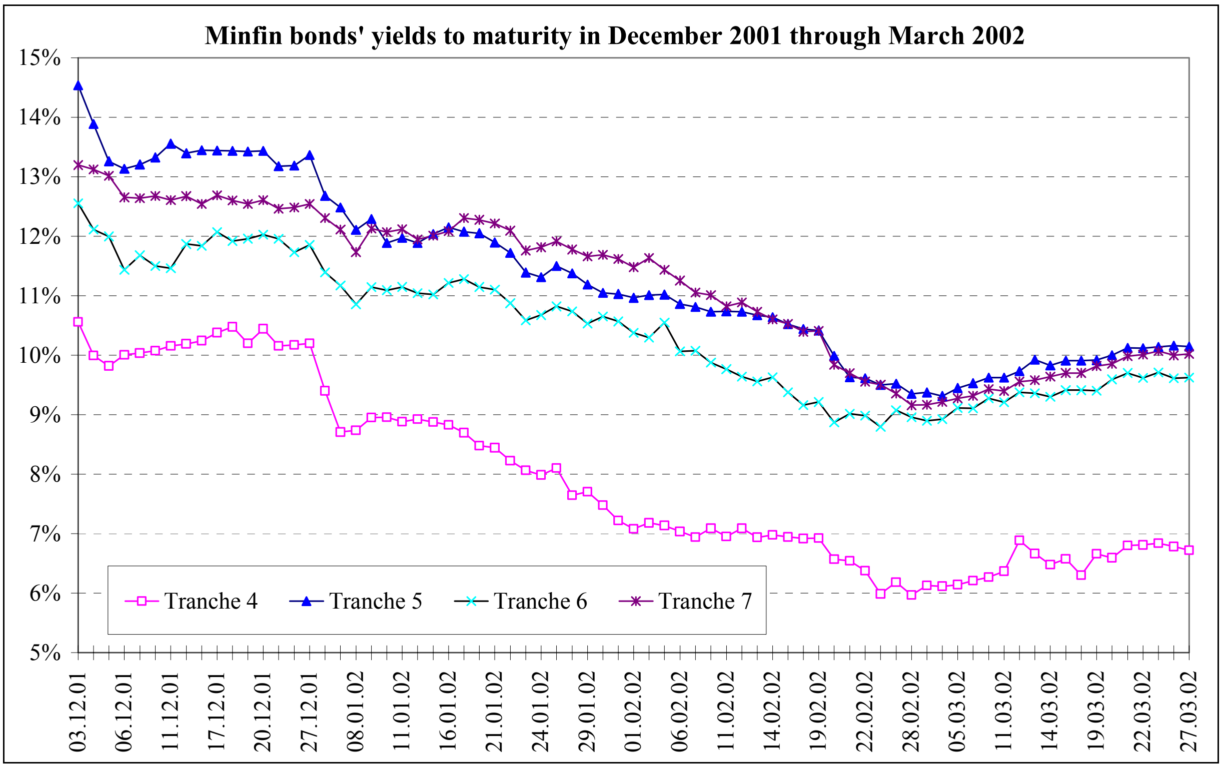
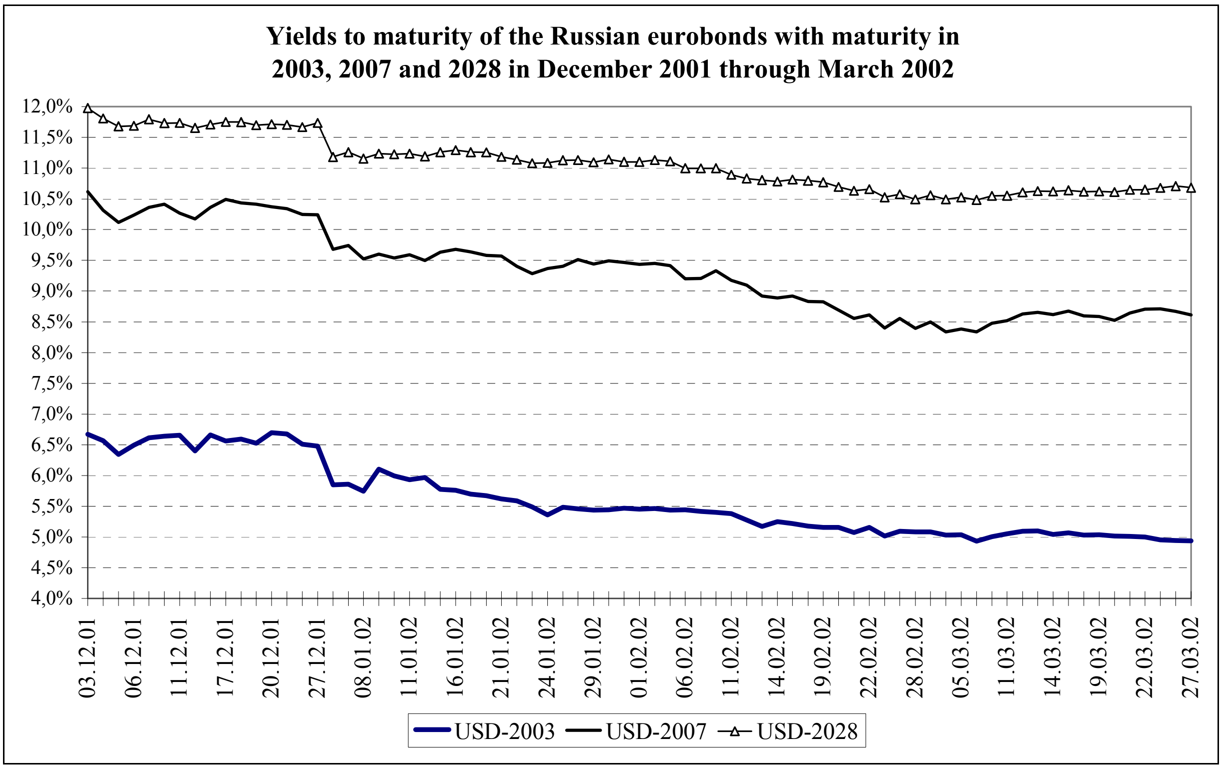


FIGURE 2.



March 2002 witnessed growth in the average level of yields in the domestic government debt market. The average-weighted GKO/OFZ yield to maturity reached 16% annualised, which appeareds the highest level of the yield since August 2001. It is worth noting that in March the real cost of borrowing in the domestic market became positive (taking into account the tendency to decline in inflation rate) and amounted to about 2–3% annualised. The market turnover remained extremely low during three months running – between 4.5 to 6 billion roubles. In nominal terms that corresponds to the level of mid-1999.

In March, the RF Ministry of Finance held two auctions on placement of new bonds – eight-month GKO (21159) and 3.5-year OFZ (27018). The outcome could hardly be considered a success. Specifically, under the primary placement only 23% of the total OFZ issue was sold at a yield of about 18% annualised. The premium against the secondary market was also observed in the course of the placement of the GKO issue (about one percentage point).

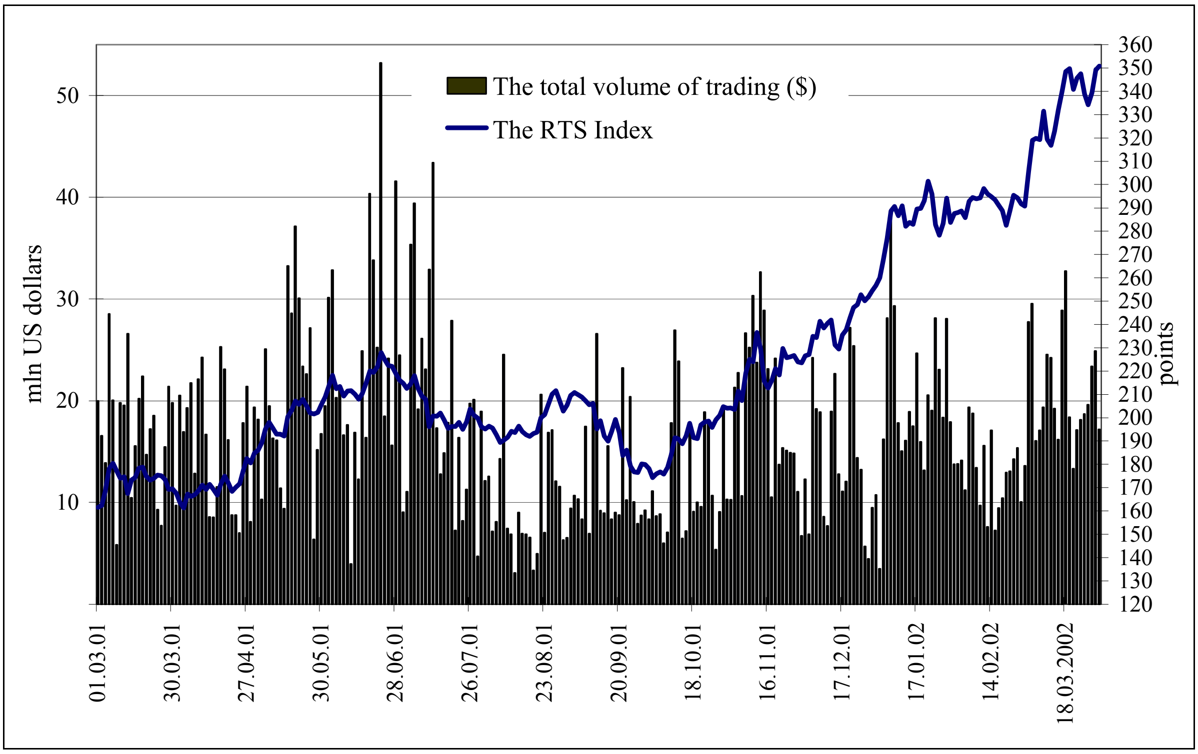
The market for corporate securities.

The situation in the market.

In March the Russian stock market once again found itself under bullish trend. It was improvements in other emerging markets and in the US economy as well as growth of oil prices that undoubtedly have contributed to that.

In total, in March the RTS Index grew by 60 points (20.64%) with the trade volume accounted for more than $425 million. That is at 73% higher than in the previous month. The daily average trade volume amounted to $21.3 million. The maximum volume was registered on March 18 and equalled $32.75 million. The month started with a sharp rise of the index, and as early as on March 1 the market closed at 14.72 points (5.06%) above its respective value of February. In total between February 28 through March 7 the index rose by 40.66 points, up to 331.41. Consequently, by March 12 the market went down to 316.84. It was mid-March when the RTS Index rose once again. Between March 12 to March 19 the indicator grew by 32.89 points (10.38%). March 2002 ended up with a three-day "rally" resulted in a four-year maximum level of the index – 350.75(Last a higher level of the Russian stock market index was fixed on March 11, 1998, – 357.09.).

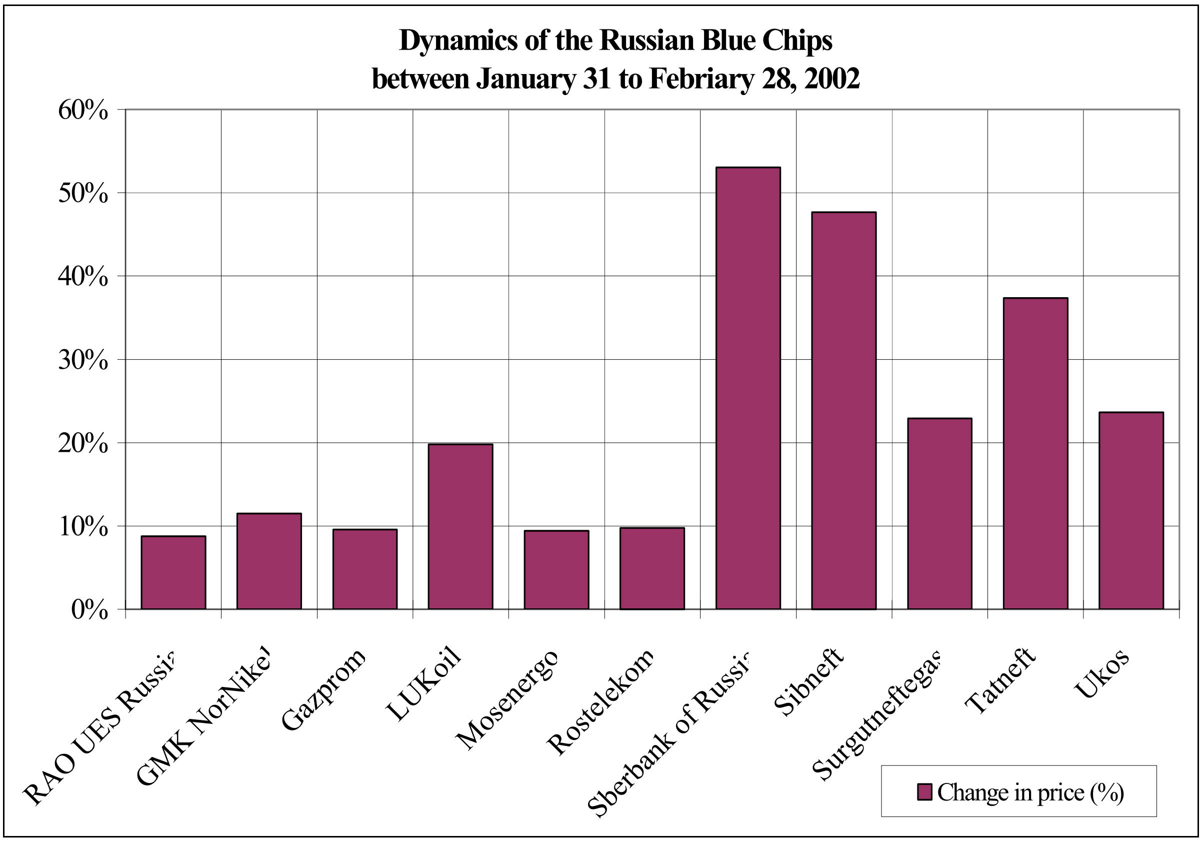
FIGURE 3.



The leaders among ***blue chips*** (on March 29) were: Sberbank (53.04%) and "Sibneft" (47.66%), followed by "Tatneft" (37.37%), "YUKOS" (23.64%) and "Surgutneftegas" (22.91%). At the bottom of the list were stocks of "Gazprom" (9.60%) and electricity companies – "Mosenergo" (9.40%) and RAO "UES Russia" (8.78%). It was the "second echelon" stocks of energy and telecommunication companies that once again attracted a great deal of investors' attention. The list of top-10 companies includes stocks of "Sverdlovenergo" (36.97%), "Sibirtelecom" (36.49%) and "Tomsktelecom" (31.88%). The February leader – "Tulenergo" – lost 6.67% in March.

In March the share of common stocks of RAO "UES Russia" in the total RTS turnover declined to 22.84% (in February – 22.84%), the share of "LUKoil" stocks – to 17.73% (18.9%). The share of "Tatneft" stocks amounted to 10.80% (3.18%), "YUKOS" – 8.48% (9.98%), "Surgutneftegas" – 8.29% (7.41%). Overall in March the total share of the five most liquid stocks in RTS decreased to 68.14% (in February – 69.2%).

FIGURE 4.



Over the period between March 1 to March 29, 2002, the volume of trade with "Gazprom" stocks via RTS terminals exceeded \$81 million (113 million shares). Overall 6.4 thousand deals were stricken with stocks of the gas monopolist. The quotations of "Gazprom" stocks grew by 19.17%

In March, according to RTS, the five biggest (in terms of capitalisation) Russian corporations by were :"YUKOS" – \$18.7 billion, "Gazprom" – \$17.3 billion, "Surgutneftegaz" – \$13.1 billion, "LUKoil" – \$12.5 billion and "Sibneft" – \$8.1 billion.

This spring the RTS list embraced new investment tools. On March 12, 2002, the Quotation Committee decided on admission to the RTS listing of common and preferred stocks of "Bashneft" , and on April 8, 2002 – common stocks of "Wimm-Bill-Dann". Thus, from April 8 the total number of securities listed in the RTS has amounted to 404, including 369 stocks and 35 bonds.

In March, one also observed growth of activity in the FORTS market. On March 14, 2002, 2.3, thousand deals were stricken worth a total of 558.4 million roubles (more than 100 thousand contracts), while March 29 witnessed the highest volume of open interest ever fixed – 798 million roubles. In total, in March the turnover in the FORTS amounted to 8.3 billion roubles (36.5 thousand deals, more than 1.5 million contracts).

In March the secondary market for corporate bonds fell slightly. The main factors affected pricing of bonds were as follows: an increase in yields on government securities, a higher activity in the primary market and a rise in costs of borrowing on the eve of effection of tax payments. The trade volume in the secondary market (on the MICEX) amounted roughly to 2.1 billion roubles. The list of most liquid bonds comprised those of TNK (the 4^{th} issue, the 1^{st} tranche) (18.6% of the total trade volume), "Gazprom" (12.11%), TNK (the 5^{th} issue, the 1^{st} tranche) (10.51%), "Alrosa" (the 8^{th} issue) (6.69%) and "Slafneft" (the 1^{st} issue) (5%). In total, the share of the top five most liquid bonds in the MICEX equalled 52.9%. As far as primary placements of bonds are concerned, it was those of "Slafneft" (the 2^{nd} issue) (2 billion roubles), "Aeroflot" (the 2^{nd} issue) (1 billion roubles), "Northern Oil" (850 million roubles) and "Alrosa" (A1) (500 million roubles) that proved to be the biggest ones.

External factors.

In March there was a substantial growth of prices on oil market. Between February 28 to March 29 oil prices went up by 26%, and for the first time over past half year they broke the level of 25 $/bbl. There was a number of events that determined the situation in the oil market. The OPEC left quotes on oil export unchanged through the end of the second quarter, and independent oil producers (including Russia) also supported the cartel's decision on restriction of oil export. The next OPEC meeting should take place on June 26. The OPEC officials stated that a decision on an increase in oil output could be possible only if oil prices reach 28 $/bbl. Another reason for oil price growth was a a new aggravation of the US-Iraqi conflict. Should the USA refrain itself from a military operation, the market should correct downward.

FIGURE 5.

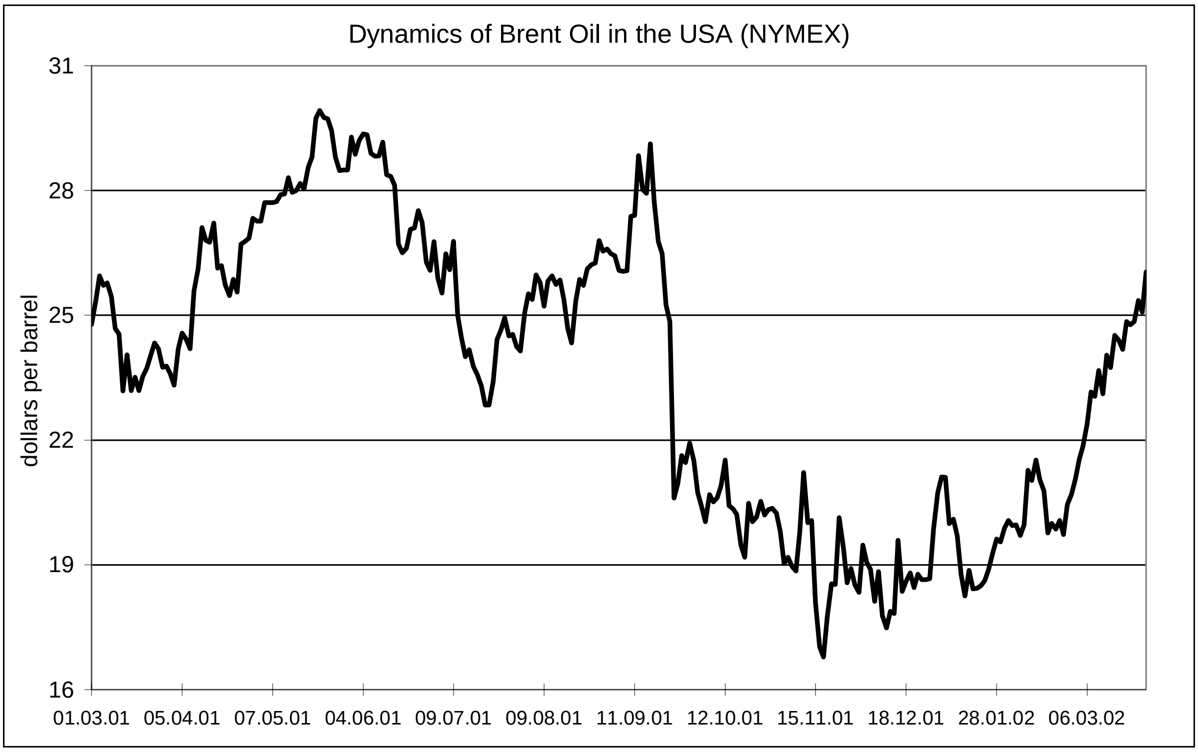
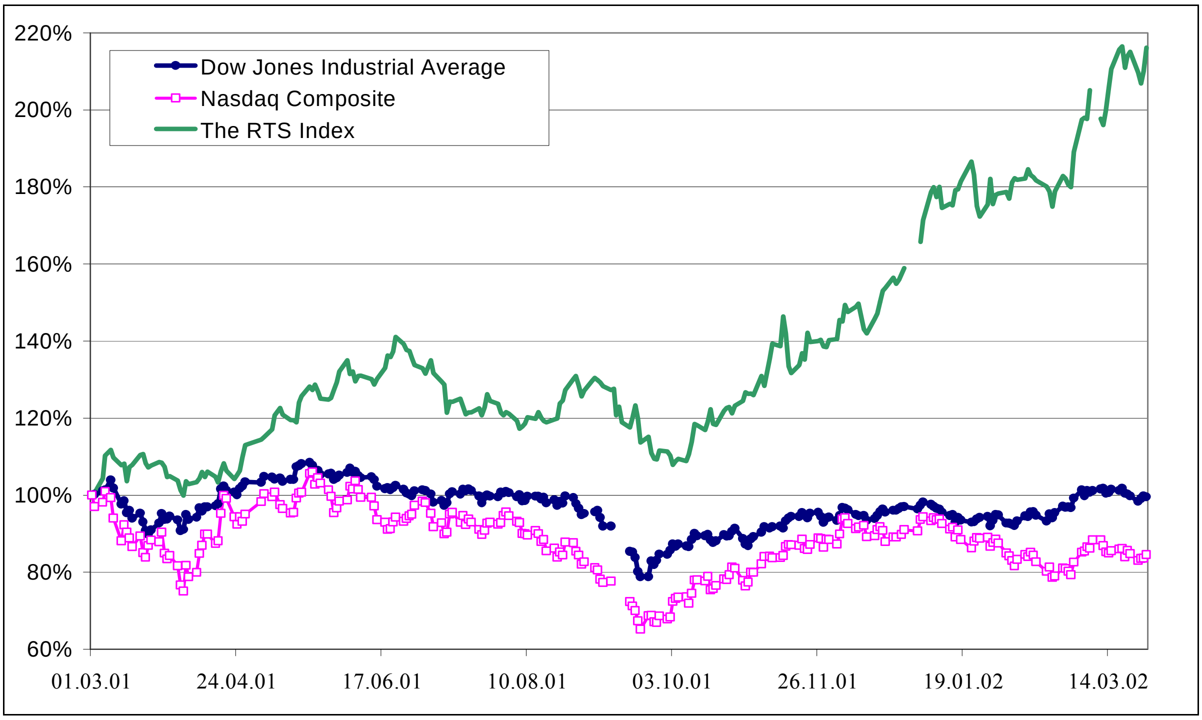


FIGURE 6.



Yet another reason for the rise in the Russian stock market was the growth of main world stock indices. The main US stock indices gained 2.95% (DJIA) and 6.58% (NASDAQ). The European stock indices also grew by 4% to 7%.

At its last meeting, the Fed appeared keen to keep its interest rate unchanged, thus. recognising the end of recession and denying its view on slow real growth rates as a main threat to the economy. So, the US monetary authorities denoted prospects for future increase in interest rates.

Corporate news.

The State Duma's Committee on budget and taxes recommend to approve amendments to the Tax Code which substantially lower costs associated with registration of issuances of securities. This decision can lead to an evident renewal of the market as early as in the second half of the year.

Gazprom. "Gazprom" released its consolidated accounting (according to international standards) data for the period of the 9 months of 2001. The total revenues from sales amounted to 443.7 billion roubles, i.e. grew at 2% higher than over the respective period of 2000. Receipts from gas sales made up 366 billion roubles, including 257.7 billion rouble-worth export revenues. The operational costs equalled 282.7 billion roubles for 9 months of 2001. Profits grew by more than 43% and reached the level of 163.4 billion roubles. The net profit in the third quarter of 2001 amounted to 22.3 billion roubles, i.e. at 9.1 billion roubles over the respective index of 2000.

The Federal Tax Police Service accused the company of tax evasion and stated its intention to initiate criminal investigation. According to the Tax Police authorities, "Gazprom" pursued tax-minimising schemes using transfer pricing on export contracts and excluding gas for own consumption from the tax base. As a result, the company's stock quotations went down by almost 8% over a day. However, after the problem was settled, stock prices returned to the previous level.

Tatneft. "Tatneft" attracted a big ($200 million) long-term (for 5 years) credit arranged by Credit Suisse First Boston and Russian commercial bank "Zenit". The credit was disbursed against oil export contracts. The main part of the credit will be used to build Nizhnykamsk Petroleum Refinery.

Sibneft. Because of a high demand, "Sibneft" increased its eurobond issuance programme from $250 million to $375 million. The additional issue was placed with a half-year coupon at 10.96% annualised (the coupon rate on the first issue was 11.5%). Therefore, the total volume of the issue has become the biggest one in the Russian corporate bond market. The funds raised from eurobonds are to be invested in fixed assets. Moody's Investors Services granted the issue with Ba3 rate.

Mosenergo. "Mosenergo" reported its performance in 2001. The company produced 71.4 billion kWh of electric power, i.e. at 2.5 billion kWh more than in 2000. Its sales grew by 43% and amounted to 43.46 billion roubles. The gross profit made up 8.8 billion roubles, the net profit – 2.07 billion roubles, i.e. 2.6 times more than in 2000.

Norilsky Nickel. The Board of Directors of MMC "Norilsky Nickel" decided on a special meeting of shareholders on March 29, 2002. The meeting is to be held under the programme of liquidation of cross-ownership within the holding. The 15% package of of MMC "Norilsky Nickel" stocks owned presently by RAO "Norilsky Nickel" ("cross-ownership") will be liquidated by means of MMC buy-back and further redemption and reduction in the MMC "Norilsky Nickel" charter capital.

Rostelecom. "Rostelecom" published preliminary results for 2001 according to the Russian accounting standard. In 2001, the company substantially improved its financial and industrial positions. Thus, the volume of intercity traffic grew by 25%, international traffic – by 15%; the revenue rose by 14% compared to 2000 and made up 19.23 billion roubles; gross profit grew by 17% up to 5.6 billion roubles; net profit reached 2.2 billion roubles, thus nearly tripled against its value in 2000. The absolute liquidity ratio in 2001 accounted for 0.24. i.e. at 0.11 higher than in 2000.

Surgutneftegaz. The company reduces dividends on preferred stocks roughly by 40%, and on common stocks – by 10% as compared to dividends paid for 2000. Such a decline in dividends is caused mainly by a decline in oil prices both in the world and domestic markets as well as reduction in margin on oil-refining. As we mentioned in our previous reports, such a dividend policy of the company resulted in a drop of investors' interest in its securities.

TABLE 1

Dynamics of the Foreign Stock Indexes

as of March 28, 2002	value	change for last month (%)	change since beginning of the year (%)
RTS (Russia)	349.16	20.09%	34.27%
Dow Jones Industrial Average (USA)	10403.94	2.95%	2.63%
Nasdaq Composite (USA)	1845.35	6.58%	-7.14%
S&P 500 (USA)	1147.39	3.67%	-1.17%
FTSE 100 (UK)	5271.80	3.35%	0.56%
DAX-30 (Germany)	5397.29	7.11%	4.60%
CAC-40 (France)	4688.02	5.04%	1.37%
Swiss Market (Switzerland)	6655.20	4.76%	3.70%
Nikkei-225 (Japan)	11333.11	7.04%	7.50%
Bovespa (Brazil)	13255.00	-5.54%	-2.38%
IPC (Mexico)	7361.86	9.32%	13.84%
IPSA (Chile)	98.35	1.67%	-9.85%
Straits Times (Singapore)	1803.22	5.11%	10.90%
Seoul Composite(Korea)	892.67	8.86%	28.68%
ISE National-100 (Turkey)	11808.74	6.81%	-14.32%
Morgan Stanley Emerging Markets Index	351.461	5.62%	11.50%

Foreign exchange market.

In March 2002 the pace of rouble/dollar nominal devaluation slowed down. Despite the fact the US dollar broke through the level of 31 RUR/USD in the very beginning of March, further daily changes in exchange rate fluctuated within the range of 1–3 kopecks, and the Bank of Russia basically controlled the market without any exercising any substantial dollar interventions. The change of the CBR Chairman has had no impact on dynamics of rouble/$ exchange rate. Moreover, after V. Gerashtcheko's resignation rouble continued to follow the tendency to nominal appreciation. We believe the main factor that contributed to the forex market stabilisationis seasonal pattern of the trade balance. Traditionally (for the first time the tendency emerged in spring 1995) between March through May the supply of foreign exchange in the market exceeds the demand, and nominal rouble exchange rate stabilises or grows (except in 1998 when the comprehensive financial crisis in Russia was emerging). So, during the upcoming months one should expect some acceleration of real exchange rate growth rate and further accumulation offoreign reserves by t he CBR along with minor fluctuations of the nominal rouge rate.

In total, in March 2002, the official dollar exchange rate grew from 30.94404 roubles/$ to 31.1192 roubles/$, i.e. by 0.58% (7.16% annualised, see Fig. 7). The 'today' dollar exchange rate in the SELT increased from 30.9459 roubles/$ to 31.1438 roubles/$ (as of March 26), i.e. by 0.64%. The 'tomorrow' dollar exchange rate grew from 30.9869 roubles/$ to 31.1406 roubles/$ (as of March 26), i.e. by 0.50%. According to preliminary estimates, in March the trading volumes by dollar amounted to 140–145 billion roubles. The euro/US dollar exchange rate in March 2002 was rather low (see Fig. 8). The inflow of positive information on the state of the European economies in early March contributed to an increase in the euro/USD exchange rate from 0.865 to 0.885 $/euro. However, in the second half of the month the data reported indicated a tendency to overcoming of recession in the US economy, and the euro exchange rate came back to the level of 0.87 $/euro. So now it has alrady been two and a half months running (since mid-January 2002) that the euro exchange rate has moved within the range of 0.86–0.88 $/euro. It was only in 2000, in the wake of the end of the war in Yugoslavia, and in summer 2001 that the euro exchange rate proved to be so low during such a long period of time.

FIGURE 7.

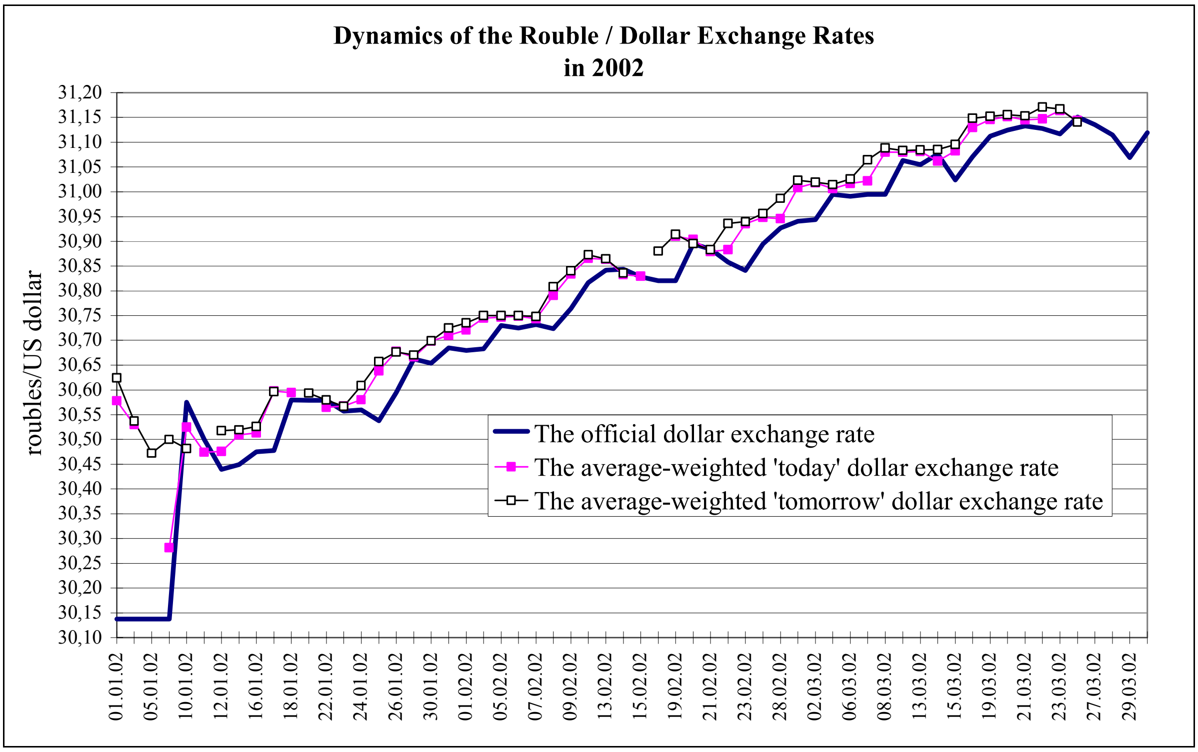
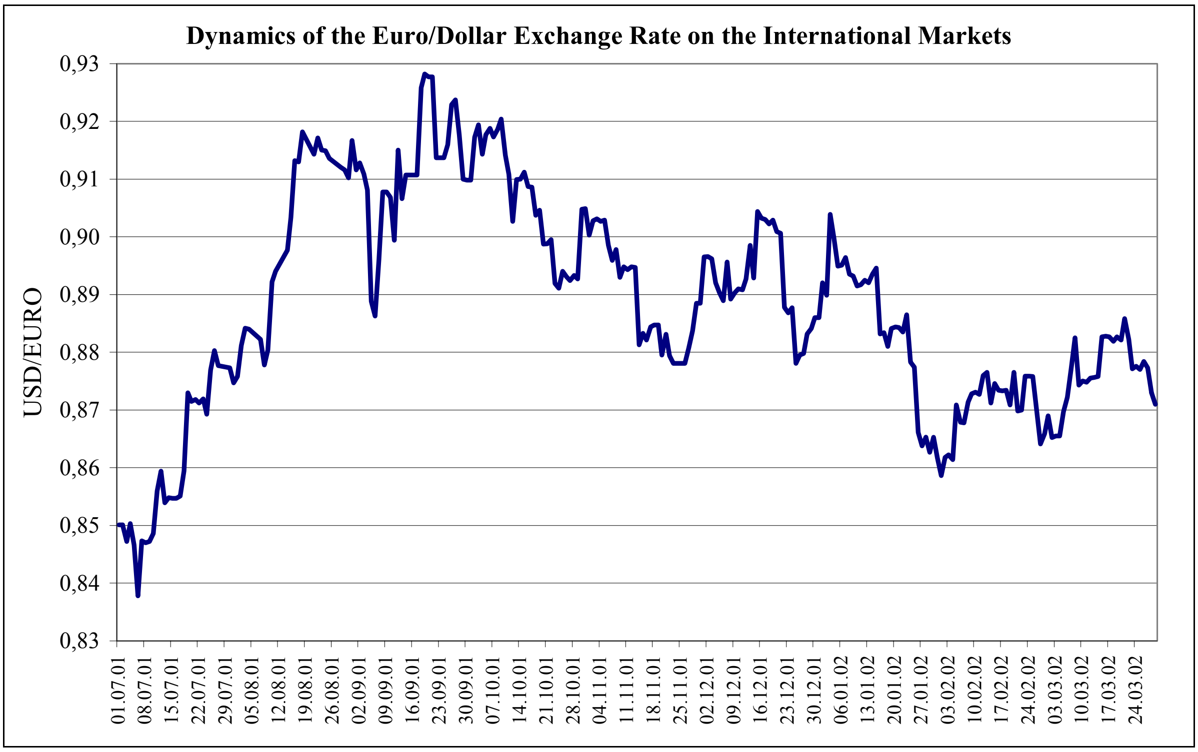


FIGURE 8.



In March, the rouble/euro official exchange rate fell from 26.712 roubles/euro to 27.1515 roubles/euro, i.e. by 1.65% over the month. According to preliminary estimates, in March 2002, the total trading volume on euro made up to 3.5 billion roubles.

FIGURE 9.

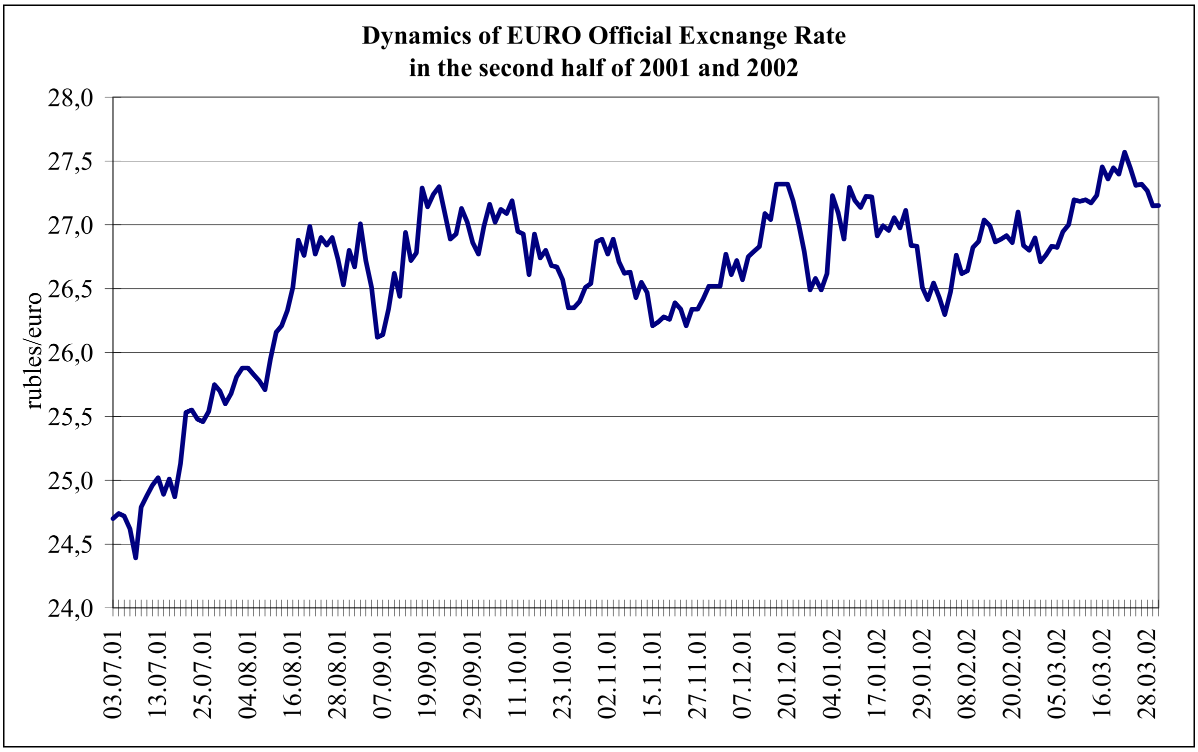


TABLE 2

Indicators of Financial Markets.

	November	December	January	February	March*
inflation rate (monthly)	1.4%	1.6%	3.1%	1.2%	1.0%
annualised inflation rate by the month's tendency	18.16%	20.98%	44.25%	15.39%	12.68%
the RCB refinancing rate	25%	25%	25%	25%	25%
annualised yield to maturity on OFZ issues	14.91%	15.84%	14.08%	13.84%	16%
volume of trading in the secondary GKO-OFZ market a month (billion roubles)	12.56	10.20	4.51	6.11	5.0
yield to maturity on Minfin bonds by the end of the month (% a year):					
4th tranche	10.57%	10.20%	7.22%	5.97%	7.0%
5th tranche	14.62%	13.36%	11.03%	9.35%	10.2%
6th tranche	12.84%	11.86%	10.57%	8.96%	9.8%
7th tranche	13.24%	12.54%	11.62%	9.16%	10.0%
8th tranche	12.88%	11.93%	10.41%	8.75%	9.5%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					
overnight	19.80%	24.66%	29.09%	39.64%	8%
1 week	16.24%	23.97%	8.24%	14.55%	18%
official exchange rate of ruble per US dollar by the end of the month	29.93	30.14	30.6850	30.9404	31.1192
official exchange rate of ruble per Euro by the end of the month	26.52	26.617	26.5456	26.7120	27.1515
average annualized exchange rate of ruble per US dollar growth	0.77%	0.70%	1.81%	0.83%	0.58%
average annualized exchange rate of ruble per euro growth	-1.30%	0.37%	-0.27%	0.63%	1.65%
volume of trading at the stock market in the RTS for the month (millions of USD)	394.2	277.0	419.7	247.1	426.3
the value of the RTS Index by the end of the month	226.49	260.05	287.53	290.75	350.75
growth in the RTS Index (% a month)	11.00%	14.82%	10.57%	1.12%	20.64%

* Estimates

S. Drobyshevsky, D. Skripkin

Efficiency rate of Russian banks' operations in 2001

In 2001 the efficiency of the national banking system's performance proved to be higher than in the prior year, which is proved by ROA.

The average ROA rate during the year across operating banks (exclusive of Sberbank and banks run by ARCO) accounted for 2.9% vs. 22.3% reported in 2000(In this paper, relative profitability rates over the period in question are given relattive to assets as of the start of the period). At the same time the dynamics of the index found itself under the impact of factors with different vectors. Specifically, gross operational income (the sum of net non-interest and interest incomes) relative to the amount of assets proved to be lower in 2001 vs. 2000. Nonetheless, the banks succeeded to raise their interest margin from 3.3% up to 4.9%. This became possible thanks to a more aggressive lowering of rates on obligations implying interest-related expenditures. Given that in 2001 interest incomes fell by 1.7 p.p. (from 11.9 to 10.2%), interest expenditures slid by 3,2 p.p. (from 8.6 to 5.4%) The banks' net income from transactions involving securities and their re-valuation dropped more than twice (from 1.9% to 0.8% and from 0.8% to 0.3%, respectively). Combined with contraction in commission incomes (from 2.8 to 2.0%) the fall in profitability rate of transactions with securities led to a drop in non-interest revenues, while the share of the latter in gross operation revenues fell from 68.7% in 2000 to 46.8% in 2001.

TABLE 1

Revenues and expenditures of Russian banks

Indices as per cent to assets	2000	2001
Gross operational income	10.4	9.2
Net per cent income	3.3	4.9
Per cent revenues	11.9	10.3
Per cent expenditures	8.6	5.4
Net non-interest income	7.1	4.3
Income from commission fees	2.8	2.0
on operations on financial markets	2.7	1.5
with forex	0.6	0.6
precious metals	0.1	0.1
with foreign currencies and derivatives	0.0	0.1
with securities	1.9	0.8
from re-valuation of asses denominated in forex and securities	1.0	0.6
from re-valuation of assets denominated in forex	0.2	0.3
from re-valuation of securities	0.8	0.3
by leasing	-0.1	-0.1
other operational revenues	0.9	0.3
administrative expenditures	5.7	4.9
labor compensations, including contributions to social security fund	1.8	2.3
depreciation deductions	0.3	0.2
rental payments	0.5	0.4
taxes falling within expenditures	1.1	0.5
net operational income	4.7	4.3
(-) change in reserves	2.6	1.6
net result from occasional operations	0.3	0.2
pre-tax profit	2.3	2.9
pre-tax profit to balance-sheet capital	10.7	13.8

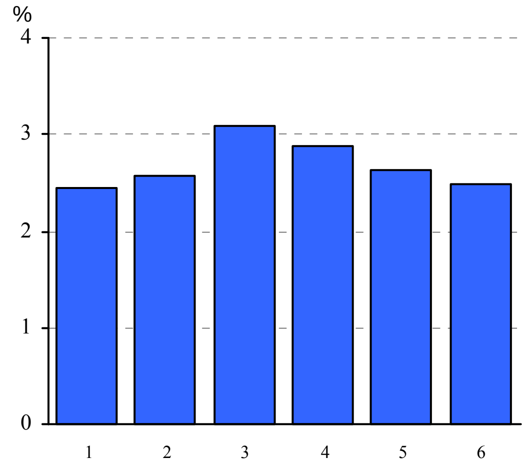
Note: calculated upon the basis of the data on the banks operating as of the respective date, exclusive of Sberbank and banks run by ARCO
Source: STik's data base

So, the profitability rate of banking operations in 001 was lower than in 2000. However, at the same time banks slightly lowered their administrative costs relative to assets. Given that in 2000 the respective index was 5.7%, in 2001 it became only 4.9%. it was the situation with taxes falling on expenditures that contributed at most to such a dynamics of administrative expenses of Russian banks. Given that in 2000 the amount the banks played across the noted kinds of taxes accounted for 1.1%, in 2001 - just 0.5%. The banks have also decreased other kinds of administrative costs exclusive of their staff's salaries that grew almost by 25%. In 2001 the banks afforded spending 2.3% of their assets for this purpose relative to 1.8% in 2000. The overall cuts in administrative costs proved to be insufficient to compensate for a drop in gross operational income relative to assets, thus the net operational income shrunk from 4.7% to 4.3% over the period in question. However, at the same time the banks spent less on creating reserves: according to the results of 2001, the respective change accounted for 1.6% of assets, while in 2000- 2.6%. The net result from occasional operations changed insignificantly, and, as a result, in 2001 ROA rate proved to be at 23% bigger than in 2000.

As it can be seen on Fig.1, in contrast to the period of the culmination of the 1998 crisis, when biggest banks were suffering losses, while those beyond the list of top 50 promptly adjusted themselves to new conditions,, the banks' performance over 2001 is not so much dependent on the size of their assets.

FIG.1

ROA in 2001 across the groups depending on the size of assets (exclusive of Sberbank and banks run by ARCO)



Groups by size of assets, as of January 1, 2002
- banks holding positions from the 1st to 10th
- banks holding positions from11th to 50th
- banks holding positions from the 51th to 100th
- banks holding positions from the 101 st to 200th
- banks holding positions from the 201st to 500 th
- banks holding positions from the 501st to 1304th

Note: the sample included the data on 1,281 bank of 1,304 ones, as by late 2000 some of them did not yet start their operations and the data on their assets was unavailable. In addition, Imperial bank was excluded from the 3rd group, because its ROA would distort the group index almost twice (in the 4th quarter the bank reported profit against net operational losses, which can be attributed to renewal of its reserves).
Source: STiK's data base

L. Sycheva, L. Mikhailov, E. Timofeev

Foreign investment in Russian economy

As of early 2002, the volume of foreign capital accumulated in the non-financial sector of the national economy without count monetary and credit regulation authorities, commercial and savings bank, but including Rb.-denominated investment in USD equivalent roughly accounted for USD 35.6 bln. Foreign investment inflow in 2001 accounts for USD 14,258 mln., or at 301.% more than in 2000.

It was the increase of Russia's sovereign credit rating that has had a positive effect on investment climate in the country. Specifically, in July 2001 FITCH increased the rating from stable up to positive ("B"), while in December Standard and Poor's also increased Russia's long-term sovereign credit ratings both in domestic and foreign currencies from "B" to "B+". According to Moody's analysts, according to results of 2001 Russia progressed from "B" group (a loose financial steadiness and a low probability of debt servicing over a long period of time) to "Ba" (a moderate possibility to service current obligations with possible problems in the longer run).

Structure of foreign investment in the Russian economy

	Total, as USD mln.	Direct		Portfolio		Others	
		USD mln.	as % to result	USD mln.	as % to result	USD mln.	as % to result
1997	12 295	5 333	43,38	681	5,54	6 281	51,09
1998	11 773	3 361	28,55	191	1,62	8 221	69,83
1999	9 560	4 260	44,56	31	0,32	5 269	55,12
2000	10 958	4 429	40,4	145	1,3	6 384	58,3
2001	14 258	3 980	27,9	451	3,2	9 827	68,9

Source: Goskomstat

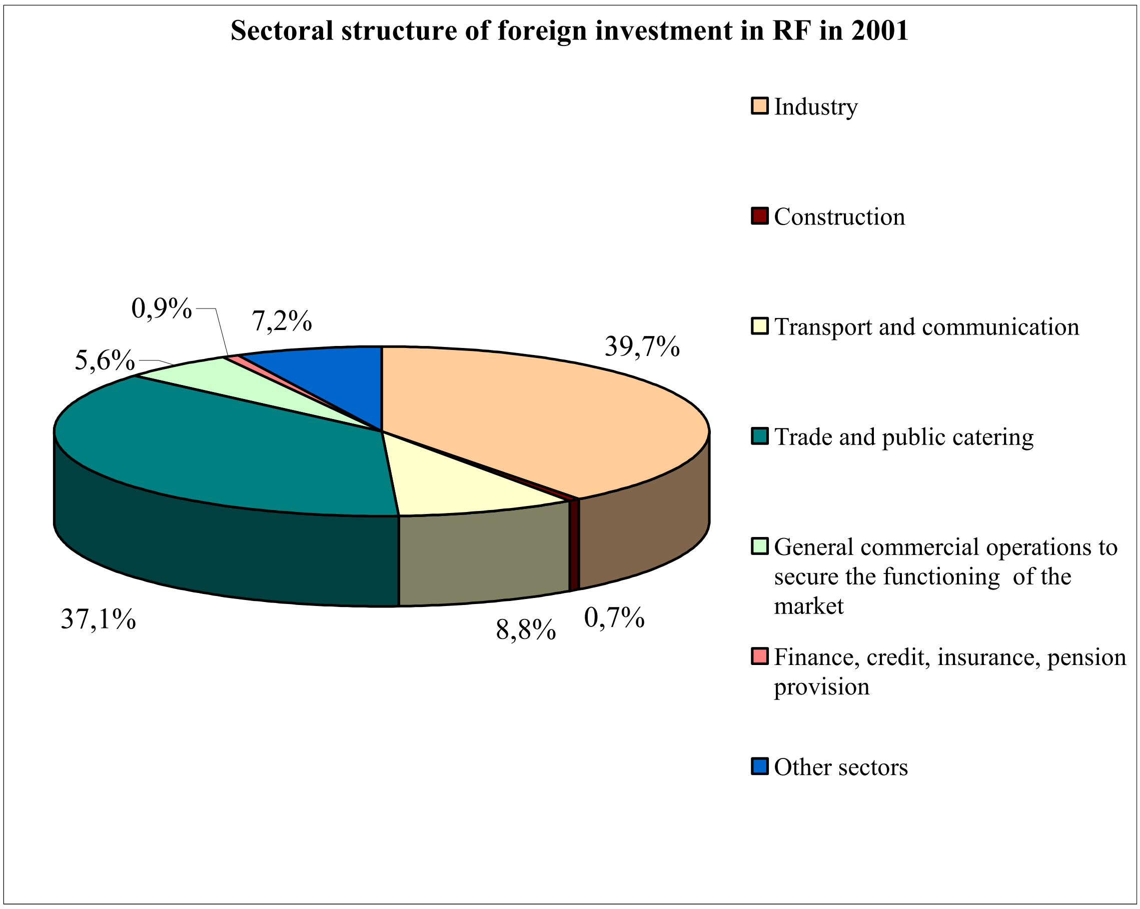
It was portfolio investments that demonstrated the highest growth rate compared to other kinds of investment received by the economy in 2001: the former grew 3.1 times vs. the prior year. Despite q considerable rise in portfolio investments, the growth in foreign investment was almost entirely secured by the rise in 'other' investment inflow (+ 53.9% vs. 2000), while the volume of direct investments slid by 10.1% over 2001.

With a considerable growth in portfolio investments, the main part of foreign contribution to the national economy falls on 'other' investment formed chiefly by trade credits, credits issued by foreign governments under guarantees of the RF government, and credits from international financial institutions.

As far as the latter are concerned, specifically, the volume of investment of the World bank in Russia's economy accounts for USD 20.5 bln. and showed a 5% growth in 2001 vs. 2000. At present the Bank invests in the fuel and energy sector, agriculture, environmental protection, and disburse credits to the federal government. In 2001 vs. 2000 EBRD increased the volume of its investing in the Russian economy by 42%, or up to Euro 882 mln. The bank further plans to increase the noted volume up to Euro 1 bln. In Russia, EBRD focuses mostly on financing joint ventures, operation in regions, fostering small businesses, developing infrastructure and mineral resources.

The structure of foreign investment as of late 2001 is prevailed by direct investments whose share in the overall volume of investment accounts for 51% (in 2000- 50.4%), while the shares of 'other' and portfolio investments stand at 45.5% (48%) and 3.5% (1.6%), respectively).

As concerns the sectoral structure of foreign investment attracted in the economy in 2001, their major part still falls on the industrial sector. In 2001 the latter made up USD 5.662 mln., or at 19.9% more than in 2000. With absolute indexes of industrial investment rising, the share of the industrial sector is going down. This can be attributed to higher growth rates in foreign investment in other spheres of the national economy. Specifically, in 2001 foreign investment in the trade and public catering area and in the area of general commercial operations securing the functioning of the market nearly tripled. The rise in the proportional weight of these areas in foreign investors' preferences testifies to their abandonment from the industrial sector to other ones with higher profitability rates. The structure of foreign investment in the industrial sector in 2001 matches the structure of their overall volume and is characterized by a fall in the share of FDI against the background of the rise in the volume of other investment. In 2001, the volume of FDI in the industrial sector in 2001 showed a 4.9% and accounts for USD 1.753 mln. (44% of the overall volume of FDI in the national economy, while in 2000 the respective index was 41.6%). At the same time 31.0% of FDI in the industrial sector was designated for the food sector, 24.5%- the fuel sector, 18%- machine engineering and metal processing, and 7.8%- metallurgical sector.



The sectoral structure of foreign investment in the industrial sector between 1999 through 2001 is given in the table below:

	As USD mln.			As % to result			As % to the prior year		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Industrial sector, total, including:	**4876**	**4721**	**5662**	**100%**	**100%**	**100%**	**3,8%**	**-3,2%**	**13,0%**
Fuel	1700	621	1023	34,9%	13,2%	18,1%	-9,5%	-63,5%	64,7%
Metallurgy	928	1094	1547	19,0%	23,2%	27,3%	79,5%	17,9%	41,4%
Machine building and metal processing	395	470	703	8,1%	10,0%	12,4%	29,5%	19,0%	49,6%
Food	1415	1786	1557	29,0%	37,8%	27,5%	-3,7%	26,2%	-12,8%
Wood-working and paper and pulp	193	257	241	4,0%	5,4%	4,3%	-19,6%	33,2%	-6,2%
Other sub-sectors	245	493	591	5,0%	10,4%	10,4%	-70,5%	101,2%	19,9%

Source: Goskomstat

In 2001 Russia's economy received investment from 109 nations (in 2000- from 108, in 1996- from 96). It is the USA that holds a leading position with its share in the overall volume of investment inflow in Russia in 2001 of 11.2%, followed by UK - 10.9%.

In 2001 Japanese investors contributed with USD 408 mln. and those from UK - 1,533 mln. (the 3.5-fold and 2.6 fold rise, respectively vs. 2000). Interestingly, while the latter invested mostly in the trade and public catering sector (57.9% of their overall volume of investment made in 2001) and the sectors for machine engineering and metal processing (11.4%) and the fuel sector (9.5%), Japanese investors were especially active in the fuel and wood-working sectors (roughly some 45% of their investment). German investors also focused chiefly on the Russian industrial sector (54% of the overall volume of their investment). According to results of 2001, the group of top five nations- investors in the national economy was formed by Germany, the US, Cyprus, UK and France. Their aggregate share in the overall volume of investment in Russia accounts for 67.7% (in 2000 - 73.2%). The noted countries also hold a 63.7% share in direct investment (2000- 69.5%), 57.9% in portfolio investment (2000-

57.8%) and 72.9% of ‘other’ investment (2000-77.5%). As the practice shows, foreign investors are keen to invest in Russian economy, however they note the need in legal guarantees in this regard, enhancement of transparency on the market and availability of information on the state of national companies.

In order to enhance Russia’s investment attractiveness, the government initiated a number of amendments to the current law that became effective as of January 1, 2002, and development of the Corporate Ethics Code.

Specifically,, in November 2001 the RF government approved the law “ On introduction of amendments to Part Two of the Tax Code of RF, abolition of and amending some other statutory acts of RF”. The bill changes the taxation system in the part of PSA and provides a shorter term for return of VAT in regard to PSA than the one stipulated in the effective law. As well the bill stipulates the composition of expenditures subject to compensation. In the meantime the amount of already signed contracts subject to application of the regime of the law “On production sharing agreements” is worth some USD 30 bln.

In late 2001 President signed the law passed by the Duma on October 11, 2001 and approved by the Federation Council on November 14, 2001 “On investment funds”. This should also have a favorable impact on the process of attraction of investment capital in the national economy this year.

In order to protect investors’ rights the federal Securities Commission initiated introduction of amendments to the Criminal Code of RF. The amendments imply criminal amenability of managers and professional agents operating on the market for securities for provision of investors with false information.

E. Ilyukhina.

The real sector: factors and trends

Between January through February 2002 the increment in the output of basic sectors of the economy accounted for 2.9% relative to the respective period of the prior year, including a 2.1% increment in the industrial sector. It was changes in the state of affairs on the domestic and external markets that determined main structural shifts in the production area. The current industrial growth has had a characteristic feature: that is, the ongoing trend for advanced growth rates in the manufacturing sector vs. the mineral one. It was the output of consumer goods that demonstrated the highest growth rates under traditional narrowing of the demand for investment goods. Between January through February 2002 index of output across subsectors of the consumer sector accounted for 107.3% relative to its respective index of the prior year. The dynamics of production of consumer goods is formed in the conditions of a strengthening competition on the part of imports. Given that in the 1st quarter 2001 the latter formed 44% of the volume of commodity resources of retail trade turnover, their respective share grew up to some 50% by the 4th quarter 2001. At the same time during the latter period one could note a steady excess of the share of import foodstuffs in commodity stick. Domestic producers were rather prompt in reacting to the changes in the national market: the increment in output in the food sector made up 8.5% compared with the respective period of 2001 and 18.2% vs. January 2002.

The stagnation noted in the investment complex between late 2001 through January 2002 can be attributed to seasonal factors – that is fall in demand for construction services. However, it was yet in February this year that investment in capital assets rose by 12.8% vs. the prior month. That resulted in a 11.4% rise in machine-engineering output and 13.6% rise- in the output in the sector for construction materials.

The increment of output in export-oriented sectors (seasonality excluded) accounted for 2.6% compared with the respective period of the prior year. The dynamics of output in the fuel sector has found itself under a positive impact of a gradual improvement of the price situation in the world market for carbohydrates, and the increment rate in this particular sector made up 5.9% vs. the respective period of the prior year. Since 2000 both the sectors for ferrous and non-ferrous metals have renewed their positive monthly dynamics of output, while the dynamics of development in the metallurgical sector has been influenced substantially by renewal of the domestic demand for construction materials.

At the same time it should be noted that under the current state of affairs in regard to world and domestic prices the trend to decline in revenues has intensified. January 2002 demonstrated an intensification of trends to slowdown of profit rates in the real sector. In January large and medium-size enterprises of all the sector reported an overall positive balance worth a total of Rb. 90.2 bln., or 16.2% down compared with the respective index of 2001, including: across the industrial sector – at 23.2% down, transport – 21%, and construction – 24.8%. As well, due to the downfall of prices for fuel and petroleum derivatives caused by oversaturation of the world market and narrowing of demand for single kinds of energy sources, the national fuel sector reported a substantial fall in its balance of financial performance. The fall in profitability rates in the fuel sector may affect the overall dynamics of business activity in the national economy as a whole.

The noted trend to slowdown in profit growth rates has had a substantial impact on the formation of GDP in terms of revenues. In 2001 the correlation between external and internal factors underwent certain changes: with the government pursuing a pro-active social policy over 2001, salaries and wages grew by 45.5% compared with the prior year. Given that in 2000 enterprises' profits were at 1.1 times more than growth rates of employees' salaries and wages, in 2001 the latter grew at a pace being 1.3 times higher than profits. Contraction in revenues in export-oriented sectors caused by the darkening prospects in the foreign trade area as well as an advanced price rise for material and technical resources vs. price dynamics for finished products formed factors that determined the trend to fall in production profitability rates. In 2001 producers increased their prices and tariffs: for industrial products- at 10.7, for electricity – 30.2%, gas- 41.5%, and cargo transportation – 38.6%. The cumulative effect of the above resulted in the Rb. 1,314.0-bln. with overall profit across the national economy which just at 10.7% exceeded the respective index reported last year. Overall, across the economy the profitability rate slid to 9.3% against 18.9% in 2000, while the industrial sector the correlation made up 14.1 vs. 24.7%. The share of gross profit and gross mixed incomes in GDP fell by 4.2 per cent points vs. the year of 2000.

TABLE

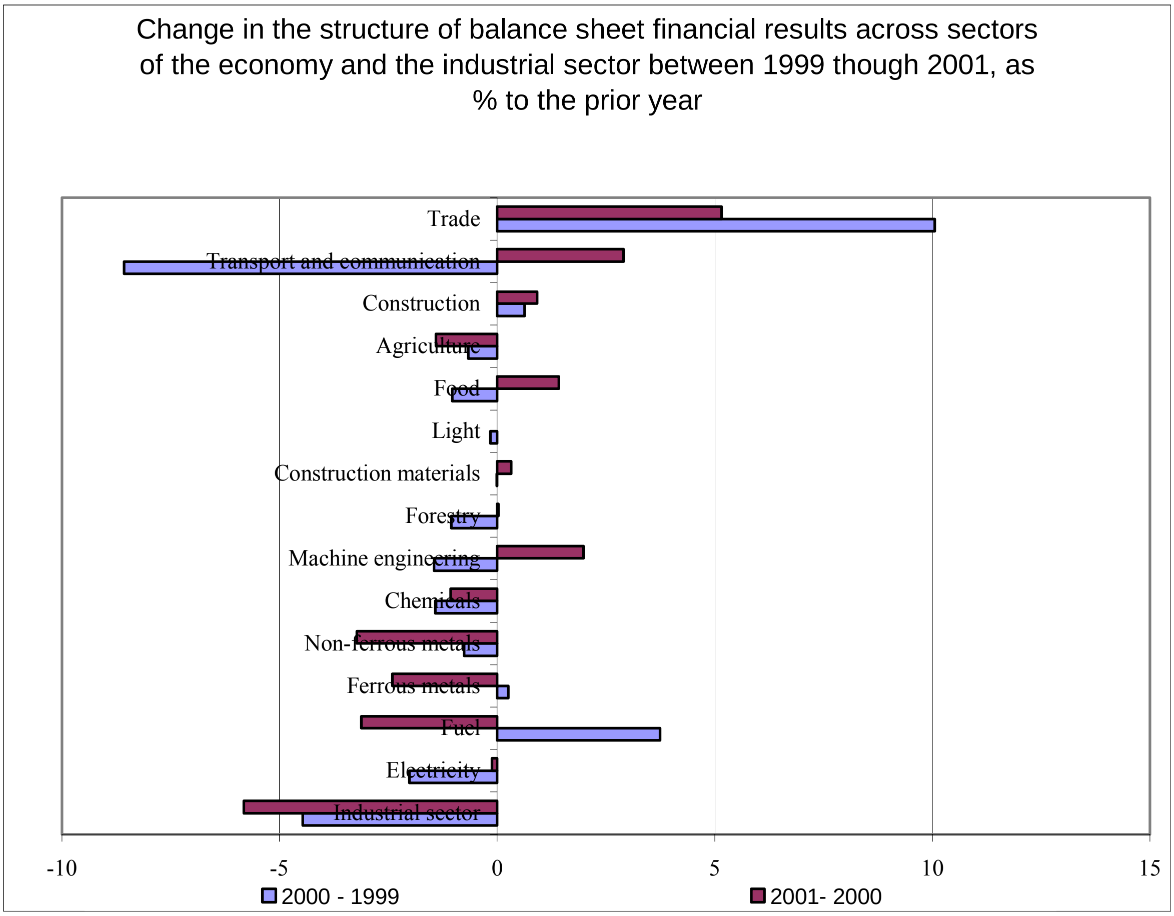
The structure of formation of GDP across income sources, as % to result

	1998	1999	2000	2001
GDP- total,	100,0	100,0	100,0	100,0
including:				
Labor compensations to employees, including hidden ones	47,6	40,6	40,2	44,9
Net taxes on production and import	14,2	16,1	17,1	16,6
Gross profit of the economy and gross mixed incomes	38,2	43,3	42,7	38,5

Sources; Goskomstat, The RF Ministry of Economic Development and Trade

It is changes in proportions between the mining and manufacturing sectors that formed the main contents of structural shifts in forming gross profit in the industrial sector. In 2000, it was export-oriented sectors, with their share in the aggregate profit of the industrial sector accounting for over 70% that had a dominating impact on the pattern of income distribution, while a year ago because of foreign trade factors profits in the fuel sector slid by 19.6% and in the metallurgical sector – nearly as much as twice. The fall in profitability rates in the mining sector caused some 10 p.p. rise in the share of manufacturing sectors in the structure of formation of incomes in the industrial sector. However, despite the 32.3% rise in profits in the machine engineering industry, the 37.2% one in the sector for construction materials, 37.1% 0 in construction, and 36.5% in the food sector, their aggregate share in the overall income in the industrial sector proved to be on the level reported in 1999.

Fig.



Maintenance of fairly high profitability rates in export-oriented mineral sub-sectors and those dealing with primarily processing of minerals is determined by price situation on the world markets. With the current correlation between domestic and world prices a considerable part of proceeds generated by the increase in Ruble-denominated value of products sold for foreign exchange is transferred to profits too. In 2001, the proportional weight of enterprises of the fuel and metallurgical sectors in the overall volume of forex-denominated receipts to organizations' current accounts accounted for 39.8%. This trend was also complemented by the tendency of advanced price rise for intermediary goods relative to price dynamics for final products in the domestic market. With the current profitability rates in the fuel and metallurgical sectors, they retain the possibility of maintaining pro-active investment activity by using their own funds as well as attracting domestic and external loans.

As concerns sub-sectors of the manufacturing sector that focus on the domestic market, the situation there is determined by an advanced rise in production costs. With a high level of material costs, one notes a relative fall in profitability rates, enterprises begin to experience shortages with liquid assets. That affects their credibility and dynamics of investment activity. The comparison of dynamics and structure of volume of output, investment and labor shows that the economy is undergoing a mass reallocation of resources in favor of a limited number of capital-intensive sub-sectors of the mining sector and the sector for primary processing of minerals. It should be noted that between 2000 through 2001 it was enterprises of oil-producing, oil refining sectors as well as the ferrous and non-ferrous metallurgy that experienced the most intense increment in job opportunities. At the same time the rise in output was taking place against the background of a growing differentiation in labor compensations between mining and manufacturing sectors. That led to decline in factor labor compensations in the manufacturing sector and the one for services. Considering the fact that the noted two sectors employ nearly 90% of economically active population, while employees' salaries form over 80% of the population's monetary incomes, a low effective demand on the part of the noted categories of the population constitutes a serious constraint to current economic growth rates.

TABLE

Profitability rate across main sub-sectors of the economy and the industrial sector, as %

	1997	1998	1999	2000	2001*)
Total across the economy	6,3	8,1	18,5	18,9	9,3
Industrial sector	9	12,7	25,5	24,7	14,1
Of which:					
electricity	14,1	12	13,7	13,5	8,2
fuel	13,1	15,7	44,5	51,1	27,9
including:					
Oil-producing	14,7	17,6	57,9	66,7	34,2
Oil-processing	9,4	12,5	32,1	34,5	20,6
Ferrous metallurgy	3,6	10,3	28,2	25,6	10,8
Non-ferrous metallurgy	11,4	33	57,4	51,6	24,0
Chemicals and petrochemicals	4,3	9,7	22,3	17	9,6
Machine engineering and metal processing	8	10	17,4	14,1	10,8
Forestry, wood-working, and paper and pulp	-5,5	5	23,9	16,5	9,8
Construction materials	5,6	5,2	8,6	9	7,5
Light	-1,5	0,9	9,5	7,2	6,8
Food	8,4	12,8	13	10,1	7,7

*) calculated on the basis of preliminary data
Source: Goskomstat

O. Izryadnova

The oil and gas sector

It was the price situation on the world market for oil that has had a crucial impact on the state of the Russian sector for oil and gas between 2001 through early 2002. The prices for oil and petroleum derivatives remained rather high over the most of last year. During the first three quarters 2001 the OPEC average oil basket remained close to the price corridor of 22-28 USD/barrel. However, in the 4th quarter, however, the wold oil prices fell drastically. Consequently the world price for Russian oil accounting for USD 24.4/barrel on average over the three first quarters slid to 18.8 in the 4th quarter (Table 1). Since January 2002 the OPEC nations as well as some non-OPEC members have started to cut down their oil output and export which resulted in a price rise for oil in the 1st quarter 2002. In March oil prices surged up to USD 23…25/barrel.

TABLE 1

World prices for oil between 1997 to 2001, USD/barrel

	1997	1998	1999	2000	2001	2001 4th Q..	2002 January	2002 February
Brent, UK	19,12	12,72	17,97	28,50	24,44	19,42	19,48	20,22
Urals, Russia	18,33	11,83	17,30	26,63	22,97	18,78	18,36	18,87
OPEC's oil basket	18,68	12,28	17,47	27,60	23,12	18,33	18,39	18,96

Source: OECD International Energy Agency.

The main factor underpinning the downfall on world oil prices in 2001 was slowdown of the global demand for oil and its direct fall in some large industrially developed countries against the background of a continuous growth in oil output and accumulation of sufficient oil reserves for industrial purposes. The fall in the world demand for oil was caused by a notable slowdown of the world economy's growth rate noted in 2001. According to the IMF, the growth rates of the world GDP dropped from 4.7% in 2000 to 2.4% in 2001, with the respective fall in economic growth rate being yet more considerable in the largest countries-consumers of oil. Specifically, in the US whose share in the world oil consumption accounts for over 25%, the increment in GDP fell from 4.1% to 1.0% over the period in question, while Japan undergoes economic slump. According to the US Department of Energy, overall across OECD nations the rates of economic growth slid from 3.3% in 2000 to 0.9% in 2001. It was terrorist attack on the US of September 11 that has had a certain impact on the loosening of demand in the 4th quarter 2001. That particularly affected the demand for jet fuel. At the same time the US has just passed a warm heating season (compared with average temperatures noted over many years).

As a result, according to the OECD International Energy Agency, the increment in the wold demand for oil fell from 0.9% in 2000 down to 0.1% in 2001, while both the Americas and OECD members in Asia-Pacific region reported a direct contraction in demand.

The fall in the world demand for oil was taking place against the background of the continuous rise in the world oil output. In an effort to maintain the desirable price level for oil, the OPEC nations actually managed to contract their output (though not to the extent as provided by the respective agreements). At the same time non-OPEC nations, particularly Russia have increased their oil output considerably. As a result, the OPEC's effort was practically neutralized by the increase in oil supplies on the part of non-OPEC members.

High oil prices during the period between 2000 through most of 2001 created exclusively favorable conditions for the Russian oil sector. The period in question showed a considerable rise in output, profits and investment in oil sector. In 2001 Russian oil output broke a record value over recent years, with the overall volume of production of oil and gas condensate accounting for 348.1 mln.t. (at 24.9 mln.t., or at 7.7% compared with the prior year when the respective growth rate made up 6.0%). In contrast to 2000, the rise in oil output was secured mostly by placing into operation of new oil wells, ie resulting from investment made between 2000 to 2001. In 2001, the oil output from previously idle wells accounted for 23.5% of the overall annual increment in oil output (in 2000- 68.3%). The proportional weight of idle wells in the operational fund fell to 21.5% by late 2001. Investment activity continues to grow: the volume of operational and exploration drilling for oil last year vs. the prior year grew by 8.4% and 15.6%, respectively (in 2000- by 67.5% and 27.8%), while placement of new oil wells into operation- by 18.6% (in 2000- 53.75). The volume of primary oil refining grew by 3.25 over 2001.

In early 2002 the rise in oil output and refining is still there. January witnessed a 0.1% rise in daily output vs. December 2001, while in February – a 1.4% vs. the prior month. The daily volume of oil refining grew by 0.7% in January and by another 5.25 in February.

As the analysis of the data on production and export of oil and petroleum derivatives shows (table 20 practically the whole oil output of 2001 went for export (either directly or in the form of petroleum derivatives). In 2001 the net export of oil and petroleum derivatives reached 225.2 mln.t. Consequently, the proportional share of oil exports in oil output reached 64.7%. In the sector for gas the rise in domestic consumption has failed to compensate for a notable contraction in export, so the gas output dropped by 0.55 in 2001.

TABLE 2

Production, consumption and export of energy resources from Russia between 1997 through 2001

	1997	1998	1999	2000	2001
Oil, mln.t.					
Output	305.6	303.4	305.0	323.2	348.1
Export, total	126.9	137.1	134.5	144.5	159.7
Export to non-CIS countries	109.8	117.9	115.7	127.6	137.1
Export to the CIS countries	17.1	19.2	18.8	16.9	22.7
Net export	119.0	129.2	128.5	138.7	154.7
Petroleum derivatives					
Export, total	60.6	53.8	56.9	61.9	70.8
Export to non-CIS countries	58.4	51.2	53.9	58.4	68.3
Export to the CIS countries	2.2	2.6	3.0	3.5	2.5

	1997	1998	1999	2000	2001
Net export	56.6	51.0	50.3	61.5	70.5
Oil and petroleum derivatives					
Net export of oil and petroleum derivatives	173.4	178.3	184.5	200.2	225.2
Net export of oil and petroleum derivatives as % of oil output	56.7	58.8	60.5	61.9	64.7
Natural gas, bln.c.m.					
Output	571.1	591.0	590.7	584.2	581.5
Export, total	200.9	200.6	205.4	193.8	180.9
Export to non-CIS countries	120.9	125.0	131.1	133.8	131.9
Export to the CIS countries	80.0	75.6	74.3	60.0	48.9
Net export	196.4	197.6	201.3	189.7	176.9
Net export as % of output	34.4	33.4	34.1	32.5	30.4
Aggregate indexes					
Output of oil and gas, mln. t. of oil equivalent	819.6	835.3	836.6	849.0	871.5
Net export of oil, petroleum derivatives and gas, mln. t. of oil equivalent.	350.2	356.1	365.7	370.9	384.4
Domestic consumption, mln. t. of oil equivalent	469.4	479.2	470.9	478.1	487.1
Net export of oil, petroleum derivatives and gas as % to oil and gas output	42.7	42.6	43.7	43.7	44.1

Sources: Goskomstat, the RF Ministry of Energy, the State Customs Committee, author's calculations

Fast ruse in oil output in the conditions of a limited domestic demand for oil has led to a certain over production in the domestic market, which in turn generated a notable downfall in domestic prices for oil and petroleum derivatives both in real and nominal terms between 2001 through early 2002. During the period in question the domestic price for oil dropped from USD 56-58/t. as of eraly 2001 to 47.4 in January 2002. Having reached their peak value in the 4th quarter 2000, the prices for gasoline have demonstrated a clear trend to downfall during the whole year of 2001 and sank to USD 132.9 in early 2002. As a result, the prices for gasoline dropped below the pre-depreciation period (Table 3).

TABLE 3

Domestic prices for oil, petroleum derivatives and natural gas in USD equivalent between 1997-2001 (enterprises' average wholesale prices, USD/t.)

	1997 December	1998 December	1999 December	2000 December	2001 December	2002 December
Oil	63,1	16,4	37,0	54,9	49,9	47,4
Gasoline	169,6	63,4	171,9	199,3	151,5	139,2
Diesel fuel	170,0	52,9	125,0	185,0	158,5	135,1
Black oil	73,8	22,0	46,1	79,7	47,1	39,3
Gas, USD/Thos. c.m.	6,6	2,1	2,2	3,1	4,8	5,7

Source: calculated on the basis of Goskomstat data

The overall export of gas and petroleum derivatives grew from 206.4 mln.t. in 2000 up to 230.5 mln.t. in 2001, or by 11.7% (given a 10.5% increment in oil export and a 12.9% increment in gas export).The structure of oil export is still prevailed by crude oil (accounting for some 70% of the overall export of oil and petroleum derivatives). Export supplies of natural gas dropped by 6.7% (chiefly because of contraction in gas supplies to the CIS countries). The major part of energy resources (86% of oil, 96% of petroleum derivatives and 735 of gas) was exported to non-CIS countries.

During the first three quarters 2001 the rise in physical volumes of exports allowed an actual compensation for a certain fall in world prices for oil compared with the prior year. However, due to a sharp fall in the wold oil prices in the 4th quarter 2001 the respective overall export proceeds dropped by 4.2% compared with the prior year. In 2001, the proportional weight of export of oil and petroleum derivatives in the overall amount of Russian exports accounted for 32.4% (in 2000- 33.2%).

At the same time due to the Rb. depreciation and high world prices the contraction of the import of light oil products that started yet in late 1998 is still there, while overall import decline rates slowed down. Specifically, in 2001 import supplies of gasoline fell by 32% vs. the prior year (in 2000- by 56%), while the proportional weight of import in the respective stock fell to 0.4% (for reference: during the 1st half 1998, ie. prior to the Rb. depreciation, the respective index accounted for 8.7%).

The noted high level of world oil prices over the most of 1998 has determined the maintenance of high revenues in the oil sector, though the sector's financial performance indices deteriorated compared with the prior year. In 2001 the overall profit of the national oil sector, including the oil - refining sub-sector accounted for USD 8.14 bln., thus making up 39.4% of profits generated by the national industrial sector as a whole and 20.7% of profits generated by the national economy a s a whole. By early 2002 the oil sector's outstanding debts to budgets of all levels in USD equivalent fell to the level of USD 0.15 bln. (the minimal value over recent years – see Table 4)

TABLE 4

Financial indicators of the oil sector's performance between 1997-2001, as USD bln.

	1997	1998	1999	2000	2001
Oil and petroleum derivatives export proceeds	21,09	13,96	18,82	34,89	33,43
Profit (as per balance sheet)	3,52	0,60	6,32	10,42	8,14
Outstanding accounts payable	6,79	2,41	1,61	1,35	1,01
Including to the budget	2,53	0,66	0,43	0,27	0,15

Source' calculated on the data of Goskomstat.

I should be noted in conclusion tat the recent signs of renewal of economic growth in the world most developed economies and the March ruling of OPEC on further maintenance of the volume of oil output agreed upon allow hoping for a relative sustainability of favorable external conditions for the Russian oil sector and the national economy as a whole.

Yu. Bobylev

Foreign trade

According to the Bank of Russia (CBR), in January 2002 the nation's overall volume of trade fell by 11.7% vs. January 2001 and accounted for USD 10.23 bln.

Exports made up 6.77 bln. vs. 8.16 bln. in December and 8.35 bln. in January last year, thus being the minimal value reported since September 1999. Export decline rate continued to be high: the fall accounted for 19.0% vs. January 2001 which proved to be slightly better than in December 2001 when the respective rate made up 20.4%.

During the past two months the situation in commodity markets remained relatively stable, with a sharp price rise for major Russian exports (oil, gas, gasoline, non-ferrous metals) starting yet in late February and continuing in March. In view of this there are certain hopes that the export decline rates will be slowing down, though the negative trend would be in place for some time.

TABLE 1

The average world prices in January of the respective year

	1996	1997	1998	1999	2000	2001	2002
Oil (Brent), USD/barrel	137,5	170,2	111,6	82,4	185,7	189,6	141,58
Gasoline, USD/gallon	-	88,8	74,9	71,3	86,8	260,7	76,7
Copper, USD/t	142,5	184,5	133,9	176,5	263,8	308,8	204,5
Aluminum, USD/t	2553	2400	1682	1528,2	1887,9	1849,6	1557,8
Nickel, USD/t	1554	1598	1480	1301,4	1695,5	1641,50	1377,85
Oil (Brent), USD/barrel	7956	7485	5496	4550,8	8338,1	7091,33	6094,58

In January 2002 imports accounted for USD 3.46 bln. vs. 5.61 bln. in December and 3.22 in January 2001. The former value proved to be the minimal one since January 2001, and imports fell by 39.8% vs. December 2001. Clearly, the fall in import supplies in January is a seasonal phenomenon, however the respective increment accounted just for 7.4% relative to January 2001, which is the minimal value reported since February 2001. Most likely, one notes a slowdown of the trend to growth in import supplies caused primarily by the RB. depreciation that had accelerated yet in the fall 2001 and resulted in a stabilization of real exchange rate. Starting from the IInd quarter the measures the government introduced to restrict the US poultry imports should form another factor contributing to the fall in imports. However, their absolute impact would be relatively small (several dozens million USD a month), for a fall of the respective supplies would be partly compensated by import supplies form other countries.

The nation's balance of foreign trade over the month in question made up USD 3.31 bln. vs. 2.55 bln. in December 2001 and 5.13 bln. in January 2001.

In January 2002 Russia's volume of trade with the CIS states accounted for USD 1.79 bln. and remained positive (+ 0.24 bln.). When compared with January 2001 exports fell by 8.1% and made up USD 1.02 bln., while imports fell much more drastically - by 22% (worth a total of 0.78 bln.).

As far as bilateral trade relations with single CIS nations are concerned, one should first of all note the Kazakh authorities' ruling on prohibition of exportation of diesel fuel from the country and increase of excises levied on Russian import supplies. The neighboring country has had to undertake protectionist measures because the prices for Russian fuel proved to be lower than local ones. As a result, three major Kazakh oil refineries experience serious problems with sales of their products. The noted restrictive measures will remain effective until July 1, 2002, i.e. until the spring agricultural works are over.

Russia in turn continues to pursue its protectionist policy in the CIS: specifically, the current procedures in regard to importation of Ukrainian pipes will remain effective through 2002. In compliance with the respective agreement of April 10, 2001, the Ukrainian Cabinet set quotas for export supplies of pipes made from ferrous metals to Russia that became subject to licensing. So, in 2001 the overall volume of respective supplies fell considerably and accounted for 413 Thos.t., while in 2000 it was 789 Thos. t., or 17% of the overall Russian market for this kind of product.

March 2002 witnessed complications arising in the area of Russia -US trade. Since March 1 the RF government ceased issuance of permits for the US chicken exporters. Consequently, since March 10 such supplies were fully prohibited. The main reasons for that became frequently noted practices of non-compliance with Russian quality requirements, specifically, the US chicken lots would lack permits from the Veterinary Department on their importation, the requirement to tare marking were broken, and the respective vet certificates appeared inaccurate. Some US companies were even involved in supplying poultry from farms that did not carry out duly control over salmonella.

Needless to say, should the US chicken imports be fully banned, it will batter the US heavily: the Russian market consumes some 50% of the US overall poultry imports. Some US experts claim that the country will be loosing monthly roughly USD 100 mln.

However, the Russian authorities, would be ready to lift the ban, should the US side complete certain measures. Specifically, the US authorities should exclude of the list of exporters (comprising some 400 companies) those ones in whose products salmonella was found. Yet another request to the US was to issue new quality certificates to be approved by veterinary authorities, because the latter had delegated a part of their powers to producers who delivered their products without the certificates enclosed or with certificates with no duly seals and signatures therein. As for the use of hormones and antibiotics in the sector, the problem needs to be studied thoroughly and will be considered later on.

On March 5, the US officially announced that new duties would be effective as of March 20 for the term of 3 years on the majority of steel imports. The duties will range between 8 to 30%, with just several nations exempted from them: Canada and Mexico (as they have agreements on free trade with the US) as well as some developing economies - Argentina, Turkey, and Thailand. It is all kinds of steel rolled articles that became subject to the 30% duty rate, while the 15% duty was levied on all kinds of stainless steel except wire, and the 13% rate levied on carbon steel and ferroalloys. Import supplies of slab will be subject to quotas (5.4 mln.t. annually), subject to the 30% duty rate, should the respective volume of supplies be exceeded. The level of the above rates will be decreased steadily over next three years - to 24% over the second and 18% - in the third year.

Though Russia was granted with a free annual quota on supplying flat intermediaries, according to the RF authorities, the Russian steel producers would loose annually some USD 400- 500 mln.

In an effort to protect its markets from a tide of metal imports earlier sold in the US, the EU has also ruled on prohibitive duties on 15 kinds of metal products supplied to the Union. The duty rate became effective as of April 3, while metal scrap or cast iron are exempted from them. The size of the duties ranges between 14 to 26.5%. So far the noted measures have been introduced for the period of 6 months, however they may be easily prolonged afterwards. The European Commission claims it will be ready to cancel the ruling right after the US reviews its stand on the 30% import duty on steel supplies to the US.

In contrast to the panic among the Russian metal community after getting the news from the US, the next Europeans' move did not cause such a reaction - the Russian metal producers hope that the respective intergovernmental agreement on steel supplies between Russia and the EU would partly guard their interests.

On March 21 the government approved the Concept for Development of the National Automobile Industry developed by the RF Ministry of Science. Interestingly, the Concept comprised the notorious decision on hiking customs import duty rates on foreign cars among others. However, the document does not specify their size. It is intended to introduce "very high" duty rates on foreign cars aged over 7 years, thus actually equaling them to new vehicles. As concerns the latter, it is proposed to leave the duties on their importation by private individuals unchanged over three years, with their consequent increase up to 35%.

It is also intended to indexate duty and tax rates denominated in Euro levied on private individuals importing foreign cars aged between 3 to 7 years. Such duties would be calculated due to the engine volume to USD ratio, thus allowing a very insignificant rise in the respective duties.

At the same time the Concept provides for lowering import duty rates for foreign technological equipment for the automobile production and to fix all the duties on importation of auto motor vehicles to RF for the term of 5 to 7 years.

N. Volovik, N. Leonova