

**RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
APRIL 2002**

MONTHLY BULLETIN

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The State of the Federal Budget

**TABLE 1 THE MONTHLY EXECUTION OF THE FEDERAL BUDGET OF THE RUSSIAN FEDERATION
(IN % OF GDP, IN COMPARABLE PRICES).**

	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
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%	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%	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%	4,4%
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%	9,1%
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%	6,4%
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%	2,6%
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%	3,3%
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%	9,1%
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%	19,6%
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%	1,6%
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%	21,2%
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%	0,2%
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%	1,5%
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%	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%	0,1%
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%	0,9%
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%	0,1%
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%	0,3%
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%	4,8%
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%	3,4%
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%	3,3%
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%	15,0%
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%	6,2%
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%	-4,6%
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%	-1,6%
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%	-6,2%

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

**TABLE 2. THE MONTHLY EXECUTION OF THE FEDERAL BUDGET OF THE RUSSIAN FEDERATION
(IN % GDP, ACTUAL FINANCING)**

	I'01	II'01	III'01	IV'01	V'01	VI'01	VII'01	VIII'01	IX'01	X'01	XI'01	XII'01	I'02	II'02	III'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%	20,9%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	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%	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%	0,3%
Judicial power	0,2%	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,2%	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%	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%	0,2%
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%	0,8%
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%	5,3%
Servicing of public debt	3,2%	5,5%	4,7%	4,3%	3,9%	3,2%	2,9%	3,2%	3,2%	2,9%	2,7%	2,6%	1,9%	3,4%	3,5%
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%	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%	18,6%
Profit (+) / 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%	2,4%

The data on the execution of the federal budget in **JANUARY** of 2002 are presented in Table 1¹. As of March 1, 2002, the revenues of the federal budget accounted for 21.2 % of GDP, including tax revenues at 19.6 %, while expenditures made up

15.0 % of GDP (18.7 % of GDP in terms of fulfilled funding (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), including non-interest ones – 11.6

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

% of GDP (15.1 % of GDP in terms of fulfilled funding). The level of budget surplus accounted for 6.2 % of GDP (2.3 % of GDP in terms of fulfilled funding).

The indicators of revenues collected over two months of 2002 somewhat declined as compared to the figures registered in January, however, the overall decline was not very significant. The tax revenues in January through February of 2002 made 15.5 % of GDP (without the single social tax).

A certain decline in VAT collection over two months of 2002 as compared to the last year indicators (6.4 % of GDP in 2002 and 6.8 % of GDP in 2001) shall be noted, at the same time, there was registered a significant decline in taxes levied on foreign trade (3.3 % of GDP in 2002 and 4.1 % of GDP in 2001).

The expenditures for the servicing of the public debt were similarly to the January indicators below

*TABLE 3. ACTUAL TAX REVENUES TO THE FEDERAL BUDGET, ACCORDING TO THE DATA OF THE MTC (IN % OF THE DATA FOR JANUARY OF 1999)**

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			
218,7%				187,1%				240,9%			

* 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.

The level of tax revenues of the federal budget in March of 2002 (without SST) in comparable prices was a most significant over the last three years. The higher level was registered only in April through May of 2001.

The dynamics of actual tax debts to the federal budget is presented in Figure 1². A certain stabilization of the dynamics of increase in tax arrears registered by end-2001 was also observed in the early 2002. Therefore, there occurred neither considerable increase or decrease in arrears.

² 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. Since January of 2002 the practice of balancing the data on the arrears against the amount of tax surplus has been ceased. In this relation the figure presents the data on the gross unbalanced tax arrears for comparability purposes.

the level registered in the preceding year (3.4 % of GDP in 2002 and 5.5 % in 2001). The expenditures for national defense decreased by 0.5 p. p. of GDP (down to 1.5 % of GDP) in comparison to the level observed in 2001. The structure of social expenditures was, similarly to the situation in January) dominated by the Pension Fund's subsidies for labor pensions at the expense of the single social tax (SSE) (3.1 % of GDP in terms of fulfilled funding in January of 2002). As concerns the fulfilled funding, the expenditures by end I quarter of 2002 made 18.6 %, what is 1.4 p. p. of GDP above the level of the preceding quarter.

As of late March, the balances of accounts on accounting the federal budget funds (without regard to the funds accumulated on personal accounts of recipients of budget funds) grew up by Rb. 59 bln. (2.6 % of GDP) in terms of cash execution of the budget and decreased by 1.5 bln. (0.2 % of GDP) in terms of the fulfilled execution of the budget.

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

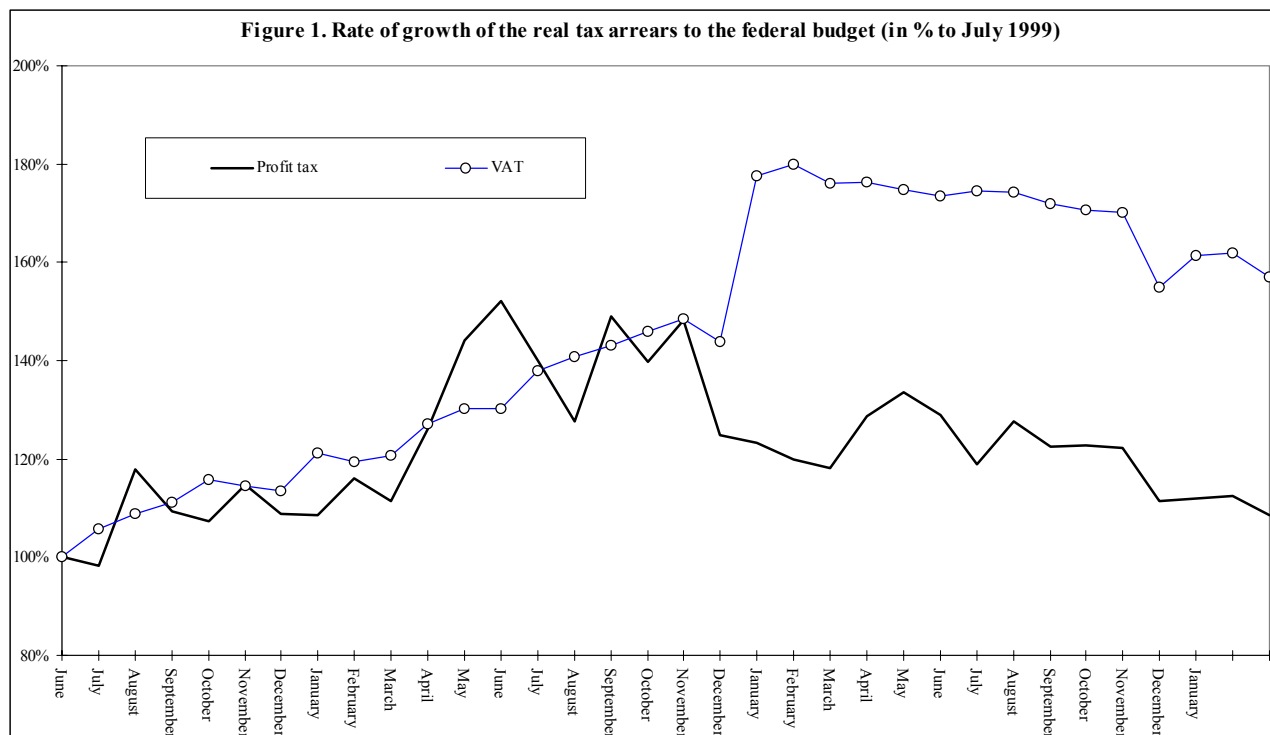


TABLE 4. EXECUTION OF THE RF CONSOLIDATED BUDGET (IN % OF GDP).

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					
Taxes	28,7%						23,6%					
Revenues	32,9%						31,3%					
Expenditures	18,3%						23,7%					
Deficit	14,6%						7,7%					

* Без учета ЕЧВ

The level of tax revenues of the consolidated budget over two months of 2002 declined in comparison to January. It may be primarily explained by a considerable decrease in tax revenues of territorial budgets. At the same time, the expenditures of both territorial budgets and the federal budget grew substantially as a share in GDP. The surplus of the consolidated budget still

remains at a high level as compared to the figures registered over previous years.

The estimate of tax revenues of the consolidated and federal budgets is presented in the table (for the description of REM model see the preceding bulletin). The estimate was revised as compared to the indicators presented in the preceding bulletin basing on the new data on the execution of the consolidated and federal budgets.

In this bulletin we are using the data of REM model which from our point of view most adequately reflects the season character of tax revenues of the consolidated and federal budgets.

	ВВП	Всего налоговых поступлений в консолидированный бюджет РФ (без ЕСН)	Всего налоговых поступлений в федеральный бюджет РФ (без ЕСН)	Всего поступлений налога на прибыль в консолидированный бюджет РФ	Всего поступлений налога на прибыль в федеральный бюджет РФ	Всего поступлений подоходного налога в консолидированный бюджет РФ	Всего поступлений НДС
REM							
Апрель	844	22,5%	13,1%	5,9%	2,7%	2,4%	4,9%
Май	845	23,2%	12,9%	7,1%	2,5%	2,3%	4,8%
Июнь	872	19,7%	12,1%	4,5%	1,7%	2,5%	5,1%

S. Batkibekov

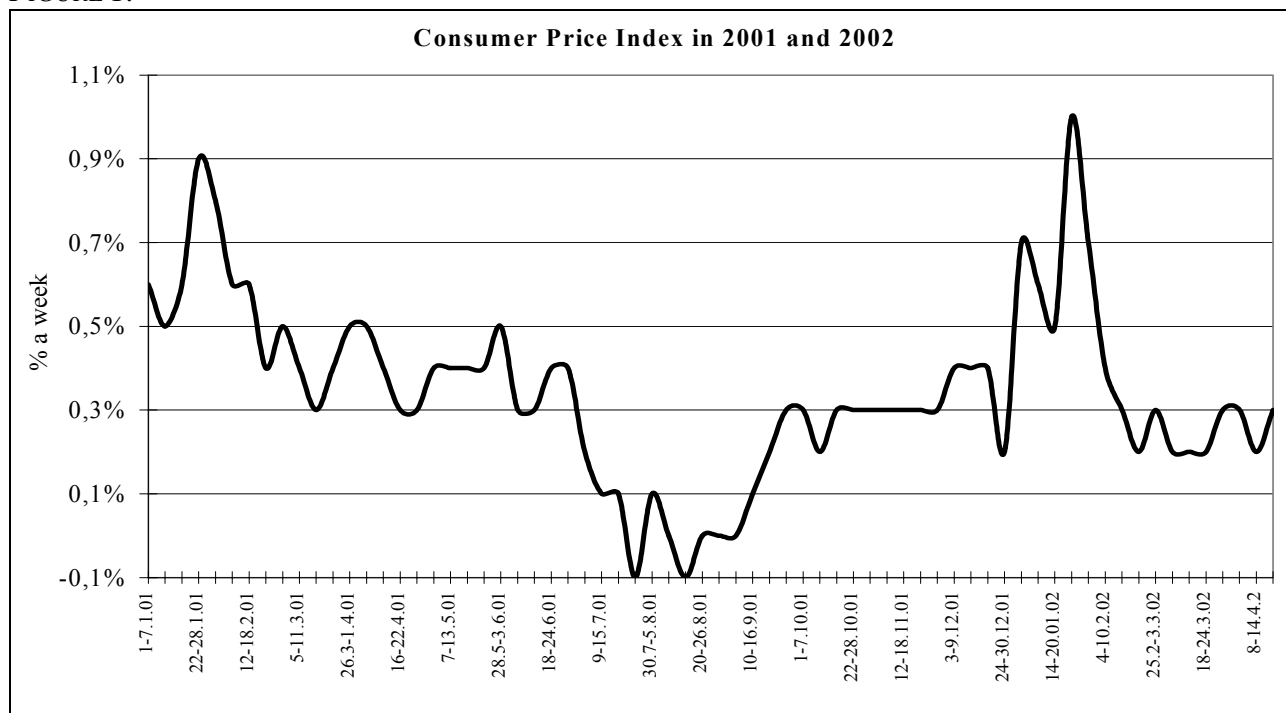
Monetary Policy

In March 2002 the consumer price index rose by 1.1%. It was prices for services that contributed to the index growth at most (3.7%). Specifically, prices for housing and facilities grew by 6.3%. The growth of prices for food stuffs did not exceed 0.5%, and for non-food goods – 0.7%. So, over the first quarter of 2002 the inflation rate amounted to 5.5% (23.8% annualised). For reference, in the first quarter of 2001 consumer prices rose by 7.2%. The commodity structure of changes in prices indicates higher rates of price growth for services in 2002 vs. 2001 (14.5% vs. 12.9%), while prices for food stuffs and non-food goods grew at a slower pace.

FIGURE 1.

The respective increments equalled 4.2% (7.3% in Q1, 2001) and 2.7% (4.0%).

In April 2002 the weekly CPI growth rates practically remained unchanged compared with those of March 2002 (see Fig. 1). According to preliminary estimates, the inflation rate in April roughly amounted to 1.3%. At the same time, it is worth noting that the current weekly CPI growth rates are approximately at 0.15 percentage point below the average level for March and April 2001. This allows reckoning there is a firm tendency to decline in inflation rates in comparison with the last year.



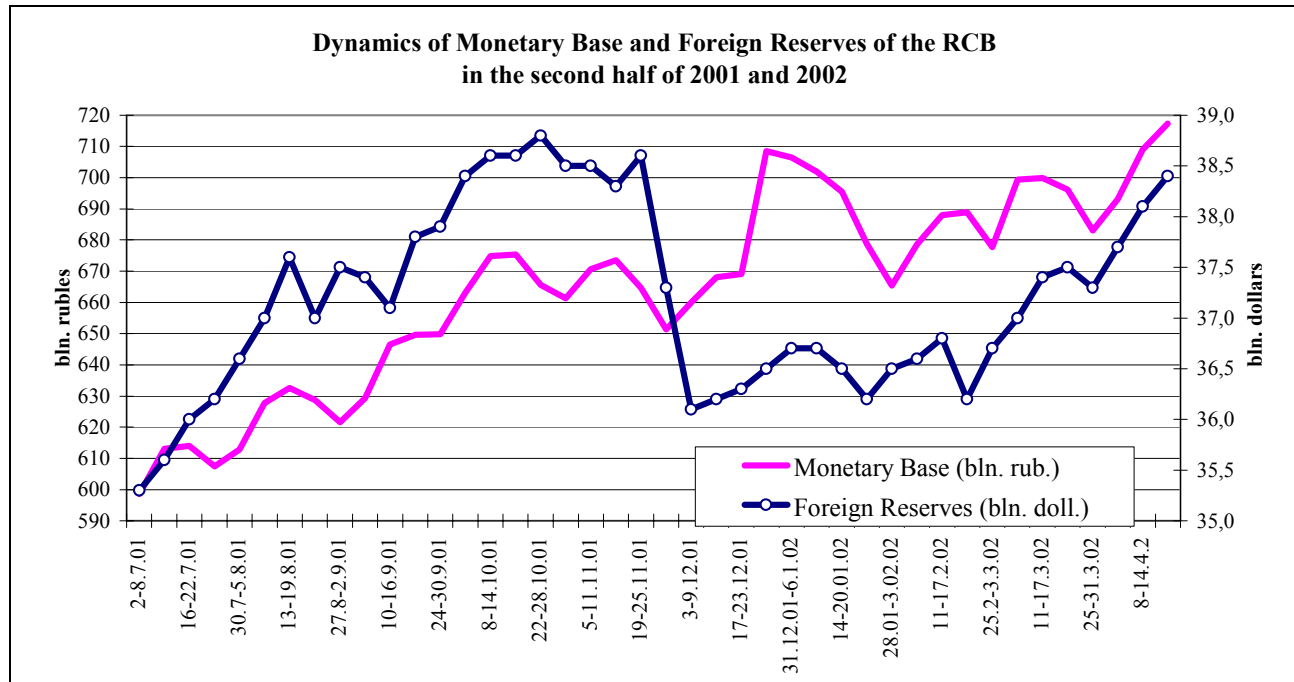
As predicted in the previous monthly reports, in April 2002 the supply of foreign exchange to the domestic forex market grew substantially because

of a seasonal pattern of the RF trade balance and higher oil prices. This fact enabled the Russian Central Bank to speed up accumulation of foreign

reserves (see Fig. 2). Over the last two months (since mid-February 2002) the reserves boosted by \$2.2 billion, i.e. by 6.1%. By April 20 the CBR foreign reserves reached \$38.4 billion, which is at just \$400 million less than the historical maximum registered in October 2001.

The Bank of Russia's purchase of foreign exchange led to a proportional increase in money supply (see Fig. 2). For the first three weeks of April 2002 the narrow monetary base went up by 34.2 billion roubles, or by 5.1%. Hence, for the first time in 2002 the monetary base exceeded its level on December 31, 2001 (by 1.2%).

FIGURE 2.



In April 2002 one observed several events having an immediate impact on the Russian monetary policy. On April 1 the RF Supreme Court satisfied the lawsuit filed by the Moscow Stock Exchange on recognition of the CBR's ruling on compulsory sale of foreign exchange revenues by exporters exclusively at authorised trade floor (in fact, at the unified trade session on the MICEX) contradictory to the Russian legislation. Should the Supreme Court's verdict would come in force, exporters will be allowed to sell foreign exchange within the compulsory sale rate (50%) at any exchange that bears the license on forex trades as well as on the inter-bank market. In our view, economic consequences of the decision will be rather negative. The single positive result in this regard would become the end of the MICEX monopoly for such operations and, consequently, lower transaction costs for all market participants (primarily due to reduction in exchange fee)³. At the same time, the liquidation of the unified foreign exchange market, first, would decrease ability of the Bank of Russia to implement its exchange rate

policy and to stabilise the exchange rate of the Russian national currency, and second, speculators would enjoy greater opportunities to attack the rouble exchange rate and destabilise the market. Third, there would be a room for different schemes of fictitious sale of revenues by exporters to affiliated banks on the inter-bank market or on small exchanges.

From April 9 the Bank of Russia, for the first time since November 2000, has lowered its refinancing rate. The new rate is set at 23% annualised, i.e. at the lowest level since November 1997. The CBR's decision is mainly a signal aimed at forming of expectations on further decline in inflation rate and interest rates in the economy, since in reality the refinancing of commercial banks is still out of practice, and the current interest rates on credits and government securities are below the given level.

The third important event was the RF Pension Fund's entering the domestic government debt market. Specifically, the Fund made some 3 billion rouble-worth purchase on the primary auctions GKO and OFZs, thus it formed the most of demand for securities. Such a big institutional investor will help increase liquidity in the GKO-

³ At this point we omit the legal aspect - an evident need for elimination of all contradictions in the Russian law

OFZ market and lower in yields on government securities. In addition, the funds invested by the Pension Fund in the government securities (providing they are purchased from the Bank of Russia on the secondary market or the RF Ministry of Finance place auction revenues on its account in

the CBR) are to be considered as a sterilisation tool for increase in money supply due the Bank of Russia's accumulation of foreign reserves by in the forex market.

S. Drobyshevsky.

Financial Markets

The market for government securities.

In April 2002 there were contradictory tendencies noted in the market for the Russian foreign debt (see Figs. 1 and 2). The yields on eurobonds continued their decline over the whole month and hit their historical bottom levels, while quotations of Minfin bonds pursued in an opposite direction. After their sharp downfall in the very beginning of the month, the yields on the 4th and 6th issues of Minfin bonds, have stabilised at the level of 6% and 9% annualised, respectively. At the same time, the prices of the 5th and 7th issues remained at the level noted in March or slid. The dynamics of the Russian liabilities is explained mainly by the absence of any important news from Russia and rather a calm situation in emerging

FIGURE 1.

markets as a whole (the permanent crisis in Argentina now has, in fact, no impact on other emerging markets). However, we should bear in mind that presently the Russian securities have a minimum spread relative to the US bonds among countries with a similar risk and next upgrade of the RF rating would unlikely to result in a new substantial decrease in yields.

Interesting, the market still retains a high default premium on Minfin bonds (liabilities of the former USSR) against the Russian eurobonds. Specifically, the yield rate on the 4th issue of Minfin bonds (maturity on May 14, 2003) is at 1.5 percentage points higher than the yield rate on the eurobonds matured on June 10, 2003.

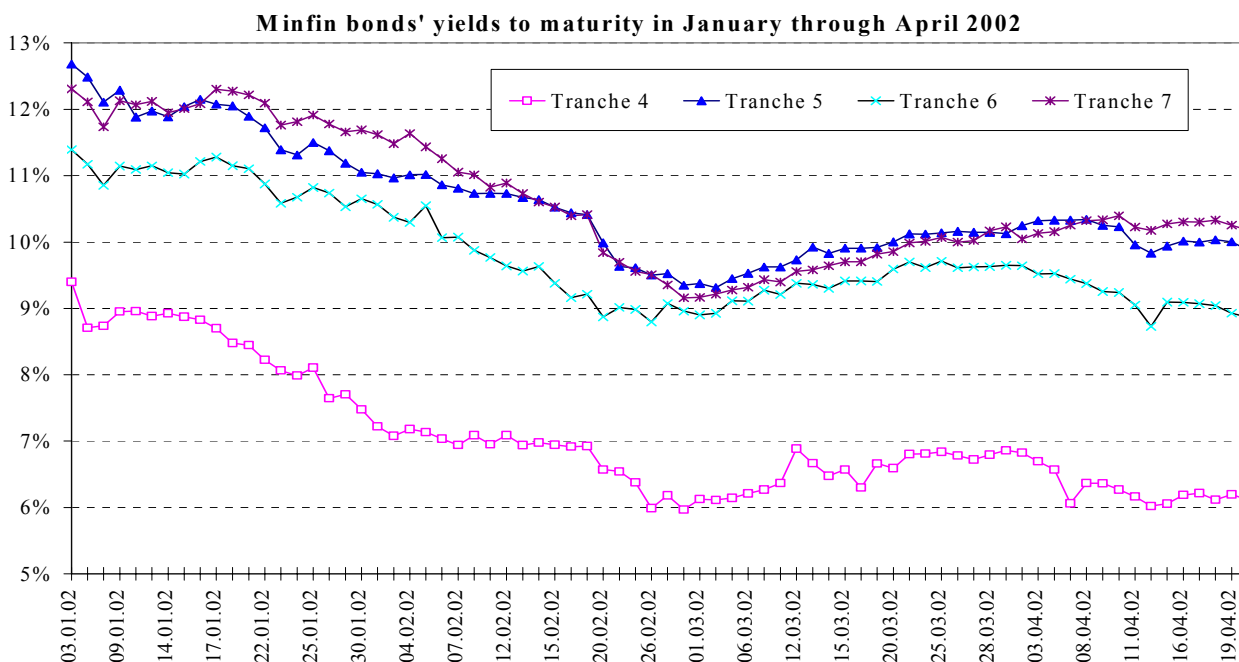


FIGURE 2.

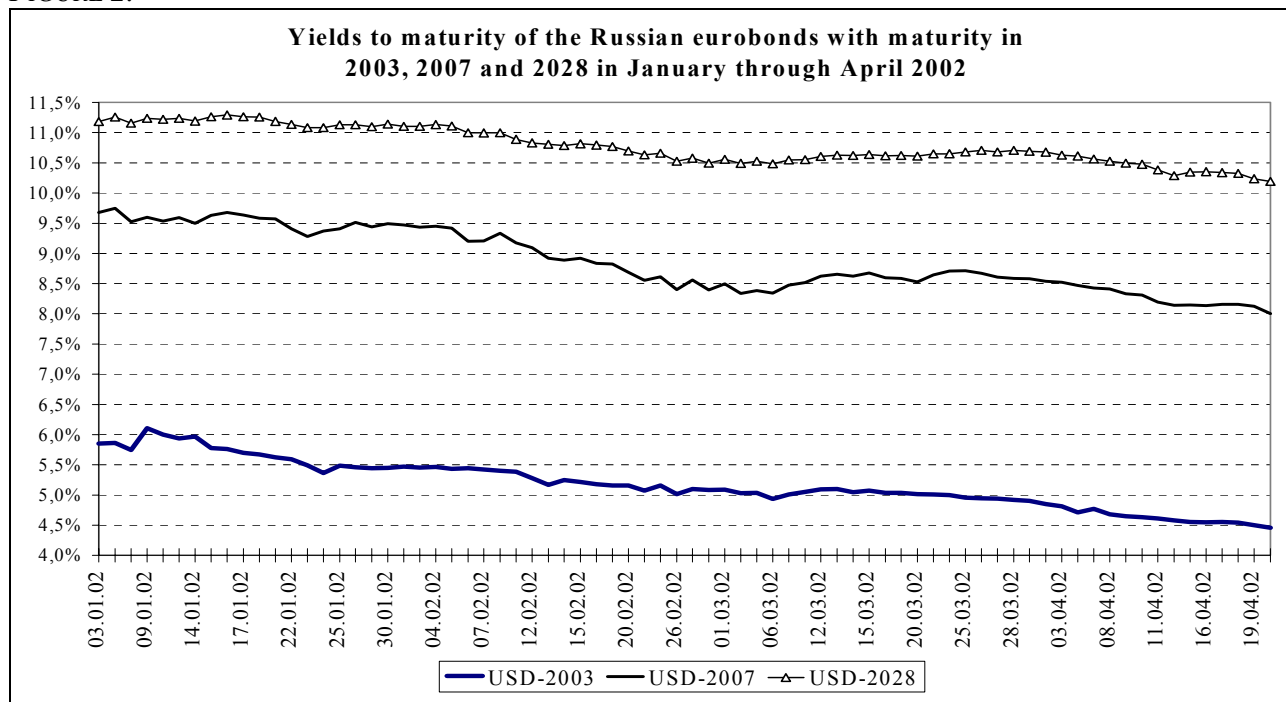
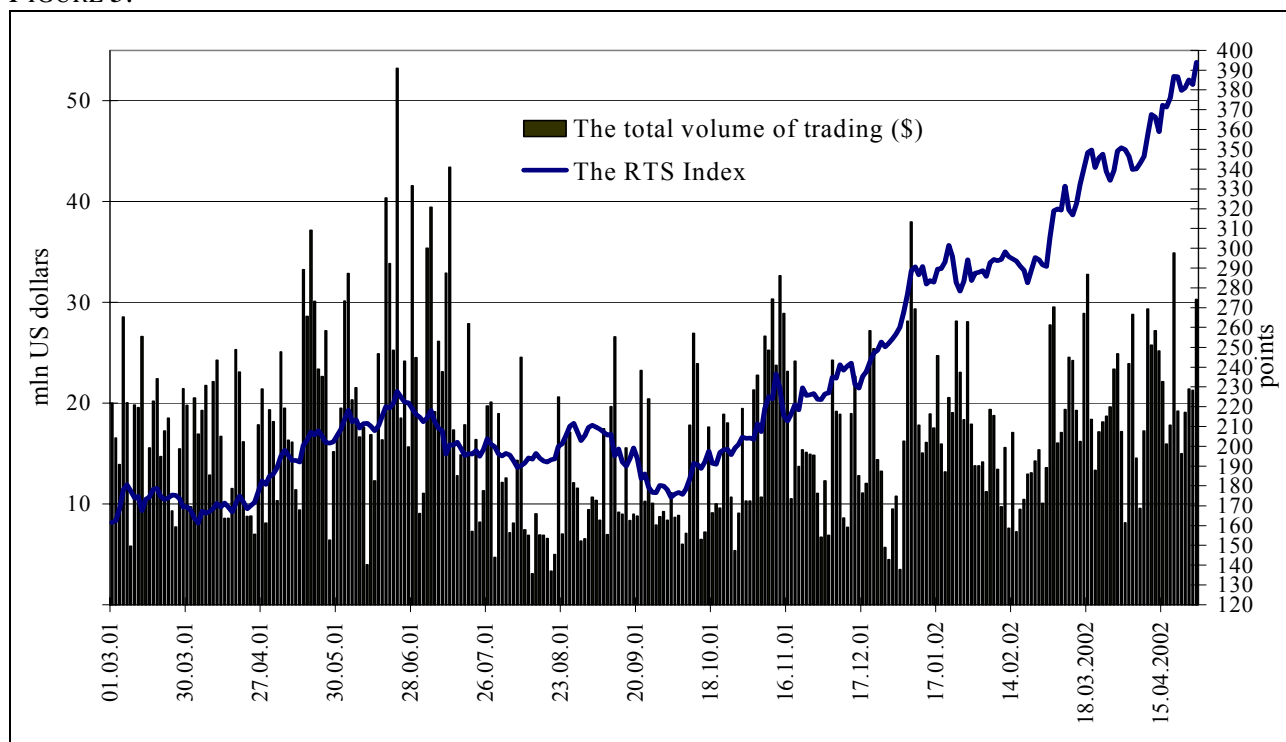


FIGURE 3.



In April 2002 the market for the Russian domestic debt was unstable, with growing yields on securities and high variation of trade volume between sessions. The current weekly average-weighted GKO-OFZ yields are within the range of 16.5% to 17.5% annualised, i.e. the same as in July and August 2001. A high trade volume appeared abnormal when compared with past months (up to 10 billion roubles in April), which is explained

mainly by active policy of the RF Ministry of Finance in the secondary market (placement of additional issues). It is very likely that likewise the results of the auction held on April 3, a part of additionally issued GKO and OFZs was purchased by the RF Pension Fund.

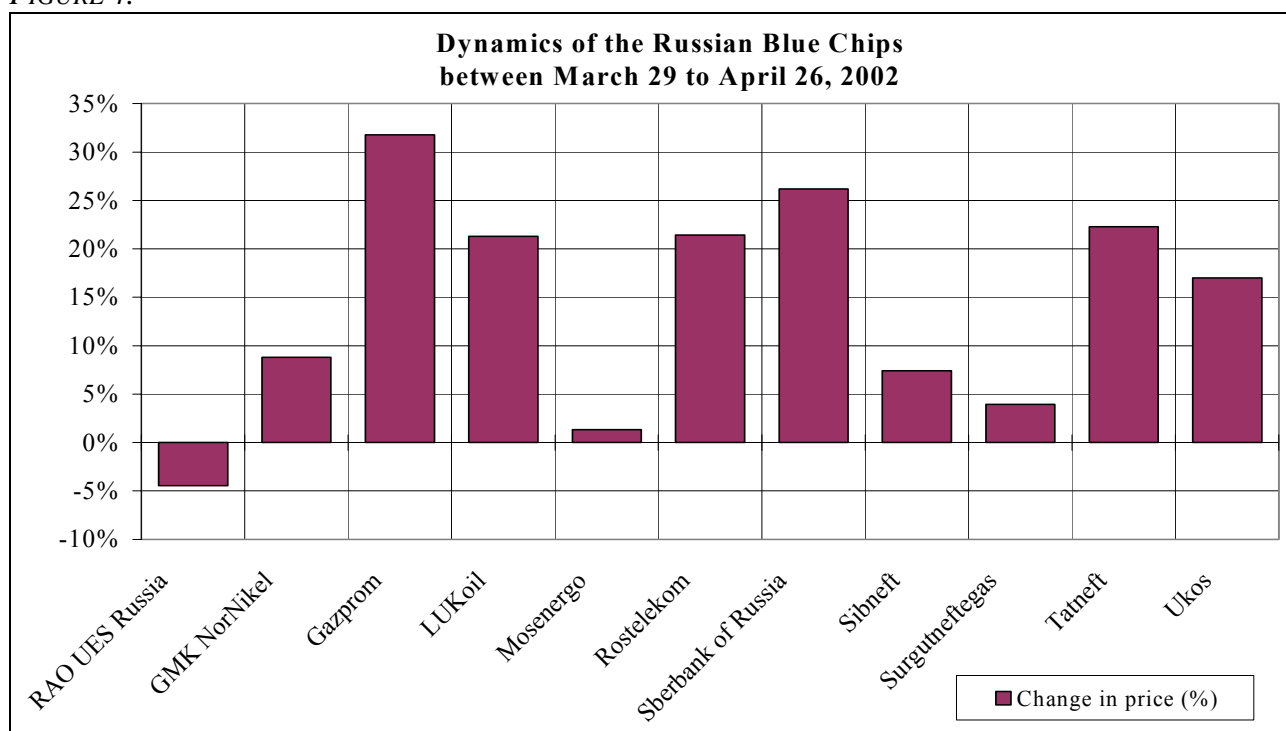
The market for corporate securities.

The situation in the market. In April the RTS Index grew by 43.19 points (12.31%), while the

trade volume exceeded \$426 million (higher than in March). The daily average trade volume topped \$21.3 million. The highest turnover was fixed on April 18 (\$34.8 million). The month started with a fall in the Index – on April 3 the RTS Index went down to the lowest level over April – 339.79 points (-3.12% against the close value in March). Consequently the market showed a permanent growth and ended up with the four-year peak value of 393.94(The previous highest value of the RTS Index was noted on January 6, 1998 - 410.04.).

The leaders among *blue chips* (over the four weeks of April) were: Gazprom (31.76%) and Sberbank (26.18%), followed by “Tatneft” (22.27%), “Rostelecom” (21.44%), “LUKoil”

FIGURE 4.



In April, the share of common stocks of “LUKoil” in the total RTS turnover grew up to 24.45% (in March – 17.73%), the share of RAO “UES Russia” stocks dropped to 22.47% (22.84%), “Tatneft” stocks - 8.35% (10.80%), “Surgutneftegas” – 8.24% (8.29%), “YUKOS” – 7.16% (8.48%). Overall in April the total share of the five most liquid stocks in RTS rose up to 70.67% (in March – 68.14%).

For the period between April 1 to April 26, 2002, the trade volume with “Gazprom” stocks via the RTS terminals exceeded \$115 million (over 135 million stocks). 8.7 thousand deals were stricken with the gas monopoly’s stocks.

In April the Top-5 biggest Russian corporations in terms of market capitalisation are (according to

(21.29%) and “YUKOS” (17.00%). At the bottom of the list were stocks of “Sibneft” (7.40%), “Surgutneftegaz” (3.94%) and “Mosenergo” (1.34%). It was just the stock of the RAO “UES Russia” that proved to be the sole member of the blue chips group that broke the common tendency and fell consequently by 4.44%. Investors still were interested in the “second echelon” stocks of oil companies. In April attention was paid mostly to stocks of “Orenburgneft”, “Megionneftegaz”, “Ufaorgsintez” and “Kazanorgsintez”. The interest in small oil companies is quite understandable, given the continuous consolidation in the Russian oil and gas industry.

the RTS data): “Gazprom” – \$22.7 billion, “YUKOS” – \$22.3 billion, “LUKoil” – \$15.3 billion, “Surgutneftegas” – \$13.9 billion and “Sibneft” – \$8.8 billion.

In the first quarter of 2002, the RTS turnover amounted to \$1.25 billion, i.e. at 22% higher than the respective indicator over the fourth quarter of 2001 (\$1.03 billion). The daily average trade volume in the RTS grew by 31.2 % up to \$21 million (in the 4Q2001 – \$16 million). The market participants stroke 14.8 thousand deals with “Gazprom” stocks (in the System of Guaranteed Quotations), i.e. 44% higher than in the 4th quarter of 2001 (10.3 thousand deals). Between January 1 to March 29 the trade volume made up 5.09 million roubles (254 millions shares) and was 39.4% higher

than in the last quarter of 2001 (3.65 million roubles, 260.5 million shares). The daily average turnover in the 1st quarter of 2002 grew by 1.5 times up to 86.3 million roubles (57 million roubles in the fourth quarter of 2001).

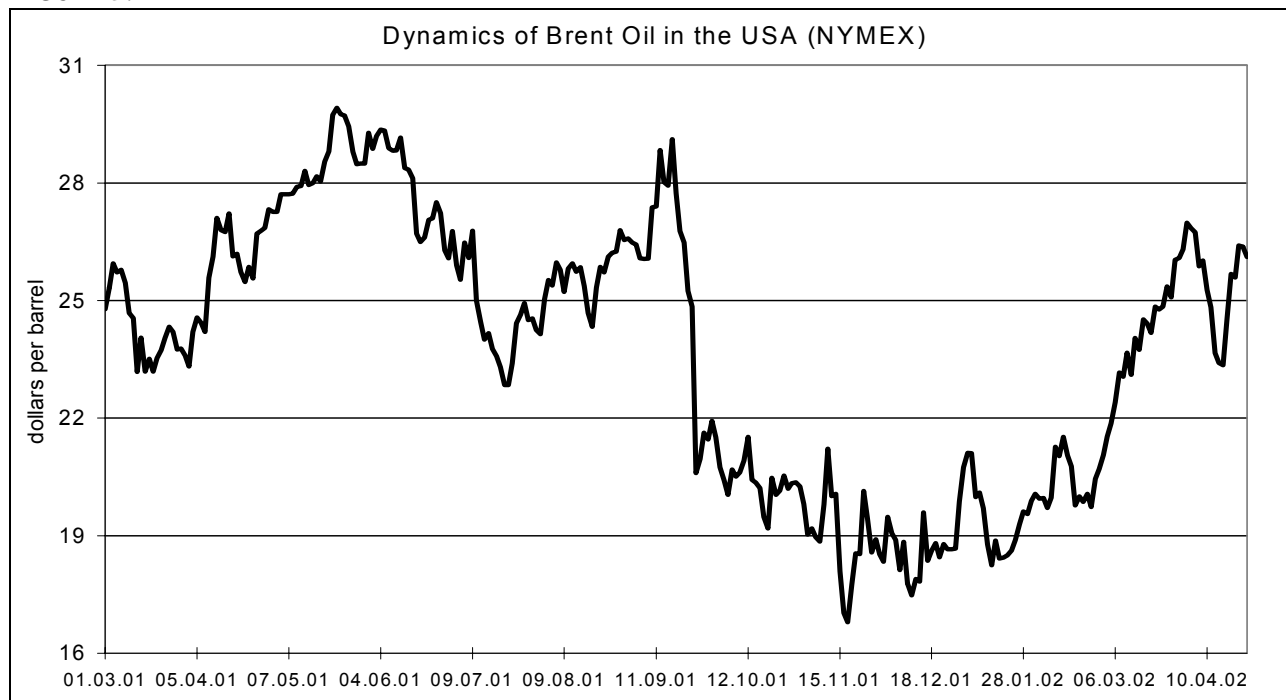
In April the trade activity in the FORTS market also went up. On April 19 new historical records were broken, with over 2.2 thousand deals worth a total of 576.82 million roubles (102.78 thousand contracts), the market open interest amounted to 1.1 billion roubles (146.46 thousand contracts). Overall over the first three weeks of April the trade volume in the FORTS made up 6.46 billion roubles (28.75 thousand deals, 1.18 million contracts).

In the first quarter of 2002. 93 thousand deals were stricken on the FORTS market accounted for worth a total of 18.4 billion roubles, 1443 thousand contracts. On March 29 the total open interest reached 798 million roubles and grew by 1.5 times over the 1st quarter (514 million roubles on December 29, 2001).

External factors having impact on the Russian stock market. In the very beginning of April the international oil prices continued to grow

. It was concerns arising about possible reduction in oil supply because of permanent tension between Israel and Palestine as well as suspension of Iraqi oil export on April 8 after the embargo on oil supply to Israel's allies that contributed to a price rise in the market. The price for Brent exceeded 26

FIGURE 5.



President Putin's visit to Germany resulted in foreign investors' increasing interest in Russian

\$/bbl, the OPEC oil basket was traded at about 25 \$/bbl. The market tended to restore its position noted prior to September 11, 2001. In mid-April, the coup attempt against President Ugo Chaves of Venezuela and statement made by the local oil state monopoly PDVSA -about the country not following the OPEC quotes and pursuing the country's own economic profitability considerations in the oil export are turned the market down by 3\$/bbl. However the return of Ugo Chaves and a new intensification of conflict between Arabs and Israel fuelled a new rise in oil prices. By the end of the month the price for Brent once again hit the level of 26 \$/bbl, and the price for OPEC oil basket – 25\$/bbl.

Eurostat reported the share of OPEC in the European oil market declined by 10 percentage points to 45% over last six years. The main reason for the fall in the OPEC share in the region was a growing oil export from Russia and the CIS countries.

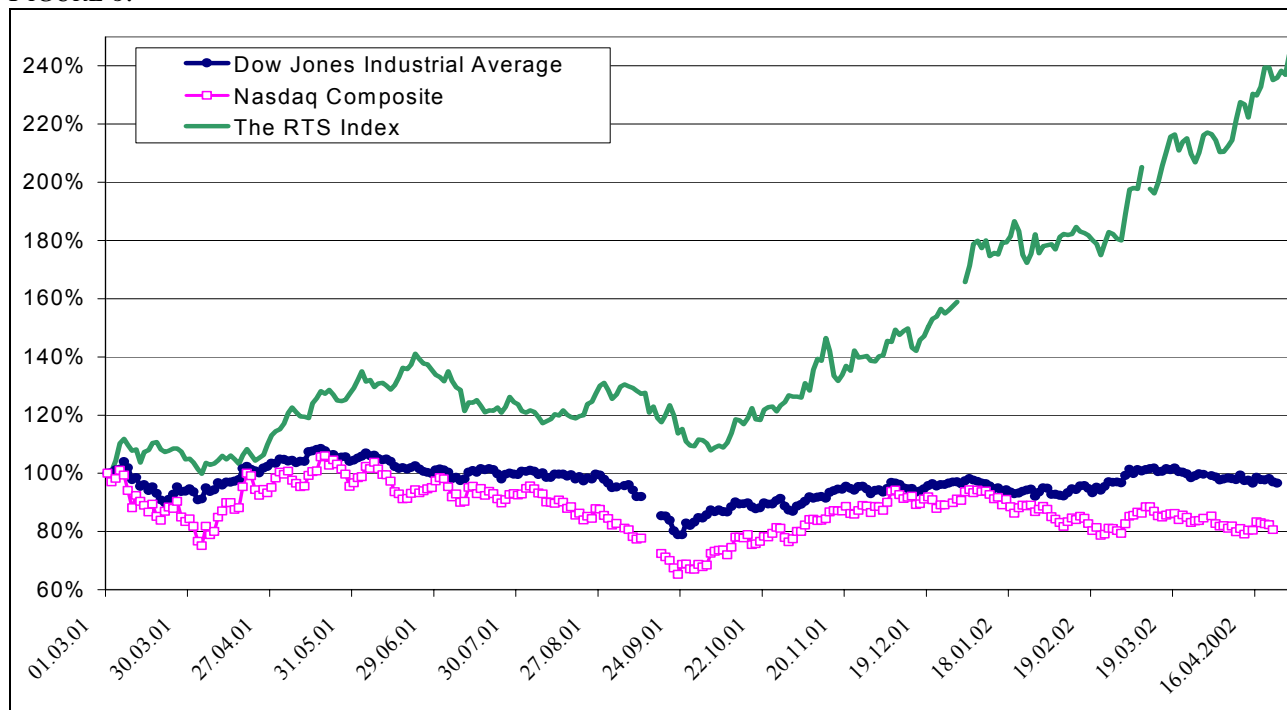
The IMF revised its forecast of oil prices in 2002. The average oil price in the world market is expected at the level of 23\$/bbl, i.e. at 18.4% higher than forecasted earlier. The main reasons underlying the new forecast are: improvement in the world economy's performance and the OPEC's efforts to reduce oil exports. However, the expected average level of oil prices this year is at 5.3% below the level of 2001.

securities. That was also fuelled by a successful solution of the problem of the Soviet debt to the

former GDR that had long been one of the most difficult issues in the Russian-German relations. Eventually the Russian side agreed to pay the Soviet debt to the GDR, but the sum of debt was reduced substantially (from \$6.4 billion to 500 million euros).

The main stock indices in the USA went down in April: DJIA - by 2.57% and NASDAQ - by 4.7%.

FIGURE 6.



Corporate news.

The Board of "Gazprom" recommended to pay dividends for 2001 at an amount of 0.5 rouble per share, i.e. below the previously announced level – 0.6 rouble pr share. The recommended dividends stand at 66% higher than those in 2000 (0.3 rouble per share). The dividends are to be approved by the Board of Directors and consequently subject to approval by the annual shareholder meeting on June 28 (the shareholders register is closed on May 13). It is worth noting that the company increases annually the volume of funds allocated to pay dividends.

According to Sibneft's recent press-release, the company plans to increase sales of oil products in Russia by more than 18% (from 2.3 million tons in 2001 to 2.8 million tons in 2002), the company's news release says. In 2002 the total investments should amount to more than one billion roubles, including more than 850 million roubles to be spent on purchasing and building new gas stations.

The Board of Directors of "Mosenergo" decided to pay dividends for 2001 of to 1.8 kopecks per share (the dividend yield is about 2.5% under current stock

The most of the European stock indices also dropped by 1% to 3.5%.

On April 15 the international rating agency Moody's upgraded the forecast of the Russian credit rating from "stable" to "positive". The highest rating for Russia is now set at the level of Ba3.

prices). The dividends for 2001 are at 35% higher those for 2000.

The Board of Directors of "Lenenergo" recommended the dividends for 2001 at the level of 0.3324 rouble per common share and 0.7653 rouble per preferred share. The dividend yield on common and preferred stocks amounts to 2% and 9%, respectively (under current stock prices).

The "LUKoil" officials stated that in 2001 the company (including subsidiaries). produced 78 million tons of oil. In 2002 the company plans to produce 80 million tons of oil, i.e. at 2.6% higher than the latter output. In 2002 it plans to increase gas extraction by 10% - up to 4.4 billion cubic meters. The company will invest more than 6 billion roubles in its retail network.

The Board of Directors of "YUKOS" proposed to the shareholder meeting to set the dividends for 2001 nearly twice those for 2000. The proposed dividends amount to 6.82 roubles per common share. YUKOS's press service said dividends would be paid on August 31 at the latest. So, the company plans 15.25 billion roubles to be paid as dividends for 2001. The sum includes 5.9 billion roubles of intermediate dividends already paid in the fourth quarter of last year.

TABLE 1. DYNAMICS OF THE FOREIGN STOCK INDEXES

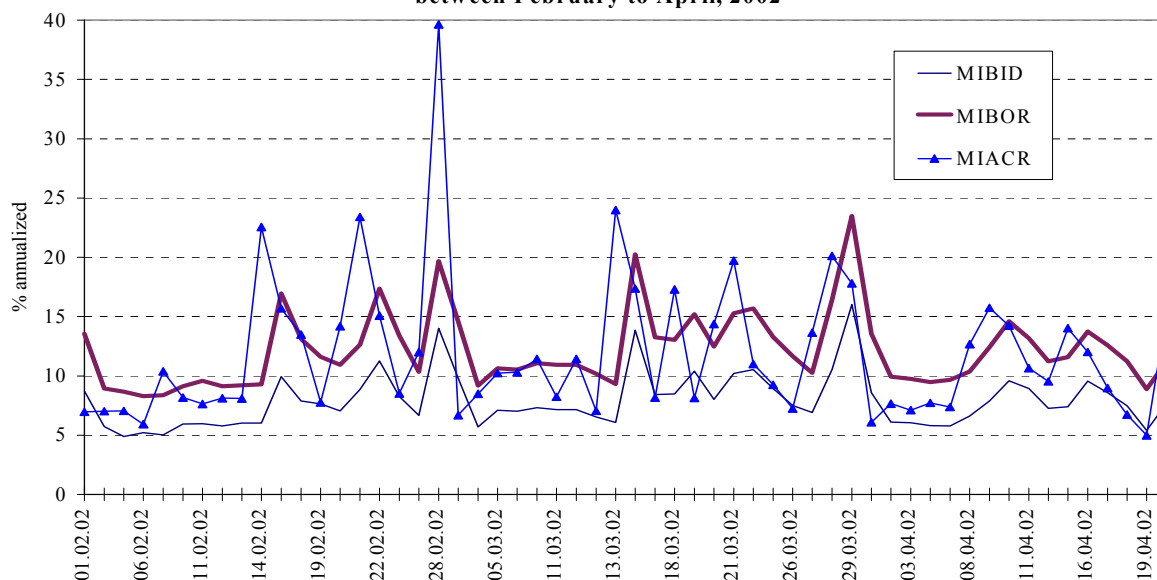
as of April 22, 2002	value	change for last month (%)	change since beginning of the year (%)
RTS (Russia)	379.77	8.27%	46.04%
Dow Jones Industrial Average (USA)	10136.43	-2.57%	-0.01%
Nasdaq Composite (USA)	1758.68	-4.70%	-11.50%
S&P 500 (USA)	1107.83	-3.45%	-4.58%
FTSE 100 (UK)	5221.50	-0.95%	-0.40%
DAX-30 (Germany)	5205.48	-3.55%	0.88%
CAC-40 (France)	4559.46	-2.74%	-1.41%
Swiss Market (Switzerland)	6685.30	0.45%	4.17%
Nikkei-225 (Japan)	11721.64	3.43%	11.18%
Bovespa (Brazil)	13224.00	-0.23%	-2.61%
IPC (Mexico)	7435.13	1.00%	14.97%
IPSA (Chile)	96.71	-1.67%	-11.36%
Straits Times (Singapore)	1727.66	-4.19%	6.25%
Seoul Composite (Korea)	920.89	3.16%	32.75%
ISE National-100 (Turkey)	11759.72	-0.42%	-14.68%
Morgan Stanley Emerging Markets Index	363.582	3.46%	15.34%

The market for inter-bank credits.

In March and April 2002 the interest rates in the inter-bank credit market fluctuated within the range of 10% to 20% annualised (see Fig. 7). The present cost of borrowing in the market is higher than during the most of 2001 (5–10% annualised). But it is worth noting the balances on correspondent accounts of commercial banks in the Bank of

Russia also are substantially lower. During last two months the funds amounted to from 60 to 80 billion roubles, while in 2001 their average level reached 90 billion roubles. So, the banking system actually has no “excessive” liquidity, which secured negative real interest rates on inter-bank rouble credits in 2001.

'Overnight' Ruble Interbank Interest Rates between February to April, 2002



Foreign exchange market.

As we mentioned above section *Monetary policy*, in April 2002 the supply of foreign exchange to the market notably exceeded the demand for hard currency, and devaluation of rouble vs. US dollar stopped. In fact, the whole month the exchange rate fluctuated between 31.15 roubles/\$ to 31.20

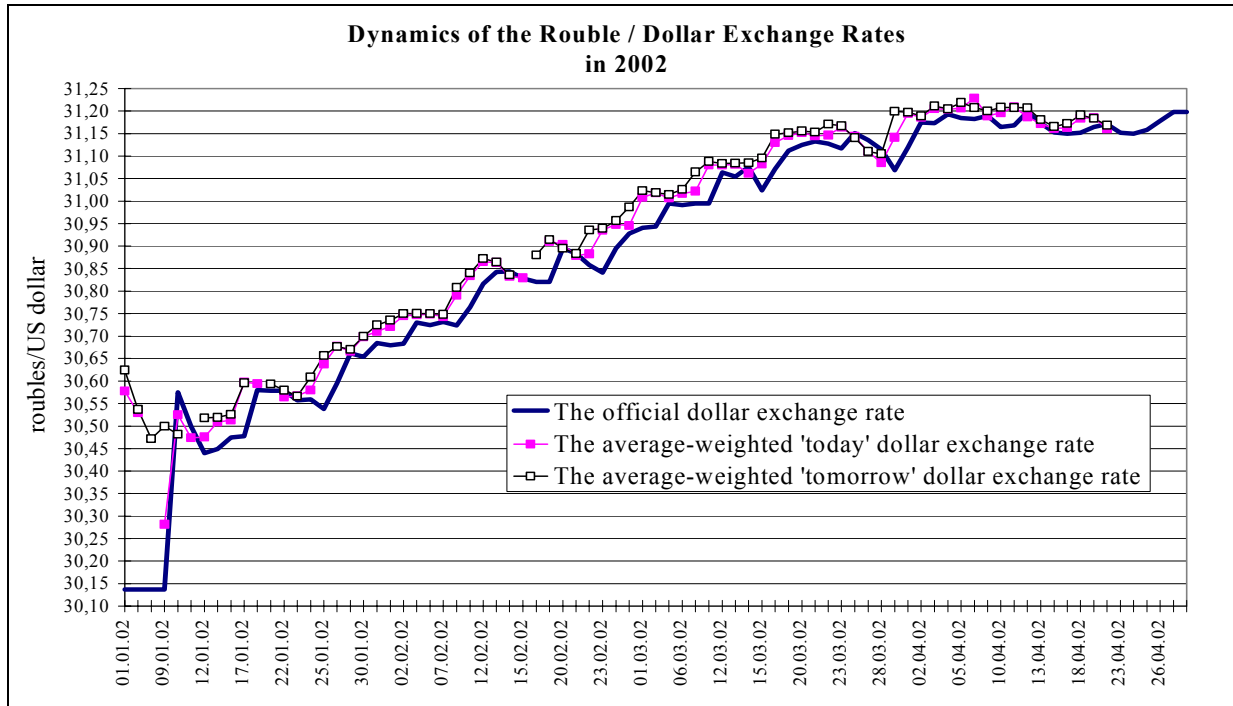
roubles/\$. At the same time the Bank of Russia mostly carried out rouble interventions aimed at control over nominal appreciation of rouble.

In total, in April 2002, the official dollar exchange rate grew from 31.1192 roubles/\$ to 31.1977 roubles/\$ (as of April 28), i.e. by 0.25% (3.04% annualised, see Fig. 8). The ‘today’ dollar

exchange rate in the SELT increased from 31.1415 roubles/\$ to 31.1602 roubles/\$ (as of April 22), i.e. by 0.06%. The 'tomorrow' dollar exchange rate went down from 31.1995 roubles/\$ to 31.1686

roubles/\$ (as of April 22), i.e. by -0.1%. According to preliminary estimates, in April the trading volumes by dollar amounted to 125–130 billion roubles.

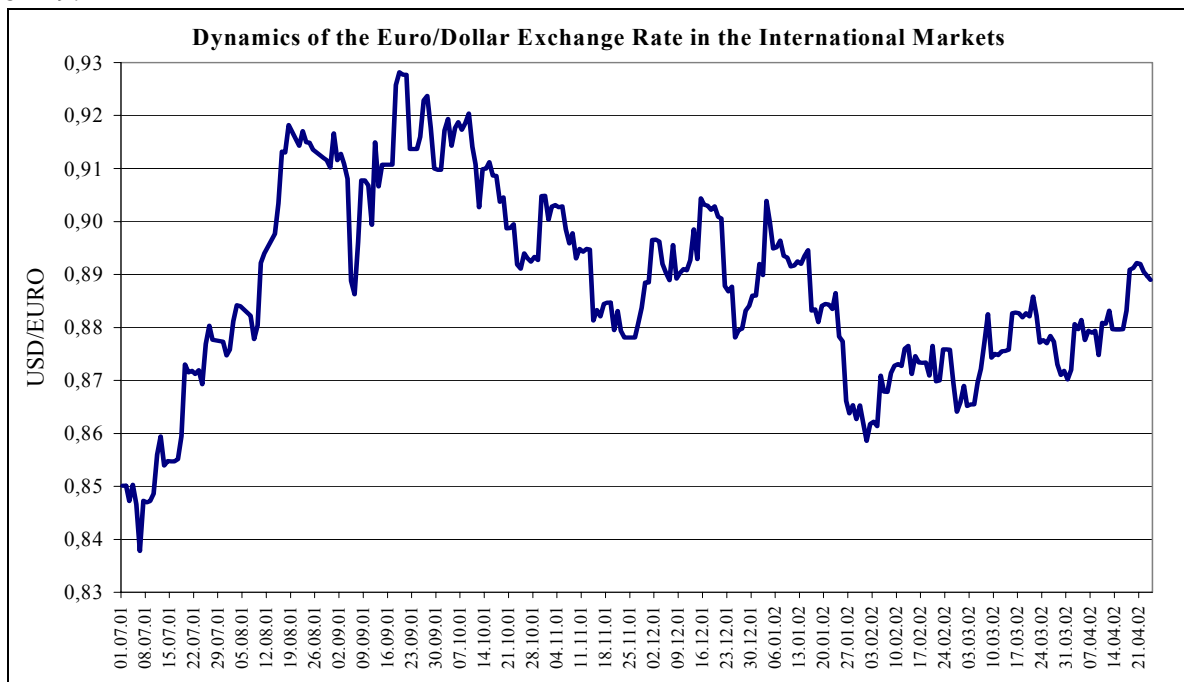
FIGURE 8.



In April 2002 the EUR/USD exchange rate grew slightly and returned to the level of January 2002 (see Fig. 9). The main reasons for the strengthening of the European currency were: the confusing data on the state of the US economy between the fourth quarter of 2001 through the first quarter of 2002; revision of some indicators (in particular, data on

unemployment and vacancies) raises certain doubts about the end of the US recession. At the same time, intensification of the political uncertainty in the Middle East and therise in oil prices create preconditions of a new devaluation of euro during the upcoming months.

FIGURE 9.



In April, the rouble/euro official exchange rate fell from 27.1515 roubles/euro to 28.1278 roubles/euro (as of April 28), i.e. by 3.60% over the

month. According to preliminary estimates, in April 2002, the total trading volume on euro continued to grow and made up to 4 billion roubles.

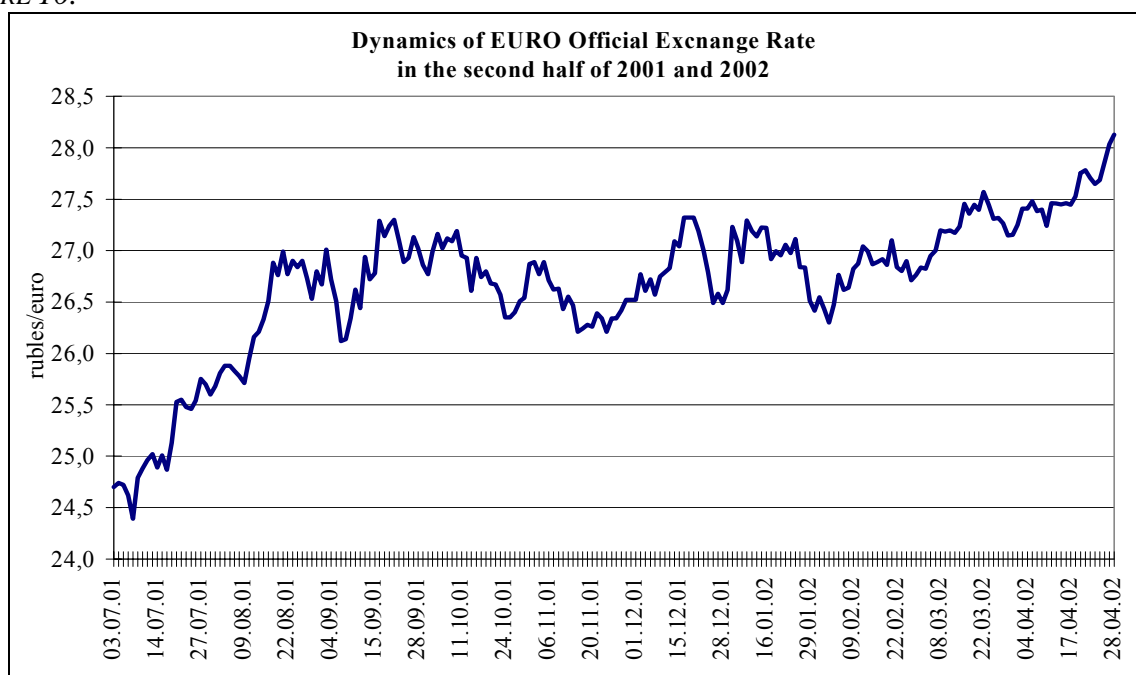


TABLE 2. INDICATORS OF FINANCIAL MARKETS.

	December	January	February	March	April*
inflation rate (monthly)	1.6%	3.1%	1.2%	1.1%	1.3%
annualised inflation rate by the month's tendency	20.98%	44.25%	15.39%	14.03%	16.8%
the RCB refinancing rate	25%	25%	25%	25%	23%
annualised yield to maturity on OFZ issues	15.84%	14.08%	13.84%	15.80%	16.8%
volume of trading in the secondary GKO-OFZ market a month (billion roubles)	10.20	4.51	6.11	4.78	10.0
yield to maturity on Minfin bonds by the end of the month (% a year):					
4th tranche	10.20%	7.22%	5.97%	6.86%	6%
5th tranche	13.36%	11.03%	9.35%	10.13%	9.8%
6th tranche	11.86%	10.57%	8.96%	9.65%	8.8%
7th tranche	12.54%	11.62%	9.16%	10.23%	10.1%
8th tranche	11.93%	10.41%	8.75%	9.63%	8.8%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					
overnight	24.66%	29.09%	39.64%	17.79%	12%
1 week	23.97%	8.24%	14.55%	22.84%	14%
official exchange rate of ruble per US dollar by the end of the month	30.14	30.6850	30.9404	31.1192	31.2
official exchange rate of ruble per Euro by the end of the month	26.617	26.5456	26.7120	27.1515	28.15
average annualized exchange rate of ruble per US dollar growth	0.70%	1.81%	0.83%	0.58%	0.25%
average annualized exchange rate of ruble per euro growth	0.37%	-0.27%	0.63%	1.65%	3.6%
volume of trading at the stock market in the RTS for the month (millions of USD)	277.0	419.7	247.1	426.3	470
the value of the RTS Index by the end of the month	260.05	287.53	290.75	350.75	395
growth in the RTS Index (% a month)	14.82%	10.57%	1.12%	20.64%	12.5%

* Estimates

Investment in the Real Sector

In the first quarter of 2002 the rankings of Russia's investment attractiveness issued by international agencies underwent practically no changes. International ranking agency Standard & Poor's increased the sovereign credit ranking of Russia from "stable" to "positive," what should facilitate the further growth of long term (B+) and short term (B) Russia's rankings.

On February 22, 2002, Standard & Poor's granted to the Russian Federation the credit ranking of borrower "ruAA+" according to the new international scale, what was a result of Russia's high capacity to timely and properly carry out its debt obligations and the credit standing of the country.

In the first quarter of 2002, the amount of investment in fixed assets from all sources of financing made Rb. 254.4 bln., or 101.2 % of the figures registered over the respective period in the preceding year. The analysis of monthly dynamics of growth rates relating to the investment in fixed assets demonstrates that the growth was generated by a high rate of increase in investment activity in March of 2002. The amount of investment in fixed assets increased by 13.6 % as compared with the level observed in this February.

The major factors constraining investment activity was a slowdown in the rates of economic growth, deteriorating financial standing of industrial enterprises and small amounts of state investment in the beginning of the year.

The federal budget for 2002 targeted Rb. 50.22 bln. for financing state capital investment, including: unpaid obligations of preceding years – Rb. 1.2 bln., financing of construction and objects of the Federal Targeted Investment Program – Rb. 44.56 bln. In January through March of 2002, the state capital investment were financed in the amount of Rb. 4703.0 mil., what accounts for 9.4 %

of the year's target, while in March the financing made Rb. 2671.1 mil.

The financing of the Federal Targeted Investment Program accounted for financing in amount of Rb. 4667.2 mil. in January through March of 2002, or 10.5 % of the year's target, including the March financing amounting to Rb. 2635.3 mil., of which Rb. 4139.1 mil. were related to the item "Industry, power engineering and construction" and Rb. 123.9 mil. to the item "Financial aid to budgets of other levels."

The deteriorating financial standing of enterprises has negatively affected the dynamics of investment. There was observed a decline in the share of profits in the sources of financing, while the high costs of commercial credit and complicated borrowing procedures applicable to investment projects account for the fact that the role played by banking capital in the financing of investment programs remains negligible. Besides, this year the investment activity was affected by the abolition of profit tax preferences primarily related to the areas of investment activities. These developments resulted in a decrease in the general base of investment resources as concerns accumulated profits. The intensity of investment activity was also affected by the decline in the proceeds of export-oriented industries, which generate almost ¼ of the total investment demand in the Russia's economy.

As a results of the developments taking place in the first quarter of 2002, the share of GROSS ACCUMULATION IN FIXED ASSETS in GDP made 11.4 % as compared to 12.9 % registered in the respective period of the preceding year. The decline in the investment activity took place at the background of falling share of gross national saving, which decreased by 6.4 p. p. in comparison with the respective period of 2001.

O. Izryadnova

The Real Sector: Factors and Trends

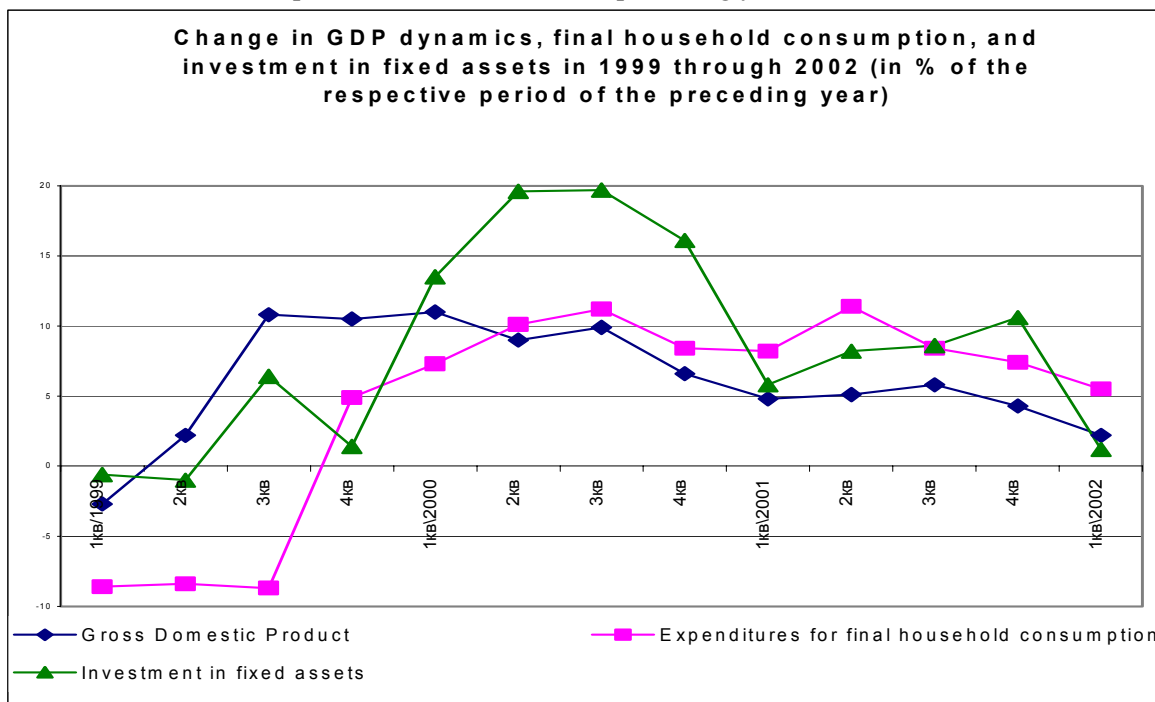
According to preliminary estimates, the growth in gross domestic product made 3.3 % in the first quarter of 2002. The economic growth was supported by the persistent positive dynamics of production across practically all sectors of the economy. The output of products and services of base sectors increased by 3.3 per cent as compared with the period from January to March of 2001. After the traditional January downfall in business activity the recovery of the trend towards a growth

in final demand observed in February through March decisively affected the dynamics of macroeconomic indicators. As a result of developments in the first quarter of 2002, investment in fixed assets increased by 1.2 %, while the turnover of retail trade grew by 9.1 %, and paid services to households demonstrated a 1.7 % growth.

In the first quarter of 2002, the situation in the foreign trade sector was affected by a gradual

increase in prices on the world market of hydrocarbon raw materials. The volume of exports grew by 3.5 % in comparison with the figures registered in the first quarter of 2001, however, the persistent trend to the outpacing increase in imports the net exports made 98.3 % of the level observed over the respective period of the preceding year. The outpacing rates of growth in domestic demand as compared to external demand is a major factor behind the structural shifts in production.

A key factor generating growth in GDP over the first quarter was the increase in final household consumption by 6.9 % as compared with the respective period of the preceding year. The growth in disposable household incomes made 108.7 % over this period. In January through March of 2002 the size of the population with cash incomes below the subsistence minimum declined from 5.2 mil. in comparison to the respective period of the preceding year.



On the whole, the analysis of the results of the first quarter of 2002 demonstrates that the economy gradually overcomes the negative trends registered over the fourth quarter of 2001. In early 2002, producers retained rather stable position even in spite of the fact that there were registered critical parameters of change in key factors of economic growth. The accumulated potential for growth resulted in a successful adaptation to the change in the external economic situation, real Ruble exchange rate dynamics, labor costs, and expenditures relating to the payment for products and services of natural monopolies.

The revival of industrial output was the decisive factor behind the growth in GDP. In February through March of 2002, the economy overcome the downward trend of industrial output registered in the 4th quarter of 2001 and January of 2002. The developments in the 1st quarter of 2002 resulted in a 2.6 % increase in industrial output as compared with the respective period of the preceding year.

The persistence of outpacing growth rates in consumer and export-oriented industries positively

affected the overall dynamics of industrial output in the 1st quarter of 2002. This year, consumer sectors demonstrated the highest rates of development. In January through March of 2002, the production index across industries of the consumer complex made 106 % as compared with the respective period of 2001 and accounted for almost 30 % of growth in the volume of industrial output.

The rate of output growth in export-oriented industries made 103.8 % in comparison with the first quarter of 2001. Among industries belonging to this complex, fuel industry and non-ferrous metallurgy developed at outpacing rates (105.8 % and 108.7 % respectively).

Taking into account the traditional seasonal decline in business activity in construction, the rate of increase in the investment complex made 101.2 %. In February through March of this year, there was registered an intensive growth in output of mechanical engineering and industry of construction materials, which fully corresponded with the recovery of positive dynamics of increase in investment in fixed assets. While in March of

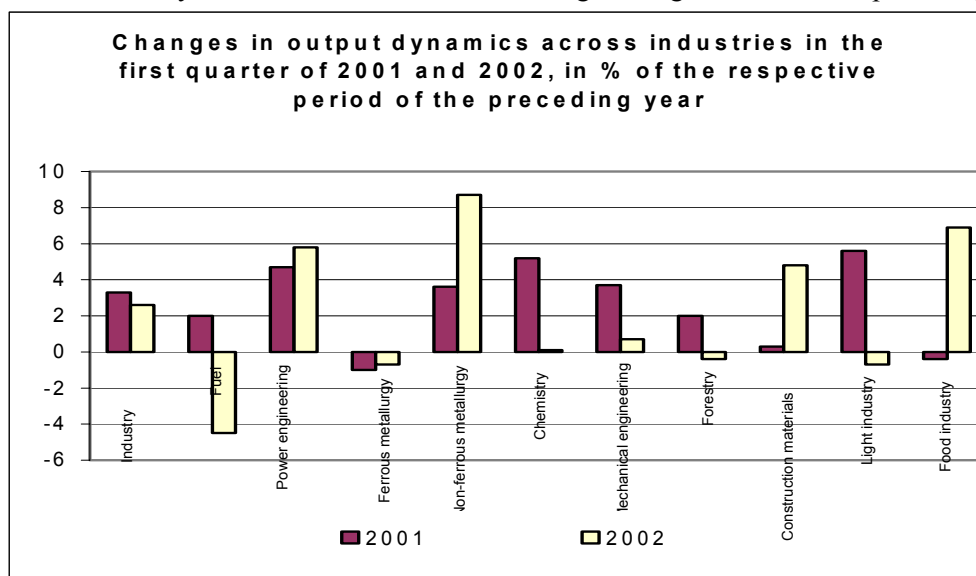
2002 investment in fixed assets grew by 13.6 % in comparison to the preceding months, the increase in the output of mechanical engineering and construction materials industry made 13.1 % and 4.9 % respectively.

In the course of analysis of output dynamics registered in March of this year, there shall be emphasized such positive developments as the recovery of growth in chemistry and petro-chemistry (105.4 %), lumber, woodworking, and pulp and paper industry (102.5 %) and in light industry (100.1 %). In March of this year, a decline in production was observed only in ferrous metallurgy, where the dynamics of production were affected, on the one hand, by domestic demand for

construction materials contracting as a result of declining business activity in the investment complex, and, on the other hand, the forced decrease in exports caused by respective anti-dumping actions taken by a number of foreign countries.

The persisting downfall in output of medical industry (91.4 %) caused primarily by low competitiveness of domestic chemical and pharmaceutical products was among the factors checking the growth..

The cumulative effect of the trends and factors noted above accounted for more moderate rates of economic development in 2002 as compared with the figures registered over the preceding years.



Changes in the business situation on the domestic market occurring in January through February affected both the dynamics of profit of the economy, and the nature of payments for works and services. The results of the first two months of 2002 demonstrate that the trend towards a decline in the indicators of financial operations of enterprises in the real sector of the economy observed since the middle of the preceding year still persists. In January through February of 2002, the balanced financial result of large and medium sized organizations across all sectors of the economy made Rb. 162.8 bln., or 79.2 % of the level registered over the respective period of the preceding year.

A decrease in the balanced profits was observed across all sectors of the economy with the exception of transportation. As a result of deteriorating financial results of operation of industrial and construction enterprises the sectoral structure of the total balanced profit changed in

January through February of 2002. In spite of the fact that more than half of the total amount of balanced profit was earned by industrial organizations, its specific weight decreased by 0.9 p. p. in comparison with the period from January to February of 2001. There is also observed a decline in the share of profits of construction and other sectors of the economy, while the profits in transport grew by 2.9 p. p. The decrease in the balanced financial result was accompanied by a 1.4 p. p. growth in the specific weight of loss-making enterprises as compared with the period from January to February of 2001.

It shall be mentioned that the deteriorating financial standing of enterprises in the real sector of the economy has a negative impact on investment activity, and this factor shall be taken into account in the course of evaluation of prospects of economic growth.

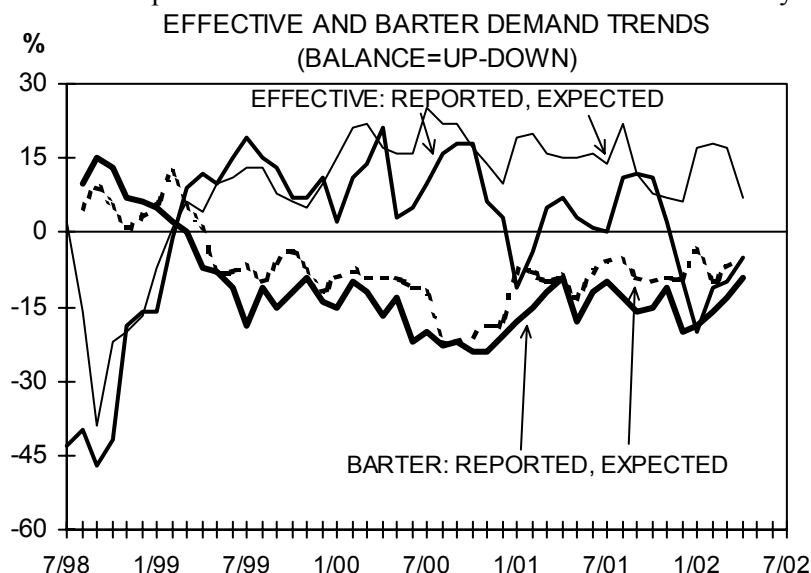
O. Izryadnova

IET Business Survey: Industry

In April, no turning point in the development of negative trends formed yet in the late 2001 was registered. Effective demand still declines, while the stocks of finished goods increased, what accounts for the fact that enterprises are again ready to resort to non-cash transactions. All these developments stopped the “boost” of the Russia’s industry. Plans and estimates for a few next months do not envisage a change in the situation. It appears that enterprises became sure of the negative development of the situation: for the first time since the beginning of the post-default growth they plan to reduce the number of jobs.

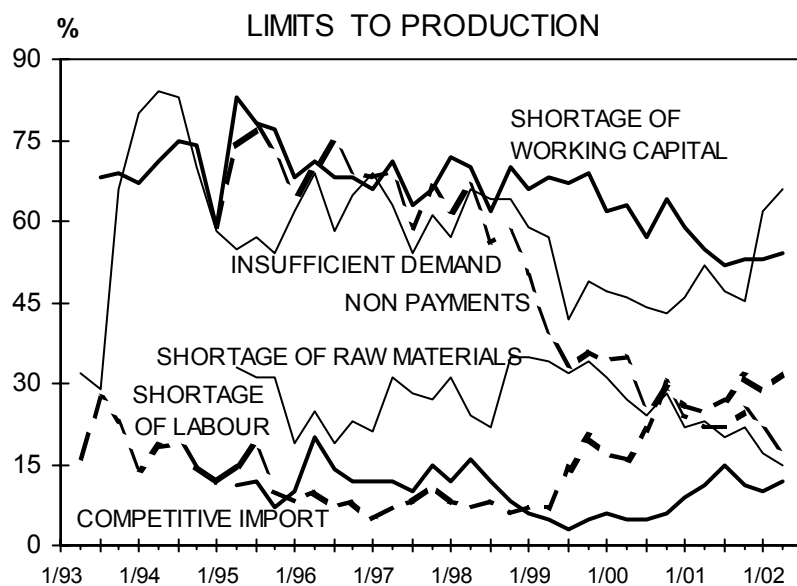
April failed to bring about the long expected growth in effective demand for the products of the

Russia’s industry. The proportion of enterprises’ responses demonstrates that cash sales have been declining for the fifth month running. The intensity of the decline gradually subsides, however it is the fact that no such prolonged and deep downfall in the Russia’s industry has been observed since the early 1999. In the last month, an increase in cash demand was registered only in chemistry, petro-chemistry, mechanical engineering, and industry of construction materials. Sales declined across other sectors. Especially intensive decrease in sales was observed in power engineering (seasonality!), metallurgy, and light industry. The continuing decline in sales determined the change in other indicators of the Russia’s industry.



According to enterprises’ estimates, in the 1st quarter of 2002 their sales markets experienced a decline in sales of domestic products. The intensity of decline persisted at the level observed in the 4th quarter of 2001. Growing volumes of sales of domestic products were registered only on the markets relating to chemistry, petro-chemistry, construction industry, and food industry. The volumes of sales of domestic products declined across other industries, while the overall volumes of import across all markets of industrial products grew. This process was especially intensive in chemistry, petro-chemistry, ferrous metallurgy, and furniture sector.

Low demand again was most frequently reported limit to production. In April of 2002, it hindered to increase output to the same number of enterprises as in April through July of 1998. Enterprises still less frequently report two other pre-default problems of 1998 (payment arrears and shortage of working capital). The fact that the constraining effect of shortage of raw materials and skilled labor are also an evidence that negative trends develop in the Russia’s industry. The increasing share of enterprises evaluating their capacities as redundant in relation to expected demand is yet another confirmation of this argument. In April such estimates made 36 % and 21 % respectively. These are the worst values of indicators since end-1999.



In order to avoid the suspension of production Russia's enterprises begin more frequently resort to non-cash realization of their products. In April, there were registered the most moderate rates of decrease in barter transactions since 1999, while the rates of decline in the volumes of promissory-note and off-set deals were lowest since 2000 (the first year the monitoring of these types of demand was started). No increase in barter has been registered at the sectoral level yet, however, the volumes of promissory-note and off-set transactions grew in chemistry, petro-chemistry, and light industry. At the same time, enterprises consider the scale of barter, promissory-note, and off-set deals as insufficient. In April, there was registered the highest rate of dissatisfaction in relation to the volumes of such transactions since the start of the monitoring of these indicators. The most massive "shortage" of non-cash transactions was registered in the forestry complex and light industry.

The intensity of growth in output volumes practically did not change in April. The absence of growth in sales, a fast recovery of growth in output in February through March, and the low share of optimistic estimates in relation to demand trends in a few next months were factors braking the "boost" of production in the Russia's industry. In April, accelerating rates of growth in production were registered only in chemistry, petro-chemistry, and mechanical engineering. Other industries reported lower rates of growth, while in the forestry complex and light industry surveys even registered a decline in output in absolute terms.

The dynamics of the output volumes and estimates of the stocks of finished goods have also responded to sales problems of enterprises. In April, there was registered an increase in the stocks

of finished goods and the growing number of reports estimating their volumes as excessive. Therefore, even in spite of the fact that enterprises checked their production and resorted to non-cash forms of realization of their products failed to resolve the problem of excessive stocks of finished goods. The largest excessive stocks are being registered in chemistry, petro-chemistry, light, and food industries.

The financial and economic standing of enterprises started to deteriorate as a result of these developments. The share of reporting on a decrease in real profits has increased from 40 % to 45 % over the last three months, while the share of responses stating an increase in real profits declined from 12 to 9. The most intensive decrease in profits was registered in power engineering, light industry and forestry complex. The integral appraisals of enterprises' standing deteriorated by 4 points over the last quarter. At the moment, only 1 % of enterprises estimate their standing as "good." This is the smallest number of such estimates registered since the early 1999.

In April, forecasts of changes in effective demand deteriorated sharply deteriorated (by 10 points) and were among the most modest since the start of the post-default growth in production. Declining optimism of forecasts was registered across all industries, while light industry and forestry complex demonstrated negative balances of forecasts. These industries already expect a decrease in cash sales in absolute terms. Estimates of change in non-cash forms of demand did not change in April. Enterprises foresee a minimal decline in the volumes of such transactions in the next few months.

After a sharp downfall in March, estimates of changes in output remain at the practically same level (a lowest registered over the last three years). However, the balance of these estimates is still positive, i.e. the industry on the whole and the majority of branches plan to increase output. In the immediate future, a decline in absolute terms (following demand) is probable only in forestry complex and light industry.

At the same time, the April estimates of changes in employment altered dramatically. For the first time since April of 1999 (the start of the post-default growth in effective demand and production) they become negative. I.e. at the moment the majority of enterprises expect the reduction of jobs in absolute terms. Such forecasts prevailed across all industries except the industry of construction materials (due to the seasonal factors).

S. Tsoukhlo

Foreign Trade

According to the Bank of Russia, in February of 2002, the total amount of Russia's foreign trade decreased by 5.9 per cent in comparison with the figures registered over the respective period of 2001 and made USD 11.1 bln.

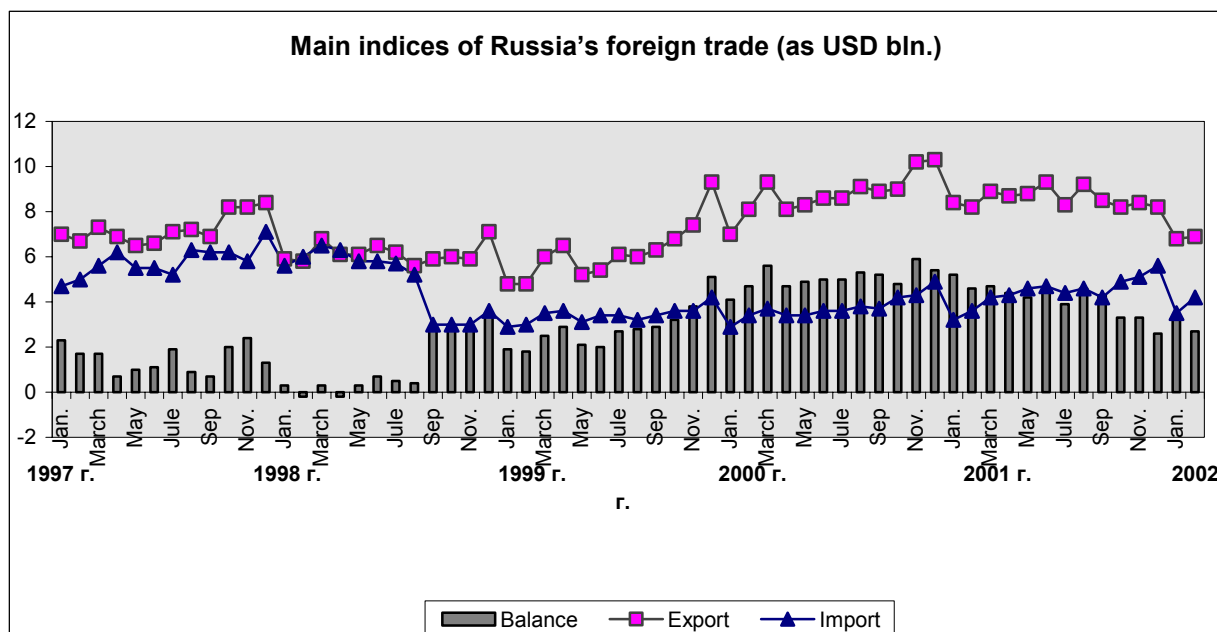
Exports made USD 6.85 bln. as compared with USD 6.77 bln. in this January and USD 8.23 bln. in February of the last year. Although the rates of decline in export decelerated, they remain at a rather high level. Exports fell by 16.7 % in comparison with February of the last year.

FIGURE 1

MAIN INDICES OF RUSSIA'S FOREIGN TRADE (AS USD BLN.)

In February of 2002, after the traditional January dip, imports regained the upward trend that became apparent over the last year. In February, imports grew by 20.5 % in comparison with the figures registered in this January and made USD 4.17 bln. Imports grew by 11.2 % as compared with the level observed in February of the last year.

In February, the balance of trade made USD 2.68 bln. as compared with USD 3.31 bln. registered in January of this year and USD 4.48 bln. last February.



Source: RF Goskomstat

The business situation on world markets began to improve. Although prices of staple Russia's exports remain below the figures registered over the last year, since end-February there has been observed an upward trend. Among key factors accounting for a rise in oil prices were OPEC plans to retain oil extraction at the current level, what was confirmed

in the course of the last OPEC meeting held on March 15.

The market of non-ferrous metals also experiences an upturn. Nickel prices have grown by 25 % since the beginning of this year. In April, the growth continued (USD 7150 per metric ton of ready-to-ship metal and USD 7160 per metric ton for three-month contracts as on April 23). Lead

prices are at the stage of stabilization since mid-February (about USD 475 per metric ton of ready-to-ship metal). After April 15, when there were registered the minimal prices for a two-months period, copper and aluminum prices demonstrated an upward trend. Copper was at USD 1616 per metric ton and aluminum – at USD 1385 per metric ton as on April 23.

Prices of major steel products remained at low levels in February of this year and did not change in comparison with January: reinforcing steel – USD 185 to 210 per tonne, commercial steel – USD 210 to 245 per tonne, hot rolled steel in rolls – USD 190 to 200 per tonne.

TABLE 1. THE AVERAGE MONTHLY WORLD PRICES IN FEBRUARY OF THE RESPECTIVE YEAR

	1996	1997	1998	1999	2000	2001	2001
Oil (Brent), USD / metric ton	126,1	155,8	109,2	78,3	195,9	198,0	147,8
Natural gas, USD / thous. m ³		78,7	71,2	72,7	101,0	201,5	80,7
Gasoline, USD / metric ton	192,6	233,0	181,3	187,3	333,5	315,1	220,0
Copper, USD / metric ton	2552,9	2392,0	1673,3	1414,8	1779,1	1811,4	1601,5
Aluminum, USD / metric ton	1597,8	1567,7	1479	1188,1	1584,2	1602,1	1370,8
Nickel, USD / metric ton	8091,5	7670,8	5462,2	4629,4	10269,6	6544,6	6042,7

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

The foreign trade turnover with countries outside CIS and Baltic states fell by 7.9 % and made USD 8.97 bln. At the same time, imports made USD 3.19 bln. (a 18.6 % growth), exports – USD 5.78 bln (a 18 % decrease).

Two factors were behind this sharp downfall in exports: first, a decrease in average export prices of major fuel and energy products – oil (by 27 %) and oil products (by 31 %), and, second, a decline in the export of ferrous and especially non-ferrous metals, both in terms of volumes and export prices. For instance, volumes of export of ferrous metals to countries outside NIS decreased by 2 % and made 791.7 mil. t., copper – by 15 % to 90.6 thous. t., aluminum – by 8 % to 473.6 mil. t., nickel – 2.3 times to 90.6 thous. t. The average export price of ferrous metals fell by 5 %, copper and aluminum – by 18 %, nickel – by 13 %.

In February of 2002, imports from countries outside NIS grew by 18.6 % and made USD 3.19 bil. Food imports increase at especially high rates. According to preliminary estimates, the first quarter of this year accounts for a 30 % hike in food imports as compared with the first three months of 2001. At the same time, rates of growth in RF food imports considerably outpace the increase in domestic production. The situation of meat exports is especially serious. In relation to these developments, the government took a decision to review again the possibility to introduce non-tariff regulation measures with regard to imports. For instance, it was decided to review once more quality standards, as there are still registered many claims in respect of the quality of imported foods. It is planned to create a working group to deal with issues concerning the quality of imports and respective standards.

In February of 2002, the amount of Russia's trade vis-à-vis CIS countries made USD 2.06 bln. Both exports and imports declined in comparison with the respective indicators registered over the preceding year by 8 % and made respectively USD 1.08 bln. and USD 0.98 bln.; therefore, Russia still maintains a positive balance of trade.

The commodity composition of Russia's exports to CIS countries in February of 2002 somewhat deteriorated as the share of products of fuel and energy complex made over 55 %, while in 2001 this indicator fell to 40 %. In 2002, trends observed in 2001 still persist as concerns the staple exports to CIS (oil and natural gas). Oil exports grew more than threefold, while natural gas exports continued to decrease and made only 70 % of the level registered in 2001. Negative trends in the structure of Russia's exports were also confirmed by the data on export of machinery and equipment – while in February of 2002 the share of these products in the total exports made only 15 %, in 2001 it was registered at 25 %.

In the structure of Russia's imports from CIS countries, food and machinery accounted for 20 % of the total imports from these countries. As concerns import of other products, in February of 2002 the imports of ferrous metals and pipes fell most dramatically in comparison with the same period of the preceding year (by 40 % and three times respectively).

As a reaction to the fact that US introduced duties on imports of steel products from a number of countries, including Russia, the Russian Federation withdraws from the comprehensive agreement with US regulating the trade with steel. The agreement was signed in 1999. Russia unilaterally undertook to limit its imports of steel products to US.

The withdrawal from the agreement will allow Russia to increase deliveries of certain steel products, first of all, cold rolled steel, steel beams, and sheet steel. Besides, US agreed to reserve for Russia 25 % of the its world quote of imports of steel slabs. Therefore, financial losses of Russia's metallurgists will be compensated practically in full.

However, the measures undertaken by US were primarily aimed to decrease imports of technology-intensive and expensive steel products, not raw materials and semi-finished products comprising cast iron, slabs, steel sheets, etc. Therefore, in fact Russia's metallurgy is encouraged to produce the cheapest steel products. Besides, Russia has no guarantee against new anti-dumping investigations and respective sanctions. On April 10, in the framework of an anti-dumping investigation related to cold rolled steel, the US Department of Commerce ruled that there exist critical conditions caused by imports from six countries (including

Russia), which cause injury to domestic producers. Therefore, it is probable that in April US may introduce additional duties (more than 100 %) to be collected since January 26, 2002.

The RF government has not taken the final decision on imports of cars yet. The draft of the resolution has been discussed three times, however, every time the document was returned for further elaboration. In the course of the last discussion (March 21) it was argued that the duties on imported used (3 to 7 years) cars should be raised only slightly, while the duties on cars aged over 7 years shall be increased up to 70 % of their customs value. However, the draft resolution elaborated for further review by the working government commission in early May proposed to increase the basic rate on imports of new cars from 25 % to 35 %. In case this resolution is signed in May, new customs duties, including those imposed on new cars, will be in effect since June.

N. Volovik, N. Leonova

On the Progress of Economic Reforms

Three months passed since the moment the last year governmental action plan expired until the new program for year 2002 came into force (the new action plan of the RF government aimed to implement key guidelines of the program of social and political development of the Russian Federation in a medium time run (in 2002 through 2004) was approved on March 16, 2002). However, this delay did not significantly affect the pace of reforms, which did not decrease in comparison with 2001 (although did not accelerate either).

Before focusing on the developments taking place in the first quarter and April of 2002, the principal normative acts approved in late 2001 shall be discussed (two most important of them being the joint strategy of the government and the central bank aimed to reform the banking sector and the law on electronic digital signature). Although the joint strategy is, to a considerable extent, a compromise and a far cry from radical program of reforms in the banking sector, potentially it still can improve capitalization and reliability of banks, increase the share of bank credits in the sources of financing of enterprises. The changes in the administration of the Bank of Russia encourage optimism as concerns the reform of the banking sector.

The law on electronic digital signature signed by the President in December shall become the first step towards the transition of governmental

structures to the turnover of documentation in electronic form (what will result in improved timeliness and quality of decision making, quality of public services) and will decrease transaction costs in the commercial sector.

In early 2002, the government continued to work on measures aimed to ensure the progress of reforms across all sectors of the economy and social sphere. A key step along this avenue was the draft federal law "On state minimal social standards" submitted to the RF government in February of 2002. The law is aimed to create a mechanism ensuring a certain quality of social services to the population across the whole RF territory, improve the efficiency of budgetary and extra-budgetary resources allocated for social development.

There was approved federal law "On All-Russian Census." The census will permit to detect major social, economic, and demographic trends in the Russian Federation. It will also make more precise the strategic data across all indicators characterizing the population: size and structure, education, and a number of others. The availability of maximally full information related to these indicators is necessary in order to pursue a successful social and economic policies.

In the sphere of education, two documents were submitted to the government of the Russian Federation: the Complex of measures aimed to

implement the Concept of modernization of education in Russia, which should be completed in 2010, and a draft resolution on creation of a system of attestation and educational quality control independent of governmental structures. In case this resolution is approved, an independent agency controlling the level of education and its accordance to approved standards of knowledge will be created in the country.

In the framework of pension reform draft federal laws (“On insurance payments for the financing of mandatory professional pension systems” and “On mandatory professional pension systems in the Russian Federation”) were elaborated and submitted to the State Duma of the Federal Assembly of the Russian Federation in order to create the legal basis necessary for the launch of professional pension systems.

As concerns the tax sphere, the long elaborated draft laws on the abolition of the tax on purchase of foreign currency and payment documents denominated in foreign currency, and on introduction of a single payment for imputed income and more simplified taxation procedures with regard to certain business activities were submitted to the RF government in March. These laws has been since long discussed at all levels of the government; however, these laws became ready for submission to the State Duma only recently. The approval of these laws shall be a significant step facilitating the tax reform, decrease in tax burden (especially on small businesses), promoting business activity (what is of special importance in the situation of decelerating rates of economic growth).

Aiming to develop the institution of bankruptcy, the State Duma passed in the first reading federal law “On insolvency (bankruptcy).” This draft law aims to more effectively protect rights of creditors and owners; however, it shall be noted that at the moment its provisions rise more questions than give answers. At present there are elaborated amendments, which should remove a considerable number of flaws contained in the law. These amendments will be introduced in the course of the second reading.

Recently approved federal law “On introduction of amendments to the Penal Code of the Russian Federation in order to toughen criminal liability for offences on the security market” will certainly facilitate the development of the stock market. The law stipulates tougher responsibility for the presentation of intentionally misleading information with regard to issuance of securities and malicious evasion of providing the information

about the issuer, its financial and economic operations and securities, transactions and other operations involving securities.

Federal law “On mandatory insurance of civil liability of vehicle owners,” which the State Duma passed in the third reading, is of significant importance for the insurance market, as it provides effective legal protection of victims and compensation of harm caused to their life, health, or property by third parties using vehicles.

There was completed the draft of federal law “On transfer of property owned by citizens and legal entities to the ownership of the Russian Federation (nationalization).” In case this law is approved, it will set civilized procedures for transfer of ownership rights relating to property of legal entities and individuals to the Russian Federation and protect the rights of persons whose property is nationalized, at the same time maintaining a balance of interests between the Russian Federation and owners of the nationalized property.

On March 16, 2002, the government of the Russian Federation submitted to the State Duma draft federal law “On turnover of farmlands.” The draft stipulates the specifics of transfer of ownership rights for farmlands, restrictions on the use of farmlands for other purposes, limits of land plots used for commercial agriculture, the specifics of turnover of land shares, the procedure and mechanism for the use of land plots for state or municipal needs. The law has been recently reviewed by the Presidium of the State Council and approved in general, what is an evidence of a high probability that it will be passed by the State Duma and the Federation Council. At the same time, it is apparent that the law will face bitter opposition in the Federal Assembly.

The reform of natural monopolies progressed. In March of 2002, the revised package of draft laws on the reform of power engineering was presented to the government of the Russian Federation. The package includes the following laws: “On introducing amendments to Section Two of the Civil Code of the Russian Federation,” “On power engineering,” “On introducing amendments to federal law ‘On natural monopolies,’” “On introducing amendments to federal law ‘On competition and restraints on monopolistic activities on commodity markets,’” “On introducing amendments to federal law ‘On economy of energy.’”

In the first quarter of 2002, the consistent effort was continued in the sphere of external economic activities in order to reach a compromise on

amendments to the Basic list of the Common customs tariff. There was fixed the agreed list of goods to which are applicable prohibitions and restrictions related to import and export of goods as concerns foreign trade with third countries and the list of goods not included in the agreed list.

There were signed agreements on customs and tax control over production and turnover of ethyl alcohol, alcohol, alcohol-containing and tobacco products within territories of member countries of Eurasian Economic Community (EvrAzES), and on

exchange of information among tax and customs agencies of Community's member countries.

Elaboration of draft federal laws "On specific protective, anti-dumping, and compensation measures relating to export of goods," "On licensing export and import of goods in the Russian Federation," "On amending federal law 'On state regulation of external economic activities'" is underway.

O. Fomichev

Agricultural Land Transferability Law: Development Progress

The processes currently underway in the Russian agrarian sector require clear legal definition of rules of agricultural land transfer since over 5-6% of eligible land areas are already involved in it. This is quite a large share as compared to 0.5-2% in developed countries and approximately the same percentage in major transition countries. An adequate legal basis is needed to support this transfer.

Following the new Land Code's adoption, the Agricultural Land Transferability Law is being worked out in the country. At present 6 draft bills are introduced to the State Duma: those of the Right Forces Alliance, of the Agrarian group, of deputy Bakiev R.S. et al., of deputies Chetverikov A.V. and Puzanovsky A.G. and, finally, that of the government.

Given the current political situation the government version is of particular interest since it's likely to become the basic document discussed in the Legislative Assembly.

The discussion on Agricultural Land Transferability Law revealed several key issues of divergence between the introduced bills. They are as follows:

1. Skill requirements to potential land owners

As a result of rather demagogic talks on especial value of farmland as a natural resource and the need to protect it from occasional people, almost all bills try to specify some skill requirements to potential owners. However, life shows that such requirements pose financial rather than qualification barriers and are an additional feeder for corruption. Besides, the evolving of private farming in Russia in the 1990's evidenced that newcomers from cities having no special agricultural training often turned out to be much more efficient agricultural producers as compared to local residents.

There are no such requirements in the government version of the Law and, to our mind, this is its positive distinction.

2. Ban on land ownership by non-residents

The right of foreign individuals and legal entities to own agricultural land is restricted in almost all the introduced bills: either only tenancy is allowed or the buy-out after several years of renting is forbidden except for some locations. To our mind, given the permitted land ownership by legal entities, any restrictions of personal non-residents' rights become a fiction since they are easily evaded. Thus, the choice between respective permission or ban is actually the choice between social and psychological appeasement of population (that is known to be generally against foreigners' land ownership) and the international rating of the country⁴.

The government version restricts non-residential land ownership only in special zones (e.g. near the state border).

3. Restriction on land transfer to the mortgagee in case of credit default

When specifying rules of agricultural land mortgage, all the bills on agricultural land transferability (as well as special bills on agricultural mortgage) presume that the mortgagee bank should have no right to get title to the mortgaged land in case of mortgager's failure to pay.

After the State Duma adopted the second reading of the bill that abrogates provisions of the Federal Mortgage Law banning agricultural land mortgage, the respective norms need not be included in the land transferability bill being discussed.

4. Upper limits on land ownership by one person

⁴ For example, the diminishing of residential qualification for foreigners to acquire farmland is currently one of the stumbling stones for Poland's acceptance to EU.

Almost all the introduced bills set upper limits on land area to be owned by one person, either by specifying it directly or by making references to corresponding legislation of Federation's constituent members. The alleged reason for that is the need to exercise antimonopoly control on the agricultural markets. But, first, ownership of land doesn't presume market monopoly: the land may not be cultivated at all or its productivity may be low. The opposite situation is possible and even more likely: product market monopoly is not tied with monopoly possession of land resources. Second, in case an agricultural product market is monopolized, antimonopoly regulations are enforced and the monopoly is fought with various means up to dividing the violating enterprise. There is no need to control land ownership for this purpose. Third, limits on land ownership will have no antimonopoly effect given the lack of limits on land tenancy: rented and used land areas may be much larger than the owned ones. Fourth, limits on land ownership will be hard to control and will become one more source for corruption.

Still, there is an aspect necessitating certain limits on concentration of land in the hands of one entity. As well as other natural resources land is a limited production input. Monopoly control over it may impede other entities' access to the market thus constraining competition. The RF Law "On competition and prevention of monopoly on commodity markets" doesn't envisage such a case, and therefore it's important to incorporate certain upper limits on land ownership at one local market into the agricultural land transferability law, e.g. through limiting farmland area to be owned by one entity in a rayon⁵ (this provision is included both in the government and the agrarian group's draft bills). It should be noted that at present the size of the largest land holdings does not exceed 300 thousand hectares (just the size of an average rayon in major agricultural regions) and they are always located not only in several rayons, but even more so - in several constituent members of the Federation. This enables operators to use agricultural machinery more efficiently. Therefore, there are no grounds to fear the emergence of land monopoly in the foreseeable future. It also goes without saying that the restoration of landlordism (i.e. the specific type of farming based on corvee and metayage) today is absolutely inconceivable.

⁵ An administrative unit - component part of an oblast (region). - *Ed.*

5. Transfer of land shares

One of the most complicated problems of the Agricultural Land Transferability Law is the legal regulation of issues pertaining to land shares - an institute that emerged in the process of collective and state farms' restructuring in early 1990's and nowadays became the basic mechanism of farmland transfer.

Land shares can be transferred through both purchase and rent, the latter being spread much wider. But in both cases the existing practice of conditional shares has advantages. It presumes that an owner of such a share has the absolute right to parcel out a physical land plot, but until he does that the location of his plot is not specified. A land share is a sort of option to be sold, purchased, rented, inherited, etc. This mechanism enables an entity wishing to acquire a large land area for agricultural production to accumulate the needed number of shares and only then to apply for parcelling out a land plot (or several plots). As a result the problem of land plots' consolidation (that is inevitable in case of acquiring physical plots⁶) is evaded. Consolidation requires time and money and thus can avert potential investors from the agrarian sector.

The second advantage of renting a share over renting a physical plot is its preferability for the share owner making him more willing to rent out. In case a share is rented, the tenant can get the corresponding land plot that is most suitably located (consolidated with other rented or purchased plots). After the term of the rent is over, the share owner may wish to parcel out a plot for his own needs. If the location of formerly rented out plot doesn't suit him, he can return it to collective land use and parcel out another plot. In case the location of a rented plot is specified once and forever, its owner may not wish to rent it out or its location may not suit the potential tenant and he will refrain from renting. In other words, the opportunity to rent a land share (instead of a physical plot) extends the market demand: there are more potential tenants wishing to rent a conditional land share rather than a physical plot and thus the price of such a rent is more economically justified.

Besides, tenancy (or life-long rent that is spread even wider) is a specific social compensatory mechanism in rural areas. After renting out their shares under life-long rent contract, elderly rural

⁶ This statement is supported by the experience of all East and Central European countries where land was physically distributed (irrespective of the form of such distribution - restitution or compensation).

residents get certain benefits from the tenant (not being large, they are still rather guaranteed). Given the persisting social instability and poor development of other social welfare mechanisms in the countryside, the renting out of land shares provides a real social guarantee to certain rather numerous groups of rural population. Neither their sale nor investment in the authorized capital ensures anything of the kind.

Today it's obvious that in the nearest future the basic agricultural producers in Russia will be large commodity farms cultivating extensive areas of rented or purchased land and employing many labourers. The mechanism of renting conditional land shares is quite adequate to the large-scale commodity production.

Still, in the introduced draft bills this mechanism is attacked both from the right and from the left. The proponents of left ideas advocate the ban on selling or renting out land shares to outsiders (i.e. outside the mother farm). This provision ensures to former collective and state farms guaranteed land use irrespective of its efficiency and thus hampers real land transfer in the country.

The proponents of right ideas (in particular, the government) try to adjust this special mechanism to the norms of civil legislation that does not incorporate the definition of land share or transactions with it. Therefore, it's proposed to abolish the rent of conditional land shares. In this case the agricultural land transfer will be hindered as well: large tenants will have to rent dispersed physical plots and bear substantial costs on their consolidation. Owners of land shares unwilling to sell but ready to rent them out will be discouraged: after the contract on renting out a conditional share is discontinued, the shareholder can parcel out a plot that is suitably located while in case of discontinued rent of a physical plot the owner may find his land to be right in the middle of large tenant's plantations. Given that a shareholder will rather prefer to rent his share to mother farm since in case of detaching from it the problem won't arise.

Besides, the abolition of conditional share renting entails cut of investments in agriculture that at present are made primarily by external investors. In such a case a potential investor will have two options to get access to land:

- purchase of land shares or a physical plot (from a collective owner);
- rent of a land plot from collective owner.

In both cases investor's expenditures on getting access to land resource grow. It's clear that the costs of purchasing land will be higher than those of renting it. Moreover, the latter will grow as well:

the rent charged by a collective owner will exceed the one charged by individual shareholders. As a result funds will be side-tracked from production investments and thus the total amount of investments in agriculture (that has just started to grow) will be curtailed by the land legislation regulations.

Finally, the abolition of land share renting will destroy the above mentioned social compensatory mechanism in rural areas in the situation when the state is not yet able to provide any substitute for it.

In this respect the best legal mechanism for regulating land share transfer is proposed in Chetverikov's draft bill.

The government version goes farther than simply abolishing the rent of conditional shares: it envisages the substitution of trustee management contracts for the existing land share tenancy agreements (though there are currently millions of them in the country). This is an unprecedented decision since the proposed law replaces contracts signed on certain terms with the ones that are radically different. It's inadmissible from the point of view of legal procedure. There are also many imperfections in the bill's contents, in particular:

1. The trustee manager "is to manage the property to the benefit of this management authorizer or the person named by him (beneficiary)" (Clause 1012 of the Civil Code). "The trustee manager cannot be a beneficiary under the trustee property management agreement" (Part 3, Clause 1015 of the Civil Code). In case of renting a land share the tenant uses property to his benefit, i.e. is a beneficiary paying for this opportunity to the owner. In other words, tenancy and trustee management are radically different institutes. The substitution of trustee management agreement for the tenancy agreement will mean that the former tenant can no longer get profit from using the land acquired in the form of renting land shares and has to pay all the revenue derived therefrom to the owner.

2. "The term of trustee property management agreement is not to exceed 5 years. The law can specify other maximum contract terms for selected types of property.

In case none of the parties to the agreement notifies of the wish to terminate it after the expiration of its term, the agreement is considered to be extended for the same period and on the same terms that were initially specified therein" (Part 2, Clause 1016 of the Civil Code). The draft government bill on agricultural land transferability does not clearly specify that the term of land share trustee management agreement can be longer. Thus

the term of land share renting under the formerly signed agreements is limited to 5 years while it's a common notion that land rent makes sense only when its term is at least 6-8 years.

3. "All settlements connected with trustee management are to be made through a separate banking account" (Part 1, Clause 1018 of the Civil Code). This means that all companies and individual farmers currently renting land shares will have to open separate banking accounts for transactions with output produced on land being a subject of trustee management agreements.

4. "The trustee manager who failed to take a proper care of beneficiary's or management authorizer's interests, reimburses the beneficiary for the profit lost during the trustee management agreement's term and pays to the management authorizer indemnity for the loss or damage to the property (other than normal wear) and for the lost profit" (Part 1, Clause 1022 of the Civil Code). This provision can be interpreted in such a way that in case within the agreement's term it becomes clear that if the property was managed (in other words, rented) by another person it would bring higher revenue, the difference is to be reimbursed to the owner at the expense of trustee manager. In terms of the rent this means that if within the tenancy term the share owner finds out that somebody pays higher rent, the tenant will have to reimburse the difference since it is a pure lost profit. Another case is possible as well: before the agreement expires the share owner gets to know that yields in the neighbour farm are higher and thus his profit can be treated as partially lost. In both cases the trustee management agreement becomes detrimental for the party currently renting land shares.

5. "Debts under liabilities arising from the trustee property management are settled at the expense of

this property. In case its value is not sufficient, the claim can be laid to the trustee manager's property and in case it's not sufficient either - to the property of management authorizer that is not transferred to trustee management" (Part 3, Clause 1022 of the Civil Code). In other words, in case a tenant got into debts after renting a land share, the latter can be used for settling them. Moreover, other property of land share owner can also be taken away as a recovery.

The above mentioned provisions will entail the cancellation of major part of existing tenancy agreements. The signing of new ones is a long and costly process and therefore the enactment of the new law will hinder agrarian sector's development for several years. It will actually mean a one more farm restructuring, the effect of which will be comparable to the 1992-1994 reform.

The second reason making this novelty of the government bill unacceptable from our point of view is the lack of provisions regulating the signing of agreements on trustee management of titles in the share land ownership. The bill doesn't give an answer to one of the basic questions: can such an agreement be signed by one co-owner without consent of the others? One cannot figure it out from the Civil Code's clauses relating to trustee management. Meanwhile, such a right is very important for land share tenancy.

In view of the above we find that the bill introduced by the government doesn't provide for preserving the existing mechanism of land share tenancy. If adopted, it will not only hinder land transfer in Russian agriculture but will impede the positive developments that have shown up in the sector in recent years.

E.Serova