

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
May 2002

MONTHLY BULLETIN

Moscow
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 (in % of GDP, in comparable prices).

	I'01	II'01	III'01	XII'01	I'02	II'02	III'02
Revenues							
Corporate profit tax	1,4%	1,5%	1,9%	2,4%	1,4%	1,4%	1,5%
Personal income tax	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%	4,9%	4,4%	4,0%
Tax on foreign trade and foreign trade operations	9,0%	9,2%	9,0%	9,4%	9,3%	9,1%	9,3%
Other taxes, duties and payments	6,7%	6,8%	6,7%	7,1%	6,9%	6,4%	6,8%
Total- taxes and charges	2,3%	2,4%	2,3%	2,2%	2,4%	2,6%	2,5%
Non- tax revenues	3,6%	4,1%	4,1%	3,7%	3,2%	3,3%	3,2%
Revenues, total	1,1%	0,9%	0,8%	0,6%	9,7%	9,1%	8,7%
Expenditure	15,2%	15,7%	15,7%	16,2%	20,4%	19,6%	19,6%
Public administration	1,0%	1,1%	1,1%	1,4%	2,1%	1,6%	1,4%
National defense	16,2%	16,9%	16,9%	17,6%	22,4%	21,2%	20,9%
International activities							
Judicial power	0,1%	0,2%	0,3%	0,5%	0,1%	0,2%	0,3%
Law enforcement and security activities	1,3%	2,0%	2,2%	2,7%	1,0%	1,5%	1,9%
Fundamental research	0,3%	0,3%	0,2%	0,3%	0,4%	0,4%	0,4%
Services provided for the national economy	0,0%	0,1%	0,1%	0,1%	0,0%	0,1%	0,1%
Social services	0,7%	1,1%	1,3%	1,6%	0,6%	0,9%	1,0%
Servicing of public debt	0,0%	0,1%	0,2%	0,3%	0,0%	0,1%	0,2%
Other expenditure	0,1%	0,3%	0,6%	1,3%	0,1%	0,3%	0,4%
Expenditure, total	1,3%	1,6%	1,9%	2,3%	3,7%	4,8%	4,8%
Loans, redemption exclusive	3,2%	5,5%	4,7%	2,6%	2,0%	3,4%	3,4%
Expenditure and loans, redemption exclusive	3,3%	3,1%	2,9%	3,0%	2,9%	3,3%	3,6%
Budget deficit (-)	10,4%	14,4%	14,2%	14,7%	10,9%	15,0%	16,1%
Domestic financing	5,8%	2,5%	2,6%	2,9%	11,5%	6,2%	4,8%
Other taxes, duties and payments	-3,7%	-0,8%	-0,6%	-0,1%	-11,2%	-4,6%	-2,7%
Total- taxes and charges	-2,1%	-1,7%	-2,1%	-2,8%	-0,4%	-1,6%	-2,1%
Non- tax revenues	-5,8%	-2,5%	-2,6%	-2,9%	-11,5%	-6,2%	-4,8%

* in % of GDP; ** Single Social Tax (SST) is included in tax revenues

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	XII'01	I'02	II'02	III'02	IV'02
Total	16,2%	16,9%	16,9%	17,5%	17,6%	22,2%	21,0%	20,9%	21,3%
Public administration	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%	1,7%	2,4%	2,4%	2,7%
International activities	0,5%	0,4%	0,2%	0,2%	0,3%	0,4%	0,2%	0,3%	0,5%
Judicial power	0,2%	0,2%	0,1%	0,1%	0,1%	0,2%	0,2%	0,2%	0,2%
Law enforcement and security activities	1,7%	2,0%	1,9%	1,8%	1,7%	1,6%	1,4%	1,4%	1,5%
Fundamental research	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,2%	0,3%
Services provided for the national economy	0,5%	0,9%	1,0%	1,0%	1,4%	0,3%	0,6%	0,8%	0,9%
Social services	2,4%	2,6%	2,5%	2,7%	2,3%	5,0%	5,7%	5,3%	5,9%
Servicing of public debt									
Other expenditure	3,2%	5,5%	4,7%	4,3%	2,6%	1,9%	3,4%	3,5%	2,7%
Total expenditure	3,7%	3,5%	3,2%	2,5%	3,0%	3,5%	4,0%	4,0%	4,0%
Profit (+) / deficit (-)	15,3%	18,3%	17,2%	16,4%	15,0%	15,5%	18,7%	18,6%	19,2%
Total	0,9%	-1,4%	-0,3%	1,1%	2,6%	6,8%	2,3%	2,4%	2,1%

The data on the execution of the federal budget in the first quarter of 2002 are presented in Table 1¹. As of April 1, 2002, the revenues of the federal budget accounted for 20.9 % of GDP, including tax revenues at 19.6 %, while expenditures made 16.1 % of GDP (18.6 % of GDP in terms of fulfilled

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

funding²), including non-interest ones – 12.7 % of GDP (15.1 % of GDP in terms of fulfilled funding). The level of budget surplus accounted for 4.8 % of GDP (2.4 % of GDP in terms of fulfilled funding).

The indicators of revenues collected in the first quarter of 2002 somewhat declined as compared to the figures registered in January and February, however. The tax revenues in January through March of 2002 made 15.6 % of GDP (without the single social tax).

A certain increase in VAT collection in the first quarter of 2002 as compared with the indicators registered in the last year (6.8 % of GDP in 2002 and 6.7 % of GDP in 2001) shall be noted, at the same time, there was registered a certain increase in excises (2.5 % of GDP in 2002 and 2.3 % of GDP in 2001), while taxes levied on foreign trade significantly declined (3.2 % of GDP in 2002 and 4.1 % of GDP in 2001).

The expenditures for the servicing of the public debt in the first quarter of 2002 made 3.4 % of GDP (significantly below 4.7 % observed in 2001). As concerns other expenditures of the federal budget, it shall be noted that in March the expenditures for national defense increased, and therefore the gap between the figures registered in the first quarter and the indicators of the preceding year narrowed (1.9 % of GDP in 2002 and 2.2 % of GDP in 2001). In the structure of social expenditures, the Pension Fund's subsidies for base labor pensions at the expense of the single social tax (SST) made 2.7 % of GDP, while PF subsidies for pensions of the military and law enforcement officers made 0.5 % of GDP.

As concerns the fulfilled funding, the expenditures in the first four months of 2002 made 19.2 %, what by 2.8 p. p. of GDP exceeds the expenditures in the preceding year. Without taking into account the financing of PF subsidies at the expense of SST, the expenditures of the federal budget made 16.1 % of GDP, what is even below the level of the preceding year.

As of end April, 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. 67 bln. (2.2 % of GDP) in terms of cash execution of the budget and by Rb. 10 bln. (0.3 % of GDP) in terms of the fulfilled execution of the budget.

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			IV		
218,7%			187,1%			234,8%			277,5%		

* 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 April of 2002 (without SST) in comparable prices was a most significant over the last three years.

The dynamics of actual tax debts to the federal budget is presented in Figure 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. 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). In April, there

² The execution of the budget in terms of fulfilled (actual) financing is equal to the sum of the funds transferred to managers of budget funds, while the cash execution of the budget is equal to the sum of funds spent by managers of funds (i.e. without account of funds remained on their accounts).

The estimate of tax revenues of the consolidated and federal budgets is presented in the table³. 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.

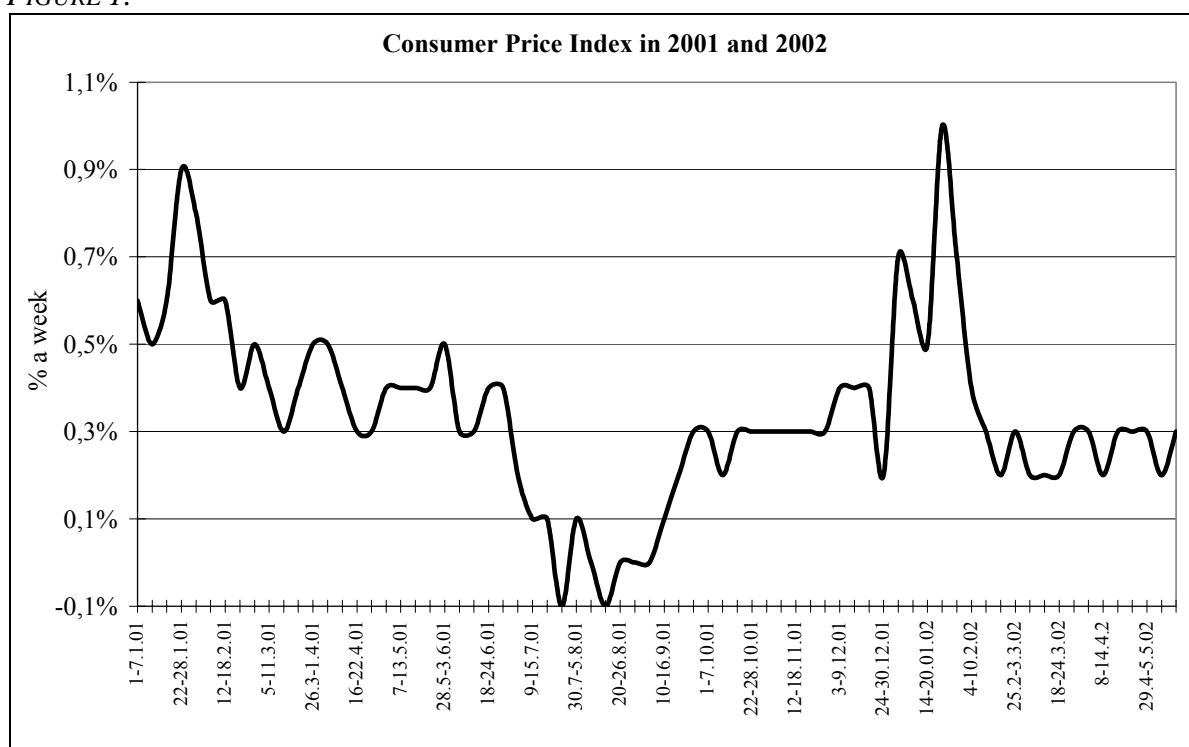
S. Batkibekov

Monetary Policy

In April 2002 the consumer price index grew by 1.2%. Thus, the inflation rate remained about 1.1–1.2% per month (14–15% annualised) during the third month in a row. The commodity structure of consumer price growth was the following: food stuffs – 1.0%, non-food products – 0,8%, services – 2,4%. Prices for fruit and vegetables (+6.4%), housing and house facilities (+3.6%), health and recreation (+3.2%) and infant education (+3.6%) were those that demonstrated the highest growth rates. It is evident that a part of the price increment was related to seasonal factors.

In May the average weekly inflation rates did not changed (see Fig. 1) and, according to preliminary estimates, in the month the CPI grew by about 1.3%.

FIGURE 1.

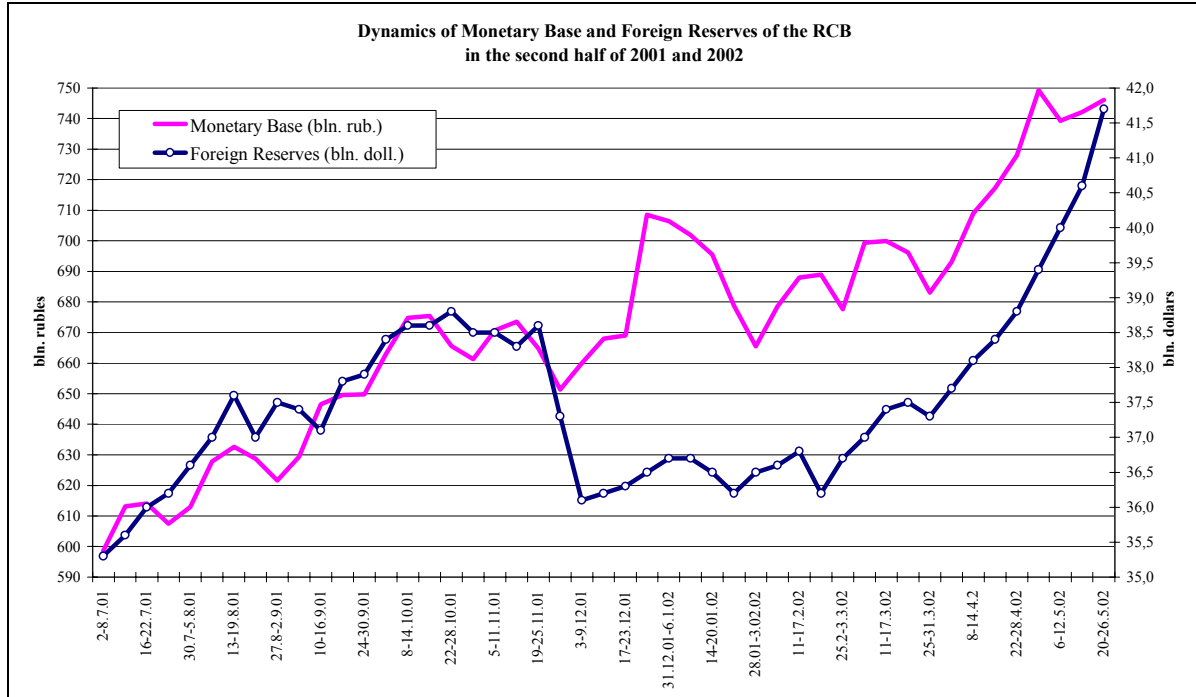


The rise of the CBR’s foreign reserves that started in April increased its growth in May (see Fig. 2). On the whole, since early March 2002 the reserves of the Bank of Russia increased by \$5.5 billion (15.2%), including about \$2.5 billion – in May. Therefore, by early June they reached the level of \$41.7 billion. The latter is the highest value for the period of observation.

At the same time, the growth of money supply was rather modest (see Fig. 2). Namely, after the first three weeks of May the narrow monetary base even squeezed (by 0.4%). Evidently, the Russian Central Bank sterilised its interventions in the forex market (most likely, through attracting liquidity to deposits), however, available by now data (including, lack of information on dynamics and structure of reserve money) do not allow to analyse the operations in details.

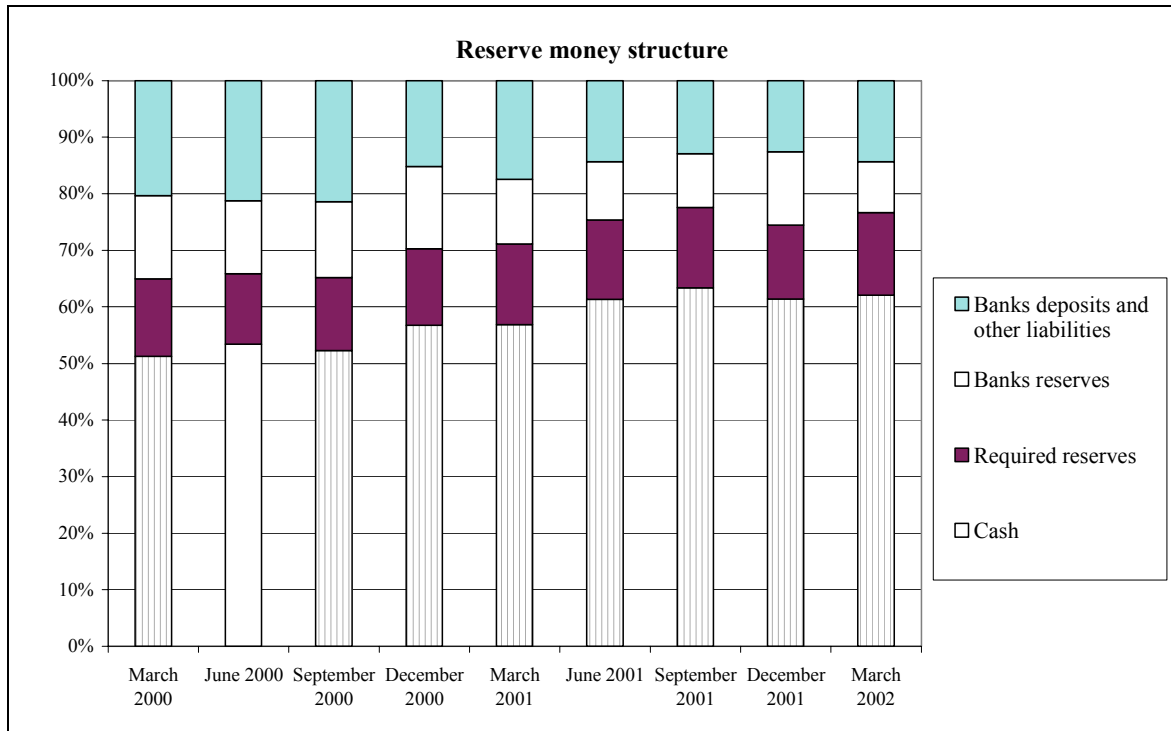
³ For the description of models see the preceding bulletins.

FIGURE 2.



The structure of reserve money in late-2001 and early-2002 was stable. The share of cash grew up to 60–65%, while non-borrowed reserves (balances on correspondent and deposit accounts of commercial banks in the Bank of Russia) did not exceed 23–25% of the reserve money. Therefore, the structure of monetary base was similar to the one observed in 1997, at the time of the most developed financial market and maximum utilisation of financial resources by banks.

FIGURE 3.



S. Drobyshesky.

Financial Markets

The market for government securities.

In May 2002 in the market for the Russian foreign debt one observed a stable situation, without any clear trend in quotations' dynamics (see Figs. 1 and 2). The pattern could be explained by a lack of important events both in the Russian economy and emerging markets as a whole. One of few influencing factors was some increase in short-term interest rates (LIBOR) in the second half of May, which induced a rise in yields on the Russian two-year bonds (from 4.5% to 5% annualised).

FIGURE 1.

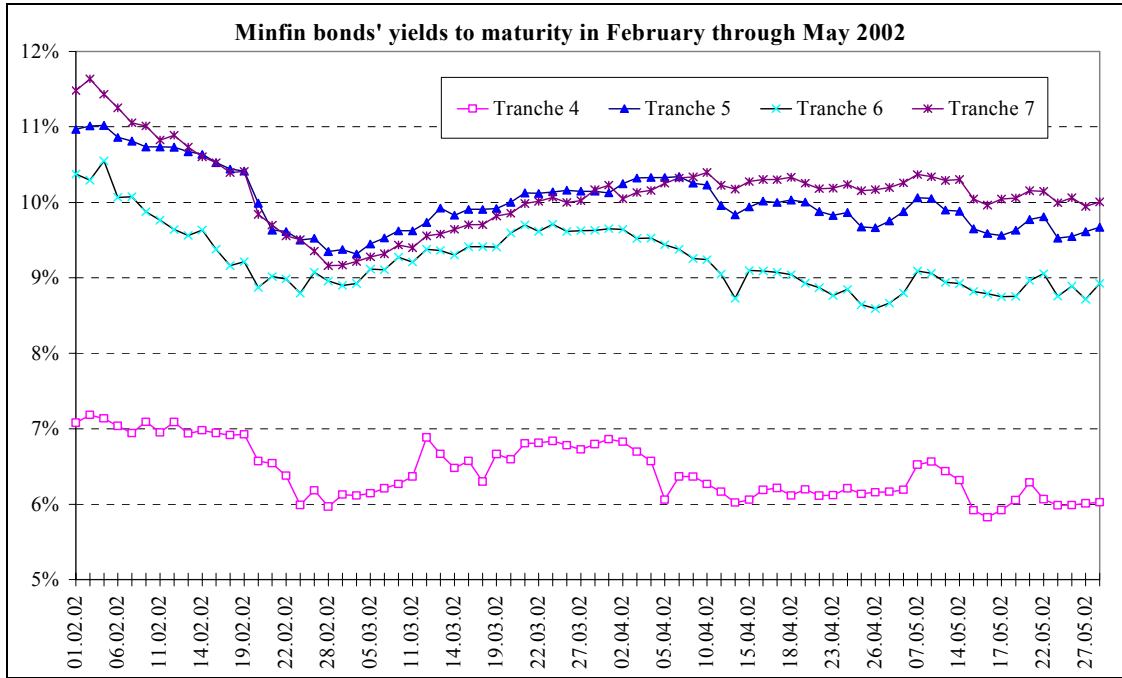
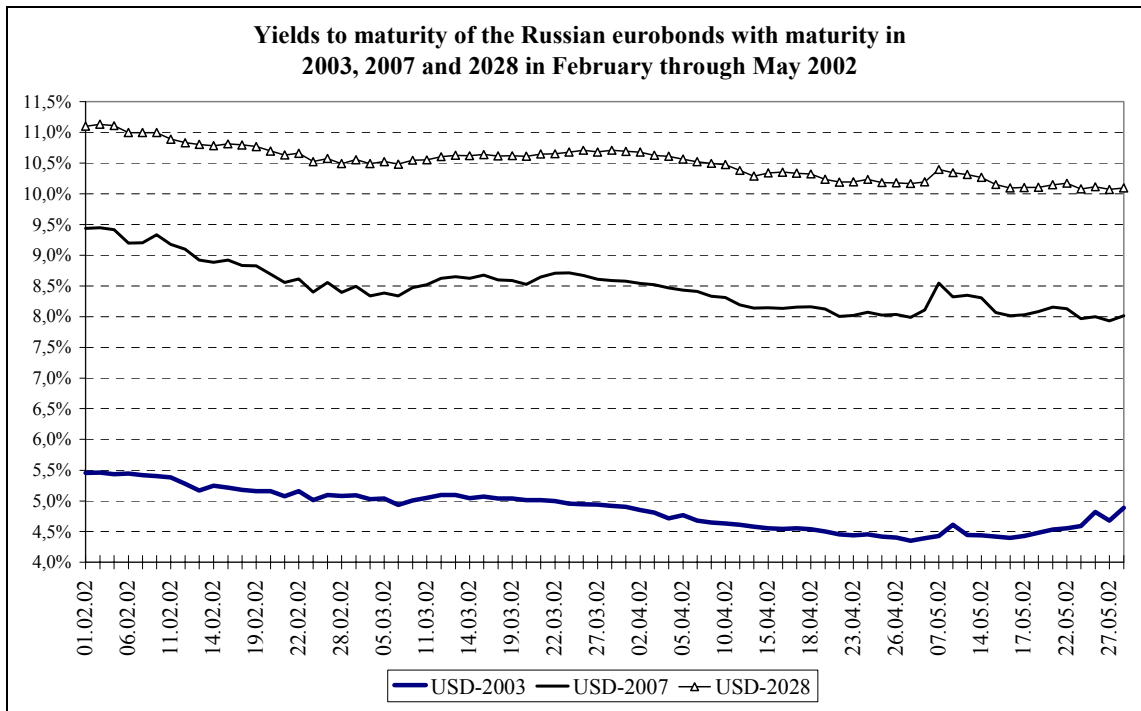


FIGURE 2.



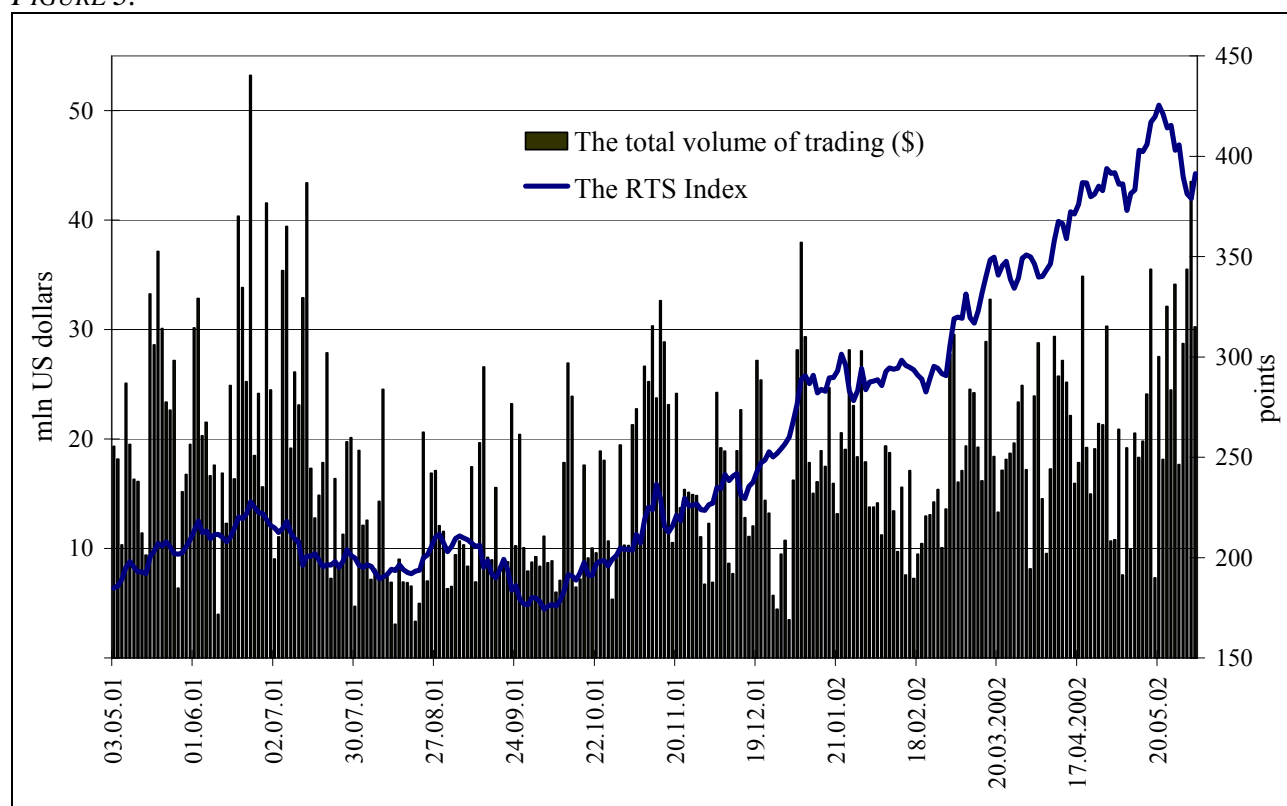
The market for the Russian domestic debt demonstrated a tendency to a decline in interest rates at growing volume of trades in May 2002. In our view, the rising interest in GKO and OFZ is explained, first, by a drop in inflation rates making investments in bonds attractive at current interest

rates. Second, the RF Ministry of Finance enlarged additional placements of securities (the additional placements accounted for up to 50% of daily turnover in the secondary market on some days). Third, in May the placed securities were short (GKO №21160) or new ones – OFZ with amortisation of debt, i.e. bonds with principal redeemed by portions over the maturity.

The market for corporate securities.

The situation in the market. In May the RTS Index grew by 5.16 points (1.34%) at the trade volume of about \$454.1 million. The latter is a bit lower the respective value in April – \$468.9 million. The daily average turnover rose compared to the previous month by \$3.6 million and amounted to \$23.9 million. The maximum trade volume was fixed on May 30 and equalled \$43.5 million. The month started with an increase in the Index – on May 20 the RTS Index the new post-crisis maximum value⁴ – 425.43 points (+10.19% against close value on April 30). Further the market slid down and the RTS Index fell to the level of 391.26 points.

FIGURE 3.

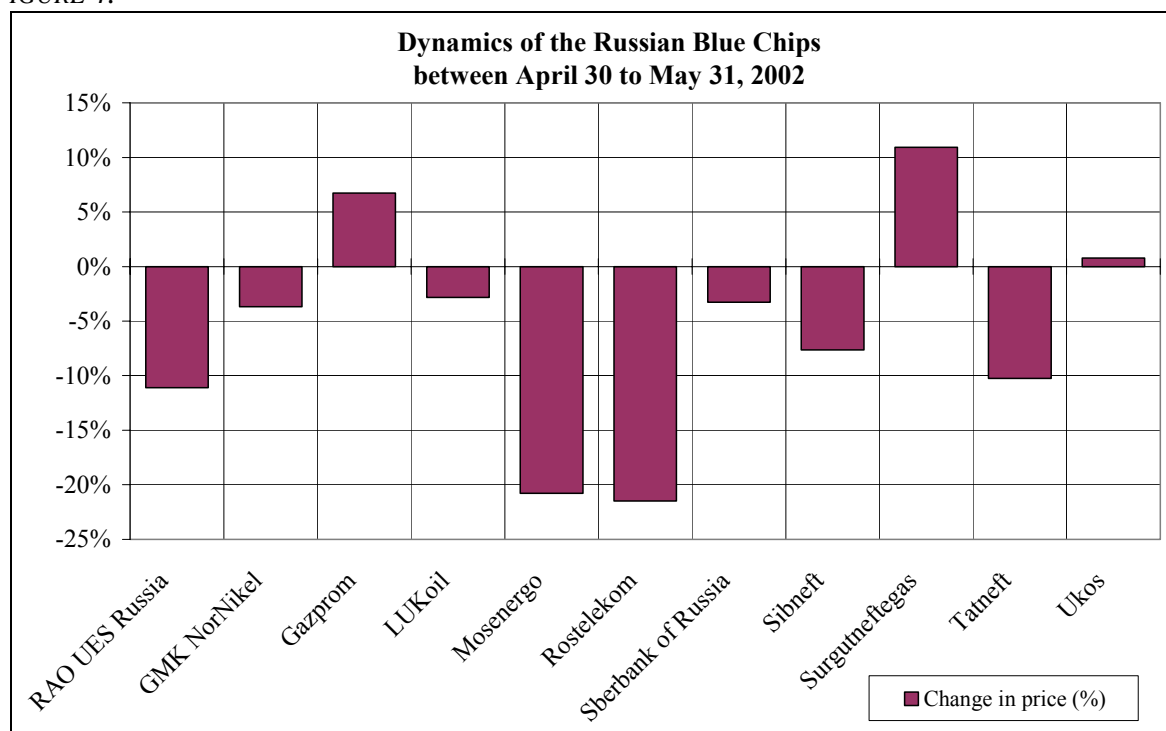


The leaders among *blue chips* (in May) were: “Surgutneftegaz” (10.92%) and Gazprom (6.73%). The price of “YUKOS” stocks actually did not changed (0.8%). Some stocks substantially fell: “Sibneft” (-7.65%), “Tatneft” (-10.27%) and the RAO “UES Russia” (-11.1%). At the bottom of the list were stocks of “Mosenergo” (-20.77%) and “Rostelecom” (-21.47%). Among the “second echelon” the leaders were stocks of TH “GUM” (+18.42%), “Bashinformsvyaz” (+16.67%) and AutoVAZ (+12.69%).

In May, the share of common stocks of RAO “UES Russia” in the total RTS turnover grew up to 27.13% (in April – 22.47%), the share of “LUKoil” stocks dropped to 21.31% (24.45%), the share of “Surgutneftegas” was 13.4% (8.24%), “YUKOS” – 10% (7.16%), “Tatneft” - 6.54% (8.35%). Overall in May the total share of the five most liquid stocks in RTS rose up to 78.38% (in April – 70.67%).

⁴ The previous higher value of the stock index was fixed on November 6, 1997 - 438.34.

FIGURE 4.



Between May 1 to May 31, 2002, the trade volume with Gazprom stocks via RST terminals exceeded \$142 million (more than 136 million shares). Overall 10.5 thousand deals were stroke with the company's stocks.

In May the five biggest Russian corporations by capitalisation were (according to the RTS data): "GAZprom" – \$24.7 billion, "YUKOS" – \$22.5 billion, "Surgutneftegaz" – \$15.2 billion, "LUKoil" – \$14.9 billion and "Sibneft" – \$8.3 billion. We should note four Russian corporations: "YUKOS", "LUKoil", "Gazprom" and "Surgutneftegaz" entered the list FT-500 of corporations by capitalisation.

Once again in May one registered a growth in trade activity in the futures and options market. On May 28 next records were fixed. There were registered more than 2.78 thousand deals totalled up to 694 million roubles (124.5 thousand contracts). The open interest got its next maximum on May 14 and amounted to 1189 billion roubles (169 thousand contracts). Overall in May the turnover in the FORTS made 5448 billion roubles (24.47 thousand deals, 0.98 billion contracts).

In May prices for most of liquid corporate bonds grew in the secondary market and yields fell below 20% annualised. Large primary placements as well as GKO and OFZ auctions drew away capital from the secondary market for corporate debts. On the whole, the situation in the corporate bonds market is determined by a decline in yields in the GKO-OFZ market and lower costs of borrowing in the inter-bank market. The trade volume in the secondary market (MICEX) went somewhat down and amounted to about 2.32 billion roubles. The share of TNK bonds (4th issue, 1st tranche) was 26.5% (25.22%, in April), "North oil" (1st issue) – 10.23%, TNK (5th issue, 1st tranche) – 6.9% (8.73%), "NOMOS" (6th issue) – 5.42% (5.94%) and "MCTN" (2nd issue) – 4.2% (0.38%). In total, the share of five most liquid bonds in the MICEX turnover made 53.25%. Also one should note primary placements of corporate bonds held by Nizhnekamskneftekhim (2nd issue) (1500 million roubles), Nevinnomysk Nitrogen (1st issue) (800 million roubles), Volzhsk pipe plant (1st issue) (500 million roubles), LOMO (1st issue) (200 million roubles)

External factors having impact on the Russian stock market. In early May the oil prices continued to grow and by mid-May the price of Brent exceeded 27 \$/bbl, the price of the OPEC oil basket amounted to 26.44 \$/bbl. In particular, the dynamics was stipulated for OPEC ministers' talks at their meeting in Cairo about keeping current quotes on oil export. On May 13 the International Energy Agency published a report which recorded the oil extraction in April in 11 OPEC countries (including Iraq) amounted to 24.01 million bbl/day. The latter was the minimum value since 1993.

However, in the second half of the month the pattern in the market changed, and the quotations dropped to the level of mid-April.

The Russian Prime Minister M. Kas'yanov at the meeting with top-managers of the biggest Russian oil companies decided to cancel restrictions on oil export. The head of the RF Government said that the previous volume of export would be restored in about 2 months.

The Minister of Finance L. Koudrin said that Russia would not restrict oil exports once the price for Urals exceeds 20 \$/bbl. Between January to May, 2002, the average price for Urals was at the level of 21.5 \$/bbl, Brent – 23 \$/bbl.

FIGURE 5.

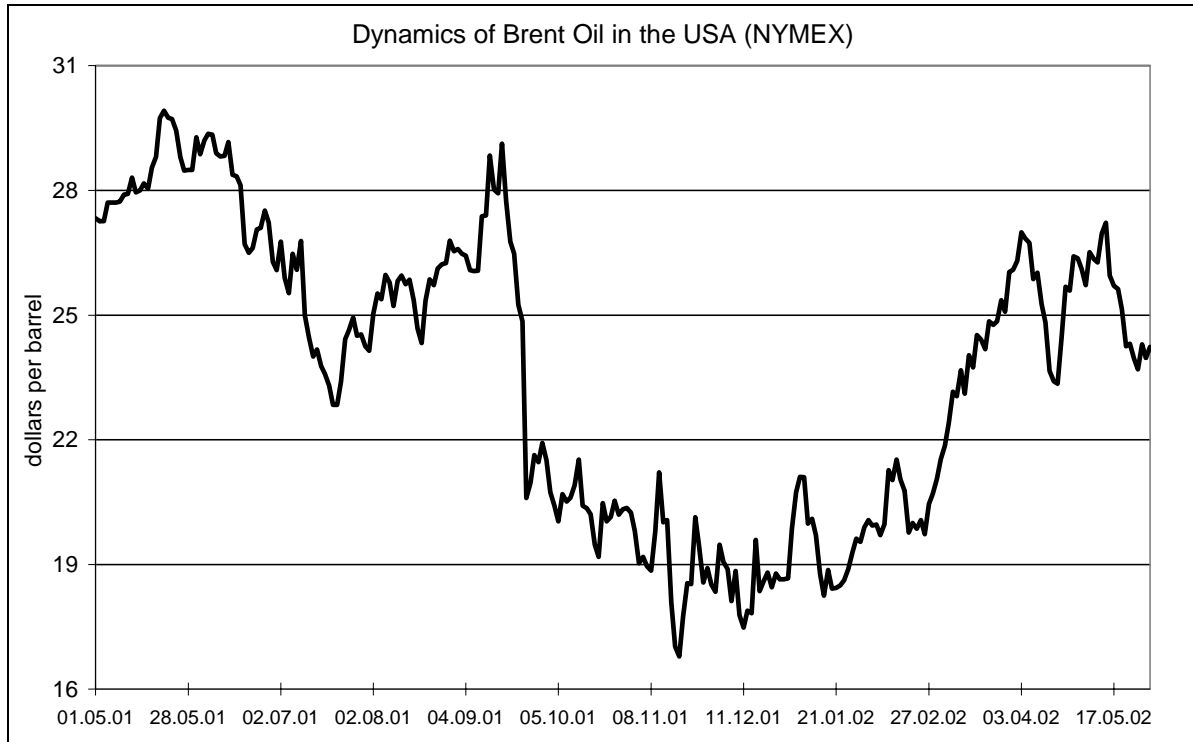
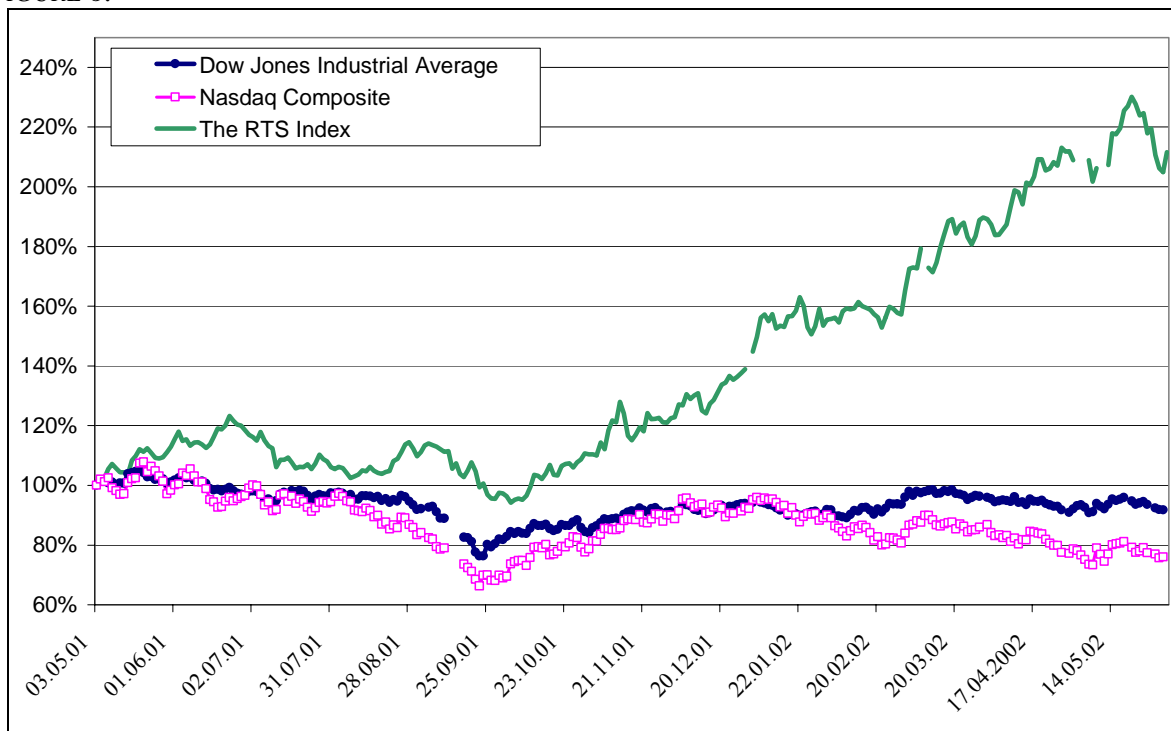


FIGURE 6.



Another important bearish factor in May was the fact that the US stock indices went down: DJIA “lost” 34.53 points (0.35%), and NASDAQ – 56.31 points (-3.34%).

On May 7 the Fed decided to keep the interest rate at the level of 1.75% in order to stimulate the slow recovery of economy by rather cheap credit resources for consumers and business. The Fed spokesman said that there was an uncertainty towards consumer demand, but the risk of inflation and recession remained balanced.

On May 20 there were appeared data on the U.S. leading index calculated by Conference Board, which demonstrated in April the biggest decline for last seven months (by 0.4%). This fact can be considered as a sign of slowdown in rates of recovery of the US economy.

On May 2 the international rating agency “Fitch Ratings” upgraded the Russia’s long-term rating on foreign liabilities (forecast – positive) and on eurobonds from B+ to BB- and confirmed the short-term rating on foreign liabilities at the level of B.

Corporate news.

Gazprom. The reported net profit in 2001 (according to the Russian accounting standards) was 71 billion roubles (\$2.4 billion). Although it grew by one and a half time (in roubles) against 2000, the figure was about a third below the level of 100 billion roubles (\$3.4 billion), forecasted by the company’s officials.

Rostelecom. “Rostelecom” released its financial results for 2001 according to international accounting standards. The receipts decreased by 3% to \$862 million. Receipts from incoming international traffic declined near by 20% to \$171 million. Receipts from regional operators for outgoing international traffic grew by 44% to \$153 million, for inter-city traffic – by 18% to \$143 million. The net profit of “Rostelecom” in 2001 equalled \$149 million against the loss of \$64 million in 2000.

On April 30 the international rating agency “Standard & Poors” upgraded the company’s credit rating from “CCC” to “B-” (forecast – stable). The decision was made after annual inspection and reflects, in the first line, improvements in financial state, successful restructuring of short-term debt and higher potential to serve debt liabilities. The agency reported the main reason for upgrade was dominant position of “Rostelecom” in the Russian market for long-distance communication, and stable growth of demand for communication services.

MMC “Norilsky Nickel”. Receipts of MMC “Norilsky Nickel” in 2001 according to the Russian accounting standards amounted to 107 billion roubles (\$3.66 billion); consolidated profit – 32.9 billion roubles (\$1.1 billion). The net profit, after 16.3 billion roubles (\$560 million) were transferred because of passing social assets to Norilsk balance, equalled 16.9 billion roubles (\$580 million.)

MMC “Norilsky Nickel” announced purchasing 35 million of 38.8 million shares of RAO “Norilsky Nickel” under restructuring programme, i.e. the cross-shareholding was near cancelled. The company’s officials said the MMC purchased other 3.8 million shares of RAO till June 15.

AvtoVAZ. According to quarter report, “AvtoVAZ” sales in the first quarter of 2002 grew by almost 20% to 23.9 billion roubles (\$777 million). At that operational profit declined by 0.5% to 3.7 billion roubles (\$119.4 million). The net profit fell by 4.5% to 1.7 billion roubles (\$54.7 million.)

The Board of Directors recommended the annual shareholders meeting to approve dividends on preferred stocks at 47.583 roubles (\$1.53) per share, i.e. implied dividend yield equalled 8.9%.

Mosenergo. The “Mosenergo” officials said the company’s net profit in the first quarter of 2002 fell sharply to \$23 million (\$98 million for respective period in 2001). This fact is explained by an increase in tariffs for gas and in service fee. None-of additional costs was compensated by simultaneous increase in tariffs for energy consumers.

Aeroflot. “Aeroflot” released its financial results for 2001 according to the Russian accounting standards. Receipts amounted to 41.518 billion roubles, net profit – 1.315 billion roubles. The company plans to invest in fixed capital 193 million roubles and to spend 247.1 million roubles to cover losses of 1998 and 1999, to modernise machinery – 59.0 million roubles, to pay dividends – 67 million roubles. At the same time, 680 million roubles will be paid to the State Service for Civil Aviation.

TABLE 1. DYNAMICS OF THE FOREIGN STOCK INDEXES

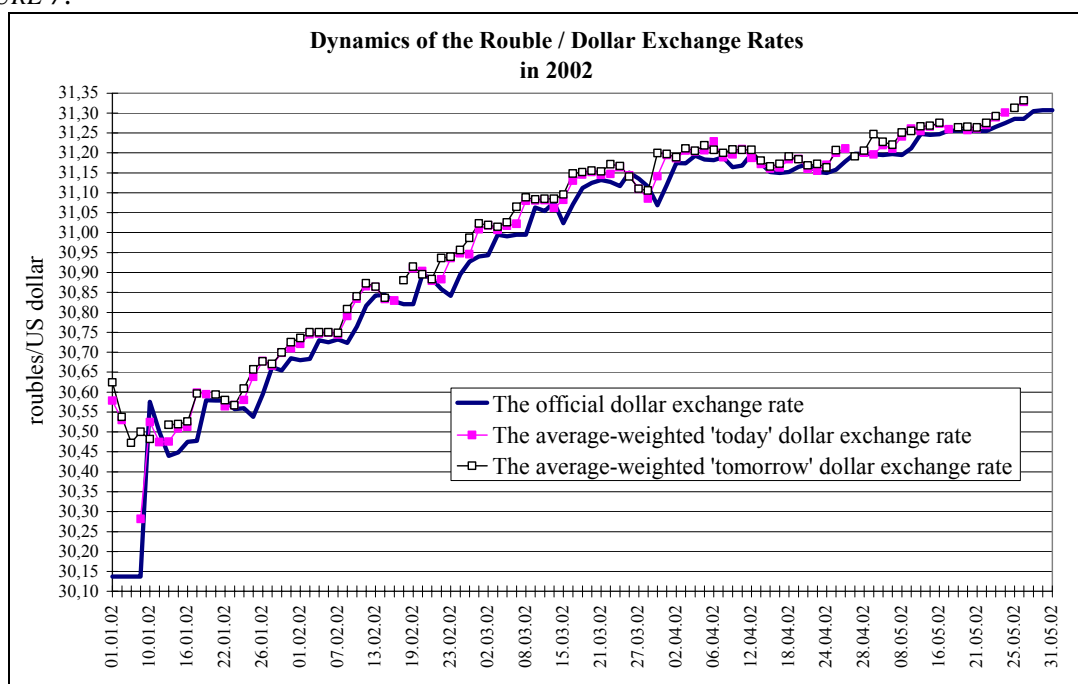
as of May 30, 2002	value	change for last month (%)	change since beginning of the year (%)
RTS (Russia)	379	-1.84%	45.74%
Dow Jones Industrial Average (USA)	9911.69	-0.35%	-2.22%
Nasdaq Composite (USA)	1631.92	-3.34%	-17.88%
S&P 500 (USA)	1064.66	-1.14%	-8.30%
FTSE 100 (UK)	5040.80	-2.42%	-3.85%
DAX-30 (Germany)	4761.96	-5.54%	-7.72%
CAC-40 (France)	4260.14	-4.54%	-7.88%
Swiss Market (Switzerland)	6544.10	-0.21%	1.97%
Nikkei-225 (Japan)	11770.03	2.41%	11.64%
Bovespa (Brazil)	12985	-0.76%	-4.37%
IPC (Mexico)	7061.40	-5.61%	9.19%
IPSA (Chile)	92.83	-3.47%	-14.91%
Straits Times (Singapore)	1683.43	-2.43%	3.53%
Seoul Composite (Korea)	815.61	-3.17%	17.57%
ISE National-100 (Turkey)	10508.09	-8.16%	-23.76%
Morgan Stanley Emerging Markets Index	351.027	-0.51%	10.59%

Foreign exchange market.

As we noted in the *Monetary policy* section, in May 2002 the Bank of Russia intensified its purchases of foreign exchange in the market and accumulated maximum volume of foreign reserves. Hence, the demand for US dollars from CBR's side resulted in some acceleration of pace of rouble devaluation. Nevertheless, current devaluation rates (0.25–0.7% per month) are below inflation rates, and the real rouble exchange rate appreciates. Notably, the demand for foreign exchange from commercial banks dropped compared to previous months, and in the absence of rouble interventions of the Bank of Russia the rates of real appreciation could be higher.

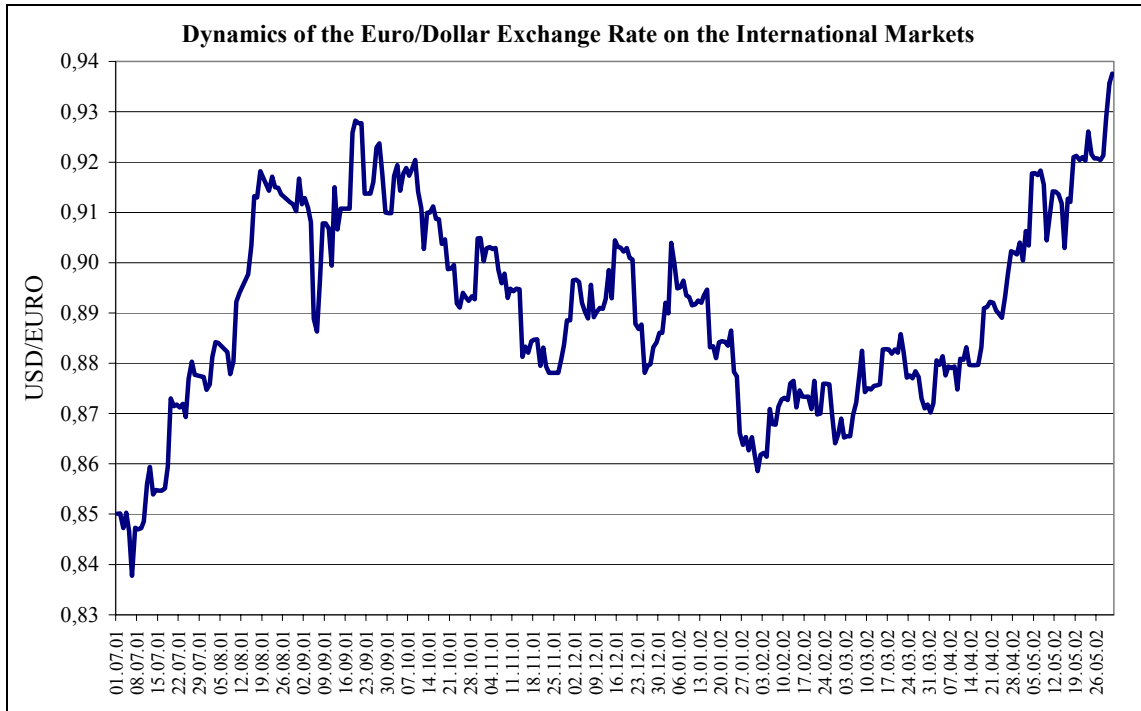
In total, in May 2002, the official dollar exchange rate grew from 31.1963 roubles/\$ to 31.3071 roubles/\$, i.e. by 0.36% (4.35% annualised, see Fig. 7). The 'today' dollar exchange rate in the SELT increased from 31.1959 roubles/\$ to 31.3281 roubles/\$ (as of May 28), i.e. by 0.42%. The 'tomorrow' dollar exchange rate went up from 31.2468 roubles/\$ to 31.3316 roubles/\$ (as of May 28), i.e. by 0.28%. According to preliminary estimates, in May the trading volumes by dollar amounted to 100–105 billion roubles.

FIGURE 7.



In May 2002 the euro/USD exchange rate got the highest level since February 2001, rising by about 10% for last four months (since 0.86 to 0,94 \$/euro). The main causes of bullish dynamics of euro were, in our view, fundamentals related to balance of demand and supply of dollars in the world forex market. Currently attractiveness of the US stock market for portfolio investors is lower than it was in recent years, and the highest deficit if the US trade balance makes surplus of dollar supply. The latter induced a decline in dollar exchange rate in the first half of 2002 against all leading currencies. In the situation expectations (forming, in the first line, by statistical data on dynamics of the US and European economies) are of minor importance.

FIGURE 8.



In May, the rouble/euro official exchange rate fell from 28.1453 roubles/euro to 28.3254 roubles/euro, i.e. by 4.19% over the month. According to preliminary estimates, in May 2002, the total trading volume on euro made up to about 4 billion roubles.

FIGURE 10.

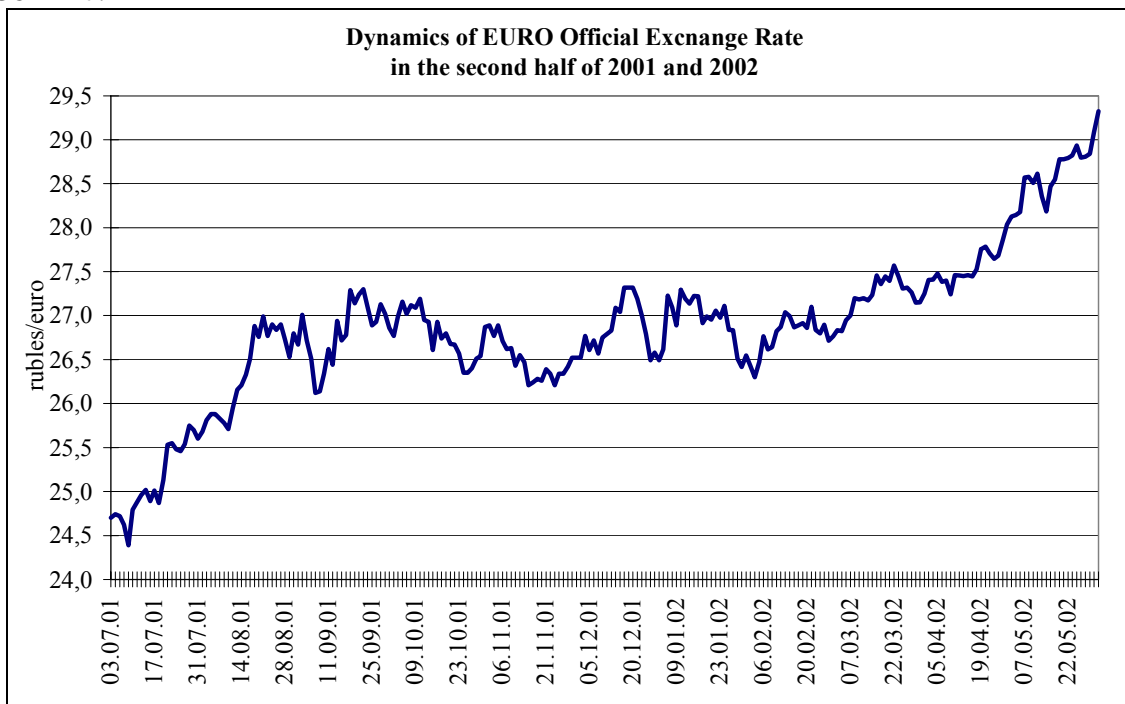


TABLE 2. INDICATORS OF FINANCIAL MARKETS.

	January	February	March	April	May*
inflation rate (monthly)	3.1%	1.2%	1.1%	1.2%	1.3%
annualised inflation rate by the month's tendency	44.25%	15.39%	14.03%	15.39%	16.77%
the RCB refinancing rate	25%	25%	25%	23%	23%
annualised yield to maturity on OFZ issues	14.08%	13.84%	15.80%	16.64%	15.5%
volume of trading in the secondary GKO-OFZ market a month (billion roubles)	4.51	6.11	4.78	11.33	14.5
yield to maturity on Minfin bonds by the end of the month (% a year):					
4th tranche	7.22%	5.97%	6.86%	6.19%	6%
5th tranche	11.03%	9.35%	10.13%	9.88%	9.7%
6th tranche	10.57%	8.96%	9.65%	8.80%	8.9%
7th tranche	11.62%	9.16%	10.23%	10.26%	10%
8th tranche	10.41%	8.75%	9.63%	8.92%	9%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					
overnight	29.09%	39.64%	17.79%	8.86%	4.5%
1 week	8.24%	14.55%	22.84%	12.34%	13%
official exchange rate of ruble per US dollar by the end of the month	30.6850	30.9404	31.1192	31.1963	31.3071
official exchange rate of ruble per Euro by the end of the month	26.5456	26.7120	27.1515	28.1453	29.3254
average annualized exchange rate of ruble per US dollar growth	1.81%	0.83%	0.58%	0.25%	0.36%
average annualized exchange rate of ruble per euro growth	-0.27%	0.63%	1.65%	3.66%	4.19%
volume of trading at the stock market in the RTS for the month (millions of USD)	419.7	247.1	426.3	468.9	454.1
the value of the RTS Index by the end of the month	287.53	290.75	350.75	386.10	391.26
growth in the RTS Index (% a month)	10.57%	1.12%	20.64%	10.08%	1.34%

* Estimates

S. Drobyshevsky, D. Skripkin

Household Deposits: Dynamics in 2001 through early 2002

The dynamics of bank household deposits⁵ in 2001 through early 2002 provides evidence that this segment of banking services experiences a certain recovery. While after the crisis of 1998 the share of household deposits in bank liabilities (without Sberbank) declined almost twofold (by end-1999 it was at 5.6 %), by end-2001 this indicator increased up to 8.4 % on the average, while for banks attracting household deposits it made about 9.1 % (see Table 1). By the end of the first quarter of 2002 the share of household deposits increased up to 9.4 % (9.7 % for banks attracting household deposits).

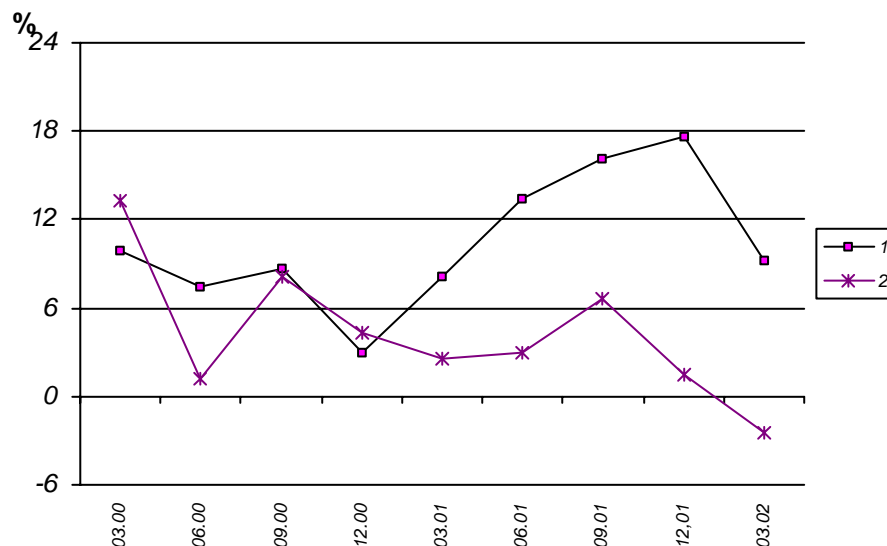
The amount of bank household deposits in comparable prices in 2001 (without Sberbank) increased by 67.4 % in 2001, while in the first quarter of 2002 its increase made 9.3 %. In year 2000, the growth of this indicator made 32 % and only insignificantly differed from the rates of growth in the amount of household deposits attracted by Sberbank. In 2001, commercial banks significantly increased their effort and were ahead of Sberbank in terms of rate of attraction of household deposits (in 2001, in real terms the amount of household deposits in Sberbank increased only by 20.7 %). As a result, over the year the share of Sberbank, as concerns this sector of banking services, decreased by almost 6 p. p. and made 73.5 % by end-year as compared with 79.3 % in early 2001 (without taking into account the funds related to card accounts).

⁵ Here and below without banks under ARCO management. Здесь и далее без учета банков, находящихся под управлением АРКО

Alfa Bank pursued an especially aggressive policy aimed at the attraction of household deposits. While in early 2001 its share of the market (without Sberbank) made 3.4 %, by the end-year it reached 7.9 %, and made 8.1 % as of April 1, this year.

FIG. 1

The rate of growth in household assets and deposits in comparable prices without Sberbank (quarter on quarter change, in %)



1- Household deposits

2 -Assets

Estimated on the basis of data provided by STIiK.

The ratio between household deposits and GDP has also returned to the pre-crisis level. By end-2001 it made 7.4 % (the estimate is based the preliminary data provided by Goskomstat as concerns GDP in 2001). As before the crisis, household deposits played a greater role in balance sheets of regional banks (see Table 1): on the average, the share of household deposits in the liabilities of these banks was two times higher than in Moscow-based banks. At the same time, due to the high concentration of banks in Moscow their share in the total amount of household deposits made more than 60 % by end-2001.

TABLE 1

The share of household deposits in bank liabilities*

	Banks of Moscow and Moscow Oblast					Regional banks					Operating banks (without Sberbank)				
	07.98	01.00	01.01	01.02	04.02	07.98	01.00	01.01	01.02	04.02	07.98	01.00	01.01	01.02	04.02
Household deposits	8.6	4.7	4.7	7.0	7.9	18.0	9.6	9.2	13.6	15.7	10.4	5.8	5.8	8.6	9.7
Including forex deposits	4.0	3.7	3.7	5.4	6.3	3.3	4.2	3.8	5.6	6.7	3.9	3.8	3.7	5.5	6.4
Including Ruble deposits	4.6	1.0	1.0	1.6	1.6	14.7	5.4	5.4	8.0	9.0	6.5	2.0	2.1	3.1	3.3
<i>Memorandum:</i>															
Number of banks attracting household deposits	596	533	535	546	548	785	627	617	630	553	1381	1160	1153	1176	1101
Average amount of assets, Rb. bln.	680	1412	2150	2852	2957	116	348	601	780	864	359	837	1321	1742	1906

* values at the beginning and end of a month for banks attracting household deposits

Estimated on the basis of data provided by STIiK.

In 2001, the Moscow-based banks practically doubled the total amount of attracted household deposits. Over the year this amount grew from Rb. 54.5 to Rb. 110 bln. The amount of funds deposited by households in regional banks also practically doubled in 2001. Therefore, the dynamics of household deposits in balance sheets of Moscow and regional banks practically coincided in 2001.

However, Moscow and regional banks significantly differ in terms of currency of household deposits. While the share of forex household deposits in Moscow banks was slightly over 77 %, in regional banks this ratio was different: forex household deposits made 40 % of deposited funds. On the whole, operating banks (without Sberbank) demonstrate the reverse ratio between forex and Ruble household deposits in comparison with that observed before the crisis. While in mid-1998, Ruble household deposits accounted for almost two thirds of funds, at present, Ruble deposits make only one third of household deposits (see Table 2). Over the same period, the share of forex deposits in Sberbank increased significantly more than in Moscow banks on the average. While in mid-1998 forex deposits made 10.8 % of Sberbank liabilities relating to household deposits, by end-2001, this amount was already 25.5 % (a 2.4 times growth). At the same time, in an average Moscow bank the share of forex household deposits increased only 1.7 times (from 46.5 % to 77.6 %). It may be also noted that while in mid-1998 the ratio between the share of forex deposits in Sberbank and the group of Moscow banks made 1 : 4.3, by end-2001 it decreased to 1 : 3.

TABLE 2

The currency structure of household deposits

Household deposits	Operating banks without Sberbank	Sberbank	Operating banks without Sberbank	Sberbank	Operating banks without Sberbank	Sberbank	Operating banks without Sberbank	Sberbank	Operating banks without Sberbank	Sberbank
	01.07.98		01.01.00		01.01.01		01.01.02		01.04.02	
Forex	37.5	10.8	66.1	21.1	63.4	23.6	63.7	25.5	65.9	N / a
Ruble	62.5	89.2	33.9	78.9	36.6	76.4	36.3	74.5	34.1	N / a

Estimated on the basis of data provided by STiK.

Relatively short term deposits still dominated the time structure of household deposits in 2001 and early 2002 (see Table 3).

TABLE 3

Time structure of household deposits of residents*

Household deposits	Operating banks with Sberbank					Operating banks without Sberbank				
	01.07.98	01.01.00	01.01.01	01.01.02	01.04.02	01.07.98	01.01.00	01.01.01	01.01.02	01.04.02
Demand deposits*	40.7	28.8	29.5	23.2	n / a	24.6	34.1	37.1	33.2	31.2
Including card accounts	3.5	2.6	2.2	1.6	n / a	10.5	8.7	9.6	5.1	4.2
Up to 3 months	9.4	8.9	6.3	4.8	n / a	17.0	14.8	9.8	7.6	7.4
3 to 6 months	34.4	49.2	41.4	32.8	n / a	27.9	19.9	21.7	21.6	20.0
6 to 12 months	8.5	8.1	11.4	14.7	n / a	17.0	17.0	21.6	27.3	29.5
Year and more	7.0	5.0	11.4	24.5	n / a	13.5	14.2	9.8	10.3	11.9
Total	100	100	100	100	n / a	100	100	100	100	100
Forex deposits										
Demand deposits	39.0	28.0	25.4	22.1	n / a	28.9	34.7	34.5	28.2	29.7
Including card accounts	10.0	4.9	3.6	1.4	n / a	15.9	8.6	8.4	2.8	2.2
Up to 3 months	11.0	7.9	4.6	4.0	n / a	14.3	15.8	9.7	8.0	8.0
3 to 6 months	19.4	40.3	41.5	35.0	n / a	21.7	15.5	18.4	20.0	17.7
6 to 12 months	19.6	16.0	20.0	24.4	n / a	20.3	19.1	26.5	32.6	34.6
Year and more	11.0	7.8	8.5	14.5	n / a	14.8	14.9	10.9	11.2	13.0
Total	100	100	100	100	n / a	100	100	100	100	100
Ruble deposits										
Demand deposits	41.2	29.1	31.4	23.7	n / a	21.9	33.1	41.2	41.1	39.0
Including card accounts	1.9	1.5	1.6	1.7	n / a	7.1	8.8	11.5	8.8	7.7
Up to 3 months	9.1	9.4	7.2	5.3	n / a	18.7	13.0	9.9	7.1	6.3
3 to 6 months	37.9	53.0	41.4	31.6	n / a	31.8	28.2	27.1	24.1	24.1
6 to 12 months	5.8	4.7	7.3	9.4	n / a	14.8	12.8	13.8	19.0	20.6
Year and more	6.0	3.8	12.7	30.0	n / a	12.8	12.9	8.0	8.8	10.0
Total	100	100	100	100	n / a	100	100	100	100	100

* balances of card accounts are included in demand deposits.

Estimated on the basis of data provided by STiK.

Since the share of household deposits belonging to non-residents in the total amount of household deposits is extremely low (on the average, below 1 %), for purposes of the analysis of the time structure there were used only household deposits made by residents. As Table 3 demonstrates, by end-2001, the main share of funds related to demand deposits termed 3 to 6 months and more than a year. At the same time, Sberbank deposits to a certain extent affect the overall picture. Without Sberbank, the structure is dominated by demand deposits termed 6 month to 1 year. It may be also noted that operating banks tend to increase deposits termed 6 to 12 months, and vice versa, the share of short deposits (up to 3 months) tend to decline. By end-2001, this type of deposits was most rare. The share of deposits termed 6 to 12 months has noticeably increased over the last 2 years – 1.8 times.

Deposits termed 3 to 6 months and 6 to 12 months dominate forex deposits. In case the structure of deposits is reviewed without Sberbank, the share of deposits termed 6 to 12 months increases. Ruble deposits for the same term are less frequent. Without Sberbank, their share in the total amount of Ruble household deposits made only 19 % (with Sberbank – only 9.4 %) by end-2001. However, in the last 3 years there has been observed a trend toward a growth in the share of Ruble deposits termed 6 to 12 months.

In 2001, the share of Ruble household deposits termed more than a year sharply increased. By end-year they accounted for 30 % of all Ruble deposits, while in early 2000 this value was much lower and made only 3.8 % (8 time growth). However, as Table 3 demonstrates, Sberbank is responsible for this development, since it offers a very attractive option of two-year deposits.

L. I. Sycheva, L. V. Mikhailov, E. V. Timofeev

Investment in the Real Sector

In January through April of 2002, the amount of *investment in fixed assets* from all sources of financing made Rb. 352.6 bln., or 101.6 % of the figures registered over the respective period of the preceding year.

The major factors constraining investment activity were a trend towards a decline in internal sources of investment resources of the real sector of the economy related to a decrease in profitability observed since the 4th quarter of 2001, the changes in the taxation of profits, and the abolishment of privileges relating to a considerable number of spheres of investment activities. It shall be also noted that among factors facilitating a decrease in the base of internal sources of financing was the lack of a uniform procedure governing the revaluation of fixed assets, what results in a decrease of the total depreciation and its share in the cost value structure.

The shrinking demand of the oil sector resulted from the changes in the external economic situation and a decrease in the sector's profitability, and outpacing growth of less capital intensive sector of services in comparison to dynamics in manufacturing sector were the structural factors determining moderate dynamics of investment in fixed assets in January through April of 2002.

State capital investment. In January through April of 2002, state capital investment was financed in amount of Rb. 11.7 bln., what made 23.3 % of the year's target. The financing of the Federal Targeted Investment Program accounted for financing in amount of Rb. 10.5 bln. in January through April of 2002, or 23.5 % of the year's target, of which Rb. 9589.8 mil. were related to the item "Industry, power engineering and construction" and Rb. 896.8 mil. to the item "Financial aid to budgets of other levels."

In January through April of this year, according to Goskomstat, Rb. 2040.0 mil. (8.3 % of the year's target) were spent as state capital investment in construction projects and objects included in the Federal Targeted Investment Program.

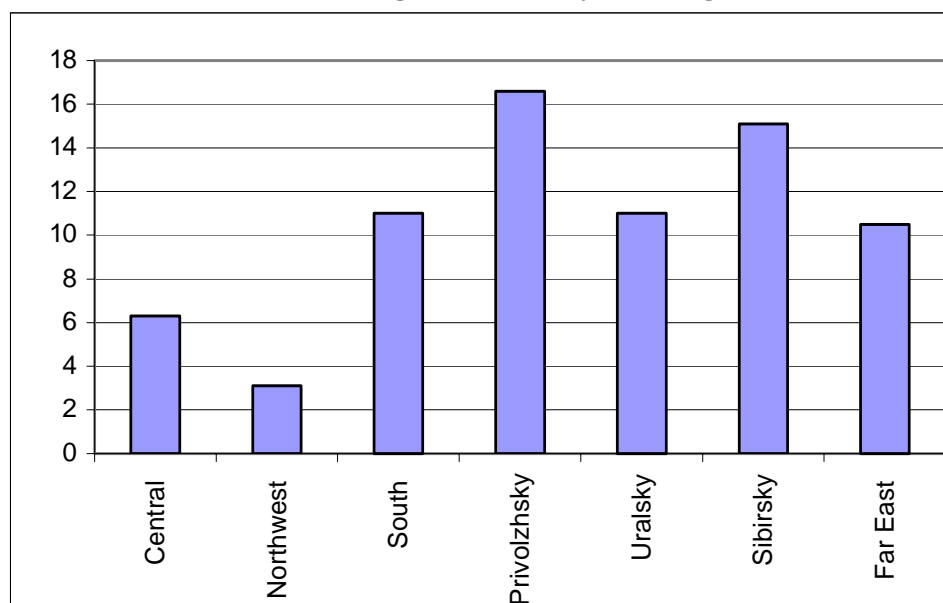
As concerns construction projects and objects of the manufacturing complex, in January through April the financing in this area made 7.2 % of the year's target of capital investment, while for construction projects and objects of social sphere there were utilized 9.1 % of the year's target capital investment.

On the whole, in January through April of 2002 capital investment in construction projects and objects included in the Federal Targeted Investment Program made Rb. 1837.7 mil., or 7.5 % of the year's target. This intensity of utilization of state capital investment has been typical in a few last

years, therefore it is rather difficult to forecast if the obligations related to the financing of expenditures in this sphere would be met.

FIGURE

Utilization of state capital investment in January through April of 2002 as broken down by Federal okrugs, in % of the year's target



O. Izryadnova

The Real Sector: Factors and Trends

In January through April of 2002, the output of products and services of base sectors of the economy increased by 3.7 per cent as compared with the respective period of 2001. The economic growth was supported by the persistent positive dynamics of business activity across practically all sectors of the economy. As compared with January through April of 2001, the industrial output increased by 3.0 %, agricultural produce – by 5.2 %, construction – by 2.8 %, and freight turnover – by 1.9 %.

The real dynamics of product exports in this year are characterized by stable rates of growth. In the first four months of 2002, the increase in the volumes of export made 102.8 % as compared with the respective period of the preceding year, at the same time the value of exports fell by 13.0 %. The changes in the external business situation and growing world prices of hydrocarbon raw materials positively affected the dynamics of macroeconomic indicators. According to preliminary estimates of the RF Ministry for Economic Development, in the first quarter of 2002, the increase in GDP made 3.7 % in comparison with the respective period of the previous year.

In contradistinction to year 2001, outpacing rates of growth in consumer demand as compared with investment demand. The turnover of retail trade increased by 9.2 % in January through April of 2002, while investment in fixed assets grew by 1.6 %.

An intensive growth in consumer demand accompanied by active social policies positively affects the political and economic situation. Consumer demand increases at the background of low inflation rates. As compared with the figures observed in December of 2001, the consumer price index made 106.6 % against 109.0 % registered in the respective period of the preceding year. As prices of non-food products grow more moderately than prices of foodstuffs, in 2002 there was registered an intensive shift in demand and growing number of purchases related to durable goods.

It shall be noted that increasing consumer activity in the situation of significant decline in inflation rates results in growing propensity for savings. While in the first quarter of 2001 the share of savings made 9.4 % in the structure of household incomes, in the respective period of the current year it increased to 11.3 %. The confidence in organized forms of savings grows gradually. The share of bank deposits and investment in securities in the structure of cash household savings is steady growing, while the share of cash gradually diminishes. In January through April of 2002, the increase in real

disposable incomes made 9.5 %, real wages – 17.4 %, real gross pensions – 25.1 %. The outpacing growth of wages, salaries, and other fixed types of payments being income-forming for the poorest groups of households facilitates the smoothing of social and economic differentiation of the society. At the same time, the effect of factors determining the outpacing dynamics of retail trade turnover in comparison with real disposable cash household incomes is gradually exhausting, and the rates of growth in these two indicators are gradually equalizing.

The persistent positive dynamics of industrial output observed in January through April of 2002 were supported by growing output across practically all sectors. However, this year, as the business situation of the domestic market shifted, the sectors of investment complex lag behind the sectors related to the production of intermediate and consumer goods in terms of growth rates. While the volume of industrial output grew by 3.0 % in comparison with January through April of 2001, the increase in output of the investment sector made 1.6 %. The rates of growth in mechanical engineering made 1.0 % in comparison with January through April of 2001, while the production of the industry of construction materials increased by 6.5 %.

The investment activity was checked by deteriorating financial standing of enterprises in the real sector of the economy. In the first quarter of the current year, the balanced financial results of large and medium-sized organizations across all sectors of the economy declined by 43.8 % in comparison with the respective period of the preceding year. The decline in the balanced financial results was registered across all sectors of the economy, however, it was most pronounced in industry. In comparison with the first quarter of 2001, the amount of balanced profits in industry fell almost two times.

At the same time, the production of the consumer complex increased by 6.8 %. However, the trend towards a decline in the rates of growth in production of light industry initiates an expansion of the share of imports in the formation of resources of the consumer market.

In January through April of 2002, the growth in the export-oriented complex of the economy made 4.2 %, at the same time the production of fuel industry increased by 5.7 %. Non-ferrous metallurgy, where rates of growth made 108.7 % in comparison with the respective period of 2001, dominated other export-oriented industries in terms of output growth.

The potential for growth accumulated in industries producing intermediate products compensates for the slowing down rates of growth in output of final demand goods. Taking into account the dynamics of major components of GDP utilization, according to our estimates, its overall increase in 2002 as compared with the figures registered in the previous year will make 3.5 %.

O. Izryadnova

IET Business Survey: Industry

Long holidays have never facilitated a stable development of the Russia's industry. Year 2002 was not an exception. The deceleration of the rates of decline in effective demand was interrupted, output fell sharply. Non-cash transactions, which were usually used to compensate a downfall in cash sales also suffered. Surveys registered accelerating rates of decline in promissory-note and off-set transactions, while the rates of decrease in barter deals stabilized. However, enterprises expect that the growth in both output and demand will recover in a few next months.

The traditional May holidays suspended the recovery of positive trends in the dynamics of key business situation indicators of the Russia's industry. Both effective demand and output again began to decrease, and what is more, intensively. Effective demand has all at once "lost" 17 balance points and started to decline, like in January. Surveys have not registered such a sharp monthly slump for a very long time. Cash sales declined across all industries except non-ferrous metallurgy, chemistry, petrochemistry, and the industry of construction materials. It shall be noted that over the period of the post-default growth an absolute decrease in effective demand has been never registered in May yet. Certainly, there had been observed a slowdown in the growth of sales, but never such an intensive downfall, although the decline in cash sales gradually decelerated over the three preceding months and there arose hopes for the recovery of the absolute growth.

The May holidays also affected the dynamics of non-cash transactions. In the first months of 2002, surveys registered a slight but steady deceleration in the rates of their decline, what might be explained by attempts of enterprises to increase volumes of sales at the background of decreasing amount of cash

sales. In May, the decline in business activity was so pronounced that this trend was disrupted. Surveys have registered accelerating rates of decrease in promissory-note and off-set deals and the stabilization of rates of decline in barter, while the amount of effective demand fell so sharply. However, enterprises might refuse to increase sales at the expense of non-cash transactions hoping for the recovery of growth in cash sales in June and July.

Enterprise evaluations of the amount of effective demand (scale of evaluations – “above normal – normal – below normal) demonstrated that serious sales problems persist in industry. Since December of 2001, the share of responses “below normal” has fluctuated around 70 %, although a year ago this indicator was by 8 to 10 p. p. better (lower). Such a pronounced decline in the amounts of sales in May (even as adjusted for the seasonality) was not expected by enterprises, and it is too early to state that the negative trends of the last months have reached the turning point.

The persisting sales problems determine the more and more massive decline in real profits of the Russia’s industry. In May, the share of enterprises reporting a decrease in profits reached 51 %. In February of 2002 (the first year the monitoring of this indicator was started) the share of such responses made 40 %. The most intensive decrease in profits is at present registered in power engineering, light industry, and forestry complex. No industry registered growth.

In May, surveys also registered the most sharp deceleration in the rates of growth of output. Over the month, the balance decreased from +16 % to –15 %, i.e. after a decent (for the last months) growth, there was registered a seasonal decline only slightly less pronounced than in January (2002). An absolute decrease in output was registered across all industries except construction materials industry and food industry. However, these industries also demonstrated slower rates of growth as compared with April figures.

The fall in output has allowed enterprises to retain the previous evaluations of stocks of finished goods even in the situation where all types of demand contracted. On the whole, surveys have registered excessive stocks across all industries since early 2001, what may be explained by the fact that enterprises started to use finished stocks as a cushion against sudden changes in demand.

Forecasts of changes in effective demand became more positive and were among the best in the current year. About one third of enterprises expect an increase in cash demand for their products. The largest number of such expectations was registered in the industry of construction materials, metallurgy, chemistry, and petro-chemistry. Only enterprises of light industry and power engineering foresee a decline in sales.

However, it becomes more and more difficult to rely only on cash sales. In order to guarantee sales, enterprises have to turn to non-cash transactions even on the stage of planning. In May, surveys registered expectations of a growth in barter, promissory notes, and set-off sales. Such a development has been registered for the first time over the period of the post-default growth. Although the possible increase in barter transactions is yet minimal, but it is the first step... A soon growth in barter is expected in chemistry, petro-chemistry, forestry complex, construction, and light industry.

After two months of relative pessimism, estimates of changes in output have again reached best values registered over the last years. A rather intensive growth in output is possible in all industries except power engineering and light industry. It looks probable that enterprises have overcome their investment pessimism. In the few next months, there is planned to increase purchases of both domestic and imported machinery and equipment.

S.Tsukhlo

Foreign Trade

In March of 2002, the Russia’s foreign trade turnover (according to the balance of payment method) increased by 0.5 % in comparison with the respective indicator of the preceding year and made US \$ 13.33 bln. In comparison with the figures registered in February of 2002, this indicator increased by 21 %. The amount of exports made US \$ 8.58 bln., while imports reached US \$ 4.74 bln. The positive balance of trade made US \$ 3.8 billion (the maximal value in the last 8 months). While in comparison with the respective period of the preceding year this indicator fell by 21 %, it increased by 30 % as compared with the figures registered in this February.

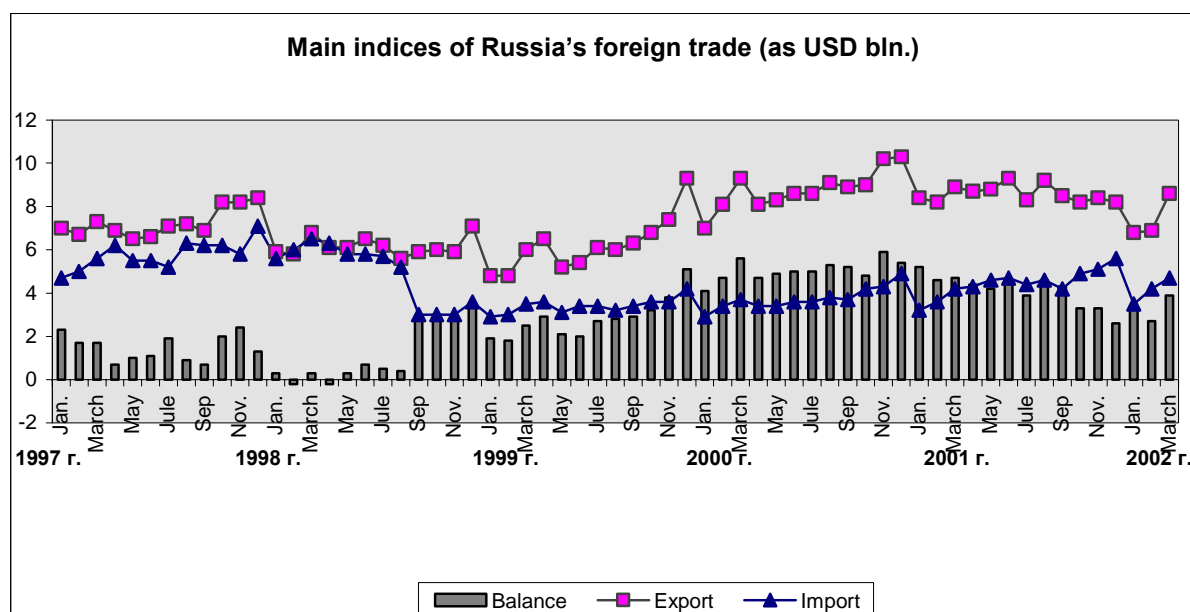
In the first quarter of 2002, the foreign trade turnover made US \$ 34.6 bln., what is by 6 % below the level observed in the respective period of the preceding year (US \$ 36.8 bln.). Due to a gradual

recovery of the world business situation, first of all, in the USA, in March of 2002, as compared with the two preceding months, there was observed a significant improvement in the dynamics of prices of staple Russia's goods exported in countries outside the former Soviet Union. In the first two months of this year, the oil prices were rather volatile. However, in March the upward trend of oil prices became stable. Among key factors accounting for a rise in oil prices were OPEC plans to retain restrictions on oil sales in the second quarter at the level set for the preceding quarter, and the fact that other oil extracting countries (including Russia) supported this decision, falling volumes of Iraq oil, and information that stocks of crude oil and oil products in the USA sharply decreased. Besides, the deteriorating political situation in the Middle East also affected oil prices. According to the RF Ministry for Economic Development, in March of 2002, the average BRENT price made US \$ 23.7 per barrel, URALS – US \$ 22.0 per barrel.

As compared to January through February, in March of 2002 the situation on the world market of ferrous metals was characterized by a certain increase in business activity as the general economic situation improved. In March of 2002, prices of major steel products somewhat increased in comparison with the figures registered in February and made: reinforcing steel - US \$ 190 to 220 per metric ton, commercial steel – US \$ 215 to 250 per metric ton, hot rolled steel in rolls – US \$ 210 to 225 per metric ton, cold rolled steel in rolls – US \$ 250 to 280 per metric ton.

The market of non-ferrous metals also experiences an upturn. The aluminum prices of the London Metal Exchange made US \$ 1403 per metric ton (a 2.6 % increase in comparison with the February figures), copper prices were up by 2.8 per cent at US \$ 1605 per metric ton, nickel prices were at US \$ 6503 per metric ton (a 8.4 % growth).

FIGURE 1.



Source: RF Goskomstat

TABLE 1.

The average monthly world prices in February of the respective year

	1996	1997	1998	1999	2000	2001	2002
Oil (Brent), USD / metric ton	139	139,8	94,5	99,4	195,9	185,9	175,7
Natural gas, USD / thous. m ³	-	66,8	77,5	75,7	101,0	185,7	107,0
Gasoline, USD / metric ton	215,5	230,4	166,8	188,3	333,5	318,0	279,5
Copper, USD / metric ton	2584,7	2424,8	1772	1477,1	1779,1	1780,3	1605
Aluminum, USD / metric ton	1600,8	1635,5	1441,3	1251,1	1584,2	1511,2	1403,17
Nickel, USD / metric ton	7955,7	7929,5	5380	4934,5	10269,6	6140,3	6503,33

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

Due to a considerable improvement of dynamics of world prices in March of 2002, the Russia's exports has reached the maximum value in the last six months. Although there was registered a 4.2 % decline in

comparison to the respective indicator of the preceding year, it increased by almost 25 % as compared with the figures observed in the preceding month.

Although in March the rates of growth in imports somewhat decelerated, they remained rather high. Imports from countries outside CIS grew at an especially fast rate (by 20.8 % in comparison with March of 2001).

The European Union is planning to grant Russia the market economy status. This decision will require some modification of the EU legislation related to protective measures, what may take several months. The status of market economy gives Russian companies considerable privileges as concerns anti-dumping procedures. Russian enterprises will be able to claim the review of 14 anti-dumping restrictions in Europe for the total amount of about US \$ 240 mil. a year. This decision concerns first of all such industries as metallurgy, chemistry, production of fertilizers.

Since June 1, 2002, the government will increase the rate of export duty on crude oil and oil products extracted from bituminous deposits from US \$ 9.2 to US \$ 20.7 per metric ton. Oil duties are reviewed every two months and depend on the world prices. In March through April, the average Urals price made US \$ 22.96 per barrel (in January through February it was at US \$ 18.61).

On May 28, there was signed a resolution abolishing export duties on articles made of ferrous metals across all groups. Previously, the duties made 3 to 5 % for respective groups. The annual loss of the budget is estimated to be about US \$ 120 mil. However, this measure will help the Russia's metallurgy to support volumes of export sales retaining their competitive price advantage. The forex denominated proceeds of metallurgy made almost 15 % of the total amount of Russia's exports in 2001.

The RF government has announced the abolition of 15 % import special duties on Hungarian frozen vegetables, juices, soups, and broth, as well as rape seed and mustard oils. This decision is related to the fact that the Hungarian Republic "has abolished the measures infringing on the economic interests of the RF and Russia's enterprises." Special duties on Hungarian products were introduced in last July as a counter measure against the measures Hungary undertook to restrict exports of Russian goods in this country. For instance, the Hungary's government introduced extra duties on Russia-made nitrogenous fertilizers and started procedures aimed at the introduction of quotation of Russia's exports of cement, rolled steel, and wood fiber tiles.

In March of 2002, the amount of Russia's trade vis-à-vis CIS countries made US \$ 2.33 bln. The exports remained practically at the last year level (they grew by only 1.6 % and made US \$ 1.36 bln.), while imports decreased more significantly – by 17.9 % as compared with figures registered in March of 2001 and made US \$ 0.97 bln. As concerns imports from CIS, the deliveries of ferrous metals and pipes declined most considerably (two and four times respectively as compared with the levels registered in the preceding year).

As concerns oil and natural gas export to CIS countries, it decreased in terms of both volumes and the average export prices of these products. It shall be also mentioned that export oil prices also decreased by about 30 %; however, in contradistinction to natural gas and oil products, deliveries of crude oil grew by more than 60 %.

In May, a summit of the Eurasian Economic Community indicated new avenues of development of integration processes among CIS members. The heads of participating states paid special attention to the problems relating to the coordination of measures as concerns the accession of a EvrAzES member country to WTO and the formation of the common customs tariff. This international organization (Eurasian Economic Community, or EvrAzES) was founded in 2000 by the Presidents of Russia, Belorussia, Kazakhstan, Kirghizia, and Tadzhikistan on the base of the Customs Union created four years earlier. The Community sees its priorities in a more close cooperation of the member countries in the trade, economic, social, humanitarian, and legal spheres. In order to facilitate these processes, the Community plans to introduce common customs regulations and reporting procedures, all-embracing registration and transit rules, create joint crossing points on the external borders and ensure the economic security of EvrAzES member countries.

The summit also approved an agreement prohibiting the introduction of anti-dumping measures vis-à-vis member countries. Besides, Ukraine was granted the status of observer in the Eurasian Economic Community, which comprises Russia, Belarus, Tadzhikistan, Kirghizia, and Kazakhstan. As a next step, Ukraine may become an associated member of the Union.

Ukraine may benefit from the economic integration in the framework of EvrAzES not only in terms of a hike in tax revenues from deliveries of Russian hydrocarbon products, but also in terms of more close economic ties in the framework of CIS, what Ukrain has tried to avoid so far.

As concerns the customs regulation, on April 29, 2002, the RF State Customs Committee effected the Letter “On control over the customs value of goods classified by the Customs Schedule of External Economic Activities of Russia in the commodity groups 07, 08 and imported from CIS countries.”

The letter stipulates that the heads of customs should take operative decisions in relation to the customs value in maximally short terms in connection with the seasonal intensification of trade with agricultural produce imported from CIS countries, and not delay clearance of goods.

In order to operatively control seasonal fruit and vegetable imports from CIS countries, the customs departments responsible for the issues of customs value should periodically monitor the level of wholesale and retail prices of perishable goods (fruits, vegetables) in regions and use this information to control the customs value in the framework of methods set by the legislation.

N. Volovik, N. Leonova