

**RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
(July) 2002**

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The state of the federal budget

TABLE 1

The execution of the federal budget of the Russian Federation as % of GDP, cash-based execution).

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

TABLE 2

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

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

The data on execution of the federal budget over the first quarter 2002 are given in Table 1¹.

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

As of June 1, 2002, the revenues to the federal budget accounted for 20.9 % of GDP, including tax revenues at 19.6 %, while expenditures made up 17.1 % of GDP (19.4% of GDP in terms of fulfilled funding ²), including non-interest ones – 14.6 % of GDP (16.9 % of GDP in terms of fulfilled funding). The level of budget surplus accounted for 3.8 % of GDP (1.4 % of GDP in terms of fulfilled funding).

The indicators of revenues collected in January through May basically show rather a stable conditions. The tax revenues in January through May 2002 made up 17.4 % of GDP (exclusive of the single social tax).

When compared with the last year's indicators, it is worth noting some rise in revenues from VAT, a slight decline in excises and the continuous decrease of revenues from taxes on foreign trade.

The expenditures on the servicing of the public debt in January through May 2002 made up 2.5 % of GDP (which is significantly below 3.3 % reported in 2001). As concerns other expenditures of the federal budget, it shall be noted that in May the expenditures for national defense increased.

As concerns the composition of expenditures on social policy, subsidies to the Pension Fund to over the basic part of labor pensions at the expense of the single social tax accounted for 2.7% of GDP, while the subsidies to the Pension Fund to cover military and law enforcement agency veterans' pensions stood at another 0.5% of GDP.

As concerns the fulfilled funding, the expenditures over the first half 2002 made 18.9 %, or at 2.2% of GDP over the expenditures in the preceding year. Should the subsidies from PF at the expense of SST be disregarded, the respective index would account for 16.2%, being equal to the last year's value.

Between the beginning of 2002 through July 1 the balances of accounts on accounting the federal budget funds (without regard to the funds accumulated on personal accounts of recipients of budget funds) have grown by Rb. 90 bln. (1.9% of GDP) in terms of cash-based execution and by 16 bln. (0.3% of GDP) in terms of actual financing

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	V	VI						
218,7%	187,1%	234,8%	277,8%	240,9%	218,0%						

The level of tax receipts to the federal budget in June 2002 (minus SST) in comparable prices showed a notable decline compared with prior months.

The dynamics of actual tax arrears to the federal budget is given in Fig.1³. In April, both VAT- and corporate profit tax-related arrears showed some growth.

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).

³ 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

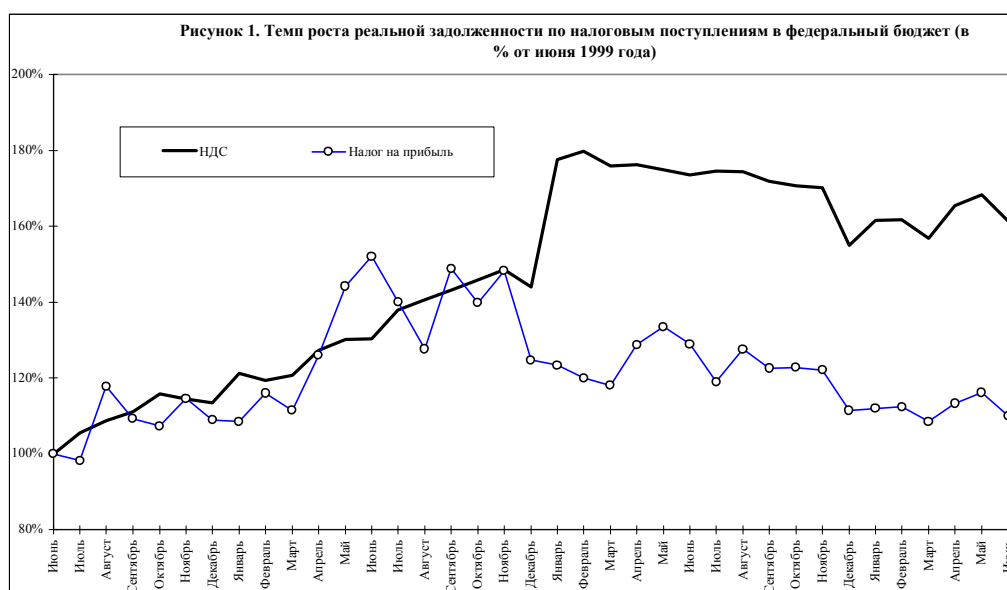


TABLE 4

Execution of the RF consolidated budget (as % of GDP).

1998												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	16,2%	17,4%	18,1%	19,3%	19,7%	19,8%	19,8%	19,4%	18,8%	18,5%	18,6%	19,6%
Revenues	18,8%	20,1%	21,2%	22,4%	23,0%	23,2%	23,2%	22,9%	22,3%	22,0%	22,0%	24,5%
Expenditures	25,3%	23,8%	27,0%	28,1%	28,6%	29,5%	29,4%	28,6%	27,4%	26,9%	27,1%	29,5%
Deficit	-6,5%	-3,7%	-5,8%	-5,7%	-5,7%	-6,3%	-6,2%	-5,7%	-5,2%	-5,0%	-5,0%	-5,1%
1999												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	16,8%	16,6%	18,1%	19,9%	20,1%	20,5%	20,8%	20,8%	20,3%	20,2%	20,9%	22,1%
Revenues	19,2%	18,9%	20,6%	22,7%	23,2%	23,9%	24,3%	24,5%	24,1%	24,0%	24,8%	26,3%
Expenditures	18,6%	20,3%	23,6%	25,6%	26,6%	27,3%	27,4%	27,4%	26,7%	26,3%	26,7%	29,2%
Deficit	0,6%	-1,5%	-3,1%	-3,0%	-3,4%	-3,4%	-3,1%	-2,9%	-2,7%	-2,3%	-1,9%	-2,9%
2000												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	20,8%	21,4%	22,6%	24,2%	25,5%	25,4%	24,9%	24,8%	24,1%	23,7%	24,0%	24,6%
Revenues	24,4%	24,8%	26,4%	28,2%	29,7%	29,7%	29,3%	29,2%	28,4%	28,0%	28,6%	30,0%
Expenditures	19,6%	21,1%	23,8%	24,8%	25,2%	25,5%	22,3%	25,1%	24,5%	24,2%	24,6%	27,0%
Deficit	4,7%	3,7%	2,6%	3,4%	4,5%	4,3%	7,0%	4,1%	3,9%	3,8%	4,0%	3,0%
2001												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	22,7%	23,6%	23,9%	25,4%	26,4%	26,0%	26,1%	25,9%	25,0%	24,8%	25,4%	27,1%
Revenues	25,9%	27,1%	27,4%	29,3%	30,5%	29,8%	29,9%	29,7%	28,3%	28,2%	28,8%	29,5%
Expenditures	16,8%	22,8%	23,7%	24,7%	25,1%	25,3%	25,5%	25,6%	24,9%	24,7%	25,0%	25,6%
Deficit	9,1%	4,2%	3,7%	4,7%	5,4%	4,4%	4,4%	4,1%	3,5%	3,5%	3,8%	3,9%
2002												
	I		II		III		IV		V			
Taxes	28,7%		23,6%		24,3%		26,5%		26,6%			
Revenues	32,9%		31,3%		31,4%		33,6%		33,6%			
Expenditures	18,3%		23,7%		26,0%		28,4%		28,4%			
Deficit	14,6%		7,7%		5,4%		5,3%		5,2%			

The level of tax revenues to the consolidated budget in January through May somewhat increased in comparison with the prior 2 months. Besides, the surplus of the consolidated budget still exceeds the level observed over the prior year, though it declined vs. the prior months.

The forecast of tax revenues to the consolidated and federal budgets is presented in the Table below⁴. The estimate was revised vs. the indicators presented in the preceding bulletin with account of the new data on the execution of the consolidated and federal budgets.

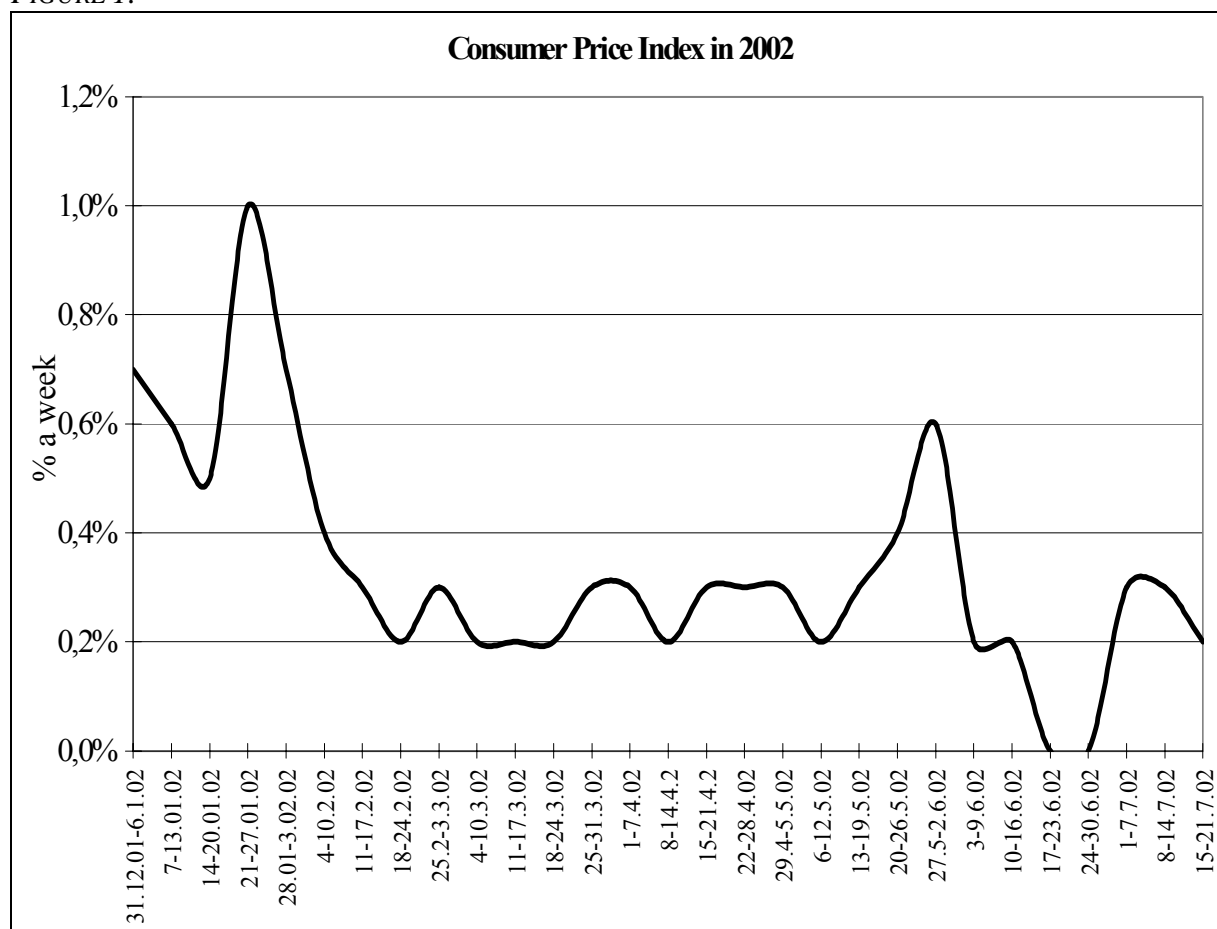
S. Batkibekov

Monetary Policy

The final figures for June indicated a higher inflation rate than predicted. The RF Goskocmstat reported that the consumer price index rose only by 0.5%, i.e. the prices grew at zero pace during the second half of the month (see Fig. 1). The commodity structure of the consumer prices increment was as follows: due to seasonal factors, the food stuffs price index went down by 0.2%, while the services price index grew by 1.6%, and the non-food foods price index – by 1.1%. As it occurred in May, the highest price rise was registered for petrol– 12.3%. We should remind that a similar growth in petroleum prices was noted in early summer 1999 and was related to the renewal of petrol prices in US dollar equivalent up to 0.3–0.35 US\$ per litre after the 1998 rouble devaluation. During the consequent two years petrol prices have been rising at lower rates than the US dollar, with the respective gap being fairly smaller, though, and, in our view, the recent price hike has been of an analogous nature. Moreover, in spring 2002 all restrictions on oil export were lifted, and in presence because of high oil prices in the world market, the domestic prices also went up.

So, the inflation rate (measured by CPI) in Russia made up about 9.0% for the first half of 2002 (12.8% in the first half of 2001). According to our estimates, even being allowed for some increase in CPI growth rate in July (the preliminary data indicate the consumer price growth was 1.0–1.1%), the inflation in 2002 matches the Government’s projections and should not exceed 13.5%.

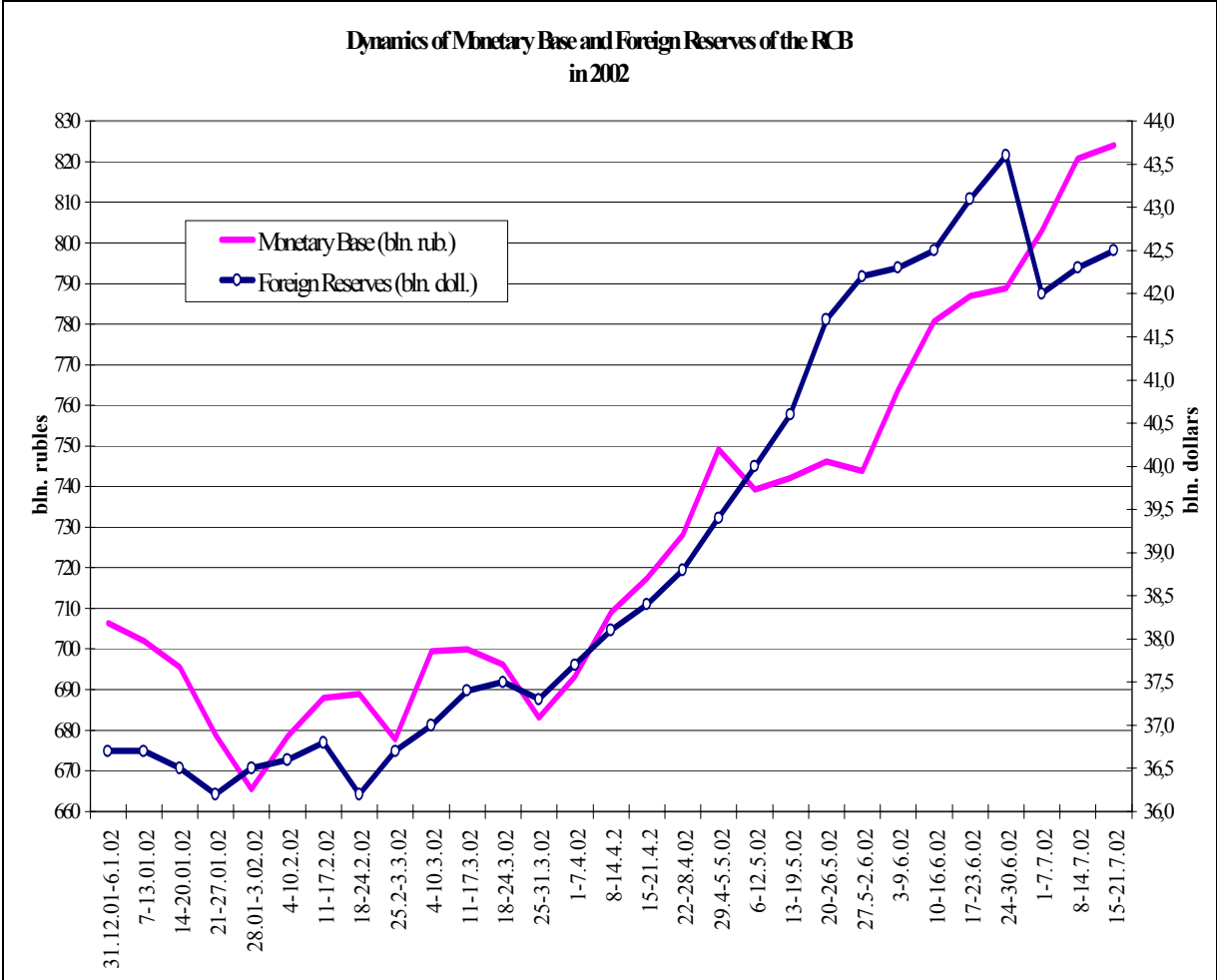
FIGURE 1.



⁴ For the description of models see the preceding bulletins.

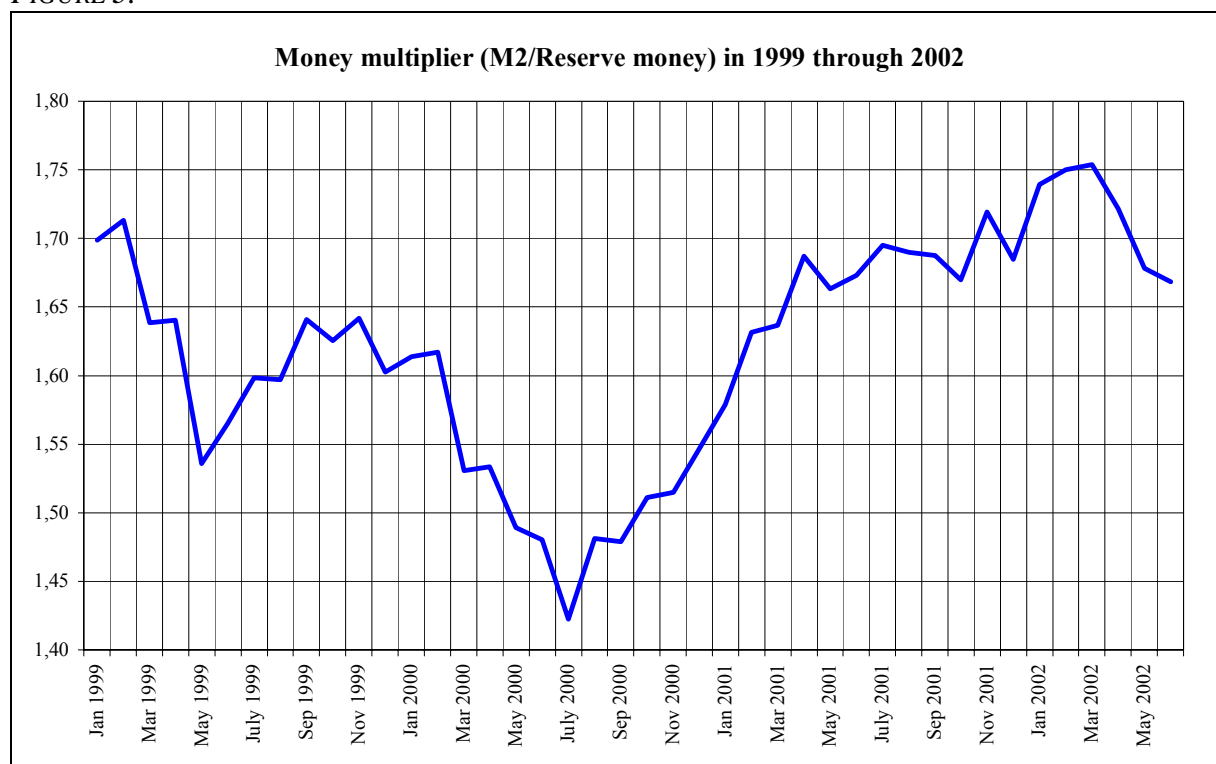
In July 2002 the Bank of Russia changed its procedure for calculation of foreign reserves. From now on the reserves exclude short-term foreign liabilities of the CBR. According to the Bank statement, the new procedure, allows «to improve self-descriptiveness of the indicator». As a result, the recalculated foreign reserves became lower by approximately \$1.5 billion, but their dynamics did not changed (see Fig. 2). At the same time, it is worth noting that the preliminary data gave no evidence in favour of earlier forecasts about possible positive capital account balance of the RF balance of payments in the second quarter of 2002.

FIGURE 2.



The Bank of Russia published data on dynamics of the monetary aggregate M_2 and reserve money, which testify to a sharp decline in money multiplier during spring and early summer 2002 (see Fig. 3) after the post-crisis peak – 1.75 – was registered in March. By the end of the first half of 2002 the multiplier slid to 1.67, i.e. to the level of the second half of 2001, when the indicator was stable during eight months running. We should remind that we explained the fact by achievement of an upper margin (?) under the current state of financial markets and banking system. The credit expansion, which was observed in the first quarter of 2002, vanished out, as the statistical data has revealed stagnation in the real sector. Evidently, next attempt to expand lending may be made by banks only if they had more positive information on production dynamics (the very recent data have showed that practically all the industries grew in June, but one needs time to prove the tendency).

FIGURE 3.



S. Drobyshesky.

Financial Markets

The market for government securities.

In July 2002 the market for the Russian foreign debt was dominated by the tendency to yields growth across nearly all kinds of securities (see Figs. 1 and 2), but the shortest bonds matured in 2003: the yield on the 4th tranche of the Minfin bonds fluctuated within the range of 6–6.5% annualised, and the yield on eurobonds – some below 5% annualised. The main factors influencing dynamics of quotations of the Russian liabilities were a general uncertainty and high volatility of the developed financial markets and permanent high investment risks in the emerging markets, because of situations in Brazil and Uruguay.

The market for the Russian domestic debt demonstrated a new fall in yields to the historically minimum level – 13.5–14.5% annualised (such a decline in interest rates in the domestic market was registered previously in the first quarter of 2002). However, now we should note an important phenomenon having an adverse impact on the situation that is, last month, the Russian Pension Fund became the biggest market player and provided for high demand for GKO and OFZs, while private investors virtually lost their interest in the market.

The market for corporate securities.

As it happened in June, last month has also failed to pacify investors' mood. Rumors about possible new acts of terrorism in the USA during the Independence Day (July 4) forced the investors to withdraw their capital from the US stock market. Fortunately, the pessimistic expectations have not become a reality. However, after the external shocks the US market was battered by domestic ones, the scandals involving the biggest corporations have resulted in the collapse of the stock market. Though demonstrating an enviable stability over recent period of time, torpedoed by the bad news from the world market, in late July the quotations of the Russian stocks also fell sharply,

FIGURE 1.

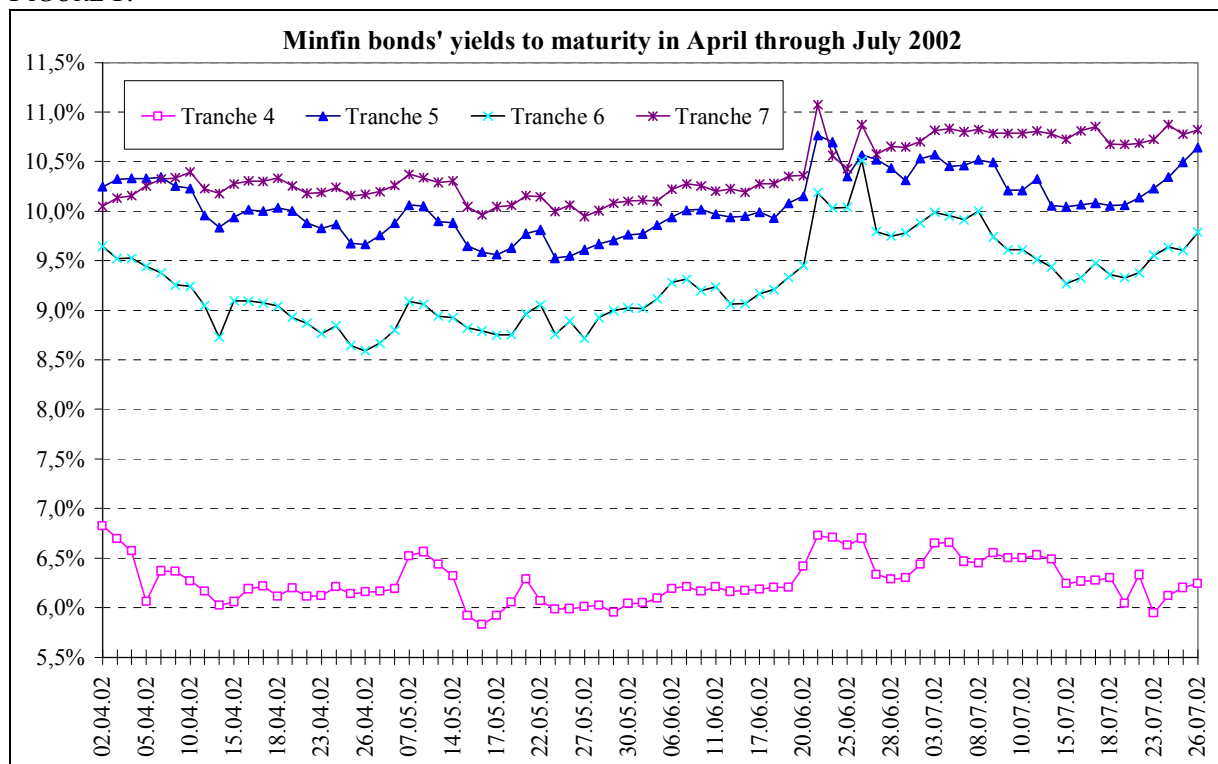
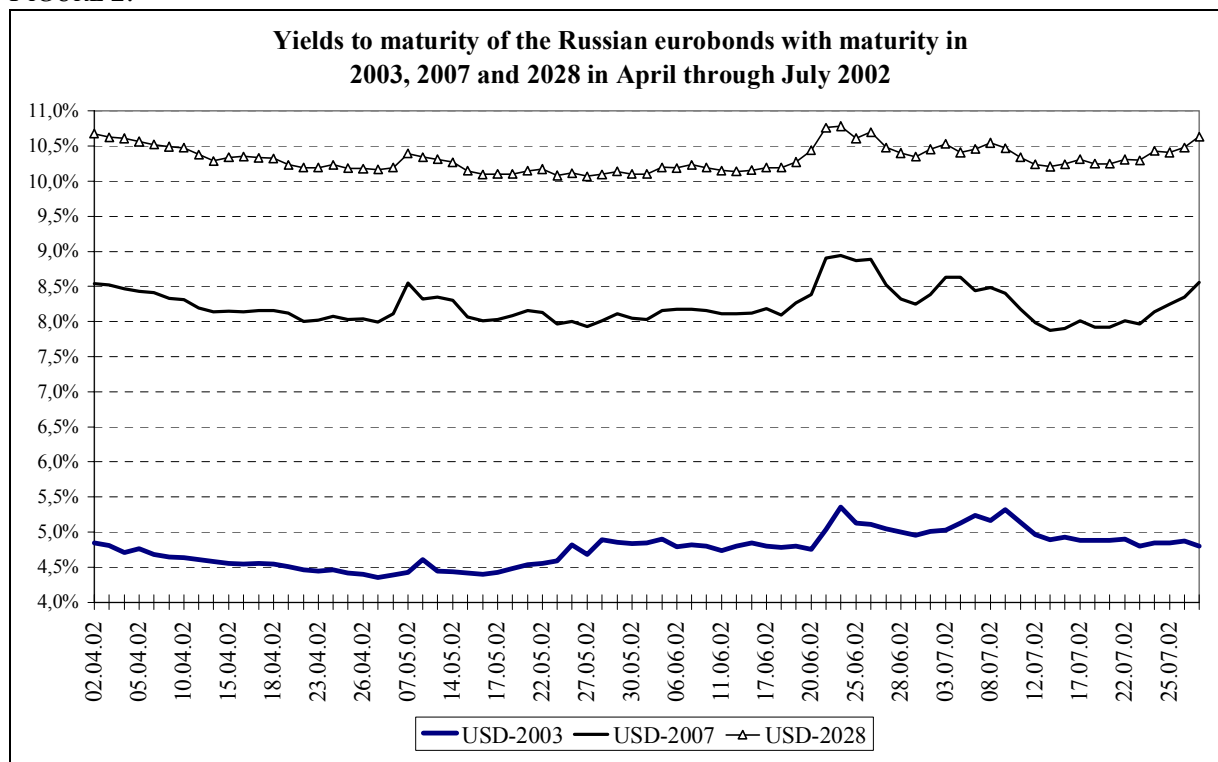


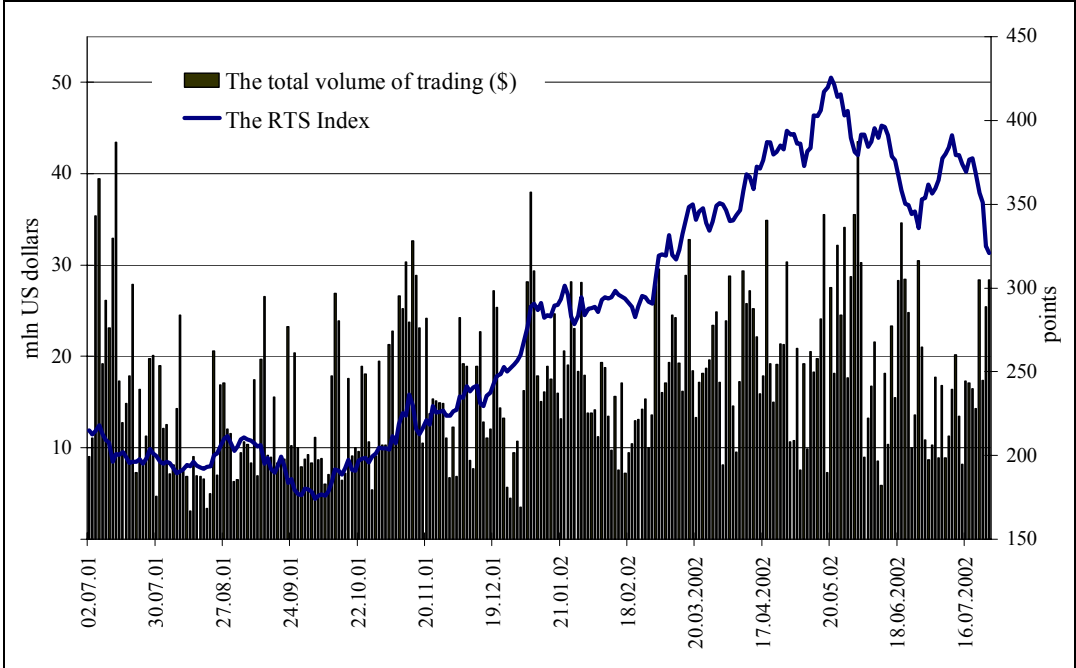
FIGURE 2.



The situation in the stock market. In July the RTS Index fell by 33.12 points (-9.36%) at the trade volume about \$305 million. The average daily turnover equaled \$16.1 million. A small drop in the Index in the very beginning of July was provoked by fears related to the US Independence Day. Then, influenced by favourable external and domestic factors the Russian stock index grew by July 10 up to 391.16 points (+8.12% against the 1st of July). After the slump in the world markets in mid-July the quotations in the Russian market also went down, and on July 23 the RTS Index closed at 350.89 points (-10.3% against the highest level in the month). The sharp drop on July 24 —7.4% — could be

explained by an unfavourable situation in developed markets, as investors started withdrawing their capital from emerging markets, in fear of a new international crisis.

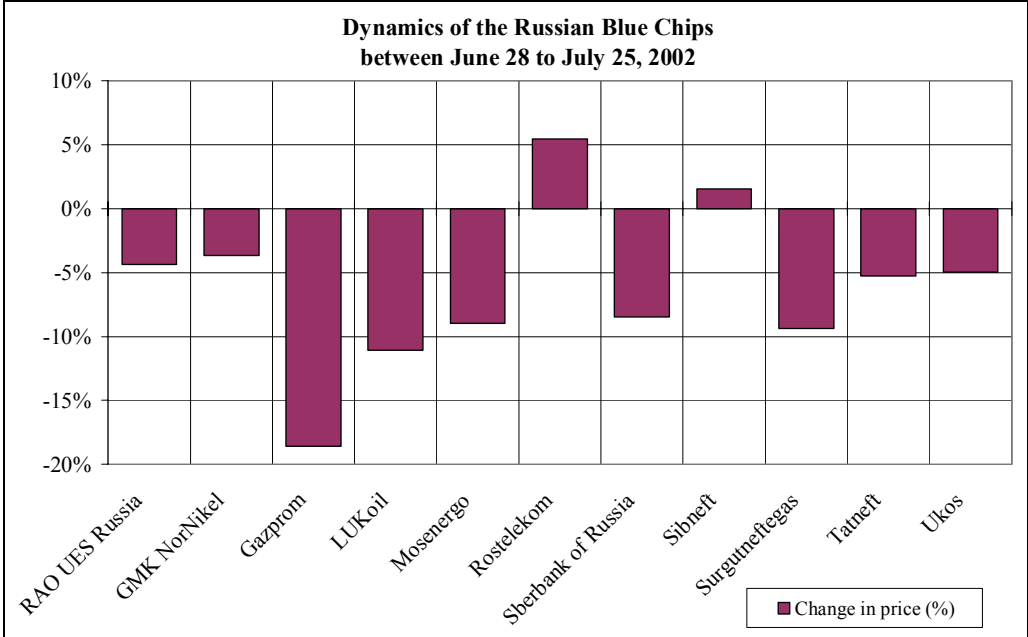
FIGURE 3.



In July the leaders among *blue chips* were “Rostelecom” (5.46%) and “Sibneft” (1.56%), while. It was the prices of MMC “Norilsky Nickel” which declined the least (-3.65%). They were followed by stocks of RAO “UES Russia” (-4.38%), “YUKOS” (-4.94%) and “Tatneft” (-5.24%). The list was closed with “LUKoil” (-11.07%) and “Gazprom” (-18.6%).

In July, the share of common stocks of RAO “UES Russia” in the total RTS turnover rose to 28.12% (in June – 26.1%), the share of “LUKoil” grew up to 22.58% (16.48%), while the share of stocks “Surgutneftegas” dropped to 13.37% (14.41%), the share of “YUKOS” – to 11.76% (16.49%) and “Tatneft” - 5.5% (6.24%). Overall in July the total share of the five most liquid stocks in RTS rose further up to 81.32% (in June – 79.73%).

FIGURE 4.



Between the 1st of July to July 25, 2002, the volume of trades with “Gazprom” shares through RTS terminals exceeded \$82.8 million (over 90 million shares). Overall, about 10 thousand deals with the shares were stricken.

As of July 25 the list of top five biggest Russian corporations in terms of capitalisation consist of (according to the RTS data): “YUKOS” – \$18.9 billion, “Gazprom” – \$18.8 billion, “LUKoil” – \$11.92 billion, “Surgutneftegaz” – \$11.89 billion and “Sibneft” – \$8.1 billion.

The market for term contracts. The Russian market for term contracts has become more attractive to investors. According to the RTS data, on July 3 the participants stroke the maximum number of deals in the FORTS – 3284. The new record value exceeded the previous one by 17.7% (on May 28 – 2789 deals). The trade volume and open interest also boosted up and amounted to 130.7 thousand contracts (467.9 million roubles) and 196 thousand contracts (723.3 million roubles), correspondingly. In total, for three weeks of July the turnover amounted to 5.52 billion roubles (39.73 thousand deals, 1.45 million contracts).

The market for corporate bonds. The market for corporate bonds did not demonstrate any clear trend in July. Between the 1st of July to July 23 the trade volume equaled 1.56 billion roubles. The number of deals was restrained by high prices, which were unattractive for buyers, as well as by high inter-bank credits rates in mid-July. In terms of trade volume the leaders were as follows: TNK (5th issue) – 18.4%, TNK (4th issue) – 14.9%, “Alrosa” (6th issue) – 8.2%, MMK (15th issue) – 6.3% and “Slafneft” (2nd issue) – 5.8%. The topfive bonds in terms of liquidity accounted for 53.5% of the total turnover. Among initial offerings we should note bonds of “Rabo-bank” (1.22 billion roubles) and the 2nd issue of “Centrotelecom” (600 million roubles).

External factors having impact on the Russian stock market. We should note that the fall in quotations of the Russian stocks has been mainly of speculative nature and related to the situation in developed stock markets. At the same time, our analysis of fundamentals infers a potential for growth.

The oil prices in the world market have stabilised at the level of 25-26 \$/bbl. The level appeared quite satisfactory both for OPEC and independent oil producers. The publication of the statistical report of the American Petroleum Institute in early July on the sharp reduction in industrial reserves of oil in the USA by 6.1 million barrels (approximately 20 times more than the market expected) was the main incentive for price growth. However, the head of the International Energy Agency R. Preadle commented to the Bloomberg that the demand for oil could slid because of the most striking fall in the US stock market since the 1970s. As early as on July 22 due to protracted crisis in the US stock market the oil price fell by one dollar per barrel, though still being above the level of 25 \$/bbl.

The OPEC President R. Lukman threatened a price war, should Russia not be following the set quotas. It is worth noting that since the beginning of 2001 OPEC reduced its oil extraction by 20% to support the oil prices. At the same time, Russia increased its oil extraction by 15% to 7.5 million barrels per day and left Saudi Arabia behind in terms of oil output.

A number of scandals related to falsification of financial statements by the biggest US corporations resulted in the fall in major world stock indices. Dow Jones and Nasdaq dropped below the levels of 8000 and 1300, correspondingly. Some European indices fell to the levels of 1997. To stabilise the market, in late July both chambers of the US Congress approved a new law aimed at fighting corporate frauds. This news as well as positive financial results of some big corporations (e.g., 3M, McDonald's, DuPont) were quite positively perceived by investors. On July 24 the US stock markets closed with a sharp rise of the stock indices: Dow Jones went up by 6.4%, Nasdaq –by 5%, and S&P 500 – by 5.7%.

Speaking before the US Senate on July 16, the Fed Chairman A. Greenspan, reckoned that the US economy was on a way to a profound “recovery”, but the consequences of the recent recession as well the fall in confidence in the US corporate sector still had a strong impact on quotations of securities. He also noted the FRS raised its forecast of the US GDP growth for 2002 up to 3.5-3.75%, while previously it predicted only 2.5-3%.

At a conference devoted to investments to Russia the business director of the international rating agency S&P C. Reuss announced a very likely upgrade of the Russia’s sovereign rating up to its pre-crisis level “BB”. Currently, the RF rating (according to S&P) is “B+”, signifying “a limited paying ability” and referred to “speculative” category. As a result, the RTS index grew by almost 2% against rather a substantial fall in major stock markets in the USA (Nasdaq and S&P dropped by 2.54% and 3.40%, correspondingly).

FIGURE 5.

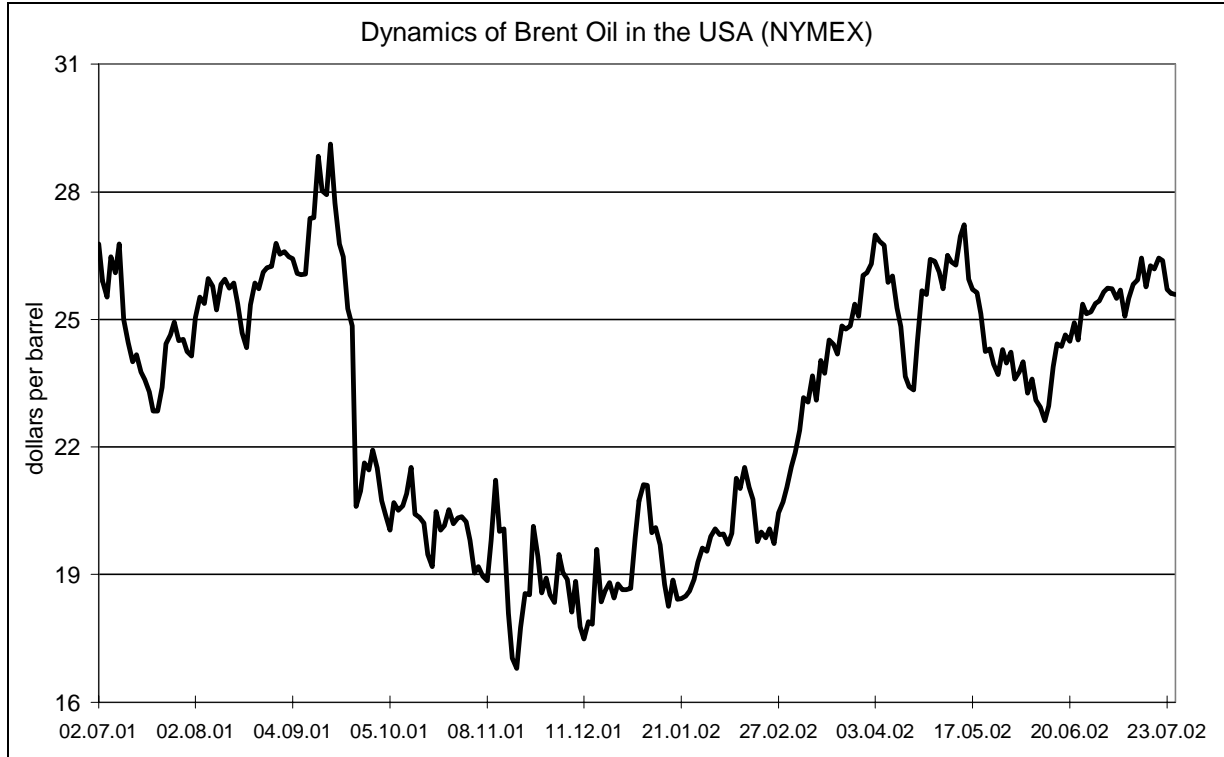
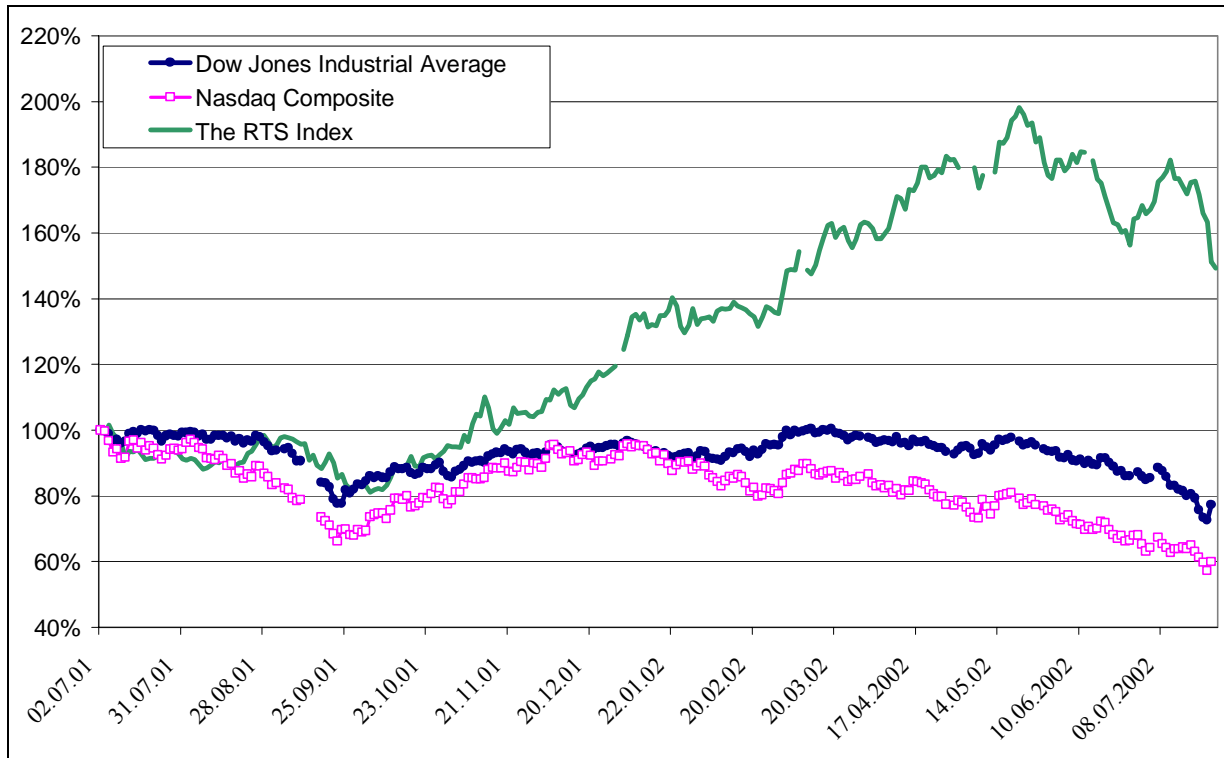


FIGURE 6.



Corporate news.

Mosenergo. For the first five months of the year “Mosenergo” supplied its customers with 24 billion kW-h, i.e. at 4.7% more than over the respective period of 2001. Between January to May 2002 the level of released heat energy was 33.3 million Gcal, i.e. at 6% less than for respective period in 2001. The reduction in heat energy was related mainly to warmer weather conditions this year.

LUKoil. According to Minister for Economic Development and Trade G. Gref, the bid price for about 6% of the Government’s stock in LUKoil should to be at least \$660 million. Later on, the oil company Director V. Alekperov voiced the Government’s stock of shares (5.9%) would be sold on

July 31 in London as GDR. The deal was held after the roadshow on July 26 and 27 and the price will be \$780 million.

The net consolidated profit of Lukoil in the first quarter of 2002 (according to GAAP standards) made \$243 million, thus down from \$680 million gained in the first quarter of 2001. The gross receipts amounted to \$2.85 billion (3.34 billion in 2001).

The reduction in the company's receipts resulted from the decline in domestic and world oil prices. However, the price fall was partly compensated by a substantial increase in sales both in Russia and abroad.

YUKOS. YUKOS works over a possibility of an alternative oil supply to the USA as the company needs new markets and long-term contracts. The first tanker carried about 200 thousand tons to Galvestone (Texas). This oil supply to the USA was a test for the company aimed at clarification of supply conditions of the Russian oil to the North-American market. It is envisaged that that the results would be available by end of July.

Sibneft. "Sibneft" signed the agreement on a syndicated credit at \$450 million for 5 years. The authorised managers of credit were Citibank/Schroeder Salomon Smith Barney, BNP Paribas, with participation of Westdeutsche Landesbank. Raiffeisen Zentralbank and Natexis Banques Populaires. The credit is disbursed for financing export.

In June 2002 the company increased oil extraction by 26.7% against June 2001 – up to 2.11 thousand tons, oil export – by 55.4%, up to 785.6 thousand tons, export of oil products – by 90.4%, up to 391.6 thousand tons.

Aeroflot. "Aeroflot" published its financial results for the first quarter of 2002. The net loss of the company was equal 600 million roubles, while in the first quarter of 2001 the loss was 1.3 billion roubles. The receipts grew from 7.2 billion roubles to 8.3 billion roubles. The operating loss amounted to 60 million roubles (1.1 billion roubles in 2001).

MMC "Norilsky Nickel". Russian Prime Minister M. Kasyanov held a meeting with representatives of MMC, Gokhran, Ministry of Finance and the Central Bank. The parties came to a fundamental agreement on the issue concerning the right of platinoids exporters to conclude direct long-term contracts with buyers on their own.

AvtoVAZ. AvtoVAZ published its final results for 2001 according to international accounting standards. The net profit grew almost five times against 2000 and amounted to \$447 million. The receipts made \$3.649 billion. The operational profit equaled \$232 million (in 2000 – \$4.5 million, in 1999 – \$925 thousand). The EBITDA reached \$399 million, i.e. 160% higher the value in 2000 (\$152 million).

Gazprom. "Gazprom" released its financial results for the first half of 2002 according to the Russian accounting standards. The non-consolidated net profit of the company declined by 41% in annual terms and was equal to 41 billion roubles. The company officials said in 2002 the non-consolidated net profit (according to the Russian accounting standards) would made \$2 billion, i.e. by 18% less than in 2001.

TABLE 1

Dynamics of the Foreign Stock Indexes

as of July 24, 2002	value	change for last month (%)	change since beginning of the year (%)
RTS (Russia)	324.96	-8.15%	24.96%
Dow Jones Industrial Average (USA)	8 191.29	-11.38%	-19.19%
Nasdaq Composite (USA)	1 290.23	-11.82%	-35.07%
S&P 500 (USA)	843.43	-14.79%	-27.35%
FTSE 100 (UK)	3 777.10	-18.88%	-27.95%
DAX-30 (Germany)	3 632.66	-17.11%	-29.60%
CAC-40 (France)	3 023.69	-22.43%	-34.62%
Swiss Market (Switzerland)	4 607.80	-22.94%	-28.20%
Nikkei-225 (Japan)	9 947.72	-6.35%	-5.64%

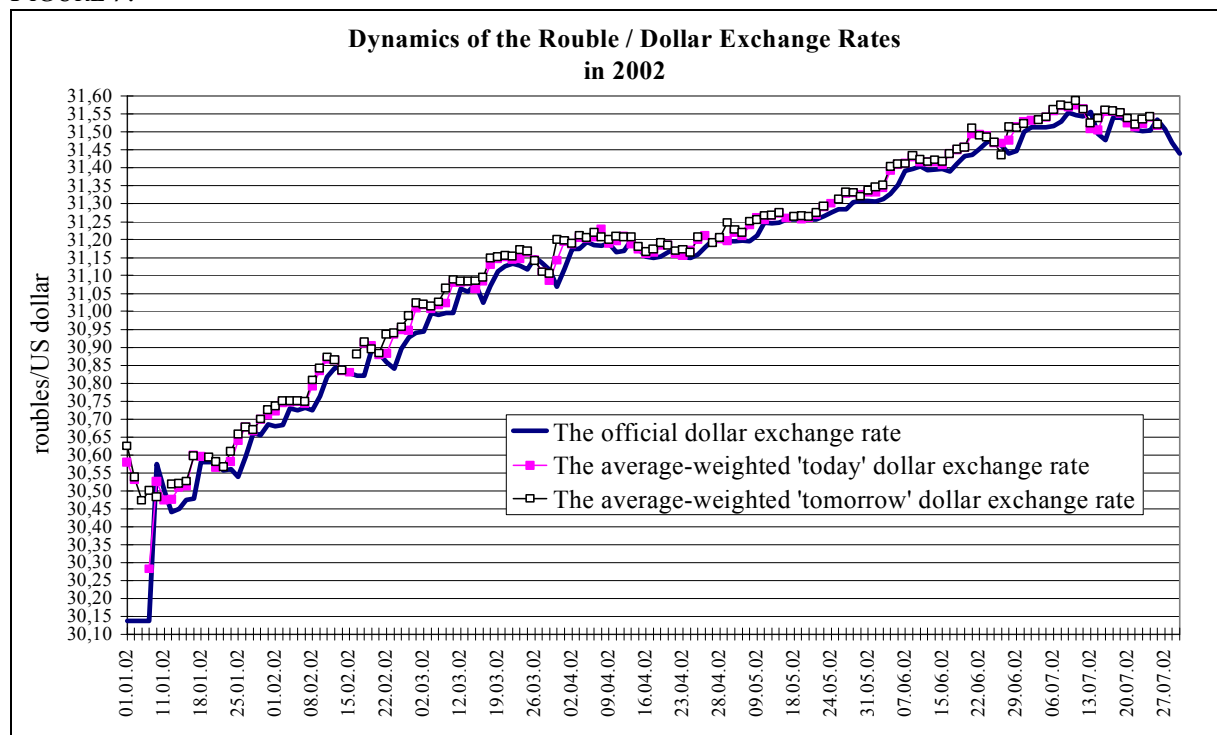
as of July 24, 2002	value	change for last month (%)	change since beginning of the year (%)
Bovespa (Brazil)	9 937.00	-10.79%	-26.82%
IPC (Mexico)	6 010.42	-6.97%	-7.06%
IPSA (Chile)	81.46	-6.60%	-25.33%
Straits Times (Singapore)	1 522.80	-1.94%	-6.35%
Seoul Composite(Korea)	721.41	-2.87%	3.99%
ISE National-100 (Turkey)	9 714.96	3.57%	-29.51%
Morgan Stanley Emerging Markets Index	302.076	-5.53%	-4.17%

Foreign exchange market.

In July 2002 the Russian foreign exchange market demonstrated a traditional seasonal appreciation of rouble in nominal terms, which was intensified this year by a fall of the US exchange rate against most of national currencies. The situation in the forex market in short run also looks rather stable, as the oil prices remain at the current level (above 20 \$/bbl). This fact allows the Bank of Russia to state possible reduction in the rate of compulsory sales of export receipts from 50% to 30–35% just this year without any harm to rouble exchange rate dynamics and the Russian foreign reserves.

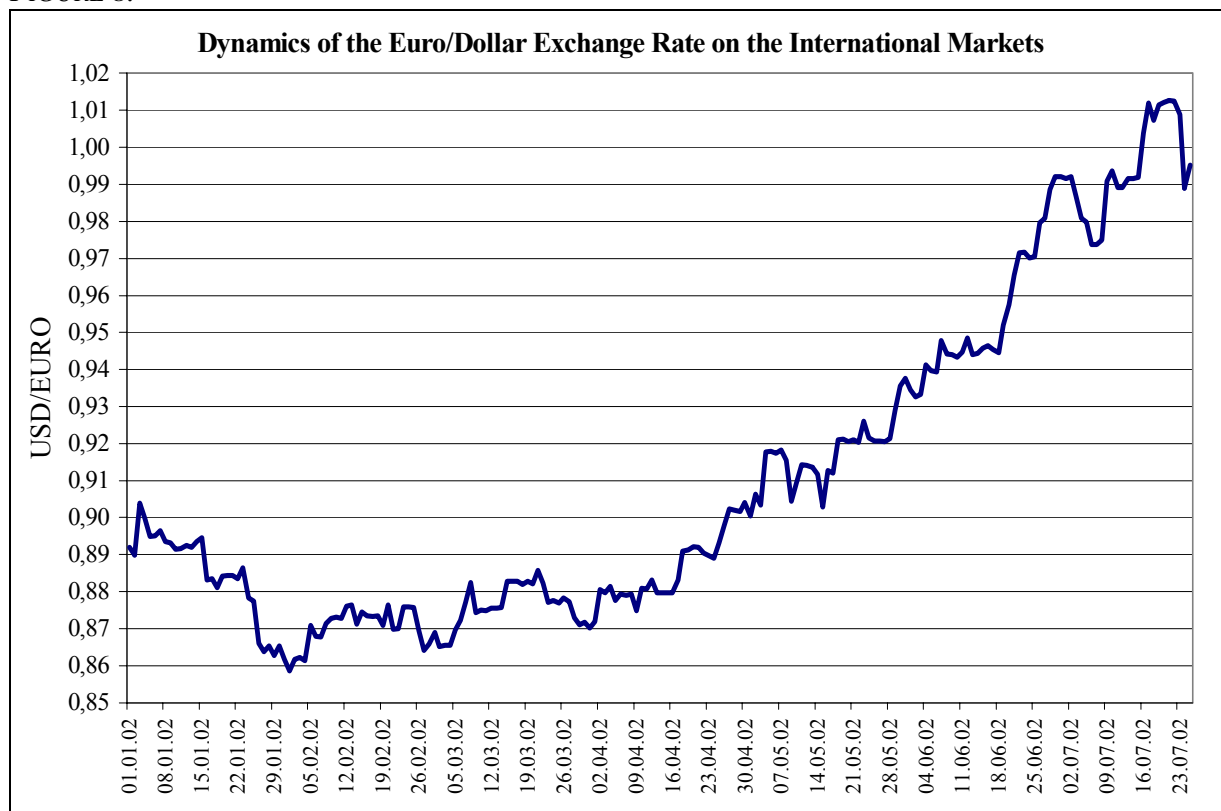
In total, in July 2002, the official dollar exchange rate slid from 31.4471 roubles/\$ to 31.4401 roubles/\$, i.e. by 0.02% (-0.27% annualised, see Fig. 7). The 'today' dollar exchange rate in the SELT increased from 31.5134 roubles/\$ to 31.5166 roubles/\$ (as of July 26), i.e. by 0.01%. The 'tomorrow' dollar exchange rate went up from 31.5113 roubles/\$ to 31.5217 roubles/\$ (as of July 26), i.e. by 0.03%. According to preliminary estimates, in July the trading volumes by dollar amounted up to 145 billion roubles.

FIGURE 7.



In mid-July 2002 euro got parity with the US dollar (see Fig. 8), but in the end of the month it slid once again to the level of 0.98–0.99 \$/euro. As we mentioned in previous reports, the main reason for devaluation of the US currency was the deterioration of the US balance of payments, aggravated by withdrawal of capital from the US assets after a number of scandals with financial accounts of the biggest corporations. However a lack of positive news on development in the European economies prevented the single European currency from consolidation at the previously attained level.

FIGURE 8.



In July, the rouble/euro official exchange rate grew from 31.0792 roubles/euro to 31.8019 roubles/euro, i.e. by 0.89% over the month. According to preliminary estimates, in July 2002, the total trading volume on euro exceeded 5 billion roubles.

FIGURE 9.

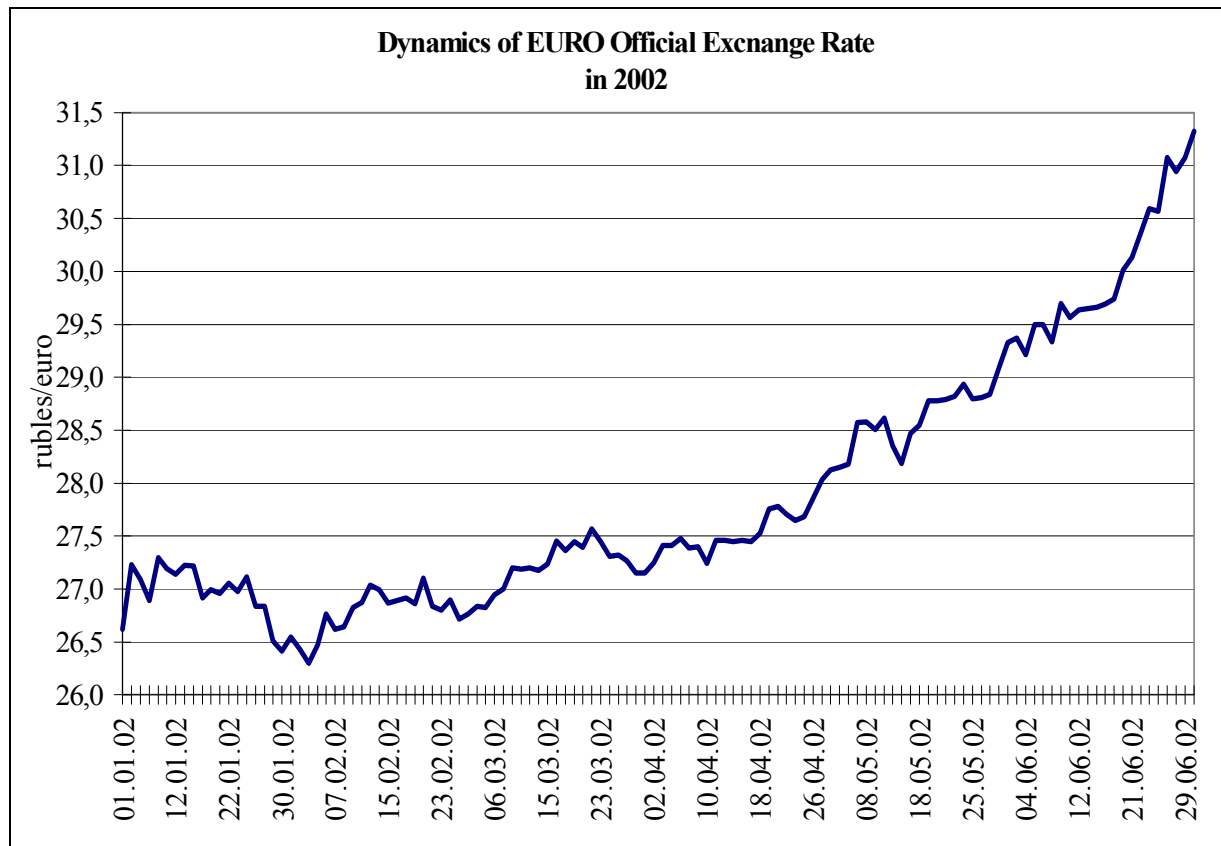


TABLE 2.

Indicators of Financial Markets.

	March	April	May	June	July*
Inflation rate (monthly)	1.1%	1.2%	1.7%	0.5%	1.0%
Annualised inflation rate by the month's tendency	14.03%	15.39%	22.42%	6.17%	12.7%
The RCB refinancing rate	25%	23%	23%	23%	23%
Annualised yield to maturity on OFZ issues	15.80%	16.64%	15.61%	14.86%	14.5%
Volume of trading in the secondary GKO-OFZ market a month (billion roubles)	4.78	11.33	14.98	12.99	9.0
Yield to maturity on Minfin bonds by the end of the month (% a year):					
4th tranche	6.86%	6.19%	6.05%	6.29%	6.2%
5th tranche	10.13%	9.88%	9.77%	10.43%	10.6%
6th tranche	9.65%	8.80%	9.02%	9.75%	9.8%
7th tranche	10.23%	10.26%	10.11%	10.65%	10.8%
8th tranche	9.63%	8.92%	9.09%	9.55%	9.6%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					
Overnight	17.79%	8.86%	4.09%	14.81%	7%
1 week	22.84%	12.34%	7.08%	22.26%	8%
Official exchange rate of ruble per US dollar by the end of the month	31.1192	31.1963	31.3071	31.4471	31.4401
Official exchange rate of ruble per Euro by the end of the month	27.1515	28.1453	29.3254	31.0792	30.8019
Average annualized exchange rate of ruble per US dollar growth	0.58%	0.25%	0.36%	0.45%	-0.02%
Average annualized exchange rate of ruble per euro growth	1.65%	3.66%	4.19%	6.81%	-0.89%
volume of trading at the stock market in the RTS for the month (millions of USD)	426.3	468.9	454.1	344.3	360
the value of the RTS Index by the end of the month	350.75	386.10	391.26	353.79	332
growth in the RTS Index (% a month)	20.64%	10.08%	1.34%	-9.58%	-6%

* Estimates

*S. Drobyshevsky, D. Skripkin***Investment in the real sector**

The problems of analyzing and measuring dynamics of investment flows as an alternative source of investment in the domestic economy have grown into a plumbing issue now. The decline in capital flight determined by the change in domestic state of affairs and the increase in investment demand on the part of export-oriented industries of the fuel and metallurgical complexes have had a favorable impact on dynamics of economic growth.

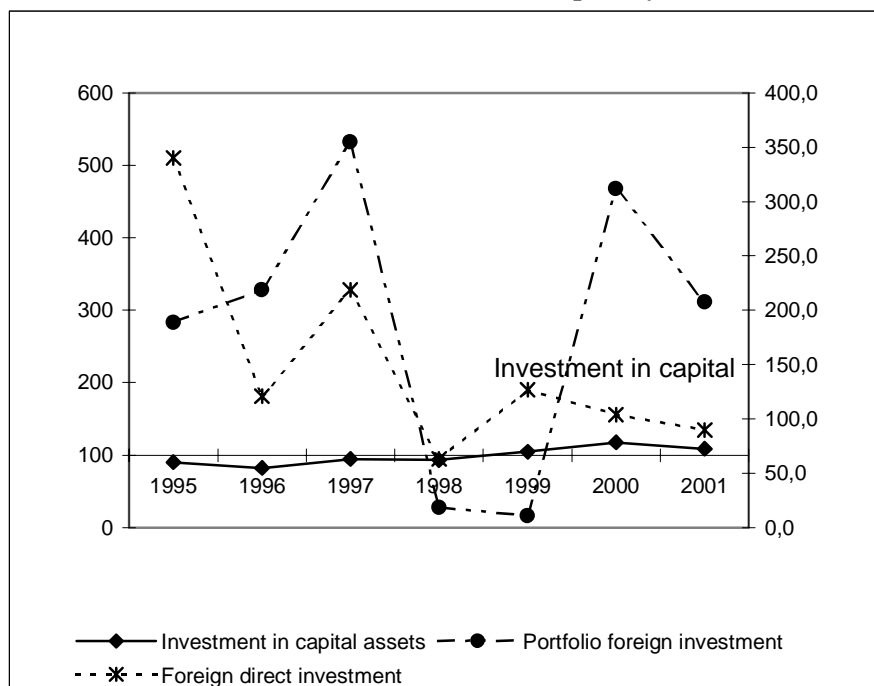
The emergence of an open market economy in Russia and its vigorous integration into the world economic system is back-upped by a growing interest of foreign capital in this huge and promising market.

With the renewal of economic growth rate in the national economy between 1999 to 2001, one can note the trend to advanced growth in investment relative to dynamics of GDP. In 2001, the share of investment in capital assets accounted for 17.2% of GDP vs. 14.8% in 1998. As concerns direct investment, Russia's positions appear rather humble: the country holds the 21st position among 25 Central and Eastern European countries and CIS nations in terms of the amount of FDI per capita.

The period of a low investment activity of 1998-99, which was determined both by domestic problems and the general decline in business activity in the world market, was replaced by an intense expansion of demand for investment resources between 2000-01. Russian domestic investment grew by 1/3 over the past 3 years compared to the crisis 1998. The year of 2001 once again saw the advanced rise in foreign investment compared to dynamics of internal investment in capital assets - foreign investors intensify their presence in the national market.

FIG.1.

Dynamics of domestic and foreign investment in Russian economy between 1995- 2001, as % to the prior year



Between 1995 through 2001 the structure of foreign investment as undergoing substantial changes. Given that in 1995 the share of FDI accounted for 67.7%, in 2001 it slid to just 27.9%. FDI react to changes in a state of affairs less intensively than mobile portfolio investment, which can be proved by a fast reaction of the latter on the 1998 crisis and the economic growth of 2000-2001. Portfolio investment reached their peak in 1997, when they accounted for 5.5% of the overall volume of foreign investment in Russia. After the decline in their share to 0.3% in 1999 due to non-residents' exodus from the national securities market and the consequent rapid growth over the past two years, their share currently accounts for 3.2%.

In the conditions of economic growth it has become clear that investment management did not appear coordinated with dynamic processes of the restructuring of the economy. While analyzing dynamics of foreign investment in the national economy, one should focus on the following phenomena: on the one hand, the structure of foreign investment inflow shows a systematic rise of the share of Cyprus and other "tax paradise" nations, while Russian investment increasingly tend to be placed in the countries with unstable economic and political systems. So, foreign investment is coming from the countries with low risks, while Russian investment resources are placed in ones with far greater risks.

The problems of analyzing and measuring dynamics of investment flows have grown into a plumbing issue now. It is the evaluation of the scale of capital flight out of Russia as an alternative source of investment in the domestic economy that forms one of the hottest issues under discussion. According to Russia's Central Bank, in 2001 capital flight roughly accounted for USD 1.7 bln., i.e. at 7.4 bln. down vs. 2001. Relative to foreign trade turnover the net capital flight dropped from 16.2% in 2000 to 10.9% in 2001, while relative to GDP its rate accounts form 10.2% and 4.5%, respectively. The decline in capital flight determined by the change in domestic state of affairs and the increase in investment demand on the part of export-oriented industries of the fuel and metallurgical complexes have had a favorable impact on dynamics of economic growth.

The positive development of this particular trend is determined by a consistent changing of the legal field in investment area. The absence of investment financial institutions, nascent state of the securities market, and the unstable legal field complicate the process of keeping private capital within the country and attracting foreign investors in the economy.

O. Izryadnova

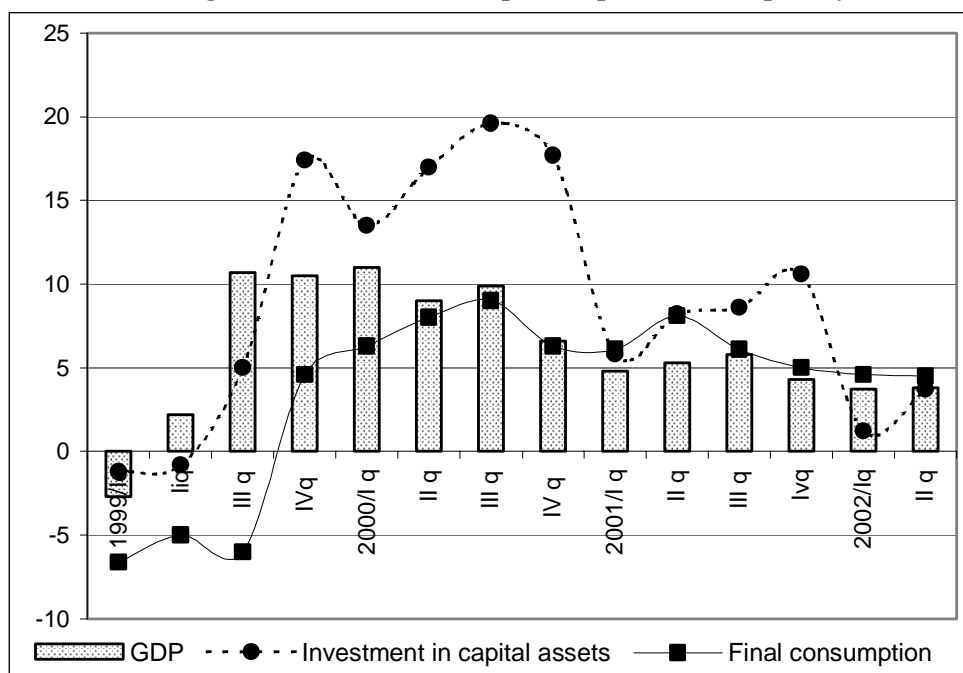
The real sector: trends and factors

According to preliminary results of the Ist half 2002, the increment in GDP accounted for 3.8% relative its respective period of the prior year. This year the structure of final demand is changing under the impact of the advanced rise in households' final consumption compared with gross savings. It is a steady decline of profitability rates that forms one of the major factors inhibiting investment activity.

According to preliminary results of the Ist half 2002, the increment in GDP accounted for 3.8% relative its respective period of the prior year. The volume of industrial output grew by 3.2% vs. the respective period of the prior year, while the volume of construction grew by 2.8%, and the one of agricultural output - by 4.0%. As concerns the sector for services, it was infrastructure sectors - trade and communication- that developed most intensively. The IInd quarter 2002 saw an acceleration of growth rates practically across all the industries and other sectors of the economy. Positive dynamics of development of basic sectors along with a favorable state of affairs in the area of foreign trade have determined the nature of structural shifts in GDP. This year, the economy keeps the trend to advanced rise in domestic demand compared with the external one; this trend has been registered since the IVth quarter 2000. In the Ist half 2002, the increment in domestic demand accounted for 4.3% relative to its respective index of the prior year, and it fully determined the dynamics of economic growth. Let us note that given that in the Ist half 2001 economic growth was determined by an intense increase in investment, this year the structure of final demand changes under the impact of an advanced growth of households' final consumption. According to preliminary estimates, the latter index grew by 4.9% vs. the Ist half 2001, while investment in capital assets grew by 1.8%.

FIG.1

Change in dynamics of GDP by components of final demand between 1999 through 2002, as % to the respective period of the prior year



Expansion of final consumption is determined by a gradual improvement of social parameters of economic development. The emergence of this specific trend forms a logical consequence of the strategy aimed at renewing the pre-crisis living standards. Over the period in question the increment in the population's real incomes accounted for 7.9% vs. the respective index of the Ist half 2001, while the one in real salaries and wages surged by 8.4%, and the increment in monthly pensions due accounted for 2.6%.

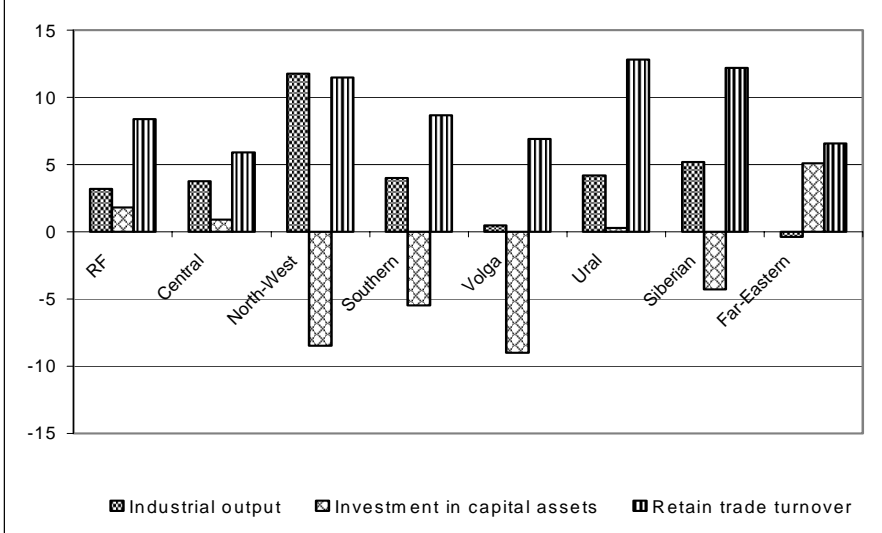
With the rise in the population's incomes, it has started to spend more - an intense rise in retail trade was accompanied with certain shifts in the structure of demand of the population. In contrast to the prior year, practically the whole rise in goods turnover was ensured by the expanding sales of food

stuffs. With the rise in retail trade turnover at 8.4% compared with the 1st half 001, the increment in food sales accounted for 9.8%, while the one in sales of non-food goods - for 7.1%. The change in consumer behavior is explained by structural shifts across main tradable groups. Overall, in the 1st half 2002 consumer prices grew by 9.0% vs. 12.7% reported over the 1st half 2001. Against the background of the general trend to slowdown of inflation, the prices for food stuffs have grown by 7.3% since early 2002, while those for non-food goods- by 5.9%. It is worth noting that with the current level of income the rise in spending on food stuffs stimulated the development of trends to formation of delayed demand for durables and led to maintenance of the current level and dynamics of the population's spending.

The renewal of consumer demand can be viewed as a factor that compensates for the slowdown in investment demand growth rate in early 2002. When compared with the 1st half 001, the share of investment in GDP dropped nearly by 2 percentage points and roughly accounted for 12.5%. This year, the fall in investment demand was reported by 4 federal Super-regions, while the Central and Ural Super-regions reported investment activity roughly remained unchanged, and the Far-Eastern Super-region being the only one where the rise in investment was bigger than the average index nationwide. It can be attributed chiefly to the increment in investment in Sakhalin oblast nearly 1.5 times.

FIG.2

Change in dynamics of industrial output, investment in capital assets and retail trade turnover in the 1st half 2002, as % to the respective period of the prior year



It should be noted that influenced the rising investment activity, in the IIInd quarter the trend to expansion of final demand has gained a steady pace. The rise in investment demand in the IIInd quarter also embraced construction works and investment in machinery and equipment. At the same time, against the background formed by stagnation in the machine-engineering sector, the demand for machinery and equipment was at 22.7% covered by import supplies.

One of main factors limiting investment activity between the IIInd half 2001 through the 1st half 2002 appeared a steady decline in production profitability rates. Between January to May 2002 the balance financial result of large and medium-sized entities of all the sectors slid by 36.7% to 1st respective level of the prior year, including by 45.4% across the industrial sector. The fall in profitability rate in the latter was affected by a drop in profitability rate of export operations, rise in production costs, particularly including the advanced rise for costs of fuel, electricity and salaries and ages. When compared with the 1st quarter 2001, the share of gross profit in GDP slid by 1.1 percentage points, while the share of employees' salaries and wages grew by 2.5 percentage points. The emergence of this particular trend against the background of the drop in productivity rate has an inhibiting impact on the level of business activity.

O. Izryadnova

The new guidelines for the government innovation policy in the high-tech area.

This paper reviews new approaches towards development of innovation activity and casting of a national innovation system proposed at the governmental level in the first half 2002. The paper also contains an analysis of amendments in law planned in the framework of basic guidelines of the government innovation policy that is to be finalized shortly. The paper focuses on the issue of venture funding and regulation of property rights on objects of intellectual property. In conclusion, the paper describes initial practical measures aimed at implementation of the proposed policy

After a regular reshuffle in the Ministry of Industry and Science (MIS) in late October 2001, the first half 2002 witnessed more vigorous attempts of the government to provide support to high-tech businesses and establishment of favorable conditions for emergence of innovation activity.

The transition towards an innovation path of development and emergence of the national innovation system were declared priority directions in the sphere of science and technology. This was emphasized in “The Guidelines for the Policy of the Russian Federation in the Area of Development of Science and Technologies over the Period until 2010 and Henceforward” (“Guidelines”). The document was approved at the joint meeting of the RF Security Council and the Presidium of the State Council of RF held on March 20, 2002. So, the Guidelines has become a principal strategic document for the sector concerned.

Proceeding from the Guidelines, MIS developed “Basic Guidelines for the State Innovation Policy in the Research and Technical and Production and Technical Spheres until 2006”. The draft document was developed in June 2002, along with the respective action plan for the period between 2002 through 2003. The action plan comprises 3 blocs of objectives aimed at creation, strengthening and development of the national innovation system links, ensuring harmonization between the links, and proving for necessary conditions of operations of the national innovation system as a whole and realization of its competitive advantages.

Despite the fact that the government declared creation of a national innovation system as its strategic purpose yet in 1997, there has not been any visible progress on the issue as yet. Certain elements of the innovation infrastructure were developed with a greater or smaller success, and they centered on a direct support of small innovation businesses in the form of innovation and technology centers and technoparks. At the same time the organizational and institutional structure of science - that is the sphere that to a significant extent forms the sources of technological innovations - remained unchanged which has formed an obstacle to any innovation. At the same time there has been no measures developed to encourage industrial enterprises and potential investors to develop innovation policies. As a result, there has been no connection between research entities, small innovation firms and the industrial sector as major links of an innovation system, and, consequently, though growing over the past two years, the proportion of innovation-active enterprises has remained on a low level accounting for 10.6% of the overall number of large and small industrial enterprises⁵.

So, what was in principle new in the proposals of the first half 2002? Which practical steps were taken in this respect?

It is planned to center the government’s efforts on tackling 3 issues: the use of budgetary funding as a catalyst to attract private capital in the research and innovation sphere; to ensure structural reorganization of the science and technology sphere by means of inventory of public property and assigning it, under certain conditions, to more efficient owners; staff training for the science-intensive sector, including both innovation managers and modern technological personnel - technologists, constructors, and business administrators.

Realization of each of the objectives requires particularly improvement of the current law in the respective areas.

That is why MIS paid a special attention to the problem of development of the legislative base of innovation activity. It should be noted that there is no special law on that, which would introduce basic terminology and a concept of this specific sphere, nor there are any principles of government regulation of innovation activities. The State Duma has been considering the bill “On innovation activity and the government innovation policy” for nearly 2 years. The bill passed three readings,

⁵ Nauka Rossii v tsifrah-2001. Statistichesky sbornik. M., TSISN, 2001, p.94

however, it was consequently declined by Acting President of RF and eventually withdrawn from the Duma's agenda on June 21, 2001 on the grounds that it suffered the lack of a clear concept of the object of regulation, conflicted with the Budget Code of RF, and a number of its provisions were found merely declarative. There have not been any attempts to improve the bill hence. In May 2002 the question was put on the government level as to whether the nation was in need in a federal law on innovation activity. MIS's stance on the issue is that one should not develop a new draft law, - rather, one should introduce necessary amendments to the current law instead, primarily in the Budget Code, Tax Code, Civil Code, and other legal acts and statutes. This very approach should allow incorporating the science and technology policy into the overall economic policy, thus helping a systematic emergence of a favorable economic environment for innovation activity and commercialization of technologies.

These days, the term "innovation activity" can be found in numerous legal documents, however, they all interpret it in different ways. As to venture activity as one of mechanisms of innovation development, there has not been any legal definition of this concept as yet. Interestingly, venture investment was named among key directions of the government support. Indeed, ensuring support of risky projects and particularly those in the high-tech area, venture financing increasing plays an important role in foreign economies. As acceleration of the pace of creation of new technologies forms a crucial trend on the modern stage of development, it is venture financing that allows estimation of a market potential of new designs at their early stage. The development of venture financing ensure appearance of applied results at the moment the economic need in them arises. There is a special term for this phenomenon - "just in-time knowledge"⁶.

In Russia, the first venture innovation fund (VIF) was established in 2000. The government contributed to it by investing Rb. 100 mln. allocated from the funds of the Russian Fund for Technological Development (RFTD). According to the pre-set procedures, VIF should allocate funds to regional venture funds to be established with its participation, so that the ratio of their won resources and those earmarked from VIF should account roughly for 1:2. However, both VIF's operations and the process of establishing the regional funds took a slower pace than initially planned. It was only in October 2001 when three first regional funds were established - in Moscow, Dubna and Tomsk. The main reasons for such a situation are the lack of the respective developed economic infrastructure, qualified experts and managers in this area, and the respective legislation.

In the meantime the Russian law also lacks legal acts regulating operations of venture funds and does not allow the structures that are key investors in venture business worldwide - that is domestic pension funds, insurance companies, and industrial corporations - to invest in venture funds. As a result, so far it was foreign capital which major hopes were laid upon, while the national capital still flies abroad. Consequently, the passive attitude on the part of the domestic capital encourage foreign investors' concerns about Russia. It is planned to develop the respective statutes by mid-2003. Such legal acts would allow pension funds, insurance companies and commercial banks to participate in venture funds. In addition, the said acts should comprise procedures of joint participation in venture funds of private investors and state-owned companies that allocate funds out of budget and off-budget sources.

As far as improvement of the respective law is concerned, it is development of the legal regulation in the area of protection of intellectual property rights which was identified among key priorities. The amendments to the Patent Law have been discussed over the last 1.5 years, however, the legislature have failed to pass them. Debates centered on the problem of property rights for intellectual property that was created earlier and is created now at the expense of government funds. Obviously the most of intellectual property in the country was developed in this specific way, as the share of the government budget in funding developments still is well over the overall amount of expenditures on civil research.

Today, the main gaps and conflicts in the area of regulation of intellectual property rights embraces the following major issues⁷:

⁶ Globalnye anticrisisnyeologii//Expert, # 21, 3 June 200, p. 52

⁷ Pravovye mekhanizmy oborota intelektualnoy sobstvennosti - gosudarstvennyi podkhod k modernizatsii ekonomiki. Analiticheskiy obzor Informatsionnon-analyticheskogo upravlnia Apparata Soveta Federatsii Federalnogo Sobrania RF// Materialy k parlamentskim slushaniyam. M, 21 March 2002.

- underdeveloped law on property rights for the objects of intellectual (industrial) property that were and are created at the government expense,- due to the absence of the respective agent that could resolve problems of managing, on behalf of the government, those exclusive rights for elaborations that it financed or is going to get to the production stage;
- the absence of laws on “office-made” inventions, secret inventions, and commercial secret, which does not allow to separate an inventor’s rights, those of organization he is affiliated with, and the customer who ordered it (including particularly the government acting in this capacity);
- Unresolved problem of export-import of intellectual property rights, as this concept has not been yet introduced as a specific kind of good to the customs and forex legislation.

While carrying out research and development at the expense of budget funds, the parties do not always conclude agreements on implementation of concrete work, as the current procedures of financing in entities of the Russian Academy of Science, MIS, the Ministry of Education do not provide a mandatory use of contractual relations and consequently a strict identification of a federal agency acting as the customer. That is why the problem of having an exclusive right for the respective outputs cannot always find the legal solution. However, even in the event the state customer’s right for the output have been stipulated in a contract, the federal Patent Law does not provide a possibility for federal executive bodies to act as patent holders. Consequently, the government has no system of financial control at the book-keeping level and no base for a commercial turnover of intellectual property objects, while the efficacy of public investment in their development practically cannot be measured.

In the event intellectual property rights belong to their developers, there also arise a number of problems related to their introduction to economic turnover. This concerns primarily such aspects as putting intellectual property objects on balance sheet as non-material assets, an adequate valuation of their value, and regulation of depreciation strategies. Besides, despite rather a broad exposure to foreign experiences in this area, so far R&D projects have not provided an introduction of research outputs created in the state R&D organizations and universities to the industrial sector. At this point, it appears expedient to borrow experiences from the US and other developed nations. In 1980, the US Congress passed the Bayh-Dole Act, which allowed universities to assign to the industrial sector their research outputs created at the government expense. That resulted shortly in a boost in the level of commercialization of high-tech developments. Later, the same mechanism was promoted by the most of the developed nations. This gap in the Russian law is planned to be liquidated as early as in 2002.

Yet another key problem which came in the focus of attention is the conjunction between various benefits with implementation of priorities in the area of research and technology. In other words, it is envisaged to make both direct and indirect support of innovation activity strictly selective, so that it would encourage structural transformations both in the research and innovation areas of the industrial sector. Specifically, loans from special public funds - the Fund for support of small businesses in the research and technical area and RFTD,- as well as from extrabudgetary funds for research and experimental development, should be granted in conjunction with implementation of crucial innovation projects of national scale. At the same time, since early 2002, upon enforcement of the new Tax Code, the former system of establishment of intersectoral funds was abolished. In compliance with new provisions, such funds could be formed only from net profit which substantially mitigated incentives to their creation. That could seriously affect the research and innovation area, as the share of extrabudgetary funds in the overall expenditures on science accounts for 13%, while the financing out of extrabudgetary funds roughly makes up one-third of all off-budget resources allocated for this particular area. In addition, the absence of the former system of inter-sectoral funds would make every enterprise to deal with its technological problems by itself, while many of such problems require inter-sectoral approaches. That is why a proposal on having the part of profit assigned to inter-sectoral funds for research and experimental developments exempted from taxation. Eventually the respective provision was amended and the discrepancy between the research and technological policy and economic one was eliminated. In compliance with the federal law (# 57-FZ) enacted on May 29, 2002, “On introducing amendments to Section II of the Tax Code of RF and single statutes of RF”, a taxpayer’s expenditure on research and (or) experimental and designing developments exercised in the form of deductions into sectoral and inter-sectoral funds for research and experimental and designing developments now are considered for the purpose of taxation to be within the limits of 0.5% of the

taxpayer's revenues (gross gain) (p.3 Art. 262 of the Tax Code). The amount of deductions in the noted funds over the said limits are expenses not accounted for the taxation purposes (p.45 Art. 270 of the Tax Code).

As a first step, in May the government announced holding of a new tender on implementation of innovation projects on the high priority problems. Each winner (it is envisaged there will be around 10 of them) will be awarded with USD 20 mln. for the 2-year term. It is research, scientific and production centers, and small and medium-size businesses that should form the group pretending for such a support. Such an amount of funding should appear fairly significant for the research and innovation area. For reference: the average amount of the support extended by the noted Fund for support of small businesses accounts for USD 25-30 per entity annually, while the annual value of a project sponsored by RFTD averaged some USD 135,000⁸.

It is envisaged that USD 200 bln. out of the government funds would ensure USD 1 bln. worth return in 2-3 years. Thus, both domestic and foreign investors will see the efficiency of investing into the Russian science-intensive segment of the economy. So, should the tender be recognized open and successful, this would create an important positive precedent.

I. Dezhina

The IET industrial business survey: July 2002

The dynamics of main indicators of the Russian industrial sector in July gives some grounds for optimism. A visible rise in effective demand allowed enterprises to reduce volumes of non-monetary deals, increase output and slow down the fall in their profits. However, insufficient volumes of sales still affect the output, contribute to the increase in the stock of finished goods and deterioration of the enterprises' financial and economic situation.

In July, for the first time since early 2002 enterprises have reported a notable rise in effective demand, while over the past 7 months they mostly reported the decline in their cash-based sales, and such a situation was noted in all the sectors but the industry of construction materials. In the meantime, it is the food industry and electricity that still report such a decline.

A long-lasting decline in effective demand forced enterprises to use transactions involving promissory notes and off-sets. In June, for the first time ever since the start of monitoring of this specific indicator in February 2000, our surveys have registered an absolute rise in the actual sales of products for promissory notes and off-sets, and it was in June when the intensity of these specific kinds of sales exceeded all other kinds of demand, including the normal cash one. notably, the dynamics of barter did not experience any serious changes: since April, the intensity of its decline has stabilized at one of the most lowest values since mid-1999. So, to compensate for the fall in cash-based sales, in early summer enterprises had to opt for a rise in promissory note and off-set deals and the most moderate reduction in barter. The growth in sales in July allowed to stop the increase in promissory note and off-set deals along with the maintenance of the former intensity of reduction in barter.

However, the estimates of volumes of non-monetary sales using the scale "above-below norm" still reflect enterprise' readiness to employ such schemes. The insufficiency (rather a high one!) of barter volumes is noted in the national industrial sector for the second quarter running, with just the sector for chemicals and petrochemicals that reckon that barter is excessive. The same situation is noted with regard to promissory notes and off-sets, with enterprises being not satisfied with their volumes, either. In July the proportion of such estimates reached 14% - ore than ever. Again, it is only the sector for chemicals and petrochemicals that reports the excess of such deals.

As a result, similar to the period between 1997-98, effective demand proved to form an obstacle to rise in output. During the past 3 quarters the frequency of references to this specific obstacle rose by 24 points and became the highest ever (see Fig.). Recently the impeding impact of such factors as nonpayments and competition on the part of imports has been growing too (by 9 points over the past 5 and 5 points over the past 2 quarters, respectively).

⁸ Calculated on the data on 2001. Sources: the Fund for support of small businesses in the research and technical area. Otchet of deyatelnosti za 2001 god. M., 2002, pp. 27-29, 49; Rossiysky Fond Technologicheskogo Razvitiya. Otchet za 2001 god. M., 2002, p.2.

Nonetheless, enterprises begin to boost their output. In July, the intensity of the rise in output grew by another 10 balance points and peaked the maximum value over the past 8 months. It is only the sector for electricity (due to seasonality), the non-ferrous metallurgy, forestry and wood-working sectors that report production decline; plus, though may be even early, they are joined by the industry of construction materials.

The low demand and the beginning of rise in output have had an immediate impact on the stock of finished goods. An absolute (though small) rise in the respective volumes has been registered across the industrial sector as a whole for the second quarter running. This can be attributed primarily to the machine-engineering, light and food sectors. As a result, the respective balance of estimates grew by 15 points, and it was quite a time ago when there were so many enterprises with excessive stocks of finished goods. It is the sectors for chemicals, petrochemicals, ferrous metallurgy and light industry that are leaders in this respect.

The rise in cash-based sales allowed enterprises to slow down the rates of decline in actual profit. In July, the respective balance grew by another 4 points and made up -25. The negative value of the balance shows the ongoing fall in profits, however in July the respective decline rates proved to be the lowest ones over 2002. The first positive changes have not yet told on enterprises financial and economic state: the share of responses “bad” grew up to 36%, which is the worst rate over the past 10 quarters.

Forecasts of changes in effective demand improved once again and peaked the maximum value for the past 11 months. A rise in cash-based sales over the upcoming 3 months is envisaged by all the sectors, except the industry of construction materials (due to seasonality), with the light industry and the ferrous metallurgy being most optimistic in this regard. However, enterprises do not risk to count on effective demand only - to maintain their output without further increase in their stock, they have to rely on (to plan) non-monetary deals, too. The prevalence of the plans to increase barter in absolute terms is noted in all the sectors, except chemicals, petrochemicals, and machine engineering. At the same time it is the sectors for electricity, forestry and construction that hope for a decline in promissory note and off-set deals.

The use of all the options for selling products creates grounds for a rise in optimism with respect to plans of output. In July, the balance of forecasts grew by 14 points at once and reached the maximum value noted over the past 1.5 years. The rise in output (and quite an intense one) in autumn is planned by all the sectors, but the construction industry. However, as such, these plans would not require new employment - moreover, the number of employees is most likely to decline over the forthcoming months. It was the last quarter when such plans were noted for the first time over the post-default period. Meanwhile, the rise in employment is envisaged only by the forestry and food sector.

Consequently, enterprises look forward to a visible improvement of their financial and economic state, with the respective balance of estimates rising over 5 points and reaching its absolute maximum over the last quarter. There has been no optimistic forecast registered since 1995. Such an improvement may become possible in all the sector, except the construction industry, chemicals and petrochemicals.

S. Tsoukhlo

The state and prospects for providing Russian military with housing⁹

The problem of providing the national military with housing has remained steadily urgent. In the meantime, it has remained unresolved for over 100,000 military. However, the RF government's intents to tackle the problem currently emerge into the respective plans and actions, and the national construction sector should pay a serious attention to them.

The problem of providing the national military with housing finds itself among the most complex in terms of its organizational characteristics and intense (in terms of both financial and material and technical resources) aspects of the overall military reform. Furthermore, it requires capital investment in a range of sectors of the economy.

This direction of economic activity so far has been left beyond the framework of normal financial and economic mechanism of the modern Russia. The provision of military and persons equaled to

⁹ This publication is co-sponsored by the Russian Humanitarian Research Foundation (project # 02-02-00062)

them with housing still remains mostly a distribution procedure that has survived over the Soviet time and does not encourage development of construction and housing businesses and services.

Theoretically, the problems should be solved as follows: as long as a person is on service, he (she) is eligible for using an apartment provided by the army. Once retired from the army, he is eligible to choose his residence and receive an apartment to live there constantly.

However, the practice is too far from the legal theory: the average term for receiving an apartment during the military service accounts for 6.5 years. According to the data of the monitoring of social and economic state of the military corps, on service and retired alike, as well as their families, currently the situation is as follows:

- 95,000 military have no apartment;
- 27,000 - needs to have their housing conditions improved;
- 160,000 retired military are lining up to receive an apartment.

The situation will be aggravating, as it is intended to dismiss shortly another 360,000 military from the army, of whom some 270,000 have no housing, plus there will be others dismissed from other military formations and enforcement agencies.

In the past, it was local executive authorities who were responsible for the provision of ex-military with housing, however decisions made “on the top” often remained ignored “on the spot”. Despite that, in the ‘90s it was intended to keep the obsolete procedures of provision of individuals migrating from the “closed” military settlements with housing by constructing that at the expense of targeted capital investment. However, the funds for this specific purpose under the respective government programs were allocated in part and irregularly, and, once earmarked, they were used inefficiently or simply vanished.

In the late 1990s the RF government addressed the problem vigorously, which can be attributed to Mr. Nemtsov’s personal efforts in this regard. Since 1998 the presidential program “State housing certificates” has been launched. The program was designed to provide retired military with housing.

It was envisaged that with the start of the program as many as 42,000 military would be receiving housing annually, however, numerous Cabinet reshuffles and the 1998 crisis ruined all the plans. As a result, only some 41,000 military have received apartments over 1998-2000. Besides, the program implementation highlighted a number of drawbacks, of which the major one was the price for certificate, which proved to be at 30-40% lower compared with actual prices for housing.

Some defects of the program have been already remedied, and the respective amendments make the program substantially more attractive. It is intended to allocate Rb. 7.5 bln. for the program implementation. New procedures for providing currently and already retired military with housing certificates substantially extends their chances to receive their housing. First, all the military who served over 10 years in the army and intended for dismissal due to planned organizational measures, or because of their physical condition, etc. are eligible for a subsidy that covers 100% of the costs for the housing purchased, at the amount set by the State Construction Committee. Furthermore, for the military who, in compliance with the law “On the status of military” have a right for an additional living area, the subsidy will be calculated with account of extra 15 sq.m. of the overall living area. Finally, the term of the use of certificates has been extended up to 9 months.

Overall, over the whole period of the program implementation the non-used certificates outnumbered just some 6%, while the program itself was implemented at 50%. The problem is that it was impossible to provide certificates for all those pretending for them. That happened because of the lack of funds, for such certificates were granted strictly under the actual amount of budget appropriations. Alas, such funds were short, which resulted in queues in regions.

This year 6 bln. Rb. worth appropriations (out of the noted 7.5 bln.) would allow to secure certificates for all the military due to be dismissed until the end of the year, while another Rb. 1.5 bln. was allocated under certificates for already dismissed individuals.

It is the organized migration of dismissed officers and warrant-officers out of “closed” military settlements that has proved to be the government’s most serious headache. This year, this specific category will be issued with certificates according to the “residual” principle. However, as the program “State Housing Certificates” is intended for 5 years and will be continued over the years to come, one may hope that the focus will be shifted right onto the said settlements and provision of certificates for those who were included in the respective local agencies’ lists.

Importantly, priority was granted to the certificate program, because it is well protected from abuse. As one has no cash, it cannot be siphoned off in favor of crooks or single-day companies, as it would happen beforehand with monies disbursed for construction or purchasing of housing for the military. In the meantime a company that has bought or constructed housing facilities receives money only when a certificate owner becomes an owner of his apartment.

The State Certificate Program provides the following procedure: a military individual submits his certificate to one of Sberbank branch offices that starts a blocked targeted personal account at his name. Then, having a contract on starting and servicing his account, he signs up a company that he has selected. Having concluded the contract with the company and after his property rights for the housing purchased have been registered in a Registration Chamber, all the documents are submitted to the Sberbank branch office. Sberbank staff conduct a five-day examination of those, and finally the funds are transferred to the company's account. So, while selecting a company to trust his certificate, a military should not be concerned of its credibility - he just need to opt for a company that offers the most profitable conditions. It is the certificate that provides a dismissed officer or warrant - officer with a right to select a housing that suits him and his family at most, thus avoiding both military construction companies that offer concrete housing in specific locations and the need to line up for housing at local municipal agencies.

Unfortunately, there are 6-7 especially problematic regions in the country, including Moscow and for instance Bashkortostan and Kaliningrad Oblast. There are two reasons underpinning their far poorer performance in terms of the Program implementation compared with the average once nationwide. First, the construction sector is in a bad shape in some regions, with fewer construction companies willing to deal with military certificates. So, in such regions it appears more profitable to solve the housing problem by means of organizing an "own" construction. To do that, upon the RF government approval, the funds allocated for the Certificate Program will be invested in construction there.

The other reason is high prices for housing that make the certificate prices set by Gosstroy lower than market ones.

It is envisaged that the certificate prices will be to a maximal extent close to market ones. In addition, for many categories of military the price gap between market and certificate prices is now compensated by the noted extra 15 sq.m. of overall housing area that is granted for instance to officers of the rank of colonel and above.

Possibilities for the use of certificates in such regions could be even broader, were this or another construction company eligible for an advanced payment, i.e. to have the certificate funds at the beginning of a construction cycle. However, that would make the Program less protected. Nonetheless, at this point, some compromise is possible: for instance, the funds could be transferred to a construction company in 3-4 months prior to completion of a house, but under guarantees of solvent oblast and municipal administrations (for example, the government of Moscow). In such an event, a company does not need to seek a credit and pay interest on that, while it is military who would eventually benefit from that, as they would receive a bigger housing area of better quality for the same amount set under their certificates.

Summing up, one can reckon that the implementation of this important program is directly dependent on the number of military willing to make use of their certificates, - still, the general opinion that it is easier and more reliable to receive an apartment waiting in a line in a local military settlement is well-grounded.

Difficulties with solving the housing problem necessitate development of new concepts and methods. Specifically, the government discuss transition towards a savings system of provision of housing. The problem was considered at the meeting of the Security Council of RF in May 2001. Then President and the RF government issued orders to the RF Ministry of Defense, along with other federal agencies concerned, to develop draft legal and other acts on transition to the savings system of provision of housing.

A new system should allow the state to fulfill its obligations on provision of military with housing regardless any problems with budgetary funding. As long as a military serves under his contract, he lives in the army housing facilities, including those rented for government needs, and, once retired, he is to be provided with housing for constant residence. Funds needed for its purchase are accumulated on special accounts. While retiring from military service after the overall term of service between 10

to 20 years with a right for housing, military and their family members are provided with a subsidy sufficient to buy an apartment. With the overall length of military service of 20 years, every military runs a personal account, to save funds at an amount ensuring purchase of housing according to social standards. Should he extends the said term, the funds are subject to further increase.

It appears useful to develop a mechanism according to which the amount of the housing subsidy is calculated with account of the quality and length of the services.

In the meantime experts consider several options of arranging the savings system, even not excluding an option of establishing it on the basis of already tested SHC Program, while introduction of an accumulating component suggests the existence of an operator who would care of both saving the funds allocated and their efficient use.

It is possible to establish a special federal off-budget fund. However it may give a rise to numerous problems, starting from the fact that the list of state off-budget funds is strictly regulated by the Budget Code of RF. Should the government decide to take this specific path, it will face the necessity to amend the Tax Code too, for the specifics of an off-budget fund dictates introduction of a special fee with its own tax base. In addition, administering of such a fund would also require serious operational costs.

Meanwhile, the majority of experts contributing to development of the savings mechanism are inclined to the need of establishing of a state military housing insurance company. At this point one can draw a parallel with personal savings insurance. It is intended to break payments into two stages. Should an insurance case set by the law occurs (the retirement due to the ultimate age, health. or organizational measures) the military is paid his housing subsidy. Due to the quality and length of his service, he is entitled to differentiated payments, and for this specific purpose an investment revenue is saved. For example, should the military serve over 20 years, his insurance premium should be increased annually by the amount sufficient to buy 4 extra sq.m. of overall living area.

At this point, however, there are specific problems too, for instance, selecting a credible insurer. It may be a state insurance company, however, to preclude the emergence of monopoly, for this purpose it would be more preferable to attract existing insurance structures with the respective experience and reputation using tender procedures.

The Ministry of Defense and other ministries and agencies concerned develop draft legal acts regulating the transition towards the saving system of provision of housing for military. To consider strategic options in this regard, the government has created a task force consisting of independent experts.

IET experts also develop their proposals on establishing saving accounts and the respective draft legal acts.

E. Khrustalev, V. Tsymbal, A. Zhukov

Foreign trade

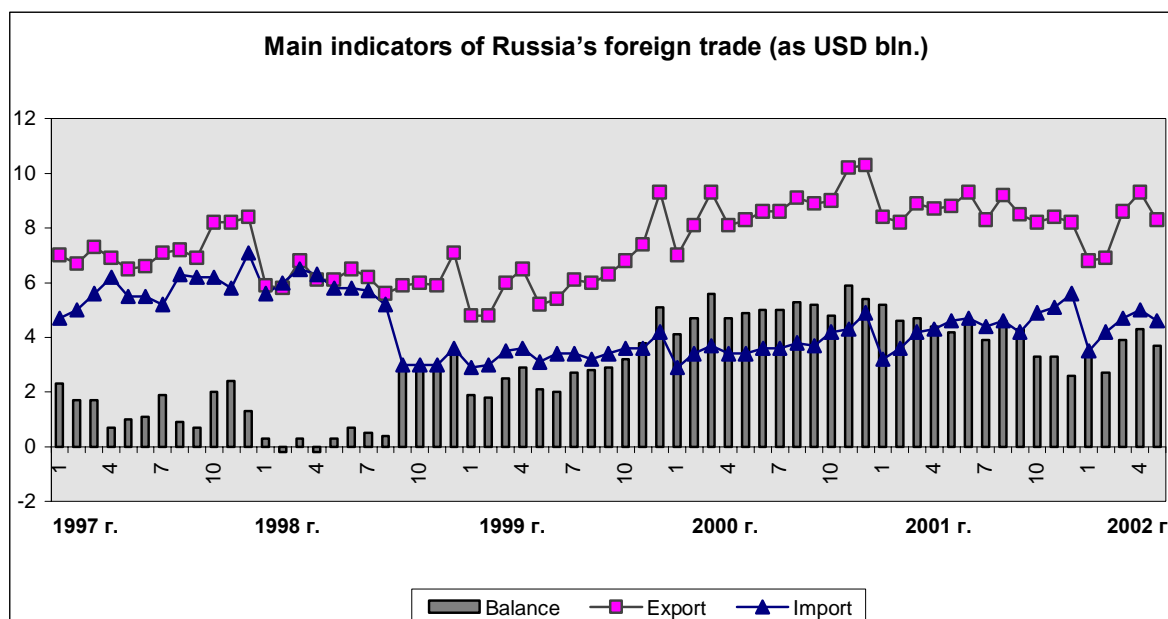
May 2002 saw main indices of Russia's foreign trade declining both relative to May 2001 and April 2002. Nonetheless, food imports reached a critical level. That is why the government undertakes measures to protect domestic producers and initiated antidumping investigations against import of poultry, sweets containing cacao, starch syrup and animal butter. In order to protect domestic light industry, the government make procedures of "shuttle" import more complex.

The government also proceed with adjusting export duties by increasing export duties on oil and petroleum derivatives along with a stage-by-stage decrease of goods with a high value-added as well as tradables, export of which does not provide considerable amount of revenues to the federal budget.

In May 2002, the overall volume of Russia's foreign trade dropped by 3.7% vs. its respective period of 001 and stood at USD 12.9 bln. This can be attributed to the fall in export volume, which accounted for USD 8.3 bln., or at 3.6% down vs. the respective index last year. Imports basically remains unchanged and made up USD 4.6 bln. (a 0.2% rise).

If compared with April 2002, Russia's volume of foreign trade slid by 9.8% due to the noted reason, while imports fell by 8%. So, the trend to rise in imports noted between February through April 2002 has been stopped.

FIG.1.



The price situation on the world market for most important for the nation commodities was as follows: in the first half of May 2002 oil prices still stood relatively high and began to their fall in late May. The reason underpinning the downfall became Russia's and Norway's refusal to follow OPEC with its restrictions on oil supplies. This resulted in the average price for BRENT with an immediate delivery being USD 22.5/barrel, or at 11.9% down vs. the respective period of the prior year, while URALS was traded at 23.8 USD (down at 11.2%).

As concerns the state of affairs in the world market for ferrous metals, the situation there was rather stable in May. The prices for hot- and cold-rolled reinforcement steel grew by USD 10/t. vs. April and stood at the level of USD 200-230, 250-270 and 290-320/t. , respectively. The prices for sectional steel remained unchanged. The most of markets for non-ferrous metals did not undergo any serious price shocks. At London Exchange the average price for aluminum was USD 1,344/t. (down at 1.9% vs. April), copper - 1,596/t. (up at 0.4%), nickel - 6,674/t. (down at 2.8%).

TABLE 1

The average monthly world prices in July of the respective year

	1996	1997	1998	1999	2000	2001	2002
Oil (Brent), USD / metric ton	140,4	138,3	105,6	115,8	200,2	209,0	183,5
Natural gas, USD / thous. m ³	-	81,1	78,1	83,9	133,0	150,7	116,2
Gasoline, USD / metric ton	242,3	226,3	183,1	188,9	341,9	391,1	273,9
COPPER, USD / METRIC TON	2756,7	2480,4	1736,2	1539,9	1834,7	1708,2	1596,2
ALUMINUM, USD / METRIC TON	1623,0	1618,9	1370,6	1317,9	1464,7	1536,7	1344,3
NICKEL, USD / METRIC TON	8135,2	7468,1	5058,3	5239,5	10141,4	7115,7	6764,0

The government Commission on protection measures in foreign trade announced a whole series of antidumping investigations with regard to import foods. Specifically, the Commission will be focusing on poultry, confectionery containing cacao, starch syrup, and animal butter.

As concerns chicken supplies, it was Russian Union of Poultry Producers that initiated the investigation. According to the Union's data, chicken imports grew 6- fold over the past 3 years, with the share of imports in the domestic market growing from 24% in 1999 up to 61% in 2001. The growth rate in poultry imports were: in 2000- 291.3%, 2001- 202.4%, and between January through April 2002 chicken import supplies grew by another 21.3% vs. its respective period of the prior year. In the meantime the government develops proposals on the amount and date of introduction a special

chicken customs duty. It is envisaged that it should make up 8.3% of its customs value and not less than 0.07 Euro/ kg. The special duty is introduced in addition to the present one (25%), to make competition conditions in the market equal.

The investigation against import supplies of animal butter was launched at the request of the government of Krasnodar krai; it is intended to increase import customs duties for cream butter and margarines from 15 to 20%.

Interestingly, starch syrup has become subject to investigation for the second time. The investigation should be completed by September 1, 2002 and may lead to an increase in the respective customs duty that currently stands at 16% of its customs value and not less than Euro 0.07/kg.

The same situation with the repeated investigation occurred with respect to confectionery containing cacao beans, more specifically, about Ukrainian caramel. The latter has already been under investigation in 2000, and a special customs duty was introduced at that time. However, Ukrainian side has found a way to avoid the barrier. The classical caramel does not contain any cacao, and it is listed in the 17th commodity group according to the Russian Commodity Assortment for Foreign Trade. Ukrainian producers increased the share of cacao in their caramel and their product found itself in the 18th group, which is not subject to the special duty. So, the antidumping investigation was launched on another commodity position.

As concerns oil, the export duty rate on crude oil and oil products made from bituminous rock will be increased as of August 1, 2002, to be raised up to the maximum rate - USD 1.9/t. as of September 20, 2002. According to oil price monitoring, between May through June this year the average oil price accounted for USD 23.08/barrel. The new customs rate will be effective until October 1, 2002. So, the oil export customs duty rate will be changed for the 4th time over this year. The export customs duty rates on petrol and diesel fuel will be raised from Euro 25/t. to 35/t., effective of the same date - i.e. August 1.

In contrast to that, as of July 1, the government lifted export customs duty rates for ferrous metals, due to the worsening situation in the world markets and antidumping investigations launched in a number of countries. The 5% duty was introduced in 1999 and consequently it was reduced to 3% in April (on single kinds of metals). Their abolition should support Russian metal producers.

The Commission also recommended to cancel export duties on office paper, cellulose, germanium and goods from it and import duties on glycerin and kinescope bulbs.

In order to protect the national light industry, the Commission ruled out to tighten the procedures of "shuttle" importation. According to the Commission' ruling, as of October 1 it will be only an individual who personally accompanies a cargo weighting up to 50 kg. worth under USD 1,000 who will be able to clear that through the customs free of customs duty. Should a private person be importing goods worth a total under USD 5,000 and weighting under 100 kg., the goods will be subject to a single rate of customs duties and charges amounting to 30% of their customs value, but not less than Euro 4/kg. As concerns imported goods weighting over 100 kg. and worth over USD 5,000, they will become subject to general procedures and terms of tariff regulation and taxation provided for agents participating in foreign trade. At present, all the cargo weighting between 50 through 200 kg. and worth under USD 10,000 is subject to the single rate of 30% of its customs value, but not less than 4 Euro/kg. The current procedures were set for "shuttle traders", however in practice it is legal entities that benefit from them. They can clear any lot of goods through the customs by breaking it into smaller ones and operating with a power of attorney issued by a private individual. As a result, the national light industry suffers: according to the RF Ministry of economic development and trade, in 2000 alone, the "shadow" importation of footwear and other goods produced by the light industry accounted for USD 10.8 bln., while in 2001 - 12.4 bln.

In July, the government issued its Resolution "On measures on protection of Russian producers of bars for reinforcement of ferroconcrete constructions". The Resolution proceeded from the output of an investigation completed by the said Commission on protection measures. The Resolution introduced a compensation duty on the respective supplies Ukrainian; the duty amounts to 21% of the respective customs value and will be in effect for the upcoming 3 years.

In the nearest future, it is planned to hold negotiations on conclusion of a special bilateral agreement on restricting supplies of goods listed in the said Resolution to RF and on having Ukraine comply with an export regime that would meet Russia's interests.

Ukraine, in turn, undertakes responsive measures to protect its national market. Specifically, as of August 1, 2002, the country introduced a 32% duty on Russian passenger cars, which was lobbied by management of Lutsky car plant and Ukrainian-Korean joint venture “AvtoZaz- Daewoo”. The duty has been introduced for the term of 4 months to limit the importation of Russian cars with the volume of engine under 1.5 Thos. cub. cm.

In July the data on foreign trade of another Russia’s largest trade partner in the CIS - Belarus- became available. The nation’s goods turnover with the CIS countries over the first five months 2002 reached USD 3,788.3 mln., or 60.8% of Belarus’s overall goods turnover, while the value volume of foreign trade with the CIS countries fell by 7.2%. Over the past half year Belarus exported goods worth a total USD 3,039.4 mln., of which 1,606.8 mln.-worth goods were supplied to the CIS countries, of which to Russia- 1,473.3 mln. worth - to Russia.

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