

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

According to the preliminary estimates of the Finance Ministry, the federal budget in January through August of 2002 was executed as follows: revenues – Rb. 1388.6 billion, expenditures (actual financing) – Rb. 1264.6 billion.

Table 1

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

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

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

Table 2

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

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

The data on the execution of the federal budget up to August of 2002 are presented in Table 1¹ and 2. As of August 1, 2002, the revenues of the federal budget accounted for 20.9 % of GDP, including tax revenues

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

at 19.5 %, while expenditures made 17.2 % of GDP (19.1 % of GDP in terms of fulfilled funding²), including non-interest ones – 14.9 % of GDP (16.5 % of GDP in terms of fulfilled funding). The level of budget surplus accounted for 3.7 % of GDP (1.4 % of GDP in terms of fulfilled funding).

The indicators of revenues collected in January through July of 2002 somewhat increased as compared with the figures registered in January through June. The tax revenues in January through June of 2002 made 15.9 % of GDP (without the single social tax).

The expenditures for the servicing of the public debt in January through July of 2002 made 2.6 % of GDP. As concerns the fulfilled funding, the expenditures in the first six months of 2002 made 19.1 % of GDP.

As of September 1, according to the preliminary estimates, 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. 20.2 bln. since the beginning of the year.

Table 3

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

1999											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
100,0%	115,1%	122,0%	122,1%	104,5%	112,9%	127,0%	127,5%	124,3%	141,4%	160,8%	213,1%
2000											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
149,3%	160,5%	181,3%	205,8%	233,1%	186,9%	181,0%	186,4%	173,1%	181,1%	201,7%	254,1%
2001											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
204,4%	198,4%	227,6%	267,5%	252,2%	233,3%	231,9%	235,6%	219,4%	237,5%	247,3%	360,6%
2002											
I	II	III	IV	V	VI	VII					
218,7%	187,1%	234,8%	277,8%	240,9%	218,0%	283,4%					

The dynamics of actual tax debts to the federal budget is presented in Figure 1⁴. In August, no significant changes were registered.

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 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.

4 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.

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

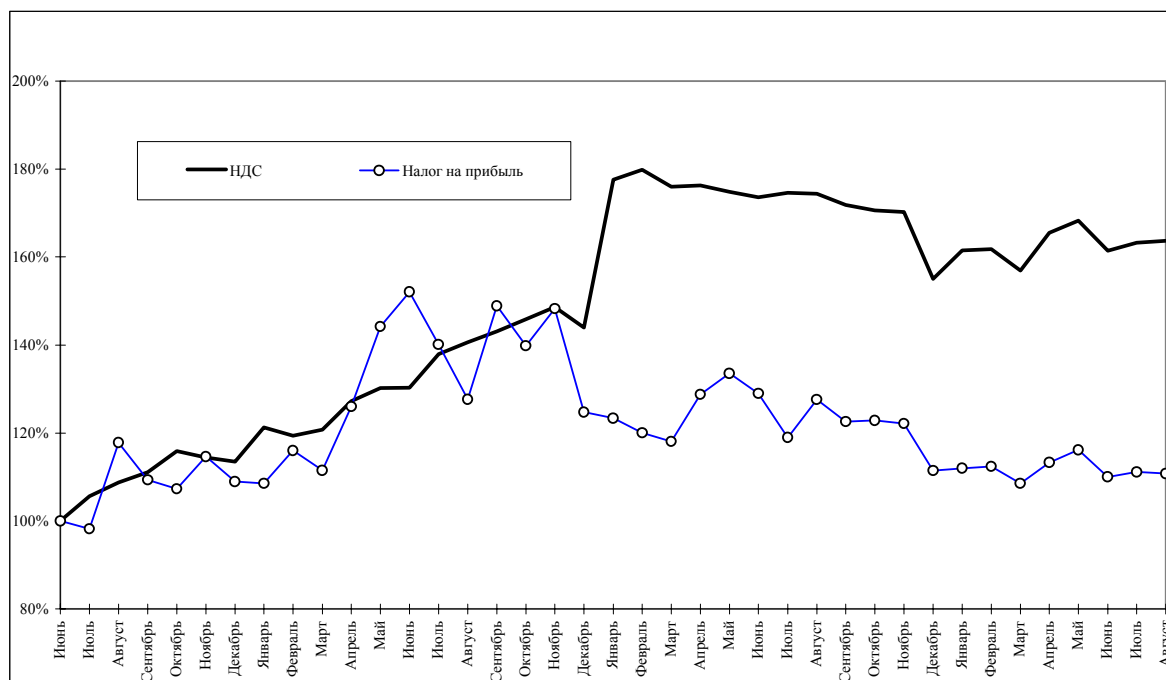


Table 4

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

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

The level of tax revenues of the consolidated budget in January through July of 2002 somewhat increased in comparison to the first six-month indicators. The surplus of the consolidated budget was by 0.2 % of GDP below the level registered in the preceding year.

The estimate of tax revenues of the consolidated and federal budgets is presented in the table⁵. 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.

Table 5.

	Всего налоговых поступлений в консолидированный бюджет РФ (без ЕСН)	Всего налоговых поступлений в федеральный бюджет РФ (без ЕСН)	Всего поступлений налога на прибыль в консолидированный бюджет РФ	Всего поступлений налога на прибыль в федеральный бюджет РФ	Всего поступлений подоходного налога в консолидированный бюджет РФ	Всего поступлений НДС
ARIMA						
Август	26,5%	15,9%	4,9%	1,7%	3,1%	6,9%
Сентябрь	26,4%	15,7%	5,0%	1,7%	3,0%	6,7%
Октябрь	25,7%	15,6%	4,7%	1,6%	3,0%	6,6%
Ноябрь	24,9%	15,5%	4,6%	1,6%	2,9%	6,4%
REM						
Август	26,2%	15,6%	5,0%	1,8%	3,2%	6,9%
Сентябрь	25,3%	15,2%	4,8%	1,7%	3,1%	6,7%
Октябрь	24,2%	14,9%	4,6%	1,7%	3,0%	6,5%
Ноябрь	24,2%	14,7%	4,6%	1,7%	3,0%	6,5%

S. Batkibekov

Monetary Policy

According to the State Committee for Statistics of the RF, in August the consumer price index grew 0.7 percent. In analyzing the commodity structure, it is important to note the continuing seasonal decline in prices for fruit and vegetables: the prices were down 10.2 percent. Prices for vegetables proper reduced by 17.3 percent on average. Service prices increased 2.5 percent.

Prices for housing and communal services continue to grow substantially: the September increase amounts to 4.1 percent, or up 50.1 percent from July 2001 and up 36.6 percent from December 2001. Prices for non-foods were up 0.7 percent.

During the first eight months of 2002 inflation rate in Russia (measured by the CPI) was 9.9 percent (13.2 percent in the respective period of 2001). Inflation will remain at a minimum level in September; the consumer prices are expected to grow 0.1 to 0.2 percent. This year control over money circulation has been stricter: in the course of the first eight months the money supply has grown 13.1 percent as compared to 19.3 percent in the respective period of 2001.

⁵ For the description of models see the preceding bulletins.

FIGURE 1. Consumer Price Index in 2002

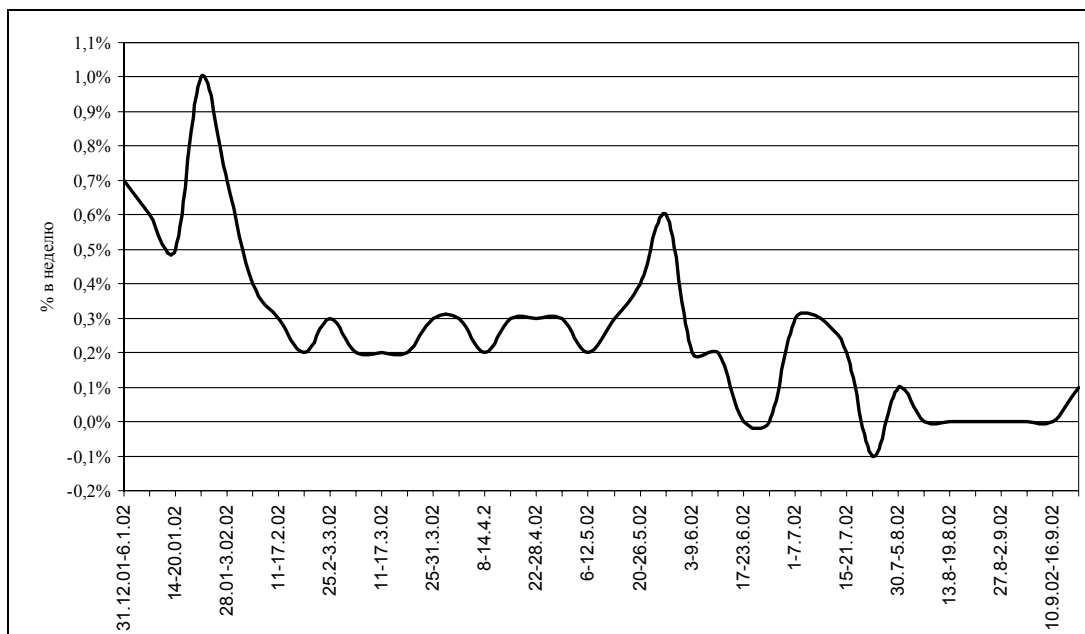
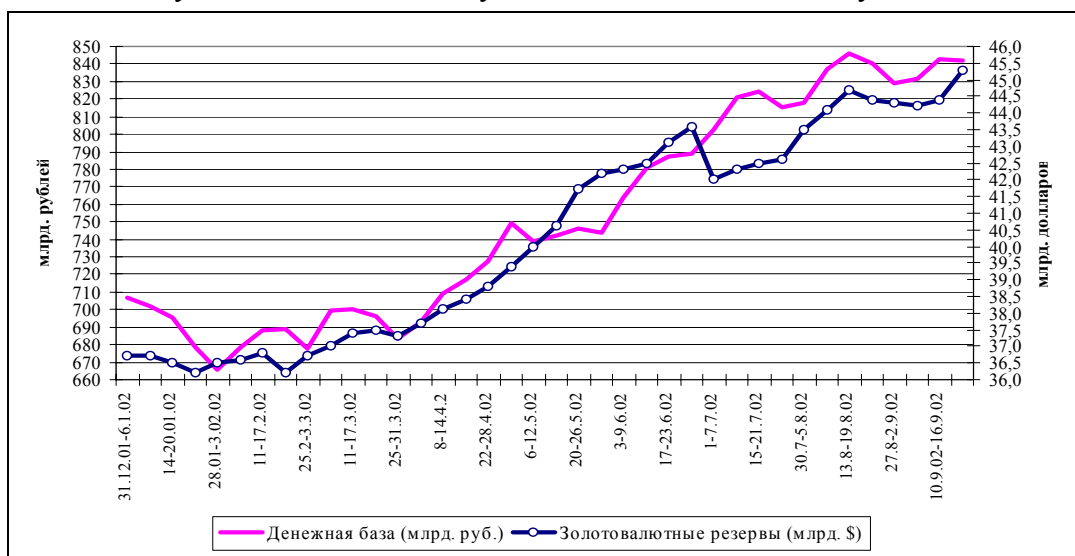


FIGURE 2. Dynamics of the Monetary Base and Gold and Currency Reserves in 2002



In September 2002 the gold and foreign currency reserves grew to a record level, reaching US\$ 45.3 billion at 20 September 2002. On the other hand, in the period from 16 August 2002 till 06 September 2002 the reserves were diminishing. Presumably, this is related to considerable repayments of the foreign debt: the Minfin had to repay US\$ 1,680.6 million in August and 1,426.5 million in September.

Within the framework of its policies aimed at increasing the importance of interest rates, the Bank of Russia has introduced a new instrument that would serve as a means of monetary regulation. A new deal type - a currency swap - has been added to the existing system of credit institution refinancing on 26 September 2002.

In the course of a currency swap the Bank of Russia is going to purchase US Dollars for Russian Roubles on conditions "today" at the official US\$ - RUR rate (base rate) and thereafter sell the US Dollars on conditions "tomorrow". Basically, this means overnight lending to commercial banks against collateral in the form of foreign currency.

D. Levchenko

Financial Markets

The Market for Government Securities

In September 2002 the market of the Russian foreign debt saw a continuation of the trend towards a slight decrease in yields that was observed in August. In the meantime, no positive signals for investors can be observed in the global markets, so it would be heedless to forecast that this trend would hold. A candidate of left-wing forces Da Silva is continuing to gain popularity, which results in further decline of the Real and increase in state bonds. Argentina is on the brink of declaring a default on its debts to international credit institutions.

FIGURE 1. Yield to Maturity of Minfin Bonds in May to September 2002.

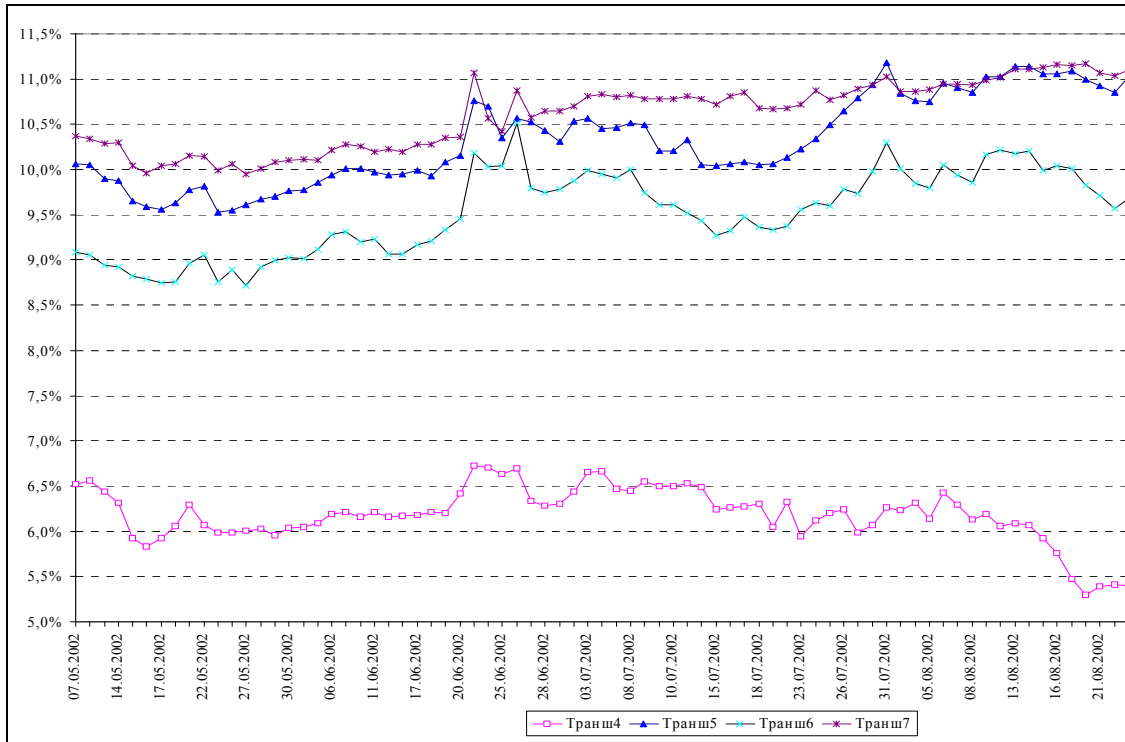
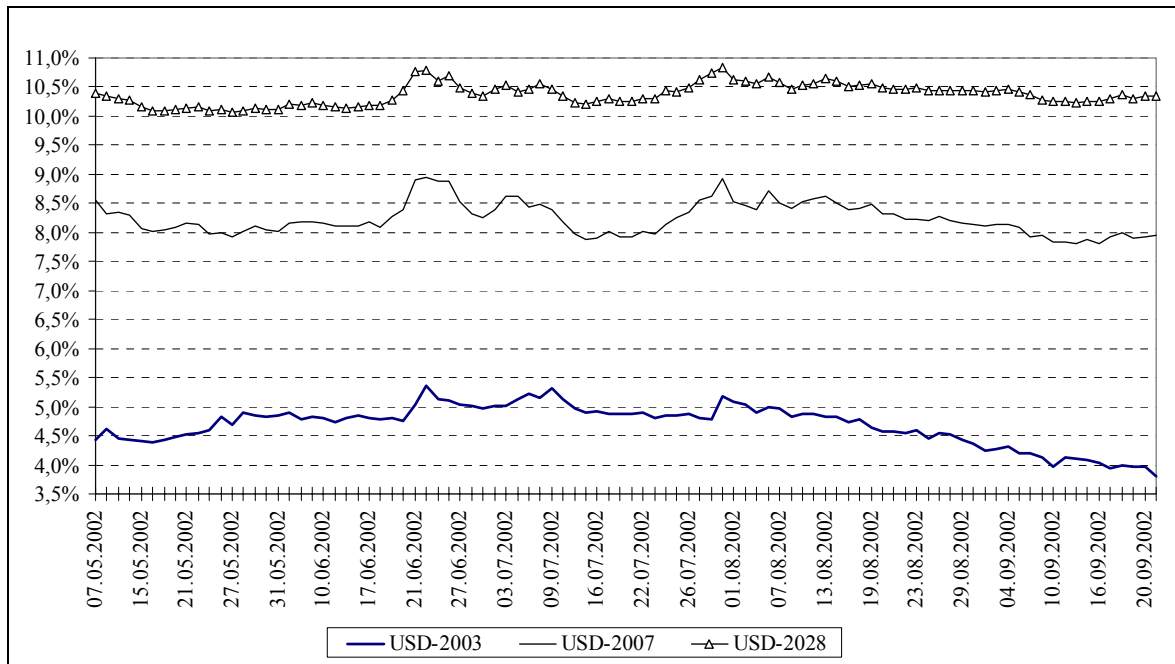


FIGURE 2/ Yield to Maturity of Russian Eurobonds with Maturities in 2003, 2007 and 2008 as of September 2002



In September the annualized yield of securities in the market for domestic debt was 14.8 percent. Based on preliminary data, the estimated turnover is somewhat larger than in August.

The Market for Corporate Securities

Two different factors have influenced the Russian stock market in September. On the one hand, high oil prices "supported" the prices for securities of the top Russian companies; on the other hand, lack of stability in the largest world economies resulted in low investor interest in the Russian stock. On the whole, the results of the historically negative month of September have been quite good; however, protracting the reforms of basic sectors of the economy may most negatively affect the economy on the whole and stock market in particular.

The Stock Market

From 02 to 26 September the RTS index grew by 14.04 points (4.23 percent). The index reached its maximum closing value of 346.94 points on two occasions, 11 and 26 September; the highest intra-day value of 347.09 points was reached on 26 September. Thus, it is possible to distinguish two growth periods in the dynamics of the stock indicator: from 02 till 11 September (+4.22 percent) and from 19 till 26 September (+6.93 percent). The decline from 11 till 19 September was 6.48 percent. The lowest index value of 324.46 points was marked on 19 September. The trade volume grew US\$ 40.4 million (+20.56 percent) from last month's results, reaching US\$ 236.9 million. The average daily turnover was US\$ 12.47 million.

In August the stocks of Mosenergo (18.88 percent) and Tatneft (18.35 percent) were leading with a breakaway gap among the most liquid securities. To a certain extent, the growth in the price of Mosenergo securities has been brought about by an increase of the rating forecast by S&P and from the conclusion of a loan agreement with the EBRD in late August as well as by a wish of a number of shareholders to move their assets from RAO UES to the most liquid securities of regional energy companies. Prices for the securities of the following companies changed to a smaller extent: Yukos (6.48 percent), the Savings Bank (3.92 percent), Sibneft (3.84 percent) and Surgutneftegas (3.64 percent). A reduction in prices has been observed for the securities of RAO UES (-2.41 percent), Rostelecom (-5.41 percent), MMC Norilsk Nickel (-5.91 percent) and Gazprom (-13.6 percent). The negative dynamics of RAO UES and Gazprom securities are a result of protracted reforms in the electroenergetics and gas sectors that belong to the most important sectors of the Russian industry. The lowering in the MMC Norilsk Nickel quotations may result from IAS reports on a reduction by almost 25 percent in the plant's net profit in 2001 as compared with 2000 and from a pessimistic forecast for the mining sector by Morgan Stanley.

FIGURE 3

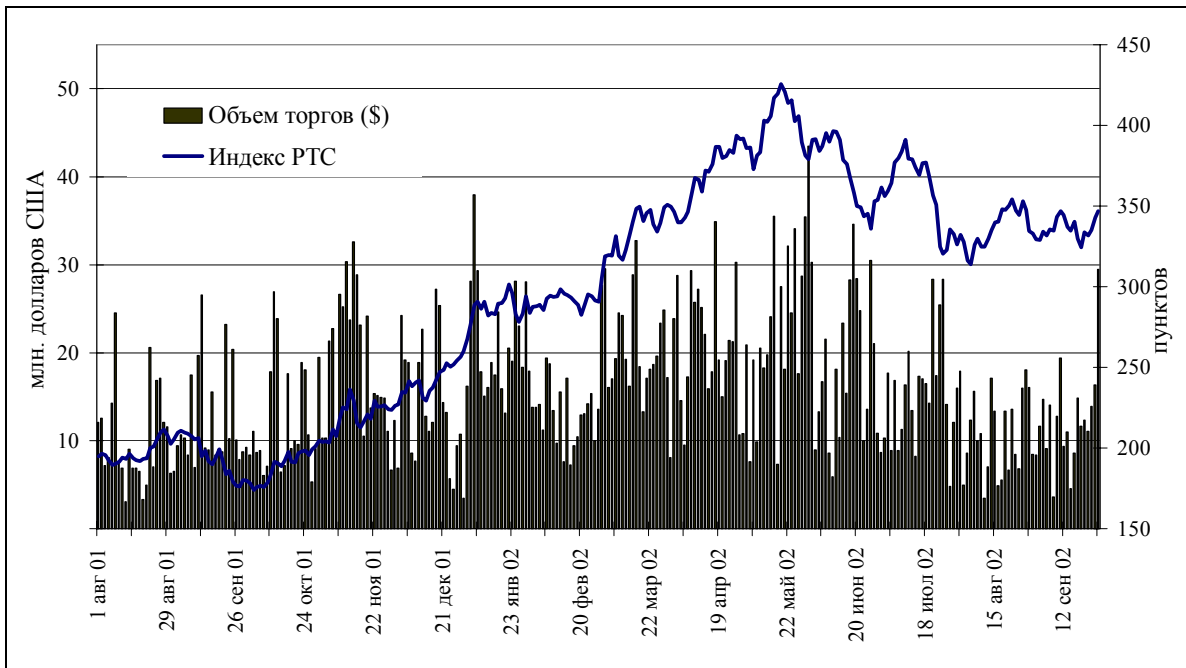
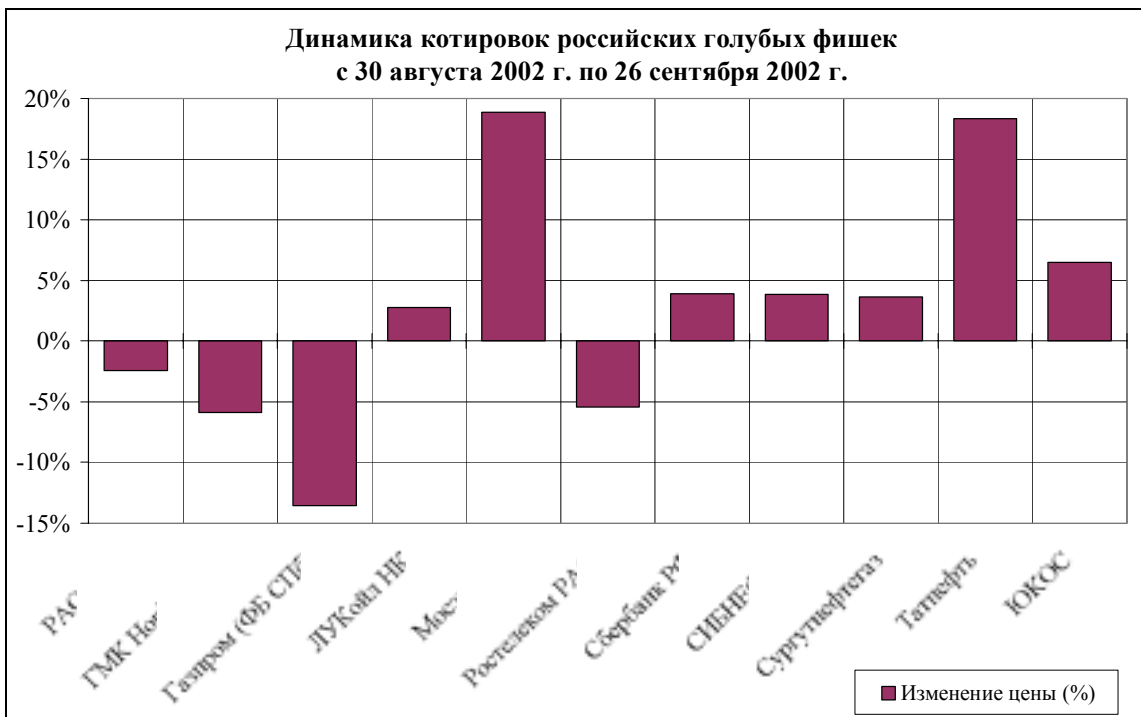


Figure 4. Dynamics of Russian Blue Chip Quotations from 30 August till 26 September 2002



In September ordinary shares of RAO UES took the top position in the trade volume in the total turnover at RTS with 29.41 percent as compared with 20.51 percent in the previous month. The proportion of Yukos' ordinary shares reached 16.13 percent (11.93 percent); LUKoil ordinary shares fell to 15.07 percent, almost a half of the previous month's value (28.38 percent); Surgutneftegas fell to 10.68 percent (from 15.09 percent); Tatneft grew to 7.83 percent (3.63 percent). The total proportion of five most liquid shares in the overall RTS turnover somewhat diminished, reaching 79.12 percent (August: 81.36 percent).

In the period from 01 till 26 September 2002 the volume of trade in Gazprom shares conducted via RTS terminals was US\$ 57.7 million (ca. 81 million shares); a total of 10.1 thousand deals with Gazprom securities were concluded.

As at 26 September the list of the Russian top five companies by capitalization remained the same as compared with August (RTS data): Yukos: US\$ 20.8 billion; Gazprom: US\$ 17.4 billion; LUKoil: US\$ 13.8 billion; Surgutneftegas: US\$ 12.8 billion; Sibneft: US\$ 9.3 billion.

The Market for Term Contracts

In the period from 02 till 26 September the turnover in the term market amounted to RUR 5.97 billion (48.5 thousand deals, 1.97 million contracts). Futures contracts accounted for RUR 5.9 billion (47.5 thousand deals, 1.94 million contracts) in this amount.

September futures contracts totaling ca. RUR 194 million were exercised on 16 September. The highest exercise amount ever in the FORTS market was registered for a futures contract for the rate of LUKoil shares: RUR 74.98 million.

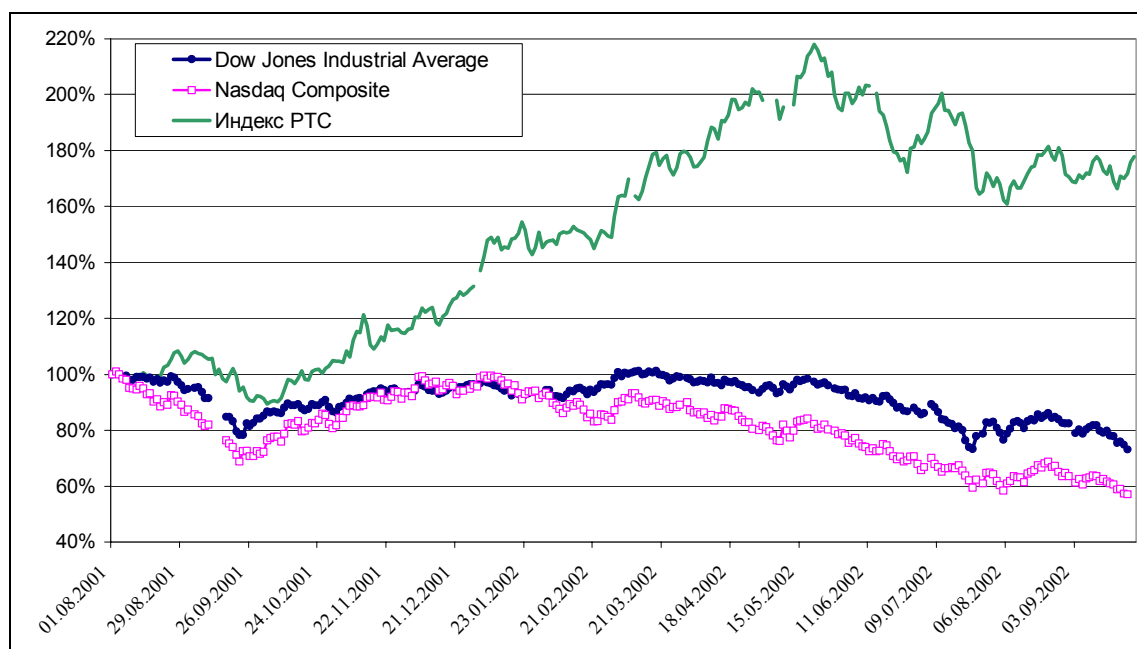
On 19 September 2002 the FORTS futures market celebrated its first opening anniversary. During this period the turnover in that market segment has exceeded RUR 70 billion, market participants concluded ca. 420 thousand deals and the monthly increase in trade volume was about 30 percent.

New records were held in the FORTS market in September: on 25 September 3,871 deals with futures and options contracts were concluded (the previous high of 3,305 deals, marked on 10 July 2002, was exceeded by 14.5 percent); the trade volume has also reached a historic high of RUR 446.8 million (150,619 contracts).

Factors Affecting the Pricing

In September news from leading exchanges of the world affected Russian asset quotations negatively. Agitation in the U.S. market has created mixed expectations in relation to the prospects of the future growth of the largest economy in the world. In his address to the U.S. Congress Alan Greenspan stated the following factors impeding economic growth: a low investment level, terrorist attacks in last September and a weak stock market. On 23 September current values of the U.S. leading index calculated by the Conference Board were published. The index declined 0.2 percent, and the decline was marked in 7 components out of 10. The negative dynamics of the index have been observed for three consecutive months, which is evidence of alarming trends in the U.S. economic development.

FIGURE 5



The situation in Asian stock markets is also far from optimistic. An increase in the number of problem loans in Japan poses a threat of bankruptcy for many large credit institutions. At the Tokyo exchange NIKKEI-225 fell to 9,129.07 points on 6 September, hitting a 19-year low.

On the whole, in September prices in the oil market remained over US\$ 28/ barrel. The main pricing factors in the "black gold" markets were the expectations of an U.S. military action against Iraq and a decision by the OPEC on oil quotas. On 6 September prices for Brent grew at the IPE to the highest level

since 18 September 2001, exceeding US\$ 28/ barrel. As at 6 September the average world oil price as expressed through the OPEC basket passed another psychological barrier and reached US\$ 27.52/ barrel. Thus, only US\$ 0.48 are left to the upper limit of the price range established by OPEC to regulate the situation in the world oil market. On 19 September in their meeting in Osaka OPEC members decided to leave the oil production quotas unchanged for Quarter 4 so as to keep the price of crude oil at a high level. On 23 September the price for Brent rose over the level of US\$ 29/ barrel and the price of the OPEC basket over US\$ 28.28/ barrel, hitting the highest mark since 17 September 2001. If this value stays over US\$ 28/ barrel for 20 consecutive business days, OPEC will have to hold an extraordinary summit in order to decide on a change of export quotas.

Figure 6. Price for Brent Crude Oil (NYMEX)



On 13 September the State Duma of the Russian Federation passed amendments to the Federal Law "On the Securities Market" at the third reading. The purpose of the new version of the Law is to make the Russian market more transparent. We would like to note the introduction of a notion of price manipulation, which allows to protect the market from such schemes. The Law also introduces more onerous requirements to the contents of the prospectus and the issuer's quarterly report.

Standard & Poors upgraded the rating forecast for six Russian banks, which reflects an improvement of the economic situation in Russia.

Corporate News

OAO Rostelecom

On 4 September, following the introduction by SEC of more stringent requirements to the reliability of financial accounts of companies whose shares are listed in the U.S., Rostelecom announced it would revise its financial accounts for 2001 due to the situation with its former auditor Arthur Andersen. As a result of a second audit carried out by Ernst & Young, a number of financial indicators of the company's operations were reduced. However, the telecommunication company must have gained from this step since it has demonstrated the business community a responsible approach to the issuer's financial accounts.

OAO Uralsviazinform

Standard & Poors assigned Uralsviazinform a Level 6.0 Corporate Governance Score. This value is lower than the rating of MTS that rates highest among Russian companies with a CGS value of 7.4, but higher than North-West Telecom with 5.0.

OAO Surgutneftegas

In the course of the first eight months of 2002 Surgutneftegas has produced 32.15 million tons of oil which is up 11.7 percent as compared with the respective value from last year. The volume of gas production reached 8.7 billion cubic meters. Drilling volume increased to almost 2 million meters (13 percent greater than in the respective period of 2001), including exploration drilling, which increased 9 percent, amounting to 191 thousand meters. 613 new wells have been put into operation.

OAO Surgutneftegas has obtained a license to develop and produce the deposits in the North Labat-Yugansk site. In accordance with the law in force, the company has been issued this license upon exploration work on risk conditions without any tender.

OAO MMC Norilsk Nickel

In 2001 the net profits of MMC Norilsk Nickel calculated in accordance with the IAS fell to RUR 36.8 billion (in 2000: RUR 48.7 billion).

The company's revenues were RUR 132 billion and the Group's net profits less profits from financing activities were RUR 14.1 billion. The decrease in profits and revenues in 2001 has been brought about primarily by a decrease in world metal prices. It should be noted that in 2001 nickel production grew 2.5 percent; copper, 14.8 percent; cobalt, 12.7 percent, and metals of the platinum group, 0.8 percent. The share of nickel in total sales was 32 percent, copper, 14 percent and precious metals, 46 percent in 2001. The internal market accounted for 4 percent of nickel sales and 8 percent of copper sales last year.

OAO Oil Company Yukos

US GAAP net profits of the company in Quarter 1, 2002, reached US\$ 462 million, which is US\$ 64 million lower as compared to the respective period of 2001. The company's US GAAP proceeds and other operational expenses in the stated period slightly exceeded US\$ 2 billion as opposed to US\$ 2.412 billion in the respective period of 2001. Yukos' operational expenses in Quarter 1 of 2002 were up 10.8 percent from 2001 and reached US\$ 319 million. According to the company's press-service, this results from higher expenses on electric power and labor costs as well as from greater production and processing scope.

Table 1

Dynamics of Foreign Stock Indexes

As of 24 September 2002	Value	Change During the Month (%)	Change Since the Beginning of the Year
RTS (Russia)	335.12	0.67%	30.52%
Dow Jones Industrial Average (USA)	7683.13	-11.32%	-24.21%
Nasdaq Composite (USA)	1182.17	-10.09%	-40.51%
S&P 500 (USA)	819.29	-10.56%	-29.43%
FTSE 100 (UK)	3671.1	-13.16%	-29.97%
DAX-30 (Germany)	2873.21	-22.62%	-44.32%
CAC-40 (France)	2742.81	-18.52%	-40.69%
Swiss Market (Switzerland)	4566.4	-12.70%	-28.85%
Nikkei-225 (Japan)	9321.64	-3.09%	-11.58%
Bovespa (Brazil)	9148	-11.89%	-32.63%
IPC (Mexico)	5705.67	-8.22%	-11.77%
IPSA (Chile)	78.86	-8.74%	-27.72%
Strait Times (Singapore)	1377.07	-7.49%	-15.31%
Seoul Composite (Korea)	672.28	-8.71%	-3.09%
ISE National-100 (Turkey)	9072.02	-4.98%	-34.18%
Morgan Stanley Emerging Markets Free Index	272.254	-8.91%	-13.63%

Foreign Exchange Market

In September no strong fluctuations were observed in the Russian foreign exchange market: a change of the first digit after the comma from five to six was the only occurrence.

On 31 August 2002 the official exchange rate was 31. 5673 RUR / US\$ and on 28 September 2002 the rate was 31.6358 RUR / US\$. Thus, the growth was 0.216 percent. According to market expectations, in early October the rate will pass the 31.7 RUR / US\$ mark. Based on preliminary estimates, the trade volume in the SELT was RUR 150 billion. It should be noted that this value will lose its analytical meaning upon introduction on 01 December 2002 of a Decree of the Bank of Russia establishing a new procedure for the mandatory sales of a part of foreign currency export revenues.

Figure 7. Dynamics of the Official RUR - US\$ Exchange Rate in 2002

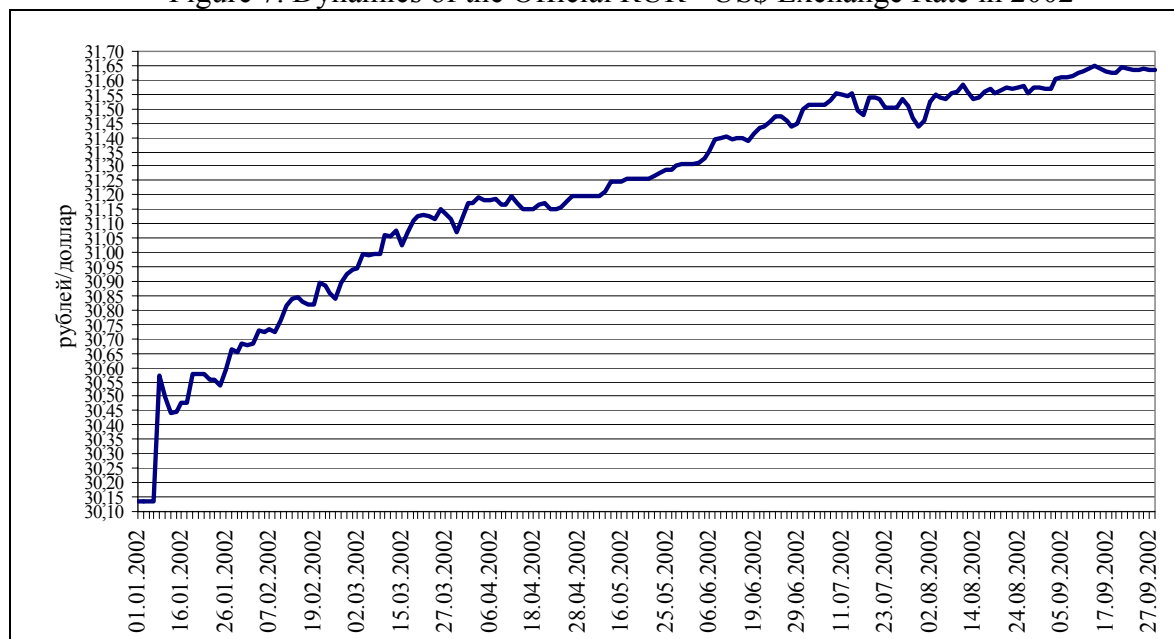
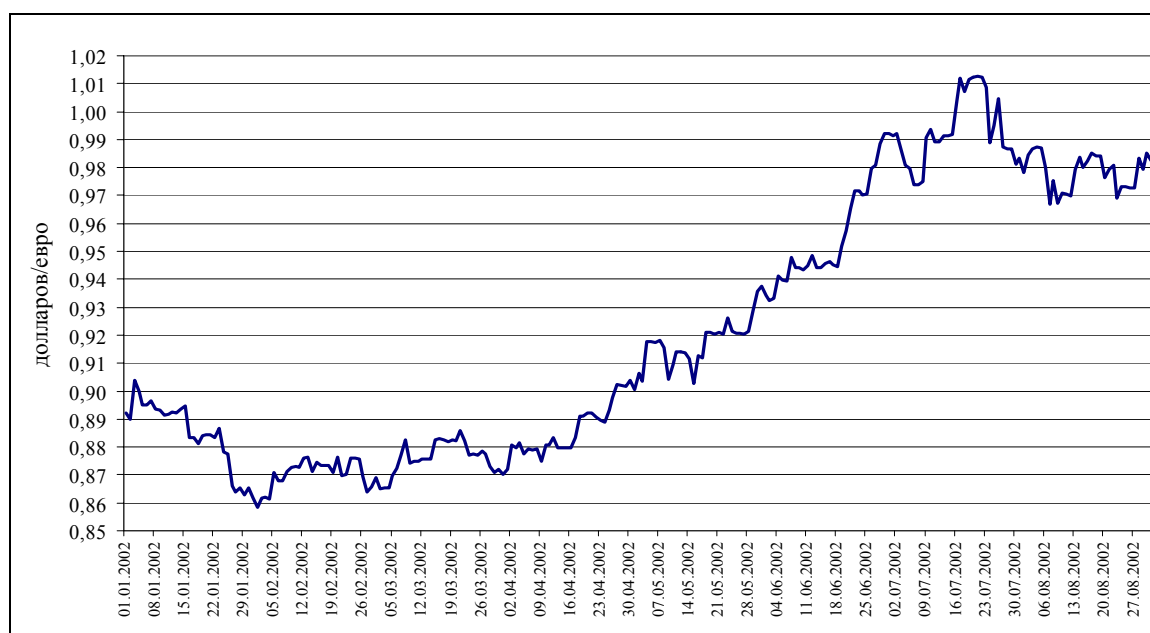


Figure 8. Dynamics of the Euro - Dollar Exchange Rate in World Currency Markets



In September The Euro / US\$ exchange rate was in the range 0.97-0.99 US\$ / Euro. The fluctuations were caused by occurrences in the political life, including the situation around Iraq. A slight lowering of the Euro

in the end of September is also related to market participants' dissatisfaction with election results in Germany.

At the end of the month the official RUR / Euro exchange rate slightly decreased from 31.0938 RUR / Euro on 31 August 2002 to 30.9082 RUR / Euro on 28 September 2002, i.e. by 0.6 percent.

FIGURE 9. Dynamics of the Official Euro Exchange Rate in 2002.

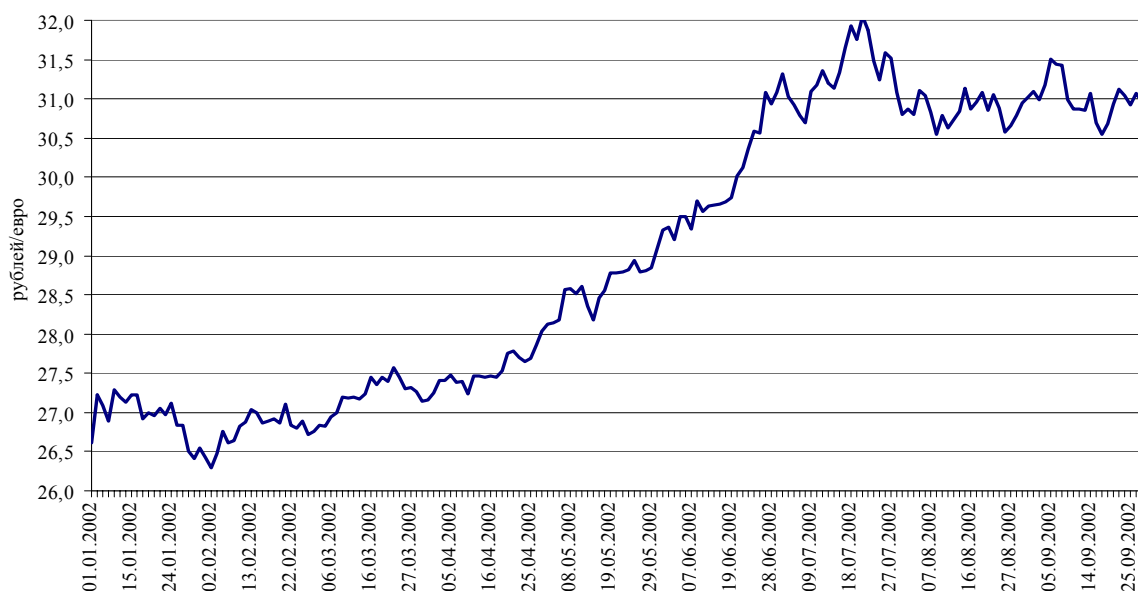


Table 2

Financial Market Indicators

Month	April	May	June	July	August*
Monthly inflation rate	1,7%	0,5%	0,7%	0,1%	0,1%
Inflation rate annualized on the basis of this month's trend	22,42%	6,17%	8,7%	1,2%	1,2%
CB RF refinancing rate	23%	23%	23%	21%	21%
Annualized yield to maturity on OFZ issues	15,61%	14,86%	14,42%	14,45%	14,8%
Volume of trading in the secondary GKO-OFZ market for the month (RUR billion)	14,98	12,99	9,34	6,95	11
Yield to maturity on Minfin bonds at the end of the month (% p.a.)					
4 th tranche	6,05%	6,29%	6,27%	5,6%	5,58%
5 th tranche	9,77%	10,43%	11,19%	10,88%	10,19%
6 th tranche	9,02%	9,75%	10,3%	9,52%	8,84%
7 th tranche	10,11%	10,65%	11,03%	11,05%	10,45%
8 th tranche	9,09%	9,55%	9,72%	9,81%	9,3%
INSTAR-MIACR rate (% p.a.) on interbank loans at the end of the month:					
Overnight	4,09%	14,81%	29,06%	5,74%	10%
One week	7,08%	22,26%	8,08%	8,25%	18%
Official RUR / US\$ exchange rate at the end of the month	31,3071	31,4471	31,4401	31,5673	31,6358
Official RUR / Euro exchange rate at the end of the month	29,3254	31,0792	30,8019	31,0938	30,9082
Average annualized growth in RUR / US\$ exchange rate	0,36%	0,45%	-0,02%	0,4%	0,2%
Average annualized growth in RUR / Euro exchange rate	4,19%	6,81%	-0,89%	0,72%	-0,6%
Volume of trading at the stock market in the RTS for the month (US\$ million)	454,1	344,3	407	276,04	270
Value of RTS Index at the end of the month	391,26	353,79	326,23	332,9	342,11
Change in value of RTS Index during the month (%)	1,34%	-9,58%	-9,22%	2,7%	2,77%

* Estimates

D. Levchenko, D. Skripkin

Debt burden on the Federal budget in 2003

According to the draft budget for 2003, the primary profit shall be made about Rub. 350 billion, i.e. 2.68 % of GDP. At the same time, the aggregate expenditures for the servicing of the RF public debt will make Rub. 277.5 billion (2.13 % of GDP), including payments pertaining to the external debt (Rub. 220 billion, or US \$ 6.5 billion). Accordingly, next year, the net budgetary profit will be at or below Rub. 72.2 billion, or 0.55 % of GDP. At the same time, payments pertaining to the principal external debt of the RF are targeted at US \$ 10.8 billion, or about Rub. 367.2 billion (2.81 % of GDP). It is expected that the balance of operations (borrowings minus repayment) related to the internal debt will be positive and make Rub. 24.2 billion.

Therefore, in order to finance payments related to the external debt in full, the RF Finance Ministry will have to use up to Rub. 132 billion (about US \$ 3.9 billion) from the carryover balance of the RF government accounts with the Bank of Russia and the financial reserve alongside with the planned borrowings on the external market (up to US \$ 1.93 billion), proceeds from privatization and sales of a portion of the state reserve of precious metals and precious stones. For the information about the utilization of profit and financing of the federal budget in 2003, see the aggregate table below.

	Rub. billion		Rub. billion
Primary profit	349,7		
		Expenditures for debt servicing	277,5
		Including internal	57,5
		external (US \$ 6.5 billion)	220,0
Profit	72,2		
		Repayment of debt	505,5
		Including external (US \$ 10.8 billion)	367,2
		Internal	138,3
Borrowings	301,4		
Including state CB	162,6		
External borrowing (\$1.93 bil.)	65,6		
Privatization	53,2		
Balance of operations with precious metals and precious stones	20		
		Lack of funds	132

In the course of analysis of the draft budget, two important aspects characterizing the situation of expenditures related to the RF external debt in 2003 may be singled out:

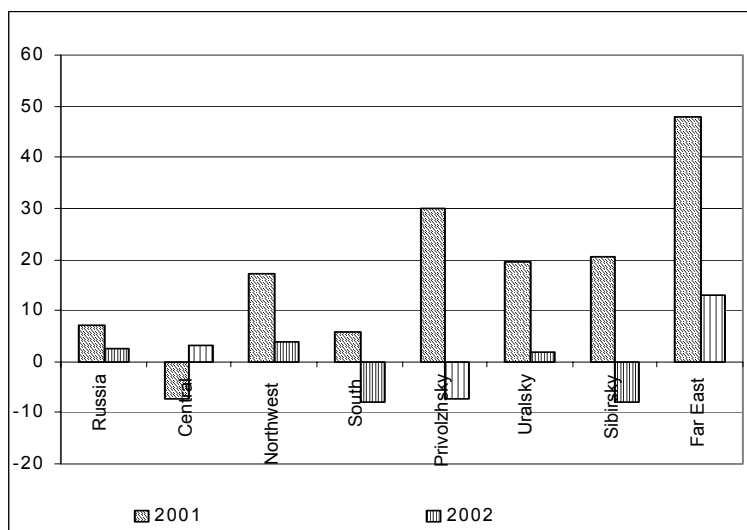
1. In spite of the measures taken in order to diminish the amount of aggregate payments related to the servicing and repayment of the external debt in 2003 (by US \$ 2 to 3 billion in comparison with the schedule of payments drawn in 2000 and 2001), the resulting amount (US \$ 17.3 billion) is maximal. These payments will result in the utilization of all government financial resources accumulated over the periods of favorable external economic situation. Therefore, in the case the unfavorable scenario of the development of the Russia's economy will prove true (deceleration of growth rates, a significant decline in oil prices, and related decrease in budgetary revenues), the problem of external debt burden may again become the problem of paramount importance.
2. The annual yields (15 % to 17 %) of new tranches of medium and long term (3 to 5 years) Ruble bonds planned by the RF Finance ministry seem to be set too high in comparison with the current yields of Russian eurobonds of similar maturity (8 % to 8.5 % for bonds maturing in 2007 and 2010). Therefore, in the case the favorable situation of Russia's debt obligations on world financial markets persists, it looks feasible to issue additional eurobonds of similar maturity in stead of new issues of GKO – OFZ. Since the government expects that over a few next years inflation rates decrease to 8 % -- 10 %, and, therefore, the rates of nominal Ruble depreciation will slow down (most probably to 3 % -- 5 % a year in the case the current rates of real Ruble appreciation persist), the planned cost of borrowings on the internal market (in US \$ terms) will be higher than rates related to external debt obligations.

S. Drobyshesky

Investment in the Real Sector

In January through August of 2002, the positive dynamics of investment in the real sector persisted. The amount of investment in fixed assets from all sources of financing made Rub. 910.2 billion, what is by 2.4 % above the level registered in January through August of 2001. As compared with the figures observed in the first six months of 2001, the share of investment in fixed assets in GDP decreased by 2.0 p. p. and made 12.6 %. In the first half-year of 2002, a growth in investment was registered in the Central, Northwest, Uralski, and Far East federal okrugs.

Fig. 1 Changes in the dynamics of investment in fixed assets as broken down by Federal okrugs in the first 6 months of 2002 and 2001, in % of the first 6 months of the preceding year

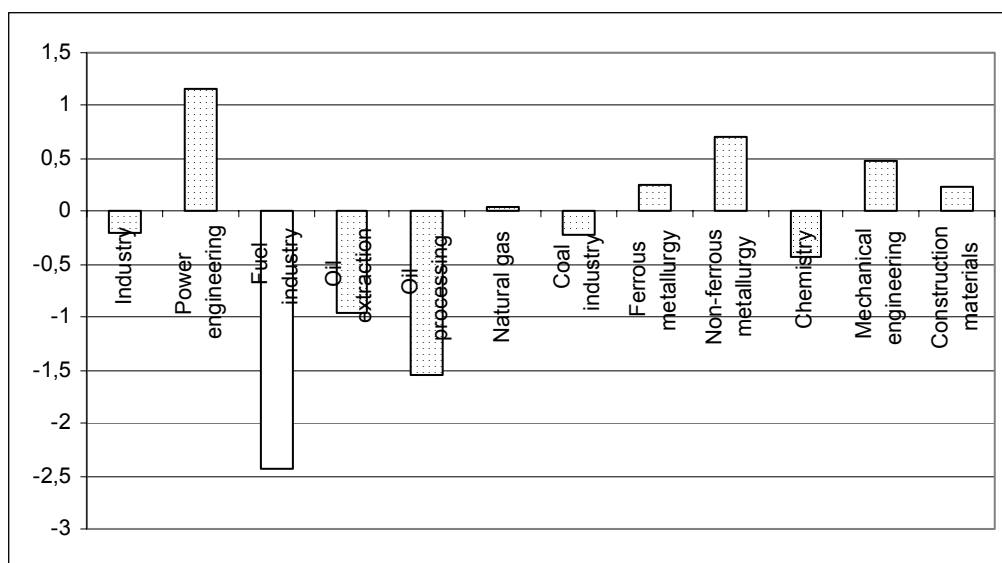


The lesser intensity of investment inflows in the real sector of the economy in 2002 was observed at the background of changes in the sectoral structure of investment. The share of investment in fixed assets of manufacturing industries has stabilized at the level observed in the preceding year. The changes in proportions of investment across the sectors of the economy was practically completely determined by a considerable decrease of investment in transport. As compared with the first six months of 2001, the share of investment for development of transport decreased by 4.1 p. p., while the share of investment expenditures for communications grew by 1.2 p. p. and for housing construction – by 1.8 p. p.

This year, the changes in the structure of investment across industries occurs at the background of decreasing share of fuel complex and food industry. Fuel industry maintains its dominating position in the structure of investment, its share makes 51.2 % of the total investment in industry; at the same time, more than 1/3 of investment flows in oil extracting industry. Taking into account the traditionally high concentration of profits in the export oriented industries of the oil and raw materials sectors and the lack of mechanisms of inter-sectoral flow of capitals, it may be hardly expected that the rate of investment would increase and radical changes would occur in the nature of the reproduction of fixed capital. The share of investment industries makes 8.5 %, while the consumer complex branches account for 7.7 % of the total amount of investment in industry.

Fuel industry demonstrated deteriorating indicators of the reproduction of fixed capital at the background of decelerating rates of investment in this sector. In January through July of 2002, in fuel industry the commissioning of drilling wells decreased by 13.6 %, production drilling contracted by 16.5 %, and surveying drilling fell by 39.1 %. The decrease of investment in oil processing industries resulted in deteriorating technical and economic indicators of production. The output of oil products produced with the use of progressive processing technologies has decreased by 7.8 %.

Figure 2. Changes in the structure of investment across industries in the first 6 months of 2002, in % of the respective period of the preceding year



The changes in the structure of the sources of financing of investment in fixed assets were characterized by a trend towards an increase in the share of own funds up to 51.6 % as compared with 49.3 % observed in the respective period of the preceding year. As compared with the first six months of 2001, the share of profits allocated for the financing of investment in the structure of own funds of enterprises has decreased by 2.5 p. p., while the share of depreciation increased by 3.5 p. p.

As concerns the structure of borrowings, there was registered an increase in the share of bank credits. The decrease in budget financing from 19.2 % registered in the first six months of 2001 to 18.9 % in the respective period of this year may be explained by a decline in outside funds from the budgets of RF subjects. The share of extra-budgetary funds in the structure of the sources of financing of investment in the real sector decreased by 1.8 p. p. in comparison with the figures registered last year.

Table 1

Structure of investment in fixed assets across sources of financing in the first 6 months of 2000 through 2002, in % of the total

	2000	2001	2002
Investment in fixed assets	100	100,0	100,0
Including			
1. Internal funds	53,5	49,3	51,6
Of which:			
Profits at the disposal of organizations	21,7	24,1	21,6
Amortization		21,5	24,6
2. Borrowed funds	46,5	50,7	48,4
Of which:			
Budgetary means	20,6	19,2	18,9
Including:			
Federal budget	5,2	5,3	5,2
Budgets of RF subjects	14,3	12,9	12,4
Bank credits	4,0	3,3	4,3
Borrowed funds	9,4	6,0	5,7
Extra-budgetary funds	3,8	4,6	2,8
Other	8,7	17,6	16,7
Foreign investment (out of the total investment in fixed assets)	4,9	4,7	

Source: RF Goskomstat

In the situation, where the internal funds in the real sector of the economy are limited and it is impossible to borrow funds for a long term, the Russia's economy reproduces the conditions provoking the shrinking of internal investment demand.

O. Izryadnova

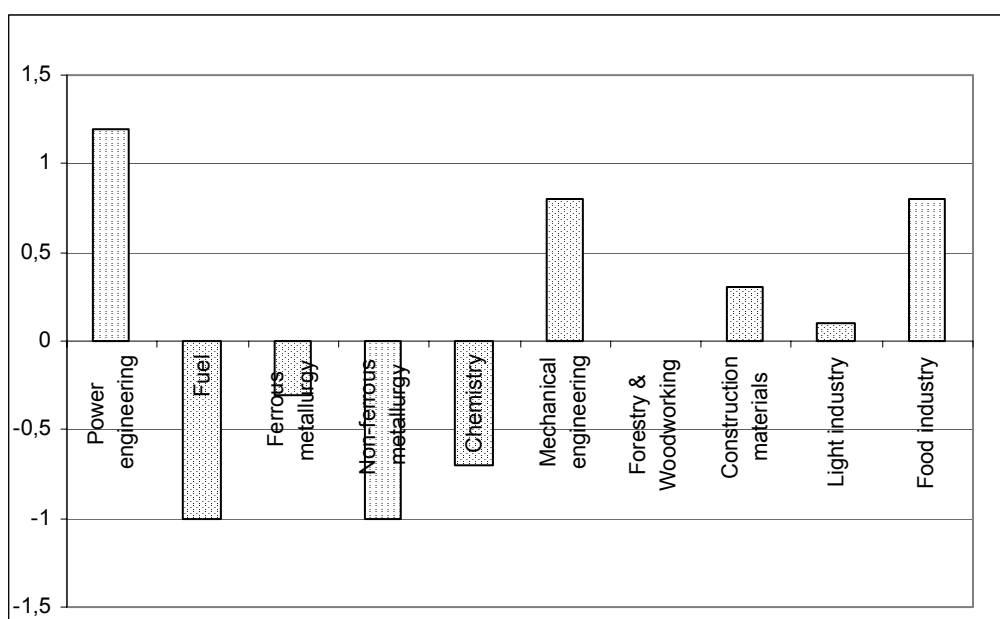
The Real Sector: Factors and Trends

According to a Goskomstat report, in the first six months of 2002, GDP made Rub. 4842.1 billion and was by 3.9 % above the level registered in the respective period of the preceding year. The dynamic development of final demand has positively affected the dynamics of output and services of base economic sector since the 2nd quarter of this year. According to estimates, in 2002, GDP will make about Rub. 10950 billion and will increase by 3.9 % in comparison with the figures registered in the preceding year. While in the 1st quarter of 2002 there was registered an 11.6 % dip of GDP as compared with this indicator in the 4th quarter of 2001, the recovery of investment demand in March through June of 2002 resulted in the overcoming of negative aftereffects of the slump and the economy began to show a trend towards economic growth. In the 2nd quarter, GDP increased by 7.2 % as compared with the respective period of this year and by 4.1 % in comparison with the respective period of 2001. According to the estimates of the Ministry for Economic Development, on the whole in 2002 GDP will make about Rub. 10950 billion and increase by 3.9 % as compared with the preceding year figures.

A growth in output is observed across practically all industries and sectors of the economy. No doubt that the downward trend of inflation rates is a positive factor supporting the level of business activity. Zero inflation in August was an additional factor of growth in final demand. The sectors, where the generation of the new wave of inflation is possible (rise of natural gas prices, tariffs on freight, and paid household services, as well as the seasonal rise of prices in the agrarian sector, require special attention.

The output of products and services of the base economic sectors increased by 3.9 % as compared with the figures observed in January through August of 2002. While the output of manufactured goods grew by 3.8 % in January through August of 2002, the production of construction industry increased by 2.9 %. On the whole, service sectors developed more dynamically. In January through August of 2002, the retail trade turnover grew by 8.8 %, freight turnover – by 5.1 %, and communication services – by 9.7 % as compared with the figures registered in the respective period of the preceding year.

Figure 1. Changes in output across industries in January through August of 2002, in % of the respective period of the preceding year



An analysis of changes in the structure of industry reveals that practically all growth in production was generated by the outpacing development of industries oriented towards the domestic market.

The recovery of the world economy and favorable external business situation accounted for growth in output of export oriented industries in January through August of 2002 (105.2 %). Non-ferrous metallurgy (109.8 %) and fuel industry (106.1 %) demonstrated the most rapid rates of growth among the industries of this complex.

However, even outpacing rates of growth of export oriented industries in comparison with the dynamics of industrial production could not overcome the intensifying trend towards a decrease in the volumes of export. In June of 2002, exports accounted for 23.5 % of the total sales of industrial output as compared with 28.5 % and 32.4 % registered in the respective periods of 2001 and 2000. The development of this trend takes place at the background of intensive increase in competing imports. In January through July, the growth of imports in comparison with the figures observed in the respective period of the preceding year made 9.7 %, while industrial output increased by 3.9 %.

This year, the consumer sectors oriented towards the domestic market demonstrated the fastest rates of development. The production indices related to the consumer and investment complexes made 107.3 % and 103.0 % respectively as compared with the figures observed in January through August of 2001.

The saturation of the consumer market is stable and answers the household effective demand. In January through August of 2002, the share of food products in the structure of retail trade turnover increased by 0.7 p. p. as compared with the figures registered in the respective period of 2001. The growing demand for domestic goods resulted in a 8.1 % increase in the output of food industry. Besides, the dynamics of production in June and August were positively affected by the correcting decrease in import of foodstuffs. In the 2nd quarter of 2002, the share of imports in the total amount of the stock of food resources decreased by 2 p. p. in comparison with the figures observed in the preceding quarter and made 32 %.

In January through August of 2002, the output of light industry stabilized. However, the situation of the industry is still difficult. The influence of imports grows due to the low competitiveness of domestic goods. According to estimates, in the 2nd quarter of 2002, the share of imported goods in the total amount of non-food stocks of retail trade increased by 6.5 p. p. as compared with the figures registered in the preceding period.

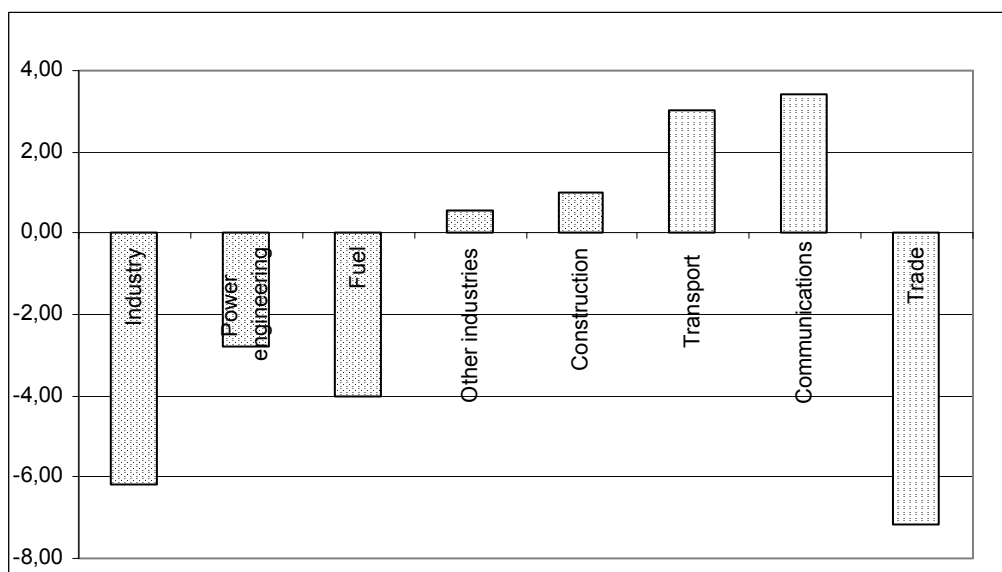
The structure of production in the investment complex is formed at the background of outpacing rates of growth in the industry of construction materials initiated by the acceleration of rates of housing construction. The output of construction materials increased by 4.5 % in comparison with the figures observed in January through August of 2001, while the commissioning of housing grew by 14.6 %.

The output dynamics across individual branches of mechanical engineering have fluctuated rather significantly. This year, the trend towards the outpacing rate of growth in motor industry (103.8 %) as compared with the output dynamics of mechanical engineering (102.8 %) recovered again. Intensive growth in communications services occurred against the background of the persistent high rates of development of the communications industry (166.0 %) and corresponding branches.

At the background of the current trend towards a decrease in the output of machine tool construction and base technological equipment, the gap between the rates of growth in domestic mechanical engineering and import of machinery and equipment widens. In January through August of this year, the increase in the import of mechanical engineering products made 20.0 %, while the respective domestic production grew by 2.8 %. Since the capability of domestic mechanical engineering to meet the growing demand for new equipment answering the modern technological level is limited, the share of expenditures for purchase of imported machinery and equipment in investment is systematically increasing. In the first six months of 2002, the expenditures for purchase of imported machinery and equipment made Rub. 48.1 billion, or 24.9 % of the total amount of investment in machinery and equipment.

Besides, this year the dynamics of mechanical engineering is significantly affected by the falling investment demand on the part of export oriented branches of the metallurgical and fuel and energy complexes. Since the system of inter-branch links is well developed, this factor has affected the intensity of processes of reproduction of the active portion of capital in the economy, as well as the output dynamics of construction materials in branches of ferrous metallurgy, chemistry, and woodworking.

Figure 2. Changes in the structure of balanced financial result in January through July of 2002, in % of the preceding period of 2001



In the course of an analysis of short term perspectives of industrial development, the downfall of proceeds of industrial enterprises shall be taken into account. Since the beginning of the year, the dynamics of profits across all sectors of the economy have been characterized by a steady decrease in rates from 83.9 % in January to 65.9 % in January through July as compared with the figures registered in the preceding period, while this indicator in industry has declined from 109.2 % to 57.9 % respectively. In January through July of this year, the balanced financial result made Rub. 436.3 billion, including Rub. 203.9 billion in industry. The rate of profit in industry declined to 4.7 % as compared with 10.0 % registered in January through July of 2001 and 18.0 % in the respective period of 2000.

A factor behind the decreasing profit rates in industry was a growth in production costs resulted from an increase in wholesale prices of and tariffs on consumed material resources, while producers' prices in industry went up more slowly and the rate of growth in wages and salaries outpaced the dynamics of prices of final products and real Ruble appreciation.

In the case this trend persists, it will be rather problematic to expect that the investment surge, which, in fact, is the major potential generator of growth, will continue. At the same time, it shall be noted that according to the results of the first six months of 2002, the share of depreciation in the composition of investment resources has increased. This trend reflects the shift in priorities and motivation of the economic activity. Domestic entrepreneurs associate the prospects of expansion and maintenance of their positions on the domestic and foreign markets with the intensification of processes of technical re-equipment and modernization of production.

O. Izryadnova

IET Business Survey: Industry

In September, the intensity of growth in effective demand further increased by several points and reached the level registered in the autumn of 2001, when there was observed the highest rate of growth of this indicator for the last two years. Therefore, the preceding quarter has proved to be the most favorable period for the Russia's industry in year 2002. By September, the growth in cash sales has recovered across all industries, except light industry. At the same time, the beginning of a decline in cash sales in construction industry may be explained by the near close of the construction season. The growth in normal sales observed for three months running has somewhat improved the appraisals of amounts of effective demand. The share of responses "normal" has increased up to 39 % and is the best evaluation in the last 11 months. Metallurgy (70 %), chemistry and petro-chemistry (64 %) accounted for the majority of such responses.

The positive evaluation of effective demand has affected only barter transactions so far. In September, the amount of barter in the Russia's industry declined by 4 points faster than in the preceding month. However, the September results are below the most rapid rates of decline registered in late 2001, not to mention those

observed in late 2000, by 9 to 15 points. At the same time, the dynamics of promissory note and offset transactions again look rather alarming. The recent decline in these deals has slowed down. The September balance (the intensity of change) made only -1% after -7% registered in August. However, the absolute growth of these indicators was observed only in mechanical engineering and light industry.

According to enterprises' evaluations, the sales of both domestic and imported goods increased in the 3rd quarter. It shall be noted that the intensity of growth in sales of domestic products ($+5\%$) exceeded the intensity of sales of similar exported goods ($+3\%$). In the preceding quarter, there was registered an opposite situation: -1% for domestic enterprises as compared with $+2\%$ for exported products.

The growth in cash sales allows Russia's enterprises to increase output more and more intensively. In September, the balance of change in production further increased by 5 points. The growth of output took place across all industries with the exception of food industry, construction industry (the seasonal factor) and non-ferrous metallurgy.

The increase in demand observed in August through September has "outweighed" the growth in output – the excessiveness of the stocks of finished goods declined by 7 points. Enterprises have used a portion of finished stocks at their warehouses to meet new orders maximally fast (and without an additional burden on production capacities). The lack of stocks preventing this strategy persisted in metallurgy, forestry complex, and became noticeable in food industry.

The rates of decline in real profits decrease for the fourth month running. The balance of change of this indicator in September remained negative, i.e. profits of the Russia's industry continues to decline. However, the intensity of decline gradually decreases. In September, an absolute increase in profits was registered only in ferrous metallurgy and light industry.

Although forecasts of enterprises concerning changes in effective demand lost several points of optimism in September, the expectations of a growth in cash sales still prevail across industries. The most optimistic are estimates in ferrous metallurgy and mechanical engineering. Only in the industry of construction materials a decline in effective demand is expected.

The forecasts concerning changes in barter have "gathered" a few points of pessimism and have reached the level of the most intensive decline in the last 20 months. Barter will decline across all industries except chemistry, petro-chemistry, and food industry.

The estimates of changes in the amount of promissory note and offset transactions demonstrate the minimal ($+1\%$) expectations of growth. A decrease of such transactions is possible only in the forestry complex, light, and food industries.

The declining optimism with regard to sales, the reluctance to use barter, and minimal hopes related to promissory notes and offsets accounted for negative changes in production plans. In September, the balance of expected changes in production fell by 11 points. However, the persistence of positive values of this indicator is an evidence of the fact that plans involving the expansion of production prevail across the Russia's industries. In the short run, the absolute decrease in output is possible only in the industry of construction materials (due to the seasonal factor).

S. Tsukhlo

Oil and Natural Gas Sector

In 2002, the development of oil and natural gas sector is characterized by the persistence of the trend towards increasing production of oil and oil products formed in 2000 through 2001. In January through August, the total volume of oil output increased by 8.3% in comparison with the figures registered in the respective period of the preceding year, while the output of primary processed oil increased by 1.7% . For the first time in the last years, there was registered an increase in extraction of natural gas (see Table 1). At the same time, due to a certain surplus of oil output and decreasing world oil prices in late 2001 – early 2002 (in the 4th quarter of 2001 and in January through February of 2002, the average world price of Russian oil was at US \$ 18 to 19 per barrel), there was observed a significant dip in investment activity: in January through July of 2002, the volume of production drilling fell by 16.5% as compared with the respective period of the preceding year, while surveying drilling decreased by 39.1% . The commissioning of new oil wells was down by 13.1% . The degree of processing of oil in the oil processing industry decreased from 70.9% in January through July of 2001 to 69.9% in the respective period of this year. The share of high octane gasoline in the total amount of motor gasoline increased from 44.5% in January through July of 2001 to 48.3% this year.

Table 1

Oil, oil products, and natural gas output, in % of the respective period of the preceding year

	1999	2000	2001	2002 January - August
Oil	100,3	105,9	107,7	108,3
Gas condensate	104,7	103,8	106,7	111,0
Primary oil processing	102,9	102,7	103,2	101,7
Motor gasoline	102,2	103,6	100,6	102,0
Diesel fuel	104,2	104,9	102,0	103,5
Furnace fuel oil	94,8	98,3	104,2	105,2
Natural gas, cub. m. billion	99,7	98,5	99,2	103,0
Oil gas, cub. m. billion	103,2	102,5	105,0	105,7

Source: RF Goskomstat.

After a period of decrease in domestic oil and oil products prices taking place in 2001 and early 2002, in the past months the increasing production costs and growing world prices affected the dynamics of prices of oil and oil products on the domestic market. Since April, there has been registered a stable increase in domestic oil prices (both in Ruble and US \$ terms), since May, there was observed also a growth in the price of motor gasoline. In the last few months, prices of natural gas were practically at the pre-devaluation level (see Table 26 Fig. 1, 2).

Table 2

Domestic oil, oil products, and natural gas prices (in US \$) in 1999 through 2002 (average wholesale prices of enterprises, US \$ / metric ton)

	1999 Dec.	2000 Dec.	2001 Dec.	2002 March	2002 June	2002 July	2002 August
Oil	37,0	54,9	49,9	39,4	49,4	57,0	61,2
Motor gasoline	171,9	199,3	151,5	113,2	166,7	180,6	185,5
Diesel fuel	125,0	185,0	158,5	119,3	171,4	167,4	159,1
Furnace fuel oil	46,1	79,7	47,1	33,8	75,9	75,9	74,8
Natural gas, US \$ / thos. c. m.	2,2	3,1	4,8	6,3	6,3	6,1	6,2

Source: calculated on the basis of RF Goskomstat data.

In spite of the fact that in the 1st quarter of 2002 the oil exports were limited due to Russia's obligations to decrease oil supplies on the world market in order to support the OPEC measures aimed at the restoration of a world oil price level acceptable for oil producing countries, on the whole, in the first half-year of 2002 oil and oil products exports increased by 14.3 % in comparison with the figures registered in the first six months of 2001 (see Table 3). In the first half-year of 2002, the share of exports in commodity resources of diesel fuel made 53.9 %, furnace fuel oil – 45.0 %, motor gasoline – 13.3 %. However, the growth of exports in physical terms could not compensate for the decline in world oil prices, which occurred in the beginning of this year. In the first six months of 2002, the amount of oil exports made 95.4 % in comparison with the figures registered in the respective period of the preceding year. In the first half-year of 2002, the aggregate value of export of oil and base oil products made US \$ 15.9 billion, what was by 6.0 % below the level registered in the first six months of the preceding year. The import of oil products also significantly contracted. For instance, in the first half-year of 2002, imports of motor gasoline made only 18.5 % of the level registered in the respective period of the preceding year, while the specific weight of imports in the gasoline resources fell from 0.6 % in the first six months of 2001 to 0.1 % this year.

Table 3

Export of oil, oil products, and natural gas from Russia, in % of the respective period of the preceding year

	2001 first half-year	2002 first half-year
Oil, total	109,2	114,3
including:		
Export to non-CIS countries	107,2	106,8
Export to CIS countries	125,2	164,3

Oil products, total	101,5	114,3
Including:		
Export to non-CIS countries	103,5	115,1
Export to CIS countries	67,4	95,4
Natural gas, total	87,0	104,0

Source: RF Goskomstat.

As a result of the restrictions on oil extraction and exports introduced by OPEC member countries and some countries outside this organization, world oil prices have increased and made US \$ 22 to 24 per barrel by the end of the 1st quarter, and in April through July stabilized at US \$ 24 to 25 per barrel, i.e. were close to the middle of the price band (US \$ 22 to 28 per barrel) supported by OPEC (see Table 4). In August, due to a decrease in world oil production, first of all in Iraq and at the North Sea oil deposits, world oil prices began to grow. In September, they were at US \$ 27 to 29 per barrel.

Table 4

World oil prices in 1999 through 2002, US \$ per barrel

	1999	2000	2001	2002 4 quart	2002 1 quart	2002 2 quart	2002 July	2002 August
Brent, UK	17,97	28,50	24,44	19,42	21,09	25,07	25,81	26,66
Urals, Russia	17,30	26,63	22,97	18,78	19,72	23,60	24,83	25,68
OPEC oil basket	17,47	27,60	23,12	18,33	19,92	24,42	25,15	25,87

Source: OECD International Energy Agency.

At the OPEC conference of September 19, 2002, the member countries decided to maintain oil quotas introduced on January 1, 2002. Both the decision of OPEC to maintain the agreed volumes of oil extraction and the recovery observed in large industrially developed economies allow to expect that oil prices will remain at a rather high level in the short term. According to the last base forecast (September, 2002) of the US Department of Energy, world oil prices defined as the average US oil import price will make about US \$ 26.0 per barrel in the 4th quarter of 2002, and US \$ 26.9 per barrel in 2003 (see Table 5). In the case this forecast is correct, it would mean the persistence of rather favorable external conditions for the Russia's oil industry and the national economy on the whole.

Table 5

World oil prices in 1999 through 2003

	1999	2000	2001	2002 (estimate)	2003 (forecast)
US import oil price, US \$ / barrel	17,22	27,72	22,01	23,64	26,91

Source: U.S. Department of Energy/Energy Information Administration.

FIG. 1. Average wholesale producer prices of oil and natural gas in US \$ in 1992 through 2002, US \$ per metric ton, US \$ per thousand c. m.

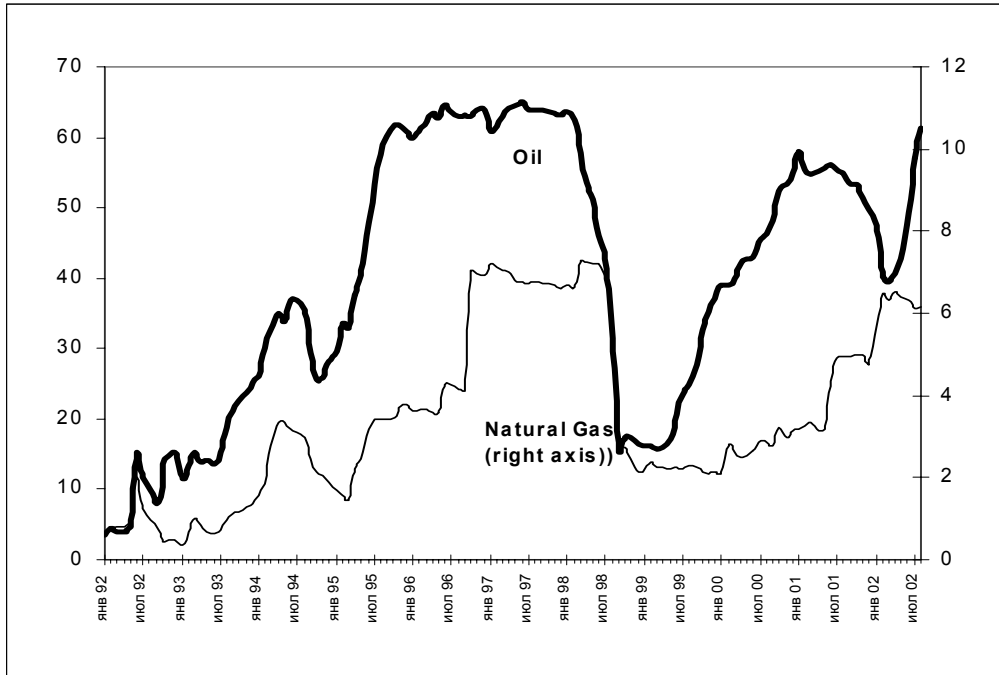
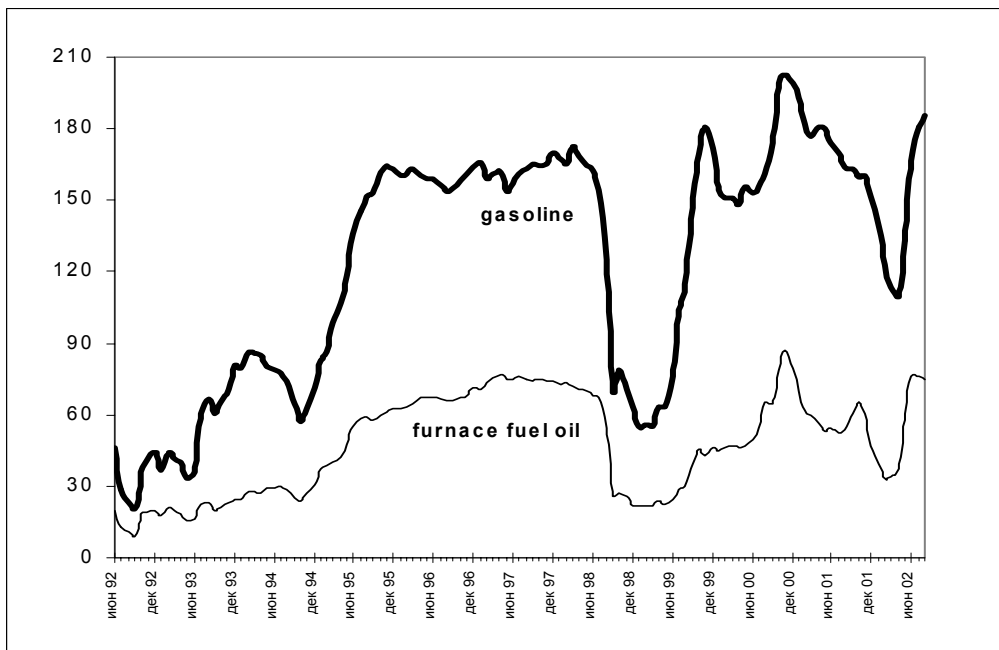


Fig. 2. Average wholesale producer prices of gasoline and furnace fuel oil in US \$ in 1992 through 2002, US \$ per metric ton

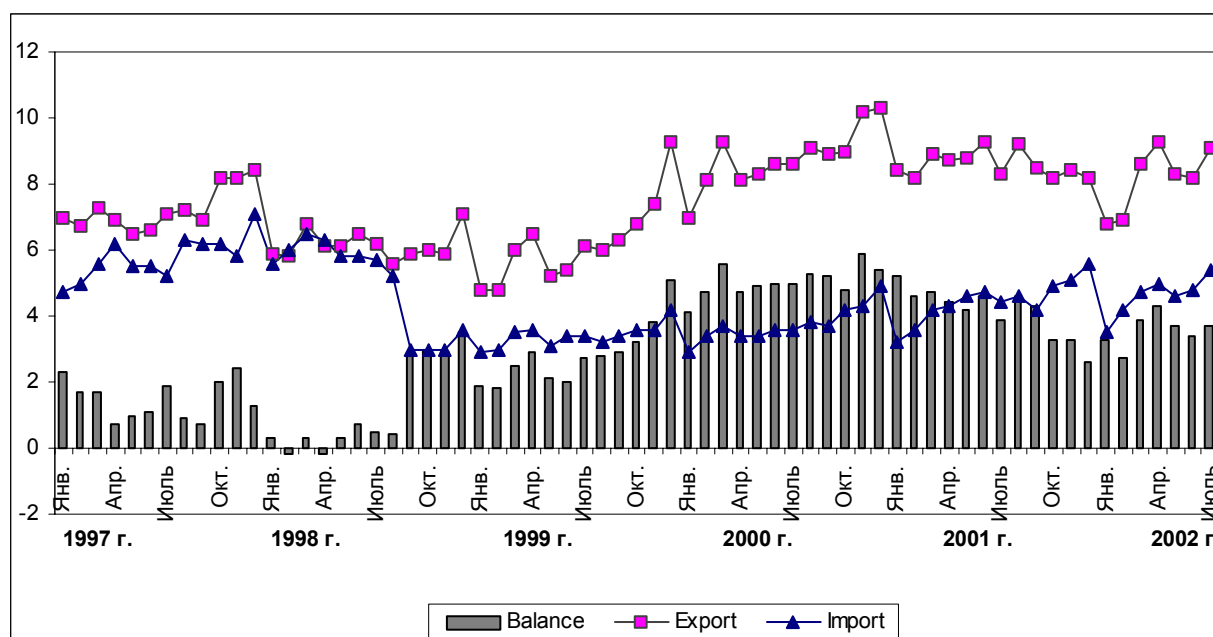


Yu. Bobylev

Foreign Trade.

In July of 2002, the Russia's foreign trade turnover was at its maximum (US \$ 14.2 billion) in the last 18 months. As compared with July figures, it grew by 14.2 %. Exports increased by 12.6 % (US \$ 9.1 billion), imports – by US \$ 3.7 billion, this figure being below the respective last year indicator by 5.1 %.

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



Source: RF Goskomstat

In July, the average BRENT price made US \$ 25.7 per barrel, what is by 4.5 % above the level registered in the respective period of the preceding year.

The world market of non-ferrous metals demonstrated certain indications of intensifying business activity. There continued growth in prices of hot and cold rolled steel in rolls increased, especially, on the American market. The prices of hot and cold rolled steel exported from EU member countries in third countries increased by US \$ 10 in comparison with the level registered in June and at the end of the month made US \$ 270 to 290 and US \$ 310 to 340 per metric ton, while prices of reinforcing and commercial steel did not change (US \$ 200 to 230 and US \$ 215 to 250 per metric ton respectively).

On the majority of key markets of non-ferrous metals, prices fluctuated insignificantly in July of 2002.

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	20,66	18,25	12,96	18,8	28,4	24,62	25,7
Natural gas, USD / thous. m ³	-	2,121	1,983	2,363	4,01	3,15	2,94
Gasoline, USD / metric ton	0,6338	0,5941	0,4234	0,6002	0,935	0,732	0,8035
Copper, USD / metric ton	1935,9	2481,7	1754,3	1744,8	1864,2	1541,4	1589
Aluminum, USD / metric ton	1455,4	1563,7	1377,7	1403,5	1565,9	1412,2	1338,4
Nickel, USD / metric ton	7350	6737,3	4620	5273	8202,0	5956,8	7143,1

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

According to the monitoring data, the average price of URALS oil made US \$ 25.25 per barrel, or US \$ 184.35 per metric ton in July and August of 2002. In this connection, since October 1, 2002, export customs duties on crude oil will be raised from US \$ 21.9 per metric ton to US \$ 26.2 per metric ton.

In September of 2002, the government commission on protective measures in foreign trade and customs and tariff policy abolished export customs duties on 432 items exported from the RF in small quantities. Respective customs duty revenues were slightly below US \$ 5 million. At the same time, these goods made 50 % of the total list of products subject to export duties. Therefore, the government adheres to its declared principle to decrease customs duties and simplify the customs regime.

At the same time, measures aimed at the protection of domestic producers are being implemented. The special duty on the import of starch syrup was prolonged and shall be in force for next 30 months. Until now, these imports were subject to a 16 % duty (not less than Euro 0.07 per kilogram). The new duty shall be at 15.75 %, but not less than Euro 0.069 per kilogram. It was also decided to decrease the duty rate by 0.25 % each year to bring it down to 14.5 % by January 1, 2005.

There was initiated an investigation concerning the increasing import of wall paper. Domestic producers could considerably consolidate their positions on the domestic market after the Ruble devaluation in 1998, when the growth of prices of imported products rendered them not competitive. However, foreign producers, especially from Germany, gradually increase their presence on the Russia's market. Another factor behind this development is the fact that in other countries wall paper is increasingly replaced by other decorating materials. Therefore, the Russian market attracts more and more foreign producers of wall paper. Besides, the Russian market is also important for producers from CIS countries, especially from Ukraine and Byelorussia. The CIS producers of wall paper can successfully compete with Russian producers in terms of prices.

In 2001, the amount of RF import of wall paper increased 2.8 times as compared with figures registered in 2000 (a more than fourfold growth in comparison with 1999 figures). The share of imports in the total amount of sales of wall paper on the Russian market increased from 32.7 % in 1999 to 64.3 % in 2001, the rate of growth in import of wall paper over this period made 435.6 %.

The annual increase in the rates of growth of the import of wall paper was accompanied by increasing consumption of such goods in the Russian Federation. In 1999 through 2001, the amount of sales of wall paper on the domestic market increased by 121.5 %. However, in spite of growing output of wall paper at Russia's enterprises, their share in the total sales of these products declined from 67.3 % in 1999 to 35.7 % in 2001, what was an evidence that Russia-made wall paper is squeezed out of the domestic market.

According to statistics, Russia's trade vis-à-vis CIS countries made US \$ 2.52 billion in July of 2002. The amount of exports increased by 30.2 % as compared with the figures registered in the respective period of the preceding year and made US \$ 1.42 billion, while the amount of imports grew by 13.1 % and made US \$ 1.10 billion.

In July of 2002, the share of products of the fuel and energy complex made over 40 % of the total exports in these countries. Export of crude oil and motor gasoline in CIS countries increased in comparison with the figures observed in the respective period of the past year. At the same time, imports from CIS countries increased in terms of sunflower oil, corn, and leather footwear.

Among neighboring countries, Byelorussian and Ukraine, as usual, were main Russia's trading partners in July of 2002. Their share of the total Russia's foreign trade was at about 13 %.

In September, the Russian and Ukrainian prime ministers reached an agreement aimed to remove excessive fiscal barriers in the bilateral trade. Ukraine has abolished special duties on the import of a number of Russia made goods, including a 20 % duty on motor vehicles introduced this March as a response to the restrictions on imports of Ukrainian ferrous pipes on the Russian market.

In September, the Council of the Heads of Customs of the CIS member countries discussed the issue of more broad cooperation of customs offices. Among other subjects, there was reviewed the package of measures aimed at the simplification of customs control and registration of goods transferred by citizens across borders between CIS member countries.

Special attention was paid to the problem of unification of the custom legislation in Russia and Byelorussia. Although the drafting of the Customs Codes of two countries is close to completion, there remain considerable discrepancies with regard to rates of customs duties on certain goods.

Also in September, the Council of the Heads of Customs of the Eurasian Economic Community member countries discussed such issues as the adjustment of trade exemptions, the formation of a common customs tariff and indirect taxes, a mechanism protecting internal markets in the situation preventing the use of special protective, anti-dumping, and countervailing measures.

N. Volovik N. Leonova