

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
November 2001

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The economy and politics in November 2001

In November 2001, economic and political analysts centered on the problems arising due to a drastic price downfall in the world market for oil. With a certain degree of conditionality, the problems can be classified into domestic and external. The problem of the scale of lowering oil output by Russian producers due to OPEC's wishes constitutes a purely economic problem of oil revenues in the short- and medium run, Russian oil producers' position in the world oil market, and also the political problem of the impact of Russia's stand with respect to cutting down its oil output on the emerging alliance between the country and the West.

The aforementioned domestic problems are determined by the role played by oil export revenues in the national budget. A price fall below the pessimistic level of 17 USD/barrel should, at minimum, cause problems with executing the 2002 budget. According to official information, the government develops a revised forecast of Russia's economic development for 2002, while the question of sequestration of the budget can be considered open. Notably, the majority of economic agents clearly associate the word "sequestration" with the word "crisis", and negative expectations have already manifested themselves specifically in speculative attacks against Rb., and in November CBR has already spent a considerable amount of its foreign reserves to resist those.

At the same time primarily from the political viewpoint it appears necessary to realize that nowadays the factors of 1997-98 that had determined a close relation between the budget crisis with the rise in macroeconomic instability mostly have lost their significance in Russia's economy. The economy is dominated by the pro-market sector represented by enterprises that found their niches in the competitive market environment, the process of structural reconstruction of the industrial sector is in place, the tax system operates rather efficiently, and all the above takes place against the background of a stable political situation and well coordinated efforts of the executive branch and legisla-

ture. Though some rise in inflation in the economy, along with a sliding Rb., with a balanced credit and monetary policy and a sound budget policy appear pregnant with a slowdown in growth rates and complication of the situation with the budget social items, however, they by themselves do not imply any inevitable crisis effects.

The government continues to pursue its policy aimed at support of investment activity.

Last November signified the beginning of governmental procurement operations on commodity markets, to diminish seasonal fluctuations of prices for agrarian products and to secure a stable level of prices, thus lowering risks for investing in the agrarian sector.

The government also approved standard documents on issuance of new government securities designated for institutional investors (insurance companies, non-government pension funds).

The government also undertook a number of measures aimed at increasing attractiveness of the national economy to foreign investors. Specifically, CBR diminished the minimal size of authorized capital for foreign banks and lifted restrictions on non-residents' profit repatriation. Mr. Putin signed the Decree on establishment of the Russian Committee for Financial Monitoring (Financial Intelligence). In November, an early repayment due to the IMF was accomplished. The successful visit of Mr. Putin to the US, the tendency to strengthening economic relations between Russia and the US (the intended abolition of Jackson- Vanick clause, development of an act to write off a part of the former USSR debt) contributed to rise in Russia's credit rating as a country with market economy and rise in quotations of Russian enterprises' stocks. One should not underestimate the need in weighted estimate of prospects of the country's economic development in new conditions, while apocalyptic perceptions with regard to a tragic effect the current downfall in world oil prices may have on the national economy appear fairly unjustified.

T. Drobyshevskaya.

The state of the federal budget

Table 1 The monthly execution of the federal budget of the Russian Federation (in comparable prices)

	IX '00	00	I'01	II'01	III'01	IV'01	V'01	VI'01	VII'01	VIII'01	IX'01
Revenues											
Corporate profit tax	2,4%	2,5%	1,4%	1,5%	1,9%	2,4%	2,6%	2,6%	2,5%	2,6%	2,5%
Personal income tax	0,4%	0,4%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
VAT, special tax and excises	7,1%	7,2%	9,0%	9,2%	9,0%	9,1%	9,3%	9,3%	9,2%	8,9%	8,6%
Tax on foreign trade and foreign trade operations	3,2%	3,2%	3,6%	4,1%	4,1%	4,0%	3,9%	4,0%	3,9%	3,9%	3,8%
Other taxes, duties and payments	0,3%	0,4%	1,1%	0,9%	0,8%	0,8%	0,7%	0,7%	0,7%	0,7%	0,7%
Total- taxes and charges	13,3%	13,7%	15,2%	15,7%	15,7%	16,3%	16,6%	16,6%	16,4%	16,1%	15,6%
Non- tax revenues	2,0%	2,3%	1,0%	1,1%	1,1%	1,2%	1,3%	1,2%	1,3%	1,3%	1,3%
Revenues, total	15,3%	16,0%	16,2%	16,9%	16,9%	17,5%	17,8%	17,8%	17,7%	17,3%	16,8%
Expenditure											
Public administration	0,3%	0,4%	0,1%	0,2%	0,3%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%
National defense	2,4%	2,7%	1,3%	2,0%	2,2%	2,5%	2,7%	2,7%	2,7%	2,6%	2,6%
International activities	0,2%	0,3%	0,3%	0,3%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Judicial power	0,1%	0,1%	0,0%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%
Law enforcement and security activities	1,3%	1,5%	0,7%	1,1%	1,3%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%
Fundamental research	0,2%	0,2%	0,0%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Services provided for the national economy	0,6%	0,9%	0,1%	0,3%	0,6%	0,6%	0,8%	1,0%	1,0%	1,0%	1,0%
Social services	1,7%	1,9%	1,3%	1,6%	1,9%	2,1%	2,0%	2,1%	2,1%	2,1%	2,0%
Servicing of public debt	2,9%	2,4%	3,2%	5,5%	4,7%	3,7%	3,3%	3,2%	2,9%	3,2%	3,2%
Other expenditure	2,7%	3,0%	3,3%	3,1%	2,9%	3,0%	3,1%	3,2%	3,1%	3,0%	3,0%
Expenditure, total	12,4%	13,5%	10,4%	14,4%	14,2%	14,1%	14,2%	14,5%	14,2%	14,3%	14,1%
Loans, redemption exclusive	3,0%	2,5%	5,8%	2,5%	2,6%	3,4%	3,7%	3,3%	3,5%	3,1%	2,7%
Expenditure and loans, redemption exclusive	-0,6%	0,0%	-3,7%	-0,8%	-0,6%	-1,1%	-1,7%	-1,3%	-1,1%	-1,2%	-0,9%
Budget deficit (-)	-2,3%	-2,4%	-2,1%	-1,7%	-2,1%	-2,3%	-2,0%	-2,0%	-2,4%	-1,9%	-1,8%
Domestic financing	-3,0%	-2,5%	-5,8%	-2,5%	-2,6%	-3,4%	-3,7%	-3,4%	-3,5%	-3,1%	-2,7%

* B % BBI

Table 2 The monthly execution of the federal budget of the Russian Federation (in % GDP, actual financing)

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

The data on the execution of the federal budget over the three quarters 2001 is presented in Table 1¹. As of October 1, the revenues to the federal budget 2001 accounted for 16.8% of GDP, including tax revenues – 15.6%, while expenditures made up 14.1% of GDP (15.2% of GDP in terms of fulfilled funding²), including non- interest ones 10.9

% of GDP (12.3% in terms of fulfilled financing). The level of budget profit accounted for 2.7% of GDP (1.6% of GDP in terms of fulfilled funding).

Between January through September 2001 the execution of the federal budget was characterized with the 2.3 per cent points excess of the level of tax revenues over the respective index of 2000, which, again, can be attributed to the rise in collec-

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

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 exe-

cution 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)

tion of indirect taxes, primarily VAT and excises (at 1.5 p.p.), and taxes on foreign trade (0.6 p.p.).

The execution of the expenditure part of the federal budget between January through September in terms of fulfilled financing accounted for 15.2 %, while in cash execution equivalent- 14.1% of GDP.

The comparison of the budget execution indexes over the nine months of 2001 with those of 2000 allows noting as follows: the expenditure on public debt servicing grew by 0.3 points (from 2.9% of GDP up to 3.2% of GDP) over the period in question vs. the respective period of the prior year. At the same time between January through September the government paid off Rb. 118 bln. of the principal foreign debt and effected another Rb. 172.5 bln.-worth interest payments, plus Rb. 46 bln. – worth domestic debt and Rb. 41 bln.. – worth inter-

est payments on that. The expenditures on support of the economy's sectors nearly doubled compared with last year (from 0.6% of GDP up to 1% of GDP).

The main difference between the cash execution of expenditure and the fulfilled funding falls under such budget outlays as “national defense” (0.2 p.p.), “law enforcement“ (0.3 p.p.), “ services to industry branches” (0.2 p.p.), and “the social sphere” (0.2 p.p.).

As of early November, 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 to Rb. 99 bln. . Overall, since early 2001 the aforementioned funds (including the moneys of the Road and Ecological Funds) slid by Rb. 2.7 bln.

Table 3. Actual tax revenues to the federal budget, according to the data of the MTC (in prices of January 1998).

1999											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
10067	11586	12281	12287	10524	11369	12785	12838	12514	14238	16190	21455
2000											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
15030	16161	18247	20714	23469	18817	18219	18762	17422	18232	20306	25579
2001											
I	II	III	IV	V	VI	VII	VIII	IX	X		
20580	19978	22917	26959	25311	23491	23342	23716	22088	23907		

The dynamics of actual tax debts to the federal budget is given in Fig. 1. Since 2001 the form of the MTC's presentation of the respective statistical data

has been changed, and the debts to the federal budget across all the taxes are no longer singled out.

Fig.1

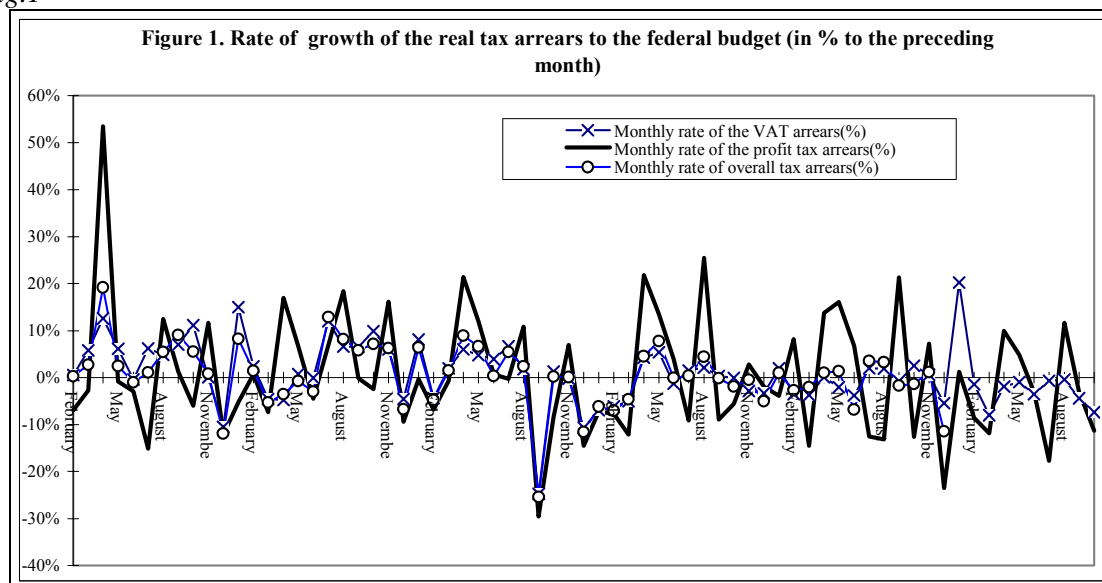


Fig.2

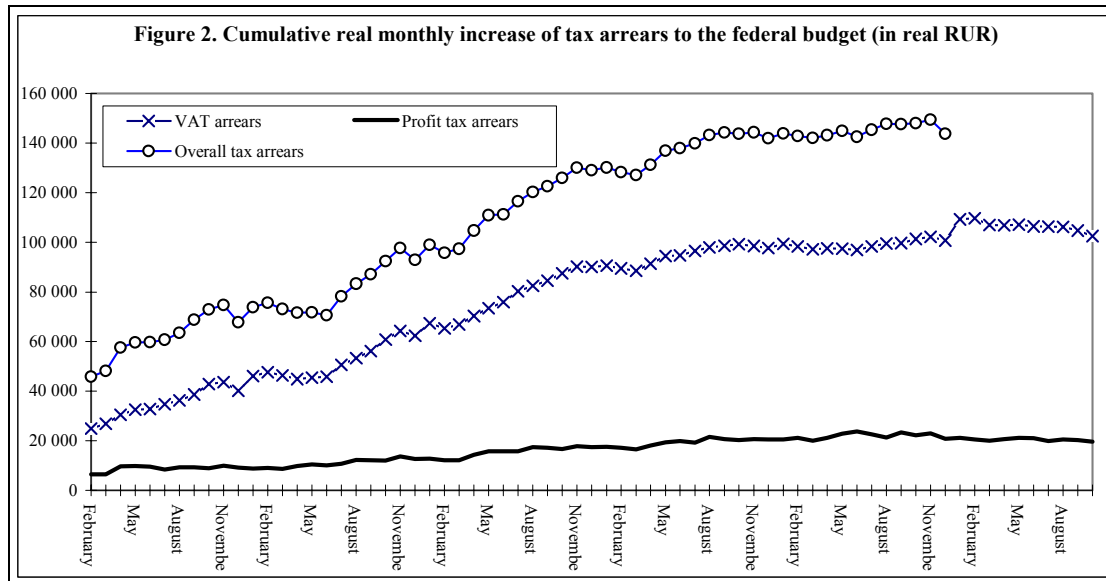


Table 4.

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			
Taxes	22,7%	23,6%	23,9%	25,4%	26,4%	26,0%	26,1%	25,9%	25,0%			
Revenues	25,9%	27,1%	27,4%	29,3%	30,5%	29,8%	29,9%	29,7%	28,3%			
Expenditures	16,8%	22,8%	23,7%	24,7%	25,1%	25,3%	25,5%	25,6%	24,9%			
Deficit	9,1%	4,2%	3,7%	4,7%	5,4%	4,4%	4,4%	4,1%	3,5%			

The execution of the consolidated budget between 1998 through 2001 is represented in Table 4.

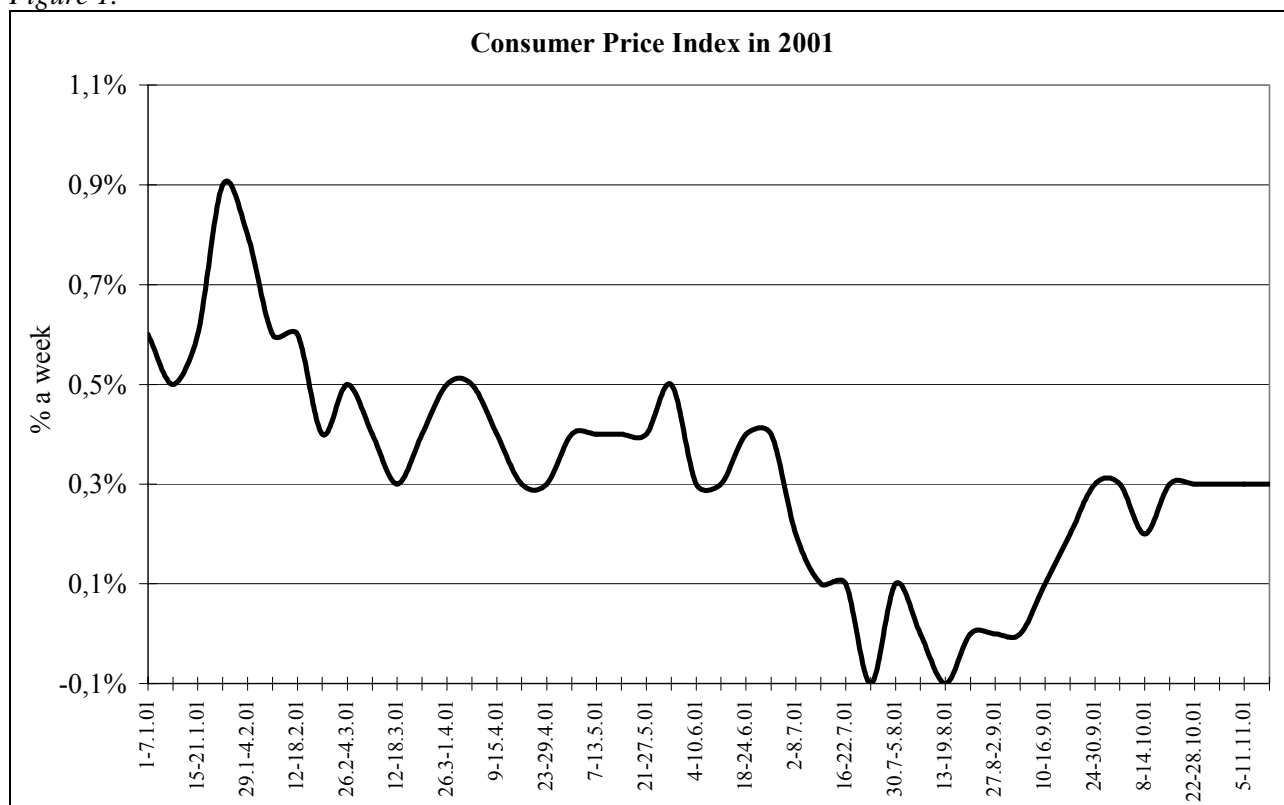
S. Batkibekov

Monetary Policy

In October 2001 the consumer price index grew by 1.1%. Thus, the inflation rate made up 15.3% for nine months of the year (it was 16.5% in January to October 2000). The food stuffs price index grew in October by 0.7% (by 14.0% since the beginning of the year), the non-food goods price index – by 1.3% (15.4%), the service price index – by 1.9% (29.5%). It was prices for milk and dairy products (+3.4%), vegetable oil (+4.0%), housing (+3.2%) and culture services (+5.4%) which showed the highest growth rates in October.

In November the price growth rates stabilised at the level of about 0.3% a week (see Fig. 1). Hence, we estimate the CPI growth in November at 1,4–1,5%. It should be noted that in general in the second half 2001 the inflation rate is lower than during the second half 2000. Correspondingly, our forecast of inflation rate for 2001 published in previous monthly reports can be revised towards its decline. Should in December the CPI growth rate would still be at the level of 1,5–1,6%, the 2001 inflation rate would not exceed 19%.

Figure 1.



Between late October through November 2001 the pattern of money supply and foreign reserves dynamics changed substantially (see Fig. 2). For the first time since January 2001 the monthly narrow monetary base growth rate has appeared to be close to zero. Having attained their maximum in late October (\$38.8 billion), foreign reserves, stabilised, and in November they fluctuated between \$38.3 to \$38.6 billion.

This shift in monetary sphere could be explained by coincidence of a number of important and partly independent factors: decline in foreign exchange supply and rise in demand for foreign exchange and large payments on foreign debt: namely, in November, the RF Ministry of Finance paid off over \$1.1 billion, including the redemption of the first Russian eurobond issue (totalled one billion dollars) and \$46.25 million-worth coupons on it.

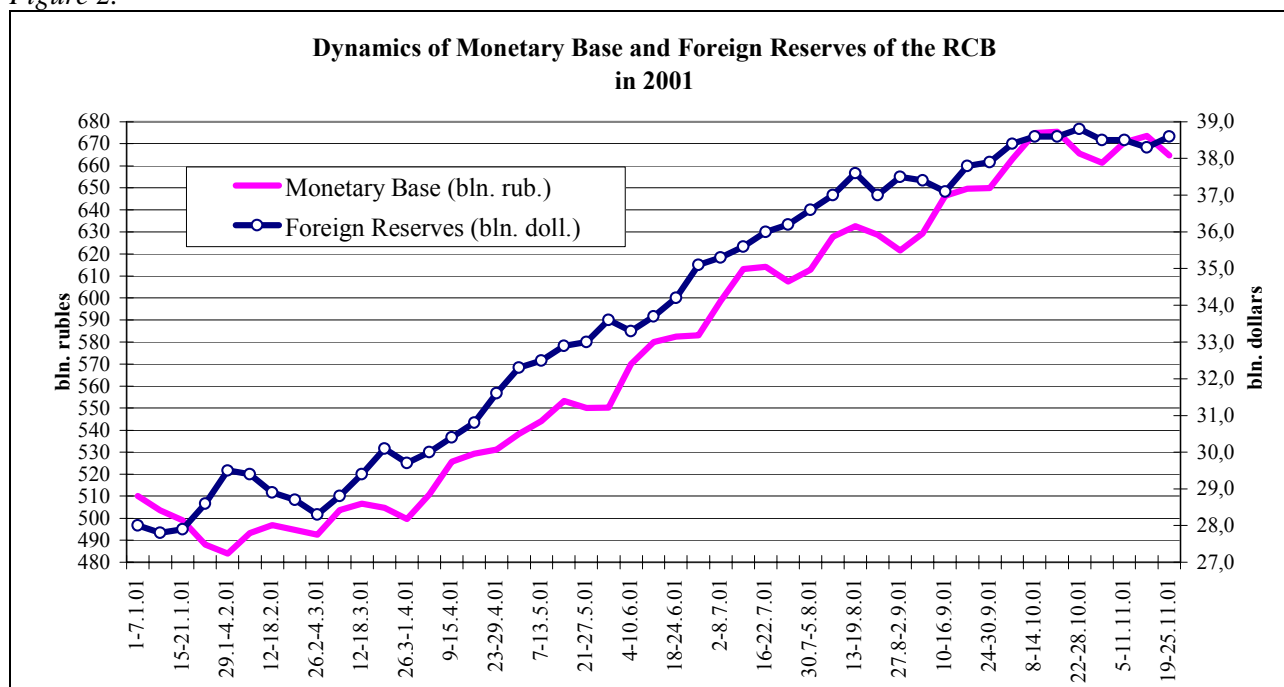
The decline in oil prices both diminishes export receipts (foreign exchange supply) and provokes expectations of devaluation, and raises demand for foreign exchange. According to our estimates, in November 2001, despite high rates of growth of the USD exchange rate, the Bank of Russia, spent up to \$500 million to stabilise the market.

In November 2001, the CBR published data on dynamics of monetary aggregates and their components for the first three quarters of the year. The new information on reserve money structure (see Fig. 3) confirms a positive tendency in 2001, which

we noted earlier³. In particular, by the end of the third quarter the share of non-borrowed reserves (balances on correspondent and deposit accounts of commercial banks with the Bank of Russia) slid to 22.5% of reserve money (against 24.6% in June 2001 and about 35% in 2000). The share of required reserves stabilised, and in 2001 it amounted to about 14–14.5%. Thus, the impact of demand for cash on monetary base becomes stronger. Presently, the share of cash in reserve money exceeded 60%, and the M_0/M_2 ratio equals about 37%. Taking into account seasonal factors (traditional increase in demand for cash in the end of year), we expect a further increase in the M_0 share in the fourth quarter, mainly due to balances on banks' accounts with the Bank of Russia. Actually, the Russian monetary system overcame the problem of «excessive liquidity», and the structure of monetary aggregates returns to the pre-crisis pattern.

³ See «Russian economy in July 2001. Trends and Outlooks».

Figure 2.



S. Drobyshvsky.

Financial Markets

The government securities market.

In November 2001 one can observe a substantial growth of quotations across all types of securities in the market for the Russian foreign debt (see Figs. 1 and 2). Specifically, the prices of the Minfin bonds grew by 3–5 percent points over the month, the prices of eurobonds – by 5–7 percent points. So, by the end of the month the yield to maturity on the Russian debt securities dropped to 10–15% annualised on the Minfin bonds and to 6–12% – on eurobonds. Specifically, in the second half of the month the yield to maturity on eurobonds-2003 amounted to about 6.5% annualised, and the one on the issue matured on November 27 fell to 2.5% annualised. The redemption of the first eurobond issue, which took place on November 27, was an additional factor, which positively influenced the prices of the Russian debts. Other important causes of the rising interest in Russian securities are stable economic

state of affairs against other developing economies as well as political reasons: improvement of relations between Russia and the USA and the EC is a serious signal for international investors to increase the share of Russian assets in their portfolios.

The price level at the market for domestic government debt still remains high. In November, the average-weighted GKO/OFZ yield to maturity was at the level of 14.5–15% annualised, so, actually being under the current inflation rate. The trade volume in the market was extremely low – about 1.5 billion roubles per week. A high turnover between November 19 to November 25 (up to 14 billion roubles) is explained, first, by conversion of OFZ 25030 into OFZ 27016 totalled up to 12 billion roubles. Evidently, the conversion of such big volume of bonds at a low market interest rate constituted the Ministry of Finance's success.

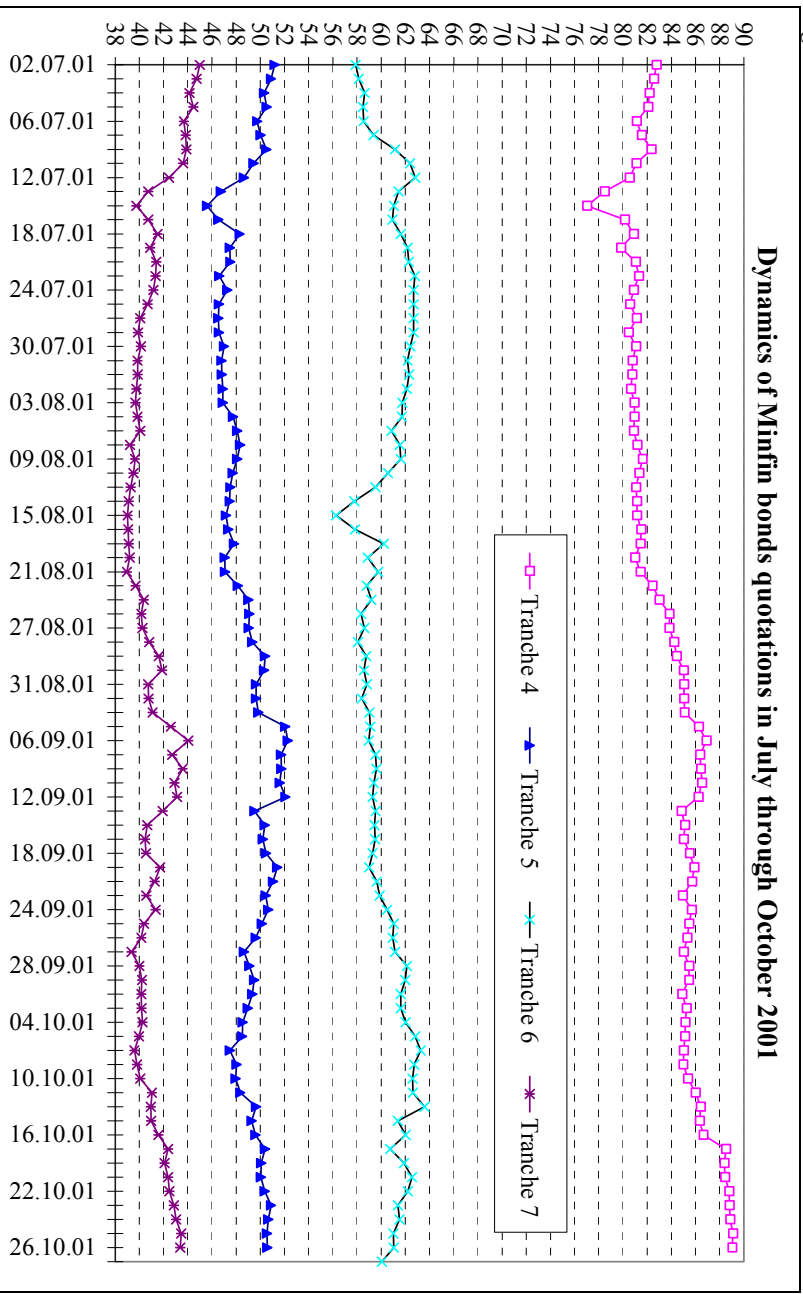


Figure 1.

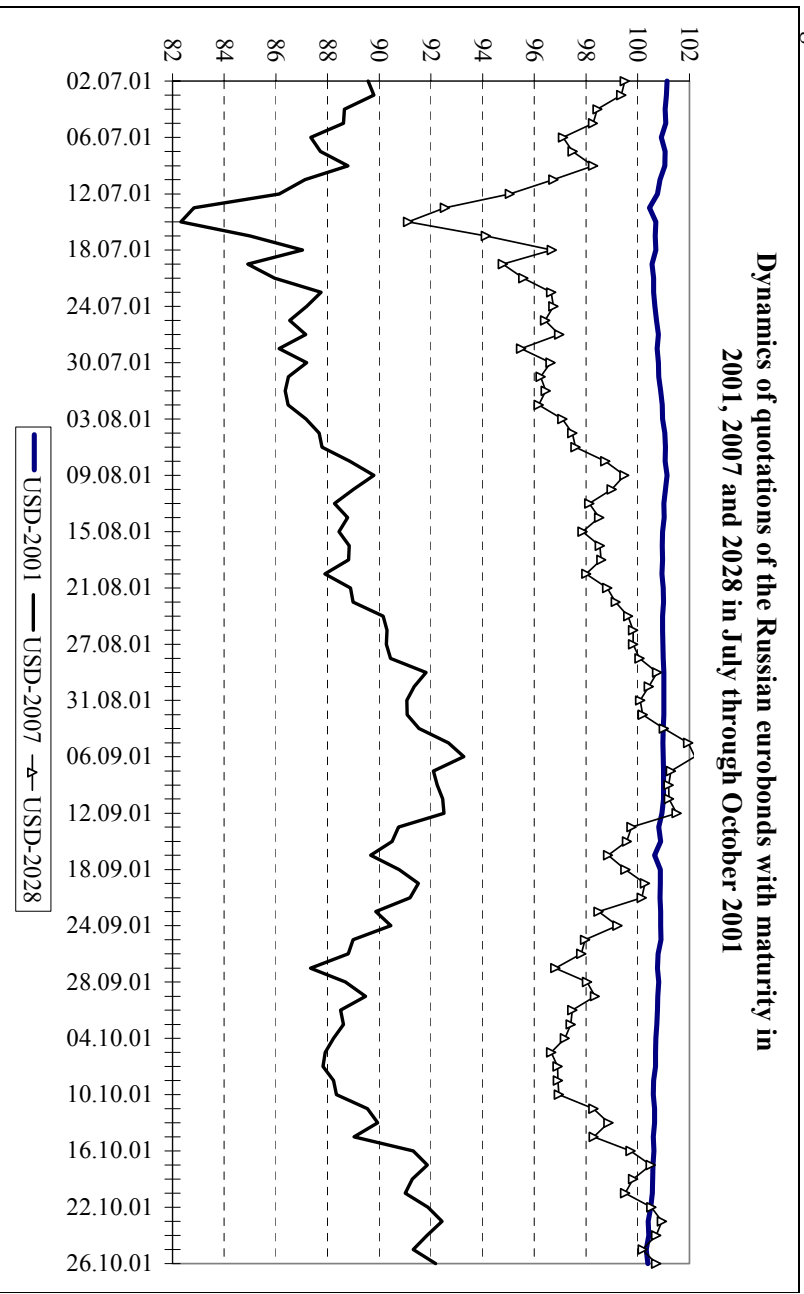


Figure 2.

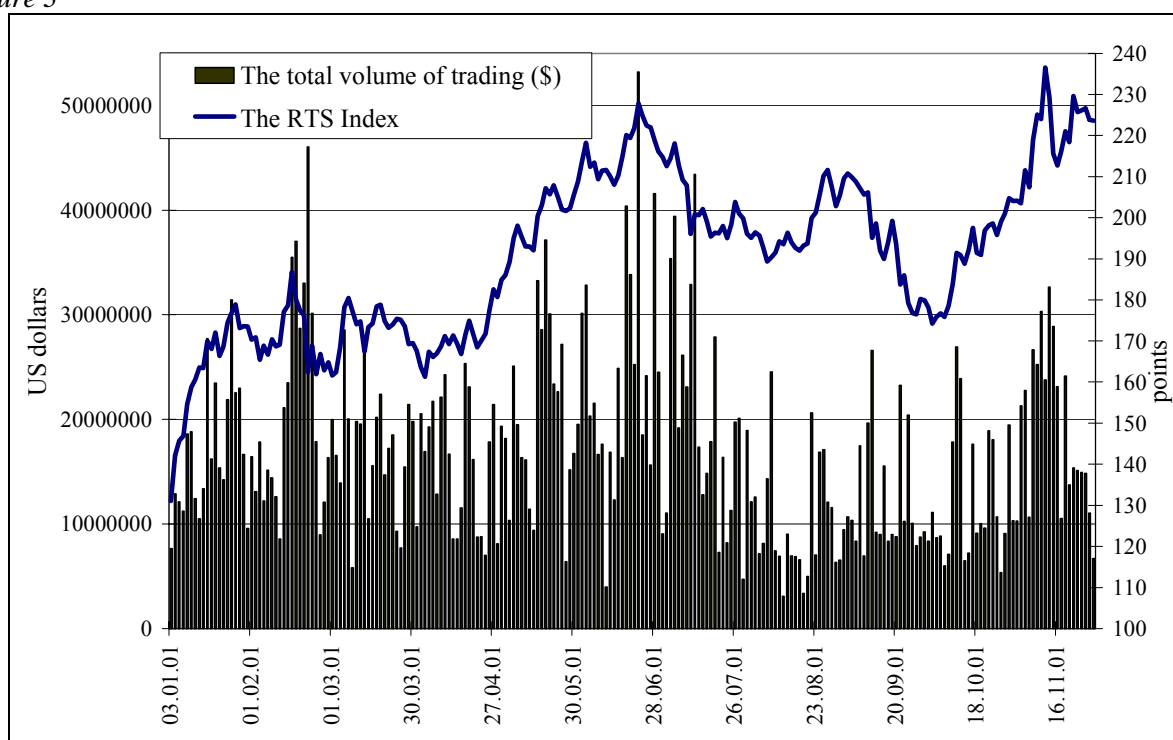
Stock market.

In November a long-awaited revival was observed in the Russian stock market. Both the index and the trade volume grew. However an unstable situation in the world commodity markets, continuous recession in main economies and problems in Argentina, which would hardly cope with servicing its \$132 billion debt, have hindered boom. The situation encourages a change in investors' attitudes and explains the change in the group of leaders at the Russian stock market.

Between October 31 through November 29 the RTS Index grew by 19.54 points (9.58%), the trade volumes grew by 41.4% (against October indices) and reached \$382 million (a three-month maxi-

mum). The daily average trade volume amounted to \$19 million, the weekly average one – about \$95 million. On November 14, the turnover was \$32.64 million (also a three-month peak value. In November the RTS Index fluctuated sharply. In early-November it soared up: on November 5 it was 211.53 (+3.94% against the prior date close), on November 8 – to 219 points (+5.61%), and on November 13 the index hit the level of 236.53 points (+5.61%), which has become its maximum value since September 6, 2000. Consequently, on November 15 the index dropped by 6% to 215.56. The next local maximum was fixed on November 22 (229.61 points, +5.15%). In late month the index gradually went down to 223.58.

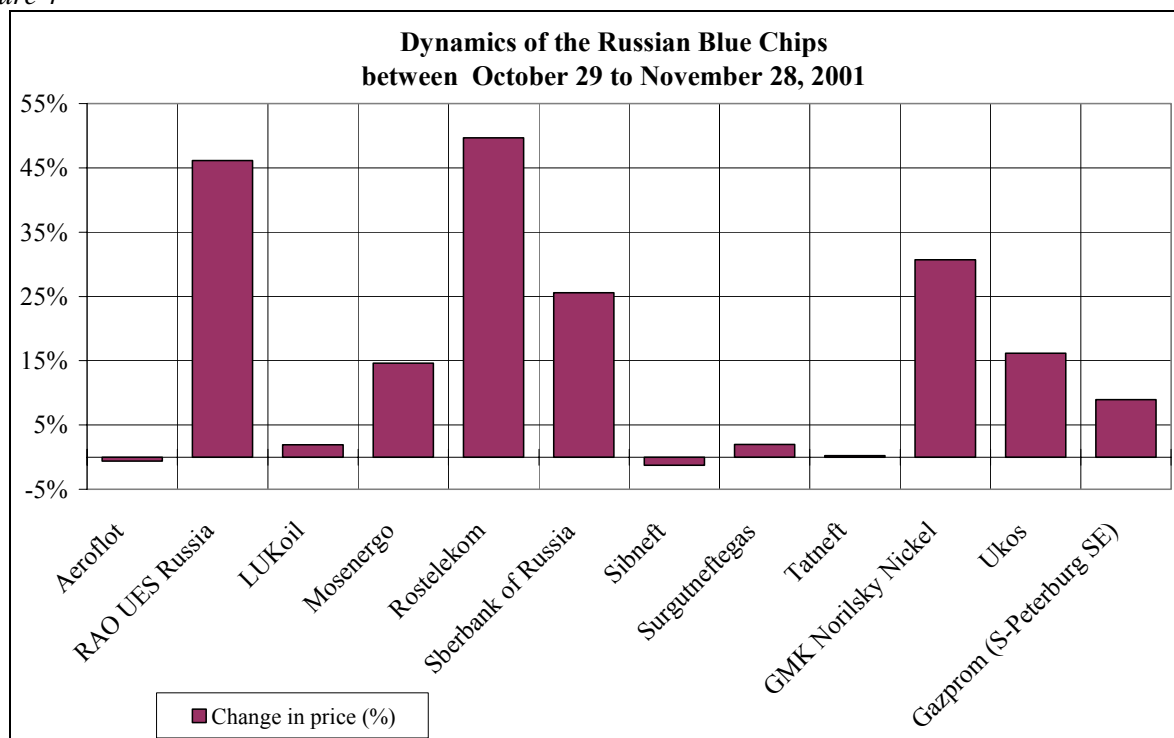
Figure 3



In November the list of the most profitable securities changed. It was stocks of “Rostelecom” (46.60%), followed by “UES Russia” (43.25%), “Norilsky Nickel” (28.22%) and Sberbank (28.22%) that formed the group of leaders among *blue chips*, as of November 28. The stocks of “LUKoil” fell by 0.41%, “Tatneft” – by 1.611%,

and “Sibneft” – by 6.75%. The changes are due to situation in commodity markets and publication of the companies' financial statements of companies (see corporate news). It is worth noting that the price of “Sibneft” stocks was mainly determined by high dividends and fell down after the shareholders register was closed.

Figure 4



In November the RTS trade volume comprised common stocks of RAO “UES Russia” – 36.21% (23.74%, correspondingly, in October), “LUKoil” – 19.75% (20.00%), “YUKOS” – 8.83% (9.85%), “Surgutneftegas” – 8.22% (7.83%) and MMC “Norilsky Nickel” – 6.17% (5.18%). We note that due to buoyancy in the non-ferrous metals market (see corporate news) the “Norilsky Nickel”: stocks entered the top five group, supplanting stocks of “Sibneft”, “Tatneft” and “Mosenergo”. Thus, in November the total share of the top five most liquid stocks in RTS increased to 79.19% (in October – 68.94%).

As the prospects of oil companies are vague, investors seek options. Thus, the new “locomotives” for the Russian stock market can be stocks of telecommunication companies and energy companies. The interest in the latter is also encouraged by an information of “YUKOS” plans to acquire stocks of regional energy generating companies.

The months totalled with the trade volume on “Gazprom” stocks through RTS terminals at \$25.7 million (54.98 million shares). 2925 trades were stricken.

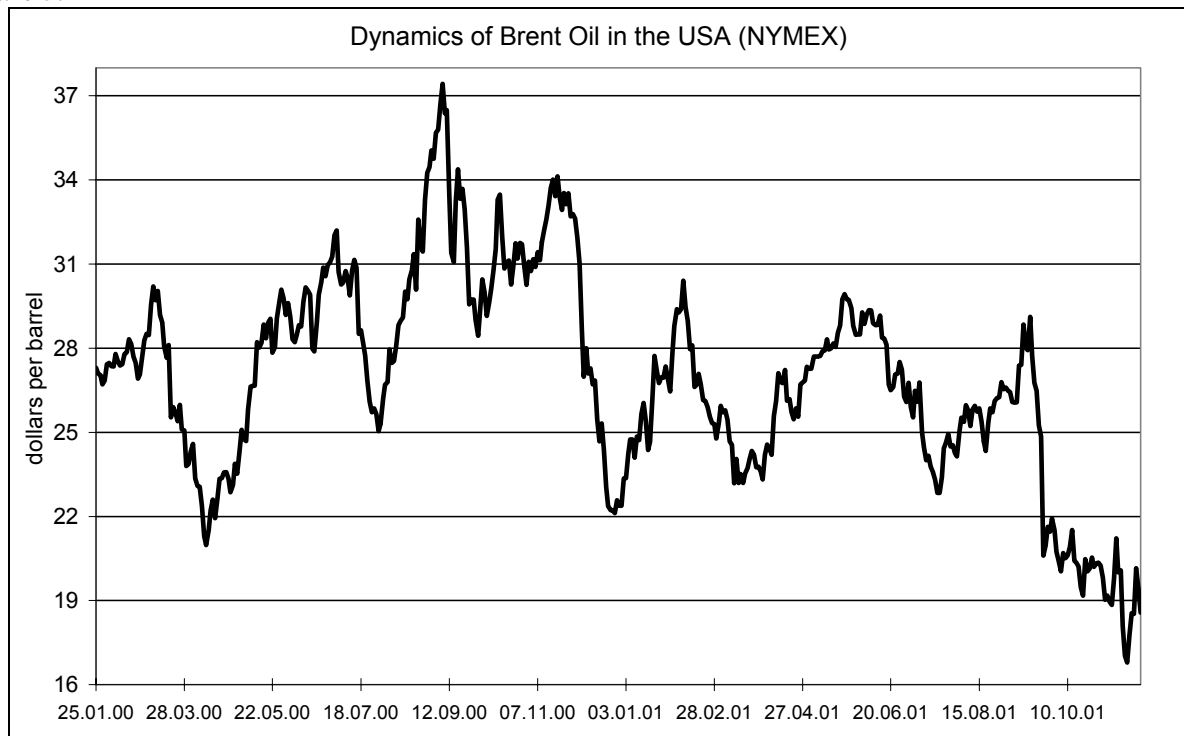
In November the activity in the RTS term market (FORTS) increased substantially. Overall, between October 29 through November 23 15572 trades were stricken (748 thousand contracts), which totaled 2.82 billion roubles: namely: futures – 15122 trades (741 thousand contracts, 2.80 billion roubles), options – 450 trades (6638 contracts, 20.8

million roubles). We should especially note that in November new records were broken in the Russian term stock market. On November 12 it was the maximum number of trades – 1229, on November 13 – the maximum number of contracts – 67 thousand, and on November 26 – the maximum money turnover (281.7 million roubles). The week between November 12 to November 16 was characterised by a higher activity in the market. The number of trades grew by 58.4% against the previous week and reached 5076; while the trade volume rose by 77.7% and exceeded one billion roubles. It was contracts on prices of “LUKoil” and “UES Russia” stocks that got the greatest popularity. On November 12 the RTS started calculation of investment indices RUIX and RUIXOIL. It is planned to launch trades on the respective futures on December 3. The trades should open with two contracts at once: execution dates are December 17, 2001, and March 15, 2002.

Oil. The last month of last autumn was rich with events in the oil market. Attempting to stabilise oil prices, which had started to decline in the wake of terrorist attacks on September 11, on November 14 the OPEC members agreed on reduction of oil export by 1.5 mln. barrels per day from the new year. However the decision was based on the condition of a by 500,000 - barrel reduction of daily oil export by independent oil producers, mainly, by Russia, Norway and Mexico. The doubts oil-traders shared with respect to a possibility of agreement

between the cartel and independent players led to the downfall in oil price to the two-year minimum. On November 19 the Brent price in the USA dropped to 16.79 \$/bbl. It is worth noting that the declarations of Norway and Mexico on their total export reduction by 200–300 thousand barrels “reanimated” bulls, and on November 23 the Brent price attained the level of 20.14 \$/bbl. But, “un-symmetrical” response of Russia – just 50 thousand barrels reduction per day – induced a new downfall in oil prices. The market got some support later that

Figure 5.



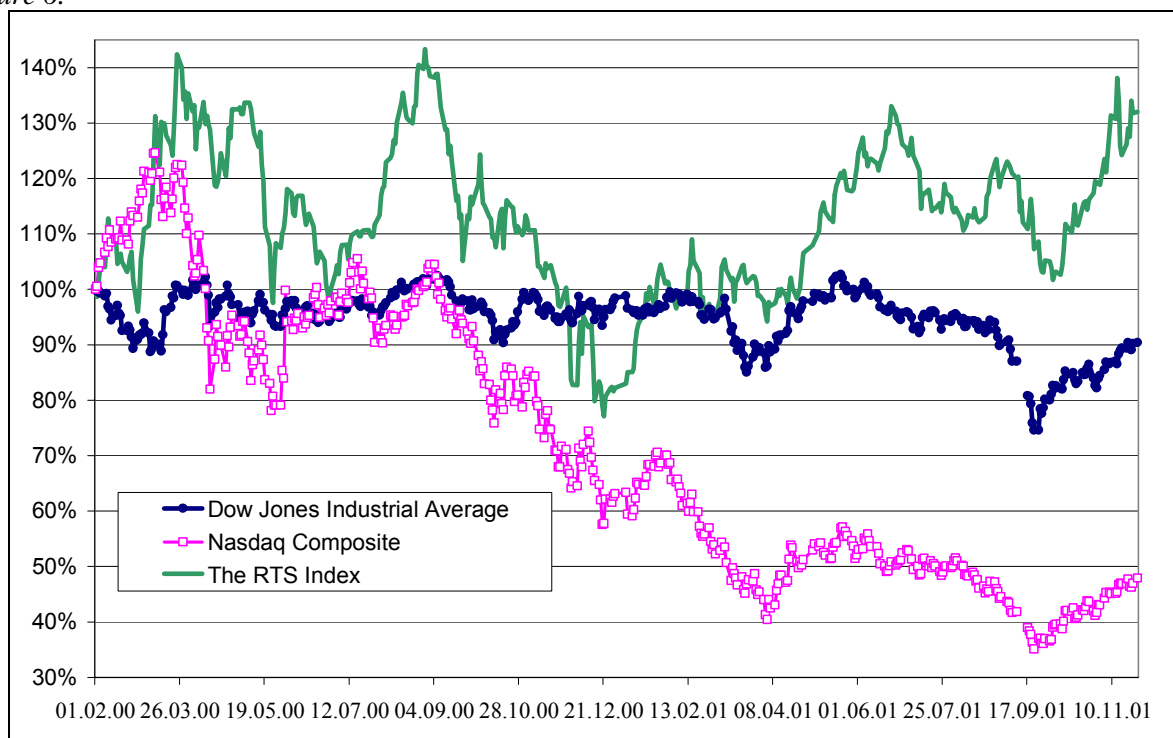
External factors. To prevent further recession, central banks of key economies once again cut down basic interest rates. On November 6, the Fed decided (for the tenth time over 2001) on reduction in the federal funds rate by 50 basic points - to 2.0%. Following that, the Dow Jones Industrial Average gained 1.6%, NASDAQ – 2.3%. On November 8, the Bank of England cut down its key interest rate in the UK by 0.5% to 4.0%. On the same day the ECN also reduced its rate from 3.75% to 3.25%. The markets responded positively: the pan-European stock index FTSE Eurotop 300 rose by 1.17% to the level of 1240.71, DJ Euro Stoxx 50 –

month from export reduction by Iraq, but the OPEC members’ announcements on possibility of a “price war” and, consequently, the downfall in Brent price under 10 \$/bbl pushed oil prices further down. The Russian stock market, with the majority of oil companies stocks, reacted vividly to the events in the oil market. So, the downfall in oil prices and investors’ negative expectations have resulted in a 9% fall of the RTS Index on November 14-15 (see above).

by 1.83% to 3699.62 points. The UK stock index FTSE 100 grew by 0.18% to 5225.5, the French CAC-40 gained 1.36% to the level of 4554.56. The key German stock index DAX increased by 1.32% to 4924.80 points.

The main event in the foreign policy area was the RF President’s visit to the USA. The summit, partly arranged on informal premises of Pres. G. Bush, demonstrated friendly relations between the two countries. That, undoubtedly, stimulated interest of the Western investors in the Russian stock market.

Figure 6.



Corporate news. Due to unstable situation in the world energy markets the investment bank “Lehman Brothers” downgraded its recommendations on stocks of a number of the Russian oil and gas companies. Thus, e.g., “Gazprom” rating was decreased from “below the market” to “sell”, “LUKoil” – from “at the market” to “below the market”, “Surgutneftegas” – from “strongly buy” to “buy”.

Norilsky Nickel. Because of an unfavourable situation in the world market, the company substantially cut down its export of nickel, copper and palladium. The company’s top-managers argued that about 50 thousand tons of metals were stored in depots in Norilsk.

It is expected that the profits of MMC from selling of platinoids in 2001 amounts to about \$2 billion. In the first half of 2001 the net profit of MMC equalled 22.754 billion roubles, i.e. 0.6% lower than in the first half of 2000.

The price of “Norilsky Nickel” stocks is closely related to the situation in the world market. After on November 13 the nickel price soared by 31% and amounted to 5,688 \$/ton (prior the London Metal Exchange opened), the price of common stocks rose to \$14.70 (by 19.51%).

PTN. On November 28 shareholders of “Petersburg Telephone Network” approved the decision on the unification of eight communication operators in the North West of Russia. The new company will change its name for “North Western Telecom”. As well, the maximum volume of common and pre-

ferred stocks was approved: 262,896,773 and 87,646,542, correspondingly. The face-value of securities will equal to one rouble. The new stocks will be issued on the basis of conversion of stocks of regional telecommunication companies.

Earlier this year, the company reported that for the nine months of the year the net profit (calculated on cash basis) declined to 308.3 million roubles (from 383.4 billion roubles for the respective period of 2000).

Sibneft. The Board of Directors of the oil company decided on next intermediate dividends in 2001 at a rate of 2.32 roubles per share. The total sum amounts to 11 billion roubles (about \$370 million). We should note that in August the Board of Directors already decided on intermediate dividends at the rate of 3.79 roubles per share totalled 17.97 billion roubles (\$612 million). As noted in the previous monthly report, the company would pay its shareholders about 89% of net profit. For reference: in 2000 “LUKoil” paid dividends up to 19% of its net profit, “Surgutneftegas” – 4.1%. In mid-October 2001 “YUKOS” announced dividends for 2001 totalled 13.3% of its net profit in the first half of the year.

Rostelecom. The net profit of “Rostelecom” for nine months of 2001, calculated according to the Russian standards, grew up to 1.8 billion roubles against 0.9 billion roubles over the respective period of 2000. The receipts over the period in question grew up to 14.3 billion roubles vs. 12.5 billion

roubles in 2000. According to the company's report, the growth of receipts was due to enlargement of services delivered (at 80%) and due to change in tariffs (at 20%). The profitability EBITDA (margin) for the reported period amounted to 54.3%, i.e. at 5.4% higher than its respective indicator reported last year. Overall, in 2001 "Rostelecom" plans increase in net profit to 2.0–2.5 billion roubles against 1.03 billion roubles in 2000. The improvement of financial performance caused an enthusiastic reaction of the market. After the release of "Rostelecom's" financial reports, its stocks showed roughly 1.5 –fold growth in quotations over the month.

Tatneft. On November 22 the FCSM registered a report on results of issuing common and preferred stocks of "Tatneft" joint-stock company. 2,178,690,700 stocks with face value of one rouble were issued. The stocks were issued for the purpose of conversion of old securities with face value of 0.1 rouble. In this connection, trades on company's stocks in RTS were interrupted between November

Table 1. Dynamics of the Foreign Stock Indexes

as of November 26, 2001	value	change for last week (%)	change for last month (%)
RTS (Russia)	226.12	10.82%	59.07%
Dow Jones Industrial Average (USA)	9982.75	10.00%	-8.52%
Nasdaq Composite (USA)	1941.23	14.85%	-24.37%
S&P 500 (USA)	1157.42	9.21%	-13.19%
FTSE 100 (UK)	5302.50	5.21%	-14.28%
DAX-30 (Germany)	5114.12	12.17%	-19.80%
CAC-40 (France)	4564.38	5.14%	-21.52%
Swiss Market (Switzerland)	6471.30	6.42%	-20.27%
Nikkei-225 (Japan)	11064.30	6.73%	-19.19%
Bovespa (Brazil)	13760	21.07%	-17.48%
IPC (Mexico)	5759.49	4.02%	-4.78%
IPSA (Chile)	112.85	9.09%	11.97%
Straits Times (Singapore)	1475.55	7.87%	-24.38%
Seoul Composite (Korea)	674.56	25.43%	20.88%
ISE National-100 (Turkey)	12062.84	22.48%	18.28%
Morgan Stanley Emerging Markets Index	303.02	13.55%	-12.73%

Interbank loan market.

In October and November 2001 there were two different periods with strongly different trends in the market for interbank rouble credits (see Fig. 7). In October the pattern was typical for the past months: interest rates on credits were low (4–6%

9 through November 23. So, the turnover was negligible in the month (1.32% of the total RTS trade volume).

In the first half 2001 the net consolidated profit of "Tatneft", according to GAAP, grew up to 14.6 billion roubles vs. 12.6 roubles for respective period of 2000. The net profit per share amounted to 6.55 roubles.

Meanwhile, "Tatneft" got a \$ 100 mln.-worth credit from "BNP Paribas" payable within 30 months. The credit is backed by company's export. It is planned to spend the funds on development of production capacity.

UES Russia. The consolidated net profit of the energy holding in the first half of 2001, calculated according to IAS grew from some 300 million roubles (for 6 months of 2000) to 841 billion roubles. The most important events the company undergoes now are related to its restructuring. On November 16, the "UES Russia" started taking claims for restructuring from its regional companies.

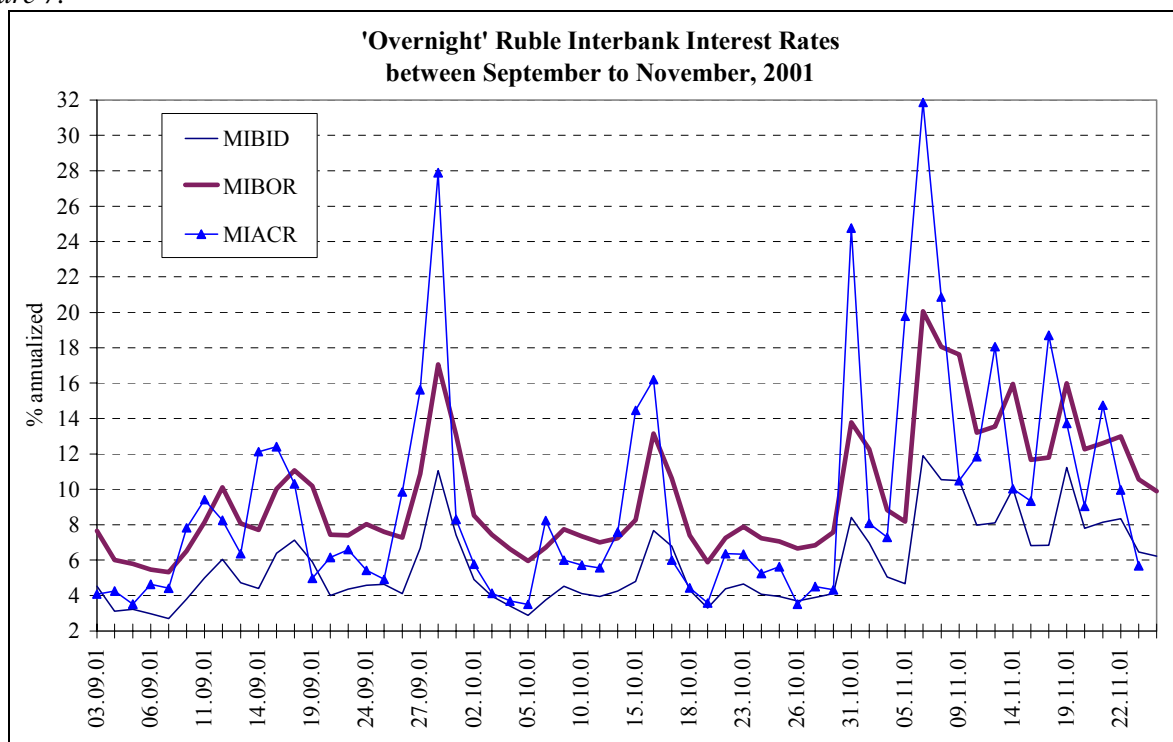
annualised). Short-term peaks of borrowing costs (up to 15–25% annualised) were observed in the end of month and on the eve of GKO/OFZ auctions only.

However in November the situation changed dramatically. Acceleration of dollar exchange rate

growth provoked growing demand for liquidity on the part of banks, and costs of interbank credits went up. Since then the Bank of Russia practically has not bought foreign exchange in the market, the balances on correspondent accounts of commercial

banks in the CBR fell to 70–75 billion roubles. So, interest rates on interbank credits rose, and the “overnight” rate fluctuated within the range of 10% to 30% annualised during the whole month.

Figure 7.



Foreign exchange market.

In November 2001 the pace of rouble devaluation remained high. The main factors were changes in macroeconomic fundamentals as well as shifts in economic agents’ expectations. The former factors include, first, the decline in oil prices. Possible long-lasting decline in oil prices to 15 \$/bbl questions plausibility of 2002 forecasts concerning rates of industrial production growth, GDP and balance of payments. Should unfavourable scenario happen, it is very likely that rouble would be devaluated either to support price competitiveness of the Russian export goods or to accumulate foreign reserves in the Bank of Russia. The latter is implicitly confirmed by the CBR’s Chairman V. Gerashtchenko who argued that in the current situation accumulation of foreign reserves became the Bank’s high priority compared to maintenance a stable rouble exchange rate. Dollar interventions implemented in November were mainly aimed at smoothing day-to-day fluctuations of rouble exchange rate, rather than t at retaining control over the tendency to decline of nominal exchange rate of the Russian currency.

So, in November 2001, the official dollar exchange rate grew from 29.7 roubles/\$ to 29.93 roubles/\$, i.e. by 0.77% (9.7% annualised, see Fig. 8). The ‘today’ dollar exchange rate in the SELT increased from 29.6943 roubles/\$ to 29.9441 roubles/\$ (as of November 23), i.e. by 0.84%. The ‘tomorrow’ dollar exchange rate grew from 29.7212 roubles/\$ to 29.9495 roubles/\$ (as of November 23), i.e. by 0.77%. According to preliminary estimates, in October the trading volumes by dollar in the SELT also rose and amounted to about 170 billion roubles.

In November 2001 the euro/dollar exchange rate substantially dropped (see Fig. 9). By end of the month it accounted for about 0.88 \$/euro, i.e. the level of late-July 2001. So, the fall amounted to almost 2.7% for the month. The developments are induced by information on economic situation in the EC countries, and primarily in Germany. The decline in the German output growth rates has been observed during several months in a row. In such a situation the prospects for euro appear loose even against the ongoing recession in the US economy and China’s National Bank move to convert a part of their foreign reserves in euro assets.

Figure 8.

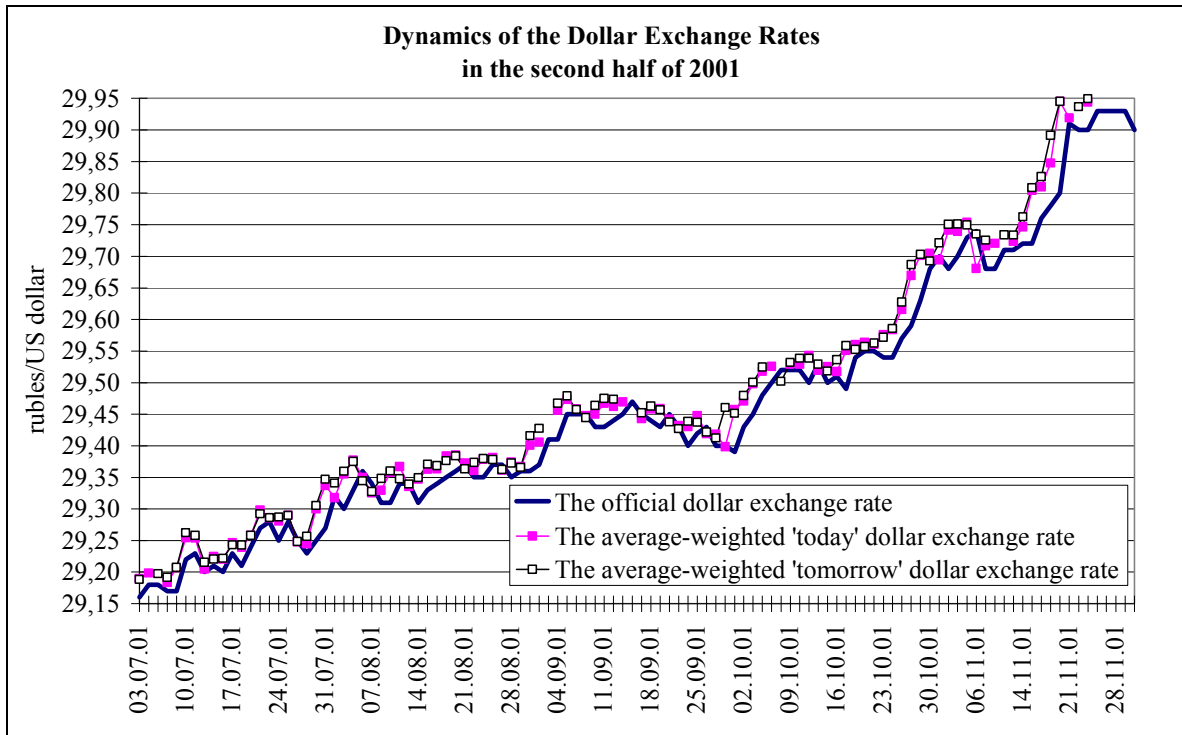
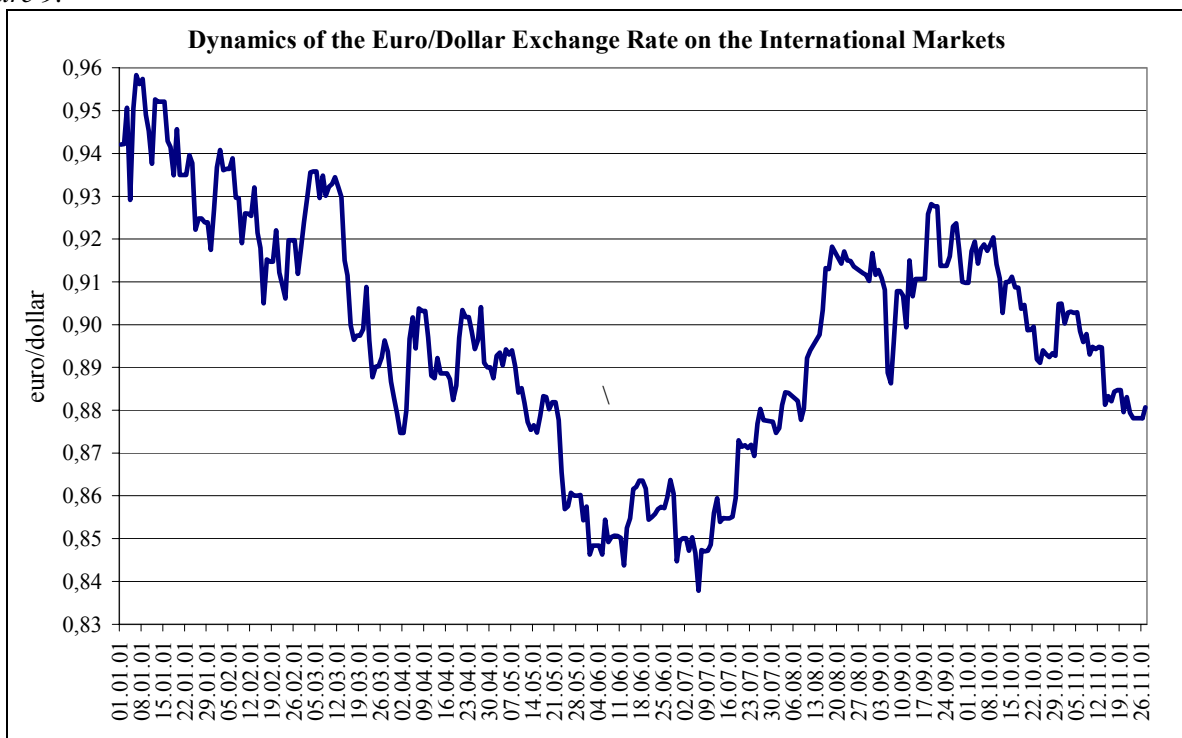


Figure 9.



In November 2001 the euro/ruble exchange rate also went down, even despite a fast rouble devaluation (see Fig. 10). The rouble/euro official exchange rate decreased from 26.87 rubles/euro to

26.52 rubles/euro, i.e. by 1.30%, over the month. According to preliminary estimates, in November 2001, the total trading volume on euro in the SELT made up about 2.8 billion rubles.

Figure 10.

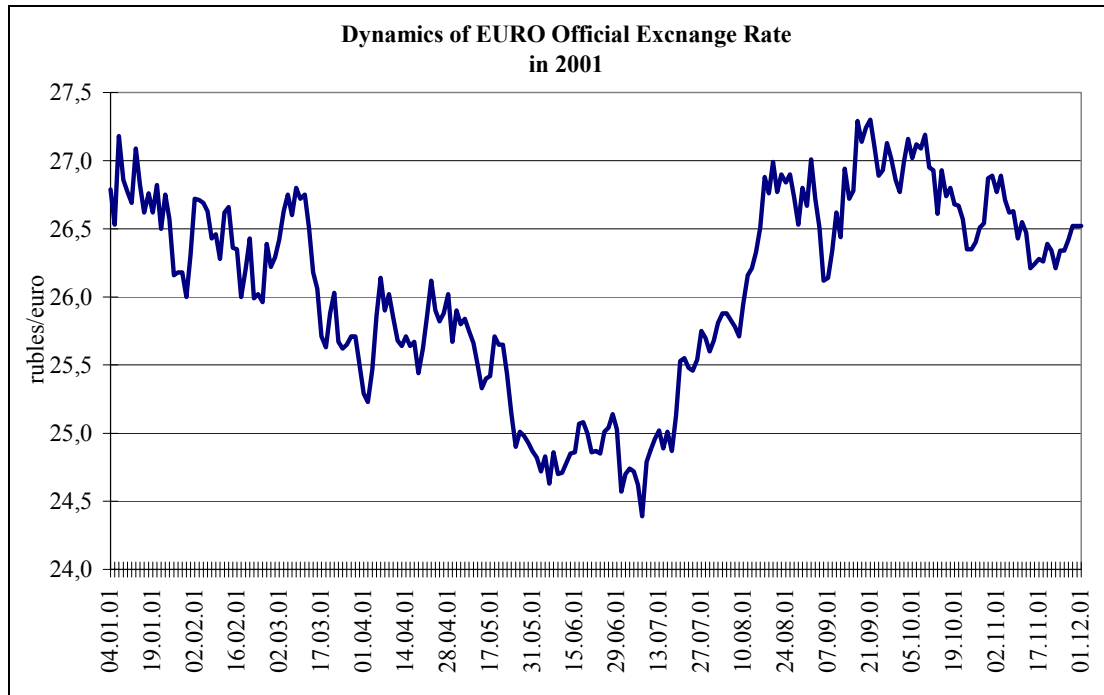


Table 2. Indicators of Financial Markets.

	July	August	September	October	November*
inflation rate (monthly)	0.5%	0.0%	0.6%	1.1%	1.4%
annualised inflation rate by the month's tendency	6.17%	0.0%	12.07%	14.03%	18.16%
the RCB refinancing rate	25%	25%	25%	25%	25%
annualized yield to maturity on OFZ issues	17.19%	16.13%	15.33%	15.07%	14.8%
volume of trading in the secondary GKO-OFZ market a month (billion rubles)	11.67	7.44	8.89	9.14	22
yield to maturity on Minfin bonds by the end of the month (% a year):					
4th tranche	15.90%	13.05%	13.19%	10.61%	10.8%
5th tranche	16.29%	15.53%	15.86%	15.53%	15%
6th tranche	15.54%	14.78%	15.63%	14.76%	13.2%
7th tranche	14.79%	14.70%	15.07%	13.92%	13.5%
8th tranche	14.76%	14.21%	14.75%	14.29%	13%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					
overnight	25.3%	9.33%	27.88%	24.76%	6%
1 week	14.0%	10.28%	29.03%	19.03%	8%
official exchange rate of ruble per US dollar by the end of the month	29.27	29.37	29.39	29.70	29.93
official exchange rate of ruble per Euro by the end of the month	25.60	26.67	26.86	26.87	26.52
average annualized exchange rate of ruble per US dollar growth	0.69%	0.34%	0.07%	1.05%	0.77%
average annualized exchange rate of ruble per euro growth	4.19%	4.18%	0.71%	0.04%	-1.30%
volume of trading at the stock market in the RTS for the month (millions of USD)	436.8	232.0	249.9	279.0	394.2
the value of the RTS Index by the end of the month	196.12	205.41	180.25	204.04	226.49
growth in the RTS Index (% a month)	-9.25%	4.74%	-12.25%	13.20%	11.00%

* Estimates

Investment in the real sector

Between January to October 2001 the volume of investment in capital assets from all the sources of financing accounted for Rb. 1,185.3 bln., or at 8.2% more than over the respective period of the prior year.

Intense growth in investment demand has become one of characteristic features of development of the national economy over the past two years. This trend is encouraged by domestic demand expanding thanks to growth in enterprises own and borrowed funds attracted for investment purposes; slowdown in producer price rise rates in the industrial and construction sectors, the execution of the budget according to results of the period between January to October 2001.

Despite positive dynamics of growth in investment and given the current technological, reproduction and age structure of capital assets, they appear insufficient, as far as implementation of effective structural policy. Though the funds for production capacity and introduction of new technologies appear insufficient, enterprises increase the scope of capital repair of the existing equipment. The proportional weight of capital repair in the overall volume of investment in capital assets grew by 1.8 per cent points when compared with the period between January to September 2000. In addition, one should note that renewal of production capacities also appears fairly rigidly constrained in terms offer on the part of machine-engineering enterprises. With the overall trend to growth in the share of spending on machinery and equipment in the structure of investment in capital assets, one notes a systematic rise in costs for purchasing import equipment. Given that between January through September 2000 such investments accounted for 22.9% of the overall investment spending on machinery and equipment, in 2001 their proportional weight grew up to 24.8%. This year the import of machinery and equipment grows at a pace advanced compared with dynamics of import supplies on the whole as well as dynamics of growth in domestic machine building.

As concerns the sectoral structure of investment in capital assets, this year it shows rise in the share of sectors producing goods. Between January through September 2001 the share of investment in capital assets in the industrial sector rose from 42.9 up to 43.7%, and in the construction sector- from 2.5% up to 2.9%. High rates of investing noted in market infrastructure sectors is a positive phenomenon. The share of sectors of the social sphere accounted for under 1/3 of the overall volume of

investment in capital assets and slid by 4 per cent points vs. its respective period of the prior year.

As concerns the structure of investment by industrial sectors, 53.3% falls within the fuel sub-sectors, of which 34.8% - on oil output. Between January to October 2001 the oil sector put into operation 3,333 new oil wells, or at 23.0% over the respective period of the prior year. In addition, placement into operation of previously idle wells over the period in question allowed extra output of another 4.7 mln.t. of oil, or roughly 24.2% of the overall volume of oil output increment in the country. Whilst considering the oil refining industry, investment in it grew by 2.2 per cent points compared with 2000. However proportions of allocation of investments between oil output and refinery sub-sectors are changing in favor of the former, while more moderate dynamics of investment in oil refining this year leads to stabilization of the proportional weight of intense oil refining technologies at the level noted in 2000.

Interestingly, this year an advanced output of goods for final demand compared with dynamics of output of intermediary goods was characteristic. In very general terms, that indirectly testifies to increasing efficiency of the use of resources in the national economy. Over the past three years, the industrial sector, indeed, showed growth in the share of innovationally- active enterprises whose economic activity focuses on lowering material costs, production energy intensity and economizing on labor component. Recent changes in priorities and motivations of activity have also been generated by changes in competition environment due to growing import supplies.

Economic growth is also affected by the trend to the fall in financial results of the real sector's performance this year. Given that in 2000 investment activity was growing fully due to rising profitability rate, in 2001 growth in investment takes place against the background of the sliding dynamics of overall profit. Between January to September 2001 financial results of medium and big companies accounted for Rb. 839 mln., or 94.8% to the level of the prior year, while at the same time such a fall in the overall profit was determined by deterioration of financial results of performance of industrial entities compared to their respective indexes of the prior year. The aggregate financial result across the industrial sector between January to September 2001 accounted for 84.3% of the level note last year. Such a trend is fully initiated by a drop in profit increment in the export-oriented industrial

sectors due to unfavorable dynamics in foreign trade factors. Interestingly, both investment and consumer sectors retained their positive dynamics of growth in balance results. However, whereas the sectors dealing with final demand accounted for rather a small balance profits, and the lack of capital flows from export-oriented mineral sectors to final goals leads to the reproduction of current proportions of investment processes when compared

with 2000, investment in machine building fell by 15% , and in the food sector- by 8%.

Comparison of production dynamics and investment by sector of final and consumer demand proves that maintenance of high economic growth rate requires a more intense introduction of additional sources for development and primarily further steps to be made in the area of improvement of investment and entrepreneurial climate.

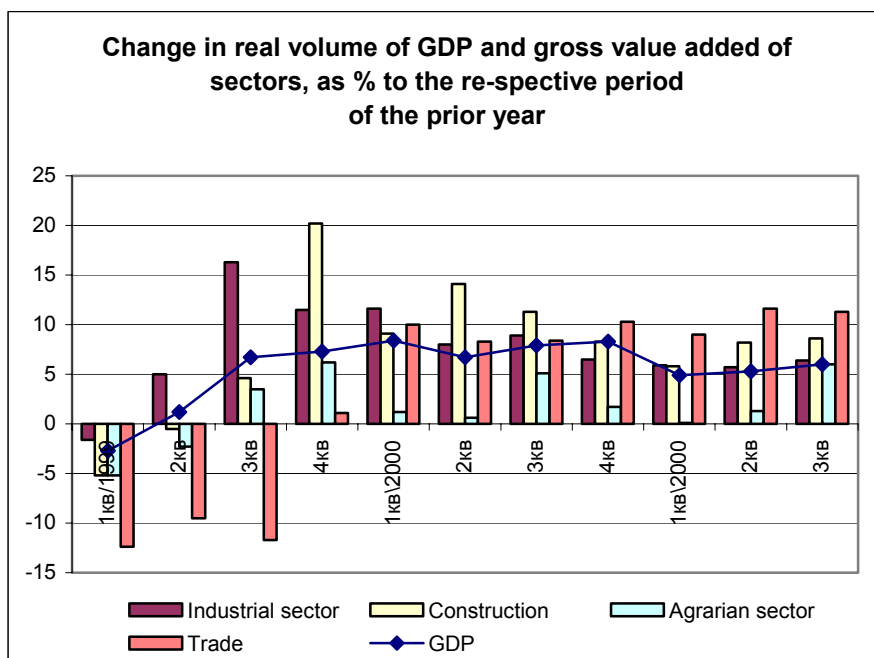
O. Izryadnova

The real sector: factors and trends

According to results of 3 quarters, 2001 GDP accounted for Rb. 6, 582.5 and grew by 6.0% compared with its respective period of the prior year. Economic growth was back-upped by expanding domestic demand. The structure of domestic demand was formed under advanced rise in consumer

Fig. 1

demand compared with investment demand. In the 3rd quarter 2001 the increment in investment in capital assets accounted for 8.6%, while the increment of the population's final consumption - 9.1%. An intense expansion of domestic demand is noted in all the federal Super-regions.

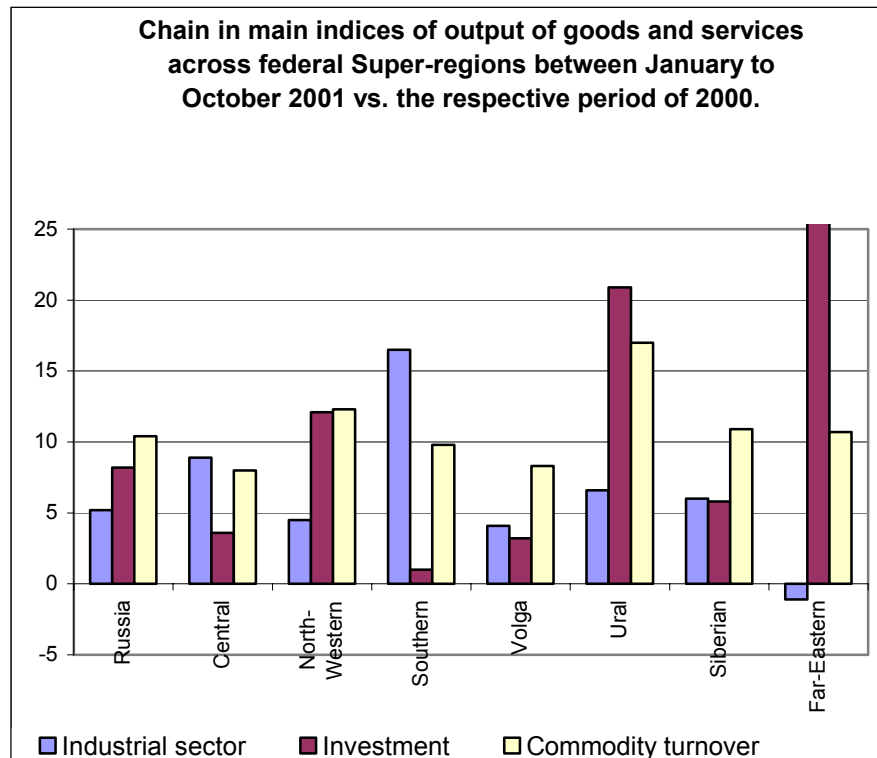


When compared with the 1st half 2001, foreign economic state of affairs became less favorable for main Russian exports. The rates of increment in exports in the 3rd quarter somewhat slowed down. The increment in physical volume of exports roughly accounted for 2.0%, while imports grew by 8.5%. Considering the fact that over the year one notes the trend to advanced import growth rates compared to export, the contribution of net export to dynamics of GDP decreases gradually. According to the RF Ministry of Economy and Development, in 2001 net exports should roughly account for 94.2% of the level of 2000.

Between January to October 2000 economic growth was taking place against the background of

dynamic development of basic sectors of the economy. Between January to October 2001 the output of goods and services provided by basic sectors grew by 5.7%, including construction works and services- by 8.7%, and retail trade turnover - by 10.4%. The growth in volume of industrial output vs. the respective period of 2000 accounted for 105.2%. The dynamics of industrial output is fairly substantially differentiated across regions and appears determined by specifics of territories' sectoral structure. Between January to October 2001 of 89 Subjects 76 reported increment in output relative to the respective period of the prior year.

Fig.2



The situation in the industrial sector was formed under the impact of opposite factors. The remaining trend to expansion of the demand on domestic market has compensated for negative effects of the change in the situation in the external markets. Compared with the period between January to October 2000 practically all the sectors reported growth in output, along with some negative phenomena, such as production stagnation in the ferrous metallurgy and gas sector due to contraction in their exports and decline in output in the medical industry due to growing imports.

According to the RF Ministry of Economic Development and Trade, it was the sectors that formed final demand that showed the highest growth rate. Between January to October 2001 the index of output across investment and consumer complexes accounted for 107.7% and 107.9%, respectively. It is activation of consumption and investment on which prospects for maintenance of economic growth depend

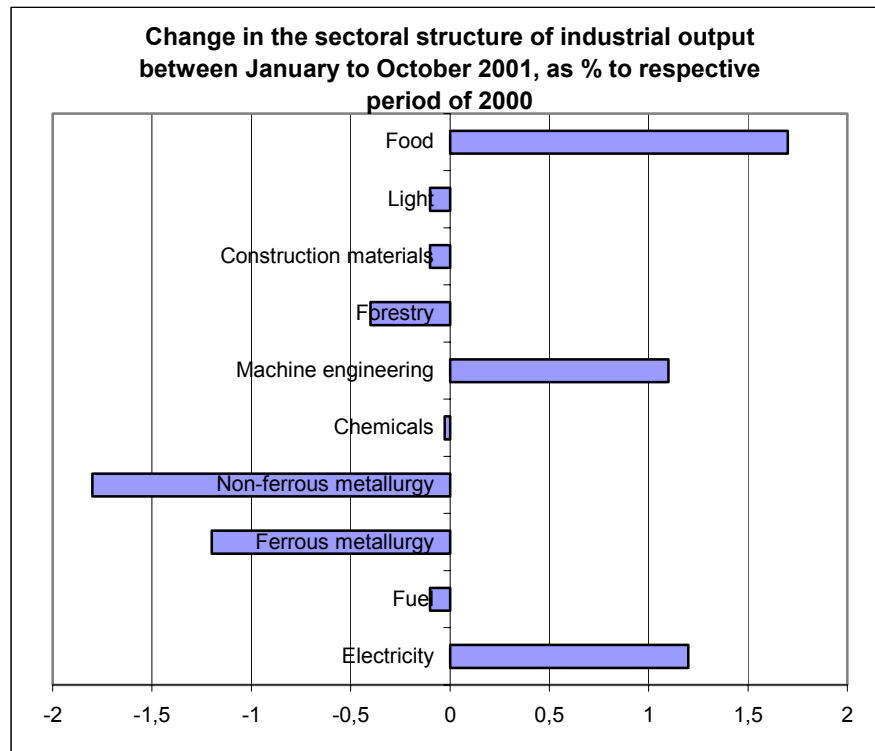
The aggregate share of investment in machine building, construction materials and sub-sectors of consumer complex, which this year appeared main generators of economic growth, slid over 1.6 per cent points compared with last year

Whilst enterprises experience a decline in their receipts, the share of their own funds in the struc-

ture of sources of financing investment in capital assets also undergo contractions. At the same time there is a remaining trend to decline in the share of banking credits and funds borrowed from other entities. To maintain their investment operations, enterprises of the real sector reactivate earlier accumulated financial resources. Notably, the share of foreign investment in the total volume of investment resources also slid- by 0.6 per cent points- compared with the period between January to October 2000.

The 2001 federal budget provides appropriations totaled Rb. 28.19 bln. specifically for the purpose of financing public capital investments. It should be noted that this year the financing of public capital investment is exercised more evenly than before: over the period between January to October public capital investment was funded at a rate of 81.8% of annual limits, while the federal targeted investment program was funded in total of Rb. 19.3 bln., or 81.1% of the annual limit. In addition, yet another Rb. 2.5 bln. were funded at the expense of additional budget revenues. Considering the scope and rates of funding public expenditures on capital investment, one can envisage that the government would exercise its obligations on funding capital investment in full.

Fig. 3



O. Izryadnova

IET Business Survey: November 2001

Last month showed discontinuation of the growth in effective demand in the industrial sector on the whole. As a result the index of substitution of non-monetary kinds of demand with effective one slid by 20 points over the month. Nonetheless, the national industrial sector continues to increase its output, though some sectors have already reported an absolute contraction in their output, while the stock of finished goods remained excessive for nine month running, and forecasts of sales have proved to be the worst ones over 2000-2001.

In November, the growth in sales of industrial products for money discontinued. The proportion of reports on growth in monetary sales became equal to the proportion of reports on fall in sales. At the same time 71% of enterprises reported that they have retained the former volumes of monetary sales. The weakening of monetary demand was registered in all the sectors, except forestry, wood-working, paper and pulp, and food sectors, while the metallurgical sector, chemicals, petrochemicals and industry of construction materials have already experienced an absolute contraction in monetary sales. Enterprises forecasted such a situation yet in September, when the surveys registered the most moderate expectations of growth in the index in 2001.

Volumes of barter transactions in the Russian industrial sector continue to decline, but the rate of this process once gain slowed down in November. A slower decline in barter was noted in all the sectors, but the food industry, while the construction sector reported growth in volumes of direct barter deals. Dynamics of transactions involving promissory notes and off-sets did not experience any serious changes in November. The rates of decline of this particular index have stabilized over the past 4 months and appeared one of the lowest in 2001. Furthermore, the volume of promissory notes and off-sets used in settlements for products sold have never experienced such a slow contractions since mid-2000.

As a result, the index of substitution for non-monetary kinds of demand with effective demand fell by 20 points over November (see Fig.), however positive values of this indicator witness the retaining of positive trends – non-monetary demand is supplanted by monetary deals. This year, the most intense supplanting of non-monetary operations in the national industrial sector took place in October (as it was also noted in 2000). In January 2001, the surveys registered a reverse situation: regular monetary demand began to be supplanted by barter, promissory notes, and off-sets.

Despite a sharp fall in monetary sales, the industrial sector continues to increase its overall output. In November, production growth rate grew by several points vs. October. The growth in output is ensured by such sectors as electricity, machine building, chemicals, petrochemicals, and forestry, while metallurgy, construction industry, light and food sectors have already begun to experience an absolute contraction in output.

In November, the surveys registered slowdown in rise in producer prices, with the respective balance dropped by 9 points over the month. There was not such a sharp slowdown in price rise over 2001. A more slow price rise was registered in all the sectors, except forestry and machine building, while the metallurgical sector reported an absolute contraction in prices.

However the constraining of price rise does not allow as yet enterprises to solve their problems with sales – according to enterprises, their stock of finished products remained excessive for the nine month running. As far as the sectoral level is concerned, In November the surveys registered both excessive and deficit stocks of finished products. Whilst responses “above norm” dominate over the machine-building sector, chemicals, petrochemicals and ferrous metallurgy, with the sector for chemicals and petrochemicals experiencing especially great excess of them, forestry, construction industry and non-ferrous metallurgy report lack of the stock of their finished products.

In November, enterprises reported decline in their investment activity. For the first time this year the balance of responses to the questions as to actual purchases of machinery and equipment has become negative – the responses on contraction in such investments began to dominate over the industrial sector. As well, the sectors for electricity, metallurgy, chemicals and petrochemicals reported negative balances, while other sectors retained rise in their purchases.

In November, forecasts of change in effective demand lost yet another several points of optimism and proved to be the worst ones over the past two years. Nonetheless, across the industrial sector as a whole, enterprises retain their hopes for growth in monetary sales of their products. Negative balances (i.e. forecasts of an absolute decline of monetary

sales) were registered in non-ferrous metallurgy, chemicals, petrochemicals, construction industry, and light industry).

Forecasts of changes in non-monetary kinds of demand still testify to enterprises’ intent to get rid of such deals, however, in the conditions of discontinuation of the growth in monetary sales and considering fairly moderate forecasts over the forthcoming months, it is most likely that the intensity of contraction in volumes of non-monetary transactions would remain low. At the sectoral level, some forecasts of an absolute growth in the volume of barter deals have already arisen (specifically, in the non-ferrous industry and the food sector), as well those on an absolute growth in the volume of transactions involving promissory notes and off-sets (forestry, the wood-working, and paper and pulp sectors).

Forecasts of changes in output practically have remained unchanged over the past three months. Plans of growth in output steadily dominate over the industrial sector, with only 9-11% of enterprises planning contraction in their production. In the short run the most intense rise in output may become possible in the sectors for electricity, machine building and forestry, while the construction sector and light industry may undergo a contraction of the same intensity.

The enterprises’ pricing forecasts have remained equally stable over recent period of time. Surveys register the most moderate (since August 1998) plans of increase in producer prices across the industrial sector on the whole. At the same time, in the short run machine building, forestry and construction industry may experience a more intense price rise than before.

During this year enterprises’ plans with respect to purchases of machinery and equipment decline gradually and reached the minimal level by the 4th quarter. Only 15% of producers are going to proceed with renewal of their stock of machinery, with their majority concentrated in the sectors for electricity, machine building, and construction, while the non-ferrous metallurgy, chemicals and petrochemicals and light industry have begun to face the prevalence of plans to reduce purchasing new machinery.

S. Tsoukhlo

Foreign trade

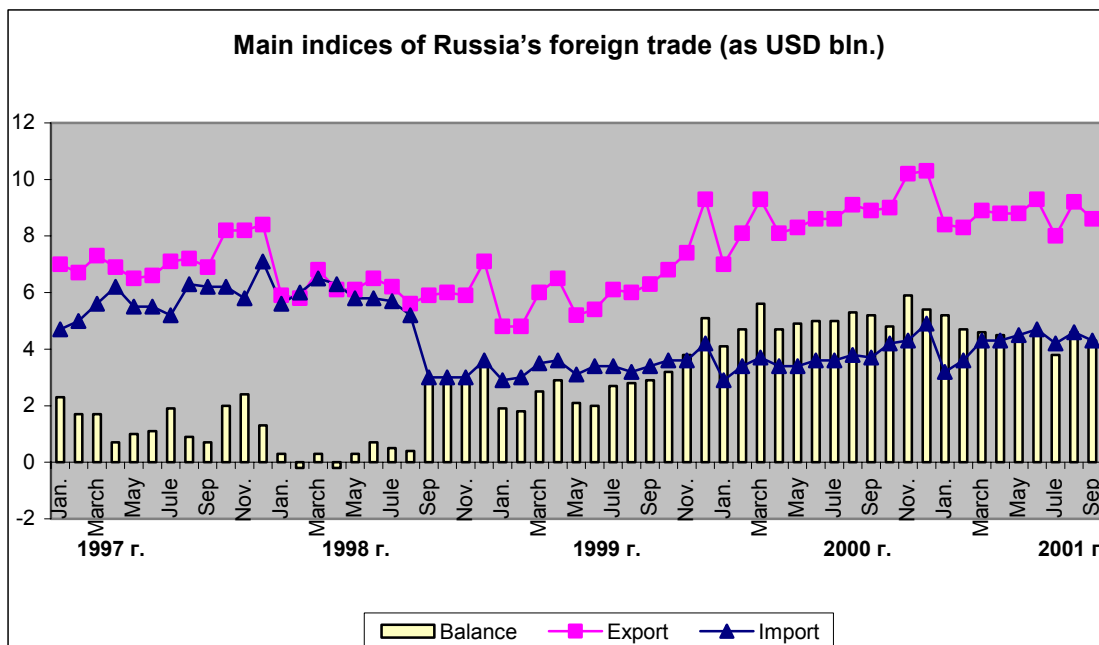
The fall 2001 showed slowdown in Russia’s export dynamics, downfall in contract prices and efficiency of export operations, a considerable increase

in physical volume of imports and growth in their share in domestic consumption.

In September 2001 vs. the respective period of the prior year Russia’s foreign trade grew just by

1.4% - up to USD 1.9 bln. (while in September 2000 the growth rate accounted for 32.6%), given that the growth in foreign trade turnover this year chiefly can be attributed to the 15.7% growth in imports vs. September last year and accounting for USD. 43 bln. At the same time exports fell by 4.6%

Fig.1



Source: Goskomstat of RF

Through 2001 the state of affairs in the world market has become increasingly unfavorable for Russian exports that experienced a gradual fall in their prices. Over the past 10 months 2001 the price for Urals on average accounted for USD

and mad out USD 8.6 bln. The growth in imports against a notable contraction in exports has led to a considerable fall of the positive trade balance - down to USD 4.3 bln. vs. 5.2 bln. reported in September 2000.

23.87/barrel (for reference: the respective index in 2000 was USD 26.57).

The prices for non-ferrous metals practically underwent the same changes, with output and export rates substantially exceeding the dynamics of their consumption.

Table 1

	1996	1997	1998	1999	2000	2001
Oil (brent), USD/t	22,9	18,12	13,1	22,6	32,15	26,18
Natural gas, USD/mln.m ³	2,743	2,251	1,858	2,62	5,118	2,204
Petrol, USD/t	0,6484	0,579	0,4212	0,6825	0,9409	0,757
Copper USD/t	1932,6	2032,7	1676,4	1876,8	2037,5	1452,9
Aluminum, UDS/t	1428,3	1544,6	1391,3	1493,6	1600,2	1342,6
Nickel, USD/t.	7426,4	6523,6	4229,8	6932	8654,3	5040,9

In September, Russia's turnover in its trade with the CIS countries accounted for USD 2.26 bln., with exports amounting to 1.34 bln. (a 16.8% growth compared to September 2000) and imports - 0.92 bln. (down at 23.9%).

Following the general trend in Russia's foreign trade, import supplies from CIS countries showed a higher pace in the 1st half the year, however the start of collection of VAT effective as of August 001 in the course of importation of goods originated from the CIS states affected the structure of such foreign trade transactions. As a result, Rus-

sia's trade balance with the CIS states fell from USD 1.6 bln. (reported over the 1st half 2001) to 0.42 bln.

Interestingly, fuel sources roughly accounted just for less than 40% of Russia's overall export supplies to the CIS states. This allows conclusion of progressive trends in the structure of the national export, which is proved by the export volume of machinery and equipment (their share has proved to be over 25% of the total amount of Russian exports, while last year this index accounted just for 17% on average), as well as chemicals and metals.

As concerns the structure of energy sources, the gas and coal supplies fell, while the supplies of oil and diesel fuel showed some rise.

As concerns imports from the CIS countries, the share of machinery and equipment also rose there and reached 17%. However it is food stuffs that retained practically the same share as last year—roughly 20% of the overall volume of supplies from the CIS countries. It is this very market that showed a multiple rise in the volume of purchases: for the first nine months 2001 import purchases of condensed milk and animal butter grew 3-fold, while those of vegetable oil and alcoholic drinks - by more than 30%.

On November 28, 2001, the government Commission on protectionist measures in foreign trade and customs and tariff policy decided to decrease the oil export duty from Euro 23.4/t to 19.2. The new rate will become effective within 1 month, upon signing the respective Resolution. The ruling was passed following the monitoring of world prices for Urals over September to October 2001, according to which the average weighted price for Urals accounted for USD 22.02/barrel (160.9/t.).

In early September the national media publicized a text of Government Resolution # 638, in compliance with which customs duties for passenger cars allegedly were changed: they would be increased for new cars and decreased for second-hand ones. The government attributed the mistake to a computer failure and assured the duties would not be changed for some time, as this problem has not been studied into thoroughly.

It is not for the first time that the government Commission postponed the discussion of the issue, as it failed to find compromise between national car producers and consumers. Most likely, the problem

of increase of customs duties for second-hand foreign cars would be discussed at the next meeting of the Commission scheduled for January 2002.

The respective proposal for the meeting advocates the concept for classification of all the imported passenger cars into three groups: aged under 3 years; between 3 to 7; and over 7 years. In the meantime, customs duties are collected across to groups- under and over 3 years. It is envisaged that it would be only the cars over 3 years on the customs duty for which would be increased, while the customs duty for the cars aged under 3 would remain unchanged. The current rate accounts for 5% of the car's customs value, however, there is so-called European component, which is planned to be increased, as follows: with the cars with engine up to 2.5 L.: for the cars aged between 3 to 7 years - 1.1 Euro per 1 cub. cm.; for those aged over 7 years - 2 Euro per 1 cub. cm.

For reference: while currently importing to Russia cars with engine volume under 2.5 L. and aged over 3 years, private individuals pay the customs duty of 25% of their customs values, but not less than Euro 0.85 per 1 cub. cm.; the cars with engine volume over 2.5 L. are subject to the duty of not less than Euro 1.4 per 1 cub. cm., while it is intended for the cars aged between 3 to 7 years to set this rate at the level of Euro 1.8 per 1 cub.cm. and 3 Euro - for the cars aged over 7 years.

While the authorities were debating this problem since summer, the customs officials reported an importation boom of second-hand cars to Russia. According to the Customs Committee, in January 2001 Russians imported 8.7 Thos. such cars, in July 26.3 Thos., while in September- 32.1 Thos.

N. Volovik, N. Leonova

Banks on the market for corporate and banking obligations in 2001.

The market for Rb—denominated corporate and banking obligations (CBO) has developed greatly recently. Since early 2000 the volume of issued CBO grew 1.5 times- from Rb. 40 up to 60 bln. Despite intense fluctuation of volumes of trades, the CBO market also demonstrates positive trends.

Russian banks' operations in this particular segment of the market grew notably over the period in question. Banks play different roles in the market: they issue their own obligations, arrange their issuances and placements, invest in CBO, being both buyers in the case of primary placement and participants in secondary trades.

The overall turnover⁴ of Russian banks in the market for CBO in September 2001 reached Rb. 13.5 bln., or exceeded the respective index registered in December 2000 2.7 times, while the number of banks- participants in this market also nearly doubled (from 59 up to 110).

One should also note a considerable contraction in the gap between banks' turnovers on corporate and those on government obligations. Given that in December 2000 the correlation between *banks'* turnovers on government and those on corporate obligations was 5.5 to 1, in September 2001 it reduced to 2 to 1.

⁴ Calculated as the sum of purchases and sales

The volume of funds banks invested in corporate obligations over past 9 months showed yet a greater increment than turnovers- from Rb.17 bln. up to 10.2 bln. The share of CBO in assets nearly quadrupled, while the dynamics of the share of Rb.-denominated federal debt obligations (FDO) in banks' assets demonstrated a reverse trend and fell to 1.6 times by September 2001. However it should be noted that the trend to contraction in the share of Rb.-denominated FDO in portfolios is characteristic of the banking sector on the whole, with the share of

Rb. denominated FDO in the assets of the average Russian bank fell from 2.6% to 1.8% over 2001.

Banks- participants in the market for CBO appear considerably larger compared with the average Russian bank: the share of assets of banks- holders of CBO in assets of Russian banks (here and below the sample does not exclude VEB, Sberbank, and the banks run by ARCO) operating as of late September 2001 accounted for 59%, while the respective index in terms of profit accounted for 69%.

Some financial indicators of performance of banks-holders of CBO are given in

Table 1 Some indicators of performance of banks-holders of CBO

Date	01.01.01	01.07.01	01.10.01
Absolute values (as Rb. bln.)			
Investments in non-governmental debt obligations denominated in Rb.	1.65	7.43	10.17
Including debt papers of enterprises-residents	1.28	6.37	8.72
As % to assets*			
Investments in non-governmental debt obligations denominated in Rb.	0.22	0.74	0.86
Including debt papers of banks-residents	0.05	0.11	0.12
Including debt papers of enterprises-residents	0.17	0.63	0.74
FDO denominated in Rb.	2.58	1.90	1.63
Rb.-denominated promissory notes	3.05	3.38	3.97
Of banks	0.16	0.21	0.28
Of enterprises	2.89	3.17	3.69
Balance-sheet capital	19.50	16.91	16.50
Profit (in annualized terms)	2.15	2.32	2.19
The average size of assets of a bank of the group (as Rb. bln.)	12.56	10.01	10.70
The number of banks	59	101	110

*average weighted across the group of banks

Calculated on the basis of the data of STIiK company

Table 2 The list of banks-organizers of issues of corporate obligations in 2001

Banks	Issuers of obligations
Avotbank	Bashcreditbank
Alfa-bank	Alrosa, Lianozovo Dairy Plant, OMZ
Bank Zenit	RITEK, Nizhnekamskneftekhim, SIBUR, MGTS, TATneft, Bashcreditbank
VBRD	MMK
Guta-bank	Inevst-inkor, Inkor-finance
Doeritelny i Investitsionny Bank	Tyumenenergo, Inkor-finance
IBG Nickoil	Grain company OGO
Impexbank	Tulachermet, Tatneft
ING Eurasia	TNK
MDM-bank	NTMK, Bashinformsvyaz, Centertelecom
Promsvyazbank	Kransopresnensky sugar plant
Promstroybank (St. Petersburg))	Murmansk Steamship
Raffaisenbank	SIBUR
Rosbank	Aeroflot, MMK
North-East investitsionny bank	Kremnij

Sources: www. Micex.ru; www.cbonds.ru; Finamarket

In order to evaluate the Russian banks' participation in the market for corporate obligations let us focus in a greater detail on groups of banks – *organizers of issues of obligations* (exclusive of banks organizing issues of their own obligations) (15 banks) and banks- *issuers* of obligations (16 banks as of late September).

The data on issues of obligations placed over 2001 whose organizers were banks are provided in Table 2.

In the overwhelming majority of cases, it is large Moscow banks that are organizers of issues of obligations. Let us specifically focus on the group of *banks that organized placement of corporate loans* this year (the group was formed on the basis of the data available as of October 1, 2001).

As of late September 2001, the overall assets of the banks contributed to placement of corporate issues accounted for Rb. 374 bln., or 19% of the aggregate assets of all the operating Russian banks, while the average assets of the noted group made up Rb. 25 bln., or 2.3 times more than those of the group of banks – holders of CBO. As a rule, organizers of placement of issues are at the same time active investors.

During this year the volume of investment in corporate obligations by banks-organizers of issues grew nearly 5-fold in absolute terms and as of late September accounted for Rb. 4.2 bln. on average. The share of CBO in assets grew from 0.3% up to 1.1%, thus exceeding 1.3 times the respective index

Table 3. Some performance indicators of the banks- organizers of issues of CBO

Date	01.01.01	01.07.01	01.10.01
Absolute values (as Rb. bln.)			
Investments in non-governmental debt obligations denominated in Rb.	0.85	2.14	4.22
Including debt papers of enterprises-residents	0.77	1.93	3.86
As % to assets*			
Investments in non-governmental debt obligations denominated in Rb.	0.29	0.60	1.13
Including debt papers of banks-residents	0.03	0.06	0.10
Including debt papers of enterprises-residents	0.26	0.54	1.03
FDO denominated in Rb.	3.02	2.02	1.40
Rb.-denominated promissory notes	3.82	3.29	3.83
Of banks	0.23	0.18	0.13
Of enterprises	3.59	3.11	3.70
Balance-sheet capital	17.48	15.19	15.22
Profit (in annualized terms)	2.33	1.87	2.02
The average size of assets of a bank of the group (as Rb. bln.)	19.32	23.82	24.91

*Average weighted across the group of banks

Calculated on the basis of STiK company

Let us now focus on banks – *issuers* of obligations. In 2001 the number of banks issued obligations fluctuated between 12 to 16. It was KOPF bank - a leader of the first half year in terms of is-

of the group of banks – holders of CBO. Of the overall volume of CBO in portfolios of the banks-organizers of issues of CBO only 8.5% fell on the share of banking obligations. This is understandable – banks' obligations account for a less part of the market for non-governmental obligations.

However the profitability rate of the banks- organizers of issues of CBO accounted just for 2% annualized over past 9 months, so being just slightly over the average index nationwide (1.9%).

The majority of banks- organizers of issues of CBO (11) are at the same time holders of Rb-denominated FDO. According to the data as of late September, the share of such banks nearly accounts for the whole volume of the aggregate portfolio of FDO if banks-holders CBO. However the banks-organizers of issues of CBO have also contracted the share of Rb. denominated FDO in their assets over 2001- from 3% to 1.4%, and that became a more intense contraction compared both with the average Russian bank and the group of banks- participants in the market for CBO.

So, a conclusion arises as to this year the banks-organizers of issues of CBO showed a greater interest in purchasing CBO than Rb. denominated government papers compared with banks- merely participating in trades with corporate obligations.

So, some financial indicators of performance of the banks- organizers of issues of CBO are given in Table 3.

sued obligations- have redeemed his papers by mid-2001, to be substituted by Novaya Moskva bank. As of early 2001 the share of the leader of the group of banks-issuers in the overall volume of is-

sued banking obligations accounted for 54%, while also considering the banks ranked the 2nd and 3rd (Vneshtorgbank and Novaya Moskva), the share rises up to 87%. By mid-2001 the picture has changed, with Novaya Moskva and Vneshtorgbank being leaders (31% and 30%, respectively), while the third position is held by Inkassbank with just 9%. By late September the third position was held already by Bashcreditbank with 23%, while shares of the two banks-leaders also slid to 25 and 24%, respectively.

As of the beginning of the 1st quarter 2001, the banks issued obligations worth a total of Rb. 4.7 bln., the 2nd quarter- 5.6 bln., the 3rd quarter 3.3 bln., the 4th quarter 4.2 bln. The share of issued obligations in liabilities of banks of this group slid from 3 to 1.6% since early 2001.

Half of the banks-issuers is located in Moscow and Moscow Oblast, while another 2 banks- in St. Petersburg, and the others- in other regions. As of the late September 2001, of the banks- issuers of obligations only 3 invest in other banks' obligations: Novaya Moskva, Mezhdunarodny of St. Petersburg (MSP) and Vneshtorgbank. Interestingly, having issued obligations worth Rb. 98 mln. MSP holds baking obligations worth a total of Rb. 144 mln. Of banks-issuers five ones are holders of corporate obligations. So, as of late September 2001, Vneshtorgbank allocated 0.5 bln. for this purpose, while Novaya Moskva and MDM-bank – 128 mln. and 115 mln., respectively. As for the others- MSP and Kazansky- they invested more moderate funds in this.

In the second half last year banks preferred to issue long-term obligations (with maturity date over 3 years). As of early 2001, of the overall volume of banking obligations Rb. 1 bln. fell on obligations with maturity date between 1 to 3 years, while 3.5 bln. fell on obligations with maturity date over 3 years. At the same time the share of obligations with maturity date under 1 year accounted for less than Rb. 200 mln. By late September the correlation in terms of maturity somewhat changed: obligations with date to maturity between 1 to 3 years became worth a total nearly Rb. 2 bln., while those with maturity date over 3 years- 1,3 bln. As for the volume of obligations with a closer date to maturity, it grew up to Rb. 900 mln. with a major part of value falling on obligations matured between 6 months to 1 year. So, by late 2001 banks are inclined to issuing obligations with a closer date to maturity.

The proportion of banks-issuers of obligations in overall assets of banks operating as of late September 2001 accounted for 12%, while their average assets proved to be 10-fold larger than those of the average statistical Russian banks (exclusive of Sberbank).

In 2001, the characteristic feature of the group of banks-issuers of obligations was a considerable share of FDO in assets – nearly 30% at the beginning of the year and 22% - as of late September. The overwhelming share of this amount falls on FDO denominated in foreign exchange – 94% of the whole amount on the average. Such a situation became possible thanks to Vneshtorgbank whose portfolio accounted for 98% of all FDO denominated in foreign exchange as of early 2001, and 85%- as of late September (followed in this respect by Novaya Moskva with the respective share being 12-fold smaller). Exclusive of Vneshtorgbank, the share of Rb.-denominated FDO in assets of this group of banks-issuers is close to the average level noted nationwide.

For the purpose of the consequent analysis let us exclude Vneshtorgbank from the group of banks-issuers concerned due to its strong dominating role. So, the proportion of deposits in liabilities of the group becomes notably less compared with the average Russian banks. Specifically, the proportion of deposits placed by private individuals with the banks of the group as of late September 2001 accounted for 5.3%, those of legal entities- 7.4%, while the respective indexes of the average Russian bank account for 7.3% and 14%, respectively. Such a difference is caused by substantial differences between the shares of foreign exchange equivalent, while the shares in Rb.-denominated do not show a serious difference between them (5.7% - for banks-issuers and 6.5%- for the average Russian bank).

As of late September, the issued promissory notes account for a large share in banks-issuers' liabilities compared to those of the average Russian banks (6.8% vs. 4.7%). At the same time the volume of promissory notes issued by the banks-issuers of CBO is as much as more than twice over the volume of their issued obligations. The share of banks' accounts controlled by the group of banks-issuers of CBO is two times over the respective index of the average statistical one (15.6% vs. 7.3%). Some financial indices of performance of banks-issuers of obligations are given in Table 4

Table 4. Financial indices of performance of banks-issuers of obligations

Date	01.01.01	01.07.01	01.10.01
Absolute values (as Rb. bln.)			
Investments in non-governmental debt obligations denominated in Rb.	4.70	3.34	4.20
Including debt papers of enterprises-residents	12.61	7.65	8.59
As % to assets*			
Investments in non-governmental debt obligations denominated in Rb.	0.27	0.04	0.49
Including debt papers of banks-residents	0.10	0.00	0.16
Including debt papers of enterprises-residents	0.16	0.04	0.33
FDO denominated in Rb.	1.40	0.36	1.94
Rb.-denominated promissory notes	14.23	15.91	8.83
Of banks	0.99	0.79	0.38
Of enterprises	13.24	15.12	8.45
Balance-sheet capital	17.69	9.15	17.37
Profit (in annualized terms)	8.48	3.03	3.08
The average size of assets of a bank of the group (as Rb. bln.)	8.18	8.15	6.83
	0.99	0.21	1.01
	4.37	4.84	7.40

*average weighted across the group of banks (exclusive of Vneshtorgbank)

Calculated on the basis of the data of STIiK company

So, the Russian market for corporate and banking obligations shows a great deal of stability. Potential investors have increasingly shown a growing interest in corporate and banking obligations, and at this point, banks are not an exception, - indeed, they hold leading positions among professional participants in the market dealing with placement of corporate and banking obligations. According to the data posted on www.cbonds.ru, the volumes of issues of corporate and banking obligations arranged

by banks proved to be considerably larger than the volumes of issues to whose placement investment companies contributed

However the latter are ahead of banks in terms of the number of issues placed. So, the competition between banks and investment companies - organizers of issues of CBO should intensify in the short run.

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