

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
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Politico-economical developments of November 2004

Major developments of November of 2004 took place in political sphere. However, an economic event had happened which made one of the most significant intrigues of the year. An auction was set for December 19 on sale of 76,79% shares of JSC “Yuganskneftegaz”, that forms the basis of the JSC “OIL COMPANY YUKOS”. The initial price of stock is Rb 246.75 bn (about \$8.65 bn). This stock is supposed to be drawn to collection within the computed Yukos’ tax obligation for 2000 - 2001, worth slightly more than \$6 bn. At the same time, it is declared about claims to OIL COMPANY YUKOS, only for 2002 to the amount in excess of \$6.5 bn (in fact, accurate estimates differ, as, additionally, tax debts have been charged to almost all the OIL COMPANY YUKOS’ subsidiaries, and the declared company debt for the last three years exceeds \$15 bn). As it had been stated time and again, the mechanics of forming huge tax arrears of the OIL COMPANY YUKOS is simple – this is devising by courts of the norms missing in the law (“dummy juridical person”, “proportionality of tax privileges” etc.), refusal in application, on that ground, of general rules of legislation refusal in application on that ground general rule legislation, and also charging a penalty and default interests at the rate often exceeded the “invented” debt itself (for example, claims for 2001). The company capitalization per annum dropped for more than 15 times, while the amounts due (“tax arrears”) are unprecedented not only in Russian, but also in international practice.

Apparently, inventing more and more new claims to OIL COMPANY YUKOS, fabricated in public by courts, appear as means of pressure on the majority shareholders – Group Menatep, identified with M. Khodorkovsky and his colleagues, in order to provoke them either sell their own shareholdings, or reach some or other agreements on paying the “debt”. Such a scenario could make possible for the parties in conflict, and, chiefly it concerns the State, “to maintain its dignity”, and also to prevent the losses of minority shareholders, as, after the conflict has been settled and claims removed, the cost of stocks could gradually be geared to tangible assets of the working company, and not other circumstances. In summer of 2004 it was Vladimir Putin who told that the State was not interested in bankruptcy of YUKOS, not to mention the declarations of ministers or aides to the President.

Such statements did not consider that in the above scenario the majority shareholders of YUKOS get considerable means, any seizure mechanisms of which (for example through the sale of firms – beneficiaries of the Group Menatep or confiscation of property of juridical persons - YUKOS owners put under arrest) is not clear or unreliable. Moreover, any “peaceful” settlement of the situation concerned with the OIL COMPANY YUKOS legitimates the owners of Group Menatep, turning them from criminals into entrepreneurs, who voluntarily settled their conflict with taxation authorities. It become clear, however, that inactivated situation (even with charged but gradually recovered debts) is also appropriate for YUKOS’ owners, as it maintains an operating control.

So, all the initiatives on settling the conflict on the part of YUKOS’ managers met with no response, many of managers (Yu.Temirko, D.Gololobov etc.) declared in criminal search.

It was announced on November 29, 2004 that in an auction on purchasing the JSC “Yuganskneftegaz” will take part LLC “Gazpromneft” – not long ago Gazprom – based division, led by S.Bogdanchikov. But, at the accounts of Gazprom there is no even those inadequately low USD 8.65 bn, wherein the controlling stock of Yuganskneftegaz is appraised. These funds exceed the whole Gazprom investment program (i.e. development of new gas fields, investments in infrastructure) for the next year. Therefore, the two are left – urgent and unprofitable (considering juridical aspect) crediting, for purchasing Yuganskneftegaz, in international banks, or receiving practically free credit resources from the State banks, Savings Bank of the RF or even CB of the RF.

No doubt, that Yuganskneftegaz becoming a part of Gazprom, in case it takes place, – is an indicative event for the forming economic policy in Russia. First, it means actual course of the Russian Government for nationalization of big private industry, second, contempt to logic of economic efficiency and anti-monopoly policy (the successful and transparent company will be transferred to the structure, which management is utterly inefficient for the government), and, third, extraordinary gaining prominence (politically and economically) by the group of I.Sechin – S.Bogdanchikov, associated with Rosneft, Gazpromneft etc. This group will freely be given an operating control over one of the main oil-production enterprises.

However, possibility that tender will take place, not absolute. Group Menatep adequately appraised the happening as stealing of the company organized by the leadership of Russia and threatened to draw prosecution measures in foreign countries against Russia itself, and the purchaser of stolen property. In consideration of numerous technical infringements relating to the procedure (for example, the date of bidding announcement was fallen behind by 1 day), not to speak of hard judicial perspectives of that matter in the international arbitration courts with participation in it of Gazprom subdivision, as process litigant and the described calling for funds problems, and the next rescission of sale is also not improbable. Absence of bids may be used for ideological substantiation of next keenest, even lower than \$8.5 bn, starting price. Besides, acquisition of Yuganskneftegaz by Gazpromneft will place a part of the burden of proof on bona fides bargain on German stockholders of Gazprom. That is one of few possible advantages of the scheme, as the foreign publicly-held company, which are majority of them, is unable itself to allow to luxury of running a risk belief in parole of the country's leaders, even if it would be then promised to "clear "Yugansk..." from debts".

On the 2d of December, the second reading will take place of a package of draft laws, aimed at abolition of governors' electivity. In November, Vladimir Putin made several statements, behind which one could see a wish to soften the draft law. For example, he made an intention to do everything, in the further consideration of the law, so that to make it within the context of Russia's international obligations and its Constitution. Also, Putin announced that a governor is required to "present in the Legislative Assembly a program of economic and social development of the region". Among the workable compromises there were two that could soften the law: alternative announcement of governors' candidatures (a sort of, competition of programs) and abolishment of the right of the President of the RF to dismiss epy Legislative Assembly in the event of twice unapproved candidature brought in for approval, actively supported by many of regional legislators. Nonetheless, to the second reading the draft law was submitted only with one principle amendment suggesting to replace the two-fold refusal with threefold. Regions will gain nothing from this, moreover, it was cynically stated in discussions by the members of "United Russia" there will never be third rejection. More than that, it turned out that a "recommendation" was included in the document calling on the elected governors to vacate their seats before the President for confirmation or not confirmation, in accordance with the new law. Competitiveness is also absent. Furthermore, Vladimir Putin stated of his readiness to violate the elementary principle of division of powers, that is, "to return governors to the Federation Council". It will be remembered that according to the Constitution, the Federation Council of the Russian Federation is the Upper House of Parliament formed by the representatives of legislative and executive power of every region. In case governors are appointed, half of the Upper House of Parliament will be Putin's appointees. But, S.Mironov presented it as "consideration of the governors' opinion in the Federation Council".

There exist several circumstances In the judicial service that make themselves conspicuous. First, these are legislative initiatives of the Federation Council, which mean forming of qualification chamber directly by President. Such a step could be a typical formal abolition of justice. However, unwillingness to formalize the actual state of affairs before the world community, evidently affected the situation when Vladimir Putin did not suggest the idea at the conference judges, nor was it put as yet on the agenda of the meetings of the State Duma, as it means, among other things, violation of the international obligations undertaken by the RF.

The St.- Petersburg lawyer, Anton Ivanov, who not a day worked in the judicial system, on a single source basis had been elected a Chairman of the Superior Arbitration Court of the RF. In Krasnoyarsk, physicist, V.Danilov, was sentenced on charges of espionage to 15 years of imprisonment. As with G.Sutyagin, the technique of cancellation of acquittal judgment, carried out by jurors, was used, followed by formation a new board of dependable "jurors" from the unpublished, contrary to law, list.

A regular conference of the ruling party "United Russia" took place. It was announced that the party numbered 860 ths members. The conference was conducted in the manner of CPSU, in particular, the electrification of trans-Siberian Railroad, completion of the construction of Bureskaya hydro-electric power station, along with presence of cellular phones by 42% of citizens, were attributed in the report of the chairman of the party as party's merits. The position regarding most important draft laws, of both, considered and not considered by the parliament, was formulated dually – on the one hand, it turns out that UR participated in preparing all the draft laws, on the other, they are unsatisfactory. Such two-faced policy became characteristic even for the draft laws on administrative reform and pen-

sion scheme, that had not been reviewed this year by the parliament. Difference from the right-hand and left-hand is in that the United Russia offers to conduct reforms without detriment to the living standards of citizens. Having criticized everyone for populism, B.Gryzlov found words of encouragement for LDPR, which had, in his opinion, “proposals in the area of regional development”. It should be said that optimistic mood of B.Gryzlov was corrected by several other speakers, for example, by L. Sliska, who came down on the government for low size of minimum monthly wage, and who promised, according to the party line, to output, or, opposite, bring ministers in its composition. It goes without saying (for example, according to comic history with A.Kudrin enrolment in the party), that such conjurations have nothing in common with reality.

Contrary to many forecasts, for this year, the United Russia did not divide on left-hand or right-hand wing, not found any independent ideology, nor set institutionally in the legislative process. Ideologically, the party sweepingly approach not to declared “centralism” (besides, it is indicative that B. Gryzlov no longer call the party center-right, as before), but to eclectic party like LDPR, inviolately supporting any initiative of Vladimir Putin, in relation to other institutions, arbitrarily alternating the praise and damnation, acting with a set of “ritual conjurations”, ascribing itself all the best, but opponent - inferior of all being happened in the country. The faction never set into a full-fledged parliamentary structure, actually, an ordinary deputy is absolutely rightless, all the proposals relate to 3-4 leaders and lobbyists of St.-Petersburg origin, like VI.Reznik. Symbolic, however, became real abolition of the High council of the party – quite a number of popular and not very popular governors. Currently, they are not necessary for the attraction of voices. The governing body of the party became Office of the High Council, actually uniting the faction leadership, executive bodies and various representatives of the Administration of the RF President, and sponsors.

Arrangements had been made in the country for the forthcoming, on December 12, 2004, Civil Congress “In Defense of the Constitution, Against the Dictatorship. The aim of its organizers (led by G.Satarov and L.Alexeeva) – to create the base platform in defense of democratic values, notwithstanding the distinctions by right of-left-hand scale. Taking into account weakness of the opposition parties, ideally (depending on work productivity) the congress could also become a continuing body, a prototype of one or another coalition in the sense of, primarily, social cause, rather than parliamentary block. No doubt, that in this capacity, the Congress is a danger for powers, and it is not by chance that the statements of D.Rogozin about carrying out an alternative Civil congress, on the same very day, were announced on the first and second TV channels. CPSU and the Union of Right Forces officially refused to take part in the Congress, though, allowing the participation of members of their parties as juridical persons. Communists pleaded discontent about the defense of the Constitution, but the right-hand – about the presence of communists. It is obvious, that meanwhile the primary task for the opposition parties will be historical analysis of the events of the last century - from 1917 to 1993, rather than struggle for survival in present-day conditions, they do not represent either danger, or interest. Besides, the more chances have their potential competitors, which still not having a status of an organization, but already winning ideologically (“Committee– 2008”, Civil Congress etc.).

S. Zhavoronkov

REFORMS PROGRESS IN NOVEMBER 2004

A new medium-term draft program emerged in the Government at the end of November, which also included a section dedicated to science reform and promotion of innovations which was under discussion at a meeting of the RF Government in November. The topic of the previous month concerned mostly the issue of stabilization fund and options and mechanisms of its usage. In addition, experts continue studying the administrative reform, while consideration of a vital law as part of the “affordable housing package” of the Urban Development Code was deferred to December by the State Duma.

The actions of the RF Government in November can be characterized as “intensive daily activity”. Several events can be highlighted among the major ones which have an impact on the Russian economy.

First, the Ministry of Economic Development of Russia under the RF Government introduced the first revision (which remains to be followed up) of the medium-term program. Yet, the so-called “branch strategies” developed by other ministries have not been integrated into the program. However,

the current revision of the program provides a clear view of its final revision. The program seems to be reasonably liberal, as was expected in the previous reviews, and not disagree with the old programs of the RF Government. A section on reduction of poverty developed by the experts of the Center for Strategic Developments, as well as provisions on promotion of development of civil society institutions, judicial and law-enforcement reforms are worth of noticing among new items.

The final revision of the Program (including the plan of actions) is to be presented in mid-December, though the practice expects nearly two more months of follow-up. In this case, the things are likely to get more complicated since the first attempt to integrate updates from other ministries under the Ministry of Economic Development is likely to fail.

Another major event was consideration at a meeting of the RF Government of a new national innovation framework development strategy designed by the Ministry of Education and Science of Russia. In general, the strategy fully reflects the crisis situation in terms of implementation of new scientific innovations and technologies into the national economy. The guidelines to follow – creation of an efficient innovation framework acting as an agent between the science and the industry, legal settlement of the problems related to intellectual property, promotion of venture financing development, financing of R&D expenses, etc. – seem to be quite reasonable in general. In addition, the major part of the proposed measures has already been included into the new medium-term draft program. It is the promptness of the underlined reforms that is questionable, most of which are scheduled for 2006 and 2007 (with few exceptions for the end of 2005). Such rates are too slow for a knowledge-based economy to be built up given the fact that the old innovation strategy that had been under consideration for more than two years, also proposed a great number of adequate measures scheduled for but not eventually implemented in 2003 and 2004.

The main topic for discussion in November – the stabilization fund and the policy of its utilization – received enough coverage by the mass media. In addition, an intermediate option is likely to be selected (it is almost the case after the well-known concessions made by the RF Ministry of Finance) between «not to utilize the stabilization fund» and «to utilize it in full». Most importantly, that the stabilization fund should remain a real “financial buffer” for the government (even if the 100% risk hedging is unfeasible), and not to be turned into a «black hole» pumping out funds needed to create the basis for future development. Russia can not take the liberty of violating the first condition because the current financial stabilization costed it too high. However, the second risk should not be considered less important, since there is no point in accumulating the stabilization fund for a “rainy day” on account of under-financing the measures allowing to prevent such “rainy day”.

The fact that the third reading of the Urban Development Draft Code – the most important element of the set of laws dedicated to creation of an affordable housing market -- has been deferred to a later date, is the key alarm to be highlighted in November. Major financial interests at large cities and the monopolists in regional construction markets are ranged against the new Code. The Code has encountered a fierce opposition at the State Duma. If not adopted, however, the other sections of the “housing package” dealing with expansion of the purchasing power of the population will not work in full, because the growth in demand for housing would aggravate the problem in the absence of its supply.

Implementation of new organizational and legal forms in social security organizations is another initiative proposed by the RF Government which has encountered a fierce opposition. While being vital, this initiative is considered a threat by the majority of administration of the social security sector itself, because of the constraints imposed on budget disbursement. Healthcare and education sectors have had to accept the adoption of new regulations and participated in a constructive dialogue. In November, however, theater people launched an extended criticism of the RF Government and demanded removal of these regulations from the agenda. Soon, it remains to be seen how the RF Government will respond to this move.

O. Fomichov

Budgetary and Fiscal Policy

By the end of October of 2004, the level of revenues of the RF federal budget has increased by 0.2 p. p. of GDP in comparison with the figures registered in the preceding month and made 20.2 per cent of GDP. The level of expenditures of the federal budget increased by 0.4 p. p. in comparison with the figures registered last month and made 16.5 per cent of GDP by November 1, 2004. In January

through August of 2004, the revenues of the RF consolidated budget made about 31.9 per cent of GDP, while the expenditures of the RF consolidated budget over the respective period made 26.0 per cent of GDP.

At the end of 2004 and in early 2005, the RF Ministry of Finance is planning to start the investment of the financial resources of the Stabilization Fund in securities with the assistance of the Bank of Russia.

The State of the Federal Budget

In January through September of 2004, the revenues of the federal budget (cash execution) made 20.1 per cent of GDP, while expenditures made 15.2 per cent of GDP (see Table 1). Therefore, the federal budget surplus made 4.9 per cent of GDP.

Table 1

The monthly execution of the federal budget of the Russian Federation (in % of GDP¹, cash execution).

	IX'03	X'03	XI'03	XII'03	I'04	II'04	III'04	IV'04	V'04	VI'04	VII'04	VIII'04	IX'05
Revenues	1,3%	1,3%	1,3%	1,3%	0,9%	0,7%	1,2%	1,4%	1,3%	1,3%	1,3%	1,3%	1,2%
Profit tax .	2,7%	2,7%	2,6%	2,7%	2,2%	2,6%	2,8%	2,9%	2,9%	2,8%	2,8%	2,8%	2,7%
Income tax .	6,7%	6,6%	6,6%	6,6%	7,9%	6,6%	6,2%	6,4%	6,5%	6,3%	6,5%	6,5%	6,4%
Unified social tax .	1,9%	1,9%	1,9%	1,9%	2,3%	1,8%	1,4%	1,2%	1,1%	1,0%	0,9%	0,8%	0,8%
Taxes on goods and services. License and registration dues .	3,3%	3,3%	3,4%	3,4%	3,6%	4,2%	4,4%	4,7%	5,0%	4,9%	4,9%	5,0%	4,9%
VAT	1,8%	1,8%	1,9%	1,9%	2,4%	2,6%	2,4%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
Excise taxes	2,9%	2,9%	2,9%	3,0%	2,3%	0,1%	0,2%	0,2%	0,1%	0,1%	1,0%	0,2%	0,2%
Taxes on foreign trade and foreign economic operations .	20,6%	20,5%	20,5%	20,7%	21,6%	18,7%	18,6%	19,3%	19,5%	19,0%	20,1%	19,1%	18,6%
Other taxes .	1,4%	1,4%	1,3%	1,3%	0,9%	0,8%	0,9%	1,0%	1,1%	1,5%	1,4%	1,5%	1,4%
Tax revenues .	19,5%	19,4%	19,3%	19,4%	20,4%	19,6%	19,7%	20,4%	20,6%	20,6%	21,6%	20,6%	20,1%
Non-tax revenues .	0,4%	0,4%	0,4%	0,5%	0,2%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%
Total revenues .	2,5%	2,5%	2,5%	2,7%	1,7%	2,2%	2,6%	2,9%	2,7%	2,6%	2,6%	2,5%	2,4%
Expenditures	0,2%	0,2%	0,2%	0,2%	-0,1%	0,2%	0,2%	0,3%	0,3%	0,3%	0,3%	0,3%	0,2%
Public administration .	0,2%	0,2%	0,2%	0,2%	0,1%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
National defense .	1,7%	1,7%	1,7%	1,9%	1,0%	1,5%	1,7%	1,9%	1,8%	1,8%	1,8%	1,8%	1,8%
International activity .	0,3%	0,3%	0,3%	0,3%	0,1%	0,1%	0,2%	0,3%	0,3%	0,3%	0,2%	0,2%	0,2%
Judicial power .	0,9%	0,9%	0,9%	1,1%	0,2%	0,4%	0,5%	0,6%	0,6%	0,7%	0,7%	0,7%	0,7%
Law enforcement and safety measures .	2,1%	2,1%	2,1%	2,3%	1,4%	1,7%	1,9%	2,1%	2,1%	2,1%	2,1%	2,0%	2,0%
Fundamental scientific research and technological development promotion .	2,0%	1,8%	1,7%	1,7%	1,0%	2,1%	2,2%	1,7%	1,5%	1,4%	1,4%	0,3%	1,5%
Public services rendered to national economy, including :	6,9%	6,8%	6,8%	6,9%	5,2%	5,8%	5,9%	6,5%	6,4%	6,1%	6,1%	7,4%	5,8%
Social services .	17,1%	16,8%	16,7%	17,7%	10,8%	14,4%	15,8%	16,8%	16,3%	15,9%	15,8%	15,9%	15,2%
National debt service	2,5%	2,6%	2,6%	1,7%	9,6%	5,2%	3,8%	3,6%	4,3%	4,7%	5,8%	4,7%	4,9%
Other expenditures	0,2%	-0,1%	-0,3%	0,5%	-8,6%	-3,1%	-1,2%	-1,3%	-2,4%	-3,1%	-3,2%	-2,9%	-3,3%
Expenditures and loans less repaid loans	-2,7%	-2,5%	-2,3%	-2,2%	-1,0%	-2,1%	-2,6%	-2,3%	-1,9%	-1,6%	-1,7%	-1,8%	-1,6%
Surplus	-2,5%	-2,6%	-2,6%	-1,7%	-9,6%	-5,2%	-3,8%	-3,6%	-4,3%	-4,7%	-4,9%	-4,7%	-4,9%

As compared with the figures registered in January through September of 2003, the budget revenues increased by 0.6 p. p. of GDP in the respective period of 2004, while expenditures decreased by 1.9 p. p. and budget surplus respectively increased by 2.4 p. p. of GDP. As before, VAT accounted for the major share of federal tax revenues – 34.1 per cent of the total tax revenues, what was by 1.4 p. p. above the level observed in the respective period of 2003.

According to preliminary estimates, the cash execution of federal budget revenues made 20.2 per cent of GDP in January through October of 2004, what was by 0.6 p. p of GDP above the level of revenues observed in the respective period of the preceding year. At the same time, the cash execution of expenditures made 15.4 per cent of GDP (16.8 per cent of GDP in January through August of

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

2003); therefore, in the first nine months of this year, according to preliminary data, the surplus made 4.8 per cent of GDP.

According to the preliminary estimates of the Finance Ministry, in terms of fulfilled funding² the expenditures of the federal budget in January through October of 2004 made 16.5 per cent of GDP (see Table 2), while in the respective period of 2003 this indicator was at 17.9 per cent of GDP. In January through October of 2004, the amount of revenues of the federal budget increased by 0.8 p. p. of GDP in comparison with the figures registered in the respective months of 2003 and made 20.2 per cent of GDP. Therefore, the surplus of the federal budget in terms of fulfilled funding in January through October of 2004 increased by 2.2 p. p. in comparison with the figures registered in January through October of 2003 and made 3.7 per cent of GDP.

Table 2

**The monthly execution of the federal budget of the Russian Federation
(in % GDP, fulfilled funding).**

	X'03	XI'03	XII'03	I'04	II'04	III'04	IV'04	V'04	VI'04	VII'04	VIII'04	IX'04	X'04
Total revenues	19,4%	19,3%	19,5%	20,4%	19,6%	19,7%	20,4%	20,6%	20,6%	20,7%	20,6%	20,0%	20,2%
Public administration	0,5%	0,5%	0,5%	0,5%	0,7%	0,6%	0,6%	0,6%	0,5%	0,6%	0,5%	0,5%	0,5%
Judicial power	2,8%	2,9%	2,7%	2,7%	3,9%	2,9%	3,7%	3,2%	2,8%	3,0%	2,8%	2,6%	2,9%
International activity	0,2%	0,2%	0,2%	0,0%	0,2%	0,2%	0,3%	0,3%	0,2%	0,3%	0,4%	0,4%	0,3%
National defense	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Law enforcement and safety measures	1,9%	1,9%	1,9%	2,1%	2,4%	2,3%	2,4%	2,3%	2,1%	2,1%	2,1%	2,0%	2,0%
Fundamental scientific research and technological development promotion	0,3%	0,3%	0,3%	0,2%	0,3%	0,3%	0,4%	0,3%	0,3%	0,3%	0,3%	0,2%	0,3%
Public services rendered to national economy	1,0%	1,1%	1,1%	0,5%	0,7%	0,8%	0,9%	0,9%	0,8%	0,8%	0,6%	0,7%	0,9%
Social services	2,3%	2,4%	2,3%	2,4%	2,5%	2,4%	3,0%	2,9%	2,5%	2,5%	2,4%	2,2%	2,2%
National debt service	1,8%	1,7%	1,7%	1,0%	2,1%	2,2%	1,7%	1,5%	1,4%	1,3%	1,5%	1,5%	1,4%
Other expenditures	6,9%	6,9%	7,0%	5,6%	6,6%	6,1%	6,6%	6,6%	6,2%	6,3%	6,3%	5,9%	5,9%
Total expenditures	17,9%	18,1%	17,8%	15,2%	19,7%	18,0%	19,7%	18,8%	17,1%	17,4%	17,1%	16,1%	16,5%
Budgetary surplus (+) / deficit (-)	1,5%	1,3%	1,6%	5,2%	0,0%	1,7%	0,7%	1,8%	3,5%	3,3%	3,4%	3,9%	3,7%

According to the estimates of the Tax Ministry, in October of 2004 the tax revenues of the federal budget made about Rub. 144.16 billion (without the single social tax). In real terms the revenues made 288.4 per cent of the level registered in January of 1999, while the respective indicator was at 248.7 per cent in September of 2003 and 254.8 per cent in September of 2002 (see Table 3).

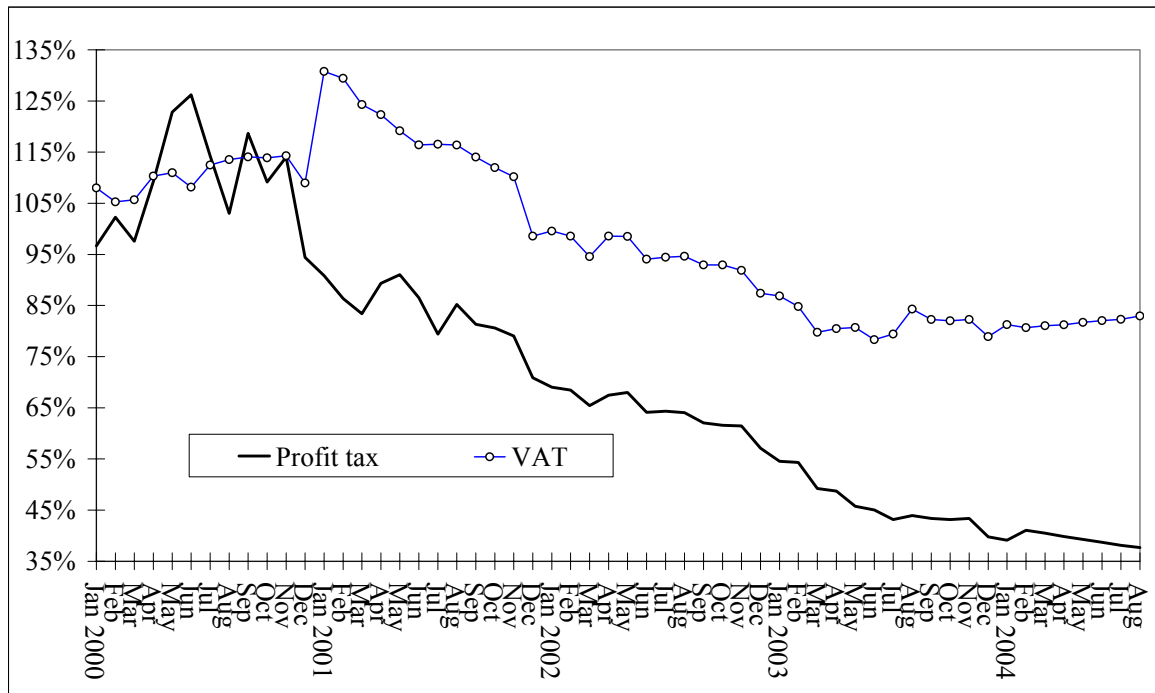
Table 3

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

2002*											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
218,7%	187,1%	234,8%	277,8%	239,6%	218,0%	284,4%	246,5%	254,8%	299,7%	241,0%	250,2%
2003*											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
230,0%	229,2%	265,5%	280,4%	233,2%	240,0%	260,4%	242,6%	248,7%	265,6%	231,0%	247,9%
2004*											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
266,5%	204,4%	238,0%	261,4%	241,0%	243,6%	288,9%	246,0%	288,4%			

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.



* There are no data available as concerns the indebtedness relating to the profit tax and VAT in the period from March of 2004 till July of 2004, therefore, the dynamics of indebtedness over this period presented in the Figure above was calculated proceeding from the linear trend between February of 2004 and August of 2004.

Fig 1. Real tax arrears to the federal budget (in % to June of 1999)*

Table 4

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

2002												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes*	28,7%	23,6%	24,3%	26,5%	26,6%	25,9%	26,4%	25,9%	25,2%	25,4%	25,4%	25,5%
Revenues	32,9%	31,3%	31,4%	33,6%	33,6%	32,7%	33,3%	32,5%	31,7%	32,0%	32,1%	32,1%
Expenditures	18,3%	23,7%	26,0%	28,4%	28,4%	28,8%	29,1%	28,9%	28,4%	29,3%	29,7%	31,1%
Budgetary deficit/surplus	14,6%	7,7%	5,4%	5,3%	5,2%	3,8%	4,2%	3,7%	3,3%	2,7%	2,4%	1,0%
2003												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes*	25,6%	24,4%	25,6%	27,4%	27,1%	26,0%	26,1%	25,7%	5,0%	5,0%	5,1%	25,2%
Revenues	32,0%	30,3%	31,5%	33,4%	33,6%	32,2%	32,2%	31,6%	0,9%	0,8%	0,7%	31,1%
Expenditures	20,7%	25,3%	27,7%	28,8%	28,8%	28,6%	28,7%	28,5%	8,2%	7,8%	7,9%	29,7%
Budgetary deficit/surplus	11,3%	5,0%	3,8%	4,5%	4,7%	3,5%	3,6%	3,1%	,7%	,0%	,8%	1,4%
2004												
	I	II	III	IV	V	VI	VII	VIII	IX			
Taxes*	6,1%		21,8%	27,4%	27,4%	26,6%	27,2%	27,1%	26,4%			
Revenues	30,6%	28,2%	29,8%	32,9%	32,9%	32,5%	33,1%	32,9%	31,9%			
Expenditures	18,5%	22,8%	25,4%	27,3%	26,9%	27,0%	27,0%	26,9%	26,0%			
Budgetary deficit/surplus	12,1%	5,4%	4,4%	5,6%	6,0%	5,5%	6,1%	6,0%	5,9%			

The dynamics of real arrears relating to major taxes since January of 2000 are presented in Fig. 1. The debts related to the payments due to the federal budget made, as concerns VAT, Rub. 276.0 billion by September of 2004, increasing by almost Rub. 20 billion since the beginning of 2004, while the arrears of the profit tax increased by Rub. 0.5 billion and made about Rub. 26.9 billion as on September 1, 2004. On the whole, a gradual decrease in the level of accumulated arrears observed since early 2001 to the second half of 2003 was replaced by the stabilization of the level of accumulated indebtedness as concerns the VAT. In the case of the profit tax, the real accumulated arrears continue to decline; however it practically does not change in the nominal terms.

The revenues of the consolidated budget in January through September of 2004 made 31.9 per cent of GDP, including tax revenues (without SST) at 26.4 per cent of GDP (see Table 4). The expenditures of the consolidated budget decreased by 2.2 p. p. of GDP in comparison with the figures registered in January through September of 2003 and made 26.0 per cent of GDP. As on October 1, 2004, the surplus of the consolidated budget made 5.9 per cent of GDP, what is by 3.2 p. p. of GDP above the level observed in the respective period of 2003.

Main Developments in the Public Sector

The RF Finance Ministry is planning to start the investment of the financial resources of the Stabilization Fund in securities at the end of 2004 and in early 2005. In accordance with the resolution of the Government, the resources of the Stabilization Fund may be invested in securities issued by a number of countries and denominated in three foreign currencies granted the highest reliability ranking "AAA." At the same time, the RF Ministry of Finance does not exclude the possibility that the resources of the Stabilization Fund may be used for the financing of structural reforms or investment projects, however, only in the case the profitability of such projects is not less than 7 per cent per annum, the rate at which the country services the most expensive part of its foreign debt.

The Bank of Russia should be vested with the management of the invested resources, while the functions of the Finance Ministry will be reduced exclusively to supervision. In this connection there is planned to conclude an agreement between the Bank of Russia and the RF Ministry of Finance as concerns the management of the resources of the Stabilization Fund. At the same time, the RF Finance Ministry deems it unfeasible to transfer resources of the Stabilization Fund in management of private investment banks.

According to certain estimates, the amount of the Stabilization Fund will make Rub. 564 billion by the end of this year, and it will receive Rub. 387 more in the next year. In this connection, there was taken the decision to start to expend the resources of the Stabilization Fund in 2005. It is planned to allocate Rub. 167 for the repayment of the RF foreign debt, while Rub. 74 should be used for the financing of the deficit of the RF Pension Fund. At the same time, as concerns the foreign debt it is planned to primarily repay the portion of the debt, which is serviced at the rate of 7 per cent per annum. Taking into account these expenditures, according to estimates the amount of the RF Stabilization Fund will make Rub. 719.5 billion by the end of 2005.

The RF Ministry of Finance envisages to increase the base oil price from present US \$ 20 to US \$ 21 per barrel in order to form the Stabilization Fund starting since 2006. It is planned to allocate the resources of the Fund exceeding the base level of Rub. 500 billion exclusively for the repayment (including prescheduled repayment) of the foreign debt. According to the Ministry's plans, the current expenditures, including the financing of the deficit of the RF Pension Fund, should be financed from the federal budget since 2006.

After the repayment of the most expensive part of the foreign debt (according to estimates in three to four years), it is envisaged to "peg" the base amount of the RF Stabilization Fund to GDP. According to the Finance Ministry estimates, the fund may make from 3.1 per cent to 4.5 per cent of GDP.

The State Duma has approved the version of a law adding to the RF Tax Code the new article "Land Tax" as elaborated by the Conciliatory Commission. This document was approved by the State Duma on October 29, 2004, and rejected by the Federation Council on November 10, 2004, therefore there was formed a conciliatory commission on the issue. The Commission supplemented the law with a provision in accordance with which the scientific organizations (RAS, RAMS, Russian Academy of Agricultural Sciences, Russian Academy of Education, Russian Academy of Architecture and Construction Sciences, Russian Academy of Arts) were exempted from the taxation as concerns the land plots, where the buildings and structures they use for scientific purposes, are located.

The law also stipulates that the tax period should be defined as a calendar year, while reporting periods for taxpayers (both organizations and individual entrepreneurs) should be the 1st quarter, six months, and nine months of a calendar year.

For the purposes of the law, the tax base is defined as the cadastre value of the land plots determined as the taxation objects. According to the law, the tax rates should be set forth by the regulatory and legal acts of representative authorities of municipal entities and should be at or below 0.3 per cent as concerns land plots, where residential housing and engineering facilities of housing and public utilities are located, as well as land plots allotted for part time farming and used for agricultural production. As concerns other land plots, the tax rate is set forth at 1.5 per cent.

S. Ponomarenko

Monetary Policy

In October, the inflation rates in the RF made 1.1 per cent (as compared with 1 per cent registered in October of the last year). At the same time, the RF Government admitted that the increase in the CPI will most probably exceed the planned 10 per cent and make about 11 per cent to 11.5 per cent. In October, the amount of gold and foreign exchange reserves of the Bank of Russia exceeded US \$ 100 billion and reached a new absolute maximum of US \$ 113.9 billion by the middle of November.

This October, the increase in the consumer prices made 1.1 per cent (1 per cent in October of the last year) and 9.3 per cent since the beginning of the year (9.7 per cent in January through October of the preceding year, see *Fig. 1*). The most significant growth in prices was observed in the group of nonfood products (1.4 per cent as compared with 1.1 per cent registered in the respective month of 2003). The increase in comparison with the level observed in December of 2003 made 8.7 per cent, what was above the growth registered in the respective period of the preceding year (7.3 per cent). It should be noted that over the seven months of this year, there were observed more moderate rates of growth in consumer prices of food products as compared with the figures registered in the respective periods of preceding years. However, after a relatively insignificant seasonal decline in prices of fruits and vegetables registered in August and September, the increase in the CPI as concerns this group of commodities exceeded the figures observed in the preceding years.

As compared with the figures registered in December of 2003, the most significant rise in prices was observed in the group of paid consumer services (by 15.7 per cent as compared with 20.7 per cent registered in the respective period of the preceding year). The increase in October made 1.2 per cent (as compared with 0.8 per cent observed in October of 2003).

This year, the prices of nonfood goods also grew at lower rates as compared with the indicators registered last year. Thus, in October the increase made 0.7 per cent (as compared with 1 per cent registered in October of 2003), while in the 10 months of this year the prices of nonfood products grew by 6.3 per cent (by 7.7 per cent in the respective period of the preceding year).

In October, the growth in the Base Consumer Price Index (BCPI)⁴ made 1.3 per cent (as compared with 1.4 per cent registered last October). Therefore, since the beginning of the year the increase in the BCPI made 8.1 per cent (8.9 per cent in the respective period of the preceding year).

Therefore, in October of 2004, the rate of growth in the consumer price index continued to exceed the values observed in the respective month of the last year. This excess has been registered since July. At present, the RF Government admits that the yearly forecast of inflation rates (10 per cent) will not be complied with, and the increase in prices will most probably be at 11 per cent to 11.5 per cent. According to our estimates, in November the CPI level made about 101.3 per cent, while by the end of the year inflation may exceed 11.5 per cent.

In October of this year, the monetary base of the Russian Federation (in the broad definition⁵) increased by about RUR 100 billion and made RUR 1.93 trillion. As on October 1 of 2004, the monetary base of the Russian Federation (in the broad definition) made RUR 1.83 trillion. Therefore, in October the growth in the monetary base exceeded 5.6 per cent. It should be reminded that in September there was observed an insignificant increase in the monetary base (+ 0.1 per cent), while in July and August the monetary base contracted. In comparison with the indicator's value observed as on January 1, 2004, the amount of the monetary base increased by only 0.8 per cent. In the respective period of the preceding year, the growth made 21.7 per cent. Below, the dynamics of the monetary base will be analyzed across its components.

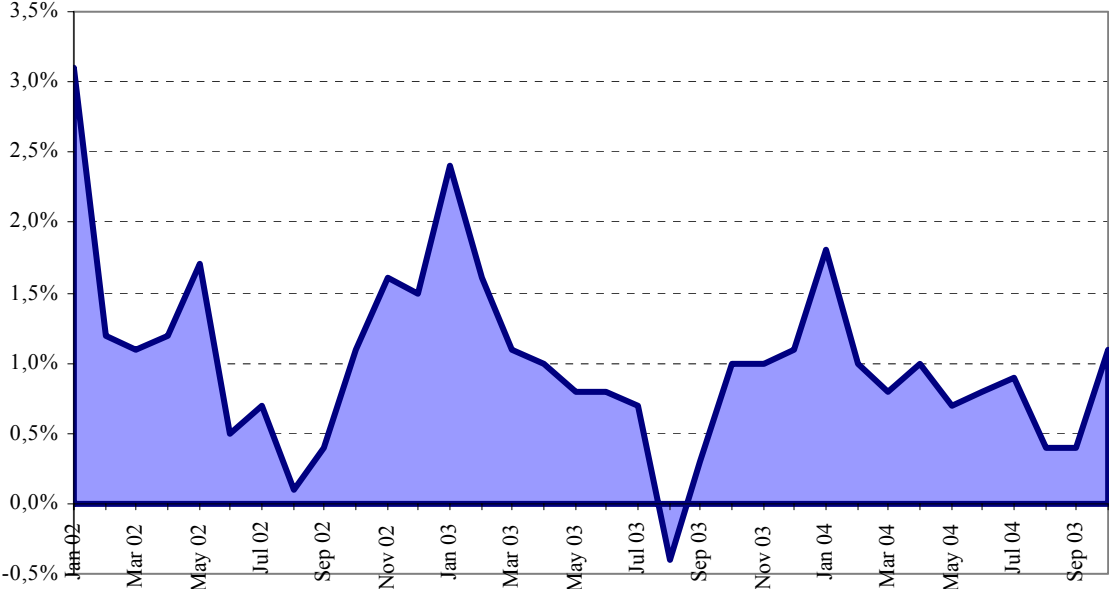
The amount of cash in circulation (as adjusted for cash balances of crediting organizations) made RUR 1.39 trillion as on November 1 (+ 14.3 per cent as compared with the level registered on October 1 of this year). On the same date, the amount of accounts of crediting organizations with the Central Bank of Russia made RUR 239.5 billion (+ 7.2 per cent), the amount of mandatory reserves were at

⁴ The Base Consumer Price Index (BCPI) is an indicator reflecting the inflation rate on the consumer market. It leaves out of account the seasonal (prices of fruits and vegetables) and administrative (tariffs on regulated types of services etc.) factors, calculated by the Statistics Service of the RF.

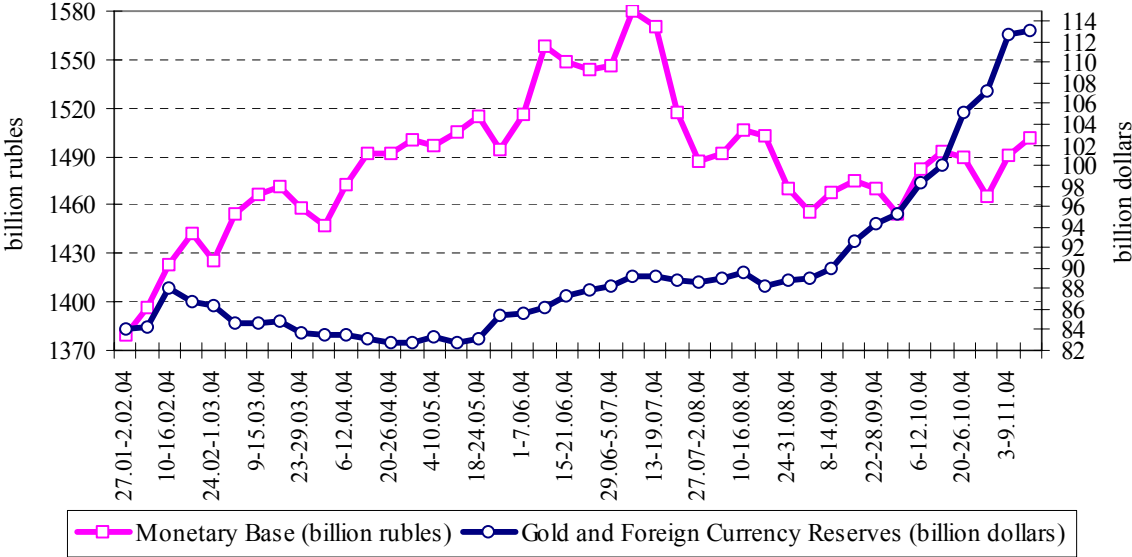
⁵ The RF Monetary Base in broad definition includes cash in circulation, the Ruble denominated funds in mandatory reserves relating to the borrowings of credit organizations, and funds in credit organizations' correspondent accounts and commercial banks' deposits with the Bank of Russia.

RUR 117.4 billion (+ 1.1 per cent), the amount of banks' deposits in the Bank of Russia made RUR 86.7 billion (+ 91 per cent), the amount of the Central Bank's liabilities related to the reverse repurchase of securities was at RUR 68.2 billion (+ 0.3 per cent), and the funds transferred to the Bank of Russia as the reserves related to foreign exchange operations made RUR 3.6 billion (+ 157 per cent). Therefore, in October there was observed a growth across all components of the monetary base, i.e. there was observed an increase in money supply.

The Growth Rate of the CPI in 2002 - 2004 (% per month).



Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2003 - 2004.



It should be noted that at the same time there was registered a sharp increase in the amount of gold and foreign exchange reserves of the country (see Fig. 2): by the end of October the amount of these reserves made US \$ 107.3 billion (+ 12.6 per cent). As compared with the figures registered on January 1, 2004, when the amount of gold and foreign exchange of Russia made US \$ 76.9 billion, this indicator increased by 40 per cent. However, significant transfers of funds to the budgetary system of the RF did not permit this substantial growth in reserves to result in a comparable increase in the monetary base.

On November 26, the Board of Directors of the RF CBR reduced the norm of mandatory sales of export proceeds denominated in foreign exchange from 25 per cent to 10 per cent. It should be reminded that in accordance with the law "On currency regulation and currency control" the mandatory sales of export proceeds denominated in foreign currency should be in force till January 1, 2007. Generally speaking, at present the reduction or even the abolishment of this requirement is meaningless in the economic sense, since the considerable proceeds from exports and rapid US \$ depreciation will in any case force companies to sell the bulk of their export forex denominated proceeds. It is also possible that before the end of this year the standards of reservation set forth for certain types of forex operations of capital nature will be also reduced.

The representatives of the Bank of Russia stated that in order to iron out the volatility of exchange rate fluctuations in 2005 the bank is planning to complete the transition to the pegging of the Ruble to a package of currencies, and not only the US dollar as it is the case at present.

P. Trounin

Financial Markets

On the whole, a stable situation prevailed on the Russian financial market in November, there were observed no significant market fluctuations. The only exception was the Russian stock market, which began to decline by the end of the month. The factor behind the negative dynamics was the flow of depressing corporate news. First of all, it is necessary to note the announcement of the date of the auction for the sale of Yuganskneftegaz, searches in the YUKOS office, the news that a number of YUKOS top managers are wanted by the police, the new tax claims to the company for year 2003, as well as the allegations that foreign managers are ready to leave the company. The delay of the decision on the reform of electrical power engineering and uncertainty with respect to the procedures of sale of power generating companies resulted in a significant decline of the RAO UES shares. The positive news for the market was the fact that the agency Fitch granted Russia the investment ranking.

The Market for Government Securities

In November, the situation on the market of the forex denominated public debt remained generally stable. Insignificant ups and downs were observed across different instruments. In the beginning of the month, on the market there was observed a growth in prices in spite of the fact that yields of the US ten year treasury bills have somewhat increased in the expectation of the further rise of the base interest rate by 25 basis points (up to 2 per cent per annum). Moreover, the fact that in the middle of the month the agency Fitch raised the Russian sovereign ranking to the investment level supported the quotations of Russian Eurobonds. At the same time, later in the month the growth in prices stopped at the background of the mounting tensions in Ukraine and declining activity of investors. By the end of the last but one week of the month, there was observed a decline in bond prices on the market.

As on November 26, the yield to maturity of Russian Eurobonds RUS-30 was 6.76 per cent p.a.; RUS-18: 7.15 per cent p.a. Besides, on the same date the yield to maturity of the Russian Eurobonds was: Minfin bonds, 7th tranche: 5.97 per cent; Minfin bonds, 6th tranche: 4.10 per cent; Minfin bonds, 5th tranche: 5.06 per cent; RUS-07: 5.97 per cent.

In the beginning of the month, on the market of Ruble denominated government debt, there was observed a decline in the yields of the majority of liquid securities. At the same time, the activity of investors on the primary market also remained at a low level. A significant demand was registered only at the auction for additional placement of the OFZ 46002. The growth in prices on the debt market was supported by a high level of liquidity in the banking sector, as well as the continuing decline in the exchange rate of the US currency. Since the middle of the month, the fact that the Russia's ranking was raised to the investment level alongside with the high level of liquidity and US \$ depreciation supported the growth in prices on the market of Ruble denominated government bonds.

FIGURE 1.

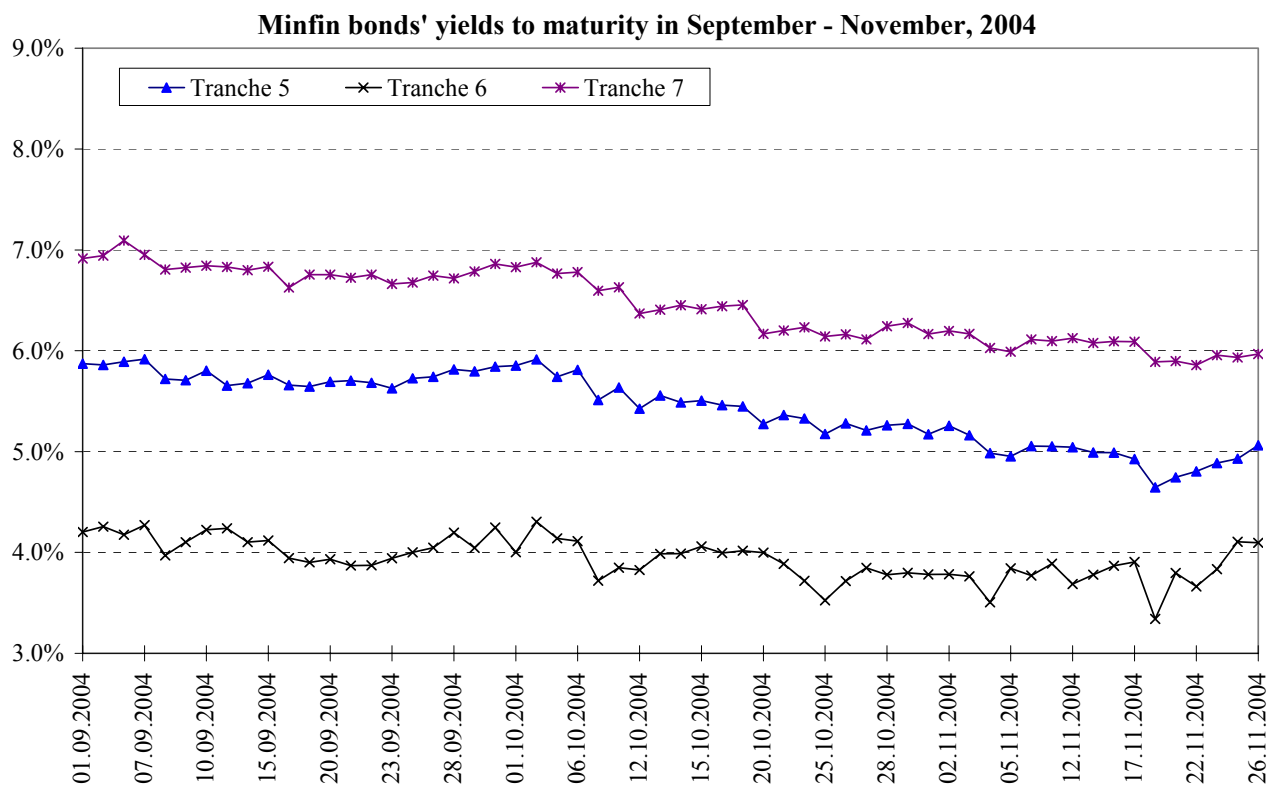
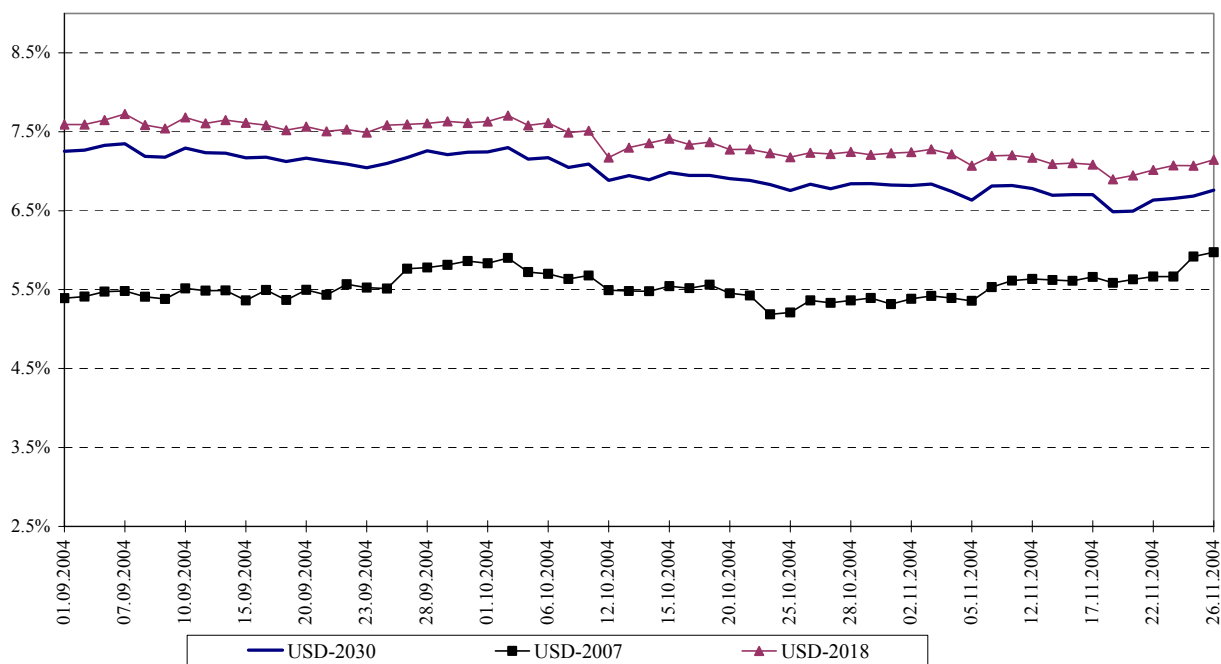


FIGURE 2.

Yields to maturity of the Russian Eurobonds with maturity in 2030, 2018 and 2007 in July – November, 2004

Доходности к погашению российских евробондов со сроками погашения в 2030, 2018 и 2007 в сентябре-ноябре 2004 года



Over the period from November 1 to 26, the aggregate turnover of the secondary GKO OFZ market made about RUR 49.1 billion (approximately RUR 63.8 billion over the respective period in October), while the average daily turnover was at RUR 2.58 billion (RUR 3.86 in October). Therefore, the activity of the market was significantly below the indicators observed in October. In November, there also took place several placements on the primary market of Ruble denominated debt instruments. Thus, on November 3, there took place two auctions for the placement of OFZ FK 27026 and OFZ AD 46002, the nominal value of which made RUR 6.0 billion each. The amount of these placements made RUR 3.2 billion and 5.6 billion respectively, while the weighed average yields of the placements were at 7.32 per cent p. a. for OFZ FK 27026 and 7.8 per cent p. a. for OFZ AD 46002. On November 17, there took place the auctions for the placement of OFZ AD 46003 and OFZ AD 46014, the nominal value of which made RUR 10 billion and 11 billion respectively. The amount of placement made RUR 5.2 billion and RUR 10.4 billion respectively, while the weighed average yields of these placements were at 7.59 per cent and 7.87 per cent p. a.

As on November 26, the amount of the GKO – OFZ market made RUR 562.98 billion at par and RUR 547.6 billion at the market value. The duration of the GKO-OFZ market portfolio was 1739.99 days.

The Market for Corporate Securities

The business situation on the stock market.

On the whole, in November on the Russian stock market there was observed a decline in quotations. In the beginning of the month, the stock market demonstrated a “sidewise price movement trend.” The only exceptions were YUKOS and Mosenergo stocks, the quotations of which have significantly decreased. The factors behind the decline in YUKOS stocks were new tax claims against the company amounting to US \$ 9 billion, what raised the aggregate tax claims to the company up to US \$ 14 billion, what was above the total capitalization of the company. The expectations related to the election of the new US President also has an effect on the stock market: as a result, the activity on the market abated. The most important development in the middle of the month was that the international ranking agency Fitch raised the Russia’s credit ranking up to the investment level “BBB-.” At the same time, this information was able to increase the quotations only for a short time, and the market continued to demonstrate the “sideways trend.” The positive effect was balanced by the news concerning YUKOS: there was announced the date of the auction for the sale of the Yuganskneftegaz, there were filed tax claims against the YUKOS “daughter” companies, and it was announced that a number of the YUKOS top managers were wanted by the police. Moreover, the market plummeted even further under the impact of the news that the Government not only postponed the date of discussion on the reform of electrical power engineering, but removed the issue of privatization of electrical power generating companies from its agenda, what was the evidence that it was not ready to sell generating capacities.

On the whole, in the period from October 29 till November 26, the RTS index decreased by 4.55 per cent or by 30.23 points in absolute terms. Over the same period, the turnover of the RTS trading amounted to about US \$ 321.5 million (about US \$ 441.1 million in October), while the average daily turnover at the RTS made about US \$ 16.9 million (US \$ 23.2 million in October). Therefore, in comparison with the data collected in the preceding month, the activity of investors has significantly declined. The highest and the lowest volumes of trade at the RTS made US \$ 38.2 million (on November 18) and US \$ 6.2 million (on November 12) as compared with US \$ 45.3 million and US \$ 12.7 million respectively in October.

Over the last month (from October 27 till November 26), practically all “blue chips” with the exception of Sberbank demonstrated a decline in prices. The leaders in terms of the downward movement of prices were shares in YUKOS, the price of which decreased by 67.6 per cent over the month. The YUKOS stocks were followed by the shares in Sibneft (-24.32 per cent), Tatneft (-14.93 per cent), RAO UES of Russia (-14.12 per cent). Somewhat lower rates of decline were observed as concerns Rostelekom (-7.45 per cent), Nornickel (-5.94 per cent), Mosenergo (-3.80 per cent), as well as Surgutneftegaz and LUKoil (2.94 per cent and 0.79 per cent, respectively).

FIGURE 3.

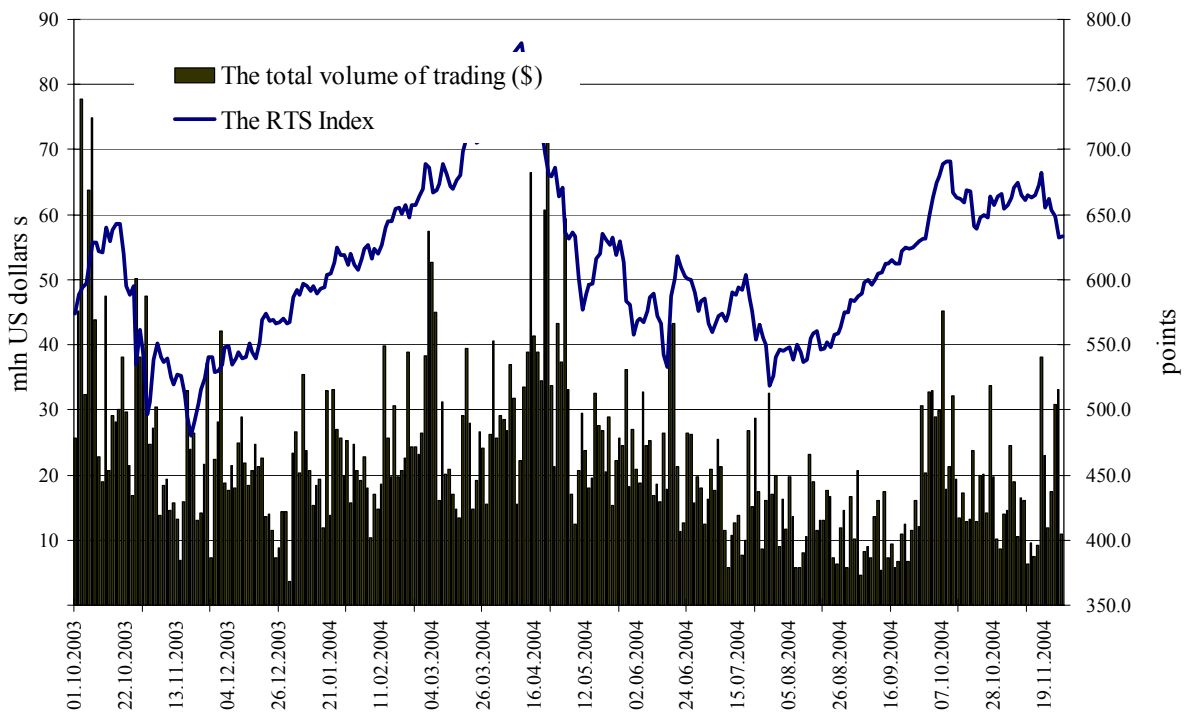
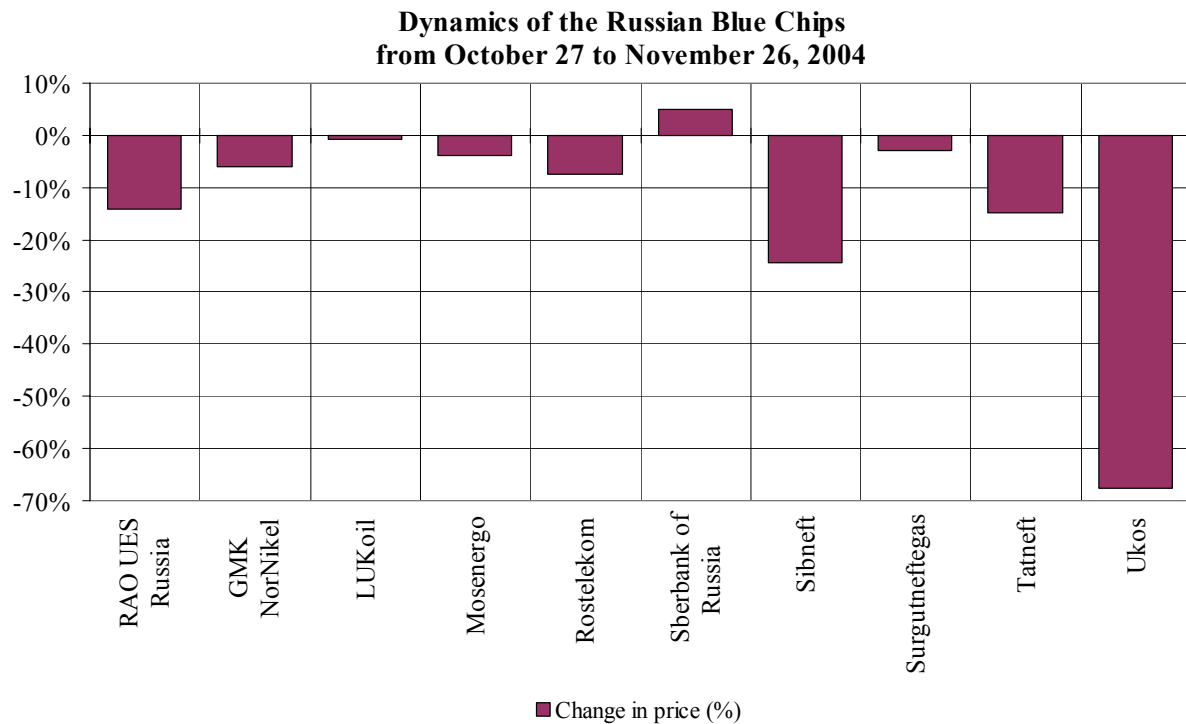


FIGURE 4.



In November, the list of leaders in terms of the volume of turnover at the RTS⁶ looked as follows: the shares in the RAO UES of Russia (26.11 per cent), LUKoil (19.83 per cent), and the GMK Norilsk

⁶ On the classical stock market.

Nickel (9.56 per cent). The aggregate share of transactions with shares in these three issuers made about 55.5 per cent of the total turnover of trade at the RTS.

As on November 26, the top five leaders of the national stock market by capitalization looked as follows⁷: Surgutneftegaz: US \$ 27.74 billion; LUKoil: US \$ 26.85 billion; Sibneft: US \$ 13.21 billion; GMK Norilsk Nickel: US \$ 12.66 billion, and the RAO UES of Russia: US \$ 11.18 billion.

The market for fixed term contracts.

In November, the activity of investors on the RTS market for fixed term contracts (FORTS) somewhat increased in comparison with the October indicators. Thus, in the period from November 1 till November 26, the aggregate volume of trade in futures and options at the RTS amounted to about RUR 28.2 billion (118.5 thousand transactions; 3.2 million contracts), what was somewhat above the respective indicators registered in the preceding month (turnover - RUR 27.6 billion, 115.3 thousand transactions; 3.06 million contracts).

Futures contracts accounted for the greatest percentage of transactions: the volume of trade in these contracts made RUR 25.17 billion (2.86 million contracts, 113.15 thousand transactions) over the period under observation. As before, options were in a much lower demand: the respective amount of trading made about RUR 3.05 billion (343.7 thousand contracts, 5.4 thousand transactions). The maximum trading volume was observed on November 19 and made RUR 2.45 billion, while the minimum trading volume (RUR 678 million) was registered on November 1.

Corporate bond market.

Throughout the month, on the market of corporate bonds there was observed a stable situation, where quotations fluctuated insignificantly. After a moderate adjustment occurring in the late October, in the beginning of the month the quotations resumed their growth at the background of further favorable developments related to the banking liquidity situation. The dynamics of yields of US treasury bonds also remained favorable. At the same time, the expectations of the Presidential elections in the USA resulted in a low activity on the market: investors took a “wait and see” position. In the middle of the month, at the background of uncertainty related to the Bank of Russia policy priorities on the foreign exchange market in the situation of the wish to check inflation, the factors of inflation and exchange rate had significantly less affected the dynamics of quotations. In this situation, the external business situation had the major impact on the dynamics of prices, in particular, the negative dynamics of base assets.

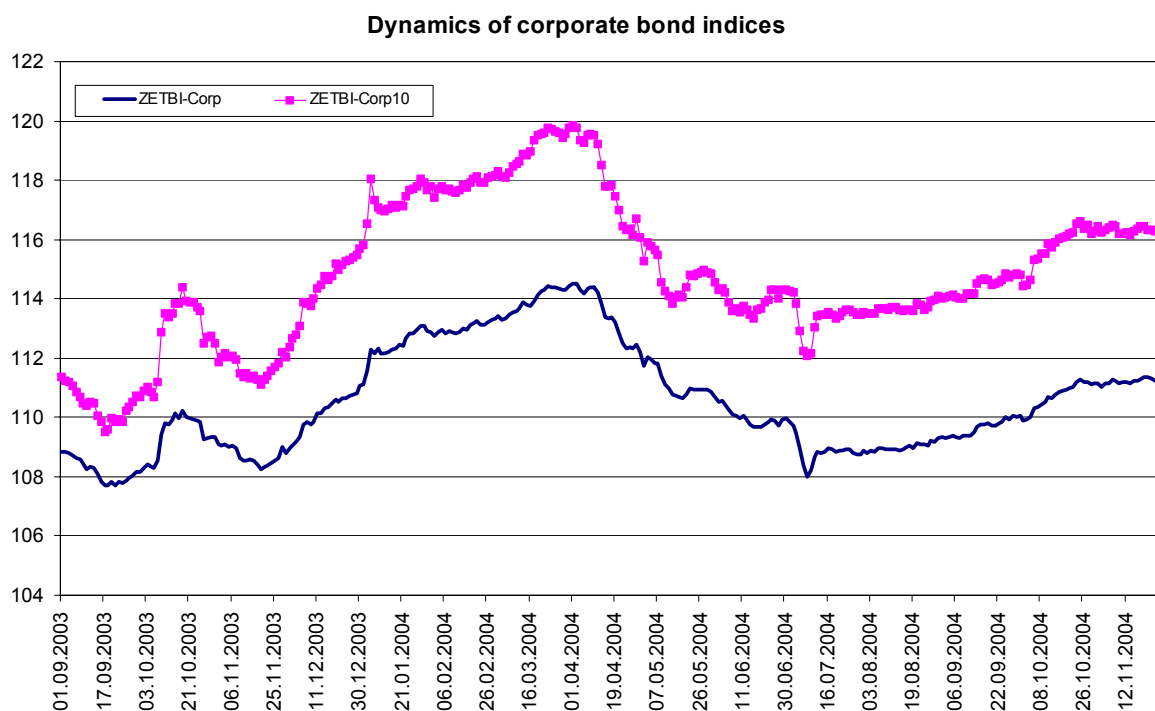
Later, at the background of favorable news on the increase in the Russia’s credit ranking, the market of corporate securities attempted to resume the growth. However, the increase in the prices of the most liquid securities proved to be rather insignificant, what could be explained by the shrinking of spreads of securities with respect to the government bonds. In this situation investors paid more attention to primary placements, where price conditions were more favorable.

From October 29 till November 26, the price index of corporate bonds traded at the MICEX⁸ increased by 0.03 points (0.03 per cent) and the index of ten most liquid corporate sector bonds decreased by 0.04 points (by 0.03 per cent). In the period from November 1 till November 26, the total turnover in the bond sector of MICEX made about RUR 24.2 billion, while the average daily turnover was registered at RUR 1.27 million.

⁷ According to the RTS.

⁸ The indices of corporate bonds traded at the MICEX that have been used for the calculations are calculated by Zenit Bank.

FIGURE 5

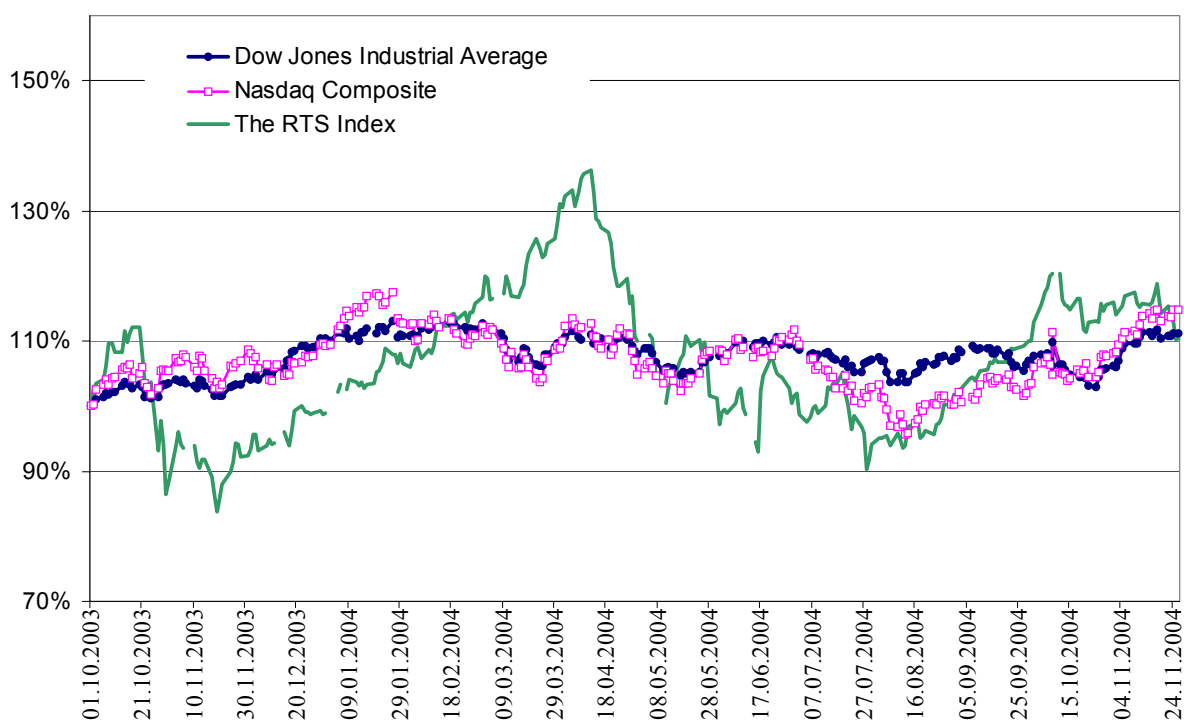


External factors affecting the dynamics of the Russian stock market.

In the beginning of the month, the oil quotations resumed their growth after a preceding decline as the results of the Presidential elections in the USA had been made public. At the same time, a further growth in quotations was constrained by the influence of a number of factors. First, the oil and oil products reserves in the USA has been gradually growing, therefore the apprehensions of the market players with respect to a relative deficit of fuels in the winter months have somewhat decreased. Besides, after the oil prices failed to exceed the level of US \$ 55 per barrel, and the Federal Reserve System had increased the interest rate by 0.25 basis points, the US hedge funds started to close out long positions, what facilitated a decline in prices. At the same time, meteorologists forecast a warmer winter than last year, therefore there will be required less fuel. By the end of the month, the decline in quotations has slowed down, what was caused by the impact of both technical factors, and the information that the members of the oil cartel might diminish oil production because of the steady growth in US oil reserves, and, therefore, a certain “overproduction.”

In November, the situation on the world stock markets remained favorable (see Table 1). In the beginning of the month, the US stock indices went up under the impact of the outcome of the US Presidential elections won by G. Bush and the decline in the world oil prices. The published economic data were mostly negative or moderately positive. Later, at the background of the publication of positive macroeconomic statistics and corporate news, as well as the continuing decline in oil prices, the rise of the indices persisted. The Open Market Committee of the US FRS, as it had been expected, raised the interest rate by 0.25 basis points to 2 per cent per annum. However, later stock indices were characterized by a certain decline at the background of the balance of news shifting to the negative direction and fixation of profits by investors. The major factors behind the “U turn” made by the market were the resumed growth in oil prices, an increase in interest rates, and persistence of the potential for a growth in yields of government bonds.

FIGURE 6.



Summing this section up, it should be noted that over the few last months running, the dynamics of the Russian stock market was primarily determined by internal factors. At the same time, in the situation of prevailing negative corporate news, the favorable business situation on the oil market and world stock markets permit to keep the quotations from a significant decline.

Corporate news.

The OAO LUKoil

On November 11, the OAO LUKoil Board of Directors determined the redemption price of documentary interest bearing nonconvertible bearer bonds, which the company plans to place prior to the end of this year. The redemption price is set at 100 per cent of the face value of the bonds. It is planned that the amount of the issue will be at RUR 6 billion with maturity in 5 years. The placement of the bonds took place on November 23 on MICEX. In the result of the tender, the coupon rate paid each 182 days was set fort at 7.25 per cent per annum, what corresponds to the effective yield to maturity at 7.38 per cent per annum. Investors submitted 123 bids amounting to RUR 11.3 billion.

On November 19, there was also taken the decision to convene the extraordinary meeting of shareholders in the company, on the agenda of the meeting there was put the issue of the preterm resignation of all members of the Board of Directors of the company and election of a new composition of the Board of Directors, as well as the approval of amendments to the OAO LUKoil bylaws.

The OAO Sibneft

On November 5, the company made public information on the attraction of a syndicated bank credit amounting to US \$ 160 million at the LIBOR interest rate plus 1.4 per cent. Therefore, this financial loan was the most cheap borrowing in the whole history of the company. The credit is granted for the term of 25 months and guaranteed by oil deliveries. The loan was syndicated by the bank ABN Amro. The company is planning to utilize the borrowed funds for the refinancing of its debts and working capital.

The OAO Gazprom

On November 19, the company presented the non-audited consolidated intermediate abridged statement for the first six months of 2004 prepared in accordance with the International Accounting Standards (IAS) requirements. According to the presented data, in the first six months of 2004, the sales proceeds of the company increased by 12 per cent in comparison with the figures registered in the respective period of the preceding year and made RUR 471 474 million. In the six months of the

year, the amount of net profit declined by RUR 13 797 million, or by 13 per cent in comparison with the figures observed in the respective period of the preceding year and made RUR 89 964 million.

The OAO GMK Norilsk Nickel

On November 19, the company presented the consolidated intermediate financial statement for the first six months of 2004 prepared in accordance with the International Accounting Standards (IAS) requirements. According to the presented data, in the first six months of 2004, the cost value of sold metals in terms of US \$ increased by 12 per cent in comparison with the figures registered in the respective period of the preceding year. In the six months of the year, the amount of the declared profit made US \$ 889 million, what was practically three times above the figures observed in the respective period of the preceding year.

The extraordinary general meeting of the company's shareholders, which took place on November 23, 2004, took the decision to approve the amount of interim dividends at RUR 41.4 per share. At the same time, in 2004 the total amount of dividends, including the interim dividends, will correspond to the dividend policies of the company (from 20 per cent to 25 per cent of the net profit calculated in accordance with IAS requirements).

The RAO UES of Russia

On November 5, the international ranking agency Standard&Poor's raised the long term credit ranking of the company from "B" to "B +" and confirmed the ranking of the RAO UES of Russia at "ruA +" according to the Russian scale with the "stable" forecast. According to the agency, the rise of the ranking reflects the improvement of the company's financial indicators, a gradual improvement of the characteristics of the energy and heat markets at the background of continuing economic development of Russia.

This month, the company also published the financial results of its operations in accordance with the Russian and international financial accounting standards. Thus, on November 1 there was published the financial statement of the RAO UES of Russia group for the first six months of 2004. Over this period, the revenues of the Group derived from its core activities have increased by RUR 41.9 billion to RUR 342.7 billion. In the first six months of 2004, the net profits of the RAO UES of Russia Group made RUR 15.4 billion, what was by about RUR 1.5 billion below the level registered in the respective period of the preceding year. The decline in the net profit indicator was related to the increase in profits due to minority shareholders. At the same time, on November 15, 2004, there was published the bookkeeping accounting of the OAO RAO UES of Russia for 9 months of 2004. The proceeds of the company made RUR 24.77 billion, what was below the indicator of the respective period of the preceding year. The net profit made RUR 17.10 billion, what was by RUR 2.31 billion below the figures registered in January through September of 2003.

The OAO Rostelekom

In November, the company published the results of its financial activities in the first 9 months of 2004 prepared in accordance with the Russian Accounting Standards (RAS) requirements. Over this period of time the proceeds of the OAO Rostelekom made RUR 27.64 billion, thus exceeding the indicator registered in the respective period of 2003 by 33.2 per cent. The net profit of the company made RUR 6.59 billion, what was by 37.8 per cent above the figures observed in the respective period of the preceding year.

The OAO Sberbank of Russia

On November 19, 2004, the international ranking agency Fitch raised the ranking of the OAO Sberbank of Russia to the investment level. The decision of the agency followed the similar rise of the sovereign ranking of Russia. The long term ranking of the OAO Sberbank of Russia was raised from the level "BB +" to "BBB-" with the "stable" forecast. The ranking of the issue of the international bonds of the bank was also raised from "BB +" to "BBB-". Therefore, at present all rankings of the OAO Sberbank of Russia are at the investment level.

The NK YUKOS

On November 3, 2004, the Board of Directors of the company took the decision to convene an extraordinary meeting of shareholders on December 20. The agenda of the meeting includes such issues as "Approval of the anti-crisis plan of the company," "On liquidation of the company," and "On the bankruptcy of the company." At the same time, on November 26, the Board of Directors of the NK

YUKOS approved the materials for the extraordinary meeting of the company's shareholders. On the recommendations of the Board of Directors, of the NK YUKOS, from these materials there was removed the item concerning the approval of the anti-crisis program. This recommendation was issued after the announcement of the date of the auction for the sale of the block of shares in the OAO Yuganskneftegaz at the underestimated price, putting forward of new tax claims for year 2003 amounting to RUR 170 billion against the company, and because of the absence of the official reaction of the state authorities to the numerous proposals of the company as concerns the settlement of the problem. In this connection, at the extraordinary meeting planned for December 20 the shareholders will discuss only such issues as "On liquidation of the OAO NK YUKOS," or "On bankruptcy of the OAO NK YUKOS."

Table 1

Dynamics of international stock market indices

Data as on October 27, 2004	Value	Change within the month (%) ⁹	Change since the beginning of the year (%)
RTS (Russia)	633.44	-4.60%	8.08%
Dow Jones Industrial Average (USA)	10522.23	5.20%	1.08%
Nasdaq Composite (USA)	2101.97	6.70%	4.75%
S&P 500 (USA)	1182.60	6.44%	6.69%
FTSE 100 (UK)	4741.50	2.41%	5.13%
DAX-30 (Germany)	4151.27	5.73%	3.38%
CAC-40 (France)	3782.20	2.82%	5.15%
Swiss Market (Switzerland)	5548.20	3.23%	-0.61%
Nikkei-225 (Japan)	10833.75	1.33%	0.08%
Bovespa (Brazil)	24998.00	7.88%	11.37%
IPC (Mexico)	12076.08	4.85%	48.75%
IPSA (Chile)	1773.94	1.96%	19.49%
Straits Times (Singapore)	2028.43	3.54%	13.23%
Seoul Composite (South Korea)	858.12	5.95%	4.49%
ISE National-100 (Turkey)	23293.21	3.22%	21.65%
Morgan Stanley Emerging Markets Free Index	511.71	8.93%	15.47%

The Foreign Exchange Market.

After a certain stabilization at the level of RUR 28.76 to RUR 28.78 per US \$ observed in the beginning of the month, the exchange rate of the US currency continued to plummet. The dynamics of the exchange rate was determined by the changes in the positions of the US \$ on the world market after the US Presidential elections, where there was registered a depreciation of the US currency. Investors were especially troubled by the growth in the deficit of the US balance of trade and the probability of deceleration of the economic growth rates. The activity on the Russian market was at a high level due to the factor of pent up demand relating to the US Presidential elections and the wish of market participants to purchase the currency prior to the November holidays. In the middle of the month, the foreign exchange market reacted in a rather reserved manner to the granting of the investment ranking to Russia. In spite of the downward trend demonstrated by the exchange rate on the day of granting of the investment ranking, the US \$ exchange rate practically did not changed by the end

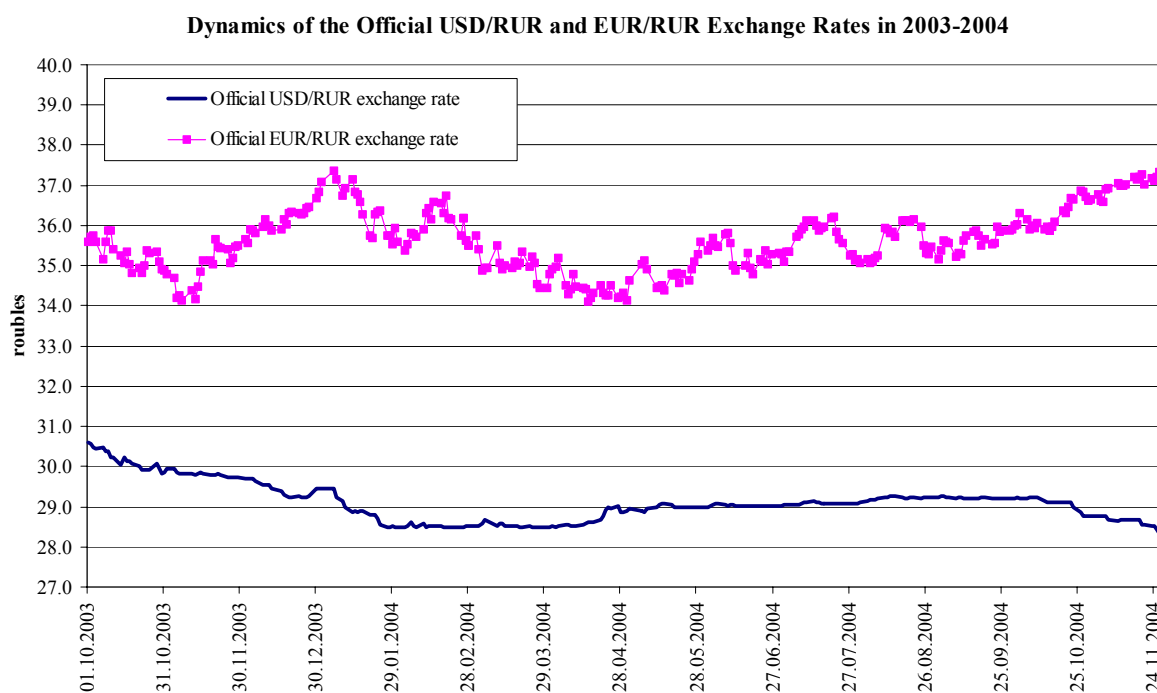
⁹ As compared with the levels registered on September 28.

of the third week of November. However, in the course of the next week the US \$ depreciation with respect to the Ruble continued.

Thus, in the period from October 30 till November 27, the US \$ depreciated by RUR 0.49 (by 1.74 per cent) and made RUR 28.266 per US \$. The aggregate volume of trade in the US Dollar at the SELT in the period from November 1 till November 26 made about US \$ 30 billion (as compared with approximately US \$ 18 billion in the respective period of October). Over this period, the average daily turnover made US \$ 1.6 billion, what was also above the respective indicator registered in October. During the period under review, the highest volume of trade in the US Dollar, about US \$ 4.35 billion, was observed on November 4; the lowest volume, US \$ 469 million, was observed on November 11.

This November, the Ruble liquidity in the banking sector continued to increase in comparison with the figures registered in the preceding month: in November, the average balances of correspondent accounts of credit organizations with the Bank of Russia made RUR 277.8 billion as compared with RUR 231 billion registered in October of 2004.

FIGURE 7.



In November, on the world foreign exchange market there was observed a sharp appreciation of the Euro against the US dollar. In the beginning of the month, the Euro / US \$ exchange rate resumed its increase after a certain consolidation, since the victory of the Republic candidate at the US Presidential election in fact means the persistence of the weak dollar in the course of the next four years. Moreover, after the publication of the data on the state of the US balance of trade the Euro exchange rate continued to set new record highs. The negative macroeconomic expectations in the USA and the statement of A. Greenspan, the head of the US Federal Reserve System, that with time foreign investors may loose interest in financing the permanently growing deficit of the US balance of payment also played against the dollar. On the contrary, the US \$ exchange rate was supported by a certain decline in oil prices observed on the world market.

In the period from October 31 till November 27, the exchange rate of Euro on the world market appreciated by US \$ 0.05 (3.93 per cent) and reached US \$ 1.3297 per Euro. At this background, there was also observed a significant appreciation of the Euro against the Ruble. In the period from October 30 till November 27, the European currency appreciated against the Ruble by RUR 0.91 (2.49 per cent) from RUR 36.64 per Euro to RUR 37.56 per Euro. Thus, the Euro exchange rate reached its historical maximum both on the world and the Russian market. The aggregate turnover of trade at the SELT amounted to Euro 139.7 million in the period from November 1 till November 26, while the

average daily turnover was registered at about Euro 7.35 million. In this period, the highest volume of trade with Euro was registered on November 18 at Euro 10.52 million, and the lowest, Euro 4.17 million, was observed on November 9.

FIGURE 8.

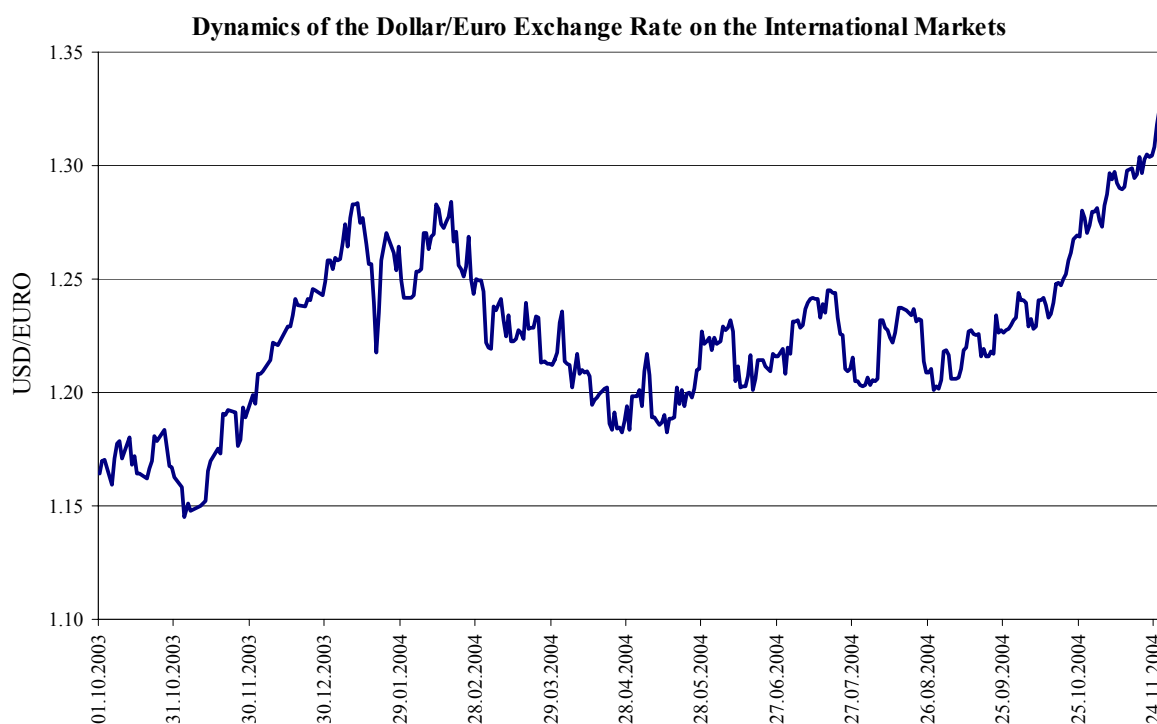


TABLE 2. FINANCIAL MARKETS INDICATORS

Month	July	August	September	October	November*
Monthly inflation rate	0,9%	0,4%	0,4%	1,1%	1,3%
Inflation rate annualized on the basis of this month's trend	11,35%	4,91%	4,91%	14,03%	16,8%
CB RF refinancing rate	13%	13%	13%	13%	13%
Annualized yield to maturity on OFZ issues (%)	6,45%	6,64%	7,13%		%
Volume of trading in the secondary GKO-OFZ market for the month (RUR billion)	6,41	20,61	33,59		
Yield to maturity on Minfin bonds at the end of the month (% p.a.)					
5th tranche	6,52%	5,87%	5,84%	5,28%	5,0%
6th tranche	4,78%	4,25%	4,25%	3,80%	4,1%
7th tranche	7,63%	6,90%	6,86%	6,27%	6,0%
8th tranche	5,33%	4,87%	4,76%	4,28%	4,4%
Yield to maturity of Eurobonds at the end of the month (% p.a.)					
2005	3,45%	3,92%	5,14%	6,26%	8,0%
2007	5,71%	5,30%	5,86%	5,39%	6,0%
2010	7,94%	6,76%	7,01%	6,66%	6,9%
2018	8,02%	7,60%	7,61%	7,21%	7,2%
2028	8,53%	8,22%	8,20%	7,83%	7,7%
2030	8,08%	7,23%	7,24%	6,84%	6,8%
INSTAR-MIACR rate (% p.a.) on interbank overnight loans at the end of the month	4,96%	9,86%	3,13%	2,93%	1,0%
Official RUR / US\$ exchange rate at the end of the month	29,1019	29,2447	29,2171	28,7655	28,2367

Official RUR / Euro exchange rate at the end of the month	35,0532	35,1463	35,9896	36,6472	37,4165
Average annualized growth in RUR / US\$ exchange rate	0,26%	0,49%	-0,09%	-1,55%	-1,84%
Average annualized growth in RUR / Euro exchange rate	-0,68%	0,27%	2,40%	1,83%	2,10%
Volume of trading at the stock market in the RTS for the month (US\$ million)	368,25	277,15	262,27	470,87	350
Value of RTS-1 Index at the end of the month	540,27	584,65	635,57	663,67	630
Change in value of RTS-1 Index during the month (%)	-7,59%	8,21%	8,71%	4,42%	-5,0%

* Estimate

D. Polevoy

The Real Sector of the Economy: Factors and Trends

In January through September of 2004, the increase in GDP made 6.9 per cent as compared with the figures registered in the respective period of the preceding year. The major factors behind the growth remain the intensive dynamics of external and investment demand. The structure of final demand changed under the impact of the outpacing rates of growth in gross accumulation in comparison with the final consumption of households. According to the estimates, in the case the increase in investment in fixed assets and exports as expected is at 111.5 per cent and 118.1 per cent respectively, while the rate of unemployment in the size of economically active population is 7.9 per cent, in 2004 GDP may grow by 6.6 per cent in comparison with the figures registered in the preceding year.

According to the results of the period from January till September of 2004, the amount of GDP increased by 6.7 per cent in comparison with the figures registered in the respective period of the preceding year. In the conditions of persisting favorable external business situation, the growth in the Russia's economy was to a significant extent determined by an intensive increase in exports. The dynamic increase in the gap between the rates of growth in exports and domestic demand has been registered since the 2nd quarter of 2002. In January through September of 2004, the export of goods increased by 32.1 per cent in comparison with the figures registered in the respective period of the preceding year.

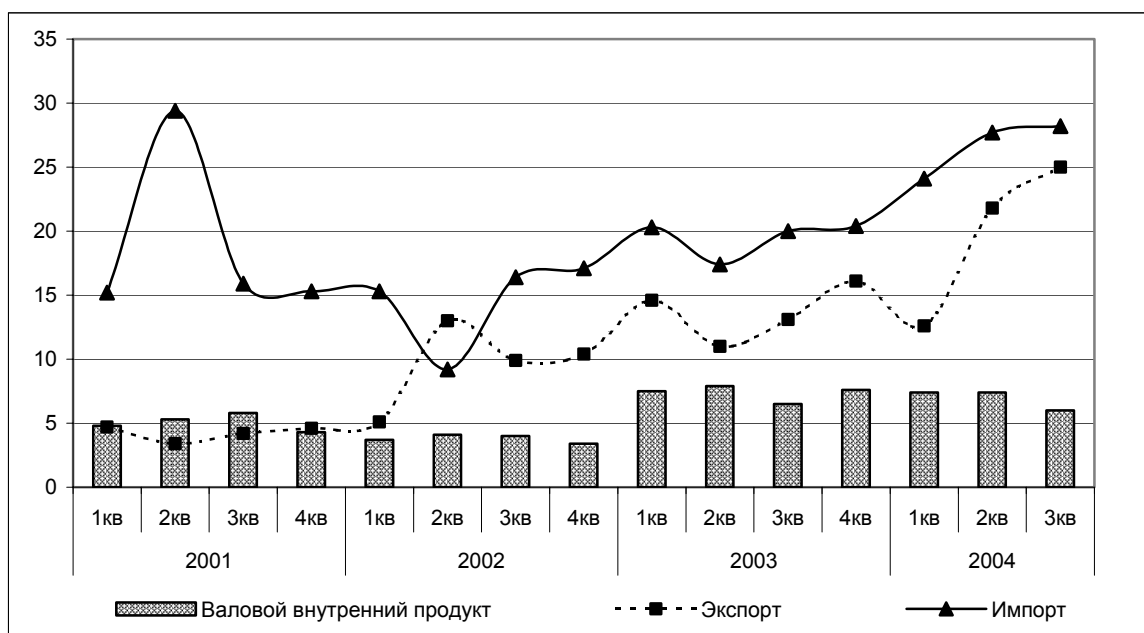


Figure 1. Rates of growth in GDP, exports and imports in 2001 through 2004, in % of the figures registered in the respective quarter of the preceding year.

An analysis of the structure of formation and utilization of resources indicates that the qualitative specifics of the economic growth in the Russian economy was the simultaneous increase in the share of exports in the amount of sales of industrial products and the growth of imports in the structure of resources utilized on the domestic market. In the exceptionally favorable external economic situation, the growing demand for hydrocarbons, metals, and other types of raw materials and products of primary processing on the world market was a factor behind a sustainable growth in production of oil extracting industry, ferrous and nonferrous metallurgy, industries of the forestry complex, and chemistry. At the background of outpacing rates of growth registered with respect to external economic activities as compared with the dynamics of the domestic market, in October of 2004 the share of exports in the amount of sales of manufactured goods made 32.6 per cent and increased by 7.3 percentage points in comparison with the figures registered in the respective period of the preceding year. In January through September of 2004, the specific weight of major fuel and energy resources in the structure of exports reached 54.5 per cent, while the share of ferrous and nonferrous metals increased up to 14.8 per cent in comparison with 11.2 per cent observed in January through September of 2003.

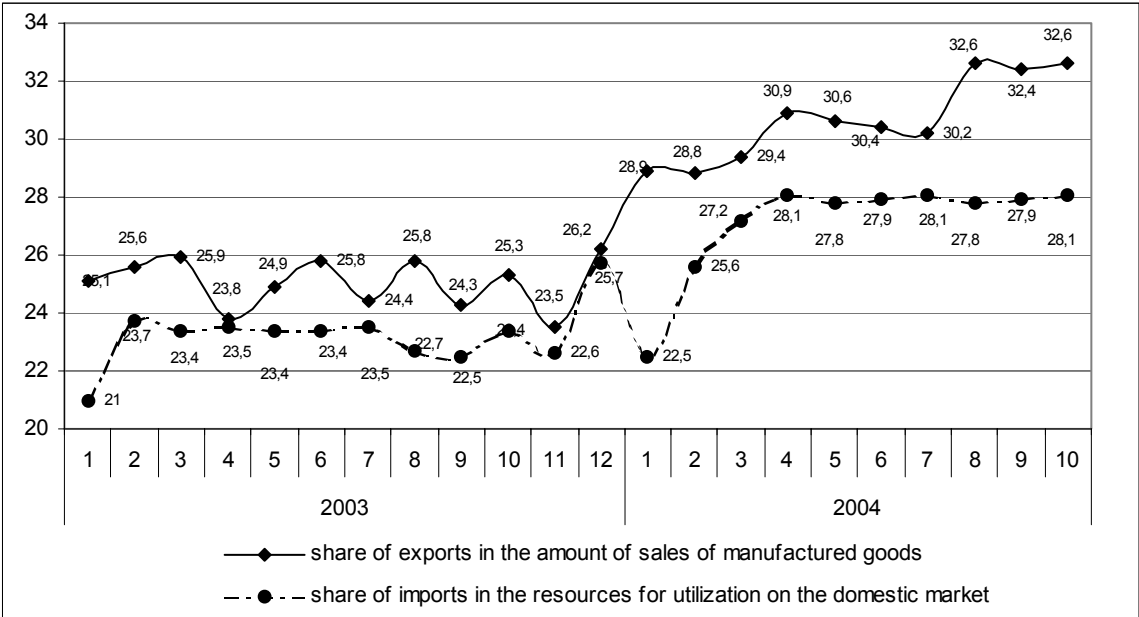


Figure 2. The change in the specific weight of exports and imports in resources in 2003 through 2004, in %, in the prices of respective months of 2003

The dynamics of imports have been significantly affected by the gradual Ruble appreciation and the increase in the efficiency of import operations on the one hand, and the diminishing attractiveness of Russian goods in terms of their prices due to the increasing production costs, what was caused by growing prices of fuel and energy resources, construction materials, and transport tariffs, on the other hand. In particular, the quality and intensity of the economic growth are negatively affected by the outpacing rates of growth in wages and salaries in comparison with labor productivity, an increase in electrical power and energy intensity of production and the low efficiency of use of fixed assets. As the competitive power of Russian goods of final demand declined, in October the share of imports in the resources aimed for utilization on the domestic market increased to 28.1 per cent as compared with 22.5 per cent observed in early 2004. Let us note certain specifics of formation of resources on different markets.

On the consumer market, there was observed a stabilization of the share of imports in the total amount of commodity resources at the level of 44 per cent. It should be noted that this trend was primarily supported by the decelerating rates of growth in imports of competing food products. At the present level of incomes, prices, and the structure of consumer preferences, the Russian producers not only retained, but could successfully increase their niches on the foodstuffs market as they changed the range and improved the quality of their products. The share of imports made 34 per cent in the total

amount of commodity resources of food products, what was at or below the average level registered in 2003. As concerns the market of nonfood products, there the situation was formed at the background of an outpacing rate of growth in imports in comparison with the output of domestic goods. In spite of the development of new production facilities manufacturing household appliances, furniture, and other household goods, the permanent crisis of the domestic light industry continued to negatively affect the nature of formation of commodity resources of the nonfood market. As the output of textile and clothing industry declined by 5.5 per cent and 12.3 per cent respectively in January through October of 2004, the imports of cotton fabrics increased by 17.7 per cent, while imports of knitted and cotton cloths grew by 25.1 per cent.

A specific feature of acceleration of the rates of growth in imports is primarily the increase in the imports of machinery and equipment in the commodity structure. While the increase in the total amount of imported goods in January through October of 2004 made 24.8 per cent, the amount of import of machinery and equipment grew by 46.2 per cent and made 44.1 per cent of the commodity structure of imports as compared with 39.2 per cent registered in the respective period of the preceding year. Although the rates of growth in mechanical engineering outpace the increase in investment in fixed assets, the structure and volumes of output of capital goods lags behind the changes in the reproduction and technology structure of investment in production. This year, the investment aimed at purchase of imported equipment made 23.5 per cent of the total investment in machinery, equipment, and transport vehicles in the economy at large.

In January through October of 2004, the increment in investment in fixed assets made 11.2 per cent, while the final consumption of households grew by 11.0 per cent. The acceleration of the dynamics of consumer demand was based on the growth in real disposable household incomes. In January through October of 2004, the real household incomes increased by 9.0 per cent as compared with the figures registered in the respective period of the preceding year. It should be noted that this year the rates of growth in real household incomes were most significantly affected by the outpacing increase in wages and salaries. In January through October of 2004, the real wages and salaries grew by 12.6 per cent as compared with 9.4 per cent observed in the respective period of the preceding year, what occurred at the background of an extremely moderate dynamics of growth in the real gross pensions (106.1 per cent) and other sources of household incomes.

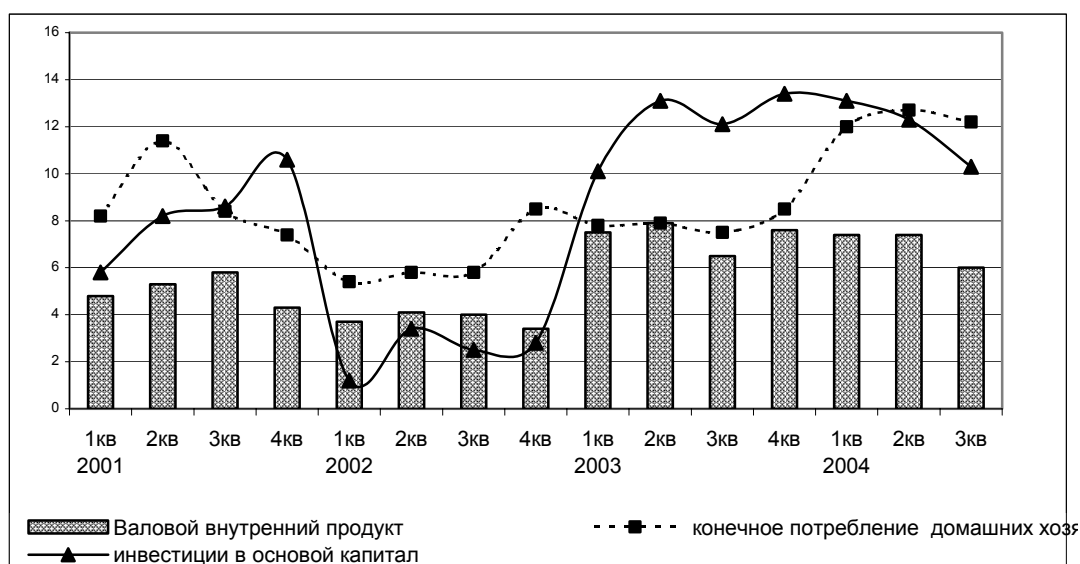


Figure 3. Changes in the dynamics of GDP growth across the components of final consumption in 2000 through 2004, in % of the figures registered in the respective quarter of the preceding year.

The growing purchasing power of households facilitated the persistence of high rates of increase in the retail trade turnover. In January through October of 2004, households spent Rub. 4071.7 billion for purchase of goods and services, what was by 22.7 per cent above the indicators observed in the respective period of the last year. The retail trade turnover grew by 11.6 per cent as compared with 8.5 per cent observed in January through October of 2003. As concerns the structure of retail trade turnover,

there was observed that the rates of increase in sales of non-food goods have constantly outpaced the rates of growth in the sales of foodstuffs, while the share of sales carried out via trading organizations increased and the assortment structure of sales changed in favor of more expensive food products.

The shifts in the structure of household demand and the growing share of sales of non-food durable goods and household appliances have facilitated the development of consumer crediting. Since the beginning of the year, the amount of credits granted to individuals increased by 64.3 per cent and made Rub. 492.6 billion as on September 1, 2004. As on September 1, 2004, the share of credits granted to individuals made 13.1 per cent of the total amount of credits granted by the crediting organizations.

Yet another specific feature of the changes in the consumer behavior of households was the increasing propensity to save. In January through September of 2004, the amount of cash household incomes made Rub. 7506.7 billion, savings, including the purchases of foreign exchange, made Rub. 1426.3 billion, what was by 20.4 per cent above the level registered in the preceding year. The amount of household deposits with crediting organizations on Ruble and foreign exchange denominated accounts made Rub. 1809.3 billion as on September 1, 2004, and increased by 17.1 per cent in comparison with the figures registered in the beginning of 2004 (the growth in Ruble and foreign exchange denominated accounts made 20.9 per cent and 8.1 per cent respectively). It should be noted that the household savings grew at the background of increasing differentiation of the population in terms of income levels. In January through September of 2004, the coefficient of funds made 14.8 times as compared with 14.4 times registered in the respective period of the preceding year, while the index of concentration of incomes (the Gini coefficient) increased to 0.406 as compared with 0.402 in the same period of 2003.

The structure of household incomes has significantly changed. In comparison with the figures observed in 2003, there was registered a stable increase in the share of property and business related incomes, while the share of wages and salaries and social payments declined.

Table 1

The structure of household incomes in 2003 through 2004, in per cent

	2003r.				2004r.		
	I	II	III	IV	I	II	III
Cash incomes, total	100	100	100	100	100	100	100
Including:							
Business incomes	11,4	11,1	11,8	11,1	11,4	11,5	12,2
Wages and salaries, including concealed wages and salaries	67,7	67,3	65,6	67,1	64,4	63,3	61,7
Social payments	14,3	14,3	14,7	13,8	13	13,7	13,8
Property related incomes	4,5	5	5,8	5,8	8,9	9,4	10,1
Other incomes	2,1	2,3	2,1	2,2	2,3	2,1	2,2

Source: Federal Service of State Statistics

Taking into account the fact that wages and salaries account for dominating portion of household incomes, the priority problems are the problems of employment. In 2004, the size of employment in the economy increased by 2.3 per cent in comparison with the levels observed a year ago and made 68.1 million. The total number of unemployed calculated in accordance with the ILO methodology has declined by 1.1 million since January of 2004 and made 5.5 million by the end of October (7.4 per cent of the economically active population). The coefficient of tension (the number of unemployed citizens registered with employment agencies per vacancy) decreased from 2.3 in January of 2004 to 1.9 this October. As the demand for labor grows, there is observed a trend towards more efficient utilization of working time. In the first six months of 2004, the actual duration of a working day grew by 1.8 per cent in the economy at large and by 2.3 per cent in industry. As compared with the figures registered in the first six months of 2003, the number of employees working a short working week and being on forced administrative leaves has declined by almost one third. The changes on the labor market resulted from increasing rates of economic growth. As the labor motivation changes, there is observed a trend towards shorter leaves than stipulated by the labor legislation taken by the employees on the voluntary basis.

O. I. Izryadnova

IET Business Survey: Industry in November of 2004

The first news on the state of the Russian industry in November do not permit to arrive to an unambiguous conclusion about the persistence of the upward trend registered in October in the course of surveys and later confirmed by official statistic data. In November, the rates of growth in demand did not increased, what made enterprises to diminish the intensity of production. However, the latter development resulted in favorable changes in the ratio between the dynamics of output and dynamics of demand. It is highly probable that the growth in output will persist in the next few months, although at a lower rate.

The data published by Rosstat in October provide certain evidence that the trend towards an industrial takeoff interrupted at the end of the 3rd quarter has resumed. In October, the average daily output grew by 0.5 per cent as compared with a 0.1 per cent decline observed in September (as adjusted for the seasonal factors). According to the estimates presented by the Center for Macroeconomic Analysis and Short Term Prognostication (CMASTP), in October the increase in the volumes of output of the raw materials sector (i.e. metallurgy, the chemical and forestry complex, as well as food industry) made the major contribution to the growth in the level of output across the industry at large. In January through October, the growth in industrial output made 106.2 per cent, while it should be noted that in October the increase made 103.5 per cent. In 2004, the industrial production index is estimated to make from 106.0 per cent to 106.2 per cent.

However, the first data on the state of the Russian industry in November do not permit to arrive to an unambiguous conclusion about the persistence of the upward trend registered in October in the course of surveys and later confirmed by official statistic data.

In November, the intensity of growth in sales (prior to the adjustment for the seasonal factor) declined by 6 points and turned out to be the minimum since July of 2004. A growth in sales was registered only in electrical power engineering and the forestry complex. Across other industries, the demand either decelerated its growth rates, or began to decrease in absolute terms (nonferrous metallurgy, construction industry, food industry). The data on sales as adjusted for the seasonal factor demonstrated the persistence of the November growth figures at the October level. However, the estimates of the increase in demand according to the above norm – below norm demonstrated that enterprises expected a more significant growth. The balance of evaluations declined by 2 points and was the lowest in the second six months of the year, while the share of “normal” evaluations also was at the minimum registered in the second half of the year.

In November, the rates of growth in output declined (prior to the adjustment for the seasonal factor) by 16 balance points at once. This year, only in January and May there were registered more slow rates of growth. The rates of increase in output have also decelerated across the majority of industries. At the same time, enterprises in ferrous metallurgy, chemistry, petrochemistry, construction industry, and light industry reported a decline in absolute terms. As concerns the mechanical engineering, the intensity of growth has decreased by 17 points at once, however, it remained positive – the output still increases, although at a very slow rate. After the adjustment for the seasonal factor, the reports of the surveyed enterprises also demonstrated a deceleration of industrial growth. The balance declined by 4 points and turned out to be the minimal since January of 2003. However, the ratio between the demand and output changed to the better in November. The share of enterprises, where output followed demand increased to 67 per cent. This increase occurred at the expense of the shrinking share of industrial enterprises, where output outpaced demand. In November, output outpaced demand only at 18 per cent of enterprises, while in the preceding 10 months of the year this share was at 26 per cent on the average. In November, the share of producers unable to meet the demand did not change: 15 per cent of enterprises reported that the demand for their products outpaced their output.

After a growth in purchases of machinery and equipment registered in two consecutive quarters, in the 4th quarter there was registered a decline of this indicator, in spite of the fact that the industry had practically used all idle production capacities remaining from the times of planned economy. In the 4th quarter, the evaluations of their production capacities by enterprises in comparison with the expected demand changed dramatically. The share of enterprises evaluating their available production capacities as excessive as compared with the expected demand for their products practically plummeted from 29 per cent to 20 per cent. Therefore, enterprises believe that they will have to use their production capacities to the maximal degree in order to meet the effective demand. In the case the “symmetrical

indicator” (i.e. the share of enterprises, where it is believed that their available production capacities are not sufficient to meet the expected demand for their products) is taken into account, it turns out that the Russian industry is close to the physical shortage of production capacities necessary to meet the expected demand for its products. The balance of this indicator (more than sufficient – less than sufficient) declined from + 15 per cent to + 6 per cent in the 4th quarter. In a short time, enterprises may encounter the problem of the lack of production capacities for production of their goods, of course in the case the industrial growth continues.

As concerns the short term outlook for the Russian industry, the forecasts of changes in demand are also far from being optimistic. In November, the balance of forecasts of sales declined to + 5 per cent, what is the minimum registered in 2004. After this indicator is adjusted for the seasonal factor, its value proved to be not so depressing; however, it was apparently insufficient for a revision of the pessimistic expectations.

The November forecasts of changes in demand turned out to be the most pessimistic in 2004. Although it seems that a growth in output will persist in the industry at large and across the majority of individual industries (with the exception of light and construction industries), the rates of this growth will be extremely low.

S. Tsukhlo

Russian Agrifood Sector: Growth Factors Exhausted

The 2004 agrifood sector performance definitely indicates that the period of recuperative growth launched by 1998 crisis is over. Both agriculture and food industry stopped growing (Picture 1 and Picture 2).

In recent years the basic growth factor in the sector has been the protection of domestic market from import due to devaluated ruble. Larger exports can also be attributed to this factor (although to a lesser extent). But beginning from 2000 the deficit of agrifood trade started to grow again despite expanding exports. Imports of agrifood items already surpass the 1998 indicators (Picture 3). In this situation the government attempts to extend the factor’s effect by strengthening trade protectionism. Year after year budget support to agriculture in real terms diminishes while the overall level of protection increases quite intensely. In other words, on the national level the government tries to prolong growth in the sector by protecting it from import. Indeed, in recent years the weighted average import duty¹⁰ on agrifood items was raised (in 2002 it amounted to 13.2%, in 2003 – to 15.3%¹¹), meat quotas, duties on import of rice and other commodities were introduced, cases of non-tariffs barriers to import became more frequent.

However, all these measures have failed to improve the sector’s performance – the average growth rates are falling at a high pace. Production indicators in some agricultural sub-sectors deteriorate. Although the output of many farm crops in 2004 exceeds the level of extremely poor-crop 2003, it still remains quite low as compared to previous years (Picture 4). Production of basic livestock products decreases as well (Picture 5), the only exception being poultry the output of which grows by 15-17% a year.

Does this mean that opportunities opened before the Russian agrifood sector after 1998 have been fully missed? We find that it’s not exactly so. The above mentioned facts reflect the situation in domestic agrifood sector at large. However, from the Soviet period it inherited quite a lot of marginal production that long remained afloat due to soft budget constraints, lack of efficient bankruptcy mechanism, non-developed land market and other market reform failures. Actually, the sector is rapidly polarizing: on the one side, we evidence the emergence of quite competitive producers that succeeded in modernizing technologies, management and production structure within the short respite after 1998; on the other side, farms for which the period of recuperative growth only protracted the dying agony still continue operating.

This process is most vivid in agriculture where bankruptcy of enterprises is coupled with acute social problem and poor legislative basis. One can surely assert that two segments shaped in the sector

¹⁰ *Ad valorem* part without specific component.

¹¹ Own estimates.

presently referred to as “agriculture”: farm production proper characterized by larger output, higher productivity and modernization, and the segment of former Soviet agricultural enterprises that became marginal producers and currently survive only thanks to state support at all levels having just one goal – to provide a source of income for local population. In fact, the second segment cannot be regarded as a part of the sector, and these are its performance indicators that pull the national averages of growth and productivity down. This assertion is supported by a lot of indirect evidences that will be described below.

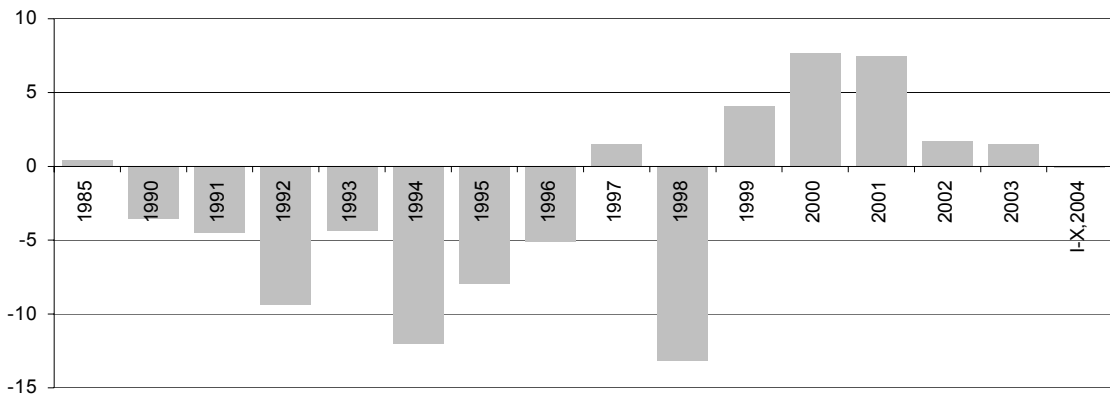
First of all, agricultural production is quite clearly concentrating in a limited number of producers. For instance, the top 100 companies account for the following shares in output: grain - 4% before the crisis and over 8% after the crisis, sugar beets – less than 15% and over 20%, respectively. This concentration is even more vivid in livestock production. Before the crisis the top 50 companies produced 15% of poultry, today – over one half; the top 100 pig producers accounted for 22% of output before 1998, presently – also for over one half. According to estimates of V.Uzun¹² slightly over 40% of financially viable farm producers account for about 75% of the sector’s commodity output (in 2002 42% of farms were profitable, in 2003 – 49%). The research of M.Grazhdaninova¹³ showed that about one half of agricultural producers is situated on the production possibility frontier while the other half is within this frontier. In other words, the output produced by one half of farm producers using available resources is much smaller than the one currently possible in Russia (i.e. the one produced using similar resources by the other half of producers). Investments grow both in agriculture and food industry. In case the agrifood sector really plunged into a crisis, it wouldn’t attract capital. But given the above mentioned dichotomy of the sector, it becomes clear that investments are made in its efficient part.

Moreover, production of farm machinery again started growing. Since its export is very limited, this supplement is consumed by the domestic market. Machinery is also purchased by the part of agricultural producers who are most efficient and dynamically developing.

One can draw some conclusions about these producers on the basis of foreign investments’ dynamics. In the past two years the share of portfolio investments in agriculture noticeably grew – quite a strange phenomenon for traditional farming since shares of major producers are not quoted on the stock market. The matter is that new farm producers named agriholdings emerged in Russia. These are large corporations that among others have agricultural departments in their structure. Shares of such holdings are quite quotable on stock markets, some of them – even on the world markets (e.g. those of Wimm-Bill-Dann company). The second – non-efficient – part of farm producers gradually shrinks. Some of these enterprises simply get closed, others either raise efficiency or get into more efficient hands and thus also become more efficient. Before 2003 the number of agricultural enterprises grew, first of all due to the creation of parallel entities to which non-indebted assets were transferred. Loss-making farms were the primary initiators of such new farms’ foundation, and accordingly the share of loss-making entities was growing. In 2003 the number of loss-making farms reduced by 2800: on the one hand, price parity improved helping 1500 more farms to end the year with positive balance and, on the other hand, 1300 failed farms (or 4.5%) were liquidated. As a result the share of profitable farms grew. As mentioned above, the bulk of liquidated farms are a kind of *bridge* enterprises intended to solve the problem of indebtedness. However, in the current situation mass bankruptcy of marginal farms will soon start leading to their liquidation. The developments in recent years show that agrarian protectionism fails to solve the problem. Thus the present-day agricultural policies should be urgently retargeted at solving problems of this part of agriculture, or, to be more exact, of the former agriculture. First of all, the problems of re-employment and social rehabilitation of people in these areas as well as of efficient use of other released factors of agricultural production should be addressed.

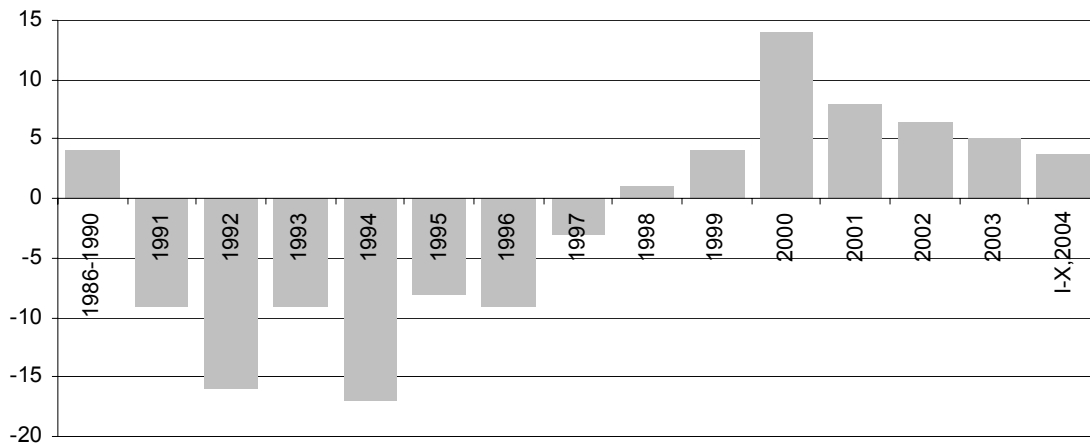
¹² V.Uzun. Large and small business in the Russian agriculture: adjustment to market and efficiency. Moscow, 2004. Proceedings of IET conference “Social and economic transformation in the CIS countries: achievements and problems” held on September 13-15, 2004. Mimeo. See: http://www.iet.ru/afe/old_confer.html#2004_09_13.

¹³ M.Grazhdaninova. Factors of agricultural production efficiency in the Russian transitional economy. Ph.D. dissertation paper. 2004, IET.



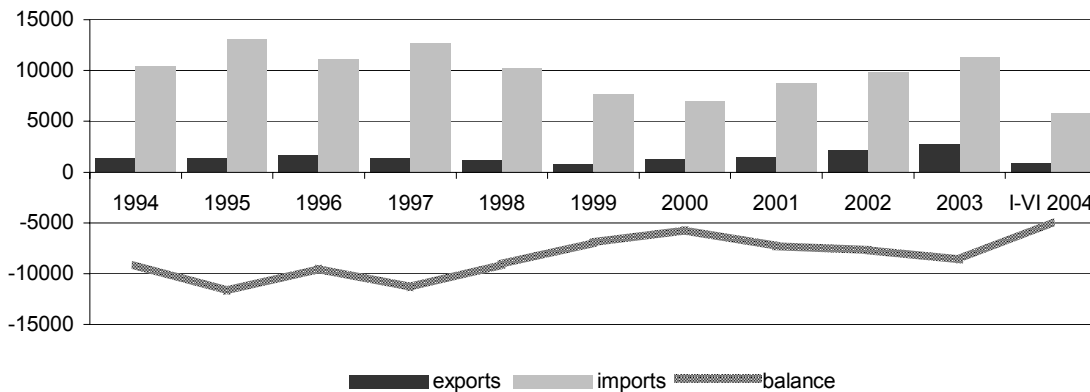
Source: Federal Service of State Statistics.

Picture 1. Russian agriculture: percent change of annual output in 1985-2004



Source: Federal Service of State Statistics.

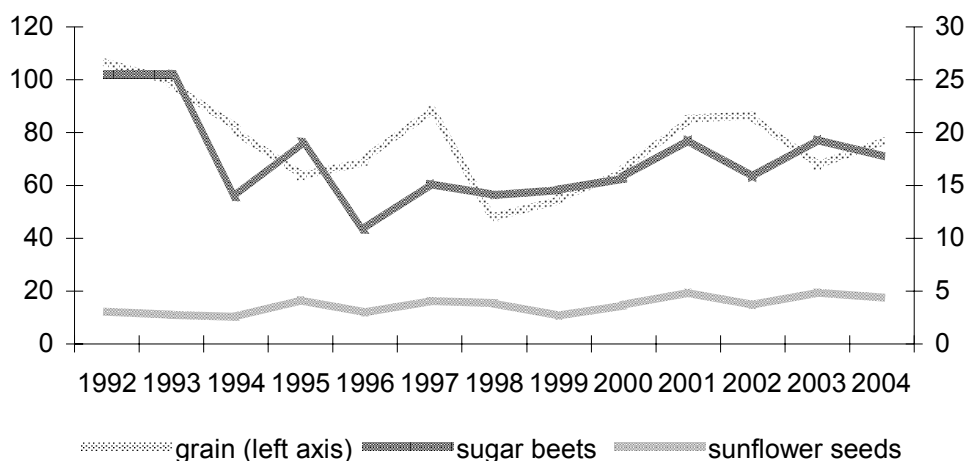
Picture 2. Russian food industry: percent change of annual output in 1986-2004



* - less trade with Byelorussia.

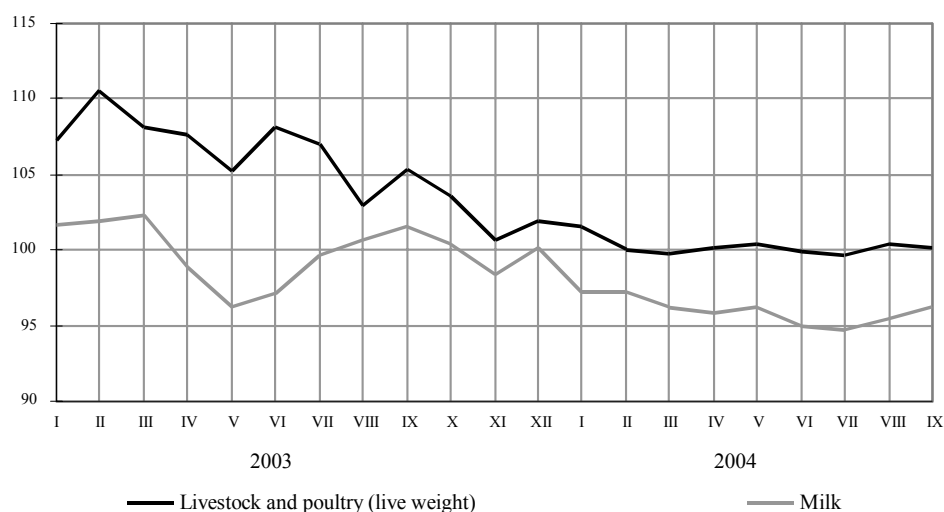
Source: Customs statistics of RF foreign trade.

*Picture 3. Foreign trade in agricultural and food items, million US dollars**



Source: Federal Service of State Statistics.

Picture 4. Gross output of basic farm crops, million tons



Source: Federal Service of State Statistics.

Picture 5. Production of basic livestock products as % of the previous month

E. Serova, O. Shick, N. Karlova, T. Tikhonova

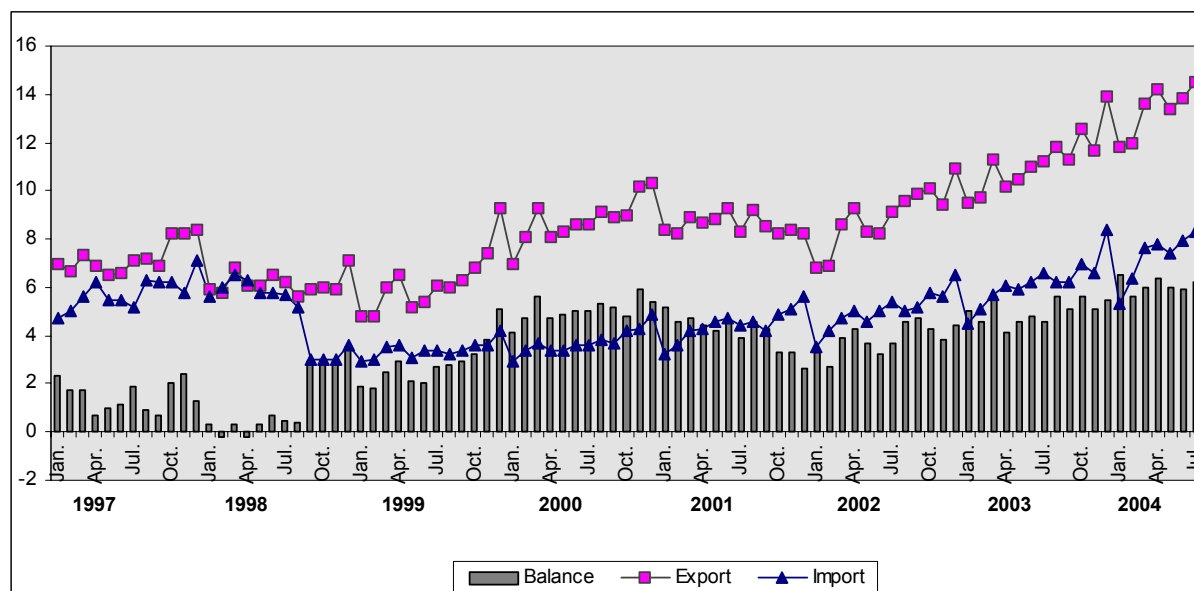
Foreign trade

In the conditions of favorable world market conjuncture and strengthening the national currency, a growth trend is continued of the Russian foreign trade turnover. Over the past 15 years, the record indicators for the foreign trade of Russia were shown in September of 2004. The growth of export can equally be explained by favorable price dynamics and increase in the actual volume of export. The key factors of growth of import are primarily, the growth of real disposable incomes of population and enterprises, and also ruble strengthening.

The new measures to stimulate the motor industry, developed by the Russian Government, will be directed not so much to the support of domestic manufacturers as to foreign-made car assembly enterprises. Till the end of the year the customs taxation of car components will be changed.

At the end of November, the Central Bank decided to radically reduce the mandatory sale standard of export earnings from 25% to 10%.

In September 2003, the foreign trade turnover of Russia, calculated according to balance of payment methodology, increased by 40.6% (USD 24.6 bn), as compared to the same period of last year. In comparison with the August this year, the indicator increased by 1.2%. In September, the volume of export made up USD 16.5 bn, which is higher the same indicator of last year by 42,5%. In September, the import exceeded the same indicator of 2003 by 25,2% and made USD 8.1 bn. In September 2004, the positive balance increased to USD 8.4 bn vs USD 5.1 bn. In the same month of previous year.



Source: Goskomstat of the RF, Central Bank of the RF

Figure 1. Major Indices of the Russian Foreign Trade

As before, the main export growth factor was high prices of the main raw commodities of Russian export, especially - energy sources.

In January this year the average oil price of Urals was USD 28.9/barrel, in June – USD 32.1/barrel (growth by 11,1%), in September – USD 38.1/barrel (growth by 31,8% as compared to January). The monthly average oil price of this grade for January-September this year made up USD 33.1/barrel (growth by 23,1%, as compared to the same period of 2003).

Based on the two months monitoring for Russian raw materials in the world markets, oil export duty is reviewed bimonthly. Since October 1, the duty was raised to all-time high – USD 87.9/t. Since December 1, the oil export duty from Russia will fix a new record and make up USD 101/t.

In September the oil prices at New York Exchange exceeded USD 50 and reached USD 50.47/barrel. As before, the oil market still remains critical, and no substantial price reduction is expected in the nearest future.

The prices of Russian natural gas remained high. A compared to the same period of last year, the average contract price for the none months of the current year increased by 0,8 percent.

In September 2004, the prices of major non-ferrous metals have changed at the market as follows. The average price of nickel was USD 13298/t (as compared to August last year, reduction by 3,1%). Basically, drop in price s concerned with lessening of demand on the part of its major consumers – stainless steel manufacturers. At the same time, the average price of nickel increased in the third quarter of 2004 (compared with the second quarter of 2004) by 11,6%, and made up USD 14020/t.

Price of aluminum made up USD 1726/t (growth by 1,9%). In the third quarter of 2004 the average price of aluminum reached USD 1710/t, which by 2% greater than in the second quarter. It is expected that demand for aluminum will exceed its production this year chiefly at the cost of growth of demand on the part of purchases in the USA and China. The high level of prices is also supported by the data on outdown of stock arrearage of aluminum.

Besides the growth of demand on the part of China, the cause of rising of prices in the world aluminum markets can be explained by the fact that for the past 10 years the influx of investments into aluminum industry was inadequate and this sector cannot provide the growth of demand.

The average price of copper in the third quarter of 2004 was USD 2852/t, which is by 2,2% higher than in the second quarter. An upward trend in copper prices is observed about a month already in the world markets. Panic buying on the metal provokes a steady decline of the stock arrearage. In the nearest future rise in copper prices may be continued under the influence of growing demand for this metal in various regions of the world, chiefly, on the part of the largest importers – the U.S. and China. But, due to growth retardation of Chinese economy, the demand for metals in the next months will be somewhat lower than expected not long ago. At the same time, the volume of supply is limited on many markets, and this inevitably directs price up.

According to the Bank of Russia, an increase of the world prices on the staple Russian export in January-September 2004, compared with the same period of 2003, made up, on average, 16,8%. The conditions of the Russia's trade with foreign countries in January-September 2004 (as compared to January-September 2003) improved due to outrunning price advance on the goods exported from the country.

Table 1

Monthly Average World Prices in September of Corresponding Year

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Oil (Brent), USD/barrel	22.9	18.12	13.1	22.6	32.15	26.18	28.26	27.1	42.68
Natural gas, USD/1 mln. BTU	2.743	2.251	1.858	2.62	5.118	2.204	3.625	4.678	5.483
Gasoline, USD/gallon	0.648	0.579	0.421	0.683	0.941	0.757	0.797	0.832	1.26
Copper, USD/t	1932.6	2032.7	1676.4	1876.8	2037.5	1452.9	1498.3	1816.4	2892.6
Aluminum, USD/t	1428.3	1544.6	1391.3	1493.6	1600.2	1342.6	1294.7	1415.0	1726.0
Nickel, USD/t	7426.4	6523.6	4229.8	6932	8654.3	5040.9	6592.5	9996.1	13298

Source: based on the data of the London Metal Exchange, International Oil Exchange (London)

At the heart of growth of the Russian import rests continuation of real strengthening of ruble against the dollar, and high, though somewhat slowed down in the third quarter, indices of economic growth. In real terms, in September of 2004, compared with previous month, ruble strengthened against the U.S. dollar by 0,2%, with regard to Euro – the ruble rate of exchange practically unchanged. As compared to December of 2003, in September of 2004, the real strengthening of ruble to the U.S. dollar made up 5,6%, to Euro – 7,6%. The real effective rate of exchange of ruble to currencies of the countries – major trade partners of the Russian Federation in September of 2004, compared with previous month decreased by 0,1%, relative to December 2003, raised by 5,3%

Continuing economic advance and a relatively slight inflation contributed to an increase of the real population income. In January-September 2004, compared with the same period of 2003, they grew by 9,8% (In January-September 2003 – by 14,1%). According to CB of the RF, with exception of the influence of seasonal and random factors, the real population income increased in September of this year (in comparison with previous month) by 0,9%. All that tend to growth of consumer demand of both population, and industrial enterprises.

We observe boosting of the demand for imported equipment on the part of Russian companies. According to the data of the Federal Customs Service (FCS), for the nine months of the year, import machinery and equipment was imported into Russia amounting to USD 19.9, which by 52,6% greater than in January-September of last year. Importation of consumer goods and raw materials is rising somewhat slower: In January-September 2004, the total volume of these goods into Russia increased by 31,5%.

Because of increase of imports, especially vulnerable are Russian enterprises, for example, automotive factories, which manufacture outdated products. They more and more stronger feel the consequences of ruble strengthening and improvement of competition. Since the middle of 2003, a steady decline of demand by population is observed for Russian cars. Following the results 9 months of this year, for the first time, the sales of foreign cars exceeded, in terms of value, those of Russian manufacturers. By estimate, this year the cost of foreign models bought by Russians made up USD 4.8 bn, and

the cars produced by joint ventures – almost USD 2 bn. The cost of purchased domestic cars amounted to USD 4.3 bn.

Therewith, for January-September 2004, compared with the same period of last year, import increased for all makes of cars. If as many as 130.9 thousand of foreign-made cars were imported for January-September 2003, then for the same period of 2004 – 372.3 thousand. The production expansion rates at joint ventures are also impressive: In 2003, they produced 57 ths. cars, this year it is planned to produce about 120 ths., in plan view for 2005 - 180–200 ths. Against the background of increase of imports (180%) and JV production (150%), an increase of the domestic car production by 12% since the beginning of the year look very modest. Thus, the quality of Russian cars had not reached world standards. Now hopes are placed on the foreign automobile assembly plants in Russia.

At present the Russian Government is working on reduction of customs duties on the car components from 10 to 2%. It is expected that this will lead to decrease in the cost of foreign-made cars assembled in Russia by 7–10%. Reduction of duties on component parts will considerably help, in future, to the domestic producer. Replacing domestic component parts of poor quality by more expensive analogues, it is possible to boost the competitive ability of the domestic automotive sector.

The more so, because the demand for cars by Russians continues to grow. Major cause of the growing demand for foreign-made cars became rise in shopping ability of population. Provision by car per capita in Russia five times lower than in the developed countries, so, in growing of income by population there will be growing a demand for cars.

At the end of November, the Central Bank of the RF decided to radically reduce the mandatory sale standard of export earnings from 25% to 10%. The decision is very important if it is remembered that just with the use of this standard the government in post-socialist Russia tried to affect the inflation and dollar rate of exchange.

For the first time the mandatory sale standard of a part of export earnings was introduced since January 1992 by Decree of the President Boris Eltsin on liberalization of foreign economic activities. The System was as follows: 40% of earnings into the Republican forex reserves according to special course, 10% -- for forming the Exchange Stabilization Fund of the Central Bank. Since July 1, 1992, the forex reserves and special course were liquidated by the Decree of the President: all 50% of currency earnings had to be sold domestic foreign exchange market. But they said in that decree that the procedure of sale is defined by the Central Bank, which decided as follows: 20% to the domestic foreign exchange market, while 30% -- directly to the Central Bank for renewal of its reserves. And only in a year, beginning from July 1, 1993, the Central Bank permitted to sell all 50% of earnings on the foreign exchange market. No doubt – those were hard times: degressive ruble rate of exchange, huge inflation, shortage of consumer goods.

In 1998, after the crisis (when in the country, again, was a shortage of dollars, a mighty splash of inflation took place, and all over again the commodity shortage became evident because of breakdown of import), the Government once again remembered of the mandatory sale standards. In December, the State Duma approved an increase of standard from 50% to 75%.

After the year 2000, because of ultrahigh oil prices, the Government faced another problem: too many dollars in the country. In 2001, the RF Government prepared a draft law on lowering the rate from 75% to 50%, which was adopted by the State Duma, in July, straight in three readings.

In November of 2002, when a new wording of the Law on currency control and currency regulation was being prepared, the Minister of Finance, Alexei Kudrin stated that it meant that the mandatory sale standard could be from 0% to 30%, and was established by the Central Bank. That standard should constantly be decreasing – it may be raised only when the barrel price of Urals will drop to USD 12. In July of previous year, the Central Bank had already exercised its right and at once twice reduced the standard - to 25%.

N.Volovik

Preparing to Restructure State-Financed Entities Network

From July 2004, the RF Government began an intensive discussion on measures aimed at optimizing the network of federal state-financed entities and restructuring state-financed entities. Two new organizational and legal forms were developed, namely the autonomous organization and the state (municipal) autonomous non-profit organization.

The task of reforming the network of state-financed entities was formulated in the message of the President of the Russian Federation to the RF Federal Assembly in May 2003 and specified thereupon by the «State-Financed Sector Restructuring Principles in the Russian Federation in 2003 - 2004 and for the period till 2006 » drafted by the Ministry of Finance of Russia and approved by the RF Government in September 2003.

In 2004, attempts were made to fulfill this task within the network of federal agencies. In July 2004, the Government Committee for Implementation of Administrative Reform approved a procedure of optimization of state-owned unitary enterprises under the jurisdiction of federal executive agencies¹⁴. Provision was made for breaking these organizations into groups and consequently preparing four lists of organizations being subject to 1) be retained in federal ownership; 2) be assigned to the ownership of the constituent entities of the Russian Federation and municipalities; 3) phased privatization; 4) additional consideration upon adoption of legal acts on privatization procedure of federal state-owned agencies or their transformation into other organizational and legal forms.

Special emphasis was made of state-owned educational institutions. Specified was expedience of transition of educational institutions remained in the federal ownership under the Federal Agency for Organization. However, the Ministry of Healthcare and Social Development and the Ministry of Cultural Affairs of Russia managed to retain medical higher schools and art colleges within their jurisdiction.

Organizations providing building upkeeping services, and buildings and property assigned to federal power authorities were suggested to be included in list 3; organizations providing logistic support and public services for federal public servants, as well as institutions with prevailing extra-budgetary financing on account of budgetary funds received under agreements with state power agencies are suggested to be included into list 4.

The outcome of the attempts aimed at profound restructuring of the state-financed sector within the scope of federal power agencies has come to be fairly modest so far. List 2 includes the majority of the specialized secondary education institutions which used to be under federal ownership.

The development of the proposals on transition of state-financed entities into other organizational and legal forms has become independent and important trend in preparing to reform the state-financed sector.

In the 90s, prior to promulgation of a new Budget Code, state-financed entities were indeed in many ways independent in doing their business, borrowing and utilizing budgetary and extra-budgetary resources. The situation has changed over the last few years. The current policy of the state is aimed at tightening financial discipline in budget planning and utilization, which logically is restraining the old independence of public entities. The real scope of rights of state-financed entities has been gradually shrunk. The state notably intends to bring this scope in compliance with the state-finance organization's model prescribed by the relevant organizational and legal form. Among the milestones of this policy are transition to fiscal execution of budgetary transactions of state-owned entities; adoption of a new close classification of budgetary expenditures designed for budgetary financing of organizations and approval of their expenditure budgets; and finally, introduction of fiscal execution of transactions on extra-budgetary revenues and expenditures of organizations, which means a strict control over by-item execution of budgetary revenues and expenditures of an organization.

With such developments the major part of state-financed entities would experience discrepancy between the scope of their rights and the requirements for their effectiveness which derive from real conditions of their performance. This relates to the organizations whose revenues are generated in the form of payment from budgetary and extra-budgetary sources of the services they provide. These organizations are healthcare institutions participating in the mandatory medical insurance system and receiving funds in accordance with the volume and quality of medical services; institutions of occupational education and art colleges whose revenues are mostly generated from extra-budgetary sources, etc..

Imposing extra restrictions on the business of such organizations would weaken their incentive in adequate record-keeping of the demands of their direct customers and efficient utilization of their re-

¹⁴ The minutes of the meeting of the Government Committee for Implementation of Administrative Reform as of July 13, 2004, No. 18 .

source potential. It is therefore necessary for the public sector to include not only administratively controlled state-financed entities, but also public organizations entitled to independent business.

The aforementioned « State-Financed Sector Restructuring Principles of the Russian Federation » specify two options of transition of state-financed entities: 1) into a specialized public or municipal non-profit organization, 2) into a public or municipal autonomous non-profit organization. The proposals on these forms of organization were developed by the Ministry of Economic Development of Russia, ГY-БИИЭ, IET¹⁵.

In spring of 2004, the Center for Private Law prepared federal draft laws on the basis of the old developments:

- « On Autonomous Organizations » ;
- « On Public (Municipal) Non-Profit Organizations » ;
- « On Establishment of Procedure, Conditions and Criteria for Public and Municipal Organizations in the Form of Restructuring » ;
- on amendments to the RF Civil Code, the RF Budget Code, and the Federal Law « On Non-Profit Organizations » .

Since the last summer, the Draft Laws have been updated under the auspices of the Ministry of Economic Development of Russia.

Each of the two proposed organizational and legal forms provides a public organization with a wider range of authorities, while at the same time releases from the state the responsibility for economic support of its business.

These Draft Laws provide a public (municipal) organization with a special type of right of operating management of property assigned to it by the founder. Unlike the applicable form of organization, the owner shall not assume subsidiary responsibility for the liabilities of an autonomous institution. The autonomous institution itself shall bear responsibility for its liabilities against the property being under its operating management, except for immovable and especially valuable movable property. The types of especially valuable movable property shall be determined by the Government of the Russian Federation.

An autonomous organization shall be entitled to individually dispose of other property (including immovable property) purchased with the revenues generated from its core business. Revenues of the autonomous organization shall be disposed in its own discretion and utilized for the purposes it is designed for.

The founder of an autonomous organization shall be entitled to set tasks for the autonomous organizations it is supposed to finance.

By providing autonomous organizations with a wider autonomy, the state should have more transparent mechanisms of control over their business. A form of control is setting up a supervisory board at an autonomous organization, in the alternative to administrative control by a superior state power agency. The board would include persons appointed by the founder, but they shall neither be expected to be employed at this organization nor receive remuneration for being a member of such collegial body. The body's function is to supervise the compliance of the organization's business with its statutory goals, including consideration of its plans and reports, authorization of major transactions, etc.

The form of public (municipal) autonomous non-profit organization implies that its property, including that assigned by the founder during its foundation, shall be owned by this organization. A public (municipal) autonomous non-profit organization shall be entitled to freely dispose of its revenues and the property purchased with these revenues.

The state shall retain control over the business of such organization through the supervisory board to be formed similarly to the board at an autonomous organization. In addition, in this case this collegial body shall be vested not only with supervisory authorities but also the rights of making specific decisions as follows: to approve annual financial plans of an organization and financial performance reports; to review financial performance of an organization over shorter periods of time (six months, quarter); to make decisions on compliance of some profitable non-core businesses of an organization with its statutory goals ; and etc .

¹⁵ Improving efficiency of budgetary financing of state-owned institutions and management of state-owned unitary enterprises, Volume I., M.: IET, 2003, pp. 151 - 250.

These forms are expected to complement the existing form of organization. Some of the current state-financed public organizations will retain their form, while the others will be transformed into new ones. For example, transformation into the form of autonomous organization is relevant for infant schools and schools located at medium-size towns and large cities, the majority of public vocational schools, as well as urban out-patient medical facilities and hospitals. In their business they either combine provision of free and fee-based customer services, or their services are covered by insurance companies thus making the foregoing organizations be influenced by the customers or insurance companies.

A part of public occupational schools and healthcare organizations are facing a strong competition and heavy pressure by the customers. These are economic, law and linguistic higher schools, IT and communication schools, some primary schools and secondary occupational schools, single-type clinics located at the same city, etc. Such organizations are advised to be transformed into public autonomous non-profit organizations.

So far, however, approval of the aforementioned draft laws by the ministries concerned has been delayed because of certain disagreements. The basic source of these disagreements is the property treatment suggested for an autonomous organizations. The Ministry of Economic Development of Russia has taken the view expressed by the specialists of the Center for Private Law, suggesting that the required property treatment for an autonomous organization is a form of the right of operating management. The view expressed by the General Law Department under the Cabinet of the President of the Russian Federation suggests that the corresponding scope of rights is beyond the scope of operating management and consequently can not be considered as one of its forms.

In November, the discussion of the above draft laws took a new dimension. The leaders of the Theater Association of Russia considered these proposals as an attempt to enforce administrative control over independent creative work and business of the Russian theaters. In this connection, they arranged some meetings to voice their protest with a wide coverage in the mass media. The keynote of reference to the government authorities was to urge them to protect the Russian repertoire theaters which are alleged to be doomed to collapse if transformed into the new forms of organization specified. As a matter of fact, the leaders of the theaters are trying to retain the current practice allowing them to wildly dispose of theater property and revenues generated from the use of the former with a minimum responsibility for the independent economic performance.

S. V. Shishkin

Issues Reviewed at the Sessions of the RF Government on November 18 and 25, 2004

Of all issues reviewed by the Government in November the most interesting are as follows..

On November 18, the report of the Minister of Education and Science, Fursenko A.A. “On Major Trends of Innovation Activity” was reviewed at the Session of the RF Government, which reflected the Government general policy concerning the development of national innovation system. **At the same Session**, the concept of IT market development was considered, presented by the Minister of Information Technologies and Communications of the RF, Reiman L.D.

On November 25, 2004, the report “On the Results of Federal Budget Execution for the 9 months of 2004. Major Characteristics of the Federal Budget Execution for the 9 Months of 2004” was submitted at the Session of the RF Government by the Minister of Finance, Kudrin A.L.

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On November 18, 2004, the report of the Minister of Education and Science, Fursenko A.A. “On Major Trends of Innovation Activity” was reviewed **at the Session of the RF Government**, which reflected the Government general policy concerning the development of national innovation system, namely:

- developing and perfecting the normative-legal base ensuring implementation of the intellectual activity results in business activity;
- pursuing economic policy in relation to the participants of innovation activity;
- forming infrastructure of the national innovation system for the development and improvement of innovation enterprise;

- government support of commercialization of intellectual activity results, preparing production and entering of innovation products (services) the market.

In addition, key measures were proposed in the report for implementation of the government policy for the development of national innovation system.

At this Session the concept of IT market development was presented by the Minister of Information Technologies and Communications of the RF, Reiman L.D.

The Minister noted the need to stimulate the development of the Russian market of information technologies, provided the characteristics of the IT market condition in Russia, and named reasons hampering its development. Also, the report reflected major trends of the government support for development of the IT market, perfection of basic legislation in this sphere, and also government support for the development of domestic market and export development in this sphere, as well as those - directed to forming the institutional basis of the IT market.

It is expected that, resulted from the implementation of such concept by the year 2010, it will be practicable to reach (as compared to 2003) a five-fold growth of the total volume of the IT market. Russia may become one of the three leaders in the world market of export of services in this sphere. Development of the industry will promote enhancing labor productivity in all branches of the economy, efficient use of human and material resource, which will contribute greatly to solving the task of GDP duplicating and lessening the primary dependence of Russian economy.

According to the report of the Minister of Finance, Kudrin A.L. "On the Results of Federal Budget Execution for the 9 months of 2004. Major Characteristics of the Federal Budget Execution for the 9 Months of 2004", presented at the **Session of the Government of November 25, 2004**, the federal budget revenues (with account of the single social tax (SST)) for the reporting period amounted to Rb 2425.0 bn, without account of

SST - Rb 2103,8 bn. The federal budget expenditures (with account of SST) for the fiscal year amounted to Rb 1962.2 bn, for cash execution of the federal budget – Rb 1837.0 bn. Financing federal expenditures (without account of SST) made up Rb 1641.6 bn.

For the reporting period, the financial aid from the federal budget was rendered to budgets of other levels of the RF to the amount of Rb 238.5 bn, that comprises 95,1% of that planned.

As of October 1, 2004, the volume of the State debt constituted Rb 4042.7 bn and lessened for the 9 months of that year by 3,9%. The volume of the State debt in relation to the projected GDP of 2004 made up 25,1%.

In general reduction of the volume of public debt in the reporting period there occurred an increase of the size of the domestic public debt (+ 62.3 bn.) As of October 1, the share of foreign debt in the structure of obligations comprised 81,6%, domestic – 18,4%. It is noted that, starting from 1999, the tendency for lessening of the foreign debt remains unchanged. Presently, the lowest debts in absolute terms have been fixed for the past six years (Rb 3298.4 bn).

According to the statement of budget credits and the budget loans provided by the Ministry of Finance of the RF, and their repayment, aggregate arrears before the federal budget for October 1, 2004 made up Rb 2786.4 bn, and within the 9 months of 2004 decreased in absolute terms by 71.9 bn. The major share of obligations before the Russian Federation falls on debts of the governments of foreign states (82,2%).

Also, a report of the head of the Federal Service on Financial Markets, Vyugin O.V., "On the State and Development of the Financial Markets in the Russian Federation, had been presented at this Session of the Government, in which it had been outlined that within the past four-year period the financial market of the country, represented by banks, pension and investment funds, general funds of banking administration and security funds, accumulated an overwhelming part of the fast-growing domestic savings, which rate in Russia was one of the highest in the world and comprised 32 - 35% of GDP. That became the result of the balanced policy pursued after 2000, which had a positive impact on taking business-decisions by Russian companies.

The report touched the situation on the stock market, securities market, banking services market, issues of functioning of the collective investments institutions, described the present-day situation in regulation of the financial market.

In particular, it had been outlined in the report that a number of domestic industrial companies began to actively use security issuing in order to attract the investment resource, i.e. to treat the securities market as one of investment sources.

Over the last few years, the corporate behavior of many companies has noticeably changed, they became to focus on those advanced standards that are contained in the Corporate Behavior Code. The securities market has developed most rapidly just in recent years, when radical changes (mentioned above) became evident in the behavior of the Russian leading companies.

By capitalization-to-GDP ratio, the Russian stock market achieved the level of some of developed countries and surpassed many of the developing economies, but still it is considerably lower than in developed economies.

At the background of growing of investment influx into the country, and the marked positive steps in the development of financial market, problems gradually accumulated by the end of the 2004, which showed themselves in that largest Russian companies do not consider the national financial market as a major source for attraction of the investment resource, while many middle-sized companies could not gain access to it.

The volume of funds attracted by enterprises on the national stock market constitutes only fractions of percent of the volume of investment in fixed capital.

Despite rapid growth of the volumes of trade of securities, the level of liquidity of the Russian securities market still ranks below the developed markets and a number of developing markets. One of the main cause of the above is explained by imperfection of existing infrastructure of the Russian stock market.

Despite the fact that all previous years investors regarded Russian shares as underestimated, as investors believe, the investment climate in Russia had been improved due to both, poetical and macro-economic stabilization, and because of the development of financial sector and financial legislation.

The Russia's banking sector's assets-to-GDP volume ratio remains not high. The same is true for the level of Russian banking system capital. This year the growth rates of the banking system have reduced. The main reason for reduction of the growth rates of banking sector assets, beginning from May this year, the resource base of the credit institutions began decreasing due to so-called "credibility crisis", expressed in the negative reaction of depositors and market participants to insolvency and recall of license from several banks. Despite decreasing of the resource base, basically, the banks maintained the level of credit investments in the non-financial sector of the economy.

In recent years, substantial growth is observed of the long-term (for a period over a year) deposits of population in the banks. If at the beginning of 2000, long-term deposits of population were practically non-existent, then, by August 2004, they made up around Rb 1 trln, and, for the first time, their share in the total volume of deposits of population in the banks exceeded 50%.

The normative-legal base of pension reform was principally formed in 2002-2003. The completion of forming the normative-legal base of pension reform, defining the subjects of the pension accruals market, conducting the main institutional arrangements on securing realization of the right of choice by the insured persons with regard to pension accruals administration, basically, allowed to take another step – investing pension accruals in the stock market.

The first experiment showed stability of the system of control of investing pension accruals, so, together with the following development of the securities market, it is possible to soften the requirements to the structure of portfolio of management companies, engaged in investing pension accruals, so that they could have a possibility to enhance efficiency of investing this capital.

Potential of the pension accruals market determines its significance for the development of both, the securities market on the whole, and collective investments institutions, in particular. Therefore, the task of organization of professional private administration of a part of pension accruals capital is one of most important in the pension reform.

The following essential growth of the "compulsory contribution system" will require higher demand for reliable and sufficiently earning assets, wherein such accumulations could be invested. From the point of view of strengthening the competitive ability of the national capital market, entering the market of Russia's best companies is a priority task for the strategy of development of collective investments in Russia.

It is mentioned in the report that the process aimed at improving the system of regulation and supervision on the financial market had started in Russia. According to Decree of the RF President "On the System and Structure of the Federal Bodies of Executive Power" in the Federal Service on Financial Markets (FSFM) of Russia the functions were combined on regulation and supervision regarding professional participants of the securities market, collective investments institutions, and non-

governmental pension funds, as well as functions on control and supervision of management companies' activities and specialized depository institutions in the sphere of forming and investing pension funds. Furthermore, commodity exchanges also became within the competence of the FSFM, which, basically resolved the problem of regulation and supervision on the market for stock derivatives of financial instruments. However, the process of establishing a single regulator on the financial market has not yet completed.

E. Bolshakova

Review of the Normative Acts on Taxation Issues for October-November 2004

1. The letter of the Ministry of Taxation of the RF N 22-2-14/1787, of November 12, 2004, on procedure of using the taxation system in the form of single presumptive tax for individual types of activity. It is clarified that the procedure of registration of payers of single presumptive tax, which dwelling location and place of business is not the same territory (types of activity are listed in point 2 of Article 346.26 of the Tax Code of the RF), is exercised in the general order, established by Order N BG-3-09/722 of the Ministry of Taxation of Russia, of 19.12.2002. Taxpayers no later than five days of the start of their activity are bound to register in every tax department on-the-spot of actualization of their activity. Herewith, it is to be remembered that registration of single tax payers on the territory subjected to tax body where they have already been registered, with respect to any other foundation, established by the Tax Code of the RF, repeatedly is not applicable.

2. By letter N 22-1-14/1786 of the Federal Tax Service, of November 2004, the procedure of taxation on individual types of income in the simplified system is specified. In particular, in defining an object of taxation, taxpayers, who use simplified taxation system, account revenues as positive exchange rate difference. Here, revenues in the form of negative exchange rate difference are not included in the list of expenditures.

3. By letter N 22-0-10/1760 of the Ministry of Taxation of the RF, of November 10, 2004, it is clarified that since 01.01.2005 the taxation system in the form of single presumptive tax may be used by decision of the Russian Federation's subject in respect of entrepreneurial activity on distribution and (or) placement of outdoor advertising. This procedure concerns only fixed position displays. The letter specializes the list of types of fixed position displays.

4. By Order N 298, of November 9, 2004, of the Ministry of Economic Development and Trade of the RF, a deflator rate K3, equal to 1,104, was set for 2005, that is required for computation of the presumptive tax base according to Section 26.3 "Taxation System in the Form of Single Presumptive Tax for Individual Types of Activity" of the Tax Code of the Russian Federation.

5. The Ministry of Taxation of the RF issued an Order N VG-3-02/569 of 27.10.2003, by which it is established that, in case a transaction is performed through trade institutor the transaction settlement date is the date of the tender, where a security transaction was closed. In case the security is converted out of the organized securities market, the transaction settlement date will be the contract signed date. Position of the Ministry of Taxation of the RF was supported by Decision N 8971/04 of BAC PΦ, of November 9, 2004.

6. By letter N 01-2-03/874, of November 3, 2004, it is specified that relations concerning exemption of single social tax of the salary paid to individuals from membership dues, are regulated by article 238 of the Tax Code of the Russian Federation. According to item 1(8), exempted of single social tax are the sums paid from the membership dues of horticultural, fruit-and-vegetable, garage construction and housing cooperatives (partnerships) to individuals that perform activities (services) for the above organizations. This norm becomes inoperative since January 1, 2005.

7. By letter N 33-0-09/691 of the Federal Tax Service, of November 2, 2004, it is clarified the following.

In Decree N 3009/04, of 03.08.2004, the Presidium of the Superior Arbitration Court of the Russian Federation stated that using cash means by loan agreement without levying percent by lender is not considered service rendering behavior. If organization or individual entrepreneur act as recipient of cash means, resulted from performing activities other than sale of goods, operations or rendering service, they shall not use cash registers. That is why in the event the recipient returns advance funds, the borrowers' return of the amount of an interest-free loan, or in the event the recipient receives a char-

ity grant, providing its receipt is not associated with the rise of the recipient's obligation to implement works for the donor or to render him any services, KKK provisions need not to be employed.

8. By letter N 10-1-05/5227 of the Federal Tax Service, of November 1, 2004, account details have been reported for accrual of taxes and dues in foreign exchange equivalent.

9. By letter N 04-2-06/572 of the Federal Tax Service, of October 29, 2004, an issue is clarified of taxation on monthly additional payment to the state pensions.

In accordance with item 1 of article 217 of the Tax Code of the Russian Federation exempted from taxation are public welfare payments, excluding temporary disability benefits (including benefit for care for a sick child), and also other payments and compensations paid according to existing legislation. Additional payments, established by decrees of the Russian Federation's subjects or local government representative bodies, including in the form of monthly additional payment to pension of individuals, that filled municipal service positions in local government, do not come under item 1 of article 217 of the Code and are subject to taxation in accordance with the usual procedure.

10. By Order N 8646/04 of the Supreme Arbitration Court of RF, of October 28, 2004, justification is confirmed of expenditures indicated in the declaration on value-added tax, imposed on the tax rate 0 percent. The court emphasized that by virtue of item 1(1) of article 164 of the Code in the sale of goods, brought out in customs export regime, taxation is carried out on the tax rate 0 percent, provided that relevant documents have been presented. In accordance with article 165 of the Code, to confirm justification of use of the tax rate 0 percent, the documents are submitted by taxpayer not later than 180 days of the date of formalizing by regional customs authorities the cargo customs declaration for exportation of goods in customs or transit regime.

Having received the amount of advanced payments in consideration for coming delivery of goods for export, the taxpayer must reflect it in the tax base relating to taxable period, during which payments were actually received, and reflect them in tax declarations.

11. By letter N 04-3-01/665 of the Ministry of Taxation of the RF, of October 27, 2004, taxation issues are clarified in buying by individual entrepreneur a transport vehicle.

1. Individual entrepreneur will be entitled to consider his car as "depreciable capital asset", and account his car's maintenance costs as part of professional tax deductions, only if both types of activity: trading and procurement, and cargo transportation - will be reflected in the entrepreneur's certificate of legal registration.

2. Initial cost of the purchased depreciable capital assets is defined by individual entrepreneurs – payers of the value-added tax (hereinafter referred to as - VAT) proceeding from their acquisition prices indicated in payment documents, without account of VAT.

If taxpayers have no invoices or they are not properly formalized (according to set standards), individual entrepreneurs have no right to include the amount of paid (to suppliers of capital assets) VAT in the original cost of these assets, also, they forfeit the right to reimbursement of such sums in calculations with the budget on VAT.

12. By letter N 21-3-05/461 of the Federal Tax Service, of October 26, 2004, the procedure is clarified of filling in declarations on corporate property tax for some sort of immovable property. Pieces of land and other nature management objects (water bodies and other natural resources), being on organization's balance, are not objects of taxation, according to item 4(1) of article 374 of the Code. The Tax declaration for corporate property tax (income tax return on advance payment) is filled in only for the property that is an object of taxation.

13. By letter N 21-3-05/468 of the Federal Tax Service, of October 26, 2004, it is clarified that fully exempted from the land tax are pieces of land that are granted for performing activities to bodies of government power and administration.

The Veterinary Department of the Ministry of Agriculture of Russia, Veterinary Boards (divisions) as part of the executive bodies of the Russian Federation's subjects, Veterinary Boards (divisions) as part of regions and cities relate to managerial bodies, and thus, cannot be payers of the land tax.

Organizations, to which code 22200 - veterinary attendance - was assigned before January 1, 2003, according to All-Union Nomenclature of Sectors of the National Economy, pay the land tax for plots of land occupied by those organizations, including animals' disease control stations and veterinary laboratories, - as usual.

14. By letter N 33-0-13/683 of the Federal Tax Service, of October 26, 2004, the specifics of use of tax legislation is specified relating to lawyers and lawyer's offices. Here position of the constitutional

court of the RF is given, which stated in its definition N 116-O, of 06.06.2002, that "provided in the Tax Code of the RF characteristic of individual entrepreneurs has a specific terminological value, while definitive norms, contained in item 2 of article 11, are intended for use exclusively for purposes of taxation. The fourth paragraph of item 2 of article 11 of the Tax Code of the RF has no self-inclusive regulatory value, such as direct-action norm ". So, though attorneys at law, who established advocatory studies, are taken by the Tax Code of the RF (fourth paragraph of item 2 of article 11) to category of individual entrepreneurs, this provision is used only for the purposes of the Tax Code of the RF. The Federal Law on the use of cash registers has nothing to do with the RF Legislation on Taxes and Dues, as it is regulated based on public, and not tax relations, public relations are concerned with performing entrepreneurial activity.

Thus, lawyer's offices and attorney's firms (including advocatory studies) in performing activities provided for by the legislation of Russian Federation, do not fall under the Federal Law on the use of cash registers, and must not use them in performing such activities.

17. By letter N 21-3-05/454 of the Federal Tax Service, of October 21, 2004, the procedure of exemption of corporate property tax is clarified according to item 8 of article 381 of the RF Tax Code (hereinafter referred to as - Code) with regard to mobilization equipment and facilities.

18. By letter N 21-3-05/453 of the Federal Tax Service, of October 21, 2004 the procedure of exemption of land tax is specified for the common-use lands of the population centers.

According to item 12 of article 85 of the Land Code of the RF, the common-use lands of the population centers are defined as: unlivable to privatization pieces of land occupied by squares, streets, passages, highways, quays, squares, avenues, drainless water bodies, beaches etc.

Forest farms of federal agency of forest management are subjected to territorial bodies of federal agency of forest management. Therefore, forest farms - specifically authorized government agencies in charge of environmental protection - are exempted of land tax.

In accordance with the RF Law "On Land Fee" exemption of the land tax is unstipulated for specially protected natural areas, defined, for example, as: greenbelts, municipal forests, city parks, landfills for disposal of unutilized factory waste, domestic refuse landfills and waste processing enterprises (until January 1, 2003, according to All-Union Nomenclature of Sectors of the National Economy, waste processing stations and plants were regarded as municipal housing economy (code - 90000)). Exemption of land tax, set by item 9 of article 12 of the RF Law "On Land Fee", cannot be applied to the above pieces of land.

19. By letter N 21-2-05/141 of the Federal Tax Service, of October 20, 2004, data are reported used for calculation of the tax on extraction of mineral resources with regard to oil, for September 2004:

- the average oil price of Urals in Mediterranean and Rotterdam markets - USD 38.21/barrel;
- mean value of the U.S. dollar-to-RF ruble exchange rate, fixed by the Central Bank of the Russian Federation, for all days of the taxable period - 29,2218;
- value of Adjustment Coefficient - 3,5031;
- tax rate with Adjustment Coefficient – Rb 1215,5757 per ton.

L. Anisimova

A review of economic legislation: November of 2004

In November, there were introduced the following changes in the legislation currently in force: the Second Part of the RF Tax Code was supplemented with new article 25.3 "State Tax", the RF Customs Code was supplemented with article 33.1 "Customs Fees", there were determined the maximum and minimum amounts of unemployment benefits, there were set the subsistence minimums for different social and demographic population groups for the 3rd quarter of 2004, there were approved the Rules governing the provision of extra medical aid to certain categories of citizens in the framework of the program of state guaranteed free medical aid to the citizens of the Russian Federation in the federal health care institutions, and there was brought to the notice of all concerned parties the data used for the calculation of the mineral extraction tax rate on oil in October of 2004.

I. FEDERAL LAWS of the Russian Federation

1. "ON AMENDMENTS TO THE FIRST AND SECOND PARTS OF THE TAX CODE OF THE RUSSIAN FEDERATION AND CERTAIN OTHER LEGISLATIVE ACTS OF THE RUSSIAN FEDERATION, AND THE ABOLISHMENT OF CERTAIN LEGISLATIVE ACTS (PROVISIONS OF LEGISLATIVE ACTS) OF THE RUSSIAN FEDERATION" No. 127 FZ of November 2, 2004

Enters into force on January 1, 2005, but not earlier than one month since the day of promulgation.

There were made certain amendments to the first and second parts of the RF Tax Code. For instance, the Second Part of the RF Tax Code was supplemented with new article 25.3 "State Tax", which provided the definition of the state tax and identified the payers of the state tax, stipulated the procedures and terms of the payment of the state tax, the amounts of the state tax paid in concrete cases, set forth the privileges related to the payment of the state tax, determined the grounds for and the procedures governing the return or off set of the state tax paid, the specifics of granting a grace period or respite as concerns the payment of the state tax.

Article 25.3 of the RF Tax Code accumulated all types of fees collected from citizens and organizations in the case they apply to the state authorities for acts relevant at law with the exception of acts performed by the Russian consular institutions. The single list includes many acts not mentioned in preceding Law No. 2005-1 of December 9, 1991, for instance, acts related to the official registration of computer programs, databases, and topology of integral microchips, the acts related to the federal assay supervision, state registration of floatation of securities, state registration of mass media, acts related to the granting of the right to export cultural values and the use of the words "Russia" and the "Russian Federation."

The rates of the state tax are set forth as a fixed amount denominated in Rubles in stead of multiples of the minimum wage. The rates have been changed significantly: they were diminished in the case of calculation as a percentage of the amounts of claims and civil law transactions and somewhat raised in other cases. For instance, in accordance with law No. 2005-1 of December 9, 1991, the rate of the state tax imposed on claims exceeding Rub. 500 million made 1.5 per cent of the amount of the claim, while in accordance with new law No. 127 FZ the maximal amount of the state tax collected with respect of similar claims as set forth for claims "exceeding Rub. 500000" makes Rub. 6600 plus 0.5 per cent of the amount in the excess of Rub. 500000, but no more than Rub. 20000; at the same time the amount of the tax on the registration of marriages increased from Rub. 100 to Rub. 200, while the state tax on the issue of the foreign passport grew from Rub. 200 to Rub. 400.

Law of RF No. 2005-1 of December 9, 1991, "On State Tax" was abolished.

Law of RF No. 2023-1 of December 12, 1991, "On the security transfer tax" was abolished, in this relation the security transfer tax should not be collected since January 1, 2005.

2. "ON AMENDMENTS TO THE CUSTOMS CODE OF THE RUSSIAN FEDERATION" No. 139 FZ of November 11, 2004.

Enters into force on January 1, 2005.

The amendments concern the imposition and collection of customs fees.

The law sets forth the definition of the custom fee, which is deemed as a payment required by the customs authorities for the conduct of acts related to the customs clearance, warehousing, and escorting of goods.

The RF Customs Code was supplemented with article 33.1 "Customs Fees", which set forth the types, the calculation procedures, the forms and terms of payment and the payers of such fees, as well as the exaction, compensation, and exemption procedures pertaining to such fees. The rates of customs fees related to customs clearance should be set forth by the Government of the Russian Federation.

In accordance with the amendments, there was set forth the maximum amount of the custom fee imposed on the customs clearance of goods, which should be limited to the approximate cost of provided services and can not exceed Rub. 100 000. The customs escort fees should be related to the distance of delivery of the goods. For instance, for the customs escort to a distance up to 50 km it is necessary to pay Rub. 2 000 per each transport vehicle and each unit of rolling stock, and to a distance from 51 km to 100 km – Rub. 3 000. However, in the case the freight is forwarded to a distance exceeding 200 km, the payment should make Rub. 1 000 per each 100 km, but not less than Rub. 6 000. The amount of the customs fee for the customs escort of each sea, river, or air vessel should make Rub. 20 000 and be not related to the distance of forwarding. The customs fees for customs warehousing should be at Rub. 1 per each 100 kg of the weight of the goods a day, and Rub. 2 per each 100 kg

of the weight of the goods a day for the storage in the warehouses specifically designed for the storage of specific goods. The weight short of 100 kg should be treated as the 100 kg weight and the time of storage less than a day should be treated as the storage for a complete day.

The goods stored in the customs warehouses should be exempted from the storage fee in the case such goods are stored directly by the customs authorities or in other cases determined by the Government of the Russian Federation. The cases where the goods are exempted from the customs escort fees should be also determined by the Government of the Russian Federation.

II. RESOLUTIONS OF THE GOVERNMENT of the Russian Federation

1. “ON THE AMOUNTS OF THE MAXIMUM AND MINIMUM UNEMPLOYMENT BENEFITS IN 2005” No. 591 of November 4, 2004

Enters into force on January 1, 2005.

In accordance with Article 33 of the RF law “On employment of the population in the Russian Federation,” the citizens officially registered as unemployed should be paid unemployment benefits at the minimum of Rub. 720 and the maximum of Rub. 2880 respectively.

2. “ON THE DETERMINATION OF THE NATIONAL PER CAPITA SUBSISTENCE MINIMUM AND THE SUBSISTENCE MINIMUMS FOR MAJOR SOCIAL AND DEMOGRAPHIC GROUPS OF POPULATION IN THE RUSSIAN FEDERATION IN THE 3RD QUARTER OF 2004” No. 689 of November 26, 2004

The Resolution sets forth the subsistence minimum across the different social and demographic groups of population in the 3rd quarter of 2004. Thus, the national per capita subsistence minimum should make Rub. 2396, for able bodied citizens – Rub. 2629, for pensioners – Rub. 1816, for children – Rub. 2336.

3. “ON APPROVAL OF THE RULES GOVERNING THE PROVISION OF EXTRA MEDICAL AID TO CERTAIN CATEGORIES OF CITIZENS IN THE FRAMEWORK OF THE PROGRAM OF STATE GUARANTEED FREE MEDICAL AID TO THE CITIZENS OF THE RUSSIAN FEDERATION IN THE FEDERAL HEALTH CARE INSTITUTIONS” No. 646 of November 17, 2004

Enters into force on January 1, 2005.

In accordance with the provisions of the new version of the federal law “On veterans” entering into force on January 1, 2005, there were approved the Rules governing the provision of extra medical aid to certain categories of citizens in the framework of the program of state guaranteed free medical aid to the citizens of the Russian Federation in the federal health care institutions. In particular, the Rules stipulate that the citizens should be provided the extra medical aid basing on the instructions issued by medical and preventive institutions treating such citizens at their places of residence or work, including pensioners. All federal medical institutions in the jurisdiction of any department should provide medical aid to such citizens in the case there are observed respective indications.

III. INSTRUCTIONS, REGULATIONS, AND ORDERS

1. Informational letter of the RF Tax Ministry No. 21-2-05/160@ of November 23, 2004 “ON CALCULATION OF THE MINERAL EXTRACTION TAX RATE IN SEPTEMBER OF 2004”

The letter informs about the data used for the calculation of the mineral extraction tax with respect to oil in October of 2004:

- the average level of Urals oil prices on the Mediterranean and Rotterdam markets (US \$ 42.43 per barrel);

- the average US \$ / Rub. exchange rate (all days of the tax period) – Rub. 29.0780;

- value of the Kts coefficient (3,9728);

- tax rate adjusted for the Kts coefficient (Rub. 1378,5616 per metric ton).

I. Tolmacheva