

**RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES**  
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## The state of the federal budget

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

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

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

	I'01	II'01	III'01	IV'01	V'01	VI'01	VII'01	VIII'01	IX'01	X'01	XI'01
Total	16,2%	16,9%	16,9%	17,5%	17,8%	17,9%	17,7%	17,3%	16,8%	16,8%	16,9%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
National defense	2,4%	2,5%	2,8%	2,8%	2,9%	2,9%	2,9%	2,9%	2,8%	2,8%	2,8%
International activities	0,5%	0,4%	0,2%	0,2%	0,2%	0,2%	0,3%	0,2%	0,2%	0,2%	0,3%
Judicial power	0,2%	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%
Law enforcement and security activities	1,7%	2,0%	1,9%	1,8%	1,8%	1,8%	1,8%	1,7%	1,7%	1,7%	1,6%
Fundamental research	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,7%	0,3%	0,3%
Services provided for the national economy	0,5%	0,9%	1,0%	1,0%	1,1%	1,3%	1,2%	1,3%	1,2%	1,2%	1,2%
Social services	2,4%	2,6%	2,5%	2,7%	2,6%	2,6%	2,5%	2,5%	2,3%	2,4%	2,3%
Servicing of public debt	3,2%	5,5%	4,7%	4,3%	3,9%	3,2%	2,9%	3,2%	3,2%	2,9%	2,7%
Other expenditure	3,7%	3,5%	3,2%	2,5%	2,7%	3,3%	3,2%	3,2%	2,6%	3,1%	3,0%
Total expenditure	15,3%	18,3%	17,2%	16,4%	16,2%	16,3%	15,7%	15,9%	15,5%	15,2%	14,8%
Profit (+) / deficit (-)	0,9%	-1,4%	-0,3%	1,1%	1,7%	1,6%	2,0%	1,5%	1,3%	1,6%	2,1%

The data on the execution of the federal budget over the three quarters 2001 is presented in Table 1<sup>1</sup>. As of November 1, the revenues to the federal budget 2001 accounted for 16.8% of GDP, including tax revenues – 15.5%, while expenditures made up 13.9 % of GDP (15.2% of GDP in terms of fulfilled funding<sup>2</sup>), including non- interest ones 11 %

<sup>1</sup> Because of the estimated data on GDP, the indices may be subject to revision

<sup>2</sup> The execution of the budget in terms of fulfilled (actual) financing is equal to the sum of the funds trans-

ferred 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)

ferred 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)

again, can be attributed to the rise in collection of indirect taxes, primarily VAT and excises (at 1.7 p.p.), and taxes levied on foreign trade (0.5 p.p.).

The execution of the expenditure part of the federal budget between January through October in terms of fulfilled financing accounted for 15.2 %, while in cash execution equivalent - 13.9 % of GDP.

The comparison of the budget execution indexes over the ten months of 2001 with those of 2000 allows noting as follows: expenditures on public debt servicing grew by 0.2 points (from 2.7% of GDP up to 2.9 % of GDP) over the period in question vs. the respective period of the prior year. At the same time between January through October the government paid off Rb. 156 bln. (1.9% of GDP) of the principal foreign debt and paid another Rb. 177.5 bln.-worth (2.2% of GDP) in interest payments,

plus Rb. 68 bln. – worth (0.8% of GDP) domestic debt and Rb. 44 bln.. – worth (0.5% of GDP) interest payments on that. The expenditures on support of the economy’s sectors nearly doubled compared with last year (from 0.6% of GDP up to 1% of GDP).

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

As of early November, the balances of accounts on accounting the federal budget funds (without regard to the funds accumulated on personal accounts of recipients of budget funds) grew up to Rb. 103.7 bln. (1.3% of GDP) .

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

1999											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
10067	11586	12281	12287	10524	11369	12785	12838	12514	14238	16190	21455
2000											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
15030	16161	18247	20714	23469	18817	18219	18762	17422	18232	20306	25579
2001											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XI
20580	19978	22917	26959	25311	23491	23342	23716	22088	23907	24892	

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

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

Fig.1

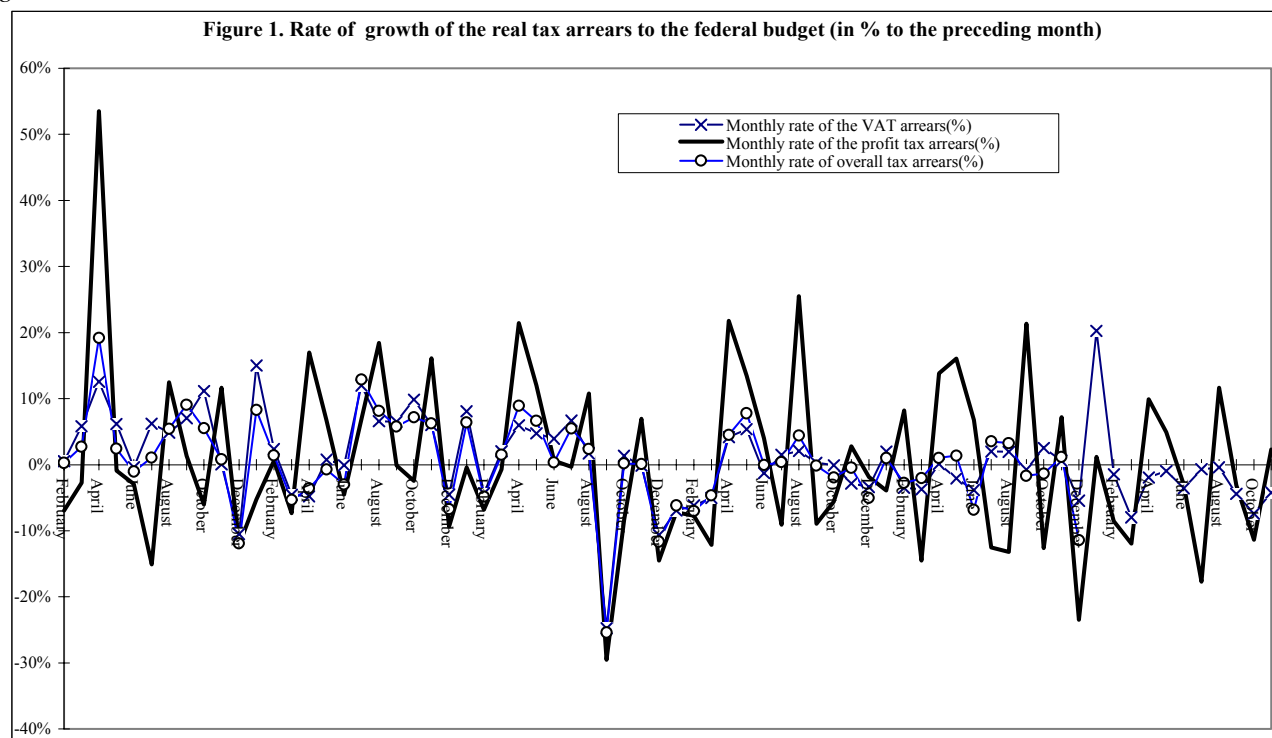


Fig.2

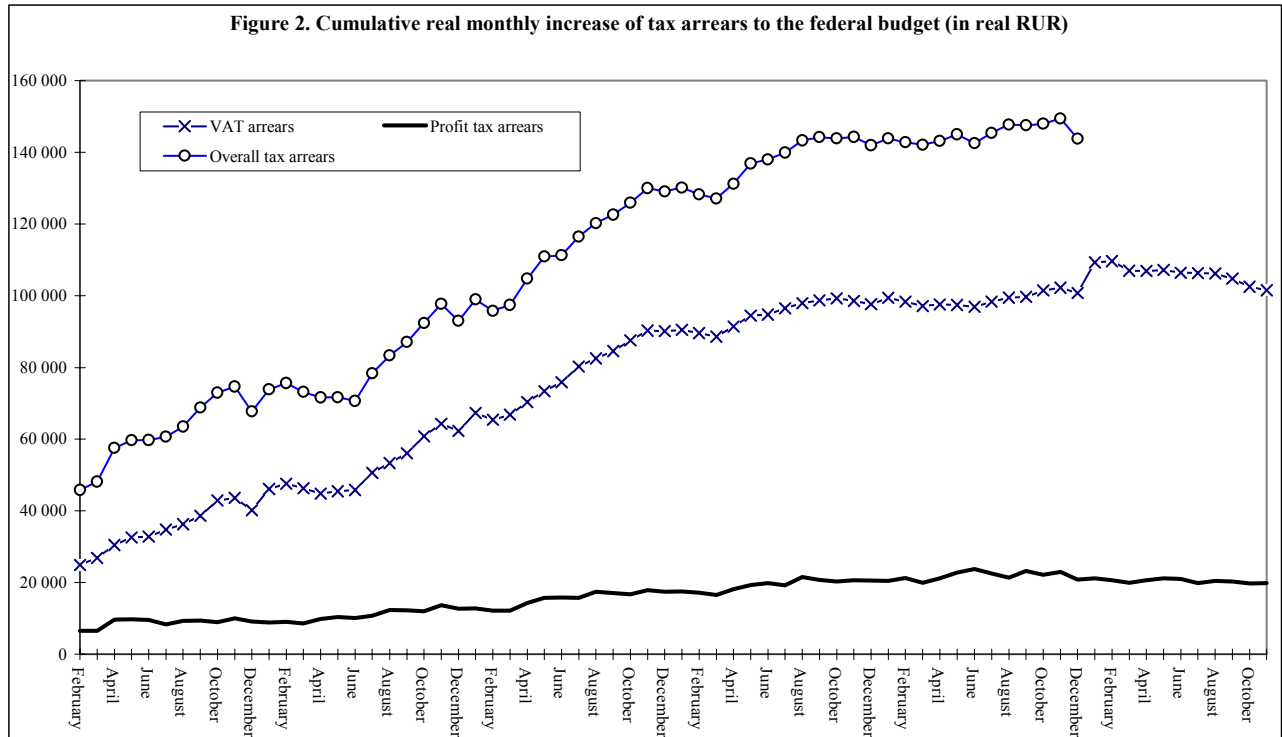


Table 4.

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

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

S. Batkibekov

## Monetary Policy

In November 2001 CPI grew by 1.4%. Notably, for the first time this year the cross-structure of price growth appeared rather homogeneous: prices for food stuffs and services rose by 1.5%, but the non-food goods price index grew by 1.1%. In December, the impact of seasonal factors was greatest ∴ e.g., prices for milk and dairy products grew by

4.9%, prices for fruits and vegetables – by 3.7%. A higher price rise rate was fixed even for sunflower oil – 8.5%. This can be attributed to a low output of oil-yielding crops this year and high custom tariffs on the respective imports.

In December, a continuous tendency to inflation acceleration was still there (see Fig. 1). Accord-

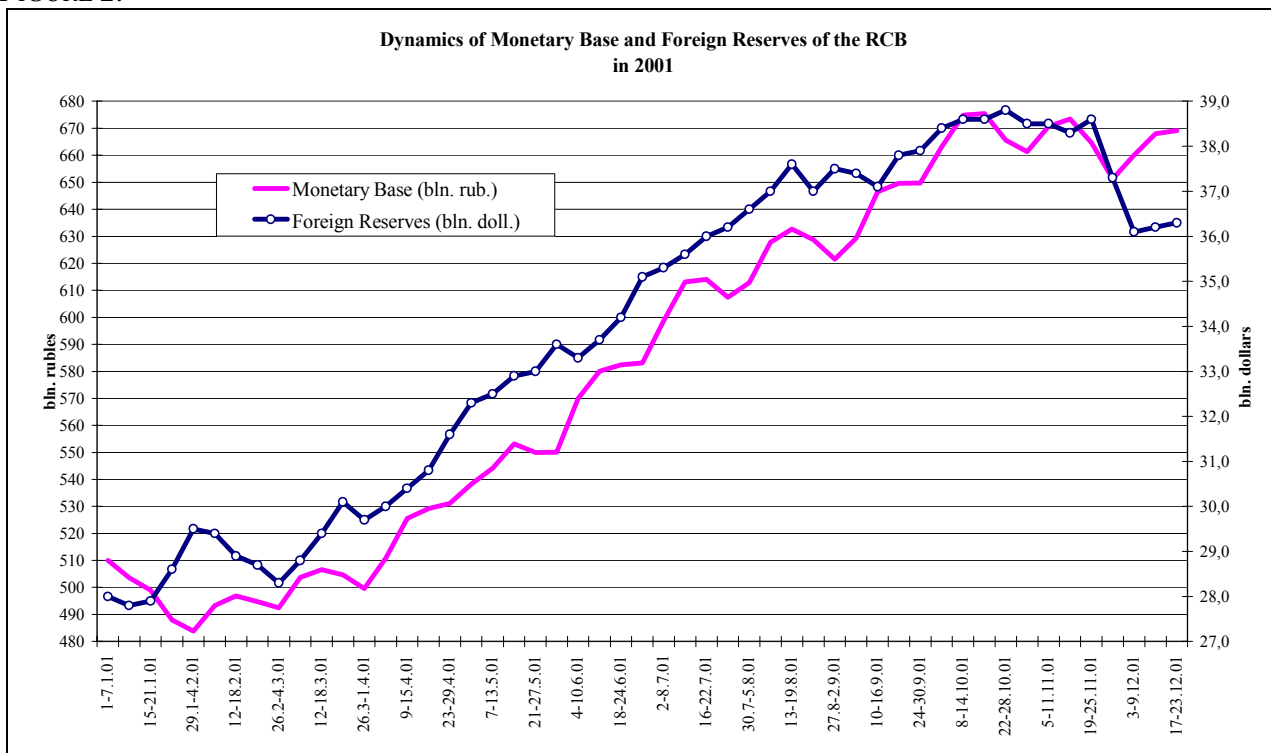
ing to preliminary estimates, they grew by 1.8–1.9% over the month, thus making up the highest monthly inflation rate since May 2001. Meanwhile, the final value of inflation rate in 2001 was down compared to 2000. In 2001 this indicator (based on the CPI) roughly amounted to 19%, the second lowest inflation rate rate noted over the period of

monitoring (while the absolute minimum was registered in 1997 – 11%). In comparison with 2000, the pace of consumer price growth dropped by approximately 1.1 percentage points. At the same time we should note that variation of monthly CPI growth rates in 2001 was larger than in 2000.

FIGURE 1.



FIGURE 2.

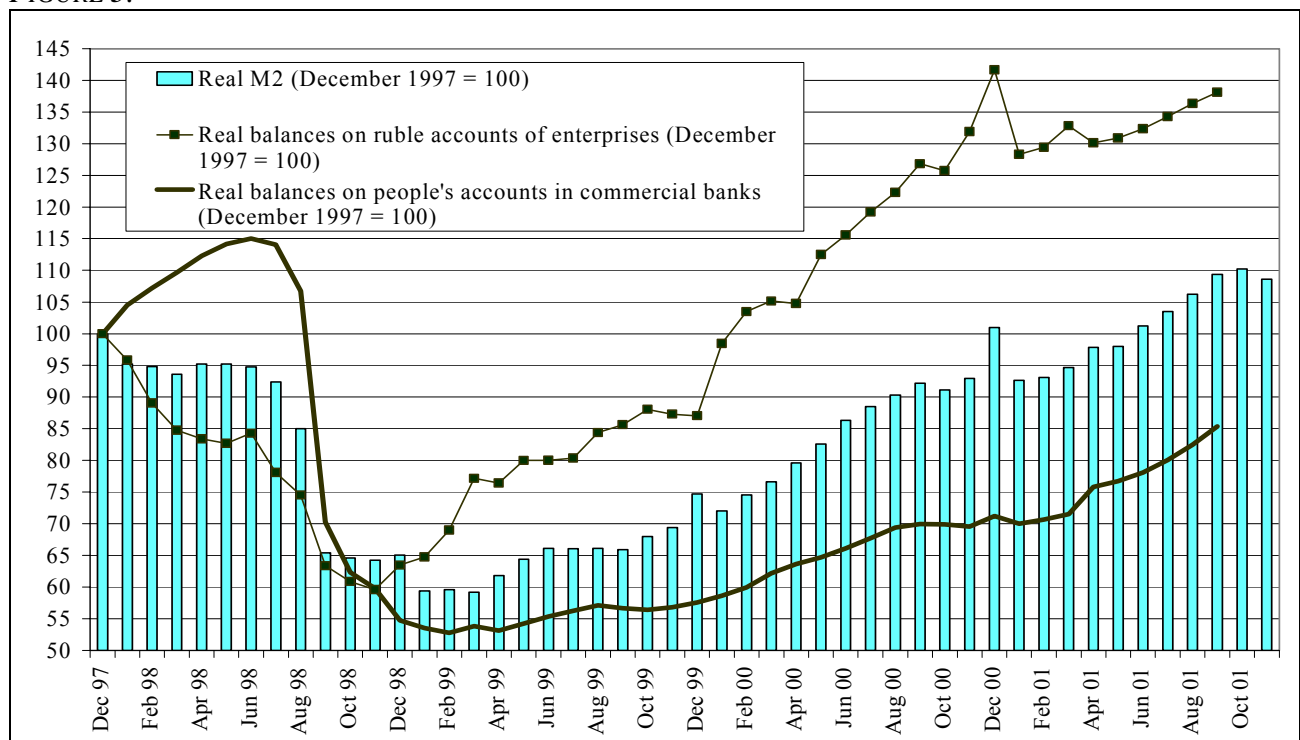


In early-December, in an attempt to stabilise the rouble exchange rate, the Russian Central Bank had to intervene heavily in the forex market attempting. This became visible through a substantial fall in foreign reserves (see Fig. 2). Since in late-November the foreign reserves dropped too, because of selling foreign exchange to the RF Ministry of finance, that repaid the Russian foreign debt, the total downfall in reserves reached up to \$2.5 billion over the two weeks in question (6.5% of the total foreign reserves). In mid-December the situation in the foreign exchange market stabilised, and the Bank of Russia returned to accumulation of reserves. So, by December 24 CBR managed to gain some \$200 million-worth foreign reserves. However at present the Russian foreign reserves stand at the level of late-July 2001 (\$36.3 billion).

The Russian Central Bank reported the M<sub>2</sub> volume accounting for 1439.1 billion roubles, as of end-October 2001. That is at 25.76% higher than

as of January 1, 2001. The real M<sub>2</sub> amounted to 108.6% against December 1997. Analysis of M<sub>2</sub> structure (see Fig. 3) showed a slowdown in growth rate of balances on firms' rouble accounts along with an increase of individuals' deposits in commercial banks. Thus, by end of September 2001 the real balances on firms' rouble accounts were 138.1% against December 1997 (in December 2000 – 141.6%), i.e. they grew by 7.6% between January to September 2001. At the same time, the real individuals' deposits grew by 21.9% and reached the level of 85.4% against December 1997. In our view, the tendency testifies to growth in the population's disposable income of as well as to growing trust in the national banking system. Since the share of expenditure on purchasing foreign exchange in 2000 and 2001 was low (5.5–6.5% of total expenditure), it is evident that the share of cash balances and savings in banking deposits rose.

FIGURE 3.



S. Drobyshevsky.

## Financial Markets

### The government securities market.

The rise of quotations of the Russian foreign liabilities noted over October and November discontinued yet in early December 2001 (see Figs. 1 and 2). During the whole month the yields on Minfin bonds and eurobonds were actually stable. Therefore, by the end of year the maximum yield on the Russian securities amounted to about 13.2% annu-

alised (the 5<sup>th</sup> issue of Minfin bonds) and the minimum one – to 5–6.5% annualised (eurobonds-2003 and -2030). This stabilisation of yields was caused by a number of factors. First, in December the economic and financial situation in Argentina deteriorated, and the President and the Government had to resign. In addition, the events in Argentina, namely the failure of currency board regime, have made the

common views on financial stability of emerging markets questionable. Second, during the month there was an uncertainty about future dynamics of oil prices and, therefore, Russia's capability to pay its debts in 2002. Third, it is evident that many investors sold bonds to fix their annual profits. In ad-

dition, the current yields on the Russian securities appeared quite low for assets with a similar risk rate, even despite the upgrading of Russia's sovereign rating in November and December to B+ (Standard & Poor's) and Ba3 (Moody's).

FIGURE 1.

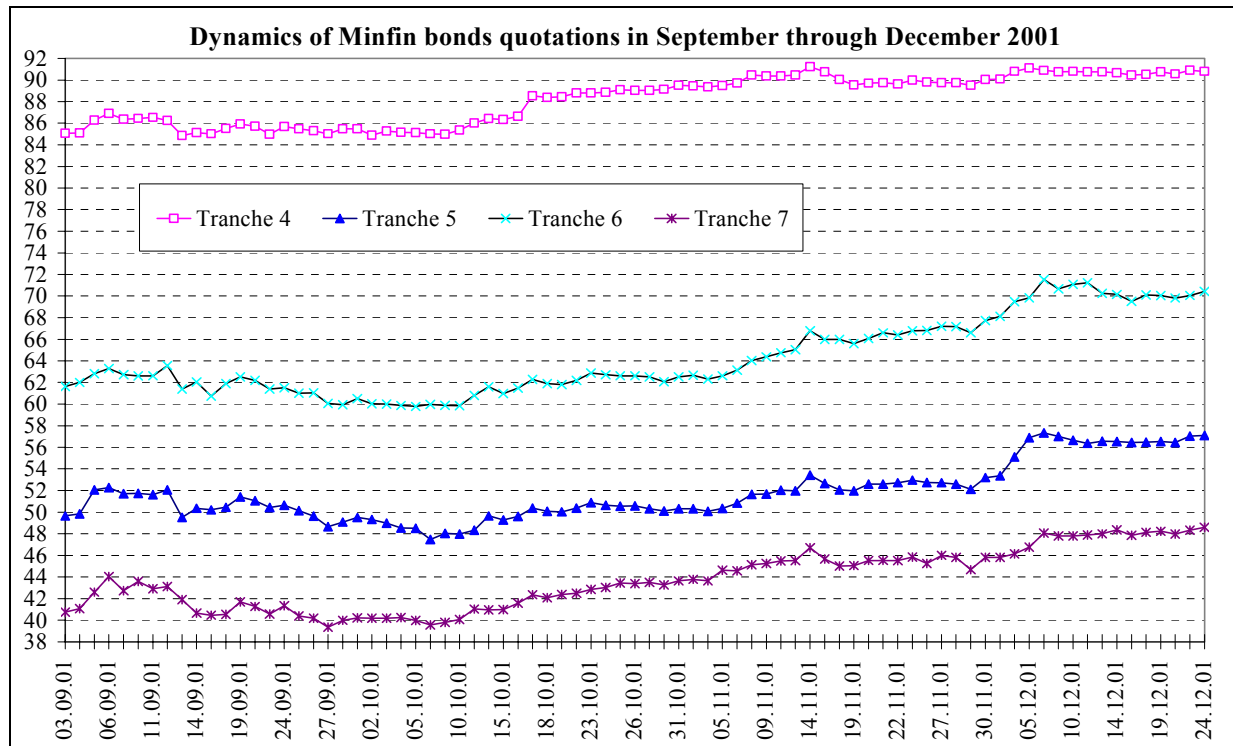


FIGURE 2.





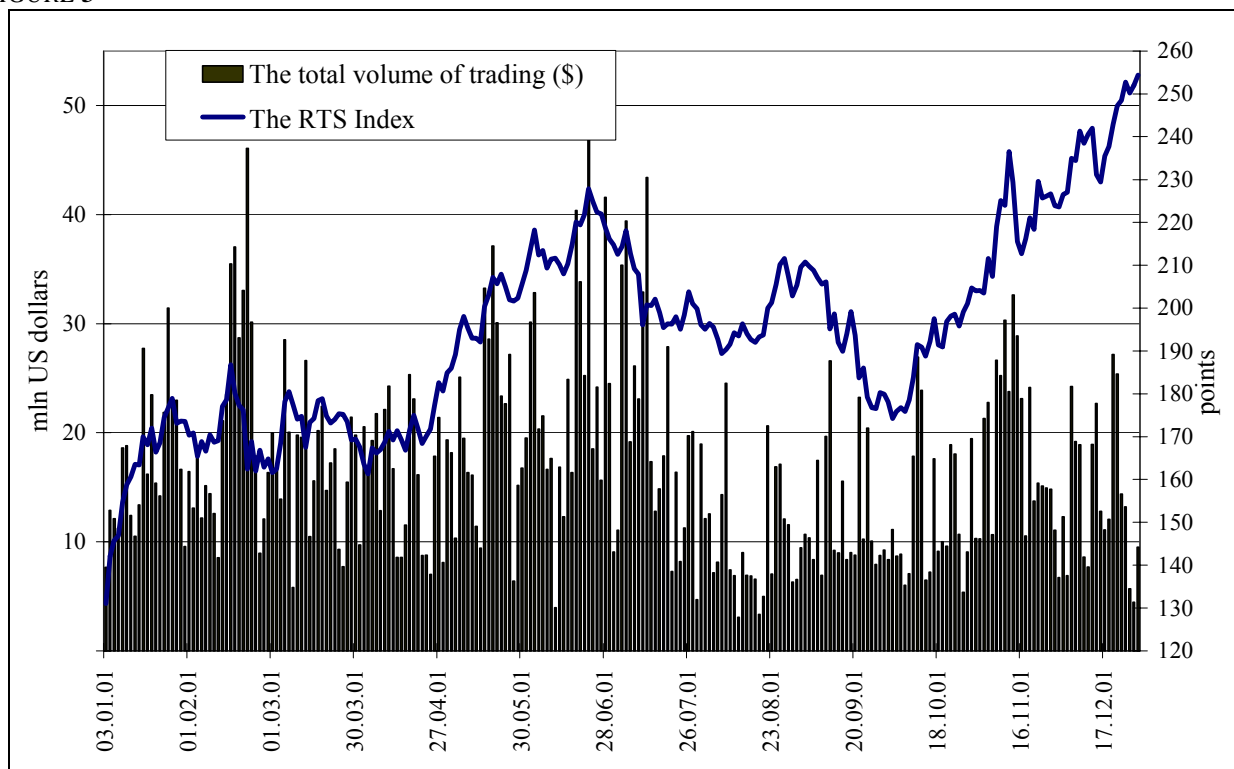
In December 2001 the situation in the market for domestic debt was unstable. The GKO-OFZ rates fluctuated rather strongly (over several last months), while the average-weighted yield to maturity has peaked up to the highest values since August 2001 (about 16% annualised). The main causes of instability in the market were the acceleration of the growth in the dollar exchange rate growth and fluctuations in liquidity. The downfall of the rouble and the need for liquidity in the banking sector intensified selling securities in the first half of the month. Thus, the average-weighted GKO-OFZ yield grew up to 17.5–18% annualised. However the redemption of OFZ No. 25030 (on December 15), which were issued under restructuring of GKOs and OFZs frozen in August 1998, brought up to 19 billion roubles to the market. Partly these funds were reinvested and by the end of the month the GKO-OFZ yields slid below 15.5% annualised. It is evident that as the attack against rouble vanishes and attractiveness of transactions with foreign currency reduces under the current level of inflation, the demand for securities

as well as their yields will come to the previously reported level (14.5–15% annualised, i.e. securing zero real yield).

**Stock market.**

The RTS Index grew over 10% the third month running, while the background for that has not been favourable. Disputes between independent oil-exporters and OPEC regarding reduction in quotes caused uncertainty in the market for energy resources. The economic crisis in Argentina, which crowned with resignation of the President and the Government and the nation's actual default on foreign debt also discouraged investors. The situation in the industrially developed countries is not safe as well. Thus, the growth rates of Japanese economy are negative the second quarter running, the US GDP fell by 1.3% in the 3<sup>rd</sup> quarter of 2001 (the earlier forecast was -1.1%), the leading German economic institute IFO predicts a crisis in the euro-zone, unless the ECB substantially reduces its key interest rate.

FIGURE 3



Between November 30 to December 27 the RTS Index grew by 27.89 points (12.31%) with trade volume exceeding \$260 million. The trade volume dropped by about 30% compared to the previous month with the maximum fall of turnover (by nearly 2.5 times over the last week) This reduction of trade volume can be partly explained by tradi-

tional Christmas holidays, when foreign investors leave the market. On December 26 the turnover hit the four-month minimum – \$4.46 million. The daily average trade volume in RTS amounted to \$14.6 million. At the same time a rapid rise of the RTS Index was noted in the first half of the month. On December 6 the index hit the annual maximum –

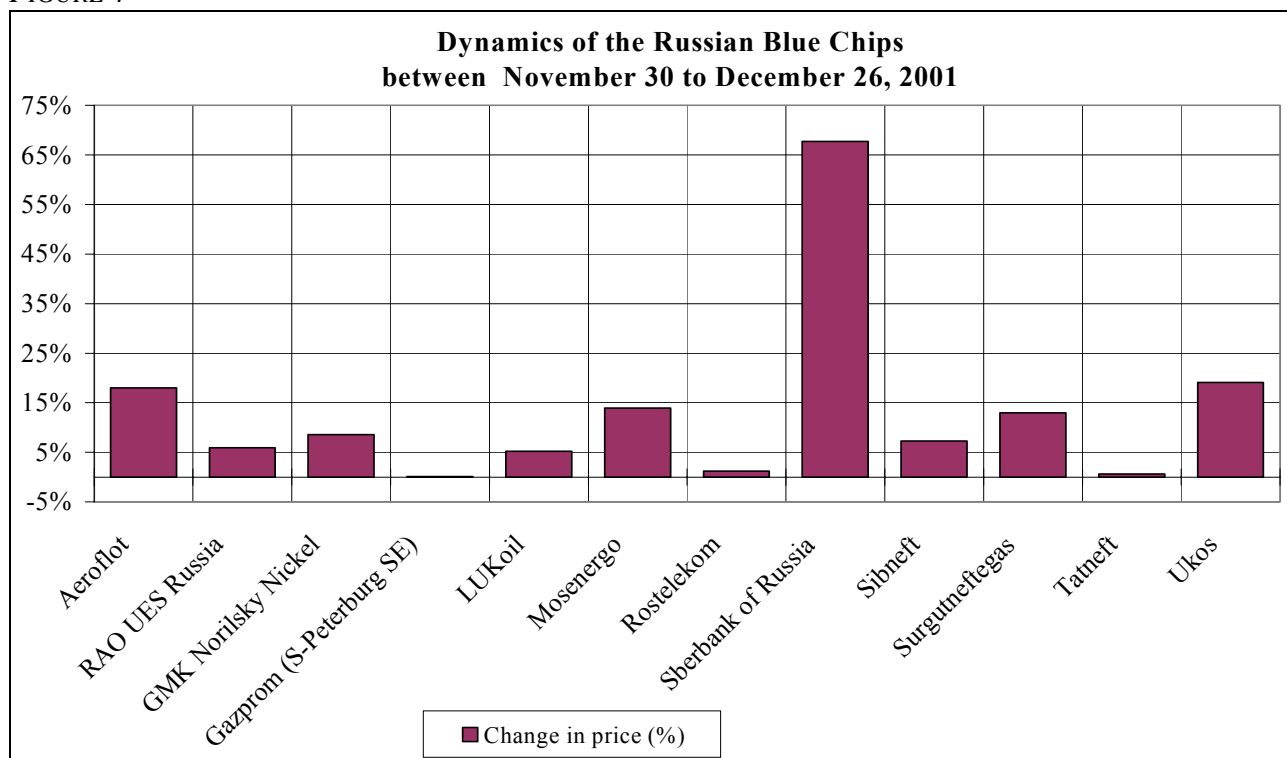
241.3 points (+6.54% as of last day on November). Then, by mid-month the index slid by 5.18% (on December 14) as investors fixed their profits. The months ended up with a “pre-New Year rally”: the index grew by 10.89% up to a new year maximum – 254.38 points.

The leaders among *blue chips* (on December 26) were stocks of Sberbank (67.75%) and “YUKOS” (19.8%), followed by “Aeroflot” (17.97%), “Mosenergo” (13.91%) and “Surgutneftegas” (12.92%).

The list is closed with stocks of “LUKoil” (5.21%), “Rostelecom” (1.21%) and “Tatneft” (0.6%).

In December the share of RAO “UES Russia” common stocks in the total RTS turnover was 31.11% (in November 36.21%, correspondingly), the share of “LUKoil” stocks was 18.09% (19.75%), “YUKOS” – 14.71% (8.83%), “Surgutneftegas” – 7.21% (8.22%), “Mosenergo” – 3.91% (3.13%). On the whole, in December the total share of the top five most liquid stocks in RTS decreased to 75.03% (in November – 79.19%).

FIGURE 4



In December, the volume with “Gazprom” stocks traded through the RTS terminals exceeded \$61.4 million (129.17 million shares). In all 3, 746 deals were stroked with securities of the company. On December 11 the trade volume with “Gazprom” stocks amounted to 546.8 million roubles (39.5 million shares), i.e. the maximum volume for the whole period of existence of the trading scheme through the trade and clearing exchange complex.

In December the activity of participants in the RTS term market (FORTS) was a bit lower than in November. In total, between December 3 to December 21 11,702 deals were struck in the system (409.7 thousand contracts) worth a total of 1.945 billion roubles, including futures – 11,600 deals (408.6 thousand contracts, 1.94 billion roubles).

On December 3 the trades on futures on the RUIX and RUIX-OIL Indexes were launched. The trades started with two contracts at once: with exe-

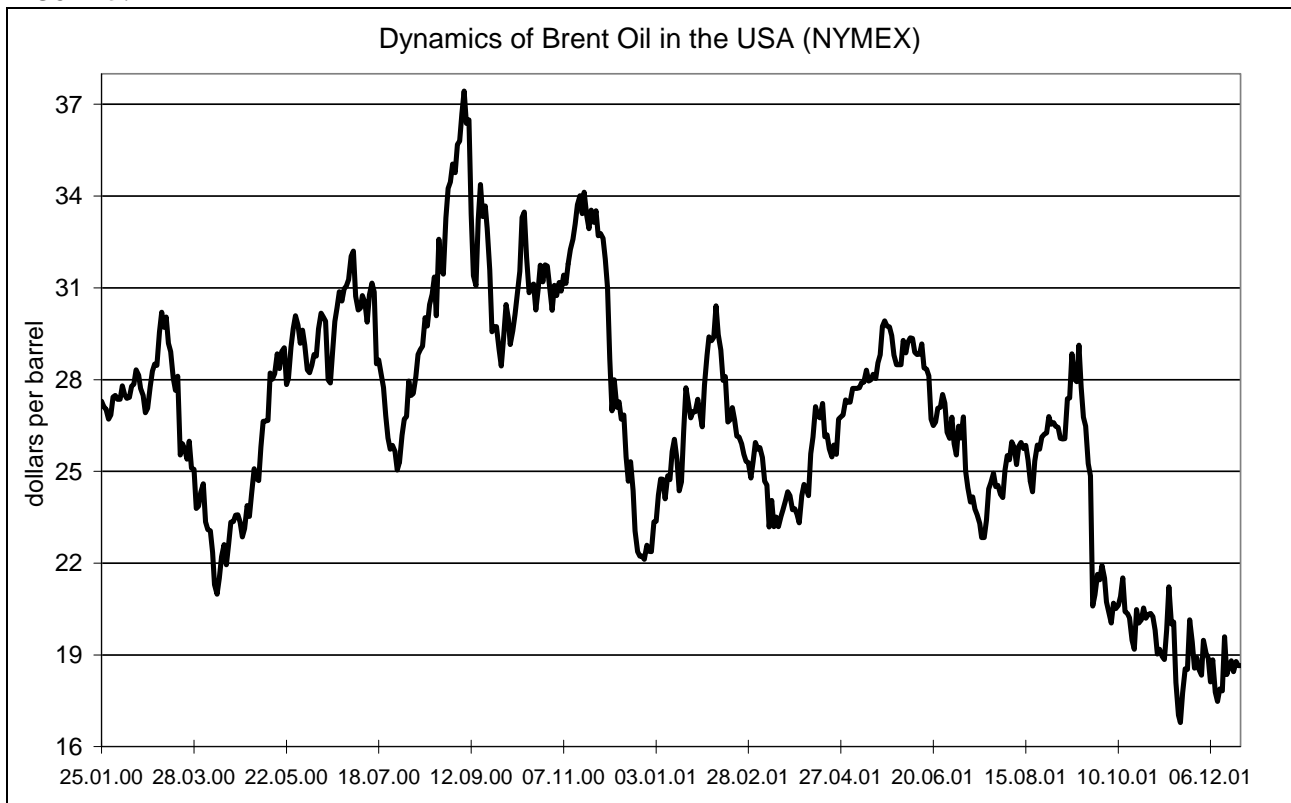
cution on December 17, 2001, and on March 15, 2002. During the first trade session participants stroke 27 deals summed up with 6.7 million roubles (667 contracts). The most attractive were futures on the RUIX Index with execution on December 17, 2001 - 23 deals were struck worth a total of 6.6 million roubles (655 contracts).

Upon the end of the trade session on December 17 the due contracts were safely executed (for the first time in the FORTS). Now, there are traded futures with execution on March and June 2002 in the system are.

**External factors.** The oil prices slid in early-December after Iraq resumed export under the UN programme “Oil for food”. The oil prices were also affected by a delay in Russia’s decision in response to OPEC’s proposal on oil export reduction. On December 3, the price of “Brent” in London dropped by \$0.42 (2.19%) to 18.72 \$/bbl. However

in mid-December OPEC and main independent oil-producers arrived to an agreement to limit oil export since beginning of 2002. On December 5 the Russian Government announced that Russia would cut down its oil export by 150000 barrels per day effective as of the 1<sup>st</sup> of January 2002. Oil prices responded. vividly The price of January's oil futures ("Brent") on the London International Petroleum Exchange (IPE) grew by \$0,89 to 20.18 \$/bbl by 13:37 (Moscow time). On the New York Merchandise Exchange (NYMEX) the January futures on "American Light" gained \$0.98 by that time and reached 20.63 \$/bbl. Later, Norway also announced its readiness to diminish its quote of oil export in the first half of 2002 by 150000 barrels per day. After the news from Norway, the "Brent" price on the IPE regained its fall that exceeded 30 cents. On

FIGURE 5.



At the last meeting of the FOMC in 2001 (held on December 11) the US Federal Funds rate was cut by another 25 basic points to 1.75%. On the whole, during 2001 the Fed cut the interest rate 11 times, from 6.5% to 1.75%.

The successful performance of the Russian economy over 2001 was noted by leading international rating agencies. On November 29, Moody's upgraded the Russia sovereign rating by two grades at once - from B2 to Ba3 (on liabilities denominated in foreign currencies) and from B1 to B3 (in domestic currency), while the forecast of all ratings

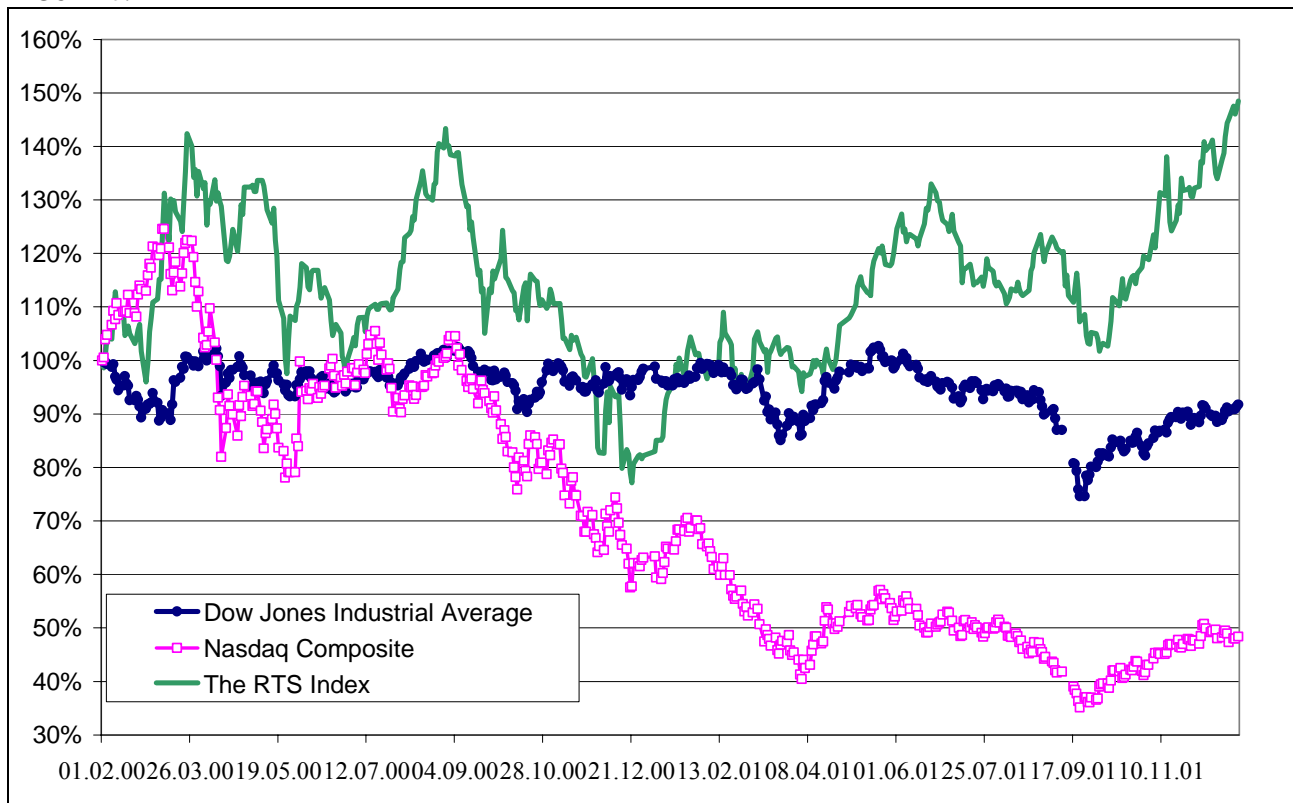
17:15 (Moscow time) the price of February's futures on "Brent" grew from 18.70 \$/bbl up to 19.15 \$/bbl. So, independent oil exporters (the biggest of which are Russia, Mexico and Norway) announced reduction in oil production totalled with 462000 barrels per day. However, despite the fact that the announced reduction in export turned to be smaller than OPEC had demanded (500000 barrels per day), the cartel decided on reduction in oil quotes by 1.5 million barrels per day for half a year. This decision was made on a special summit in Cairo on December 28. An additional factor stimulating the rise of oil price was V. Alekperov's (President of "LUKoil") statement that the Russian oil companies decided not to increase export of oil products in order to compensate for reduction in oil export.

stable. On November 19 Standard & Poor's raised the long-run rating of Russian (on liabilities both in foreign and domestic currency equivalent) up to "B+" (from "B") and confirmed its short-term credit rating "B". The forecast of long-term ratings was revised from "stable" to "positive". S&P reported that "the increase in Russia's ratings reflects continued improvements in political climate, which made the Russian economy stronger, as well as positively influenced economic prospects and political flexibility. As a result, the Russian economy

becomes less dependent on situation in oil markets, which are not stable now”.

Another shock for the world market was the bankruptcy of Enron, the biggest US trader in the gas and electricity market. It was just recently that Enron has been the biggest player in the US energy market, and last year it reported \$1 billion profit and \$100 billion revenues. The failure of the energy giant was caused by gerrymanders inside the corporation. As a result, several sectors of the economy (energy, banking and telecommunication sectors) were battered severely . According to some esti-

FIGURE 6.



### Corporate news.

Gazprom. After Russia's credit rating was raised, the international rating agency Standard & Poor's upgraded Gazprom rating to "B+" from "B", forecast - stable.

Gazprom's rating reflects leading status of the company in the Russian economy. Gazprom accounts for about 8% of the Russian GDP and about 25% of budget revenues, 20% of foreign exchange supply. The Board of Directors of Gazprom adopted a 161 billion roubles investment programme for 2002. This sum was agreed with the RF Government.

Norilsky Nickel. Under the programme of the holding restructuring, the MMC "Norilsky Nickel", starts abolition of "cross ownership". The MMC buy out 17% of own stocks by RAO "Norilsky

Nickel" with a consequent redemption of and reduction in the MMC charter capital.

Sibneft. "Sibneft" reported growth of oil output by 19.2% compared with the 2000. According to company's President Ye. Shvidler, the current growth rates resulted from investments made during previous years. In 2001 "Sibneft" invested up to \$595 million in oil extraction. In total, in 2001 "Sibneft" planned extracting of 20.5 billion tons (according to business-plan).

Mosenergo. The net profit of Mosenergo, calculated on cash basis, in 2001 is expected to be around 1.9 billion roubles compared to 1.44 billion roubles in 2000. Revenues from sales (on cash basis) are expected to be 45.2 billion roubles compared to 33.16 billion roubles in last year.

The Auditing Chamber of the RF noted improvement of indicators of financial and economical performance of “Mosenergo” in 2000 and the first half of 2001. Auditors of the Chamber report the accounts receivable of the company dropped by 25.2%, and accounts payable – by 57.4%. At the same time, “Mosenergo” has no overdue debts on credits and borrowings

MTS. Rating agency “Standard & Poor's” increased the long-term credit rating of “Mobile TeleSystems” (MTS) up to “B+” from “B”. S&P argues that this decision was induced by the recent upgrading of Russia’s rating, as well as by the company’s position in the Russian market for mobile communication, and growth in receipts and the number of customers, backed - upped by a sound conservative financial policy.

Tatneft. In November 2001 “Tatneft” increased its oil output up to 2.026 million tons from 1.842

*TABLE 1. DYNAMICS OF THE FOREIGN STOCK INDEXES*

<b>as of December 27, 2001</b>	<b>value</b>	<b>change for last week (%)</b>	<b>change for last month (%)</b>
RTS (Russia)	254.38	12.31%	78.95%
Dow Jones Industrial Average (USA)	10088.07	2.40%	-7.55%
Nasdaq Composite (USA)	1976.42	2.37%	-23.00%
S&P 500 (USA)	1157.13	1.55%	-13.22%
FTSE 100 (UK)	5213.20	0.18%	-15.72%
DAX-30 (Germany)	5117.13	2.55%	-19.75%
CAC-40 (France)	4591.16	2.57%	-21.06%
Swiss Market (Switzerland)	6410.60	2.78%	-21.02%
Nikkei-225 (Japan)	10457.61	-2.24%	-23.62%
Bovespa (Brazil)	13756	6.37%	-17.51%
IPC (Mexico)	6419.19	10.05%	6.13%
IPSA (Chile)	109.49	-0.40%	8.63%
Straits Times (Singapore)	1612.01	9.03%	-17.38%
Seoul Composite (Korea)	668.55	3.83%	19.81%
ISE National-100 (Turkey)	13608.99	16.98%	33.45%
Morgan Stanley Emerging Markets Index	311.751	5.88%	-10.22%

**Foreign exchange market.**

In mid-December 2001 dollar rose sharply against rouble in the Russian foreign exchange market. Between December 7 to 18 the rouble exchange rate dropped from 29.92 to 30.3 roubles/\$, i.e. by 1.27% (52% annualised). Most likely the growth of dollar exchange rate was provoked by information on the fall in the foreign reserves of the Bank of Russia between late-November to early-December as well as by growth of balances on cor-

million tons in October. For eleven months of 2001 the company increased oil extraction up to 22.527 million tons from 21.212 million tons for corresponding period of last year.

MCTN. Rating agency “Standard & Poor's” upgraded the long-term rating of MCTN to “CCC+” from “CCC-”. According to the agency’s press-release, this upgrade of MCTN rating is related, specifically, to a growth of demand for telecommunication in Moscow, expected profits and MCTN’s demonstrated ability to redeem and serve its debts,

– Rating agency “Standard & Poor's” increased the long-term corporate rating of “LUKoil” up to “B+” from “B”. Rating forecast is “stable”. S&P also upgraded the main unsecured debt rating of “LUKoil” division - LukInter Finance BV to “B+” from “B”.

respondent accounts of commercial banks with the RCB. In addition, the attack against rouble intensified as the Bank of Russia failed to stop the initial fall of rouble exchange rate, despite arising deficit of liquidity within the banking system (the inter-bank credit rates soars up to 40–50% annualised). However, by the end of the month the Russian Central Bank managed regain its control over the market, and the rouble/dollar exchange rate slid to 30.12–30.14 roubles/\$.

So, in December 2001, the official dollar exchange rate grew from 29.93 roubles/\$ to 30.14 roubles/\$, i.e. by 0.70% (8.75% annualised, see Fig. 7). The 'today' dollar exchange rate in the SELT increased from 29.9065 roubles/\$ to 30.1364 roubles/\$ (as of December 24), i.e. by 0.77%. The 'to-

morrow' dollar exchange rate grew from 29.9427 roubles/\$ to 30.1573 roubles/\$ (as of December 24), i.e. by 0.72%. According to preliminary estimates, in December the trading volumes by dollar in the SELT rose to about 200 billion roubles.

FIGURE 7.

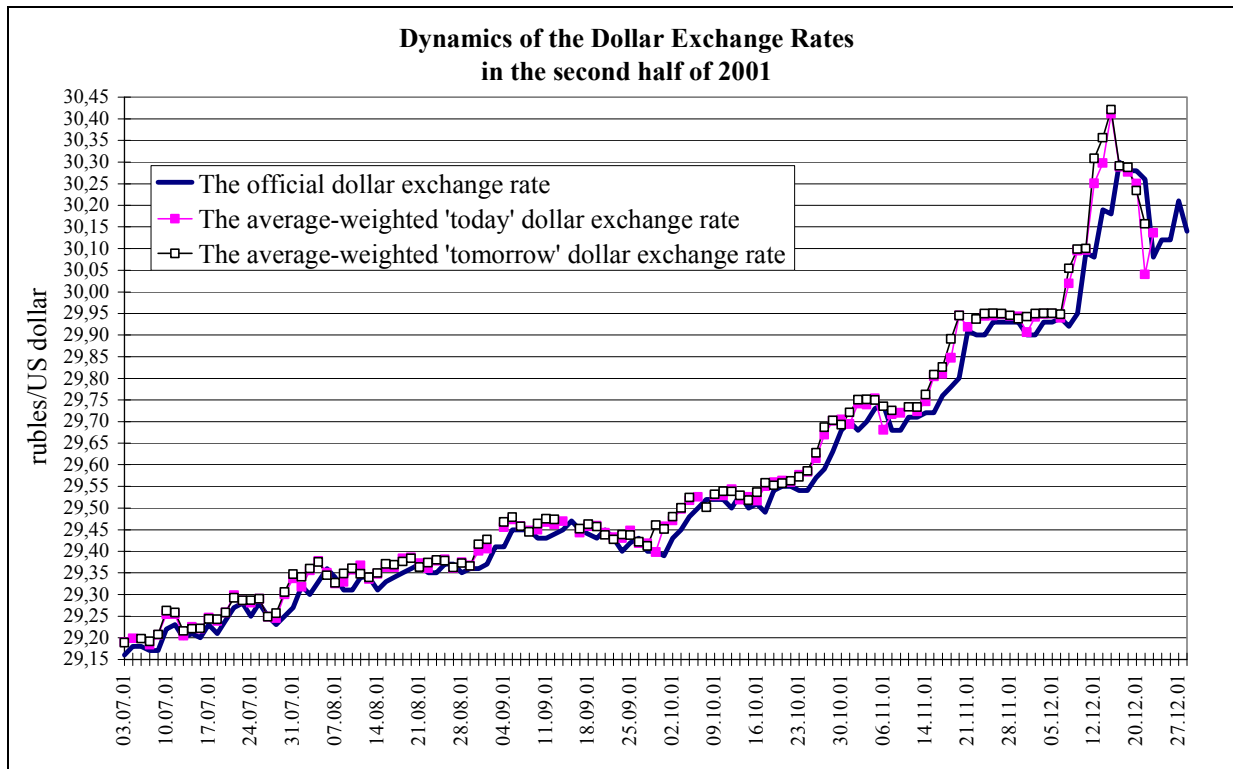
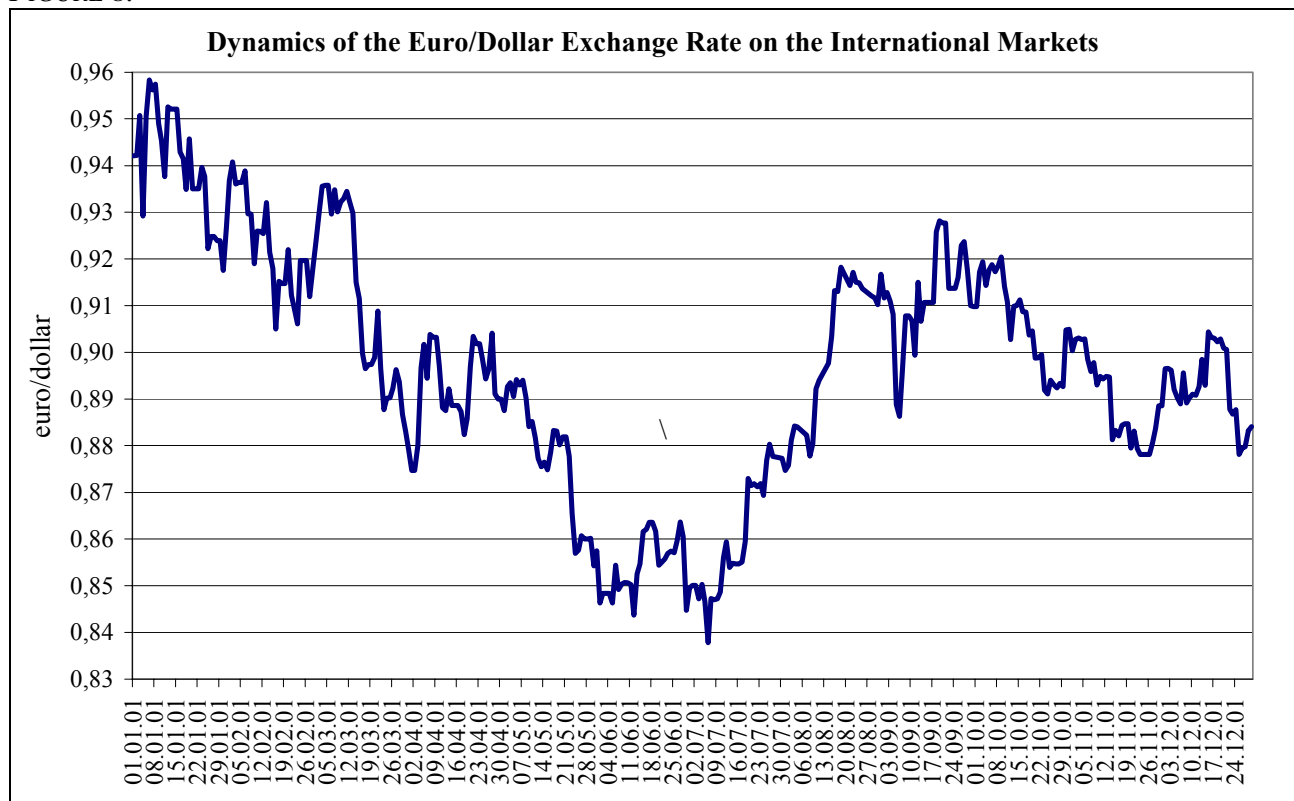


FIGURE 8.



On the eve of the launch of cash euro the exchange rate of the European currency in the world forex market fluctuated heavily (see Fig. 8). During the first half of the month the euro/\$ exchange rate rose up to a two-month maximum (0.9044 \$/euro). That was explained mainly by negative developments in the US economy in October 2001. However, as similar news from the European countries came to the market, the euro/\$ exchange rate fell once again, and by the end of the year it declined to 0.8841 \$/euro, i.e. by 2.25%.

In December 2001 the euro/ruble exchange rate also fluctuated (see Fig. 9). Namely, in mid-December the ruble/euro exchange rate fell sharply, but, as the ruble/US\$ exchange rate stabilised and euro dropped against dollar in the world market, ruble appreciated vs. euro. Thus, in December, the ruble/euro official exchange rate decreased from 26.52 roubles/euro to 26.617 roubles/euro, i.e. by 0.37%, over the month. According to preliminary estimates, in December 2001, the total trading volume on euro in the SELT made up about 3 billion roubles.

FIGURE 9.

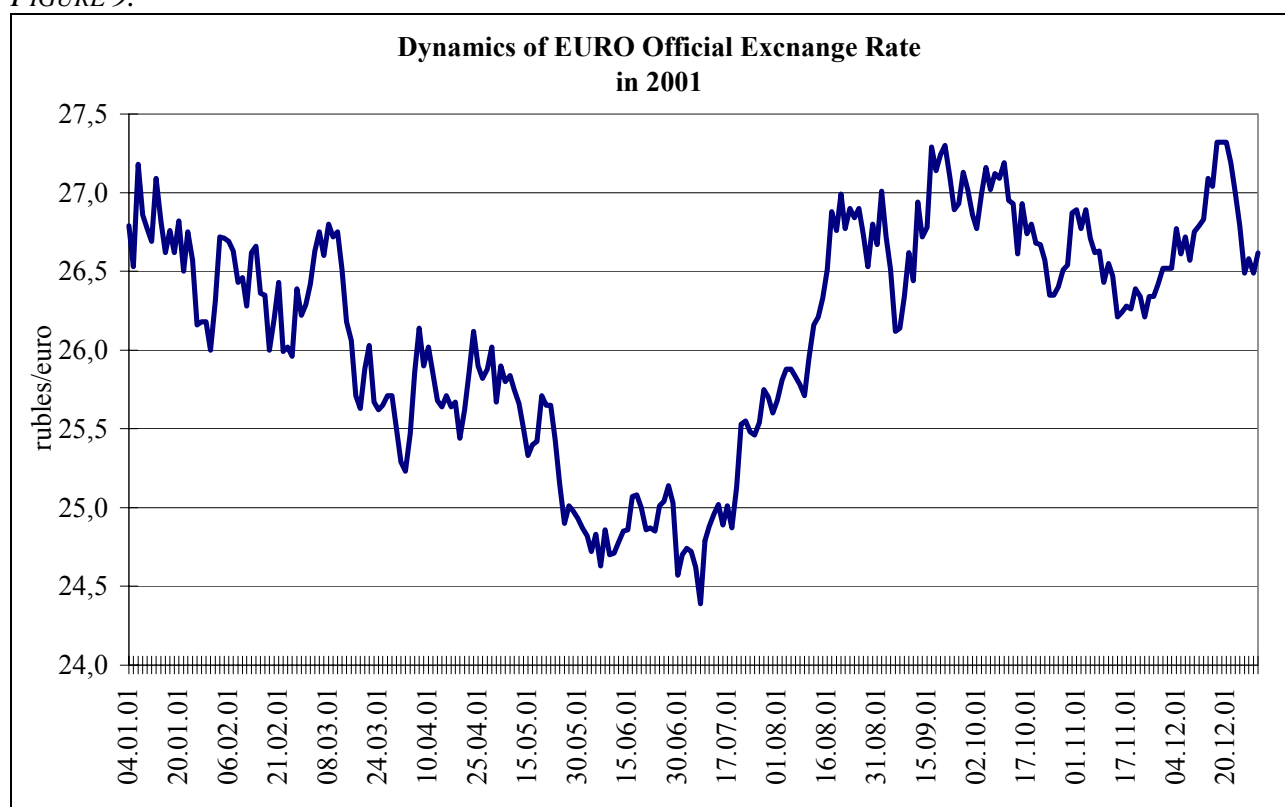


TABLE 2. INDICATORS OF FINANCIAL MARKETS.

	August	September	October	November	December*
inflation rate (monthly)	0.0%	0.6%	1.1%	1.4%	1.8%
annualised inflation rate by the month's tendency	0.0%	12.07%	14.03%	18.16%	23.87%
the RCB refinancing rate	25%	25%	25%	25%	25%
annualised yield to maturity on OFZ issues	16.13%	15.33%	15.07%	14.91%	16%
volume of trading in the secondary GKO-OFZ market a month (billion roubles)	7.44	8.89	9.14	12.56	10
yield to maturity on Minfin bonds by the end of the month (% a year):					
4th tranche	13.05%	13.19%	10.61%	10.57%	10.2%
5th tranche	15.53%	15.86%	15.53%	14.62%	13.2%
6th tranche	14.78%	15.63%	14.76%	12.84%	11.7%
7th tranche	14.70%	15.07%	13.92%	13.24%	12.5%
8th tranche	14.21%	14.75%	14.29%	12.88%	11.9%
INSTAR – MIACR rate (annual %) on interbank loans by the end of the month:					

	August	September	October	November	December*
overnight	9.33%	27.88%	24.76%	19.80%	50%
1 week	10.28%	29.03%	19.03%	16.24%	30%
official exchange rate of ruble per US dollar by the end of the month	29.37	29.39	29.70	29.93	30.14
official exchange rate of ruble per Euro by the end of the month	26.67	26.86	26.87	26.52	26.617
average annualized exchange rate of ruble per US dollar growth	0.34%	0.07%	1.05%	0.77%	0.70%
average annualized exchange rate of ruble per euro growth	4.18%	0.71%	0.04%	-1.30%	0.37%
volume of trading at the stock market in the RTS for the month (millions of USD)	232.0	249.9	279.0	394.2	278
the value of the RTS Index by the end of the month	205.41	180.25	204.04	226.49	260%
growth in the RTS Index (% a month)	4.74%	-12.25%	13.20%	11.00%	15%

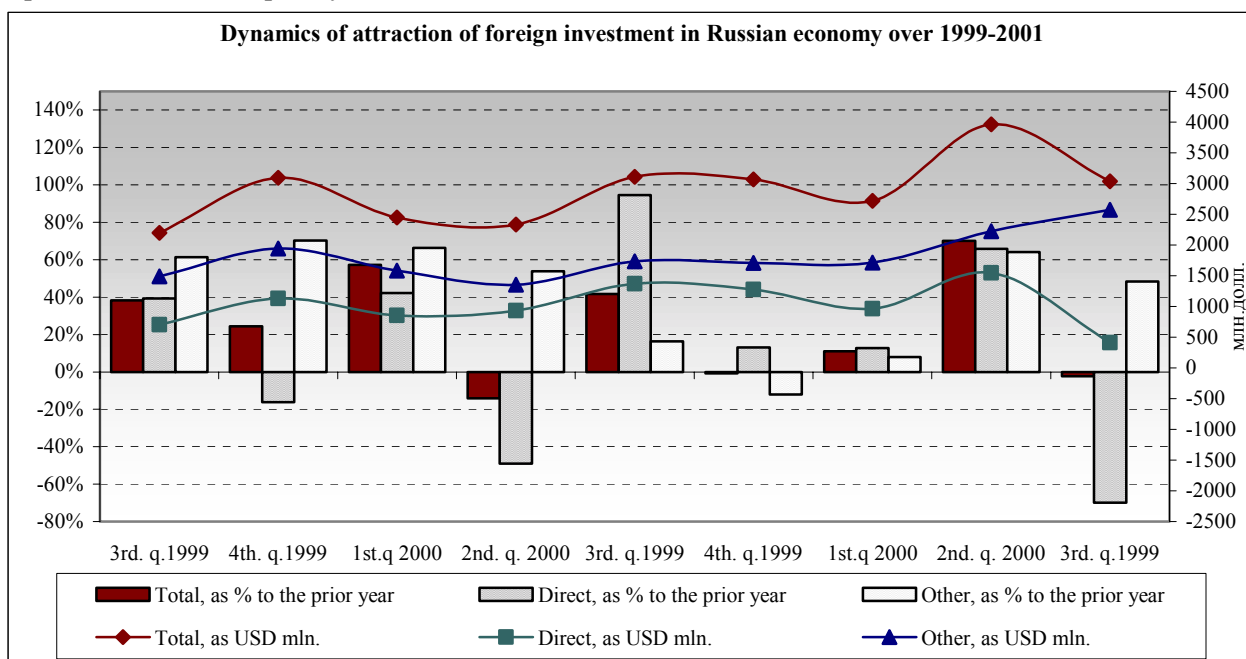
\* Estimates

S. Drobyshevsky, D. Skripkin

## Foreign investment in Russian economy

According to results of the 9 months of 2001, foreign investment in the national economy accounted for USD 9, 721, or at 23.2% more than the respective index of the prior year. At the same time,

as of late September 2001, foreign capital accumulated in the national economy roughly amounted to USD 34.4 bln., including investment from the CIS countries



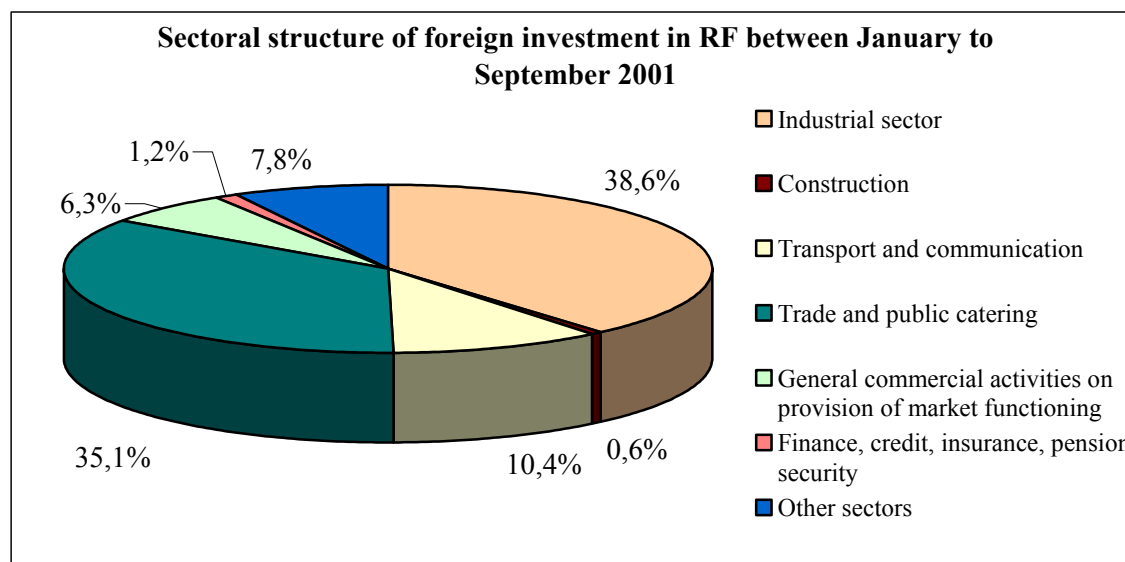
As concerns the structure of foreign investment inflow in Russian economy between January to September 2001, it is portfolio investment that demonstrated the highest growth rate – 5 times compared to the respective period of the prior year – and amounted to USD 292 mln. The volume of other investment accumulated over the period in question accounts for USD 6.509 mln., or at 39.2% over the respective index of 2000, while the volume of direct investment slid by 7.4% and accounted for USD 2.920 mln.

The structure of foreign investment attracted in the national economy in the 3<sup>rd</sup> quarter appear substantially different from the respective structure noted over the 9 months of 2001 on the whole. This can be attributed to a sharp fall of FDI inflow in the 3<sup>rd</sup> quarter: it fell as much as 3.8 times compared with the 2<sup>nd</sup> quarter and 3.3 times – vs. the 3<sup>rd</sup> quarter 2000. In the 3<sup>rd</sup> quarter 2001 the share of FDI in aggregate foreign investment accounted for 13.5% (for reference: in the 3<sup>rd</sup> quarter 2000 – 44%, over the 9 months 2001 – 30%).



During the period in question it was the industrial sector where the biggest investment inflow was noted- USD 1.268 mln., or 41.8% of the overall volume of foreign investment (the 3<sup>rd</sup> quarter 2000- 1.05 bln., or 34%). The volume of foreign investment inflow in the national industrial sector over

the 9 months 2001 on the whole amounted to USD 3.755 vln., or at 13% more than the respective index of the prior level (the 9 months 2000- 3.324 mln., or 42.1% of the overall volume of foreign investment attracted over the period in question).



With growth in absolute indices of investment in the industrial sector between January through December 2001, the decline in its share was determined by higher growth rates of foreign investment in other sectors of the national economy. For example, during the period concerned foreign investment in trade and public catering showed a 2.1-fold

*Table Sectoral structure of foreign investment in the industrial sector between January through September, 1999-2001*

growth, while that in general commercial activities on provision of market functioning grew 3.6 times.

In 2001, the sectoral structure of foreign investment in the industrial sector is characterized by decline in investment in the food industry and growth in the proportional weight of the metallurgical sector.

	As USD mln.			As % to result			As % to the respective period of the prior year	
	1999	2000	2001	1999	2000	2001.	2000	2001
<b>Industrial sector, total, Including:</b>	<b>3 333</b>	<b>3 324</b>	<b>3755</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>-3,2%</b>	<b>13,0%</b>
Fuel	1 568	424	591	47%	12,7%	15,7%	-73%	39,4%
Metallurgy	451	747	1148	13,5%	22,5%	30,6%	65,6%	53,7%
Machine-building and metal processing	191	360	404	5,7%	10,8%	10,8%	88,5%	12,2%
Food	830	1 259	1038	24,9%	37,9%	27,6%	51,7%	-17,6%
Wood-working and paper and pulp	129	183	176	3,9%	5,5%	4,7%	41,9%	-3,8%
Прочие отрасли	164	351	398	4,9%	10,6%	10,6%	114%	13,4%

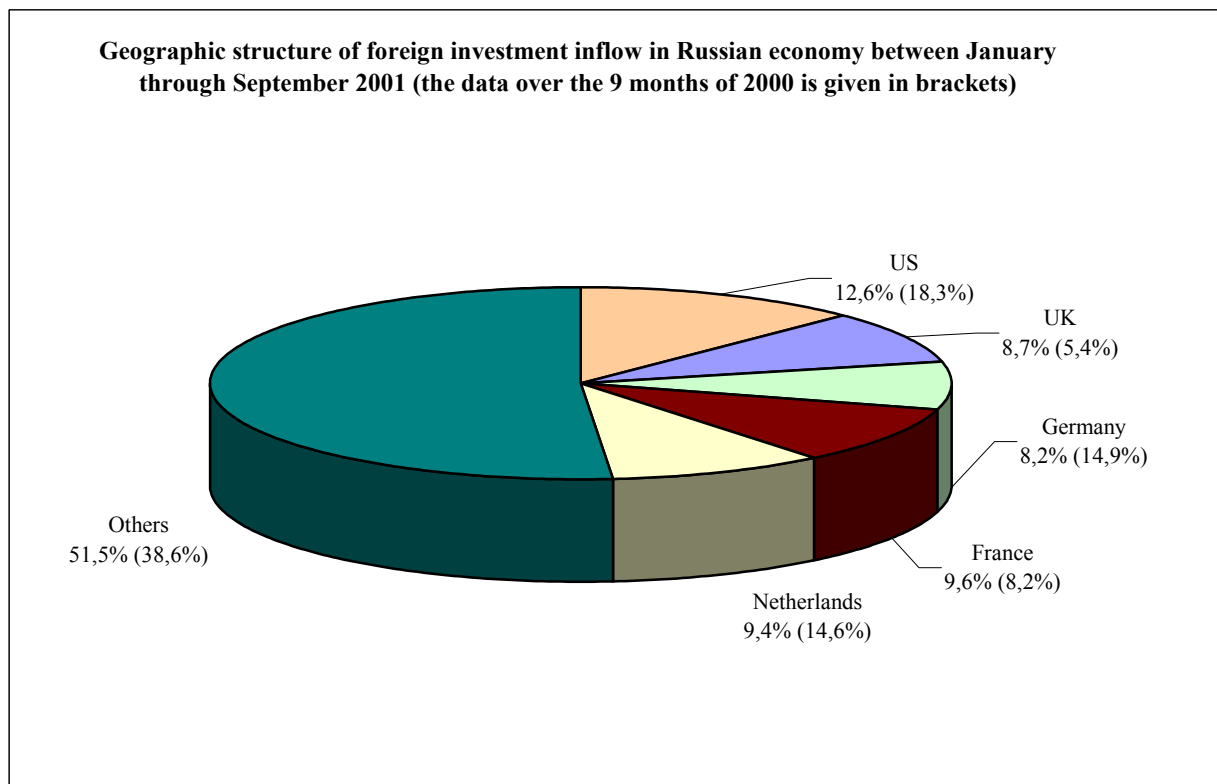
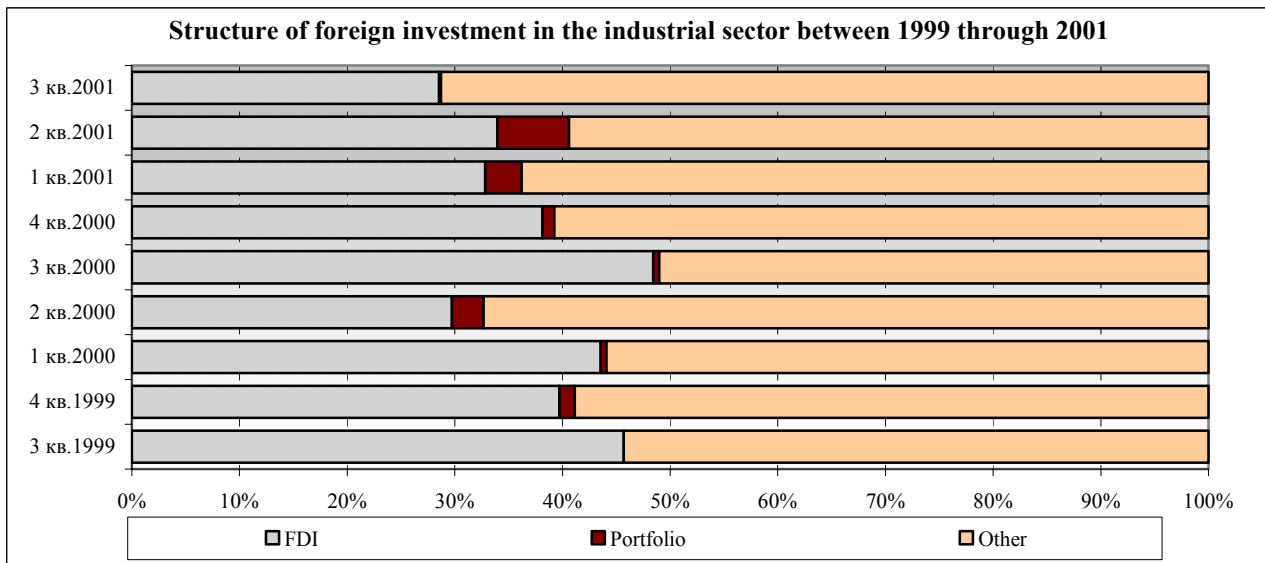
Source: Goskomstat of RF

The structure of foreign investment in the industrial sector over the period between January through September 2001 matches the structure of their aggregate volume, and it is characterized with a fall in FDI vs. the rise in other investment volumes. Thus, given that over the 9 months of 2000 the share of

FDI in the industrial sector in their overall volume in the noted sector accounted for 39.4%, portfolio- 1.5% and 'other'- 59%, between January through September 2001 the share of FDI slid to 31.8%, while the shares of the other two kinds of investment rose up to 3.4% and 64.8%.

During the period in question Russia received investment from 107 nations worldwide (in 2000-108, in 1999-96 nations). It is the US that was a

clear leader (12.6% of the overall volume of foreign investment in Russian economy in 2001) followed by Switzerland- 9.8%



Between January through September 2001 the US investment mostly was forwarded to the industrial sector (USD 457 mln., or 37.3% of the overall volume of the US investment in RF over the 9 months of 2001) and transport (289 mln., or 23.6%), while Germans were active in the food sector (USD 149 mln., or 18.7% of the capital inflow from Germany between January through September 2001).

It was Swiss businesses whose investment in the industrial sector proved to be biggest over the period in question (27.1% of all the investments in the industrial sector). The Swiss also dominated in investing in the sector for chemicals and petrochemicals (59.3%), the ferrous metallurgy (52%), and the fuel sector(17.8%).

The investment climate in the country finds itself under the positive impact of increase if Russia's credit rating. In July 2001 FITCH increased Rus-

sia's credit rating up to positive ("B"), while in December Standard and Poor's also increased Russia's

long-term sovereign credit ratings in the national currency and foreign exchange from "B" to "B+".

*E. Ilyukhina*

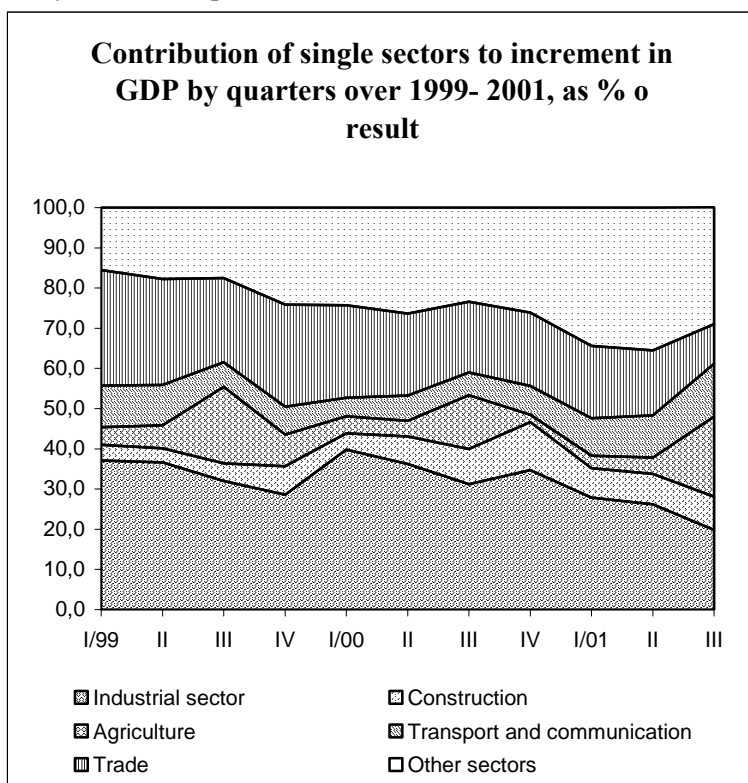
### The real sector: factors and trends

In 2001 Russian economy was characterized by high growth rate. The rise of the national economy took place against the backdrop of the domestic socio-economic stability, and it is back-upped by a relatively favorable state of affairs in the external markets for Russian exports.

According to Goskomstat, between January through September 2001 the volume of GDP accounted for Rb. 6,545.0 bln. and grew by 4.9% compared with the respective period of the prior year. The analysis of dynamics of GDP shows that the intense growth in output in the 2nd and 3rd quarters of 2001 both has compensated for the slump noted in the beginning of the year and ensured the economy entering a stable growth path. In the 3rd quarter, the volume of GDP accounted for Rb. 2,542.5 bln. and grew by 11.5% compared with

the prior period. The acceleration of economic growth rates was noted across practically all the main macroeconomic parameters.

The rise of the national economy took place against the backdrop of a positive dynamics of output of goods and services. In contrast to 2000, 2001 showed acceleration of growth rates and rise in the contribution of the sector for services to the dynamics of GDP. With the growth in output of goods at 4.3% over the year, market services rose by 6.8%. Between January through November 2001 the increment in goods turnover in the retail trade sector accounted for 10.6%, while the one in the volume of paid services provided to the population - 1.8%. So, in 2001 the index of retail trade goods turnover should make up 107.4% relative to the pre-crisis level of 1997.



Economic rise as a backdrop allows noting a clear asymmetry of production growth, population's incomes and final demand, which does not allow an unambiguous evaluation of the economic situation. Given indisputably successful economic performance in 2001, the comparison of main indicators of living standards shows that so far the economy has not managed to fully overcome ef-

fects of the 1997-1998 crisis, specifically, in the social sphere.

The intense rise in households' spending over 2000-01 compared with dynamics of final consumption appeared a strong factor of economic renewal. Between January through November 2001 the increment in real incomes accounted for 6.5% compared with the respective period of the prior year, while the one in real salaries and wages made

up 0.1%, and the increment in real amount of pensions due- 22.6%.

It was the dynamic expansion of retail trade turnover and growth in output of domestic consumer goods that appeared the most evident indicator of positive changes in the population's living standards. The increment in households' spending on final consumption over the period between January through September roughly accounts for 8.7%. With the population's incomes growing, the purchases of non-food goods were growing at an advanced rate. During the period in question the turnover of retail trade with food stuffs grew by 7.2% vs. its respective period of the prior year, while the one of retail trade with non-food goods grew by 13.2%.

The structure of GDP shows a clear trend to growth in labor compensation. With pursuance of n

*The structure of formation of GDP by revenue sources, as % to result*

	2000 год			2001 год		
	кварталы			кварталы		
	I	II	III	I	II	III
Валовой внутренний продукт	100,0	100,0	100,0	100,0	100,0	100,0
в том числе:						
Оплата труда наемных работников, включая скрытую	39,2	40,8	37,6	42,0	44,0	46,1
Чистые налоги на производство и импорт	16,2	18,8	16,0	15,4	19,1	17,3
Валовая прибыль экономики и валовые смешанные доходы	44,6	40,4	46,4	42,6	36,9	36,6

Source: Goskomstat of RF, the RF Ministry of Economic Development and Trade.

The rise in revenues generated through foreign trade and thanks to growth in profitability rates of sectors and single industries focused on the domestic market has determined change in the share of gross profit in GDP. When compared with 2000, gross profit manifested the trend to decline. The core essence of structural shifts in the economy's gross profit was its re-allocation in favor of fuel and energy sub-sectors and industries dealing with mineral production. With the current correlation between international and domestic prices, a considerable part of revenues generated by the rise in the Rb.-equivalent value of products sold for foreign exchange also is transformed in profit. In 2001, due to changes in the world prices, the proportional weight of the fuel sector in the overall volume of

active social policy in 2001, the rise in salaries and wages was 1.5 times ahead of growth in profits. The potential for growth accumulated thanks to active investment operations and rising receipts of the national businesses allows resolving social problems. The number of Russians with monetary income were under subsistence minimum fell by 15% vs. the 3rd quarter 2000. Considering the envisaged rise in the population's incomes in the 4th quarter, including increase of salaries and wages of "budget" employees, in 2001 the poverty level should slid to 27% of the total population vs. 30.2% reported in 2000. However, despite the aforementioned measures, the main parameters characterizing living standards would still be substantially inferior to those of 1997. According to some estimates, in 2001 the population's real income should make up roughly 84.0% of the level of 1997.

foreign exchange inflow on enterprises' current accounts somewhat dropped and accounts for 17.1% vs. 21.8% noted in 2000. Given that between January through September 2000 the share of the fuel sector and metallurgy in the overall amount of foreign exchange- denominated receipts to enterprises current accounts was 32.7% , in 2001 the respective index made up over 40.5%. The maintenance of a high profitability rate of export-oriented sector appeared the factor determining the trend to growth in gross national savings. The advanced growth in gross savings and investment in capital assets relative to dynamics of GDP has had a dominating impact on the economy's development until the very end of 2001.

*O. Izryadnova*

## Recapitalization of Russian banks in 2001

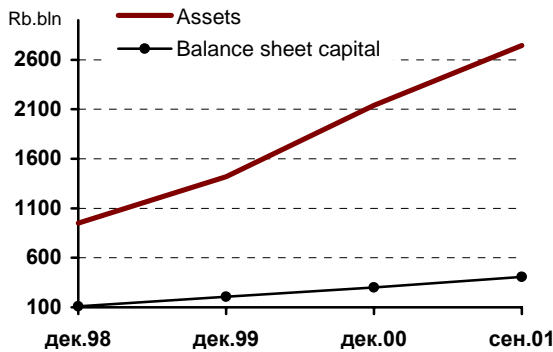
Russian banking system are still challenged by recapitalization. As far as the national banks' capital is concerned, some pre-crisis indicators have not been reached as yet, however, in 2001 new positive trends in recapitalization process emerged.

The balance sheet capital of banks operating as of late September 2001 accounted for Rb. 407.7 bln. in current prices and showed a 35.4% growth over the three quarters 2001. Interestingly, the growth rate of balance sheet capital appeared supe-

rior to the growth rate of banks' assets (28.4), while in 2000 the correlation was reverse (with growth in assets accounting for 50.7%, while balance sheet capital growing by 44.5%). Such a correlation may

testify to an actual rise in capitalization of the banking system. The dynamics of aggregate assets and balance sheet capital in current prices is given in Fig.1.

Fig.1 Dynamics of aggregate assets and balance sheet capital of operating Russian banks (as Rb. bln., in current prices).



Calculated according to STIiK firm

Considering dynamics aspect of maintenance of *capital sufficiency*, one can also note positive trends in this area. As of the end of the 3<sup>rd</sup> quarter 2001, the correlation between the operating banks' balance sheet capital and their assets accounted for 14.8% vs. 14.1% noted as of the end 2000, however it is still far from the pre-crisis level (19.1%). As concerns the capital sufficiency standard set by CBR, the overwhelming majority of banks match and overfulfill it due to the fact their low-risk assets.

As of mid-2001, the ratio of *overall balance sheet capital* of operating banks to *GDP* accounted for 4.4%, which is somewhat higher than the respective index of the end-2000 (4.2%). However this ratio, as well as capital to aggregate assets ratio, has not yet reached the pre-crisis level (roughly 5% as of late-1997).

Another characteristic feature of the current development of the national banking system in 2001 was a significant (nearly as much as twice) excess of the growth rate in aggregate balance sheet capital (35.4%) over the growth rate of authorized capital (18.2%). For reference: in 2000, the respective indexes accounted, accordingly, for 44.5% and 49.1%. This testifies to the fact that in 2001 capitalization of Russian banks took place to a greater extent at the expense of internal sources of financing (e.g. profit), rather than additional contributions

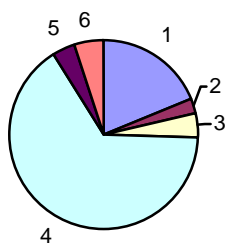
from stockholders and participants in capital of a credit institution.

So, as of late September 2001, the share of aggregate authorized capital in the structure of balance sheet capital of operating Russian banks accounted for 61.6%, thus having fallen slightly vs. the beginning 2001 (70.6%).

The top 5 banks in terms of growth in the absolute values of their capitals over the first 3 quarters 2001 became RBR, RSKHB, bank Moskvyy, Globex, and Petrocommerz) that showed a more than 1 bkn. Rb. increment in their authorized capital each. However one should note that the government played a considerable role in this process: it "helped" at least three banks (RBR, RSKHB, and Bank Moskvyy) increase their authorized capital. The government participation in Globex is indirect-it participates in the bank's capital through the main owner of it- Rosgosstrakh (however privatization of the latter started in autumn), while it is Lukoil that is a major stockholder of Petrocommerz(holding over 60% of authorized capital),- so, in this particular case it was Lukoil's export receipts that most likely formed a considerable increment in the bank's authorized capital.

The structure of participants in Russian banks authorized capital has not experienced serious changes over the 3 quarters of 2001 (Fig.2)

Fig.2 Structure of participants in authorized capitals of Russian banks operating as of October 1, 2001



1. Federal executive and government authorities
2. Subjects of the Federation
3. Public enterprises
4. Non-government enterprises
5. Private individuals
6. Non-residents

Calculated on the basis of the data of STIiK company

It was non-residents whose participation in Russian banks' authorized capital has fallen at most since the beginning 2001- from 7.5% to 4.9%. As well, the federal executive and government authorities have decreased their share in the aggregate capital of Russian banks, while the shares of other groups of participants were growing. However, there were no qualitative changes in the structure of participants in authorized capital of Russian banks over the period in question. It still is non-government enterprises that hold the biggest share of aggregate authorized capital (65.7%) followed

by federal authorities (19%) and non-residents (4.9%). Private individuals and public enterprises hold 4% each, while regional authorities hold the last position in this respect with 2.5%.

So, we believe that currently the key phenomenon of development of the national banking system is the advanced growth rate of balance sheet capital vs. both growth rates of the banking system's aggregate assets and the growth rate of aggregate authorized capital.

*E. Marushkina, E. Timofeev*

## IET Business Survey: December 2001

In December, the Russian industrial sector registered an intense fall in effective demand. As far as the post-default period is concerned, it was only January 2001 that demonstrated such a fall. Production also reacted to the contraction in demand: the output growth rate in the industrial sector on the whole slid by 21 balance point over the month.

December 2001 also showed intensification of negative trends related to dynamics of cash sales of industrial products. Given that in November the shares of responses concerning rise in sales and their decline appeared roughly equal, in December the latter grew sharply and became substantially higher than the former one. As a result, the balance of responses over the last two months fell by 20 points and became negative-i.e. effective demand began to shrink. Notably, the intensity of decline in sales appeared roughly the same as in the beginning of year when business activity stands still over Christmas time, however, this was noted yet in December, while the holidays in January have just been over. An absolute rise in demand was reported by the non-ferrous metallurgy, forestry, wood-working, paper and pulp and food-processing sectors.

Volumes of barter, promissory-note and off-set deals continued their decline in December. The decline rates of promissory-note and off-set deals have remained unchanged across the industrial sec-

tor as a whole and proved to be lowest since August 2000. The decline rates of barter deals across the industrial sector as a whole grew by 4 points. It is only the coal industry and non-ferrous metallurgy that reported growth in direct barter deals. So, the national industrial sector reports contraction in all kinds of demand for its products.

The index characterizing substitution of non-cash kinds of demand with effective one slid by another 12 points in December, but still retains positive value, i.e. still non-cash transactions are supplanted by regular deals. However the intensity of this process has proved to be lowest since August 2001. Despite clearly negative trends of change in effective demand, enterprises have managed to retain a high share of cash in their settlements for products sold. According to preliminary estimates, in December this index accounted for 76%.

Production has also reacted to decline in demand, and the output growth rate across the industrial sector as a whole fell by 21 balance point. In December, the surveys registered rise in output only in the sectors for electricity, fuel, machine building, forestry, wood-working and paper and pulp industries, while the others reported fall in their output.

The stock of finished products in the national industrial sector has remained excessive since March 2001, and in December it grew by another 5 points. This appears logical, considering contraction in all

kinds of demand. However the existence of excessive stock along with the growth in effective demand over the previous months shows that in 2001 the behavior of this crucial indicators was likely to undergo cardinal changes. During several prior years the national industrial sector showed rather an evident correlation: rise in decline rates of effective demand would lead to growth in excessive stock of finished products, while with slowdown of the decline and a consequent rise in sales enterprises changed their estimates for opposite ones (see Fig.). The default in August 1998 changed the situation drastically in the industrial sector on the whole and specifically in terms of the stock of finished products. The basis for such a phenomenon appeared the growth in effective demand for the national producers' output. As a result, industrial enterprises had gotten rid of excessive stock of finished products and by mid - 1999 had the highest rate of insufficiency with storage reserves (-24%). Despite fluctuations of the effective demand growth rates such a situation has been in place until mid-2000, when enterprises began to gradually increase their stock and reached a sufficient level of that in 2001. This level exceeded the excessive stock noted in 1998 when sales were falling intensively. This allows assumption that in 2001, similar to producers of the countries with of steady market economies, the national industrial enterprises began to use their stock of finished products as a buffer to smooth down sharp fluctuations of demand and/or offer. For example, the stock of finished products is always excessive in the European countries. The amount of the excess fluctuates depending on phases of economic cycle, but the stock is always there, because consumers do not want to wait.

Forecasts across all kinds of demand improved by several points in December. After the three-month decline the enterprises showed a greater optimism in terms of envisaged changes in sales, and in December the balance of this index grew by 3 points. It was the sectors for metallurgy, chemicals, petrochemicals, construction, and the light industry that retained negative balances (i.e. forecasted decline in their cash sales), while it was the sector for machine building that reported the most optimistic forecasts of changes in effective demand. The forecasts of changes in barter "improved" by 2 points over the past two months, and in early 2002 the enterprises expected just slightly less intense decline in such deals, while forecasts of deals involving promissory notes and off-sets remained unchanged. The actual stability of forecasts of changes in barter, promissory notes and off-sets under the conditions of transition from growth in effective demand to its decline testifies to the fact that the national industrial sector is most unlikely to wish the comeback of non-cash deals.

The contraction of actual output in December and a gradual lowering of optimism of forecasts of output showed that enterprises were ready to react to decline in sales with production reduction. In the 1<sup>st</sup> quarter 2002 the decline in output may become possible in the sectors for coal, metallurgy, and light and food industries, while the most intense growth in forecasted in machine building.

The major part of industrial enterprises (56%) hopes to retain their shares in the sales markets in early 2002. Possible changes of this particular index have a positive balance with forecasts of increasing the respective market shares dominating among them.

*S. Tsoukhlo*

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## **The sector for oil and gas**

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In 2001 the national oil and gas sector retained main positive trends of its development, as the oil price downfall occurred in the 4<sup>th</sup> quarter has not had a real impact on the oil sector as yet. Between January through October 2001 the overall volume of oil output accounted for 107.7% relative to its respective index of the prior year, while the volume of primary oil processing - by 103.6%. The output of petroleum derivatives grew notably, too (see Table 1); investment in production rose, while the volume of operational oil drilling grew by 9.9% compared with the respective period of the prior year, while the volume of exploration drilling grew

by 21.2%, and placement of new wells into operation - by 23.0%. The proportional weight of idle wells in the operational fund dropped: as of November 1, 2001 it accounted for 21.0% (22.5% as of late 2000). The intensity of crude oil refining in the oil-refining sector rose up to 71%, along with the growth in production of non-ethylated and high-octane gasoline. The share of the former in the overall output of gasoline reached 97.9%, while the latter one- 46.4% (while in 2000 the respective indices accounted for 96.2 and 41.4%, respectively).

*Table 1 Output of oil, petroleum derivatives and natural gas, as % to the respective period or the prior year.*

	1998	1999	2000	2001 январь-ноябрь
Oil	99,0	100,3	105,9	107,7
Gas condensate	105,0	104,7	103,8	106,1
Primary oil refining	92,5	102,9	102,7	103,6
Gasoline	95,7	102,2	103,6	101,4
Diesel fuel	95,5	104,2	104,9	101,9
Black oil	89,0	94,8	98,3	104,6
Natural gas, cub.m. bln.	103,8	99,7	98,5	98,8
Oil gas, cub.m.blm.,	99,1	103,2	102,5	104,8

Source: Goskomstat of RF

In contrast to the situation of 2000, the growth in domestic demand has not caused a price rise for oil and petroleum derivatives in the domestic market (on the contrary, they fell in real equivalent), which is a sign of a certain overproduction of oil in the country. The domestic oil prices in USD equivalent dropped from USD 56-58/t. in early 2001 to 53/t. in October. The prices for gasoline that reached their

peak (USD 200/t.) in late 2000 then had a clear trend to their downfall and slid to USD 160/t. by October. As a result, the domestic price for gasoline fell lower the pre-devaluation level, while the gas prices have grown substantially over recent months, however, they remained lower than during the pre-crisis period (Table 2, Fig. 1 and 2)

*Table 2. Domestic prices for oil, petroleum derivatives and natural gas in USD equivalent (producer average wholesale prices, as USD/t.)*

	1997 December	1998 December	1999 December	2000 December	2001 October
Oil	63,1	16,4	37,0	54,9	53,4
Gasoline	169,6	63,4	171,9	199,3	159,9
Diesel fuel	170,0	52,9	125,0	185,0	175,2
Black oil	73,8	22,0	46,1	79,7	65,1
Gas, as USD / Thos. cub.m	6,6	2,2	2,2	3,1	5,0

Source: calculated according to the data of Goskomstat

Between January through September 2001 Russian oil exports grew by 10.7% vs. the prior year, while export of petroleum derivatives- by 5.9%. The share of export in the production of diesel fuel over the first 9 months of 2001 made up 51%, black oil- 19.9%, and gasoline- 13.3%. The growth in physical volume of export allowed compensation for some decline in the world oil prices compared to last year. Oil exports in value equivalent over the first nine months accounted for 103.7% compared with the respective period of the prior year. At the same time the volume of gas exports dropped notably (by 7% vs. the prior year) which was determined chiefly by decline in its supplies to the CIS countries.

The financial state of the oil industry between January to September 2001 was characterized by maintenance of a high level of oil companies' export revenues and profits and a further contraction in the amount of credit liability. By late September the outstanding debts of oil companies to budgets of all levels in USD equivalent dropped to the minimal value noted over the past 4 years – USD 0.16 bln. (Table 3).

While judging results of the 4<sup>th</sup> quarter, however, one should expect deterioration of the financial indicators of the sector's performance due to the downfall of world oil prices. Given that over the first 3 quarters 2001 the average price for OPEC oil basket accounted for USD 24-26/barrel, i.e. was close to the middle of the OPEC price corridor (22-28 USD/ barrel), in the 4<sup>th</sup> quarter it went down under USD 20/barrel, while in October it sank to 19.6, and in November- to 17.6 USD/barrel.

The main factors underpinning the downfall in world oil prices in 2001 appeared a sharp slowdown of the world demand for oil and its direct fall in some large industrially developed economies along with a continuous rise in oil output and accumulation of sufficient industrial stock of that. The weakening of the world oil demand resulted from a notable slowdown of the world economy's growth rate. According to estimates of IMF analysts, the growth rate of the world GDP fell from 4.7% in 2000 down to 2.4% in 2001, while the biggest consumers of oil experience yet a more intense fall of their economic growth rates: in the US, GDP increment rate slid from 4.1% in 2000 to 1.0% in 2001, in Germany- from 3.0% to 0.5%, in Canada-



from 4.4% to 1.4%. Japan whose GDP increment rate accounted for 2.2% in 2000 is undergoing economic slump, and, according to IMF experts, contraction in the countries GDP in 2001 accounted for 0.4%, while OECD suggests it made up 0.7%. According to the USD Department of Energy, overall across the OECD countries the economic growth

rate fell from 3.3% in 2000 to 0.9% in 2001. The loosening demand was also battered by terrorist actions of 11 September that have resulted, specifically, in the fall of demand for jet fuel, and a relatively warm (compared to average annual temperatures) autumn in the country.

*Table 3 Indicator of financial performance of the Russian oil industry between 1997 to 2001, as USD bln.*

	1997	1998.	1999	2000	2001 (9 months)
Gains from exports of oil and petroleum derivatives	21,09	13,96	18,82	34,89	26,35
Profits (balance sheet financial output)	3,52	0,60	6,32	10,42	6,48
Outstanding accounts receivable (as of end period)	6,79	2,41	1,61	1,35	1,18
Including to the budget	2,53	0,66	0,43	0,27	0,16

As a result, according to International Energy Agency, the increment in the world demand for oil fell from 0.9% in 2000 to 0.1% in 2001, while the nations of both North and South Americas, OECD and Asia - Pacific regions reported its direct contraction. As concerns industrially developed nations, it was Japan whose demand for oil fell most notably – by 1.6% compared with the prior year, while contraction in demand was also reported by the US, Canada, Mexico, South Korea, Brazil, and India. According to the US Department for Energy, the demand for oil grew by 0.9% in 2000 and slid to 0.1% in 2001.

The fall in the world demand for oil took place against the backdrop of the continuous rise in the world oil output. At the same time, to maintain the desirable price level for oil, OPEC countries have managed to reduce oil output (though not to the extent agreed upon by them). According to the US Department of Energy, the OPEC oil output fell from 30.9 mln. barrel/day in 2000 to 30.2 mln. barrel/day in 2001, along with a considerable rise in oil output by other oil producers outside OPEC. According to the US Department of Energy, the daily oil output in the former USSR grew from 8.1 mln. barrel in 2000 up to 8.8 mln. barrel in 2001, while net oil exports from this zone rose from 4.5 to 5.2 mln. barrel/day. So, the reduction in oil output by OPEC was neutralized by oil supplies from the former USSR, primarily from Russia. As a result, the proportional weight of OPEC countries in the world oil output slid from 40.2% in 2000 to 39.3% in 2001.

*Table 4. World oil prices between 1998 to 2002*

	1998	1999	2000	2001 (estimated)	2002 (forecasted)
US oil import price, as USD/barrel	12,08	17,22	27,72	21,98	18,69

Source: the US Department of Energy

The excessive offer of oil in the world market has led to a substantial growth in oil stock. In September 2001 the OPEC oil stock practically reached the maximum value noted over the past 5 years, and that was also the case for all the OECD countries. This became an additional factor inhibiting the rise in oil prices.

The sharp decline in world oil prices encouraged the OPEC nations to rule out their decision of November 14, 2001, on an additional contraction of their output by another 1.5 mln. barrel/day effective as of January 1. 2002. However, concerned with the fall in their share in the world market, OPEC put implementation of their decision in dependence on non-OPEC oil producers' readiness to carry out an overall oil production reduction at 500 thos. barrel/day. At this juncture, Russia declared its intent to reduce its oil export supplies by 150 thos. barrel/day starting from early 2002, while both Norway and Mexico announced their decision on reduction in their oil exports at not less than 100,000 barrel/day each (notably, Norway may even reduce its oil exports by up to 200,000 barrel/day). They were joined by Oman and Angola that also are going to reduce their exports, though to a less extent (Oman- by 50,000 barrel/day).

According to the basic of the last (as of December 2001) forecast of the US Department of Energy, in 2002 the world oil price calculated as the average price for US oil import should make up USD 18.69/barrel, or at 15% down the average oil price in 2001. According to IMF, the respective price should account for USD 18.5/barrel on average.

So, the maintenance of relatively low world oil prices in 2002 is determined chiefly by a considerable slowdown in the world economic growth. According to forecasts of OECD and IMF, in 2002 the US GDP increment would lower to 0.7-0.8%, in Canada- to 0.8%, while in Eurozone—to 1.5%,

while Japan would face intensification of economic slump with its GDP fall roughly accounting for 1%.

At the same time one should expect that in 2002 Urals would not be lower USD 18-18.5/barrel, i.e. it should match the RF budget projections.

*Yu. Bobylev*

## **The 2002 Russian Agricultural Budget**

The 2002 state budget passed its fourth reading in the State Duma of the Russian Federation. There is a plenty of grounds to call it a reformatory one. What's new in the budget as regards the agrifood sector?

First of all, it should be noted that nominal budget expenditures on the agrifood sector grow since 1999 (Picture 1). The draft Budget Law raises the nominal allocations to agriculture and fishery by 7% up to 26.8 billion rubles. In real terms they will grow by only 1.15% (Table 1). Meanwhile, the share of agrifood sector in the total federal budget expenditures in 2002 will drop to 1.38%.

However, the amount of outlays is not the major indicator of the government agricultural policies. The goals and programs they are targeted for are much more important. In 2000 the RF Ministry of Agriculture accepted a new concept of the middle-term agrifood sector development. We find this concept to be quite an innovatory one as it aims to further reform the sector. In 2001 a program of grain market development in the country was adopted and some of its provisions are currently being carried out. Still, the 2002 draft budget seems not to be designed for implementing the devised strategy. Its basic component - agricultural production subsidies - copies the scheme that emerged in mid-1990's.

One should mention though that one of the most efficient programs, i.e. the program of subsidizing the interest rate on seasonal credits to agriculture (enacted in mid-2000), in 2002 will get a sound financial support: nominal expenditures thereon will rise by 57% (Table 2). The growth of agricultural production for three years round and the restructuring of sector's debts in 2001 inspire hope for larger credits to agriculture, and thus bigger budget allocations to interest rate subsidizing are quite justified.

The financing of heavily criticized program of state leasing will be well below the 2001 plan (in fact this budget item has got almost no funds). Since attempts to reform the leasing mechanism failed, the reduction of expenditures thereon may be viewed as a rather positive fact: the state's withdrawal from this market will probably free the way

for establishing a normal commercial network of agricultural machinery leasing in the country.

At the same time in the course of the third reading of the 2002 Budget Law the State Duma restored therein some programs that were not included in the government bill due to their actual failure (e.g. subsidies to waste utilization plants and support of reindeer breeding in the northern territories).

The program of supporting flax and hemp growing (expenditures thereon increase at the highest rate!) and the program of encouraging wool production are not discontinued although their inefficiency is almost not disputed. Moreover, the flax and hemp program is expanded by 43%.

Given the revival of crop production, the state support of seed growing looks irrational since it becomes commercially lucrative. Nevertheless, the amount of corresponding budget allocations steadily grows (in 2001 - 3.5 fold, in 2002 - by 8%).

But the most disappointing fact is that the 2002 budget has no provisions for some important activities: interventions projected by the Ministry of Agriculture; sugar tenders; air photography of planted areas envisaged in the program of grain market development.

Education and R&D will be the major beneficiaries from bigger budget allocations to the agrifood sector. This is a positive shift in the structure of expenditures. Still, it's not absolutely doubt-free. For example, 40 million rubles are allocated to financing R&D in the framework of special federal program "Improvement of soil fertility". Such a big spending on these purposes can mean that one more program of melioration is being initiated in the country (following the notorious campaign of early 1980's). Nowadays soil fertility on non-meliorated areas is deteriorating due to insufficient application of mineral and organic fertilizers. The reversal of this trend doesn't require large spendings on R&D. Thus, their amount may be a sign that the above mentioned program (already approved by the government) prioritizes water-based melioration the effect of which is remote and most expensive.

Financing of the Russian Academy of Agricultural Sciences is notably increased - more than 1.5

fold. Expenditures on fundamental research grow slower than the overall budget allocations to the Academy while spendings on international cooperation rise sharply accounting for 4% of the total.

As to the functional structure of the budget, financing of the Agricultural Ministry's subdivisions and institutions (falling into expenses under clause "Agriculture") is up nearly 2.5 fold. This is due to the re-subordination of many formerly regional services to the federal Ministry. The step is largely justified. However, it would bring much better results if the allocated funds were used for radical reformation of the agrifood sector management, for making inventory of subordinate institutions in order to stop or reorganize their activities. For example, the number of state unitary enterprises (many

of which are loss-making) has to be notably curtailed. A lot of state livestock breeding farms can be privatized since in the current situation there are domestic buyers eager to make such an investment.

The draft 2002 budget charges the recently formed Russian Agricultural Bank and "Rosagro-leasing" to act as the Government agents for collecting debts payable under credit and leasing agreements. The amount of their remuneration for fulfilling this function will be up to 20 million rubles (Clauses 79-82). However, it's not clarified whether it will be paid in case the debts are recovered in full or just to some extent. To our mind, the remuneration should be proportionate to the percent of collected debts.

*Table 1. Federal budget expenditures on the agrifood sector in 2000, 2001 and 2002 (million rubles)*

	2000			% of execution in 2000	2001 plan	2002 plan	2002 as % of 2001
	plan	revised plan	execution				
<b>Agriculture and fishery</b>	<b>15 440</b>	<b>16 933</b>	<b>13 392</b>	<b>79</b>	<b>20 801</b>	<b>26 822</b>	<b>128.9</b>
Agricultural production	8 627	10 126	6 607	65	9 628	20 445	212.3
Land resources	6 772	6 766	6 746	100	6 912	1 937	28.0
Fishery	-	-	-		2 206	2 922	132.5
Other activities	41	41	41	99	2 055	1 518	73.9
Procurement	-	-	-	-	-	-	-
<b>Total budget expenditures</b>	<b>1 014 196</b>	<b>1 031 376</b>	<b>1 029 184</b>	<b>100</b>	<b>1 193 484</b>	<b>1 947 386</b>	<b>163.2</b>
<b>Share of agriculture in the total budget expenditures</b>	<b>1.52%</b>	<b>1.64%</b>	<b>1.30%</b>	<b>-</b>	<b>1.74%</b>	<b>1.38%</b>	<b>-</b>

Source: Draft RF Laws "On 2001 federal budget", "On 2002 federal budget" and "On execution of 2000 budget".

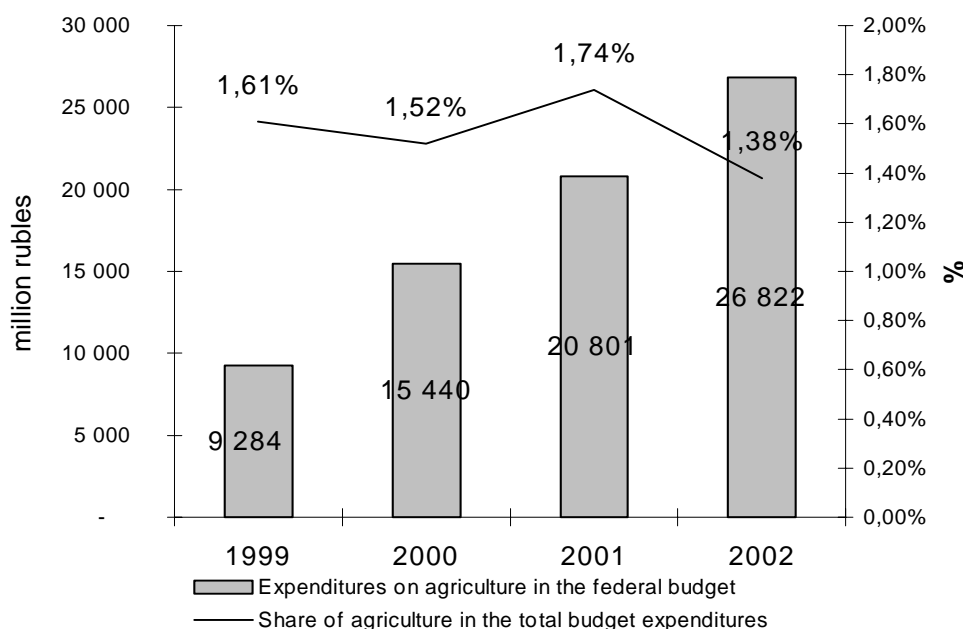
*Table 2. Subsidies to agriculture in 2000-2002 (million rubles)*

	2000			% of execution in 2000	2001 plan	2002 plan	2002 as % of 2001
	plan	revised plan	execution				
<b>Livestock production</b>	<b>604</b>	<b>604</b>	<b>603</b>	<b>100</b>	<b>960</b>	<b>1 060</b>	<b>110.4</b>
livestock breeding	298	298	298	100	620	625	100.8
sheep production	142	142	142	100	270	320	118.5
purchase of mixed feed	162	162	162	100	-	-	-
fur production	-	-	-	-	40	45	112.5
reindeer production	-	-	-	-	70	70	100.0
<b>Crop production</b>	<b>223</b>	<b>223</b>	<b>223</b>	<b>100</b>	<b>550</b>	<b>650</b>	<b>118.2</b>
seed production	68	68	68	100	250	270	108.0
flax and hemp production	72	72	72	100	70	100	142.9
compensation for insurance costs	83	83	83	100	230	280	121.7
<b>Other expenditures</b>	<b>7 637</b>	<b>9 136</b>	<b>5 620</b>	<b>62</b>	<b>6 719</b>	<b>11 784</b>	<b>175.4</b>
current operational costs of subordinate institutions	2 419	2 417	2 365	98	2 570	6 144	239.1
leasing	1 124	2 624	2 624	100	3 000	2 780	92.7
subsidies to utilization plants	11	11	3	26	40	40	100.0
federal seed reserve	100	100	100	100	150	150	100.0

	2000			% of execution in 2000	2001 plan	2002 plan	2002 as % of 2001
	plan	revised plan	execution				
capital costs	-	-	-	-	300	864	288.0
building of pesticide reserve	-	-	-	-	450	300	66.7
<b>Interest rate subsidizing</b>	<b>1 368</b>	<b>1 367</b>	<b>- 87</b>	<b>- 6</b>	<b>1 398</b>	<b>2 200</b>	<b>157.4</b>
<b>Federal program "Improvement of soil fertility in Russia" (2002-2005)</b>	-	-	-	-	-	<b>4 751</b>	-
melioration	-	-	-	-	2500	1951	128.1
compensation of expenses on mineral fertilizers	-	-	-	-	2650	2 500	106.0
<b>Private farmers</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>100</b>	-	-	-
<b>Total</b>	<b>15 440</b>	<b>16 933</b>	<b>13 392</b>	<b>79</b>	<b>20 801</b>	<b>26 822</b>	<b>128.9</b>

Source: Draft RF Laws "On 2001 federal budget", "On 2002 federal budget" and "On execution of 2000 budget".

Picture 1. Expenditures on agriculture in the federal budget



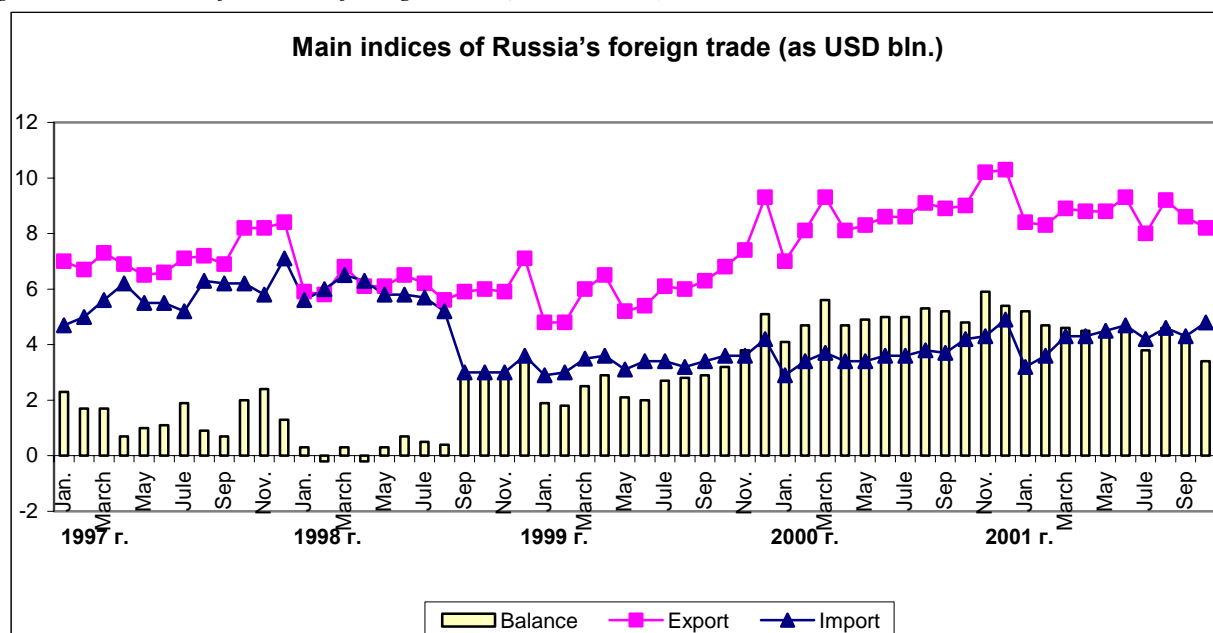
Serova E.V., Shick O.V.

## Foreign trade

October 2001 showed a notable fall in Russia's foreign trade indicators. Exports accounted for USD 8.233 bln. vs. 8.57 reported in September and 9.044 in October 2000. The October export index proved to be minimal since April 2000, however, absolute values of export still were at rather a high level. Imports accounted for USD 4.751 bln. vs. 4.338 bln. in September 2001 and 4.132 bln. in Oc-

tober 2000, which became the maximal value since August 1998. As a result of a sharp rise in imports and a substantial fall in exports, in October 2001 Russia's foreign trade balance became minimal since September 1999 and accounted for USD 3.482 bln. vs. 4.232 bln. in September 2001 and 4.912 bln. in October 2000.

Fig.1. Main indices of Russia's foreign trade (as USD bln.)



Source: Goskomstat of RF

The reasons for the fall in exports are well known - that is, a sharp oil price downfall. In October 2001 the average price for Urals was USD 19.77/barrel, or at USD 5.17 down vs. the respective

index in September and almost at 30% down vs. October 2000. The prices for non-ferrous metals and other Russian exports fell, too.

Table 1. The average monthly world prices in October respective year

	1996	1997	1998	1999	2000	2001
Oil (Brent), USD/barrel	24,08	17,9	12,8	24,1	32,14	21,45
Gasoline, USD/gallon	2,742	2,346	2,205	2,558	5,767	2,649
Copper, USD/t	0,6704	0,5695	0,4205	0,6986	0,8945	0,603
Aluminum, USD/t	1968,5	1900,7	1659,2	1748,1	1838,6	1405,1
Nickel, USD/t	1341,1	1538,5	1354,2	1470,7	1473,5	1280,81
Oil (Brent), USD/barrel	7060,9	6240,5	4262,4	7984,2	7353,2	4836,76

After some slowdown in import growth rate in the 3rd quarter, in October import supplies once again demonstrated their high rise and reached the maximal value ever reported since the 1998 crisis. The major driving force underpinning the process is the rise in the population's real disposable incomes. The latter grew by 9.7% in October compared to their respective level of the prior year. However the rise in imports is confronted by the acceleration of the USD appreciation and, consequently, the slowdown of the process of strengthening of the Rb. in real terms.

According to the data to SCS of RF on the ten months of 2001, Russia began to import far more meat, poultry and fish. Thus, the import supplies of fish grew by 58%- up to 324.3 Thos. t. worth a total of USD 135.3 mln., while the respective figures in 2000 were 205.3 Thos.t. worth USD 76.8 mln.. The average price per 1t. of fish grew from USD 374.2 up to 417.1. Notably, it mostly was Far- Abroad

countries that supplied the major (98%) part of fish delicatessen.

Despite the continuous threat of mad cow disease, meat supplies to Russia grew considerably, too. Between January through November 2001 import meat supplies to Russia accounted for 663.2 t., or at 81% over the respective period of the prior year. However the crisis in the meat sector helped our importers decrease contract prices - the average price for 1 t. of meat slid from USD 1,173.2 to 1003.6. Import supplies of the US chicken thighs was still growing - during 10 months of 2001 their import practically doubled (2. times) compared with 10 months of 2000.

In October, Russia's goods turnover with the Commonwealth nations made up USD 2.41 bln., with exports accounting for 1.35 bln. (a 9.4% rise compared with October 2000), and imports - 1.06 bln., or at 16 down compared with the respective period in question. The trend to fall in import supplies, which is related chiefly to new rules of tax-

tion of import from the neighboring countries, continued to intensify.

In October, Russia's exports grew: crude oil- at more than 50%, natural gas- at 70%, cellulose - 3 times more. At the same time gasoline supplies fell by almost 25%, while black oil- by over 70%, which is likely to be attributed to the end of the harvesting season in the neighboring regions and more profitable conditions of such supplies to Western countries.

The average export prices for Russian oil, gasoline, and black oil supplied to the Commonwealth countries were higher than the analogous prices for these goods supplied to the third countries, while passenger cars, cast iron, nickel and aluminum were exported to the Commonwealth countries at prices higher than those quoted for the third countries.

In October, the CIS countries held almost 90% of Russian export of condensed milk and cream, 30% cereals and 60% of vegetable oil. Because the export prices for meat, poultry, animal butter and sunflower seeds oil from the CIS countries proved to be higher than the Western ones, meat imports from the CIS countries to Russia fell by almost 30%, sunflower seeds oil- by 20%, and cream butter- by 5%.

In December 2001 the CIS countries celebrated the 10th anniversary of establishment of the Commonwealth and concluded results, specifically, in terms of economic co-operation. In the meantime one can argue that Russia continues to strengthen its position as the leader of the Commonwealth and the country's socio-political situation would have a crucial impact on the development of the integration union on the whole. Nevertheless, given that in the Soviet era as much as one-fourth of Russia's GDP was involved in the inter-republican turnover, the current index is just 10%.

It is Belarus with which Russia has reached the highest rate of integration on intergovernmental level. In autumn 2000 the goods turnover between the two countries stood at USD 700 mln., with Russian continuing to maintain a positive (circa USD 100 mln.) value of its trade balance with Belarus. Russia's exports to Belarus comprise mostly mineral commodities: crude oil, natural gas, ferrous metals, - as well as machinery and means of transportation. The latter two enlarged items roughly account for 40% of the overall volume of export supplies each, while one-fifth of those is formed by chemicals, food stuffs and agricultural raw materials, non-precious metals (except ferrous ones) and the related articles.

Belarus mostly import to RF machinery and means of transportation, textiles, footwear, food

stuffs, chemicals that together account for over 70%.

While pursuing the most conservative economic policy towards the third countries in the foreign trade area, Belarus is still active in employing protectionist methods. Specifically, as early as April 2002 import of tobacco goods will be restricted: the importation of tobacco goods will be permitted only if the license and a part of import quota are granted.

In compliance with the RF Government's Resolution of November 30, 2001, # 930 "On customs tariff of the Russian Federation and commodity assortment used in the course of implementation of foreign trade activity", the import customs duty rates on 140 items (of which by 90% - were lowered) have been changed effective of January 1, 2002. The new Customs Tariff has accumulated all the changes in the import customs duty rates adopted between 2000 through 2001 or those approved by the governmental commission on protective measures in foreign trade and customs and tariff policy. Specifically, the rates for audio- and video equipment were lowered from 20 to 15%, from 10 to %- for fruits, from 20 to 10%- for vitamins, from 15 to 10% for parts for kinescopes, from 20 to 15% for assembly parts or radio- and TV-equipment, from 25 to 20%- for sewing machines, from 10 to 5%- for single- bucket loaders, and from 10% to 5%- for polymer pellicle. In the course of tariff development the government has also coordinated changes in rates proposed by ministries and agencies concerned. For example, the import duty rate for salmon caviar was introduced, whilst previously there was a unified rate for all kinds of fish caviar that accounted for 20% of the customs value, but no less than Euro 22 /kg. The rate was calculated specifically for black caviar, as there had not been any import supplies of red caviar to Russia. In the meantime the customs duty rate for red caviar has been set at the level of 20%, but no less than Euro 11/kg.

In 2002, the government is going to cancel all the privileges for "shuttle traders" and make them equal to "organized" importers. The government has already developed a draft Resolution, in compliance, with which all the goods weighting no more than 50 kg. and worth a total of under USD 1,000 may be imported free of duties only in the presence of their owner, an power of attorney of other similar documents will not have any legal effect in such cases. The government proposes to consider a cargo weighting between 50 to 200 kg. as a commercial stock of goods subject to collection of regular customs duties.

The adoption of this procedure is necessitated by growing volume of quasi- legal imports of products of the light industry. According to the RF Ministry of Economic Development and Trade, “gray” schemes allow the importation of up to 90% of import supplies of textiles, footwear, furs, toys, and about 70% of perfumery goods. The innovation should help Russian producers to fill in their niche

in the national market and generate budget revenues.

In addition, the government is confident that practically there are “shuttles” operating any more, while their benefits have long been usurped by cargo-companies, thus absolutely illegally diminishing their customs payments.

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