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# **RUSSIAN ECONOMIC TRENDS**

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*in cooperation with*

**WORKING CENTRE FOR ECONOMIC REFORM  
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# DEBT MANAGEMENT AND ADJUSTMENT—PAST EXPERIENCE AND OPTIONS FOR RUSSIA

Niina Pautola

RECEP, Moscow

At the beginning of this year, Russia owed about \$158 bn to governments, Western banks and multi-national lending agencies like the World Bank and the International Monetary Fund. Russia inherited a major part of this from the former Soviet Union, while the remaining part has accumulated during the years of transition. The Russian Federation budget for this year equals about \$27 bn with an estimated GDP of R5350 bn (or \$167 bn)<sup>1</sup>. This year, foreign debt service payments will amount to \$10 bn. Another \$10.4 bn will be needed in 2001, and approximately \$10.4 bn and \$15 bn in 2002 and 2003. The Finance Ministry estimated at the beginning of this year that it will have to borrow some \$2-3 bn annually to finance its foreign debt obligations.

**Table 1: Russia's external debt, \$bn<sup>2</sup>**

<b>Debt stock</b>	<b>158.8</b>
<i>Commercial creditors</i>	56.8
Eurobonds (Russia)	16.0
Eurobonds (former London Club Soviet Debt)	31.8
MinFin bonds, tranche 4-7	7.4
MinFin bonds, tranche 3	1.3
<i>Multilateral loans</i>	21.8
IMF	14.9
World Bank	6.9
<i>Bilateral loans</i>	64.1
Paris Club, post Soviet	9.2
Paris Club, Soviet	40.2
COMECON	14.7
<i>Other</i>	16.1

*Sources: United Financial Group, Ministry of Finance, CBR, Goskomstat.*

In February, Russia reached a preliminary agreement with the London Club, representing Western commercial banks, to restructure some of the debt Russia inherited from the former Soviet Union. The London Club debt was rescheduled for the first time in 1995, after which it was divided into the Principal loans (PRINSs) and Interest Arrears Notes (IANs). As a result of the February negotiations, \$10.6 bn of the total \$31.8 bn debt was written off. In addition, the repayment of the majority of the remaining \$ 21.2 bn was postponed to begin in 2008.

The rest of the former Soviet debt are Russia's debts to the Paris Club of creditor nations. The debt, currently amounting over \$40 bn, was partially restructured in 1993, 1994 and 1995, then rescheduled in 1996 and again in 1999. Russia has asked the Paris Club to reschedule the payments worth \$8 bn that have come due in 1999-2000.

<sup>1</sup> R/\$ rate in 2000 budget is estimated at 32.

<sup>2</sup> As of January 1, 2000.

The subject of analysis in this report is Russia's external debt burden. The first part reviews the experience of the 1980s debt crisis, followed by a look at Russia's alternatives for financing external debt obligations in the medium- and longer-run. The final section deals with the necessity of debt write-off and debt rescheduling for Russia. It is argued that Russia's solvency is more a matter of structural, especially fiscal reforms, rather than a current account issue. Moreover, Russia's growth potential and high trade surplus suggest that it has the possibility to grow out of its debt problem. Consequently, the combination of structural reforms, new liquidity and scaling down of debt service payments may be enough for Russia to survive the debt burden.

### **The past experience of the 1980s debt crisis<sup>3</sup>**

The economic debate that took place during and after the 1980s debt crisis focused especially on the following set of issues: What is the role of domestic adjustment in highly indebted countries? What are the options for financing debt obligations? What have been the effects of debt reduction? How much reduction is needed, and should debt or debt service actually be reduced?

Countries that experienced debt crisis in 1980s, mainly those in Latin America, and Sub-Saharan Africa, shared a set of common characteristics. These included low investment ratios, sluggish per capita consumption, capital flight, and high inflation. These features indicated that the extensive debt burdens were more reflective of development crisis rather than some temporary difficulty, that could be solved within a year or two. The macroeconomic policies chosen to manage the debt issue mainly focused on two tasks: First, the countries aimed to reverse the capital outflows, and to generate trade surpluses. This was to ensure adequate foreign currency reserves and to ease the countries' ability to keep control of the debt volume. The second policy response was a fiscal adjustment. Empirical evidence showed that a fiscal adjustment was often a difficult task. In the worst case, a highly indebted country, while shifting away from extensive external financing, resorted increasingly to domestic borrowing and inflation tax. A more successful way to manage the decline in external financing proved to be via tax policy namely better tax collection.

Various proposals were made to highly indebted countries for how to reduce the stock of debt and its service. The Baker plan, introduced in 1985, presented a strategy that rejected debt write-offs and supported the idea of a country growing out of the debt problem. In addition, the plan suggested implementation of major structural reforms in debtor countries in exchange for their financing. These reforms included trade liberalisation and encouragement of foreign investment, and restructuring of state enterprises.

The first so-called market-based menu approach was offered to Brazil in 1988. According to this approach, the strategy to reduce debt and debt service was divided into three categories: debt buybacks, exchanges of foreign debt against other foreign assets with different terms, and exchange of foreign debt to domestic assets. The Brady plan of 1989 introduced another new initiative for dealing with debt. Three separate options included new financing under conditions set by international financial institutions, new money with conditions combined with menu options, and all of the above plus official support and funding for debt reduction.

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<sup>3</sup> This chapter and the references in later chapters related to the 1980s debt crisis are based on the main conclusions of the World Bank Symposium in 1989. The papers presented at the symposium were written during a period of intense discussions of public policy for dealing with debt crisis: "Dealing with the Debt Crisis". The International Bank for Reconstruction and Development/The World Bank, September 1989.

## Russia's options for financing debt obligations

The simple measurement often used in evaluating a country's solvency, is the ratio of external liabilities to output (or debt service to exports). This means that the primary budget surplus should be enough to cover the difference between the rate of debt growth and real GDP growth. Empirical evidence suggests that the debt/GDP ratio should not grow larger than 80%. In cases where this reference value has been exceeded, the usual result has been a collapse in market confidence and capital outflows, followed by interest rate increases, accumulation of debt and default.

**Table 2: Russia's debt to GDP**

Debt stock	\$158 bn
Estimated GDP	R 5350 bn / \$167 bn
Debt / GDP	95%
Debt service 2000/Exports <sup>4</sup>	13%

*Sources: Goskomstat, CBR, Ministry of Finance*

Currently, Russia's external debts account for more than 80% of GDP. The overall debt stock is close to the estimated GDP for 2000. However, it should be noted that debt service to exports ratio is much lower in Russia, compared to some of the developing countries in the 1980s. What are the alternatives for servicing the debt? One of the factors determining Russia's solvency in the medium- and longer-term is its ability to generate sustainable economic growth. In 1998 and 1999, real GDP growth was below 1997 levels. Last year, the real GDP increased by about 3% over 1998, but was still 2% lower than in 1997. In the goods-producing sector the highest rates of annual growth last year were registered in industry and construction, where gross output increased by 8.1% and 5.4% from 1998. For the year 2000, the GDP growth estimates range from 2.5-6%. Achieving a growth rate higher than last year would require continued strong industrial growth. In addition there may be a need to boost Russian consumer demand, which has not been able to keep up with the supply. In 1999 real consumer expenditures on goods and services were 7% lower than in 1998 and 9% lower than in 1997. Indeed, one of the main challenges the Russian government faces is judging the extent to which the economy should be stimulated to guarantee further expansion, while simultaneously achieving fiscal balance and low inflation.

One statement that one hears over and over again in discussions about the Russian economy is that investments are the engine of economic growth. The annual growth of gross fixed investment is a proxy for the degree of capital stock renewal. The gross fixed investments in Russia for the past two years have been below that of 1997. According to the current official data from Goskomstat, the year-on-year rate of growth in fixed investments in Jan-Feb 2000 was reported at 6%. Both FDI and portfolio investments into Russia during the past three years peaked in 1997, but dropped significantly after the August 1998 crisis. According to the Russian Central Bank statistics, FDI in 1999 remained almost unchanged compared to 1998 and amounted to \$2.9 bn. Clearly, there is a need to increase investment in Russia. But the country is still criticised for the various administrative and legal obstacles that discourage not only foreign, but also domestic investors' interest. The problems are related especially to the underdeveloped financial markets, lack of property rights and investor protection, inefficient implementation of laws, and a highly complicated tax system. These are structural problems that cannot be solved overnight, but require time, changes in respective legislation and improvement in implementation.

<sup>4</sup> Exports in 1999 amounted to \$74.3 bn.

In 1999, the Russian primary budget surplus amounted to R100.3 bn, or 2.2.% of GDP<sup>5</sup>. Since the majority of budget revenues consists of different tax revenues, tax collection plays an important role in debt analysis. The experience of the 1980s in many highly indebted countries suggests that for public finance to contribute to savings, investment and growth, more emphasis should be put on increasing tax collection (rather than on cutting public investment). Year 1999 showed an improvement in tax collection and an increase in the share of cash payments in Russia. Nevertheless, the debts on taxes to the federal budget still stood at R229.1 bn at the beginning of this year. Moreover, while Russia's enlarged budget revenues (federal + regional + federal off budget funds) account about 35% of GDP, federal tax revenues alone remain low, at less than 15% of GDP.

Recently, the discussion on tax reform has heated of again. The Russian tax system is claimed to be complicated and nontransparent, consisting of various ad hoc laws adopted during the transition years. The view of most observers has been that effectively implemented tax reform including the simplification of the tax system, lowering of tax rates and ensuring of equal treatment would stimulate incentives to pay taxes. This would increase budget revenue and therefore contribute to debt service ability. Higher tax revenues, combined with some expenditure cuts would naturally be even better. However, at least in the short-term, drastic cuts in government expenditures may be difficult to implement, especially if the government decides to support consumer demand and continue paying the wage and pension arrears.

The high trade surplus that Russia enjoyed in 1999 and so far this year strongly speak for Russia's ability to repay its current and future external debt obligations. However, there are at least three reasons why this conclusion should be made with caution. First, although the rouble devaluation in August 1998 and subsequent depreciation in combination with higher world oil prices has benefited Russia's trade, the widening trade surplus has been more a result of a fall in imports rather than of an increase in exports. While exports in 1999 increased by 0.1% compared with 1998, imports were 31% below their 1998 level.

Second, since a large amount of Russia's export earnings come from a few certain sectors, such as natural resources, drastic shifts in the world market can have a significant impact on real income and the current account. For example, at the beginning of this year, discussions were started by the leading OPEC members about a possible increase in oil extraction later this year. While the price of one barrel of oil in international markets rose to \$30 per barrel in February, the OPEC is seeking to keep prices at around \$20-25 per barrel towards the end of the year. A drop in oil prices will naturally affect the Russia's real income through changes in oil exporters' income and the country's trade surplus. From the point of view of the budget, the OPEC decision is expected to influence only additional budget incomes as the average annual crude oil price in the Russian budget is \$17.5-18 per barrel. All in all, price changes –whether big or small- of oil and other natural resources would have budgetary implications and an impact on Russia's ability to service external debt.

Third, Russian authorities have not been able to benefit fully from financial gains in the export sectors because of capital flight. According to the Ministry of Finance, about \$15 bn left Russia last year and about \$25 bn in 1998. In the February RET monthly edition, capital flight was estimated at about \$77.6 bn during 1993-1998. Based on these calculations, a 10% reduction in capital flight would bring gains of, on average, an extra \$1.2-1.3 bn annually, and a 50% reduction about \$6.4 bn, respectively. These are significant amounts given the overall budget and debt service burden.

What are the remaining possible sources for financing Russia's external debt payments? As for debt finance as an alternative, taking out new foreign loans in the near future is neither likely nor recom-

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<sup>5</sup> The budget revenues for 1999 totalled R 611.7 bn (\$22.8 bn), expenditure totalled R674 bn (\$25.1 bn) and deficit amounted to 1.4% of the GDP. R/\$ rate at the end of December 1999, 26.813.

mended. After all, an accumulation of foreign debts to pay earlier debts reflects structural problems that should be dealt with through other measures than repeated borrowing. The Russian Ministry of Finance itself estimates that Russia will enter international capital markets not earlier than in 2001. Russia's return to international capital markets will also be affected by agreements reached with the Paris Club and with the IMF, agreements that have always been followed in international financial circles.

At the beginning of this year, the IMF confirmed that Russia had met the main macroeconomic conditions of 1999, but that progress with structural reforms was still considered unsatisfactory. Consequently, the (second) \$640 mn tranche of the \$4.6 bn IMF loan that was due for disbursement in fall 1999 was put on hold for the second time. Russia is expected to receive the tranche not earlier than in the second half of this year. It should be noted that the 2000 federal budget foresees \$5.9 bn in financing from international lending agencies, including the IMF. If this money is not released to Russia, there will be a need to find an alternative source of financing. One option would be to replace some of the foreign credits with domestic ones and increase the issue of state securities by the Finance Ministry. Naturally, this should be done carefully, without a return to the debt pyramid that characterised the situation in 1998.

Another option for financing debt obligations is printing money, but many would agree that this is the least best alternative since it would only add to inflation. Higher inflation erodes budget revenues and increases the overall debt burden. Moreover, under the 2000 budget law, the Russian government is allowed to borrow only 30 bn roubles, and 1 bn dollars from the Central Bank.

### **The debt write-off and debt rescheduling – the past experience and likely effects on Russia**

Achieving sustainable economic growth, improvement in the investment climate, implementation of structural reforms, including tax reform and reduction in capital flight, are likely to take time. Therefore, some of their positive effects on Russia's ability to service its debts is observable only in the medium to longer run. In the shorter term, one of the main focus points is the upcoming negotiations with the Paris Club. Should Russia reach a similar debt rescheduling and write off-deal with the Paris Club as was agreed with the London Club, the immediate debt burden would be eased significantly. The interesting question is whether Russia actually needs a debt write-off, and/or rescheduling.

When assessing a country's need for debt restructuring, i.e. write-off and rescheduling, it is important to remember that the burden of external debt can discourage investment and thus slow down economic growth. There are two channels through which this may occur. The first one is the liquidity constraint; a country's inability to get as much foreign borrowing as desired. The other channel is the debt overhang; the expected future loss of output to foreign creditors. The debt overhang creates disincentives to growth. With a large inherited debt, the associated future repayment can act as a tax on investment since a share of the return will go to creditors.<sup>6</sup>

Empirical evidence suggests that countries suffering from a liquidity trap only need substantial infusion of new funds to take advantage of good investment opportunities, while countries suffering from a debt overhang may also need some debt and debt-service reductions. When debt overhang and liquidity constraints coexist, both debt relief and liquidity are needed. How do the amount and structure of liquidity and debt relief affect the welfare of a debtor country and the payoffs of its creditors?

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<sup>6</sup> *The experience from the debt crisis of the 1980's suggests that there are no accurate empirical estimates on the exact magnitude of a debt overhang's disincentive effect on investment.*

First, the distinction has to be made between debtor countries that are willing and able to pre-commit credibly to an adjustment program and those that are not. The debtor's commitment will often lead creditors to provide additional liquidity since their returns become more secure. One way to create a commitment is to make new money conditional, the common practice among the international financial institutions today. Second, new loans, and rescheduling of principal are sources of immediate liquidity, which increase future contractual obligations. Rescheduling is mainly a way to buy time when a country is experiencing economic difficulties. While principal payments are postponed, they fall due with additional interest. However, if a country is forced to reschedule the same debts several times, experience shows that markets perceive a country as insolvent, in which case the possibilities to obtain additional financing from international capital markets are much weaker, or even nonexistent. Consequently, in the absence of other sources of financing, the only remaining option is debt default or involuntary debt write-off. Third, like new loans and rescheduling, the debt write-off is also a source of liquidity, but does not increase future obligations. A debt reduction can reduce debt to levels where a country does not have to default anymore. On the other hand, debt forgiveness does not necessarily solve the fundamental problems that originally led to the excessive debt burden. Neither does it ensure that the remaining debts will be serviced. Finally, without debt write-off, there is no immediate change in a country's debt to GDP ratio. This could prevent a highly indebted country from continuing extensive borrowing, since the markets perceive the ratio as too high, and therefore the country too risky for investment.

So what is the situation in Russia? On one hand, the series of reschedulings can be seen as an indication of a longer-term debt problem in Russia. The London Club debt was rescheduled first in 1995, and the debt to Paris Club was partially restructured in 1993, 1994 and 1995, then rescheduled in 1996 and again in 1999. Russia's request to the Paris Club clearly signals that the need remains for debt restructuring in the future. In addition, the lack of structural reforms contributes to the liquidity constraint, and therefore the short-term possibilities to receive additional foreign financing are limited.

On the other hand, the question of whether Russia suffers from the debt overhang is a more difficult question. The recovery in investments after the 1998 crisis, and the current consensus on the need to improve the investment climate in Russia, reflect more positive incentives rather than a deliberate attempt to under-invest. Moreover, the high trade surplus and last year's economic recovery, combined with significant growth and investment potential, speak for Russia's ability to grow out of its debt problem. Furthermore, higher than estimated tax collection during the first three months of this year suggest that there may be a more permanent change taking place in tax collection, rather than some random increase. Finally, with respect to Russia's commitment as a debtor, both the negotiations with the London Club and the upcoming discussions with the Paris Club do indicate Russia's willingness to reach an agreement with creditors instead of giving up and settling for the default-option. Given the facts of Russia's situation and the experience from the 1980s debt crisis management, if Russia continues to grow and obtains new liquidity combined with a reduction of debt service payments, there may not be a need for a debt write-off.

# ECONOMIC UPDATE

## Aggregate demand

Revised GDP estimates published by Goskomstat, confirm that in 1999 real GDP increased by 3.2% from 1998 but was still about 2% lower than in 1997. According to our estimates, in seasonally adjusted terms quarterly rates of GDP growth gradually fell throughout the year: from 2.5% in 1999 Q1 to 2.3% in Q2, 1.8% in Q3 and only 0.5% in 1999 Q4.

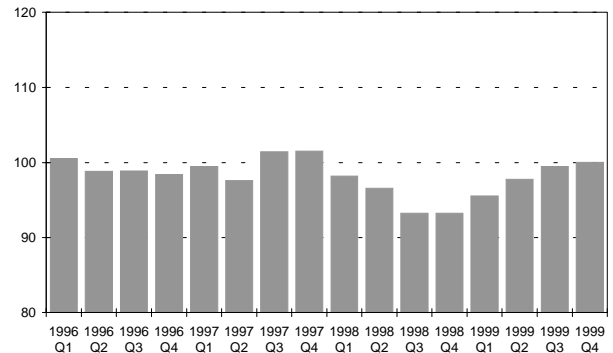
In January–February 2000 real consumer expenditures on goods and services (a proxy for personal consumption expenditures) were about 7% higher than in Jan-Feb 1999. According to preliminary estimates, real expenditures on new construction & equipment (a proxy for gross fixed investment) in Jan–Feb 2000 were about 6% higher than in the same period a year ago.

The recent data for real expenditures on new construction & equipment brought some questions from our readers. Here, we wish to clarify a couple of points. First, the revision of data is a routine procedure conducted by Goskomstat. One of the reasons for the revisions of initially published monthly data is the difference in the number of units in monthly, quarterly and annual data reported. This difference is especially important in the data on fixed investment. Second, starting in 1999 fixed investment began to actually grow for the first time since the beginning of the 1990's. This change is naturally accompanied by intensive structural shifts in investment (by sector, type of investment and in proportion and prices of domestic and imported equipment). These factors explain the larger than usual magnitude of Goskomstat revisions of data and possible inconsistencies in our seasonally adjusted estimates, since the latter are based on the experience of previous years when investment had a sharp general downward trend.

## Output

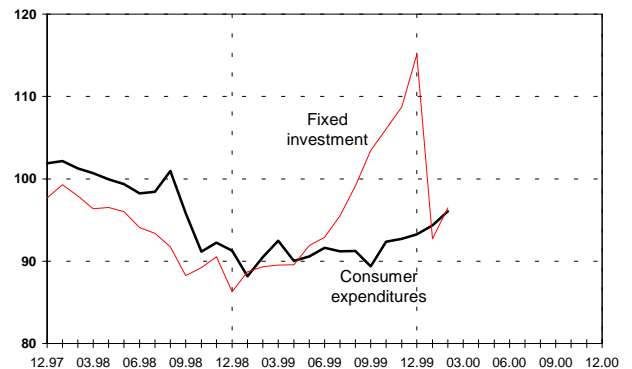
In February 2000 industrial production remained unchanged from January in seasonally adjusted terms, actually showing no growth since July 1999, i.e. for six months. Agricultural output has remained stable since November 1999. Output in construction increased in February 2000 by 2.3% from January in seasonally adjusted terms but was still 1.6% below the level of September 1999. In the service-producing sector a declining trend is observed in seasonally adjusted terms in the volume of wholesale trade (from September 1999 to February 2000 it fell by 7%) and in passenger transport turnover (from November 1999 to February 2000 it fell by about 4%).

**Real GDP (1997 = 100, seasonally adjusted)**



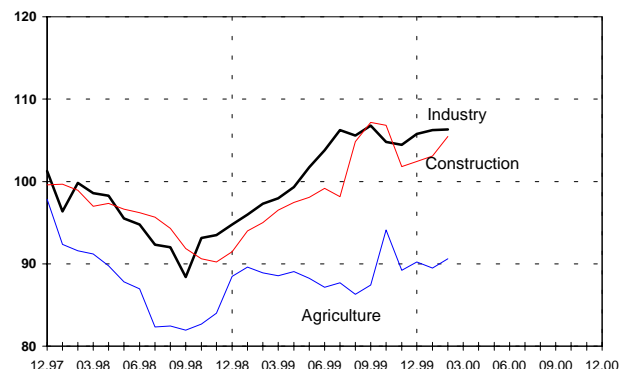
Source: Goskomstat and RET staff estimates.

**Components of aggregate demand (1997 = 100, seasonally adjusted)**



Source: Goskomstat and RET staff estimates.

**Real gross output of goods (1997 = 100, seasonally adjusted)**



Source: Goskomstat and RET staff estimates.

## Prices

In March 2000 the consumer price index grew by 0.6% (1.0% in February). CPI for food increased in March by 0.1% (0.5% in February), for non-food items by 1.4% (1.3%), and for paid services by 1.5% (3.0%). In the first three months of 2000 CPI increased by 4.1%, less than in the same period of 1997 (5.4%), when inflation was the lowest of the decade, and CPI increased over the year by only 11%.

Composite PPI grew in February by 3.0% (6.4% in January). PPI in industry increased by 3.8% (4.0%), mainly because of the 36% increase in prices for natural gas. PPI in construction grew 2.4% (2.7%), and in agriculture by 2.0% (1.4%). Tariffs for freight transportation and for business communications increased in February by only 0.3%.

In February the 12-month rate of growth of the monetary aggregate M0 was equal to 33.9%, substantially higher than the 12-month rate of CPI growth (25.1%). Year-on-year rates of growth of composite PPI and monetary aggregate M2 in February 2000 were both equal to 56.6%.

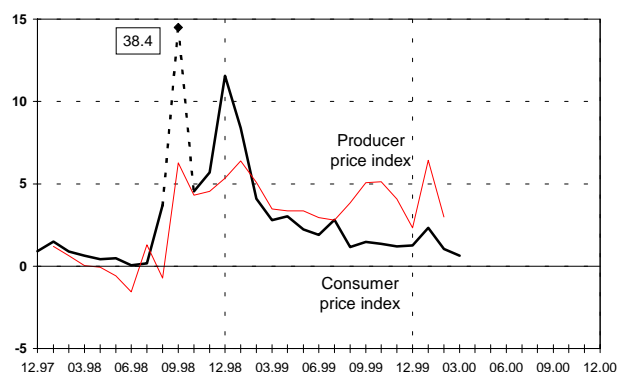
## Labour

In January 2000 the number of employees at large and medium-sized enterprises appeared to be higher than a year ago. Positive year-on-year rates of growth of employment in this sector of the economy were registered for the first time since the beginning of the 1990's. In February the number of registered job seekers (1.43 mn) and the number of registered unemployed (1.23 mn) remained unchanged to January. The vacancy ratio (the number of registered job seekers to the number of vacancies) in February 2000 was equal to 2.3, compared to 6.1 in February 1999.

Real wages, estimated on the basis of the deflator for consumer expenditures, continued to grow. In February 2000 they increased by 1% over January in seasonally adjusted terms, and were only 5% lower than the 1997 average. According to official estimates based on CPI changes, real wages in February 2000 were about 14% lower than the 1997 average. Wage arrears decreased in February by 2.9% to R43.5 bn. Wage arrears of enterprises decreased by 1.5% to R34.1 bn, and arrears of the budget decreased by 7.7% to R9.4 bn.

Strike activity remains very low. In February 2000 there were only 210 officially registered strikes with 8.8 th participants, compared to 972 strikes with 31.1 th participants in February 1999. The vast majority of strikes occurred in school education (204 strikes with 8.0 th strikers), where wage arrears of the local budgets are still rather large.

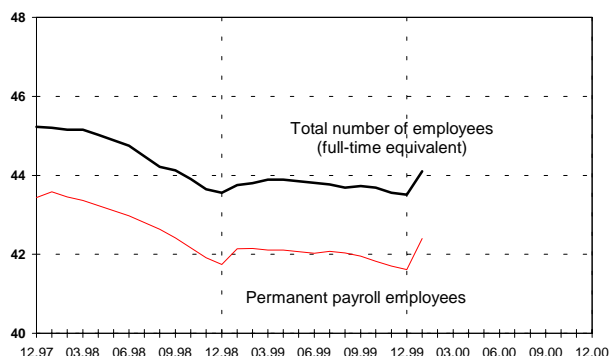
## Monthly growth of price indices, %\*



\* *Producer price index covers prices in industry, construction, agriculture, and tariffs for freight transportation and communications.*

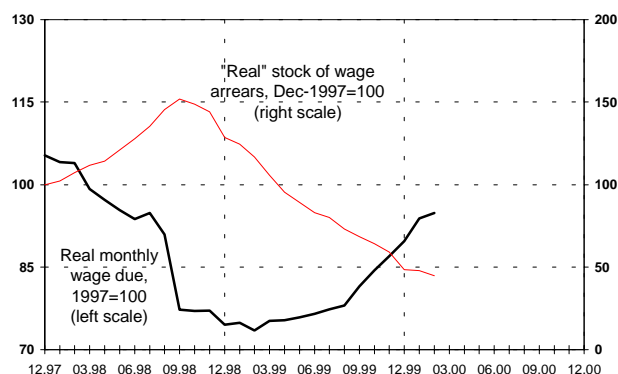
*Source: Goskomstat and RET staff estimates.*

## Employment at large and medium-sized enterprises (mn)



*Source: Goskomstat.*

## Real wages and wage arrears\*



\* *Index of real wages is based on price deflator for consumer expenditures; index of "real" wage arrears is deflated by nominal monthly wage due.*

*Source: Goskomstat and RET staff estimates.*

## Enterprise finances

Data on enterprise finance released by Goskomstat in March do not give credence to worries of some observers that the situation in the Russian real sector may have worsened. In January, the share of profitable enterprises reached 62.8%, up from 60.7% in January last year, hitting the highest level since March 96. Total arrears of industrial enterprises increased by 2% compared to December but were still lower than in August-November 1999. The total stock of overdue enterprise liabilities in real terms has decreased by 4% compared to last month. The share of cash in payments to the largest companies and natural monopolies has increased from 46.6% in January 1999 to 63.1% in January 2000, while use of vekselns as a means of payment has dropped from 19.7% of sales to 8.3%.

Two privatization deals in the coal industry are planned for this year; one of them, due to be announced shortly, is the sale of 100% of Mezhdurechenskugol, a major supplier of Magnitka. Later in the year 80% of Kuznetskugol, accounting for 20% of the coal market is to be offered.

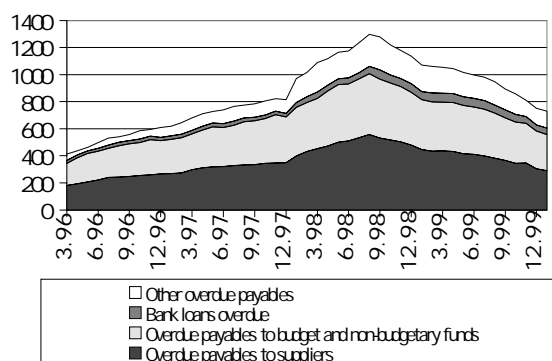
The government has undertaken further steps to solve non-payments problems in the energy and fuel sector. Two decrees issued on the 4<sup>th</sup> of March obliged budget-financed enterprises to make payments to the fuel and energy suppliers in cash, and introduced a letter of credit as a tool for settlements with RAO UES and Gazprom for all enterprises.

## Foreign trade

In January, Russian foreign trade turnover totalled \$8.8 bn (including unofficial shuttle trade), up 17% from January 1999. The trade surplus amounted to \$4 bn, with exports standing at \$6.4 bn and imports at \$2.4 bn. Year-on-year, exports increased by 40%, whereas imports fell by 17%. Russia's trade turnover with non-CIS countries totalled \$6.8 bn and with the CIS \$2 bn. Trade with non-CIS countries increased 15% from January 1999, and with the CIS grew 25%. Exports to non-CIS countries amounted to \$5.2 bn, up 44% from January 1999. Imports from non-CIS countries fell 30% to \$1.6 bn. Russia's exports to CIS countries totalled \$1.2 bn, which is 20% more than in January 1999. Imports from the CIS rose 33% to \$0.8 bn from January 1999.

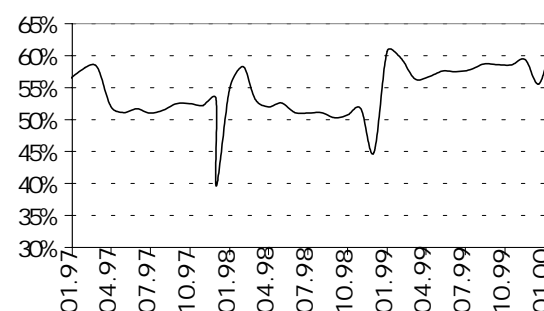
Fuel and energy accounted for the biggest share of exports in January, 62%. Exports of iron, steel and non-ferrous metals accounted for 13%, and exports of machinery & equipment for 5% of total exports in January. While machinery, equipment and transport vehicles constituted 41% of imports in 1999, their share fell to 26% in January this year. The EU continues to be Russia's main trading partner.

## Overdue payables deflated by PPI\*, Jan-98=100



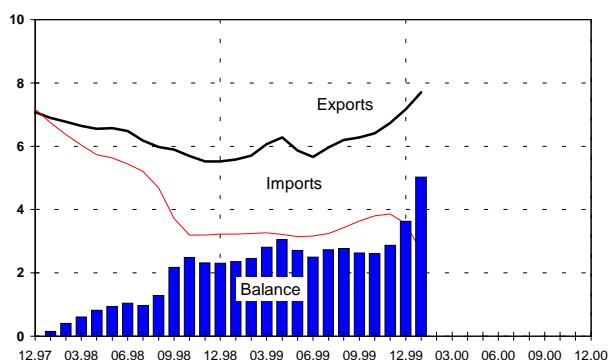
Source: Goskomstat.

## Share of profitable enterprises



\* Data is for large and medium size enterprises.  
Source: Goskomstat.

## Merchandise exports and imports, \$ bn



Source: Goskomstat and RET staff estimates.

Unofficial shuttle trade in January fell 10% from January 1999 and amounted to \$0.8 bn (according to Goskomstat).

At the beginning of April, the Russian Customs Committee introduced new guidelines to account for foreign trade activities. The aim is to eliminate firms that are created only for a few transactions then disappear without paying taxes. At the end of March, the government commission approved a system that links export duties on crude oil with world prices. The resolution is expected to come into force June 7. From April 7 until June 7, the export duty on oil will be 20 euros per tonne. At the end of March, OPEC decided to raise oil extraction quotas by 1.452 billion barrels a day. In addition, OPEC is trying to keep oil prices at \$20-25 per barrel this year. From Russia's budget point of view, the OPEC decision is expected to influence only additional budget incomes as the average annual crude oil price in the budget is \$17.5-18 per barrel.

### The banking sector

According to the 1999 financial results released, the profit of Sberbank, the biggest Russian bank that accounts for more than 80% of household deposits, was R13.9 bn. The report confirms that recently Sberbank has been lending extensively to the real sector: rouble credits granted to the economy in 1999 increased by three times to R286 bn from R90.4 in 1998. Sberbank's equity capital has grown from R21 bn to R29.6 bn. Nevertheless, the reported figures on profit and equity capital, calculated according to the Russian accounting standards may overstate the Sberbanks' financial performance. The final conclusions can be made only after an audit of Sberbank according to international standards is conducted, on which the IMF and World Bank have insisted for almost one year.

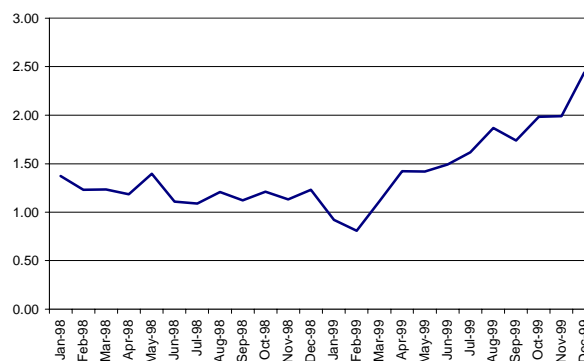
A meeting of the creditors of Rossiiskiy Credit, one of the objects of ARCO's restructuring activity, will take place on April 19. The probability of achieving an amicable agreement with the creditors of Rossiiskiy Credit is considered rather high.

At the same time, the biggest bank run by ARCO, SBS Agro, is likely to be bankrupted. ARCO is continuing to pay off the small household deposits of SBS Agro. The position of the large bank creditors is much more worrying. If the bankruptcy procedure were to be implemented, they would be repaid only a fraction of their assets.

### The budget

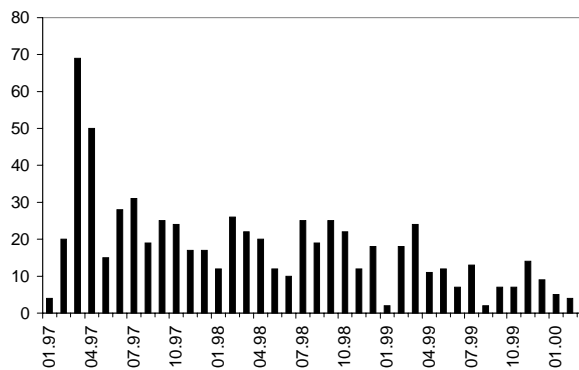
In the first two months of 2000, the federal budget was running a budgetary surplus amounting to around 1/3 of the budget size (R35.2 bn; IMF definition is used). In February, federal revenues were R10

### Revenues from crude oil and petroleum exports (\$ bn)



Source: State Customs Committee

### Number of bank licences withdrawn by the CBR for violations of banking laws and CBR regulations



Source: CBR.

bn up from their January level and reached R73.4 bn. In real terms this is at least two times higher than in February 1999. Tax revenue stood at R66.6 bn compared to R56.1 in January; export tariffs were R11.7 bn compared to R8.4 bn in January. To a large extent the increase in tax revenues occurred due to higher receipts from large taxpayers and a larger share of cash payments by oil companies and natural monopolies. Also, some tax arrears were paid out. Arrears to the federal budget decreased in February compared to January by R4.1 bn and equaled R229.5 as of March 1, 2000. Deferred payments (restructured arrears to the budget) increased by R3.4 bn.

Federal expenditures in February equaled R59.0 bn, of which R11.4 bn were interest payments. Social expenditures were financed in full, while items like defence and international activity were under-financed. No wage and pension arrears were accumulated by the federal budget.

At the moment of writing, no data on regional budgets in February were available. In January 2000, regional and local budgets were running a surplus of R7 bn. Their consolidated revenue equaled R41.4 bn, which is nearly 1.5% lower than the federal revenue for the same month. Federal transfers amounted to R4.3 bn. Expenditures stood at R34.5 bn.

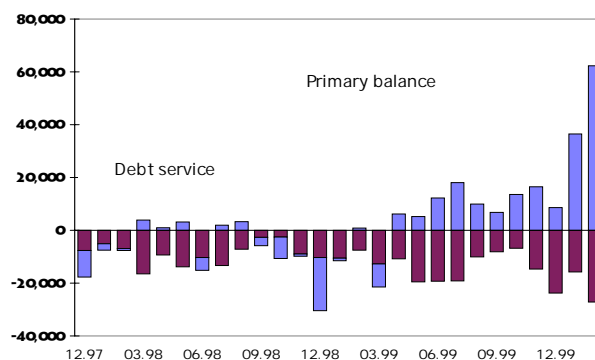
### The exchange rate

Most of March saw the nominal appreciation of the rouble driven by a high trade surplus. The MICEX exchange rate reached R28.2799/\$ on March 29 after a dive to R28.8/\$ at the beginning of the year. Sufficient supply of hard currency from the exporters allowed the CBR to continue replenishing its foreign reserves (see MONEY).

The favourable world prices for natural resources prompted the government to claim that the annual average exchange rate could be stronger than R32/\$ projected in the 2000 budget, and that the pace of the rouble depreciation would be slower than previously expected. The Central Bank announced that while it would stick to its floating exchange rate policy with the rouble continuing to rise in nominal terms for the time being, it would keep up interventions to prevent the rouble from significant real appreciation.

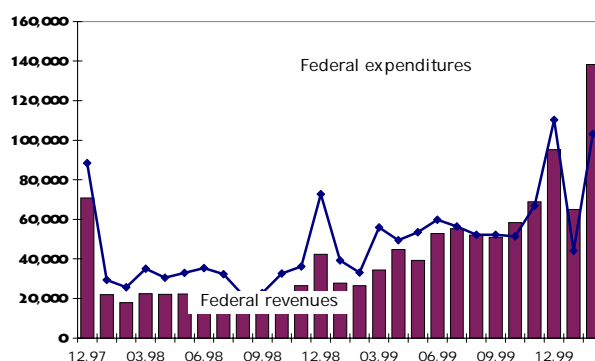
However, the decision by OPEC countries on March 29 to lower world oil prices by increasing crude production immediately affected the Russian forex market. On March 30 the volume of trade at the unified session was double the monthly average, driven by the concerns that lower oil prices would put pressure on the rouble's stability. Due to doubled demand for hard currency the MICEX exchange rate lost 22 ko-

### Federal budget deficit, R mln



Source: Ministry of Finance.

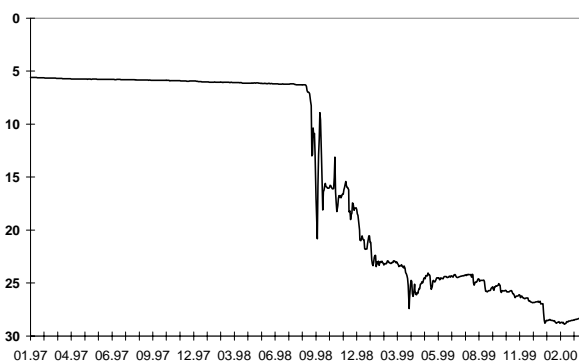
### Federal revenues and expenditures, R mln



Source: Ministry of Finance.

IMF definitions of revenues, expenditure and deficit are used.

### The rouble exchange rate (R/\$)\*



\* MICEX exchange rate.

Source: Moscow Times.

peaks against the dollar. As a result, in the end of March the rouble remained almost unchanged compared to end-February, with the MICEX exchange rate of R28.68/\$ and the CBR official exchange rate of R28.6/\$.

### Money

In March, the Central Bank increased its gross international reserves (GIR) by an incredible \$1.9 bn. By the end of the month GIR reached its next post-crisis peak of \$15.5 bn. In the first quarter, GIR grew by a total of \$3.0 bn, which could have produced a monetary base growth of around R85 bn. Nevertheless, at the end of March monetary base (MB) was R323.7 bn, which is about the same compared to the end of December 1999. This means that despite the lack of financial instruments the monetary authorities succeeded in sterilizing. A possible source of sterilization might be the net repayments of government debt to the CBR: at the end of February net domestic assets (NDA) were R331.1 bn, which is almost R70bn less than at the end of December 1999.

The increase in GIR along with the continued reduction in outstanding liabilities to the IMF led to a growth in the other component of MB, net international reserves (NIR), which stood at -\$0.9 bn at the end of February (\$2.3 bn higher than at the end of last year).

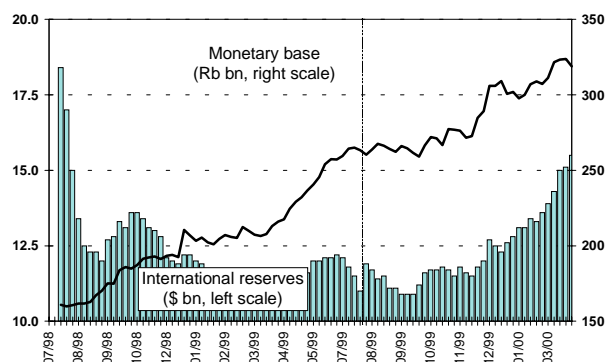
In January-February the money supply (M2) increased by 3.1% to R726.5 bn. Currency in circulation (M0) amounted to R242 bn, or 3.1% less than in December 1999. In the first two months of the year the non-cash component of M2, rouble deposits, increased by 10.6% to R486.8 bn.

### Financial markets

The Russian stock market continued to grow in March with the Moscow Times \$ index up 28.3%. Most of the increase took place in the run-up to March 26. On the last trading day before the election the MT \$ and RTS indices reached their highest post-crisis levels, of 189.5 and 243.9 respectively. The solid RTS trade volume of \$69.3 mn was driven by the anticipation of political stability and favorable changes in the investment environment. In March the total RTS trade volume amounted to \$810.8 mn, up by 84% over February.

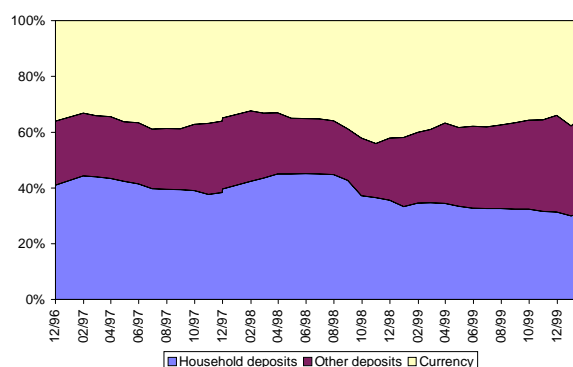
During March, the Ministry of Finance issued additional GKO in the negligible amount of R689.4 mn, as part of the GKO series initially placed on auction February 23. The total trade volume of GKO/OFZ on the secondary market in March equaled R24.2 bn, of which OFZ accounted for 91%.

### Monetary base and gross international reserves (weekly data)



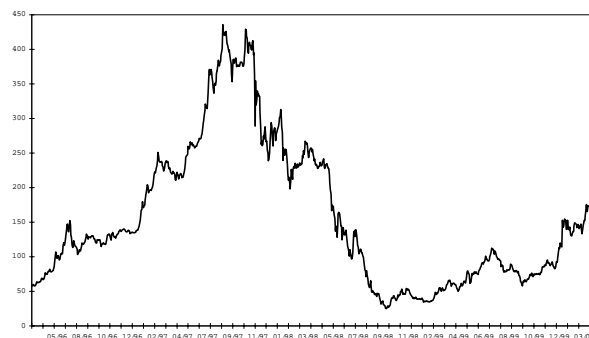
Source: CBR.

### Composition of M2 (%)



Source: CBR

### Moscow Times \$ Index



Source: Moscow Times.

**Table 1: GDP and aggregate demand\***

	Nominal GDP	Real GDP, SA**	Nominal consumption of goods and services	Real consumption of goods and services***	Nominal expenditures on new construction & equipment	Real expenditures on new construction & equipment, SA**
	(R bn)	(1997=100)	(R bn)	(1995 = 100)	(R bn)	(1997=100)
1995	1 540,5	102,6	664,8	100,0	267,0	128,5
1996	2 145,7	99,1	950,1	97,9	376,0	105,3
1997	2 478,6	100,0	1 124,0	100,9	408,8	100,0
1998	2 696,4	95,1	1 339,9	95,5	402,4	93,3
1999	4 545,5	98,1	2 171,1	81,9	659,3	97,5
01.1998			96,3	99,2	22,1	99,3
02	551,6	98,2	91,0	92,9	23,7	97,9
03			95,9	97,4	26,1	96,4
04			97,7	98,8	25,5	96,5
05	625,9	96,6	97,0	97,6	26,6	96,0
06			98,3	98,8	31,8	94,1
07			101,2	101,6	32,9	93,4
08	693,7	93,2	111,0	107,4	35,4	91,7
09			136,8	95,6	38,8	88,2
10			125,0	83,6	36,6	89,2
11	825,2	93,2	130,2	82,4	40,5	90,5
12			159,5	90,5	62,4	86,3
01.1999			146,1	76,5	28,0	88,7
02	836,5	95,5	147,9	74,3	31,3	89,3
03			162,1	79,3	35,9	89,5
04			164,6	78,1	36,3	89,6
05	1 041,7	97,7	166,6	77,3	40,0	91,9
06			171,9	78,3	50,7	92,9
07			177,8	78,8	55,3	95,5
08	1 275,8	99,5	190,7	83,5	60,8	99,1
09			195,0	84,2	66,5	103,5
10			202,4	86,2	63,4	106,0
11	1 391,4	100,0	206,3	86,8	70,8	108,7
12			239,9	99,7	120,3	115,1
01.2000			202,3	82,2	43,0	92,7
02			200,9	80,7	50,8	96,5
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\* Series on consumption and investment slightly differs from NIPA concept. Since October 1998, monthly GDP data are not produced.

\*\* Based on the year-on-year rates of growth at prices of the previous year.

\*\*\* Based on the nominal consumption figures deflated by CPI.

SA - seasonally adjusted.

**Table 2: Industrial production**

	Industrial production, total, SA*	Industrial production, total, SAWT*	Oil extraction, SAAL	Natural gas extraction, SAAL	Electricity production, SAAL	Coal production, SAAL
	(1997=100)	(1997=100)	(mn t)	(bn cub. m)	(bn kWt/h)	(mn t)
1995	102,1		298	595	862	262
1996	98,0		293	601	848	255
1997	100,0	100,0	297	571	834	244
1998	94,8	94,8	294	591	827	232
1999	102,5	102,5	295	591	845	249
01.1998	99,3	96,4	298	591	841	238
02	99,0	99,8	298	593	845	239
03	98,4	98,6	296	593	846	231
04	98,0	98,3	291	593	849	238
05	95,5	95,5	291	559	827	230
06	94,6	94,8	297	571	829	227
07	92,8	92,4	294	630	808	217
08	91,4	92,0	291	599	788	229
09	88,8	88,4	292	596	804	227
10	92,0	93,2	294	607	831	228
11	93,1	93,5	294	583	831	238
12	94,6	94,8	292	578	824	241
01.1999	97,4	96,0	293	577	818	240
02	96,5	97,3	292	575	814	236
03	99,2	98,0	293	582	861	241
04	99,1	99,3	294	584	823	244
05	101,7	101,7	296	606	861	247
06	103,7	103,8	296	610	849	254
07	105,2	106,2	295	612	851	253
08	106,6	105,6	296	618	863	252
09	107,2	106,8	297	603	867	267
10	102,0	104,8	295	581	843	253
11	105,7	104,5	295	574	852	250
12	105,6	105,8	297	569	837	251
01.2000	107,8	106,2	300	573	858	251
02	109,8	106,3	312	586	869	258
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\* Based on the year-on-year rates of growth at prices of the previous year.

SA - seasonally adjusted, SAAL - seasonally adjusted annual level.

SAWT - seasonally adjusted reflecting work time differences.

**Table 3: Output by sector**

	Gross agricultural output at constant prices, SA	Agricultural production, animal products, SA	Real volume of construction works, SA*	Area of dwellings completed, SAAL	Freight transportation turnover, SAAL**	Freight carried by rail, SAAL
	(1997=100)	(1997=100)	(1997=100)	(mn sq. m)	(bn t-km)	(mn t)
1995	103,8	118,3	127,6	41,0	3 537	1 025
1996	98,5	105,3	106,8	34,3	3 374	909
1997	100,0	100,0	100,0	32,7	3 256	886
1998	86,8	99,1	95,0	30,7	3 170	834
1999	88,9	95,4	100,1	32,0	3 339	945
01.1998	92,4	100,5	99,7	29,6	3 239	865
02	91,6	100,0	98,9	26,9	3 225	848
03	91,2	100,2	97,0	33,3	3 198	848
04	89,8	99,8	97,3	29,8	3 173	844
05	87,8	99,6	96,7	30,8	3 117	832
06	87,0	99,5	96,2	31,1	3 182	827
07	82,3	99,4	95,7	29,1	3 173	819
08	82,5	98,6	94,3	32,3	3 168	818
09	81,9	99,0	91,9	30,7	3 056	792
10	82,7	98,4	90,6	31,2	3 199	839
11	84,0	97,4	90,2	32,7	3 164	823
12	88,5	96,7	91,5	30,7	3 141	852
01.1999	89,6	96,0	94,0	31,0	3 218	878
02	88,9	95,4	95,0	31,5	3 206	889
03	88,6	95,1	96,5	31,3	3 277	894
04	89,1	94,7	97,5	32,0	3 295	913
05	88,2	96,0	98,1	31,7	3 385	939
06	87,2	94,7	99,2	31,7	3 368	943
07	87,7	93,5	98,2	32,2	3 369	960
08	86,3	94,4	104,8	33,1	3 418	965
09	87,4	94,5	107,2	35,2	3 374	972
10	94,1	95,9	106,9	32,5	3 386	973
11	89,2	97,0	101,8	33,0	3 361	992
12	90,2	97,9	102,4	28,9	3 415	1 020
01.2000	89,5	96,8	103,1	45,5	3 404	1 013
02	90,6	99,1	105,5	37,9	3 619	1 086
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\* Based on the year-on-year rates of growth at prices of the previous year.

\*\* Revised since 1998

SA - seasonally adjusted, SAAL - seasonally adjusted annual level.

**Table 4: Trade**

	Wholesale trade*	Real wholesale trade*	Retail sales**	Real retail sales**	Paid services, total, current prices	Real paid services, total
	(R bn)	(1995 = 100)	(R bn)	(1995 = 100)	(R bn)	(1995 = 100)
1995	1 091,9	99,5	553,5	100,0	113,0	100,0
1996	1 773,8	92,2	749,0	100,1	200,3	92,1
1997	2 173,8	100,0	866,0	103,7	269,5	95,5
1998	2 305,9	97,4	1056,2	100,0	318,6	95,1
1999	3 976,5	98,9	1782,1	90,7	421,0	97,4
01.1998	165,6	90,4	75,5	101,0	21,4	89,0
02	175,6	95,2	69,6	95,8	22,1	89,0
03	186,5	99,4	72,4	99,1	23,9	91,3
04	179,2	103,3	72,8	99,3	24,3	91,1
05	167,5	106,4	72,4	98,5	24,9	92,5
06	172,8	96,9	71,7	97,4	26,9	95,1
07	174,8	96,9	73,3	99,7	28,0	96,5
08	169,5	93,1	82,9	106,4	28,5	97,3
09	194,3	94,8	108,5	103,0	28,8	96,2
10	214,8	96,1	105,8	95,4	28,6	96,5
11	230,8	96,6	112,2	95,9	29,3	100,6
12	274,5	100,3	139,1	108,2	31,9	106,5
01.1999	223,4	76,6	120,5	82,9	27,5	88,5
02	236,2	82,4	121,9	83,3	28,3	86,0
03	288,6	93,3	133,2	88,4	31,4	91,2
04	291,7	97,4	134,4	86,3	32,1	91,2
05	292,6	103,5	137,5	86,2	31,0	94,9
06	313,1	95,3	141,1	86,9	34,6	100,8
07	332,4	98,8	144,5	86,9	35,7	106,4
08	348,7	101,4	155,8	92,3	37,3	99,3
09	377,4	112,4	160,1	93,1	37,9	98,2
10	390,4	107,6	165,9	95,1	39,6	102,6
11	406,9	106,2	169,0	95,6	41,4	103,6
12	475,1	112,5	198,2	111,8	44,2	105,7
01.2000	371,9	84,6	167,1	88,1	38,0	96,1
02	403,9	92,2	165,4	89,6	37,8	87,8
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\* Including exports.

\*\* Including catering. Revised by Goscomstat in January 1999.

**Table 5: Labour market**

	Employment	Unemployment rate, ILO concept*	Registered unemployment rate*	Man-days lost in strikes	Nominal average monthly wage due**	Real average monthly wage due, SA***
	(mn)	(%)	(%)	(th)	(R)	(Dec-97=100)
1995	66,4	8,5	2,8	1 366	472	77,8
1996	65,9	9,6	3,5	4 009	790	88,7
1997	64,7	10,8	3,1	6 001	950	93,0
1998	63,6	11,9	2,6	2 882	1 095	83,5
1999	64,5	12,6	2,2	1 790	1 581	64,9
01.1998	64,2	11,4	2,7	72	988	98,9
02	64,0	11,6	2,7	95	1 000	98,2
03	63,8	11,7	2,7	103	1 059	93,7
04	63,7	11,7	2,7	109	1 040	91,4
05	63,7	11,5	2,6	86	1 047	89,5
06	63,8	11,3	2,5	79	1 122	88,3
07	63,7	11,3	2,5	56	1 110	89,8
08	63,5	11,6	2,4	27	1 052	86,1
09	63,4	11,9	2,4	378	1 112	67,8
10	63,3	12,3	2,5	797	1 123	67,9
11	63,3	12,9	2,6	615	1 164	66,9
12	63,3	13,3	2,6	464	1 482	63,7
01.1999	63,2	13,8	2,6	577	1 167	62,6
02	63,2	14,1	2,7	532	1 199	61,1
03	63,6	13,6	2,6	83	1 385	62,3
04	64,1	13,0	2,5	15	1 423	62,0
05	64,6	12,4	2,3	15	1 472	61,3
06	64,9	12,0	2,2	6	1 626	61,2
07	65,1	11,8	2,0	6	1 618	61,0
08	65,2	11,7	1,9	5	1 608	62,9
09	65,1	11,9	1,8	99	1 684	66,9
10	65,0	12,1	1,7	228	1 716	69,7
11	64,9	12,3	1,7	42	1 789	72,1
12	64,9	12,3	1,7	184	2 283	75,9
01.2000	64,9	12,3	1,7	91	1 830	79,0
02	64,9	12,3	1,7	65	1 904	80,1
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\* Monthly data are end of month, yearly data are averages of the end of month figures.

\*\* Yearly figures reported by Goscomstat are not equal to monthly average.

\*\*\* Based on CPI changes.

SA - seasonally adjusted, SAAL - seasonally adjusted annual level.

**Table 6: Social indicators**

	Personal income, per capita, official	Real personal income, per capita, official	Official minimum monthly wage	Average monthly pension	Official monthly subsistence level*	Share of population below subsistence level
	(R)	(1995 = 100)	(R)	(R)	(R)	(%)
1995	514,9	100,0	42,6	188,1	264,1	26,2
1996	765,1	100,9	72,7	302,1	369,9	21,4
1997	931,7	107,2	83,5	328,2	411,2	21,2
1998	998,3	90,7	83,5	399,0	493,3	24,6
1999	1 568,4	75,8	83,5	448,6	907,8	34,1
01.1998	802,4	88,4	83,5	366,6	417,7	22,8
02	842,1	92,0	83,5	399,3	424,4	22,4
03	861,8	93,5	83,5	399,8	427,4	22,2
04	929,8	100,5	83,5	400,6	431,9	21,7
05	844,9	90,9	83,5	401,4	434,9	22,8
06	868,4	93,3	83,5	402,5	435,5	22,5
07	898,8	96,4	83,5	402,6	438,4	22,3
08	896,0	92,7	83,5	402,7	449,7	22,7
09	1 003,4	75,0	83,5	403,0	552,0	29,8
10	1 187,7	84,9	83,5	403,1	572,9	28,6
11	1 190,1	80,5	83,5	403,2	618,5	29,5
12	1 654,0	100,3	83,5	402,9	716,8	27,3
01.1999	1 124,1	62,9	83,5	403,0	786,9	38,2
02	1 258,8	67,7	83,5	403,1	829,1	n.a.
03	1 341,8	70,2	83,5	403,1	856,8	37,7
04	1 503,5	76,3	83,5	403,2	884,0	n.a.
05	1 437,5	71,4	83,5	451,6	923,6	n.a.
06	1 530,7	74,6	83,5	455,5	950,0	35,0
07	1 532,5	72,6	83,5	455,7	974,0	n.a.
08	1 621,3	75,9	83,5	455,9	936,4	n.a.
09	1 621,5	74,8	83,5	456,1	919,8	33,5
10	1 704,1	77,6	83,5	455,6	926,8	n.a.
11	1 736,9	78,2	83,5	519,2	943,1	n.a.
12	2 408,6	107,0	83,5	521,1	963,0	26,3
01.2000	1 415,8	61,5	83,5	521,6		
02	1 738,0	74,7	83,5	612,5		
03						
04						
05						
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\* Only quarterly since January 2000.

**Table 7: Arrears\***

	Total overdue payables of enterprises, R bn		Of which:			Total overdue receivables of enterprises, R bn		Government wage arrears**
			to suppliers, R bn	to the budget & non-budgetary funds, R bn	wage arrears, R bn			
	4 sectors	9 sectors	4 sectors	4 sectors	4 sectors	4 sectors	9 sectors	
1995	238,9	n.a.	122,3	75,0	13,6	165,5	n.a.	
1996	514,4	n.a.	245,9	203,4	34,7	335,5	n.a.	15,0
1997	756,1	n.a.	344,7	316,6	39,7	458,4	n.a.	8,0
1998	1053,4	1230,6	475,1	438,6	55,7	634,0	761,9	20,1
1999	1117,2	1354,5	468,6	520,4	33,0	646,9	814,6	10,2
01.1998	687,7	891,6	286,2	299,2	41,8	389,3	555,5	7,2
02	840,4	941,7	375,2	347,6	48,8	519,6	598,9	8,8
03	795,4	998,3	387,5	363,2	50,1	534,2	620,1	10,3
04	904,5	1034,1	395,0	381,9	52,5	548,7	647,7	10,9
05	939,2	1075,5	416,2	395,2	55,1	570,3	677,3	12,7
06	936,3	1082,0	417,2	391,1	56,4	569,8	683,4	14,9
07	980,7	1132,0	433,3	398,0	59,6	585,0	700,9	17,1
08	1005,1	1160,5	444,2	408,3	63,9	561,7	710,2	18,6
09	1034,8	1199,8	452,7	423,2	65,4	616,8	740,7	20,9
10	1054,4	1224,7	464,5	432,3	62,9	655,2	782,0	22,1
11	1065,5	1238,7	472,2	443,6	61,0	648,1	776,2	22,1
12	1053,4	1230,6	475,1	438,6	55,7	634,0	761,9	20,1
01.1999	1065,9	1241,1	472,8	443,6	55,6	641,8	772,0	19,4
02	1093,0	1280,6	477,6	463,8	52,9	659,5	799,8	19,0
03	1119,0	1321,8	490,8	475,3	49,8	675,0	824,8	17,0
04	1145,5	1358,9	498,9	495,1	46,8	684,3	842,3	15,3
05	1149,0	1366,3	492,5	503,1	45,4	702,2	863,8	14,6
06	1170,2	1388,0	509,7	511,8	43,3	714,6	881,2	14,6
07	1183,7	1404,8	508,1	520,9	44,3	718,9	883,8	15,0
08	1206,2	1427,4	513,3	525,0	41,3	716,5	881,6	13,8
09	1188,5	1416,9	513,9	527,3	40,0	714,3	883,5	13,7
10	1201,3	1435,1	511,6	533,9	38,9	724,5	889,7	13,4
11	1178,6	1416,3	494,5	531,0	37,6	695,3	859,7	12,4
12	1117,2	1354,5	468,6	520,4	33,0	646,9	814,6	10,2
01.2000	1124,6	1351,1	467,9	486,8	33,8	624,1	787,9	10,2
02					33,2			9,4
03								
04								
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\* 4 sector series include data from the following sectors of the economy: industry, construction, transport and agriculture.

9 sector series, in addition to sectors included in 4 sector series, include communications, trade and catering, wholesalers, housing and 'other' sectors

\*\* the series includes data for industry, construction, transport, agriculture, education, health, arts, sciences, social security, housing and communal services and local administration. Prior to July 1998 RET estimates.

**Table 8: Prices (end of period)**

	Consumer price index, total (Dec-97=100)	Consumer price index, food & beverages (Dec-97=100)	Consumer price index, non-food goods (Dec-97=100)	Consumer price index, paid services (Dec-97=100)	Composite producer price index (Dec-97=100)	Industrial producer price index (Dec-97=100)
1995	74,0	77,9	78,5	55,0	74,4	74,1
1996	90,1	91,7	92,5	81,6	94,2	93,0
1997	100,0	100,0	100,0	100,0	100,0	100,0
1998	184,4	196,0	199,5	118,3	124,8	123,2
1999	251,7	266,4	277,7	158,5	196,4	206,2
01.1998	101,5	102,1	100,5	101,7	101,2	100,9
02	102,4	103,3	100,8	102,7	101,8	101,4
03	103,1	104,1	101,0	104,0	101,9	101,3
04	103,5	104,4	101,2	105,0	101,8	101,3
05	104,0	105,0	101,3	106,1	101,1	100,5
06	104,1	105,0	101,3	106,7	99,4	100,5
07	104,2	104,9	101,3	108,0	100,7	99,7
08	108,1	107,4	108,6	109,3	100,0	98,5
09	149,6	149,8	167,5	113,0	106,8	105,8
10	156,4	155,6	180,0	114,8	111,6	112,0
11	165,3	167,5	187,7	116,2	117,2	117,6
12	184,4	196,0	199,5	118,3	124,8	123,2
01.1999	199,9	216,2	211,9	123,2	133,7	131,7
02	208,1	225,6	220,2	127,1	140,3	139,1
03	213,9	231,9	227,4	129,5	145,2	144,4
04	220,4	238,0	236,6	133,6	149,8	149,7
05	225,3	242,7	243,0	136,4	154,3	155,1
06	229,6	247,0	246,8	141,1	158,3	160,9
07	236,0	254,8	251,6	145,6	162,8	165,9
08	238,8	255,8	257,6	148,5	168,7	173,8
09	242,3	257,9	264,5	151,4	176,4	184,0
10	245,6	260,1	270,3	154,5	184,5	194,2
11	248,6	262,7	274,5	157,1	191,8	201,7
12	251,7	266,4	277,7	158,5	196,4	206,2
01.2000	257,6	272,1	283,8	163,8	208,9	214,4
02	260,3	273,4	287,4	168,7	214,2	222,5
03	262,0	273,6	291,6	171,2		
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**Table 9: Foreign Trade**

	Exports total*	Export of oil & oil products	Export of gas	Imports total*	Imports of machinery & equipment	Trade balance total
	(\$ bn)	(\$ bn)	(\$ bn)	(\$ bn)	(\$ bn)	(\$ bn)
1995	81,1	17,3	10,8	60,8	15,8	20,2
1996	88,6	23,1	15,8	68,8	14,6	19,8
1997	88,2	21,9	16,4	73,7	18,5	14,5
1998	74,2	14,5	13,3	59,1	15,6	15,1
1999	74,3	18,8	11,4	41,1	9,9	33,2
01.1998	5,9	1,4	1,5	5,7	1,5	0,2
02	5,8	1,2	1,4	6,1	1,5	-0,3
03	6,7	1,2	1,5	6,5	2,0	0,2
04	6,2	1,2	1,0	6,2	0,9	0,0
05	6,0	1,4	0,9	5,8	1,5	0,2
06	6,5	1,1	0,9	5,7	1,3	0,8
07	6,2	1,1	0,9	5,7	1,5	0,5
08	5,7	1,2	0,8	5,0	1,5	0,7
09	5,9	1,1	0,8	3,0	1,1	2,9
10	6,1	1,2	1,1	2,9	0,9	3,2
11	5,9	1,1	1,3	3,0	0,8	2,9
12	7,3	1,2	1,2	3,5	1,2	3,8
01.1999	4,6	0,9	1,3	2,9	0,9	1,7
02	5,0	0,8	1,0	3,0	0,9	2,0
03	5,9	1,1	0,9	3,5	1,0	2,4
04	6,5	1,4	0,7	3,7	1,0	2,8
05	5,1	1,4	0,7	3,0	0,7	2,1
06	5,3	1,5	0,7	3,4	0,8	1,9
07	6,3	1,6	0,7	3,5	0,7	2,8
08	6,0	1,9	0,7	3,3	0,7	2,7
09	6,3	1,7	0,7	3,4	0,7	2,9
10	6,7	2,0	1,1	3,6	0,7	3,1
11	7,3	2,0	1,3	3,6	0,8	3,7
12	9,3	2,4	1,5	4,2	1,0	5,1
01.2000	6,4	2,2	1,6	2,4	0,4	4,0
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\* Includes Goskomstat estimate of unregistered trade.

**Table 10: Balance of payments (\$ mn)**

	1997	1998	1999	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
<b>Current Account</b>	<b>3537</b>	<b>1037</b>	<b>24990</b>	<b>6755</b>	<b>4716</b>	<b>4406</b>	<b>5628</b>	<b>10239</b>
<i>Trade balance</i>	12604	13246	31960	9520	5850	6129	8314	11667
Export	103088	87259	83746	22079	17322	19244	21251	25929
Import	-90484	-74013	-51786	-12559	-11472	-13116	-12937	-14262
<i>Merchandise trade balance</i>	17361	17097	35302	10009	6531	6886	9204	12681
Export	89008	74888	74663	19340	15538	16953	18651	23521
Import	-71647	-57791	-39361	-9330	-9007	-10067	-9447	-10840
<i>Service balance</i>	-4758	-3851	-3342	-490	-681	-757	-890	-1014
Export	14080	12371	9083	2739	1784	2292	2600	2408
Import	-18837	-16222	-12425	-3229	-2465	-3049	-3490	-3422
<i>Income and Wages</i>	-8706	-11801	-7504	-2713	-1085	-1799	-2892	-1728
Received	4366	4301	3834	404	2267	711	409	446
Paid	-13072	-16102	-11338	-3117	-3352	-2511	-3302	-2173
Wages	-342	-164	260	29	63	67	62	68
Received	227	301	425	94	102	111	111	102
Paid	-568	-465	-165	-65	-38	-45	-48	-34
Income	-8364	-11637	-7764	-2742	-1148	-1866	-2955	-1795
Received	4140	4000	3409	310	2166	600	299	344
Paid	-12504	-15637	-11173	-3052	-3314	-2466	-3253	-2139
<i>Current Transfers</i>	-360	-409	534	-52	-48	76	206	300
Received	410	269	1027	65	52	220	330	425
Paid	-770	-678	-493	-117	-100	-143	-124	-125
<b>Capital Account</b>	<b>5471</b>	<b>7926</b>	<b>-17850</b>	<b>-6549</b>	<b>-3988</b>	<b>-2877</b>	<b>-4604</b>	<b>-6381</b>
<i>Capital transfers (net)</i>	-797	-382	-333	-116	-97	-33	-81	-122
<i>Direct investments abroad</i>	-2603	-1027	-2144	-334	-415	-563	-597	-570
<i>Direct investments into Russia</i>	6639	2761	2890	1278	642	751	659	838
<i>Portfolio investments abroad</i>	-156	-256	254	-3	-23	-202	306	172
<i>Portfolio investments into Russia</i>	45963	8876	-815	-446	90	-386	-434	-86
<i>Other investment - assets</i>	-26618	-16136	-15120	-6618	-6380	-368	-5385	-2987
Hard currency	-13444	900	848	773	122	1017	-428	137
Bank accounts and deposits	977	1232	-3892	-1238	-1095	-1535	-473	-789
Trade credits	-6785	-6818	-5773	-4385	-2032	788	-3077	-1453
Loans provided (not overdue)	7004	5345	4857	618	1800	2187	139	731
Overdue payments	-3048	-7428	-5759	-436	-4059	-1304	-226	-170
Non-repatriated export revenue	-11458	-8879	-5384	-2141	-1173	-1402	-1254	-1554
Other assets	135	-489	-18	192	56	-119	-66	112
<i>Other investment - liabilities</i>	-15001	8836	-787	-1285	1123	-359	-150	-1400
National currency	-38	65	14	-17	-14	-3	20	11
Bank accounts and deposits	-4694	-3050	162	-844	-258	644	-378	153
Trade credits and advances	-64	321	5	175	104	77	48	-224
Loans received (not overdue)	13623	6884	-2884	-2166	-1183	-2104	2421	-2018
Overdue payments	-24339	5281	2129	2540	2441	1202	-2236	723
Other liabilities	511	-666	-212	-973	33	-174	-25	-46
<i>Adjustments</i>	-20	-50	-17	-74	104	-107	-14	0
<i>Net international reserves</i>	-1936	5305	-1778	1050	969	-1611	1091	-2227
<b>Errors and omissions</b>	<b>-9008</b>	<b>-8963</b>	<b>-7140</b>	<b>-206</b>	<b>-728</b>	<b>-1529</b>	<b>-1024</b>	<b>-3859</b>

**Table 11: Federal budget (IMF definition)\***

	<u>Revenues</u>		<u>Expenditures</u>		<u>Deficit</u>	
	Total (R bn)	of which: tax revenues (R bn)	Total (R bn)	of which: interest payments (R bn)	Total (R bn)	% GDP (%)
1995	201,0	175,3	286,2	54,6	85,2	5,4
1996	253,8	218,7	427,1	124,5	173,3	7,9
1997	311,6	262,1	494,8	117,8	183,2	7,0
1998	273,0	236,0	407,2	106,8	134,2	5,0
1999	606,0	509,5	680,2	162,6	74,2	1,7
01.1998	21,8	15,8	29,3	5,1	7,5	4,0
02	39,8	31,2	53,7	12,0	13,9	3,7
03	62,2	49,9	89,9	28,5	27,8	4,9
04	84,3	68,8	120,4	37,8	36,1	4,7
05	106,5	87,9	153,7	51,6	47,2	4,8
06	126,6	105,3	189,0	62,0	62,4	5,3
07	147,6	123,7	221,3	75,3	73,7	5,3
08	165,3	139,2	242,9	82,4	77,6	4,8
09	182,3	154,6	265,7	85,1	83,4	4,4
10	204,3	173,9	298,3	87,6	94,0	
11	230,7	197,8	334,5	96,6	103,8	
12	273,0	236,0	407,2	106,8	134,2	5,0
01.1999	27,8	24,6	39,3	10,6	11,5	
02	54,3	48,6	72,4	18,1	18,1	
03	88,6	80,1	128,2	30,8	39,6	4,8
04	133,4	119,3	177,6	41,5	44,2	
05	172,7	152,9	231,1	61,0	58,4	
06	225,5	195,2	290,9	80,3	65,4	3,5
07	280,8	242,9	347,3	99,4	66,5	
08	332,9	285,8	399,5	109,4	66,6	
09	383,7	326,0	451,6	117,5	67,9	2,2
10	442,0	375,6	503,0	124,2	61,0	
11	510,8	433,1	569,9	138,9	59,1	
12	606,0	509,5	680,2	162,6	74,2	1,7
01.2000	64,9	56,1	44,1	15,7	-20,8	
02	138,3	122,7	103,1	27,2	-35,2	
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\* IMF definition of revenues and expenditure is used.

Monthly data are cumulative.

Deficit and expenditure figures for 1999 have been revised.

**Table 12: Consolidated regional and local budgets (IMF definition)\***

	<u>Revenues</u>		<u>Expenditures</u>		<u>Deficit(+) or surplus(-)</u>	
	Total	of which: tax revenue	Total	of which: housing subsidies	Total	% GDP
	(R bn)	(R bn)	(R bn)	(R bn)	(R bn)	(%)
1995	238,4	189,0	247,0	65,2	8,6	0,5
1996	321,2	254,3	342,8	88,6	21,6	1,0
1997	410,4	329,0	446,9	106,0	36,5	1,4
1998	395,5	308,1	407,1	94,4	11,7	0,4
1999	647,9	493,1	648,9	124,6	1,0	0,02
01.1998	18,6	14,3	19,9	3,8	1,2	0,7
02	35,7	32,7	43,6	9,1	7,9	2,1
03	67,0	52,4	71,9	15,7	5,0	0,9
04	101,3	79,9	106,7	22,7	5,4	0,7
05	131,6	105,0	138,3	30,0	6,7	0,7
06	163,9	129,5	176,2	37,4	12,3	1,0
07	192,0	153,6	205,8	43,9	13,8	1,0
08	218,9	176,2	233,6	50,5	14,7	0,9
09	247,1	198,5	261,4	57,0	14,3	
10	278,7	223,3	290,9	63,9	12,2	
11	319,0	254,5	330,8	73,1	11,7	
12	395,5	308,1	407,1	94,4	11,7	0,4
01.1999	25,7	18,3	22,7	3,8	-3,0	
02	51,8	38,6	49,3	8,2	-2,5	
03	93,6	71,3	91,5	16,1	-2,1	-0,3
04	143,4	111,8	138,7	24,9	-4,7	
05	193,8	149,4	185,0	32,8	-8,8	
06	247,3	188,8	240,0	42,2	-7,3	-0,4
07	297,4	227,6	288,5	51,4	-8,9	
08	356,7	274,0	345,5	63,6	-11,2	
09	410,9	314,0	400,6	75,2	-10,4	-0,3
10	467,5	354,1	454,0	85,5	-13,6	
11	543,7	414,3	528,0	99,4	-15,7	
12	647,9	493,1	648,9	124,6	1,0	0,02
01.2000	41,4	30,2	34,5	6,2	-7,0	
02						
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\* Privatisation receipts and net sales of state gold reserves are counted as deficit financing. Monthly data are cumulative.

**Table 13: Monetary aggregates (end of period)**

	Monetary base	Net International Reserves (NIR)	Net Domestic Assets (NDA)*	M0**	M2***	Oustanding stock of GKOs and OFZs, nominal
	(R bn)	(\$ bn)	(R bn)	(R bn)	(R bn)	(R bn)
1995	103,8	7,7	68,1	80,8	220,8	73,7
1996	130,9	1,7	123,0	103,8	288,3	237,1
1997	164,5	4,0	142,1	130,4	374,1	384,9
1998	210,4	-6,5	249,3	187,8	448,3	n.a.
1999	324,3	-3,2	400,7	266,5	704,7	n.a.
01.1998	151,4	0,9	146,2	116,7	361,2	390,9
02	152,8	0,5	149,8	120,4	362,9	402,3
03	152,9	2,4	138,8	119,1	360,4	415,7
04	161,6	1,4	153,3	128,6	368,0	429,4
05	163,2	0,0	163,0	129,9	370,0	435,3
06	163,2	1,5	154,0	129,8	368,6	436,0
07	161,3	-0,9	166,6	129,3	360,0	394,3
08	161,7	-6,8	202,3	133,4	343,6	387,1
09	175,2	-6,7	215,3	154,2	365,8	n.a.
10	187,2	-5,6	221,0	166,4	377,6	n.a.
11	191,3	-6,3	229,5	167,3	396,9	n.a.
12	210,4	-6,5	249,3	187,8	448,3	n.a.
01.1999	202,5	-8,7	412,2	178,0	444,2	n.a.
02	205,2	-8,8	416,8	180,8	463,9	n.a.
03	205,9	-9,0	423,9	174,1	473,8	n.a.
04	227,3	-8,2	425,5	195,2	509,6	n.a.
05	241,4	-7,1	412,0	205,3	542,4	n.a.
06	257,4	-7,3	434,8	216,4	567,7	n.a.
07	262,3	-6,4	417,8	218,2	583,2	n.a.
08	261,8	-6,4	415,6	216,2	590,8	n.a.
09	259,6	-6,1	405,9	212,8	597,4	n.a.
10	269,0	-5,0	390,1	222,0	625,1	n.a.
11	267,1	-4,7	380,4	219,3	646,6	n.a.
12	324,3	-3,2	400,7	266,5	704,7	n.a.
01.2000	296,5	-2,1	354,2	232,9	695,0	n.a.
02	306,0	-0,9	331,1	242,0	726,6	n.a.
03	323,7					n.a.
04						
05						
06						
07						
08						
09						
10						
11						
12						

Source: CBR.

\* Net Domestic Assets (NDA), of the monetary authorities equals monetary base minus net international reserves.

NDA is calculated using the exchange rates of R27 for 2000, R24.18 for 1999, R6.0 for 1998, R5,560 for 1997, R4,640 for 1996, R3,550 for 1995. In 1999 there were some changes in methodology fo NDA and NIR data.

\*\* M0 is currency in circulation.

\*\*\* M2 includes currency in circulation, demand deposits, and time deposits (there is a break in the series from December1996, from then it includes only deposits at banks with active licences).

**Table 14: Assets and liabilities of the commercial banks including Sberbank (end of period)\***

	Total assets	Claims on the general government	Claims on the private sector	Bank savings by Russian citizens (rouble household deposits)	Foreign currency deposits	Foreign liabilities
	(R bn)	(R bn)	(R bn)	(R bn)	(R bn)	(R bn)
1995	342,3	62,6	133,8	70,6	55,3	30,0
1996	497,7	150,7	157,3	118,4	69,4	58,9
1997	622,7	191,5	225,9	148,2	80,5	104,2
1998	933,1	259,4	346,0	149,5	190,9	203,1
1999	1549,7	437,7	521,6	211,1	290,2	222,5
01.1998	591,8	191,1	230,7	153,3	68,6	102,7
02	605,1	202,5	236,1	157,8	73,2	101,9
03	618,0	210,6	239,2	162,2	75,9	103,6
04	624,0	215,1	246,6	165,8	76,0	103,4
05	613,2	202,7	245,7	167,2	78,7	104,6
06	624,0	207,8	249,3	166,1	77,6	105,4
07	609,9	193,6	245,0	161,2	79,6	101,0
08	612,8	188,0	252,3	146,7	93,6	108,5
09	790,9	205,8	335,4	136,1	163,4	196,1
10	774,8	203,5	314,1	138,0	147,4	180,1
11	850,6	236,4	325,7	141,1	161,1	194,2
12	933,1	259,4	346,0	149,5	190,9	203,1
01.1999	1025,5	299,7	362,6	153,4	204,3	214,5
02	1047,5	303,2	375,2	161,0	206,1	218,4
03	1133,4	326,0	386,0	163,5	215,0	228,8
04	1174,9	347,3	392,0	170,6	224,2	288,1
05	1231,5	371,0	376,1	177,6	224,1	225,6
06	1283,5	390,4	395,9	185,4	233,7	227,7
07	1272,4	397,0	384,8	190,5	223,6	202,5
08	1318,3	399,2	401,1	191,8	238,4	204,0
09	1346,8	403,3	426,2	193,6	243,4	190,6
10	1416,0	415,9	449,0	197,5	257,6	195,4
11	1514,2	420,7	479,0	202,7	278,4	211,5
12	1549,7	437,7	521,6	211,1	290,2	222,5
01.2000	1665,5	459,5	537,8	217,9	317,0	231,8
02				227,3		
03						
04						
05						
06						
07						
08						
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Source: CBR, Goscomstat.

\* Since January 1998 only for credit organisations with an active licence

**Table 15: Interest rates (annual rates, period average)\***

	CBR refinance rate*	Lending rate**	Deposit rate**	Overnight Inter-bank rate	GKO average secondary market yield, all maturities	MT \$ index, monthly average (end Aug-94=100)
	(%)	(%)	(%)	(%)	(%)	
1995	185	320,3	102,0	190,4	161,8	67,5
1996	110	146,8	55,1	47,6	85,8	101,9
1997	32	32,0	16,8	21,0	26,0	291,6
1998	60	41,5	17,1	50,6	n.a.	136,9
1999	57	40,1	13,7	14,8	n.a.	72,6
01.1998	28	29,8	11,6	24,1	33,4	246,4
02	39	30,2	12,2	30,3	29,6	229,6
03	30	38,8	11,2	25,9	24,4	254,3
04	30	39,6	11,0	29,5	27,8	233,3
05	150	40,7	12,9	47,6	54,8	187,4
06	80	47,7	14,0	56,1	65,1	139,1
07	60	44,2	15,1	58,8	81,0	114,9
08	60	48,5	17,5	45,3	135,3	74,0
09	60	44,8	23,8	139,7	n.a.	40,1
10	60	48,2	27,3	84,9	n.a.	34,6
11	60	45,1	22,3	36,7	n.a.	48,6
12	60	40,5	25,7	27,8	n.a.	41,0
01.1999	60	44,8	24,2	28,1	n.a.	36,2
02	60	44,0	22,8	20,4	33,4	45,4
03	60	47,5	18,9	20,7	30,7	58,8
04	60	44,1	14,6	15,2	27,4	59,1
05	60	44,7	14,7	7,1	20,2	73,9
06	55	32,1	11,0	8,4	16,0	89,7
07	55	39,0	12,6	9,0		101,5
08	55	38,6	8,8	9,3		82,2
09	55	37,9	9,7	18,2		70,1
10	55	37,0	9,0	16,1		72,5
11	55	38,8	9,4	13,2		84,9
12	55	32,1	8,5	11,8		96,9
01.2000	45	33,8	13,4	11,8		143,1
02	45			11,3		141,5
03	33					169,3
04						
05						
06						
07						
08						
09						
10						
11						
12						

Source: CBR, Moscow Times.

\* Period average, except monthly CBR refinance data that is for end of month (annual is annual average).

\*\* Data prior January 1997 not compatible with current methodology. From 1998 data on lending rate is for commercial banks exc

**Table 16: Exchange rates and Stock market**

	MT \$ index, end of period (end Aug-94=100)	Exchange rate (MICEX), period average*	Exchange rate (MICEX), end of period*	Real exchange rate, period average** (Dec-95 = 100)	Gross international reserves (including gold, end of period) \$ bn	of which: Gold reserves (Valued at \$300 per ounce) \$ bn
1995	64,0	4,562	4,640	82,4	17,2	2,8
1996	148,4	5,126	5,570	100,1	15,3	4,1
1997	302,7	5,785	5,974	104,4	17,8	4,9
1998	38,4	9,965	21,140	91,6	12,2	4,4
1999	114,6	24,836	26,959	64,9	12,5	4,0
01.1998	209,6	6,022	6,048	107,5	15,4	4,9
02	234,5	6,048	6,045	107,6	15,0	4,8
03	244,0	6,073	6,089	108,5	16,9	4,9
04	233,2	6,128	6,110	106,6	16,0	5,0
05	141,4	6,145	6,138	106,9	14,6	5,0
06	111,8	6,198	6,225	106,2	16,2	5,0
07	109,6	6,235	6,272	105,5	18,4	4,6
08	50,8	7,460	10,363	95,7	12,5	4,3
09	28,7	14,762	16,045	66,7	12,7	3,9
10	40,0	16,374	16,600	63,8	13,6	3,9
11	51,6	17,297	18,470	63,7	12,8	4,3
12	38,4	20,841	21,140	60,2	12,2	4,4
01.1999	35,1	22,991	23,100	59,9	11,6	4,5
02	50,7	23,075	23,100	61,7	11,4	4,2
03	61,0	24,120	24,860	62,9	10,8	4,1
04	69,4	25,321	24,290	62,7	11,2	4,1
05	75,6	24,672	24,700	62,7	11,9	3,9
06	96,5	24,429	24,210	65,0	12,2	4,0
07	88,6	24,321	24,198	67,7	11,9	4,1
08	78,9	24,690	24,860	66,9	11,2	4,4
09	63,8	25,499	25,179	66,0	11,2	4,6
10	75,0	25,776	26,030	67,2	11,8	4,7
11	87,0	26,328	26,650	67,8	11,5	3,9
12	114,6	26,813	26,959	68,0	12,5	4,0
01.2000	130,9	28,413	28,600	65,8	12,9	4,0
02	138,8	28,732	28,690	66,3	13,7	4,1
03	178,0	28,457	28,680	66,8	15,5	4,1
04						
05						
06						
07						
08						
09						
10						
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Source: CBR, Moscow Times.

\* Units are new roubles or, prior to January 1998, thousands of pre-denomination roubles.

\*\* The real exchange rate is a new trade weighted exchange rate. An increase in this series represents an appreciation.

Weightings are 40% the US, 40% Germany, and 20% Ukraine. Revised since May 1998.

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