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Russian & Baltic Economies
The Week in Review

Yearbook 2001

Russian and Baltic Economies - The Week in Review is a brief compilation of leading economic news items in Russia and the Baltics.

Bank of Finland
Institute for Economies in Transition, BOFIT

Russian & Baltic Economies - The Week in Review Yearbook 2001

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Week 13/2001
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Economy minister presents Russian government's new economic program.
Putin meets EU leaders.
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Week 14/2001
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Number of small and medium-sized companies in Russia falls.
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Current account deficits last year fell in Latvia and Lithuania, but rose in Estonia.
Lithuanian president visits Russia.

Week 15/2001
March inflation in Russia still brisk.
No progress in Russian and German debt talks.
FDI inflows to Russia remained rather modest last year.
Kazakhstan and Russia open new pipeline to serve world markets.
Inflation remains modest in Latvia and Lithuania.
Privatisation of LASCO continues.
Lithuanian parliament approves euro peg.
Lithuania posts modest economic growth.
EBRD managing fund for decommissioning of Ignalina reactors.
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Week 16/2001
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Russia had large current account surplus in first quarter.
Russian industrial output up 3.3 % on-year in the first quarter.
Russia shows slight budget deficit for January-March.
Russian pensions hiked.
Government critic NTV gets new owners.
Russia and Estonia negotiate trade agreement.
Disposable household income rises in Estonia and Latvia.

Week 17/2001
Russian government and central bank release memorandum on 2001 economic policies.
Putin announces budget guidelines for 2002.
IMF grants stand-by loan to Latvia.
Lithuania becomes a WTO member.
Hansapank buys Lithuania's Savings Bank.
Lithuanian Shipping Company sold.
Ukraine parliament issues no-confidence vote for Yushchenko government.

Week 18/2001
Russian budget shows first quarter surplus.
Russia relaxes currency controls.
Duma ratifies international treaty on money laundering.
Russia's centrist parties form alliance.
EU predicts continued brisk economic growth for the Baltics.
Eesti Raudtee sold to Baltic Rail Services.
LASCO privatisation sale falls through again.
Baltic credit ratings unchanged.

Week 19/2001
Russian consumer prices up nearly 25 % on-year in April.
New data suggest Russian GDP growth in 1999 - 2000 was higher than previously announced.
Estonian inflation accelerated in April.
Latvian cargo handling up in the first quarter.
Financial supervisory body to be created under the Bank of Estonia.
Oil company Mazheikiu Nafta posts first-quarter loss.
Moldova joins the WTO.
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Week 20/2001
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Rouble exchange rate dips below 29 to the dollar.
Russia's gold and currency reserves grow briskly.
Slow growth in deposit-taking by Russian banks, lending up modestly.
CBR slightly increases its voting share after Sberbank share emission.
Russian incomes rise in the first quarter of 2001.
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Brisk rise in Baltic industrial output continues.

Week 21/2001
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Russian government accepts plan to reform UES.
Duma approves changes to banking laws.
Russian industrial output up 5.2 % on-year in April.
Baltic trade deficits grow.
EU membership talks on track for all three Baltic nations.
Lithuanian parliament decides to ratify European Social Charter.

Week 22/2001
Gazprom gets new CEO.
Russian share prices up from the start of the year.
Russia approves reform of national railways.
Russia doubles export tariff on natural gas.
Russian right combines efforts to form new party.
Baltic insurance markets increase international integration.
Estonian unemployment remains high.
Anatoly Kinakh becomes Ukraine prime minister, Viktor Chernomyrdin named Russia's ambassador to Ukraine.

Week 23/2001
Russian May inflation continues at April's pace.
Amendments to act on production-sharing agreements move ahead in the Duma.
Russia raises export tariffs on crude oil and import tariffs on white sugar.
Households to bear a larger share of Russian housing costs.
World Bank holds back loan tranches to Latvia and Lithuania.
Baltic budget deficits fall.
Five-member CIS Customs Union becomes Eurasian Economic Community.
Finland runs trade deficits with Estonia and Russia.

Week 24/2001
Russian government approves 2002 budget framework.
FDI inflows to Russia up slightly...
... but growth in investment slowing.
Growth in Russian exports slows, growth in imports continues.
Russian Duma approves import of spent nuclear fuel.
Russia's Customs Committee declares that private individuals from the CIS states must pay VAT on import items.
Baltic inflation picks up in May.
Pulp mill project would have major impact on Latvian economy

Week 25/2001
Duma approves first reading of land code.
Putin and cabinet support lower profit tax.
Russian industrial output rises 7.0 % on-year in May.
Final approval postponed for plan to revamp UES.
Duma dumps anti-corruption bill for third time.
Unemployment insurance now mandatory in Estonia.
Latvian economic growth continues robust.
YUKOS and Williams agree on oil deliveries and ownership arrangements for Mazeikiu Nafta.
Lithuanian government in crisis.

Week 26/2001
Duma approves second reading of profit tax bill.
Russian GDP grew 4.9 % in the first quarter.
Russian unemployment fell in May.
Duma postpones second reading of money laundering bill.
Russian government moves ahead on coal industry reform.
Alcohol excise tax stumbles.
New laws enter into force in Lithuania.
New consolidated financial supervision agency starts operations in Latvia.
Construction starts on Estonian steel terminal.

Week 27/2001
Russian government takes control of Gazprom's board of directors.
Russia's WTO membership postponed.
Russian minimum wage goes up.
Federation Council approves bill on political parties.
Money laundering bill passes second Duma reading.
Slowing export growth swells Baltic trade deficits.
First quarter GDP growth 5.8 % y-o-y in Estonia and 4.4 % in Lithuania.
Litas will be pegged to the euro on 2 February 2002.
Lithuania gets new prime minister.
Estonia still the least corrupt among transition countries.

Week 28/2001
Russian inflation still nearly 24 % y-o-y in June.
CBR raises capital adequacy requirements for new banks.
CBR modifies S-account rules.
Duma approves bill limiting foreign ownership of national television networks.
Special development program for southern Russia rolled out.
Year 2000 was quite profitable for Russia's gas and oil producers.
Latvian inflation picks up, inflation almost unchanged in Estonia and Lithuania.

Week 29/2001
Russia and China sign cooperation and friendship treaty.
Russian current account surplus shrank in first half.
Russian industrial output up 5.5 % y-o-y in first half.
Duma approves change in rules on repatriation of export revenues.
Duma passes third reading of money laundering bill.
Corporate profit tax bill also passes third reading in Duma.
Progress in privatisation of Latvian gas company and Ventspils oil terminal.
Lithuania's new government.
Estonia and Latvia post highest economic growth of EU accession candidates in 2000.

Week 30/2001
IMF stresses that Russia should get strong grip on monetary and fiscal policy.
Russian share prices drop.
Duma considers land code, labour code and pension bills.
Russia proceeds in slashing red tape for businesses.
Russian banks lead transition economy banks in terms of capitalisation.
Polish economic growth slows.
Hungary leads other countries in Central and Eastern Europe in its progress in EU membership talks.

Week 31/2001
Russian government releases economic development program for 2002---2004.
Industrial output and retail sales bolstered Russian economic growth in the first half of this year.
Gazprom criticises EU plans to deregulate natural gas markets.
Russian government accepts UES reform plan.
Russian pensions increased 10 %.
Russian government approves national women's program.
President Putin signs party act.
Baltic agricultural output continues to decline.
Russia moves up the rankings in UN's human development index.

Week 32/2001
Russian inflation slows in July.
Russian government unveils plans to privatise 450 enterprises next year.
Putin approves cabinet recommendation to establish pricing committee.
Russia to lower crude oil export tariff.
Russia plans to lower average import tariff on production equipment by around 5 %.
Parliamentarians approved some chapters of second part of tax code.
Russian government prepares plan to reallocate housing costs.
Estonia continues to post highest Baltic inflation.
Baltic credit ratings affirmed.
Strong rise in lending of Baltic banks.

Week 33/2001
Change in Russia's rules on repatriation of export earnings in force
Cabinet takes up consideration of revised 2002 budget proposal.
Russia to establish its own agency against money laundering.
Russian government approves first phase of electricity sector restructuring.
Changes in company law designed to improve the rights of minority shareholders.
Russia establishes national TV and radio broadcasting company.
City of Moscow approves program to reform housing sphere.
Latvian cargo volumes continue to rise.
Third attempt at privatisation of Lithuanian Agricultural Bank.

Week 34/2001
Russian government approves 2002 draft budget.
Russian output growing.
Russia produces substantial first-half budget surplus.
Lithuania posts highest industrial output growth in the Baltics.
Baltic exports up in the first half.
Latvijas Gaze lifts Riga bourse.
Estonian parliament will vote on president next Monday

Week 35/2001
Russia gets laws liberalising business.
Russian government approves uniformity of fees for municipal services.
Russia halts exports of precious metals.
Russian Customs Committee imposes limits on Far Eastern transit imports.
Efforts to reduce Russia's federal bureaucracy stumble.
Russia and Ukraine reconnect their electrical power grids.
Russian unemployment declines.
Rapid economic growth fails to lower Baltic unemployment as expected.
Selection of next Estonian president shifts to electoral body.
Poland's budget problems precipitate government crisis.

Week 36/2001
Russian president pays official visit to Finland.
Russia's consolidated budget revenues grow faster than expenditures.
Russian export revenues growth slows, spending on imports picks up.
Russian inflation rate falls to zero in August.
Russian finance ministry claims no problems with precious metal exports.
Fitch IBCA upgrades Estonia's credit rating.
Estonian rail companies sold.
Latvian state moves ahead with sale of Latvijas Gaze.
IMF grants stand-by credit to Lithuania.

Week 37/2001
Russia revises growth figures for this year.
Modest changes in the structure of Russian investments in the first half.
FATF satisfied with Russia's new laws to prevent money laundering, lifts sanction threat.
Russia sells 9 % of Rosgosstrakh insurance company.
Inflation slows in Estonia and Latvia, but accelerates in Lithuania.
Estonia approves new pension system.
Agreement on financing for renovation of Narva power plants.
Bank of Latvia governor to enter politics.
Lukashenko romps to re-election victory in Belarus.
GDP and industrial output up in CIS countries.

Week 38/2001
Indications of increasing foreign direct investment in Russia.
Slight improvement in company payment arrears and barter situation.
CBR issues short-term paper.
Russian government to consider bank reform proposals next week.
Russia expects good grain harvest.
Merger of SEB and Swedbank called off, Baltic banks expect little impact.
Estonia has highest wage levels in Baltics.
Tourism is one of the main service industries in the Baltics.

Week 39/2001
Russian government further revises its 2002 budget proposal.
Russian industrial output continues to rise.
Duma approves third reading of land code.
Brisk growth in Finnish exports to Russia.
Opposition candidate becomes Estonia's new president.
Latvian economic growth accelerates.
IMF satisfied with Ukraine's economic growth and ready to grant new loan tranche.
Left succeeds in Polish parliamentary elections.

Week 40/2001
Duma approves first reading of 2002 budget.
Russian government and central bank approve draft plan on bank reform.
Russia's foreign debt decreases, little change in size of domestic debt.
Consumption drives economic expansion in Russia.
Strategic Russian oil pipeline projects near completion.
Estonian economic growth slows.
Current account deficits in second quarter shrink in Estonia and Lithuania, unchanged in Latvia.
Lithuanian GDP growth accelerates to 5.7 % in the second quarter.

Week 41/2001
Federation Council approves Russian land code.
Russia has good possibilities to handle its 2003 debt servicing.
Russian consumer prices up 20 % y-o-y in September.
Russia's creditworthiness upgraded.
Russian share prices fell in September.
Russia and Czech Republic agree on debt restructuring.
Estonia again posts highest inflation in Baltics.
Lithuanian government decides on the way of selling gas company Lietuvos Dujos.
Only one bid submitted by deadline for stake in Lithuanian Agriculture Bank.
Few changes in country risk rankings of transition economies.

Week 42/2001
Russian industrial output growth exceeded 5 % during first nine months of this year.
Russia to repay an IMF loan ahead of schedule.
Even reduced, Russia's current account surplus remains substantial.
Bank deposits and loan stocks in Russia continue to grow gradually.
Russian grain harvest beats expectations.
Russia and Ukraine reach agreement on gas debts.
Estonia and Finland sign framework agreement on construction of power cable.
Problems for proposed Latvian pulp mill project.

Week 43/2001
Russian Duma approves second reading of 2002 federal budget.
Strong growth in Russian economic output continues.
Russian government releases draft of investment plan for new pension savings system.
Russia further lowers import tariffs.
CBR relaxes currency rules.
Russian population continues to shrink.
Baltic governments submit their budgets.
Tallinn bourse to switch to Helsinki Stock Exchange's trading system.

Week 44/2001
Russia's land code becomes law.
Russia's currency reserves and money supply grow.
Russia reduces minimum capital requirement for foreign banks.
Russia prepares for lower oil prices.
France's Dalkia may lease district-heating companies in Tallinn and Vilnius.
IMF satisfied with Estonia's development.
Poland's new cabinet wins parliamentary endorsement.
Hungary most competitive among transition countries.

Week 45/2001
Russian government proposes further changes to 2002 budget.
Annual inflation in Russia falls below 20 %.
Progress in reform of Vnesheconombank and Vneshtorgbank.
Russia lowers export tariffs on natural gas.
Real incomes continue to rise in Russia.
President Putin establishes Financial Monitoring Committee to fight money laundering.
Estonia's privatisation agency ceases operation on 2 November.
Latvian telecom will lose its monopoly status at the start of 2003.
IMF and Latvia at odds over next year's planned budget deficit.
Latvian state to offer 3 % stake in natural gas company for privatisation vouchers.

Week 46/2001
Russian government revises economy and budget scenarios.
Russia's benchmark RTS index soars.
CBR holding more currency auctions for S-account holders.
Russia to open own ports, bypass Baltic transhipping businesses.
Lithuania continues to post lowest inflation in the Baltics.
EU Commission issues positive assessment of membership aspirants.
Signs of slowdown in Baltic industrial output.

Week 47/2001
Russia promises limited cut in oil production.
Russia's budget surplus smaller, but still substantial.
Russian industrial output shows moderate rise in October.
Russian government proposes uses for this year's interest savings.
Weak EU economy hurts Baltic exports.
Bank of Latvia lowers bank reserve requirements.
Lithuanian energy monopoly to be divided.
Bidding competition underway for Lithuanian gas company.

Week 48/2001
Russia promises further modest cuts in oil production.
Retail trade and construction sectors continue to show brisk growth in October.
Russian unemployment figures revised upwards.
Russia enjoys good grain harvest.
President Putin signs third part of Russian civil code legislation.
CBR encourages holders of national currencies of euro countries to exchange their money soon.
Estonia abolishes language requirements for deputies.
Latvia and Lithuania speed up EU-membership talks.
European Commission lowers its forecasts for economic growth in accession candidate countries.

Week 49/2001
Russia offers to reduce crude by 150,000 barrels a day.
Russia's 2002 budget passes third Duma reading.
Russian Duma approves amendment on use of 2001 above-budget revenues.
Russian economic growth expected to slightly slow next year.
Russian central bank holds deposit auctions, raises deposit rates.
Pension package passes Russian Duma.
Latvian parliament approves 2002 budget and lower corporate taxes.
Latvia issues eurobonds.
Bank of Latvia governor enters politics.

Week 50/2001
On-year rise in Russian consumer prices under 19 % in November.
Rouble exchange rate weakens to over 30 roubles to the dollar.
Drop in CBR's currency reserves.
Slight decline in Russian exports, imports continue to rise.
Government imposes 35 % average ceiling on tariff increases by Russia's natural monopolies.
Baltic inflation slows in November.
Nord/LB wins bidding for Lithuania's Agricultural Bank.
Mazeikiu Nafta continues to operate in red.

Week 51/2001
Duma approves 2002 budget.
Russian import tariffs lowered.
Russian enterprises continue to decrease reliance on barter.
Little change in FDI inflows to Russia.
Growth in Russian industrial output stalls.
Estonian government to resign.
Estonian parliament approves 2002 budget.
Lithuanian parliament approves 2002 budget.
Ukraine approves land code legislation.

Week 52/2001
Federation Council approves 2002 budget.
New legislation enters into force next week.
IMF assessment finds Russian economy relatively strong, but predicts
slightly slower growth in 2002.
Russian public sector wages get boost at the beginning of December.
Oil industry receiving higher share of domestic investment.
Euro roll-out in Moscow.
Latvian economic growth slowed in third quarter.
Baltics ready for euro launch.
Ilmars Rimsevics takes over as head of Latvia's central bank.
OSCE will close its representative offices in Estonia and Latvia next week.

Central Bank of Russia / Exchange rates 2001

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President Putin cautiously optimistic about last year. In an interview with *Nezavisimaya Gazeta* (26 December), president Vladimir **Putin** said that the decisions made last year were well-considered and correct. He also expressed his support for prime minister Mikhail **Kasyanov** and the present government, but lamented that government has yet to act in unison, noting that right now the country absolutely needs political stability.

Mr. Putin also took stands on several economic policy disputes. He said that in no way has Russia squandered its large export earnings, and thus challenged the view of his advisor Andrei **Illarionov**. On the other hand, he took Mr. Illarionov's side as well as many foreign investors', by stating that he rejected Anatoli **Chubais'** proposal on reform of electrical power monopoly UES. He argued that the Chubais proposal does more to serve the interests of the company management than the citizenry or regional interests. He added that Russia needs to better recognise the role of international experience in reform of its energy sector.

Martin **Gilman**, head of the IMF office in Moscow, has somewhat different views than Putin on 2000, although he did consider developments in Russia last year to be generally encouraging. Mr. Gilman opined that the exceptionally robust situation of the economy should have been better exploited because it offered an excellent opportunity to move on necessary structural reforms. He further noted that the year-end decision to distribute the budget surplus (see Week in Review 50/00) will complicate economic policy and increase money supply in 2001. The relatively good financial situation has led to complacency, which has prevented the implementation of ambitious reforms. Gilman, nevertheless, affirmed that the Fund had every intention to continue its support of Russia.

Many disappointed with last year's development of Russia's banking sector. Banks in Russia still generally fail at the role of intermediating the flow of financial capital from savers to investors, and instead concentrate mainly on facilitating payment traffic. The financing of banks mainly goes to government debt securities, deposits with the central bank or abroad. Only a small fraction of real investments are bank-financed. This situation is seen as a threat to continued economic growth, since there are few sources to finance new firms. Moreover, Russia's largest banks are either directly or indirectly state-held. The position of CBR-owned Sberbank is particularly central. It continues to be the most important bank financing investments. However, the Sberbank deposits tend to be short-term, which together with the state deposit insurance may be a problem for long-term lending.

President **Putin**, the IMF and many others have repeatedly criticised the slow pace of reform in the banking sector. The charges focus primarily on the central bank. Recently, Alexander **Shohin**, a chairman of the Duma's committee on credit institutions and financial markets, joined in calls for the resignation of CBR chairman Viktor **Geraschenko**.

Views vary sharply as to what changes are needed in the banking sector. Some want to count on growing presence of foreign banks, while others demand more state-owned financial institutions. There is also a strong movement to strengthen the role of regional banks, but others see that only Moscow-based banks can grow large enough to serve the rest of the country. The diversity of opinions and the lack of any clear alternatives have allowed the CBR leaders to get by with trivial reform efforts.

Russia posts USD 34 billion current account surplus in first three quarters of 2000. The balance of payments figures released by the Central Bank of Russia indicate that the trade surplus in the first nine months of 2000 hit a record USD 45 billion, while the services balance showed a deficit of nearly USD 6 billion. Factor income was some USD 5 billion less than expenditure, which to a large extent is explained by large interest payments on foreign loans.

During the first three quarters of 2000, Russia received foreign direct investments worth slightly less than USD 2 billion, and was below FDI in the same period in 1999. Reported FDI by Russian firms amounted to about USD 1 billion. Thanks to the huge current account surplus, the CBR's gold and currency reserves rose by more than USD 13 billion in the first nine months of last year. The statistical errors and omissions in the balance of payments exceeded USD 7 billion, which was above that of 1999. This figure may indicate that capital flight continued in the first three quarters of last year at levels at least as high as earlier.

According to the latest data on goods trade, Russian exports in January-October amounted to USD 84 billion (an increase of 44 % over the same period a year earlier), while imports amounted to USD 35 billion (up 10 %). CIS countries accounted for 14 % of Russia's exports and 30 % of Russia's imports.

Russia implements new customs tariffs and currency controls at the start of 2001. The number of customs tariffs categories for imports has been reduced from seven to four, i.e. 5 %, 10 %, 15 % and 20 %. The import tariffs on cars, sugar, alcohol and tobacco, however, will remain above 20 %. The new categories apply to about 30 % of all imports. Many of the new tariffs are lower than earlier, and the average customs tariff falls from around 13 % to between 11 % and 12 %.

The CBR and the State Customs Committee also announced that currency controls would be tightened from the start of 2001. The measures are specifically focused on rouble-denominated import payments. Officials also say they plan to tighten the repatriation requirement on export earnings.

Russian inflation for 2000 comes in at 20.2 %. For December, consumer prices were up 1.6 % m-o-m, compared to November's monthly change of 1.5 %. Inflation for all of 1999 was 37 %.

Recent action on Russian financial markets. The RTS index fell 8.6 % on Wednesday (3 Jan.) when Russian markets opened for the first time this year. They then recovered completely from the loss yesterday (4 Jan.). The rouble weakened after the new year. At the end of this week's trading, the CBR's official rate stood at 28.48 roubles to the dollar. The CBR's gold and currency reserves also dipped a bit at the end of the year, standing at USD 27.9 billion on 31 December. Because the new year is a major holiday season, Russian financial markets are traditionally thin. This makes them more susceptible to large swings.

Russia raises minimum wage. From the start of this year, the minimum monthly wage in Russia is 200 roubles (7 dollars). State sector wages, social payments and student stipends etc. are based on the minimum wage and have also been increased accordingly. Before the increase, the minimum wage was 132 roubles a month.

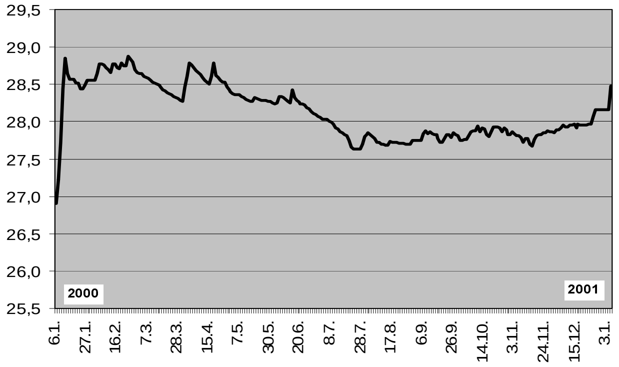
The Russian government plans to raise the minimum wage to 300 roubles a month sometime in summer and later to 450 roubles a month.

Current account deficit widens in Estonia, shrinks in Latvia and Lithuania. Figures released by the Bank of Estonia show that the country's third quarter current account deficit was EEK 882 million (USD 51 million), or 4 % of the estimated GDP for the period. For the first three quarters of 2000, the current account deficit came to 5.5 % of GDP, some two percentage points higher than in the same period in 1999. Estonia's current account deficit has shrunk substantially from its peak in 1997, when it climbed above 12 % of GDP. As economic growth accelerates, however, the current account deficit has again begun to increase. Estonian exports rose by a record 50 % in the first three quarters of 2000 as compared to the same period in 1999. Imports rose nearly 40 %. Service exports are important for Estonia. The services surplus was sufficient to cover more than 80 % of the trade deficit.

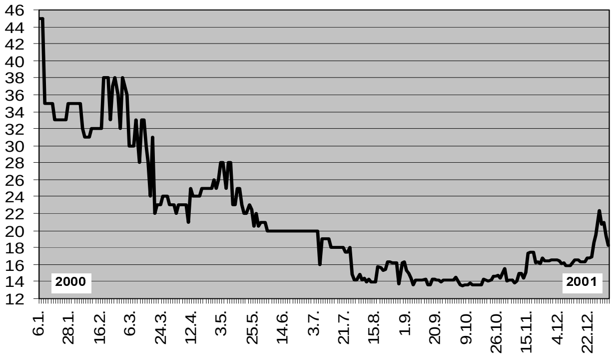
Latvia's current account deficit in the first three quarters of 2000 was LVL 63 million (USD 103 million), or 5.8 % of the estimated GDP for the period. The reduction in the deficit from 1999 mainly reflects higher revenues from services. The services surplus was sufficient to cover nearly 40 % of the trade deficit. The current account deficit corresponded to 5.6 % of GDP in the first three quarters of the year, down from 7.7 % in the same period in 1999.

Lithuania's current account deficit in Q3 2000 was LTL 420 million (USD 105 million), which corresponded to 3.5 % of estimated GDP for the quarter. Lithuania's current account deficit fell substantially last year. In the first three quarters, the total current account deficit amounted to 4 % of GDP. It was 10.2 % of GDP in the same period a year earlier. Lithuanian exports rose 33 % in the first three quarters of last year, while imports were up 13 % for the same period in 1999.

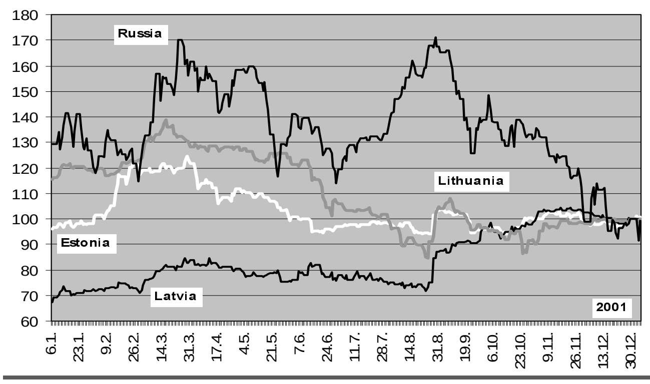
Russia: Rouble/dollar exchange rate (official by CBR)



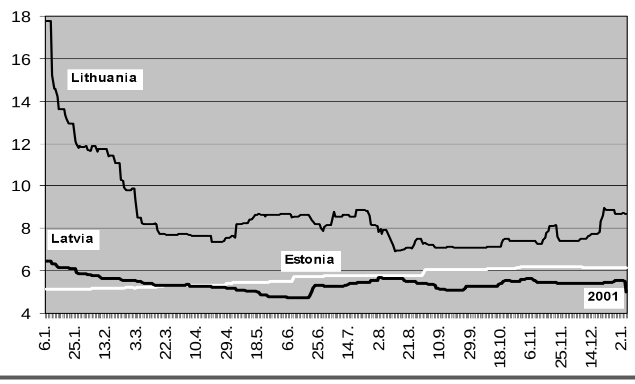
Russia: 31-90 days interbank rate (Mibor), % p.a.



Russian and Baltic share prices, index (Dec 31, 2000=100)



Baltics: 3-month interbank rates (Talibor, Rigibor, Vilibor) % p.a.



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The Week in Review
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Discussions on Soviet-era debt grow tense. Last December Russia's finance ministry requested that the Paris Club agree to the restructuring of payments on Soviet-era debt coming due in 2001. Last week deputy prime minister Alexei **Kudrin** announced that Russia plans to delay payment on some USD 1.5 billion coming due in the first quarter of this year. Paris Club chairman Jean-Pierre **Jouyet** refused Russia's official request, however, noting that Paris Club members do not accept letting Russia get away with a unilateral declaration of insolvency. The Club could consider discussions on the possibility of restructuring after Russia signs a new agreement with the IMF. An IMF mission is scheduled to visit Moscow early next month.

Russian representatives said that Russia's intention to hold back on payments for less than three months would not qualify as a technical default. Prime minister Mikhail **Kasyanov** said Russia would pay something in the first quarter, mostly interest on debt. Russian representatives said officials needed to assess e.g. the impact of lower oil prices and the effects of the current harsh winter on the country's liquidity and ability to service debt. This year's federal budget only sets aside a part of the funds needed to service Paris Club debts.

Russia's finance ministry stated that it will immediately pay the Paris Club USD 12.3 million, primarily in interest, as well as its intention to make further payments later. Published information on the amount of the debt, the payment situation and Russia's plans is riddled with contradictions.

Russia hopes long-term export quotas will stabilise world palladium market. Gokhran, Russia's state precious metals and gems repository, has prepared a draft decree on export quotas for precious metals. President Vladimir **Putin** is expected to sign the decree this month. Decrees on Russia's precious metal quotas and information about precious metals sales are secret, however. In the midst of this lack of transparency, the bureaucracy surrounding export quotas and permit procedures, as well as the thinness of the market, demand for palladium has increased since 1997 without corresponding increases in production. As a result, the current price for palladium is about ten times higher than it was four years ago. The price of palladium on the London and New York metals exchanges last week was well above the "magic" level of 1,000 dollars per troy ounce (32,102 dollars per kilogram). The price currently quoted in Tokyo is slightly lower.

Russian officials believe that a palladium price of 500 – 600 dollars an ounce would stabilise the market. At that level, it would maximise the state's tax income from palladium sales while discouraging substitution of palladium with other metals. It remains to be seen whether the multi-year quotas in the new decree actually stabilise the market, or whether supplies of palladium continue to face uncertainty and speculation, so that palladium's price remains permanently over 1,000 dollars an ounce.

Russia has promised to commence palladium deliveries to Japan based on multi-year contracts as soon as the decree on precious metal quotas is signed. Russia's annual production of palladium is worth some USD 5.2 billion at current prices. Non-ferrous mining giant Norilsk Nickel has the exclusive right to produce platinum-group metals, which include palladium and rhodium. By some estimates, Russia produced over 160 tonnes of palladium last year. That would be about two-thirds of global production. Palladium is used, e.g. in catalytic converters on automobiles and various metallurgical processes.

Russia gets some new tax laws at the beginning of 2001. Laws approved last summer as part of Russia's new tax code went into force at the start of this year. A flat 13 % income tax replaces the former progressive income tax arrangement. One goal of the new approach is to encourage persons with large incomes to pay taxes. The number of deductions has also been increased. This is expected to help those with low incomes. The new laws on value-added tax and excise taxes only bring minor changes to current practice. The value-added tax remains unchanged at 20 %. The largest excise tax increases apply to gasoline, alcohol and tobacco. Payments to off-budget funds have been replaced this year under a regressive, unified social tax.

Slight rise in Russian oil production. Last year, Russian crude oil production averaged 6.4 million barrels a day, up 4.8 % over 1999. The firms boosting their output the most were TNK (up 33 %) and YUKOS (up 11 %). Most of TNK's growth resulted from acquisitions. Sidanko (-47 %) and Onako (-6 %) registered the largest declines.

The Russian government has decided on how it will privatise a 6.1 % stake in LUKoil, Russia's largest oil company. The stake will be sold directly on the New York stock exchange. After the sale, the stake in LUKoil held by foreign investors will rise to 47.5 %, while the state's share will shrink to less than 10 %.

Estonia's creditworthiness improves. The international credit rating agency Standard & Poor's (S&P) reviewed Estonia's creditworthiness at the end of last month. Since 1997, Estonia has held a BBB+ ranking for long-term, foreign currency loans. The classification means that Estonia has adequate resources to service its debts as long as its economy is not hit by an unexpected shock. In its latest assessment, S&P reaffirmed Estonia's earlier rating, but changed its outlook from stable to positive. This likely indicates that S&P is considering raising the country's credit rating in the future. The improved outlook was attributed to Estonia's success with tight fiscal policy and economic reforms.

S&P currently ranks Poland and Hungary with Estonia. The transition economies with the highest sovereign credit ratings are Slovenia (A) and the Czech Republic (A-). S&P has granted Latvia a rating of BBB and Lithuania BBB-.

Lithuania posts lowest Baltic inflation in 2000. At end-December, Lithuanian consumer prices were 1.4 % higher than a year earlier. The costs of housing and municipal services rose most, nearly 15 %. Their weighting in the CPI is notable – about 15 %. The price of telecommunications services rose nearly 14 %, but this item's weighting in the CPI is only about 2 %. The most significant category in the CPI is food, which accounts for nearly 38 % of average living costs. The price of food fell for the second year in a row, nearly 2 % during the past year.

Consumer prices were up 1.8 % last year in Latvia. Regulated prices, including those related to housing, showed the greatest increases. The average prices for housing and utilities rose 5 % in 2000. They constitute nearly 20 % of the CPI. While the cost of health care rose more than 3 %, the category only accounts for about 4 % of the index. Food, which comprises about 33 % of the CPI, rose just 0.2 % during the past year.

Consumer prices in Estonia rose 5 % last year. The CPI's most important component is food, which has a weighting of 34 %. Last year food prices rose about 4 %. The largest increase (14 %) was in transport, which accounts for about 7 % of the CPI. The costs of heath care and education were both up 7 %. Each category has a weighting of less than 2 % in the CPI.

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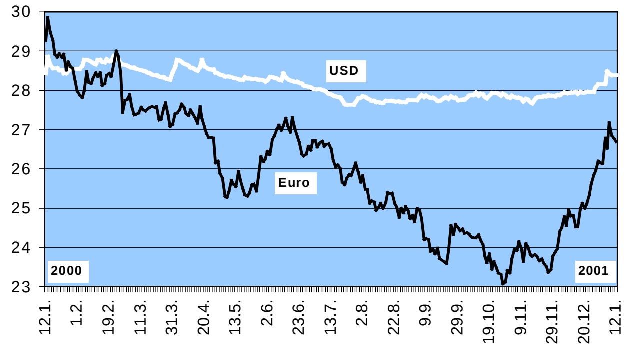
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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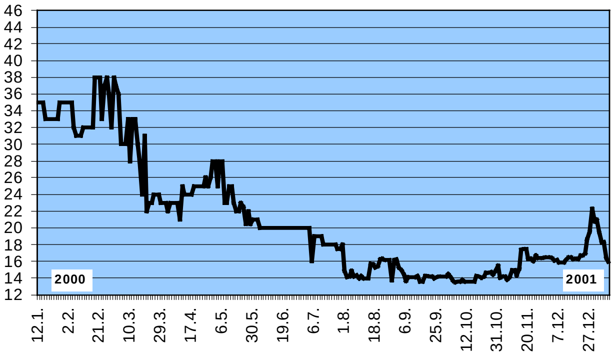

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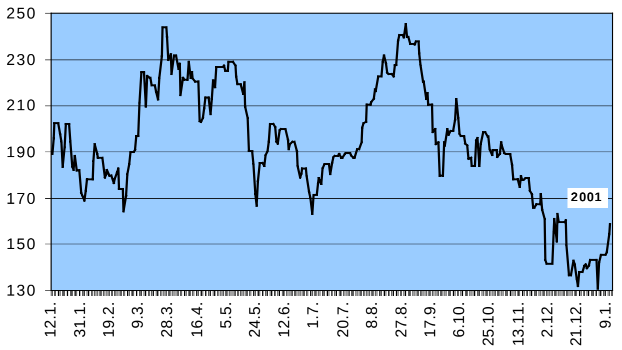
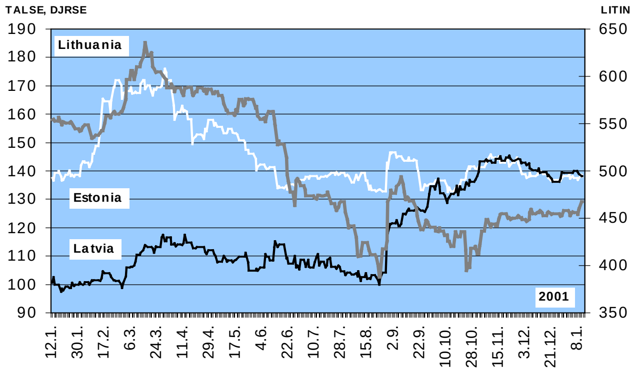


Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Editor Timo Harell

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Russian & Baltic Economies
The Week in Review
3•2001

Active talk on Soviet-era debt. Last week, Russia's finance ministry issued a press release concerning its debts to Paris Club of sovereign creditors. The press release said Russia needs to postpone its debt servicing in order to finance needed economic structural reforms and to handle the burden of foreign debt in coming years. Prime minister Mikhail **Kasyanov** ordered that renewed consultations with the Paris Club start soon.

According to the press release, Russia will pay interest on its non-restructured debt coming due in January, as well as principal and interest for payments under the 1999 debt rescheduling agreement. Although over USD 300 million in Paris Club payments come due this month, Russia only intends to pay about USD 32 million. Last week it made two payments with a combined value of USD 23 million. Of the whole USD 1.6 billion coming due in the first quarter of 2001, Russia intends to pay about USD 300 million.

International credit institutions said they were following the situation closely and warned that prolonged uncertainty over payments could affect Russia's creditworthiness. After consideration, Germany decided to continue granting state export guarantees to Russia. Japan's foreign minister expressed concern about Russia's refusal and Germany's deputy finance minister said that Russia's current behaviour is incompatible with Russia's hopes to join the G7. Sweden's prime minister noted that ideas about lending from the European Investment Bank to Russia would require Russia service its debts.

Russia's representative on the IMF Board noted that conditions are attached when the IMF considers a loan to a country which has overdue debts. The IMF expects the creditors to confirm ongoing negotiations and their recognition of the debtor's difficulties to repay. The IMF has also pointed out such an established policy. The Paris Club typically requires an IMF agreement for negotiations, and the IMF's balance of payments scenario is needed to establish the debtor country's need for debt restructuring.

CBR chairman Viktor **Geraschenko** argued that Russian officials should go ahead and service their Paris Club debts this year, and concentrate instead on restructuring the large payments coming due in 2003. He said the CBR could lend the government the funds needed for this year's payments. The finance minister rejected the idea of borrowing from the central bank, proposing more debt servicing payments if the world oil prices remain high and the Russian economy continues to do well. On Wednesday (17 Jan.), president **Putin**'s top economic adviser Andrei **Illarionov** said that paying the country's debts would offer benefits, but that reluctance to pay was a mistake and a circus.

Russian exports boom, imports recover. The State Statistics Committee reports that Russian exports were up 44 % y-o-y for January-October, and exceeded USD 84 billion. Imports rose 10 % in the same period and amounted to some USD 35 billion. For the period August-October the growth in imports has been even more rapid - over 15 % y-o-y. Russia posted a trade surplus of USD 49 billion in January-October.

Exports to CIS countries rose in January-October 26 % y-o-y to nearly USD 12 billion. Imports from CIS countries rose 28 % to nearly USD 11 billion.

The value of exports has grown along with the huge rise in prices of Russia's key export products. The State Statistics Committee recorded that crude oil prices were 80 % higher in January-October than they were during the same period in 1999. The increase for oil products was 80 - 100 %. The export price of natural gas in September-October was about 70 % higher than a year earlier.

Producers of coal, base metals, wood and pulp showed the largest increases in export volumes in January-October. Crude oil exports were up 5.5 %, while natural gas exports fell 1.6 %.

Moscow land auction flops with investors. There was little interest in the trial sale of thirteen lots totalling about thirteen hectares in the Zelenograd suburb some twenty kilometres northwest of the Moscow city centre. The auction produced the sale of three small lots for a total of RUB 14 million (USD 0.5 million). Moscow's land committee will study the reasons for the tepid interest. Committee chairman Viktor **Damurchiyev** said that sales of larger parcels will be postponed, but sales of smaller lots will continue.

Russia made almost no progress in land reforms during the 1990s because consensus on the matter was never reached. The land code has been under preparation for six years. President Vladimir **Putin** is expected to submit a new draft of the land code to the Duma this month. According to unofficial information, the latest proposal contains a ban on the buying and selling of agricultural land. Officials estimate that the project to create a land register, which began in 1999, will be completed by the first half of 2002.

Russia starts new year with price hikes. As has become the custom, the prices of commodities provided by public utilities or monopoly producers went up at the start of the year. Russia's energy commission, for example, raised the wholesale price of electricity about 20 %. The commission also decided to raise charges on natural gas supplied to industrial users by 18 % starting this weekend and to households by 25 % from the beginning of March. These hikes will affect local prices of heat and electricity, which are planned to go up, for example, in Moscow by a quarter at the end of this month.

Travel on intercity trains has gone up 30 % and their prices are indexed in a 30 % ratio to the increase in the population's income. However, the increases will not affect the 46 million citizens who enjoy intercity rail discounts. After the increase, passenger fares and freight charges will cover about 60 % of the railways' expenses.

IMF gives positive statement on Lithuanian economy. This month the IMF issued its assessment of Lithuania's progress last year in implementing its economic program. Lithuania needs to fulfil its economic program as part of its stand-by credit agreement with the IMF. The arrangement gives Lithuania access to about USD 80 million in IMF credit during the 15-month agreement period. Lithuania has not used its stand-by facility, rather it has sought the arrangement to enhance international acceptance of its economic policies.

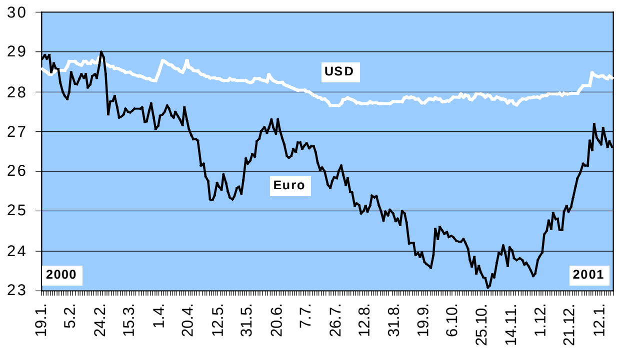
The IMF assessment noted Lithuania's success last year in tightening fiscal policy and reducing its current account deficit, which exceeded 10 % of GDP in 1999. Economic growth also returned in 2000 and financial market stability increased. Confidence continued in Lithuania's currency board arrangement. Domestic demand, however, was still weak and unemployment continued to rise.

Lithuania's new government, which was formed in October, and the IMF agreed on a Supplementary Memorandum of Economic Policies. The current government has sworn to uphold the previous government's economic policies. The memorandum specifies the concrete goals of this year's economic policy.

Baltic currency reserves rose last year. The gold and currency reserves held by the Bank of Estonia stood at USD 921 million at the end of 2000, up 7 % from a year earlier. Reserves have remained at a level equivalent to about two to three month's worth of goods and services imports throughout the 1990s. This level is considered moderate by international standards. In last year's case, however, a strong dollar may have made the comparison slightly misleading to the extent that countries hold reserves in currencies other than dollars. This applies especially to Estonia, which pegs its currency to the German mark, and to a lesser extent to Latvia, which pegs to the SDR currency basket set by the IMF.

Latvia's gold and currency reserves rose 19 % last year. At year's end they were valued at some USD 1 billion, which corresponded to approximately three-and-a-half months worth of imports. Lithuanian gold and currency reserves in December amounted to USD 1.36 billion, up 9 % from last year. This was sufficient to cover nearly three months of goods and services imports.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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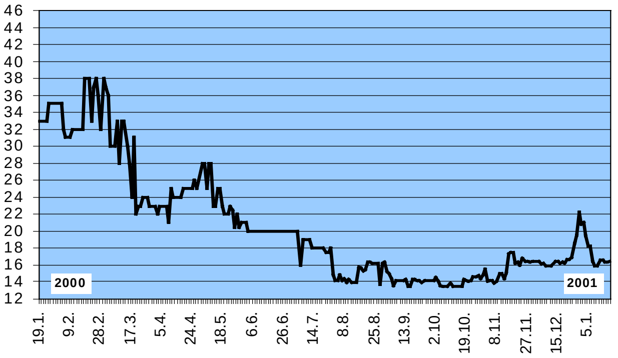

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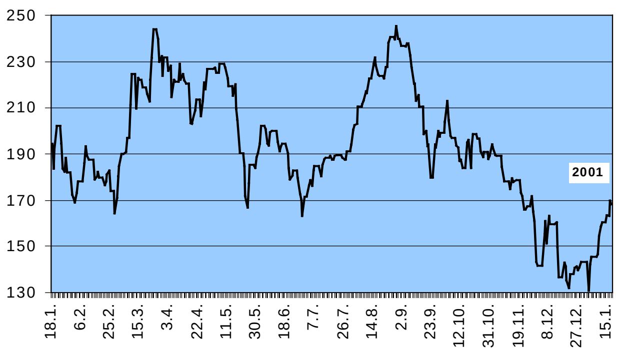

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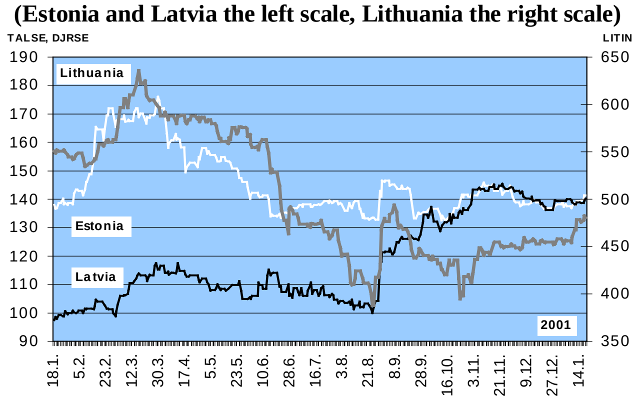

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Editor Timo Harell

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Russian & Baltic Economies
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4•2001

Russian industrial output growth slows towards the end of 2000. The State Statistics Committee reports that Russian industrial output rose 9 % last year, up from to 8 % in 1999. Growth slowed in Q4 2000, and fell to just 2.5 % y-o-y in December.

Highest growth in production was seen in light industry (22 %), which still represents a minute share of total industry. Above-average growth was also seen in ferrous metallurgy and the machinery and equipment building industry (about 15 %), as well as in chemicals and petrochemicals (14 %). Growth was also rather brisk in non-ferrous metals production (11 %), as well as forest products (about 10 %). Food processing rose 7 %, fuel production 5 %, crude oil production 6 % and electricity generation 3.5 %.

Russian natural gas output fell last year. Russia's natural gas output in 2000 was down approximately 1 % compared to 1999 and was 584 billion cubic metres. The output of Russia's main natural gas producer, Gazprom, was down on-year slightly over 4 %. Gazprom, which produced about 90 % of Russia's natural gas last year, said the fall was the due to depleted resources and the lack of investment. The International Energy Agency predicts that Russia's natural gas industry will continue to decline for the next decade.

Russian wage arrears fall. The State Statistics Committee says that wage arrears fell last year from RUB 44 billion (USD 1.5 billion) at the beginning of the year to around RUB 32 billion (USD 1.1 billion) at year's end. Most arrears (RUB 27 billion) are owed by firms in the industrial sector. The remaining RUB 5 billion are "budget arrears," of which 80 % (RUB 4 billion) are wage arrears owed by local budgets and 20 % owed by the federal budget.

Incumbent governors succeed in regional elections. Of the 44 gubernatorial elections held in Russian regions last year, incumbents won 29 races. Nine governors were unseated and six former governors did not run. Among the reelected regional leaders were St. Petersburg's Vladimir **Yakovlev**, the Moscow region's Boris **Gromov** and the Saratov region's Dmitri **Ayachkov**.

Baltic countries hope for speedier EU membership talks during Swedish EU presidency. Already before assuming the EU presidency, Sweden announced that one of its central goals during the six-month presidency would be to promote the EU's eastern enlargement. Estonia, Latvia and Lithuania are hoping to conclude their membership negotiations by the end of next year. EU membership is a top foreign policy goal for the Baltic countries, but an opinion poll last November found support for EU membership was less than 50 % in every Baltic country (46 % in Estonia, 44 % in Latvia and 39 % in Lithuania).

By the end of its term as EU president in June, Sweden hopes to have accelerated EU enlargement discussions by opening talks on all 31 accession topics or "chapters" with applicants that started talks in 1998 (the Luxembourg group applicants). Sweden is also going to open more negotiation chapters among the countries that started talks last year (the Helsinki group applicants).

Estonia has reached preliminary agreements on 16 negotiation chapters, and discussions are on-going for other chapters. Latvia has reached agreement on nine chapters, and is currently negotiating seven more. Lithuania has agreed on seven chapters and currently has nine more open. During its EU presidency, Sweden will push to open the remaining negotiation chapters of Latvia and Lithuania. Sweden has stressed that progress in negotiations and accession need to take place at each applicant's own pace and any general timetable can't be set. Nevertheless, Swedish prime minister Göran **Persson** does not rule out the possibility that the accession dates for some candidates could be announced at the June EU summit. The EU Commission has also held out the possibility that the most advanced applicants could enter the EU as soon as 2004.

Lithuanian litas to be re-pegged to the euro in 2002. On Monday (22 Jan.), Bank of Lithuania governor Reinoldijus **Sarkinas** announced that the current pegging of the litas to the US dollar would be replaced with a peg to the euro. Details of the change will be released in May or June if preparations move ahead as planned. Mr. Sarkinas also proposed that, prior to the re-pegging, Lithuania's legislation on the national currency be amended to specify that no revaluation or devaluation may occur in conjunction with the shift of the peg.

The Bank of Lithuania and the government have discussed re-pegging of the litas for years. Uncertainties over market development and the Russian financial crisis postponed the first planned re-pegging in 1999. Since its introduction in 1994, the litas has been fixed at a rate of four litas to the dollar.

EU Commission proposes development of Kaliningrad enclave. Last week the EU Commission issued a communication that contained proposals that are pointed to reduce the differences between the enlarged EU and Russia's Kaliningrad enclave. Russia has agreed to allow Kaliningrad to be included in the EU's Northern Dimension initiative. The goal is to preserve movement of goods and people, as well as secure Kaliningrad's energy supply after EU enlargement. The Commission's proposal suggesting starting talks on border management, as well as assessing transport projects. The trade impact of enlargement on Kaliningrad should also be studied. Other Commission proposals included making a fisheries agreement between Russia and the EU, as well as dealing with Kaliningrad's pollution problems. The Commission expects

Russia, and particularly the Kaliningrad enclave, to benefit from EU enlargement.

The Commission will first discuss these issues with the EU members, then Russia, Poland and Lithuania. The Kaliningrad development proposal will be reviewed at the upcoming Russia-EU summit in May. Cut off from Russia, Kaliningrad lies on the Baltic Sea and only shares common borders with Lithuania and Poland, both of which are currently negotiating EU membership.

New central bank governors named for Lithuania, Poland and the Czech Republic. On Tuesday (23 Jan.), the Seimas confirmed Reinoldijus **Sarkinas**in (54) to his second five-year term as Lithuania's central bank governor.

Former deputy prime minister, finance minister and architect of Poland's economic reforms, Leszek **Balcerowicz** (53) was tapped to replace National Bank of Poland chairman Hanna **Gronkiewicz-Waltz** (48), who now moves on to become deputy managing director of the European Bank for Reconstruction and Development.

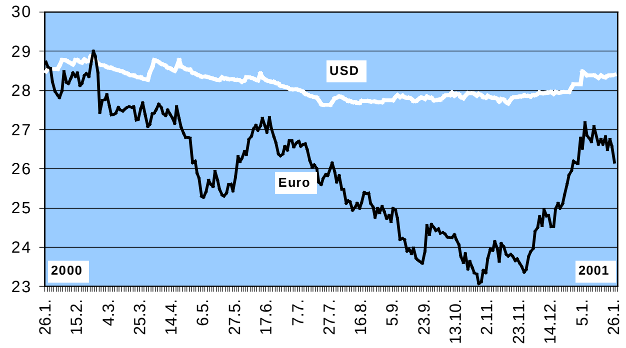
The new governor of the Czech National Bank is Zdenek **Tuma** (40), whose former posts include work at the EBRD before moving to the central bank. Former governor Josef **Tosovsky** (50) now becomes head of the Financial Stability Institute, the research institute of the Bank for International Settlements.

Large differences in 2000 inflation figures among EU membership candidates. Of the transition countries seeking EU membership, Lithuania and Latvia showed the smallest increases in consumer prices, both below 2 %. Next, in the 4 – 5 % range, were the Czech Republic and Estonia. Romania was in a league of its own, posting an inflation rate of over 40 %. Most other countries were in the range of 8 – 11 %.

Annual inflation figures for EU accession candidates in Central and Eastern Europe

Country	% change in 12-month inflation (December 2000)	% change in 12-month inflation (December 1999)
Bulgaria	11.4	6.1
Czech Rep.	4.0	2.5
Estonia	5.0	3.9
Hungary	10.1	11.2
Latvia	1.8	3.2
Lithuania	1.4	0.3
Poland	8.5	9.8
Romania	40.7	54.8
Slovakia	8.4	14.2
Slovenia	8.9	8.0

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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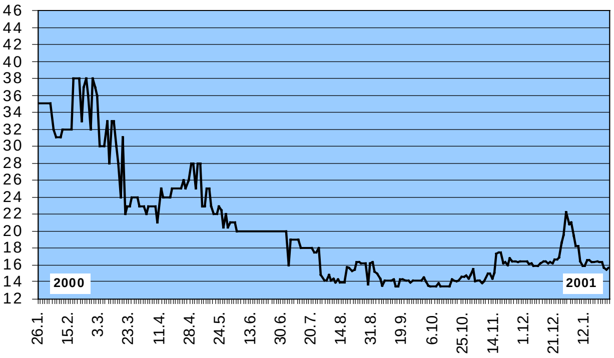

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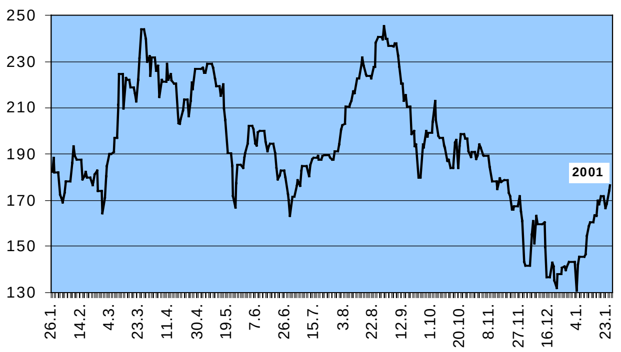

Baltic share prices
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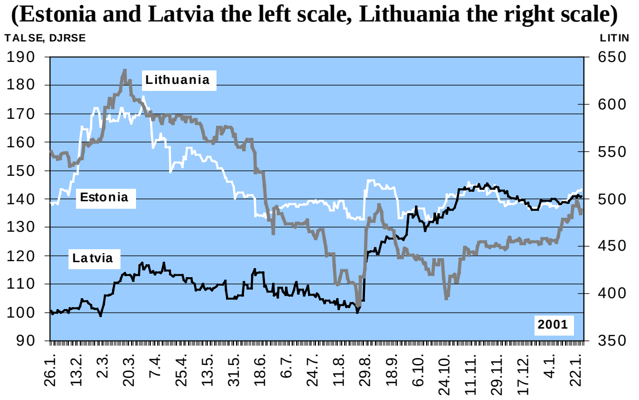

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Russian & Baltic Economies
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Clarification expected on Russian debt servicing. Following public exchanges of Russian officials in January, president Vladimir **Putin** gave his cabinet until mid-February to deal with problems related to Russia's Paris Club debts. Prime minister Mikhail **Kasyanov** told the Duma's main parties that the rule on dividing up possible extra revenues to this year's federal budget should be modified to increase funds available for debt servicing, a goal shared with the finance ministry. A statement by the Duma stressed that at least expenditure already decided in the budget must not be touched.

At the world economic summit in Davos, finance minister Alexei **Kudrin** expressed hope that delays in debt repayment can be resolved within the next month and a half and that the debt will be serviced in full. Meanwhile, Russia will seek discussions on postponing debt repayment. The IMF is soon expected to give an assessment of Russia's abilities to service its debts. An IMF mission will spend the next two weeks in Moscow working with the Russians on hammering together a new economic program. Mr. Kudrin would like to have Russia's debts discussed at the upcoming summit of G8 finance ministers in the middle of this month.

Alleged Gazprom corporate governance problems under investigation. At the suggestion of economy and trade minister German **Gref**, the Gazprom board has named PricewaterhouseCoopers to investigate the operations of Itera, a Gazprom sales subsidiary registered in Florida, to determine how the company serves Gazprom share-holders' interests. Among the corporate governance issues raised are the suspicions that Gazprom has put profits from its gas fields under Itera's name and sold gas to Itera and other private resellers at dubiously low prices. At issue is whether Gazprom is transferring assets abroad into private hands. Gazprom's largest shareholder is the Russian state, which holds a 38 % stake.

Duma auditors have focused on the fact that Gazprom has issued a substantial amount of interest-free loans and then financed them with interest-bearing bonds. Gazprom has lacked the money for needed investment in maintenance of infrastructure and has foregone prospecting efforts to find new gas deposits to compensate for depletion of its producing gas fields.

Financing Gazprom investments. This year's corporate budget, just confirmed by Gazprom's board, includes some USD 3.3 billion for investments in the construction of gas pipelines running from Russia to Turkey and Europe, development of the Zapolyarnoye gas field and repair of existing pipelines. It is estimated that 85 % of Gazprom's production fields are beginning to show signs of depletion.

Gazprom's output fell at an average rate of 2 % a year throughout the 1990s. Production contracted last year about 4 %. Because the price of natural gas has been relatively high in Europe (about 100 dollars per thousand cubic metres), Gazprom's sales developed quite favourably last year. Nevertheless, profits fell due to high production costs.

The International Energy Agency has calculated that to sustain the minimum level of production needed to cover domestic consumption, exports, debt servicing, and payment of tax arrears, Gazprom needs to invest on average USD 2 billion annually over the next five years. Gazprom oversees nearly 95 % of Russia's natural gas production and produces roughly a quarter of the world's natural gas.

Russian producer prices in 2000 rose substantially faster than consumer prices. Russian producer prices rose 32 % last year, while consumer prices rose 20 %. The rise in producer prices varied among sectors, however. For example, freight transport producer prices rose 52 %, the producer prices for capital goods went up 34 % and the producer prices for consumer goods increased 18 %. The prices of intermediate goods and materials rose just 1 %.

Property leases, dividends and privatisation sales in 2000 produce higher-than-expected income for Russia's federal coffers. According to the State Property Ministry, Russia earned over RUB 50 billion (USD 1.8 billion) last year on the use and sale of state property. The amount was 32 % higher than the latest estimate in the 2000 budget, which was revised last year.

Most income (RUB 31 billion) came from the sale of state assets. The largest money-raisers were the sale of an 85 % stake in the oil company ONAKO (RUB 25 billion) and a nearly 2 % stake in the oil company LUKoil (RUB 3 billion). About RUB 19 billion of other kinds of income was also generated from state property. Of this amount, RUB 10 billion were profits from the Vyetsovpetro joint venture; RUB 6 billion as share dividends and RUB 3 billion from rental and lease income. Most dividend income came from oil companies and Gazprom.

Money makes comeback as means of payment in Russian companies. A survey by the State Statistics Committee found that in Russia's largest companies (e.g. Gazprom, UES and Russian Railways) the share of payments made in monetary forms compared to all payments increased from around 50 % in November 1999 to 72 % last November. In the meantime, the use of cash fell, while the use of account transfers rose to 67 % (compared to only 50 % a year earlier).

The survey found that, although over a fifth of payments were offsets against debts in November 1999, the figure had fallen to 14 % in November 2000. Similarly, the share of IOUs and other promissory notes fell to 8 % (14 % a year earlier). The share of barter fell to just 3 % (down from 8 % a year earlier). According to Russia's economic barometer survey, the share of barter among industrial firms was still around 20 % last autumn, although it, too, had fallen from about a third at end-1999.

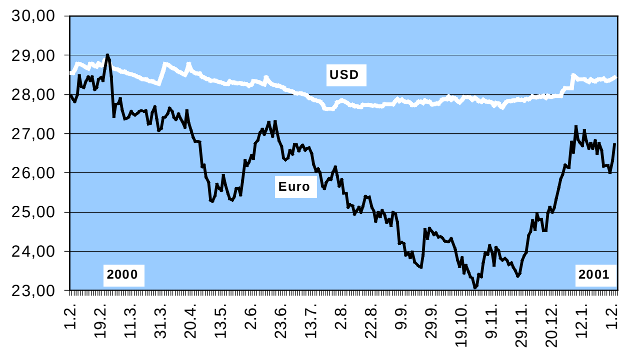
Land ownership question moves ahead in Duma. Last Friday (26 Jan.), Russia's lower-house Duma approved the first reading of a revised amendment to Russia's civil code. The amendment concerns the implementation of chapter 17 of the civil code, which deals with land ownership. The Duma rejected an earlier amendment in December. Reading of the new amendment was allowed after the Duma agreed to exclude agricultural land from the proposal until Russia's land code is approved.

Implementation of Latvia's business act postponed to the beginning of April. A law on business practices in accordance with EU directives was approved last April. It replaces several laws governing business conduct and unifies their principles. Among other things, the new law reduces the number of allowed business forms and requires certain types of companies to amend their articles and business registration information. Inadvertently, the changes put quite a load on the business register. Thus, parliament delayed introduction of the act until the beginning of April to give time to arrange adequate resources. The business act should have come into force at the start of this year.

Lithuania's economy recovered last year. Preliminary figures released by the Statistics Lithuania indicate that Lithuania's GDP grew 2.9 % last year. GDP contracted 4.2 % in 1999 in the aftermath of Russia's 1998 financial crisis. Industrial output rose 7 % last year. Agricultural output also grew by 2 %, after having fallen 14 % in 1999. Lithuanian GDP in 2000 was estimated at LTL 44.9 billion (USD 11.2 billion). GDP per capita was about USD 3,000 based on the official rate. Naturally, per capita GDP measured in terms of buying power parity was higher.

Preliminary estimates also indicate that last year GDP rose nearly 6 % in Estonia and 5.5 % in Latvia.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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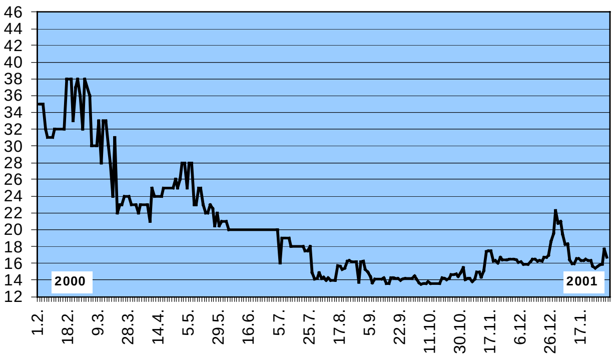
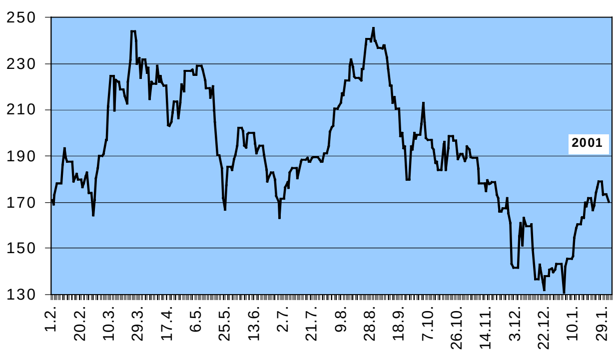
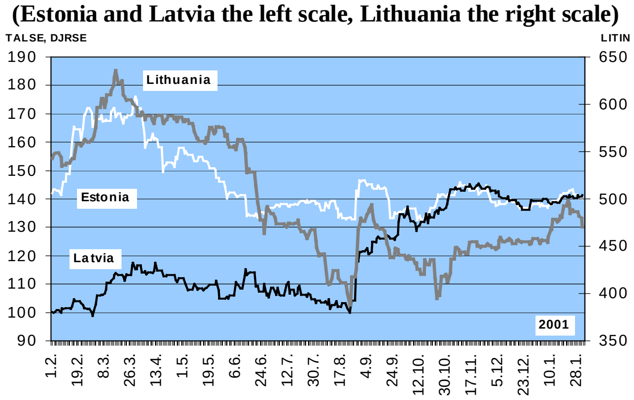


Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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BANK OF FINLAND
BOFIT
February 9, 2001

Russian & Baltic Economies
The Week in Review
6•2001

Russian inflation accelerated in January. Consumer prices rose 2.8 % in January, a pick-up from last autumn when inflation averaged 1.5 % a month. At the end of January, 12-months inflation was 20,6 %.

Spikes in prices are typical in January, but this year they were distinctly larger than a year ago and led to the highest monthly inflation figure since summer 1999. The greatest increase was in the prices for services (up nearly 5 %), driven by hikes in fares for public transit and residential utilities (water and heating). The seasonally adjusted rise in food prices was also relatively steep (over 3 %).

Finance ministry suggests different allocation of possible extra budget revenues. On Wednesday (7 Feb.), the finance ministry submitted to the government a proposal on allocation of possible additional revenues to the 2001 budget. The current division, which dedicates half to servicing foreign debt and half to domestic expenditures, would be modified so that a larger share would go to debt servicing. The Russian government is scheduled to hold a special session next Tuesday (13 Feb.) to discuss the finance ministry's proposal and present it to the Duma by next Friday. The proposal to direct more revenues to foreign debt servicing became actual in connection with recent discussions on Paris Club debts.

Moving ahead on Russian banking sector reform. President Vladimir **Putin** has asked prime minister Mikhail **Kasyanov** to assess and restructure during this year state holdings in commercial and investment banks, funds and financial corporations. Putin's order comes in conjunction with the Central Bank of Russia's proposal to the Duma that Russian financial institutions operate at the same level of efficiency as in advanced industrial countries within five years. Implementing the plan's numerous recommendations will require changes in the law.

The plan for state ownership seeks increased state influence and holdings in the 23 banks where the state already holds at least a 50 % stake. Of these, 15 are already under administration by the state agency for restructuring of credit institutions ARCO. Deputy finance minister Alexei **Ulyukayev** stressed that state intervention was needed to protect depositor interests and secure financing for exporters. On the other hand, the state wants to withdraw from those banks where it is a minority shareholder (469 banks at end-June 2000). At the end of last year, Russia had a total of 1,311 credit institutions.

The CBR also proposed raising the current 12 % limit on foreign participation in the Russian financial sector to 25 %, which is in accordance with WTO recommendations. Currently, foreigners own about one per cent of the Russian financial sector. In addition, the CBR wants to speed up adoption of internationally recognised accounting standards in the financial sector and has made a substantial number of proposals to improve the quality of services and make operation more efficient. The proposal also responds to IMF recommendation on improving Russia's financial sector.

Russia auctions paper to S-account holders. On 31 January, the finance ministry and the Central Bank of Russia arranged a special bond auction worth RUB 3 billion (over USD 100 million). The participants in the auction are investors whose GKO assets were frozen in 1998. Their assets are held in special S-accounts and can be used for buying new bonds. The new paper matures in six months and the resulting funds can be repatriated. About RUB 3.9 billion in offers were received, but only about RUB 2 billion of the issue was sold at the minimum nominal price. The finance ministry said another auction could be held this month, and possibly every month thereafter.

Similar short-term paper auctions worth USD 400 million were arranged for S-account holders last winter. Another official approach has been to allow foreign investors to buy dollars with their S-account roubles at specially arranged currency auctions. Such auctions were held last November and December. Currency auctions have allowed holders of S-accounts to repatriate some USD 450 million.

Russian agricultural production rose 5 % last year. Increases in meat production and larger grain and potato crops led the rise in Russian agricultural output last year. Meat production rose despite the fact that the number of cattle fell. Last year's grain harvest was 65.4 million tonnes, or nearly 20 % higher than in 1999. Agricultural output rose 2 % in 1999 from 1998.

Russian agricultural output fell throughout the 1990s, so any assessments of growth need to be considered in that context. The minor growth seen in recent years was achieved against a very low reference point. Russian agricultural output still suffers from numerous problems, including lack of capital and investment, low prices for agricultural products and confusion over land ownership.

Russian Duma wants to let current governors serve longer. On 25 January, the Duma approved an amendment to the act on formation of regional legislative and executive bodies, whereby the two-term limit for regional governors would only apply to terms starting after October 1999. Thus, if the Federation Council and the president approve the Duma's change, most current governors will have the opportunity to serve three terms, and some 20 governors will get the chance to serve four.

Estonian economy grew rapidly in 2000. The Statistical Office of Estonia reports that in the first three quarters of last year fixed-price GDP rose 6.6 % as compared to the same period in 1999. Using this as a basis, the preliminary estimates for all last year come to 6.6 – 6.8 %. The growth represents an over 50 % increase in exports last year as well as higher consumer demand (up over 13 %).

The fastest growing sectors of production were manufacturing, construction, finance, transportation and trade. The 2000 budget deficit was only 0.1 % of GDP, despite the fact that tax revenues and income from privatisation sales were less than expected. The entire public sector deficit was 0.5 % of GDP.

Estonian exports grew faster than imports. Because the reference point for export growth was relatively low, the trade deficit grew slightly from 1999. A third of Estonian exports go to Finland, while another fifth go to Sweden. Over three-quarters of Estonian exports go to EU countries. Machinery and equipment comprise a substantial share of that trade, mainly the result of extensive subcontracting. The share of CIS countries in imports rose slightly due to higher prices for oil and oil products.

Baltic freight transport rose last year. Rail freight volumes last year rose 7 % y-o-y in Estonia, 10 % in Latvia and 8 % in Lithuania. The total volumes of cargo handled in Baltic ports also rose last year. The port of Tallinn, Estonia's largest port, handled approximately 29 million tonnes of cargo last year, about 10 % more than in 1999. Latvian ports handled 6 % more cargo last year than in 1999. Freight volumes at Latvia's largest oil terminal, Ventspils, rose to about 35 million tonnes, or a couple per cent above 1999. Ventspils remains the most important terminal for Russian crude oil transhipment in the Baltic countries. Shipping volumes were also up at the port of Liepaja (27 %) and the port of Riga (11 %). Freight shipments moving through Lithuania's Klaipeda port rose to 19 million tonnes last year, or about 30 % above 1999. Most freight transported in the Baltics is transit freight, where there has been a pronounced increase in volumes of oil and oil products.

Privatisation of LASCO enters new phase. Latvia is seeking strategic investors for the Latvian Shipping Company (LASCO), offering a 68 % stake under new rules approved by the government last December. Potential buyers were given until the end of January to declare their interest in acquiring a stake in LASCO to the Latvian Privatisation Agency. From these declarants, the Latvian government will approve the potential investors to be allowed into the competitive bidding likely to be held in May. In the past five years, three privatisation sales have failed due to irregularities or lack of interest.

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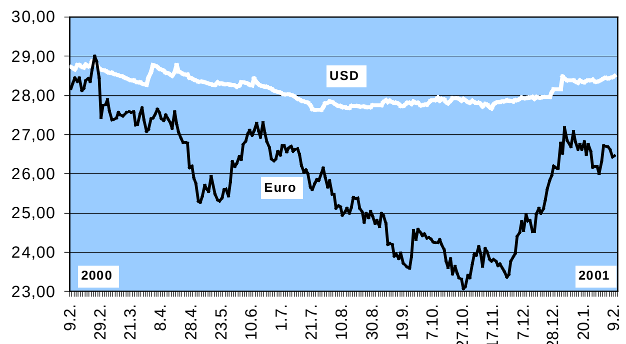

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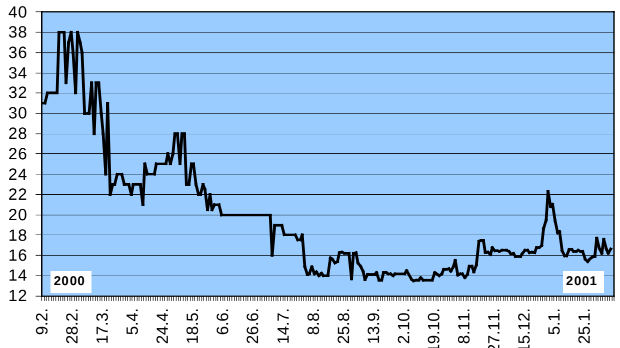

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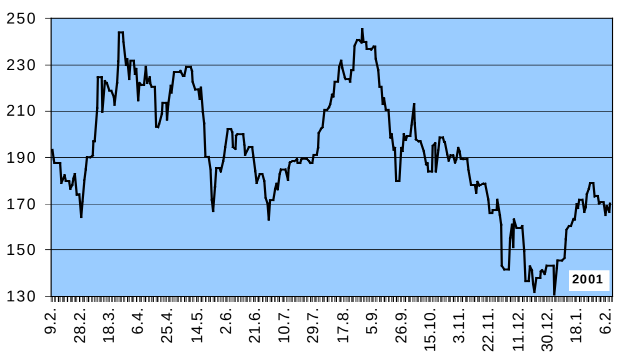

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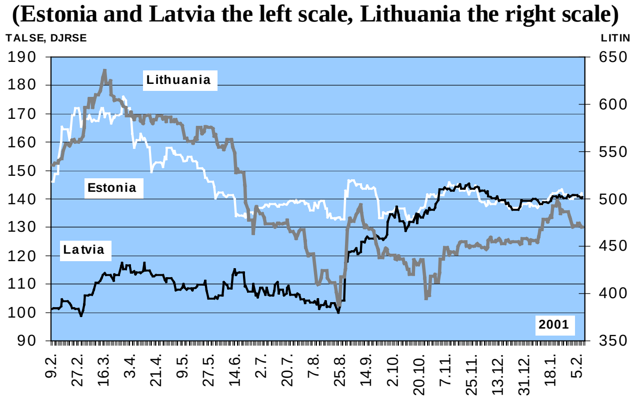

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Russian government submits to Duma its proposal on division of extra 2001 budget revenues. Russia's original 2001 budget lacked sufficient funds to cover all Paris Club payments coming due this year as Russia still held out hope for postponing at least a part of those payments. Finance minister Alexei **Kudrin** said that the budget lacks RUB 182 billion (USD 6.3 billion). Now the government is estimating additional budget revenues of RUB 107 billion this year, so it has proposed that RUB 80 billion of that be dedicated to servicing foreign debt and the remaining RUB 27 billion to augmenting public sector salaries and support to regions. The government said it could make up the rest of RUB 182 billion with RUB 33 billion in extra income unused in last year's budget, RUB 30 billion from borrowing on domestic markets, RUB 15 billion from additional privatisation revenues and RUB 24 billion from other sources such as taxes and property leasing.

The government proposal is based on a proposal submitted by the finance ministry last week. The Duma is expected to take up the matter next week. According to preliminary information, the Duma is likely to oppose the government's proposal as it substantially departs from already agreed rules on division of extra budget income. Currently, all extra up to RUB 70 billion (USD 2.4 billion) should be divided evenly between servicing foreign debt and other expenditures. Extra revenues above the 70 billion level should be divided in a ratio of 70 % to servicing foreign debt and 30 % to other spending.

World Bank raising lending limit for Russia. The World Bank has lifted its lending limit to Russia for the next fiscal year (2001-2002) to USD 600 million. The previous limit of USD 150 million was set in December 1999 as part of the Bank's operating strategy for Russia. The Bank's decision to increase the limit was influenced by Russia's improved economic situation and political stability, which in turn has improved the outlook for the Bank's programs and projects. A number of bank projects in Russia were also cancelled in the past year and a half, while there were delays in other projects and the disbursements of related loans. The higher limit will make room for new projects, but does not actually increase the amount of World Bank's total portfolio in Russia. Implementation of new projects will depend on such factors as Russian progress in reforms and Russia's borrowing needs. If Russia carries out more improvements, the credit limit for 2001-2002 could be raised to around USD 1 billion.

The World Bank focuses on systematic and institutional reforms in Russia. Its financial support is intended for use in reform of public administration, promoting enterprise restructuring, strengthening the financial sector, improving the investment climate, and developing the social security system and infrastructure for health care and education.

The World Bank has granted loans to Russia since 1992. The value of the World Bank's commitments to projects in Russia is valued at over USD 10 billion. The World Bank has so far paid out over USD 7 billion to Russia to implement these projects.

Six countries sign joint agreement on integrating electrical power distribution. Power companies from Russia, Estonia, Latvia, Lithuania, Belarus and Ukraine have signed a joint agreement on cooperation in development of their national power grids to allow for cross-border sale of electricity to other members of the agreement. One obstacle to the agreement involved working out the compensation clause in case of a party´s withdrawal. Agreement was ultimately reached by moderating the compensation obligation for parties. Last year Lithuania's conservative government blocked the agreement over concerns that the compensation clause might interfere with the country's plans to integrate their national grid into the western European power grid.

Ukraine also found the agreement problematic. Russian-produced electricity is substantially cheaper than Ukrainian-produced electricity, which poses a real threat to Ukraine's electricity production monopoly. For this reason, Ukraine initially was only willing to open a portion of its market to Russian electricity, but eventually agreed to the same conditions as all others. Thus Ukraine can complement its own production with power from the Russian power grid. Russian power transmission to Ukraine was interrupted in June 1999 due to unpaid bills and technical problems. Russia now promises to forgive half of Ukraine's current electricity bill to some USD 60 million if Ukraine agrees to pay 100 % in cash from now on.

Russia and the Baltics share the strategic goal of joining their power grid with western Europe via Poland. Lithuania's power company Lietuvos Energija has held preliminary negotiations with Polish power company PSE. The integrating of their power grids is expected to cost around USD 400 million. Anatoli **Chubais,** the chairman of the Russian UES (Unified Energy System), stated that integration with the western European power grid is hardly likely to happen soon given the expense. Mr. Chubais said that this six-country agreement basically provides a codification of the rules which have been followed since the Soviet era and continued to this day.

Estonia posts highest January inflation among Baltic countries. The 12-month change in consumer prices in January was 5.8 % in Estonia and 1.3 % in Latvia. In Lithuania, prices fell 0.3 % y-o-y. In Estonia, the rise in consumer prices accelerated at the beginning of this year due to hikes in regulated prices related to housing. In Latvia, higher food prices, increased water and sewer fees, and postage hikes drove inflation. The January decrease in Lithuanian consumer prices was due to lower transport costs, as well as lower energy prices. At the start of the year, each Baltic country readjusted their CPI components to account for shifts in consumption patterns.

Baltic bank balance sheets expanded last year. Favourable economic developments last year helped to increase bank deposits and bank lending throughout the Baltics. At the end of 2000, the Estonian banking system had total assets of EEK 57.8 billion (USD 3.3 billion), while the Latvian banking system had assets of LVL 2.7 billion (USD 4.3 billion) and Lithuania LTL 13.1 billion (USD 3.3 billion). The growth of consolidated balance sheets was remarkably rapid last year. Total bank assets swelled 22.9 % in Estonia and 37.5 % in Latvia. The consolidated balance sheet of Lithuanian banks rose 16.4 % in 2000.

Presidents of Russia and Latvia met last week in Austria. The presidents of Latvia and Russia met last Saturday (10 Feb.) for the first time since 1994. The topics discussed by presidents Vladimir **Putin** and Vaira **Vike-Freiberga** focused on the status of Latvia's Russian-speaking minority, which has contributed to frosty relations between the countries. Both countries are willing to improve relations. Russia charges that Russian population in Latvia is discriminated against, due, among other things, to the country's strict language law. Mr. Putin hoped that Latvia could ease the language requirement of Russian-speaking pensioners when they wish to acquire citizenship. Latvia's language law, which establishes Latvian as the country's sole official language, has been a source of controversy even though it has been approved by international organisations. A third of Latvia's 2.4 million people speak Russian as their mother tongue.

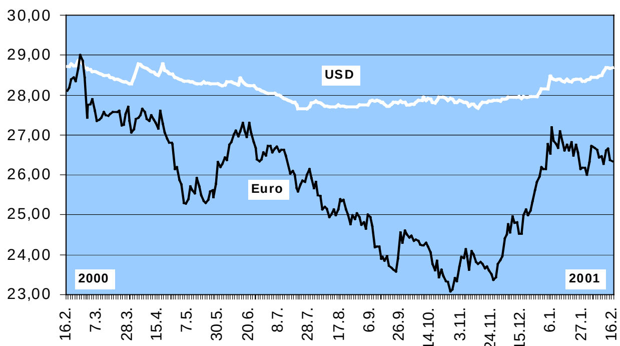
IMF mission will hold off on release of next loan tranche to Ukraine. Last week, the IMF mission to Ukraine announced that on the basis of its findings it would recommend that the IMF board withhold the release of the next scheduled tranche (USD 187 million) which is part of a USD 2.6 billion program. Ukrainian prime minister Viktor **Yushchenko** said he would provide the IMF this month with a letter describing his country's economic reforms.

According to IMF representatives, Ukraine's four problem areas are natural gas payments, banking sector reform, transparency in privatisation sales, and its plans to forgive and defer late taxes. To continue the IMF program, Ukraine also needs to improve collection of electricity bills, settle payments between the government and oil and gas sector, and substantially lower the export tariff on sunflower seeds.

The three-year economic program agreed between the Ukraine and the IMF was on hold between September 1999 and December 2000, when agreement was finally reached on continuing the program and extending it until next August.

Baltic Economies – The Quarter in Review 1/2001 and Russian Economy – The Month in Review 1/2001. Both publications are available free of charge and can be ordered from BOFIT. They are also posted on our website.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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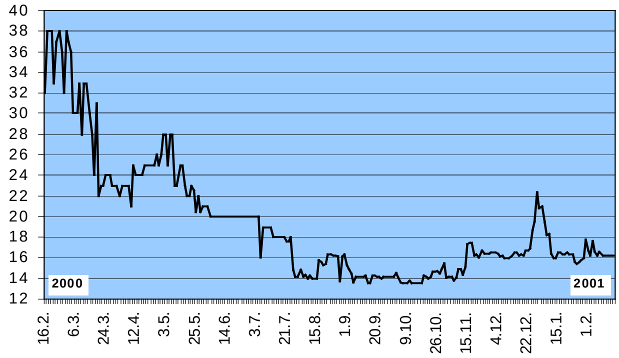

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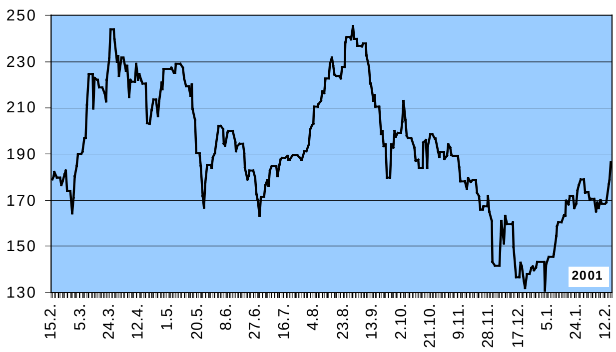

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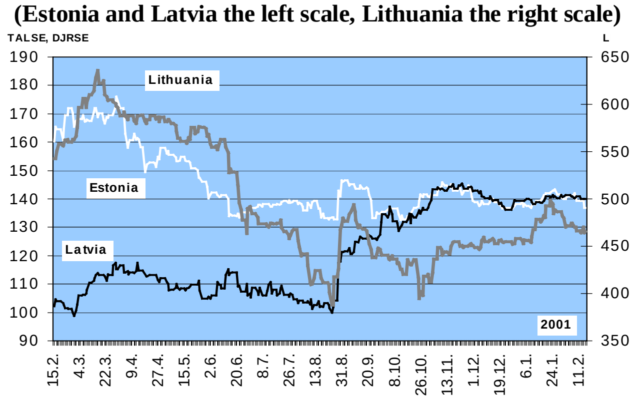

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BANK OF FINLAND
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February 23, 2001

Russian & Baltic Economies
The Week in Review
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Russia posts budget surplus of 2.5 % of GDP last year. Revenues to Russia's federal budget in 2000 amounted to RUB 1,128 billion (USD 40 billion), or 16.2 % of estimated GDP for 2000. Expenditures were RUB 954 billion (USD 34 billion), or 13.7 % of GDP. The value-added tax provided the largest single revenue stream, accounting for a third of all federal budget revenues and almost 40 % of all federal tax revenues. The largest expenditure items were defence (RUB 191 billion) and debt servicing (RUB 172 billion). The share of debt servicing costs in total expenditures was about 18 %, down from nearly a quarter in 1999. The primary budget surplus, which excludes debt servicing, was RUB 346 billion, or 5 % of the estimated GDP.

The 2000 budget act forecasted revenues of RUB 797 billion and expenditures of RUB 855 billion, with debt servicing accounting for 26 % of expenditures (RUB 222 billion). This year's budget assumes revenues of RUB 1,194 billion and debt servicing costs of about RUB 179 billion, or 15 % of expenditures.

Russian industrial output rose in January. Industrial output in January was 5.3 % higher than a year ago. The growth in industrial output accelerated from December, when the 12-month change was 2.5 %. Last year, Russian industrial output rose 9 %.

Russian real incomes up substantially in 2000. According to preliminary figures released by the State Statistics Committee, the *real incomes* of Russians grew 9.1 % in 2000, after falling 14.2 % from 1998 to 1999. The average per capita *real wage* rose 22.5 % from 1999. As of December 2000, the average monthly wage in Russia was about 3,100 roubles (109 dollars). *Pensions* rose nearly 60 % in nominal terms and 31 % in real terms last year. The average pension in December 2000 was 821 roubles (29 dollars). From the first of March, the minimum monthly pension will be increased from 470 to 600 roubles.

Change proposed to rules governing production-sharing agreements. New legislation is currently under preparation that would excuse investors in production-sharing agreements from all taxes and tariffs at the federal, regional and local level. The legislation also seeks to streamline official handling of production-sharing agreements, clarify regulations and assure continuity in production-sharing rules and tax regulations. One suggested approach to fast-tracking production-sharing deals would be to exempt small oil and gas deposits (under 25 million tonnes) from the current process of competitive bidding and auctions.

The Duma's natural resources committee does not support the passage of the draft law which would increase from 30 % to 40 % the maximum limit on Russia's oil, gas and raw material reserves that could be covered under production-sharing agreements. This, despite of the fact that current quota of 30 % is covered by existing production-sharing agreements approved by the Duma. Instead, the committee recommended increasing the pressure on investors by setting deadlines for signing agreements.

If the legislation passes the Duma and the Federation Council and the president signs it, it would not go into effect until the start of next year. Nevertheless, it would be possible to apply it to production-sharing agreements made this year. Foreign investors can also operate in the Russian energy sector without a production-sharing agreement if they purchase shares in a Russian energy company or buy an operating licence. Foreign investors generally consider purchasing operating licences a rather risky option.

EBRD wants to increase its financing to Russia. The European Bank for Reconstruction and Development's president Jean **Lemierre** said last week in Helsinki that the EBRD's goal was to grant to Russia EUR 700 million in financing this year and around EUR 1 billion next year. The EBRD provided Russia with EUR 700 million in 1997, but then cut its lending back after the Russian financial crisis to just EUR 220 million in 1999. Last year, lending recovered to EUR 570 million. Overall, the EBRD provided EUR 2.7 billion in financing to projects in 26 countries last year. Its goal this year is to increase its lending volume to EUR 3 – 3.5 billion. While the EBRD, in conjunction with other financiers, typically finances private projects, it also provides credit or participation in public sector projects.

The value of loans to Russia as of last summer was about EUR 2.4 billion, of which some EUR 1.6 billion had already been released. Some 29 % of financing granted to Russia was directed to banks or other parts of the financial sector, while 22 % went to industries that exploit natural resources, 15 % to infrastructure development (energy, water and transport sectors), and 11 % to the food industry.

The EBRD has a strategic objective of providing credit to small and medium-sized enterprises. To date, the EBRD has had good experiences with credits granted to smaller Russian businesses. Of loans granted to small and medium-sized businesses, the repayment rate, even in the wake of the 1998 financial crisis, has been over 97 %. In contrast, the EBRD is withholding further loans to gas giant Gazprom and the oil company Lukoil until it receives clarification on irregularities in corporate governance.

Lemierre announced that the EBRD wants to develop an environmental fund as a part of the EU's "Northern Dimension" initiative in cooperation with other financiers as a new financial instrument to support Russia.

The Russian party system undergoing fundamental changes. On 2 February, the Duma approved the first reading of a new act on political parties proposed by president Vladimir **Putin**. The bill seeks to get rid of tiny parties by requiring that the registration roles of legitimate parties contain at least 10,000 members. Further, every party must have a 100 member regional organisation in at least half of Russia's 89 administrative regions.

At the start of this year, Russia had 190 political organisations, of which 57 were officially registered parties. In the 1995 Duma election, there were no less than 42 election alliances and similar blocs. By the 1999 elections, the number had fallen to 26.

The principles for doling out federal support to political parties would also change. Under the president's proposal, the government would pay party support at a rate of 0.002 times the minimum wage (about 20 kopeks) per vote to any party gaining over 3 % of the vote in an election.

The bill currently before the Duma is based to a large extent on a bill president Boris **Yeltsin** refused to sign into law in 1995.

Baltics continued to post large trade deficits last year... Latvian exports in 2000 were valued at LVL 1.1 billion (USD 1.9 billion). The value of imports was LVL 1.9 billion (USD 3.2 billion). Both exports and imports rose 12.2 % from the previous year. The trade deficit amounted to nearly 20 % of estimated GDP. Exports of wood and forest products, which represented over a third of Latvian exports, increased 13 % from 1999. Exports of textiles and metal products also rose briskly. The share of Latvian exports going to EU countries continued to rise last year, and reached 65 % of total exports. Just 9 % of Latvian exports went to CIS countries.

Lithuania's exports last year amounted to LTL 15.4 billion (USD 3.9 billion) and imports LTL 21.9 billion (USD 5.5 billion). According to preliminary figures, Lithuanian exports rose 28 % y-o-y in 2000. Meanwhile, imports only rose 13 % y-o-y. Thus, Lithuania's trade deficit fell 11.8 % last year, and amounted to around 15 % of estimated GDP. The high external value of Lithuania's national currency, the litas, which is pegged to the US dollar, has been a major factor in reducing the deficit.

According to preliminary estimates, Estonia's trade deficit grew 14 % last year. It was EEK 16.7 billion (USD 1 billion) and corresponded to around 20 % of GDP.

...but budget deficits were considerably smaller. Estonia's budget deficit last year amounted to EEK 602 million (USD 36 million), or 0.7 % of estimated GDP. The deficit shrank considerably from 1999, when it hit a record EEK 3.5 billion (USD 220 million) or 4.7 % of GDP.

Latvia's public sector deficit last year was LTL 122 million (USD 200 million), or 2.8 % of GDP. The 1999 public sector deficit was 3.7 % of GDP. On 7 February, the Latvian government and the IMF agreed that this year's budget deficit should not exceed 1.75 % of GDP.

Last year Lithuania's budget deficit fell substantially from the previous year and was preliminarily estimated at 3.3 % of GDP. In 1999, the deficit was over 8 % of GDP. This year's budget foresees a deficit of 1.4 %. Measures to reduce the deficit include reducing pension expenditures and bureaucracy.

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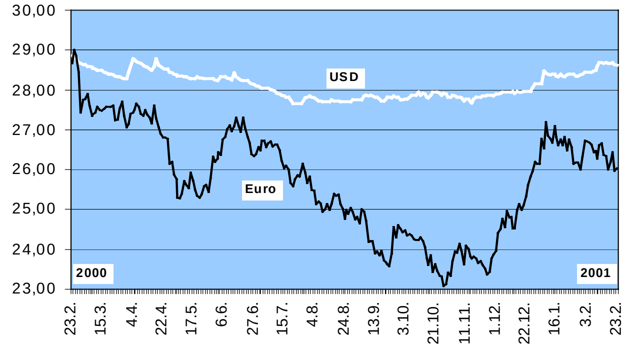

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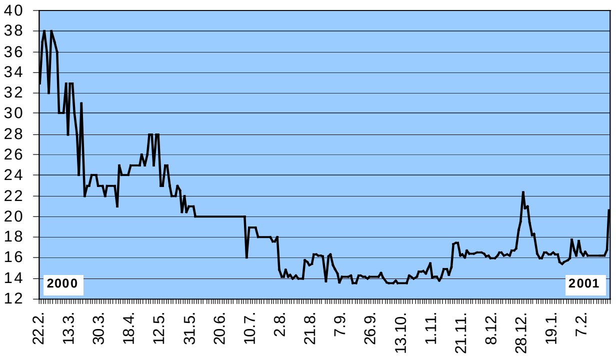

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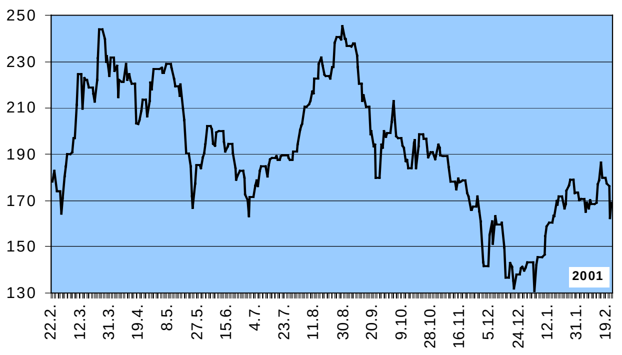

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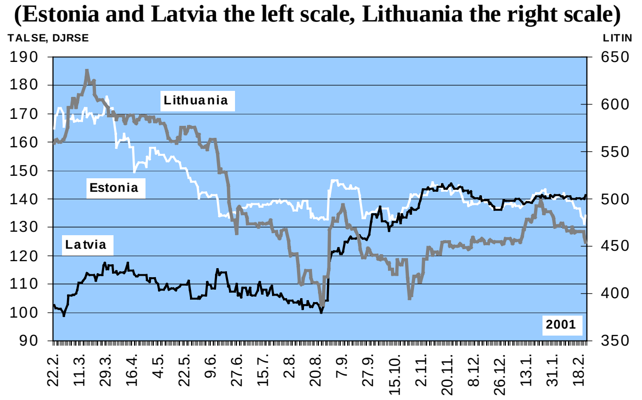

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Editor Timo Harell

Russia–IMF talks have yet to produce agreement. Representatives of the IMF and Russia convened in Moscow for the first two weeks of February to discuss the central elements of Russia's economic program. The agreement would contain a precautionary stand-by loan for Russia that the country could turn to in an economic downturn.

Unconfirmed information claims that the parties have reached common ground how the Russian economy will develop this year. This includes a projection that the world market price for Urals-grade crude will average 22.5 dollars a barrel this year, which is higher than the federal budget assumption. The IMF said agreement had been reached on the budget and monetary targets of macroeconomic policy. The IMF said the negotiations focused on changes in the Russian economic system, including the budget, reform of the banking sector, non-payments and governance. Finance minister Alexei **Kudrin** remarked that Russia and the IMF had agreed on certain prior actions, including forcing customers of natural monopolies to pay their bills on time and increasing transparency of banks and other enterprises.

The IMF has been inclined to agree on a one-year economic program. Prime minister Mikhail **Kasyanov** said Russia would prefer a three- or four-year economic program that can provide a basis for discussions with the Paris Club on further restructuring of its debt servicing.

Russia promises to service debt payments this year. Prime minister Mikhail **Kasyanov** promised last month's meeting of G-8 finance ministers that Russia will pay its debts to Paris Club creditors this year from the start of March according to schedule. He added that Russia will also pay any principal and interest it missed in January and February. Russia will also seek to service its other foreign debt this year in accordance with prevailing agreements. The IMF expressed support for the Russian government's promise.

Mr. Kasyanov noted that as part of Russia's medium-term economic program, the country will seek an agreement on how it will structure debt coming due in 2002 and 2003. The program's purpose is to implement economic policies that help Russia avoid financial crises in the coming years and assure other G-8 members, the IMF, investors and entrepreneurs of the stability of the Russian economy.

Russia and South Korea have agreed that South Korea can use at least part of its arms purchase payments to Russia in exchange for offsets of Russian debt. Russia has also proposed to Italy, Russia's second largest Paris Club creditor, that it could invest in projects in Russia using its credit to Russia as an offset. It is not clear that the proposed offsets will meet the Paris Club requirement of uniform treatment of creditors.

The Russian government has also drawn attention to the fact that this year and next year the costs of servicing its foreign debt will be slightly more than USD 13 billion, but will rise to around USD 18 billion in 2003. This is almost entirely due to rescheduled debt service payments of USD 3.5 billion of the MinFin bonds due to 2003. In contrast, the Paris Club has already allowed several restructurings of Soviet-era debt. In 2001 and 2002, Paris Club payments will represent about 29 % of Russia's total foreign debt servicing costs, but drop to less than 22 % in 2003. Despite this fact, Russia still demands postponement of its Paris Club payments coming due in the years ahead.

Russian Duma approves revisions of 2001 budget. Russia's lower-house Duma voted on 22 February to accept revisions to the 2001 budget, although not in the original form submitted by the government. In the Duma-approved version, if extra budget income stays below RUB 41 billion (USD 1.4 billion), all extra income will go to servicing foreign debt. All extra income above that limit but less than RUB 165 billion will be split evenly between servicing foreign debt and other expenditures. All income above RUB 165 billion would again go to foreign debt servicing. The government estimates that extra income this year will reach RUB 107 billion (USD 4 billion). The extra income will materialise if the average world price for crude oil exceeds 21 dollars a barrel as assumed in this year's budget. The Duma also rejected the government's proposal to raise some RUB 15 billion this year on privatisation sales. The upper-house Federation Council must also approve the changes before they become law.

Complications in privatisation sales of Estonian railways. The privatisation sale of Eesti Raudtee, Estonia's state freight rail carrier was postponed when the Estonian RER consortium (Raudtee Erastamise Rahva AS) took the arrangers of the bidding to court. RER claims that the winner of the bidding competition, the US-based Rail-Estonia consortium, failed to qualify as a strategic investor. RailEstonia and the Estonian privatisation agency had been expected to sign their deal by 28 February, but the negotiations fell through. The privatisation agency said it will now seek discussions with the second place winner in the bidding, Baltic Rail Service, a consortium of US, British and Estonian investors. The privatisation process can be detailed after the arbitration court holds its hearings.

Last November, the UK-based GB Railways bought all the shares in Edelraudtee, which is responsible for Estonia's domestic rail passenger services. Under the original terms of the sale, GB Railways was to double Edelraudtee's share capital by the end of February. Estonia's privatisation agency has now extended that deadline to the start of June. Edelraudtee plans from this weekend on to eliminate unprofitable passenger lines in northeastern and southern Estonia, because the Estonian government has been unwilling to provide adequate subsidies to justify keeping the lines open. After the change, bus lines would handle passenger traffic in these regions.

Helsinki stock exchange parent to buy majority interest in Tallinn bourse. The company that owns the Helsinki stock exchange, the HEX group, seeks to acquire a majority stake in the Tallinn stock exchange. The deal involves HEX group's purchase of shares from the Tallinn bourse's existing shareholders, as well as a directed share emission. If the deal goes through, shares listed on the Tallinn exchange could also be traded on the Helsinki stock exchange. This development is hoped to increase investor access to shares of Estonian firms. The board of the Tallinn exchange recommended approval of HEX's offer.

Although the Baltic bourses had previously committed to cooperation with the NOREX alliance led by the Stockholm stock exchange, HEX's acquisition of the Tallinn bourse would effectively doom cooperation with NOREX. The Helsinki Stock market has also preliminarily announced interest in increasing its cooperation with the Riga and Vilnius exchanges.

SEB–Swedbank merger could bring changes to Baltic banking. Two major Swedish banks, SEB and Swedbank, announced merger plans last week. If the merger goes through, the new bank, SEB Swedbank, would completely own Estonia's second largest bank Ühispank, as well as the majority stake in Hansapank, the largest Baltic bank. The Estonian central bank has already announced that it opposes the merger of the two banks, because they would control over 80 % of the Estonian banking market after the merger. It now appears that the Bank of Estonia will force SEB-Swedbank to sell one of their Estonian banks.

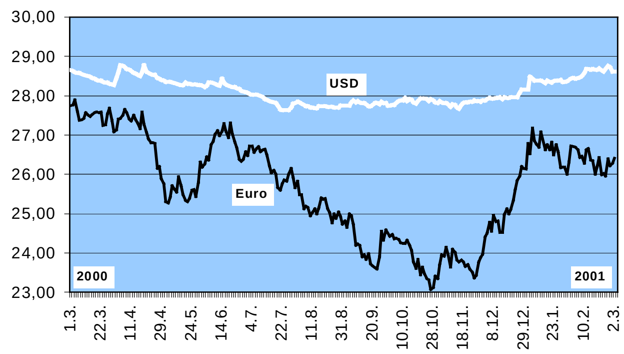
If SEB-Swedbank retains control of Hansapank, Hansapank's subsidiaries in Latvia and Lithuania could be merged with banks SEB already owns. SEB effectively owns Latvia's second largest bank, Unibanka, as well as Lithuania's largest bank, Vilniaus Bankas. Hansapank's Latvian subsidiary is the country's third largest bank, while its Lithuania subsidiary is the country's sixth largest. Lithuania's central bank also warned that if the new Swedish giant keeps its share in Hansapank, it would block the sale of Taupomasis Bankas (Savings Bank) to Hansapank. In that case, Lithuania would have to arrange a new privatisation auction for Taupomasis Bankas.

Baltic industrial output rose last year. After substantial declines in 1999, the industrial output of Baltic countries grew in 2000. The real value of sales of Estonian industrial production rose 9.1 %. The biggest increases were registered in manufacture of machinery, communications equipment and optical and precision instruments.

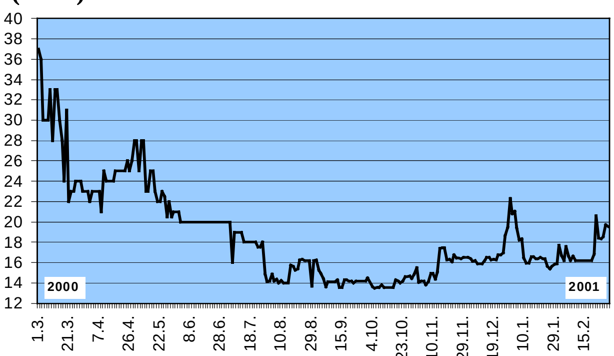
Latvian industrial output rose 3.2 %, while manufacturing grew nearly 5 %. Energy production, however, fell.

Lithuanian industrial output increased 7 %. Among the main areas of production in the Lithuanian economy, textiles, wood and chemicals grew briskly. On the other hand, a lack of crude oil deliveries from Russia reduced oil-refining activity.

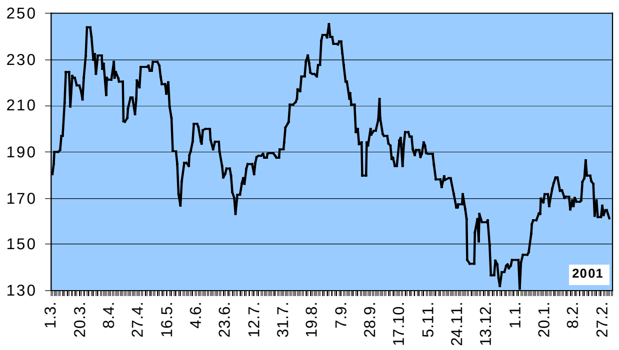
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



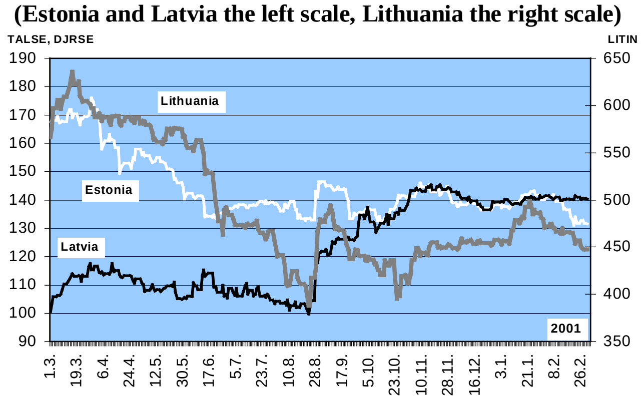
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russian & Baltic Economies
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10•2001

On-year change in Russian consumer prices was 22.2 % in February. February consumer prices were up 2.3 % m-o-m, down from 2.8 % m-o-m in January. The sharpest rise was registered in paid services, up 4.3 % from January. The Russian government's inflation target for this year is 12 %.

Russian exports and imports up last year. The State Statistics Committee reports that Russian exports in 2000 increased 39 % to USD 105 billion. Imports were valued at USD 44 billion, an on-year increase of 12 %. Imports, as registered with the State Customs Committee, amounted to only USD 34 billion, which meant that about a quarter of imports estimated by the Statistics Committee went unregistered. Russia's trade surplus was USD 61 billion last year. In the fourth quarter of 2000, exports growth slowed to 20 % y-o-y. Import growth accelerated last year from end-summer and in Q4 2000 was about 20 % y-o-y.

Exports to non-CIS countries rose 42 % to over USD 90 billion. Imports grew 6 % to about USD 31 billion. Exports to CIS countries rose 21 % to nearly USD 15 billion. Imports from CIS countries rose 28 % to around USD 13 billion.

Russian arms exports on the rise. The value of Russian arms exports last year was about USD 4 billion, up from USD 3.5 billion in 1999 and about USD 2.7 billion in 1998. Russia arms exports were at their lowest in 1994, just USD 1.7 billion.

The Putin administration has actively promoted new weapons deals with e.g. Greece, Iran, Vietnam, South Korea, Cuba and most recently Nigeria. Russia's largest arms deals are currently with China (over half of all Russian arms exports last year) and India (about 20 % of Russian arms exports). Other buyers are found in the Near East, the Arab emirates, Algeria, Belarus and Vietnam. According to Viktor **Komardin**, the deputy managing director of Rosoboronexport, which handles Russian arms exports, India's share of weapons deliveries should rise to about a third of all Russian arms exports this year. Russia is estimated currently to have arms deals on the books worth around USD 10 billion. This value could soon rise to USD 13 – 14 billion if further deals are signed. The main sales items are jet fighters, helicopters, air defence systems, tanks and various military vessels.

Deputy prime minister Ilya **Klebanov**, who is responsible for improving the efficiency of Russia's military-industrial complex, is currently grouping some 1,700 military-industrial enterprises (most operating well below capacity) under holding companies. He noted that the most acute problem he faces at the moment is the reorganisation and streamlining of production at some 300 aircraft plants. In order to finance modernisation of military industrial enterprises, the government is considering a 6.5 % export tax and an additional 3.5 % surcharge on all arms exports.

The share of machinery and equipment of total Russian exports in 2000 was about 8 %. Of this, arms represented about half. Of the total world arms trade in 1999, which was worth about USD 21 billion, Russia accounted for 15 %. The Unites States dominated with a 51 % share.

Duma Communists push vote of no confidence in the government. The Communists continue to decry the government of Mikhail **Kasyanov** for five major faux pas: this year's budget, proposed changes to labour laws, the government's land code proposal, poor decisions in privatising state assets and reforms of natural monopolies, and also the current crisis in education, science and culture.

The Unity party, which is allied with president Vladimir **Putin**, made the surprising announcement that it would support the Communists call for a no-confidence vote, but noted that its goal was not to oust the government, but rather increase its number of deputies if new Duma elections are called. If the president does not dismiss the government after a successful no-confidence vote in the Duma, and if within three months the Duma passes a second no-confidence vote against the government, the Russian constitution requires the president to either dismiss the cabinet or disband the Duma.

Most observers doubt the no-confidence vote scheduled for 14 March will carry and consider it mainly a Communist publicity stunt.

Russia plans Vnesheconombank reform. Vnesheconombank, which e.g. administers the foreign debt payments for both Russia and the former Soviet Union, has prepared a plan to reform its operations. Under the plan, the bank would be divided in half. Regular banking services would be transferred to Roseximbank, which now handles the state's foreign payments transfers. After the transfer, Roseximbank would be renamed as Vnesheconombank of Russia. The new bank would have a base capitalisation of USD 800 – 900 million. If realised, the new bank, in terms of equity capital, would become Russia's third largest bank. The old Vnesheconombank would continue to service Russian state foreign debt, and eventually change its name to DARF (*Dolgovoe agentstvo Rossiyskoi Federatsii*).

Vnesheconombank submitted its plan to the government last month. In addition, several ministries were asked to submit comments on the plan by next week. The finance ministry supports much of Vnesheconombank's plan and has itself prepared a plan for reform of Russian foreign and domestic debt management. The finance ministry also wants servicing of state debt concentrated under one roof. The finance ministry, the CBR and Vnesheconombank are currently responsible for different aspects of debt servicing.

Baltic gross salaries rose last year. The average gross monthly salary in Estonia in Q4 2000 was 5,300 kroons (about 300 dollars), which was 10 % higher than a year earlier. The average monthly old-age pension fell slightly from 1999, and averaged 1,500 kroons in Q3 2000. The subsistence minimum was estimated at around 1,200 kroons a month.

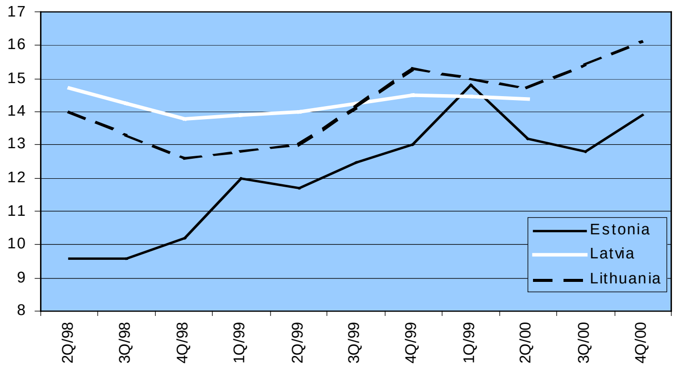
Although Latvia's average gross salary rose 6 % last year, it remained the lowest in the Baltics. The average monthly salary was 150 lats (250 dollars). Real wages rose 3 % y-o-y in Latvia. The average old-age pension in Q3 2000 was less than 60 lats a month, and well below the subsistence minimum, estimated at slightly more than 80 lats a month.

The average gross monthly salary in Lithuania last December was 1,100 litas (280 dollars). Real incomes were 3 % lower than in December 1999. The average monthly old-age pension was slightly more than 300 litas, remaining at the same level as a year earlier. The subsistence minimum in Lithuania was calculated at 125 litas.

Unemployment on the rise in Estonia and Lithuania. The quarterly labour force survey of the Statistical Office of Estonia found that the unemployment rate in the fourth quarter of last year was 13.9 %. Estonia's highest unemployment was in the northeastern part of the country, while the lowest was in western regions. Latvian unemployment last May (the most recent available data) was 14.4 %. Lithuanian unemployment rose to a record level at the end of last year – 16.1 %.

Monthly figures for registered unemployed in the Baltics are not comparable. Estonia's number of registered unemployed rose to a record level in January, up more than 20 % higher from a year earlier. The unemployment rate based on the number of registered unemployed in Latvia has fallen slowly since last spring and in January was 7.9 % (9.1 % in January 2000). The unemployment rate in Lithuania at the beginning of March was 13.2 % (11.2 % in March 2000).

Unemployment rates (ILO) in the Baltics, %



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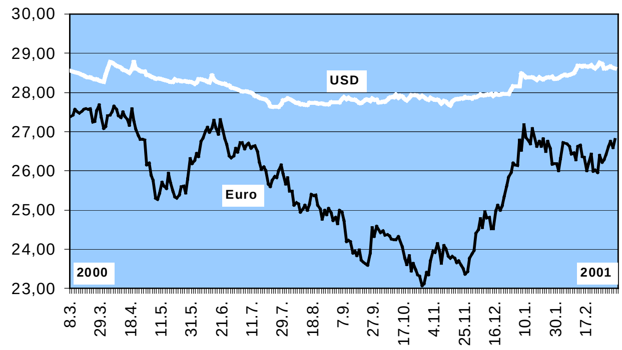

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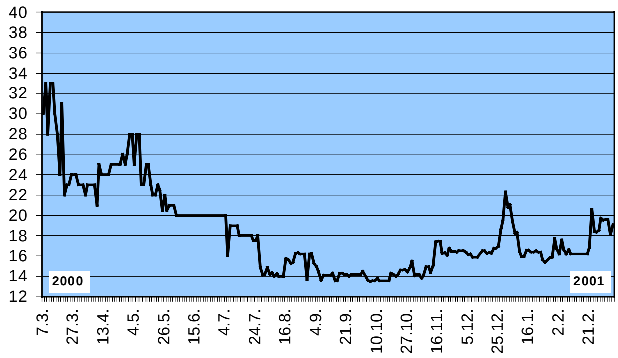
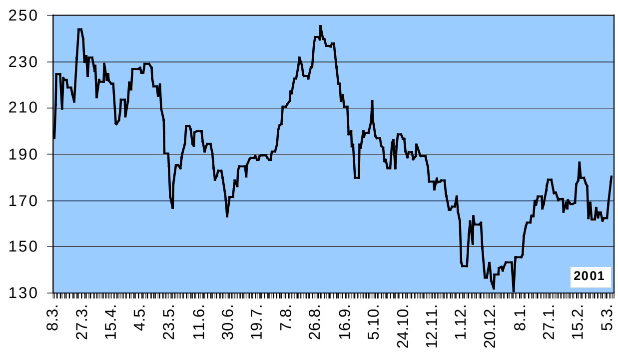
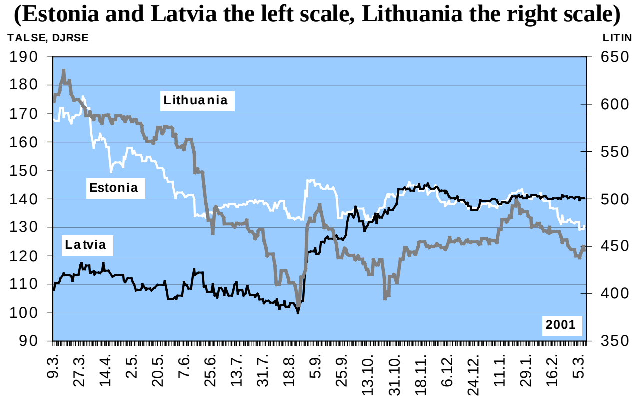


Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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March 16, 2001

Russian & Baltic Economies
The Week in Review
11•2001

No-confidence vote in Duma flops. Wednesday's (14 Mar.) Communist-led vote of no-confidence against the government of Mikhail **Kasyanov** won support from just 127 deputies, far fewer than the 226 votes needed to pass. 76 deputies opposed the resolution, while five abstained. Only 208 of the Duma's 450 representatives participated in the vote.

Russian budget shows deficit for first two months of this year. Preliminary figures released by Russia's finance ministry showed a budget deficit of nearly RUB 15 billion, or about 1.2 % of GDP, for the first two months of this year. Revenues amounted to RUB 200 billion, while expenditures were RUB 215 billion. The deficit was attributed to higher-than-anticipated foreign debt servicing payments to Paris Club creditors. The budget showed a surplus in January, before heading far into the red in February. Indeed, the budget showed a deficit despite healthy tax revenues (which account for the lion's share of budget income) well above target for January and February. The finance ministry said that the February budget deficit was financed with reserves held over from last year.

At the end of February, the Duma approved its own version of amendments to this year's budget originally proposed by the government. On Wednesday (14 Mar.), the Federation Council voted overwhelmingly to support the Duma's version of amendments to the 2001 budget. The amendments allocate most of Russia's extra budget revenue to servicing foreign debt.

Investment flows to and from Russia increase. The State Statistics Committee reports that foreign investment flows into Russia in 2000 amounted to USD 11 billion, up nearly 15 % from 1999. Lending from foreign sources accounted for about 58 % of foreign investment inflows. Foreign direct investments of USD 4.4 billion accounted for 40 %, up 4 % from 1999. Portfolio investments represented about 1 %.

Some 52 % of foreign investments were directed towards industry, while 16 % went to retail and distribution. Industrial investments went mainly to the food industry, metals refining, machinery building and metals fabrication. Other investments were targeted at transport, telecommunications and administration.

About 37 % of all foreign investment went to firms based in Moscow. St. Petersburg received nearly 11 %.

The stock of foreign investments into Russia at the end of last year was USD 32 billion, of which half were FDI, 48 % credits and the remainder portfolio investments.

According to the State Statistics Committee, investments outflows from Russia totalled USD 15 billion, a nearly 90 % increase from 1999. The growth was mainly due to some USD 12.6 billion deposited in banks abroad. These accounted for 83 % of all investment outflows from Russia. Another 14 % came from trade credits abroad. Russian FDI in the rest of the world amounted to just USD 0.4 billion, only half of the amount in 1999 and just 3 % of all investment outflows.

The State Statistics Committee also reported that the stock of Russian investments abroad at the end of last year was USD 2.9 billion, of which two-thirds were FDI.

Russian government lifts export restrictions on heavy fuel oil. On 6 March, the Russian government abandoned the export quota on heavy fuel oil it imposed last August. At the end of February, it had raised the quota from 20 % to 25 %. The export quota was abolished retroactively from the beginning of this month. The purpose of the quota was to secure a sufficient supply of heavy fuel oil during the winter to meet Russia's needs. Now there is more heavy fuel oil in storage in Russia than the country needs. The government announced that it will try to refrain from such restrictions in the oil sector in the future.

Stalemate in dividing up the Caspian Sea. Discussions related to demarcation of the Caspian Sea's surface, waters, and the sea bottom among the five countries on its shores took a new twist on Monday (12 Mar.), when Russian president Vladimir **Putin** and Iranian president Mohammed **Khatami** signed a general statement declaring that neither country officially recognises any current treaties on demarcation of the Caspian Sea. Russia, however, has already signed treaties with Kazakhstan and Azerbaijan on exploitation of the continental shelf. Iran earlier has appealed to its 1921 and 1941 demarcation treaties with the Soviet Union.

The parties justified their stance by noting the potential ecological risks associated with the plans of Western companies to lay gas and oil pipelines across the Caspian. However, most obviously Russia tries to maintain a price and transportation monopoly on gas and oil. Russia is now threatened with transit of cheaper oil and gas from Kazakhstan and Turkmenistan to Western Europe via a route that will bypass Russia, crossing instead to seaside terminals either in Georgia or Ceyhan, Turkey.

Last January, Russia refused to ratify a version of the Energy Charter Treaty that would have permitted oil and gas transit from Kazakhstan and Turkmenistan through Russian pipelines. Currently, Russia buys oil and gas produced in Central Asia, pipes it through its own network, and sells it in Western Europe as its own product. Gazprom representative Yuri **Komarov** said that Russian gas and oil are not competitive with gas and oil from Central Asia, and he expects that allowing transit from Central Asia onto the European market through or bypassing Russia would reduce Gazprom's sales revenue by a third.

Inflation remains moderate in Latvia and Lithuania. Estonian consumer prices in February were 6.1 % higher than a year earlier. This was the highest 12-month inflation figure posted in Estonia since December 1998. The monthly rise in consumer prices in February was 0.3 %.

The higher prices in February were driven by a rise in food prices and higher housing costs.

Latvian consumer prices in February rose 0.7 % compared to February 1999. February consumer prices were down 0.2 % on month, due mainly to a drop in clothing and shoe prices.

Lithuanian consumer prices in February were 0.2 % lower than a year earlier. February consumer prices rose 0.2 % on month, however. The largest moves in the February CPI were a jump in food prices and a drop in clothing and shoe prices.

Left rolls to victory in Latvian municipal elections. In last Sunday's (11 Mar.) municipal elections in Latvia, leftist parties in many constituencies took more votes than parties in the current centre-right government. In the capital Riga, the Social Democratic Workers' Party took 23 % of the vote, while the union of leftist forces PCTVL (For Human Rights in a United Latvia) received 21 % of the vote. Of the government parties, the right-wing For Fatherland and Freedom garnered 17 % of the vote in Riga, while the centrist People's Party and Latvia's Way both took about 10 % shares. Nearly 62 % of Latvia's eligible voters turned out for the municipal elections, but foreigners who are permanent residents in the country were not permitted to vote. Approximately 4,300 persons from 552 constituencies were elected to municipal councils. According to observers, the outcome of municipal elections may indicate the outcome of Latvia's upcoming parliamentary elections in autumn 2002.

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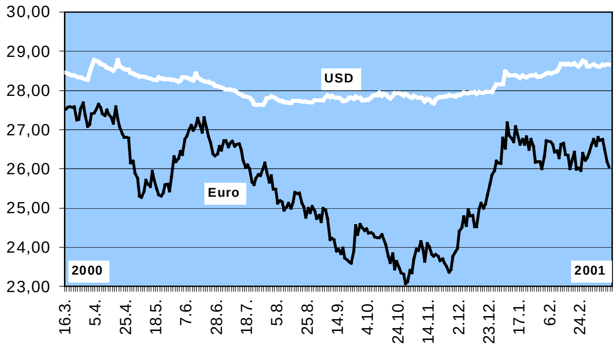
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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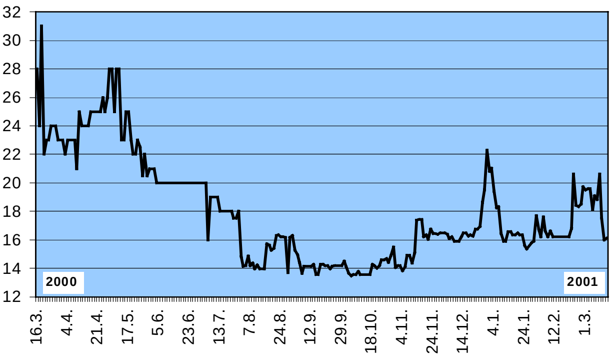
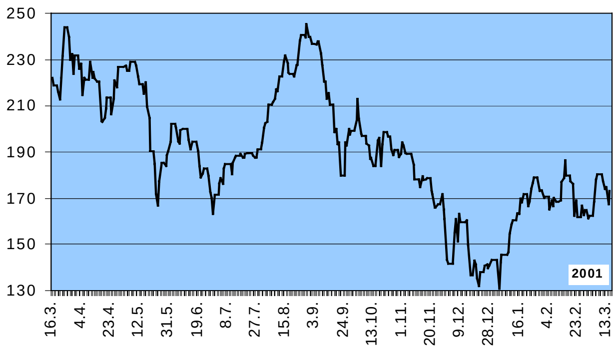


Russian share prices (RTS)



Baltic share prices
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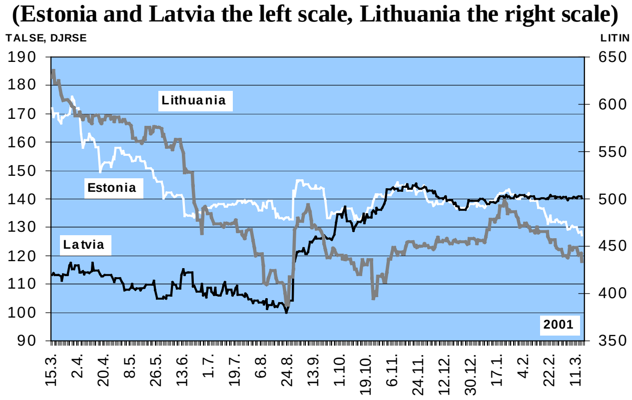

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BANK OF FINLAND
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Russian & Baltic Economies
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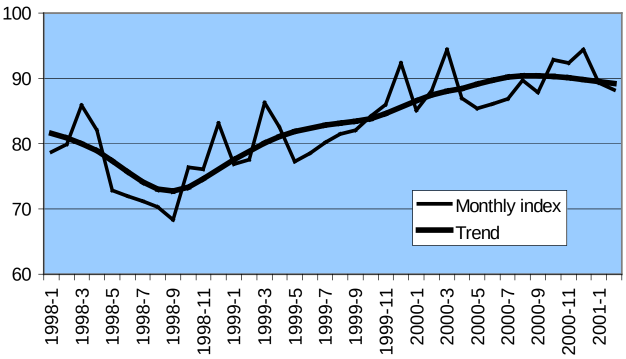
12•2001

Russian industrial output growth slows in February. After rising 5.3 % y-o-y in January, Russian industrial output in February slowed to 0.8 % y-o-y. For January-February industrial output grew 3.1 % compared to the same period a year earlier. February showed a –1.3 % drop from January.

Russian industrial output (1993/12 = 100)



Legislation on land ownership moves ahead in Duma. On Wednesday (21 Mar.), the Duma accepted second and third readings of an amendment to Russia's civil code. The change, which affects chapter 17 of the civil code, pertains to the citizens' right to own land, and in practice gives the right to buy and sell it. Although the Communists and Agrarian parties earlier strongly criticised the change, the new readings in the Duma became possible after deputies agreed that the chapter 17 statutes on agricultural land will only enter into force after Russia's land code is approved. The amendment now moves to the Federation Council for consideration.

Russian government lowers export tariff on crude oil. Effective from last Friday (16 Mar.), the export tariff on crude oil was lowered from 48 euros per tonne to 22 euros per tonne. The tariff was lowered in response to the fall in oil prices on world markets.

Russia's population continues to fall. The State Statistics Committee reports that Russia's population at the beginning of this year was slightly below 145 million. The Committee predicted that Russia's population could decline rapidly in coming years in Russia due to the low birth rate (women of child-bearing age have only 1.2 children on average) and a high death rate. In 1999, for every 1,000 Russians, 8.4 children were born and 14.7 persons died. If the trend continues, Russia's population will shrink to 138 million in 2010 and just 94 million in 2050. Some estimates find that the number of persons retiring will exceed the number of persons entering the workforce already in 2006.

Factors driving the low birth rate include uncertainty about living conditions, high infertility and extensive reliance on abortion as a form of birth control. Notably, the leading causes of death in Russian men include heart disease, accidents and alcoholism. The low birth rate and high death rate are also reflected in Russian life expectancies: 72 years for women and just 59 years for men.

Estonia's current account deficit rose last year. Estonia's *current account* deficit in 2000 was EEK 5.7 billion (USD 330 million) or 6.8 % of estimated GDP. The current account deficit in 1999 was 5.8 % of GDP.

Estonia's *trade* deficit last year equalled some 16 % of GDP, the lowest level since 1994. Estonian exports rose 55 %, while imports increased 43 %. Estonia's main trading partners were Finland and Sweden. Over 70 % of Estonian foreign trade was with the EU last year. Equipment and machinery dominated both exports and imports. Other key export goods included clothing, and wood and paper products. A strong indication of the openness of the Estonian economy was the fact that the value of foreign trade was one-and-a-half times larger than Estonian GDP last year.

For several years now Estonia's trade deficit in goods has been partly compensated by large surpluses in the balance of services. Last year the services surplus rose to nearly EEK 10 billion, driven by transport, travel, financing, construction and information technology.

The current account deficit was covered by nearly EEK 7 billion (USD 400 million) in foreign direct investment, an increase of some 50 % from 1999. The amount of FDI from Estonia doubled last year to EEK 2.7 billion.

Tallinn bourse accepts offer from Helsinki stock exchange. A shareholders' meeting of the Tallinn stock exchange company on Wednesday (21 Mar.) voted to accept an offer to sell the majority stake to the HEX group. Cooperation between the Helsinki and Tallinn bourses will now increase and later this year the trading system used by the Helsinki exchange will be introduced on the Tallinn exchange. The move is expected to increase trading volumes on the Tallinn exchange, which this year have averaged about EEK 16 million (USD 0.9 million) daily.

Lithuania's new bankruptcy law goes into force at the start of July. Lithuania's parliament, the Seimas, has approved an act simplifying the bankruptcy procedures. Under the new law, a firm may file for bankruptcy when its debt commitments exceed half its assets. The current law only permits filings for bankruptcy when the firm's debt commitments exceed its assets. The new law is expected to double the number of bankruptcy filings this year to as many as 800. In the worst case, it could represent a loss of some 15,000 to 20,000 jobs. While the law could increase the country's already high unemployment rate and depress domestic demand in the short term, observers expect the reform to improve the country's international competitiveness in the medium term. The new bankruptcy law, which also takes into account EU legislation, is widely considered an essential part of the country's economic reforms. In its decision to grant a structural adjustment loan to Lithuania last August, the World Bank included reform of bankruptcy procedure as a condition. If the president signs the bill, it will take effect on 1 July.

The parliament also approved a company restructuring bill designed to support firms with temporary liquidity problems. Companies eligible for restructuring are those that are not going bankrupt, but are unable to pay their creditors within three months after the due date on their invoices. Restructuring requires the consent of creditors and must be completed in a period maximum four years.

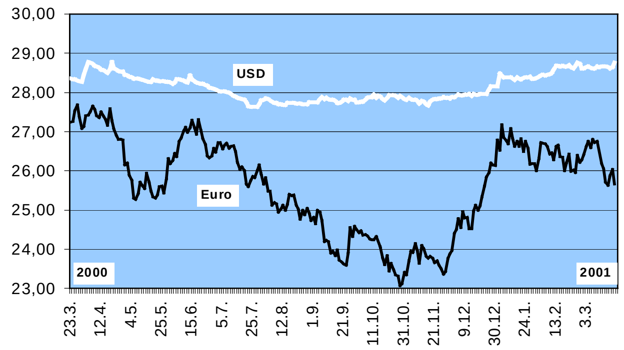
Purchasing power in EU candidate countries still low in comparison to EU members. Eurostat, the central statistics bureau of the EU, has released its annual assessment of countries seeking EU membership. The report compares GDP of candidate countries to average purchasing power in the EU. The comparisons use purchasing power parity, because it better describes the purchasing power than official exchange rates.

Slovenians enjoyed the highest standard of living in candidate countries in 1999, as their GDP per capita was about 70 % of the EU average. The report found that Slovenia and Poland have succeeded best in approaching EU living standards in recent years.

Economic output of EU candidates in comparison to EU, %

	EU-15 = 100		
	1995	1997	1999
Bulgaria	28	23	23
Czech. Rep.	62	64	59
Estonia	32	36	36
Hungary	46	48	51
Latvia	24	27	28
Lithuania	28	30	29
Poland	34	37	39
Romania	32	31	27
Slovakia	44	48	48
Slovenia	64	68	71

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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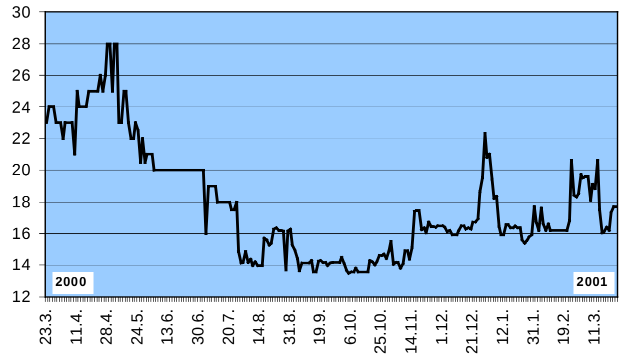

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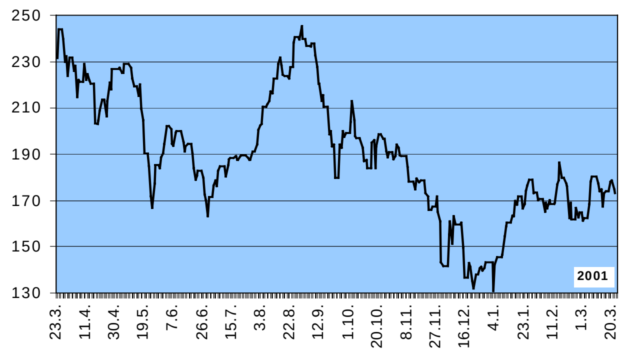
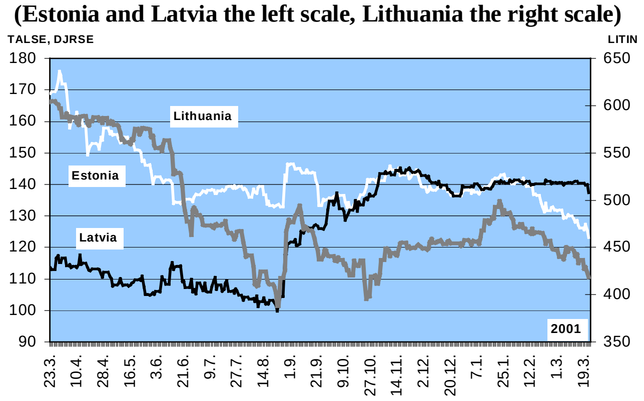


Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Editor Timo Harell

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March 30, 2001

Russian & Baltic Economies
The Week in Review
13•2001

Putin reshuffles his cabinet. On Wednesday (28 Mar.), president Vladimir **Putin** replaced defence minister Igor **Sergeyev** (63) with security council secretary Sergei **Ivanov** (48). Sergeyev will continue as an adviser to the president. The security council secretary post went to interior minister Vladimir **Rushailo** (47), and the new interior minister will be Boris **Gryzlov** (50), leader of the Unity faction in the Duma. The appointments strengthened the position of civilians in "power" ministries, and are expected to ease implementation of reforms in the military.

Economy minister presents Russian government's new economic program. At a cabinet meeting last week (22 Mar.), economy and trade minister German **Gref** presented a new economic program to complement the 18-month economic program enacted last summer. The main goals of the new program are to support stable economic growth, raise living standards and the welfare of the population, increase investments and make Russia globally competitive.

The program targets GDP growth of 5 % per year in the long term and 4 % this year. Annual inflation is expected to fall below 10 % from 2004 onwards. This year's annual inflation target is 12 %. Investments are expected to rise faster than consumption for the next six to eight years. The program also lists the largest challenges Russia faces in this decade, including the country's strong dependence on the global business cycle, large foreign debt, a declining population and the general lack of confidence in Russia domestically and abroad. The program, which extends to 2010, will be submitted to president **Putin** for approval in April. In May, the government will shift its focus to a separate economic program for 2002 – 2004.

According to preliminary information, Russia seeks with the IMF a one-year program without a loan facility, which would be "staff-monitored" or just subject to a dialogue with the IMF. An earlier proposal included a lending option (precautionary credit facility) if economic conditions worsened substantially.

Putin meets EU leaders. The Russian president's first meeting with EU leaders took place at the EU summit in Stockholm last Friday (23 Mar.). An immediate result of the meeting was a promise from the EU to provide a three-year EUR 100 million loan to Russia for use in projects that include improving wastewater treatment facilities in St. Petersburg and Kaliningrad. Also discussed were the economic arrangements by which EU countries could pay for energy delivered from Russia with investments in its energy production. The leaders also discussed the crises in Chechnya and Macedonia, as well as the status of the Kaliningrad enclave in connection with EU eastern enlargement. They also reaffirmed the EU's promise to support Russia's efforts to become a WTO member.

Slight progress in Russia's WTO accession talks. Proposals presented by Russia in February were the basis of bilateral and multilateral talks and an informal meeting of the WTO working group at the beginning of March. Published reports note that Russia has changed its proposal for tariff bindings to an average customs level of 13 – 14 %. The leader of the Russia delegation, deputy economy minister Maxim **Medvedev**, said that 30 % of Russian tariff proposals had gained acceptance from individual WTO members, and that there were substantial differences on other 30 %. The sticking points include machinery and equipment, chemical products, agricultural products and Russia's proposed list of items with a zero-percent customs rate. Russia also made its years-awaited proposal on agricultural subsidies.

Some of the restrictions Russia sought to impose in its earlier proposal on the service sector have now been dropped. Russia proposes to raise the aggregate stake that foreign banks can hold in the Russian banking sector from the current 12 % to 20 %. On the other hand, Russia wants to limit foreign ownership in telecos to 25 %. Laws concerning protection of intellectual property rights, state aid to industry, customs regulations, trade licensing and safeguard measures are under preparation.

Russia intends to engage in bilateral talks with interested WTO members at least once by the end of May. The next informal meeting of the working group is scheduled for April.

Russia's State Customs Committee gives up for the time being on limits to import shipments from the Far East. The State Customs Committee originally imposed limits that permitted delivery of goods to Russia from the Far East only by certain routes and prevented delivery via the EU or Baltics. Russia's goal was to increase its own transport operations and customs revenues through increased scrutiny of "grey" imports from the Far East to Russia and protect domestic producers by reducing imports of cheap clothing and electronics. The major trade partners India and China responded that the termination of their warehousing and transport activities in Western Europe and the Baltic states would mean a substantial decrease in their exports to Russia. Latvian prime minister Andris **Berzins** expressed concern over the fall in Baltic transit shipping, noting that he considers the decision of the Russian customs committee both discriminatory and in violation of WTO rules.

Construction up in Estonia and Latvia in 2000. Domestic construction by Estonian firms showed a nominal rise of 9 % last year as compared to 1999, and was valued at slightly over EEK 9 billion (USD 550 million). In Latvia, real growth in construction output rose 8 % y-o-y, and the value of production exceeded LVL 400 million (USD 700 million). Meanwhile, construction activity in Lithuania fell substantially. Nominal output in 2000 was

23 % below the 1999 level, and valued at about LTL 2 billion (USD 500 million).

Construction costs rose last year in Estonia and Lithuania. In the fourth quarter of 2000, prices were up 4.2 % y-o-y in Estonia and 2.3 % y-o-y in Lithuania. In Latvia, construction prices were down 2.4 % y-o-y in the fourth quarter of 2000.

Latvian economic growth picked up towards the end of last year. Latvia's GDP grew 6.6 % in real terms last year. Nominal GDP was LVL 4.3 billion (USD 7.2 billion), and GDP per capita was LVL 1,800 (USD 3,000). GDP growth accelerated towards the end of the year, reaching a rate of 8.7 % y-o-y in the fourth quarter. Observers expect growth to slow somewhat this year.

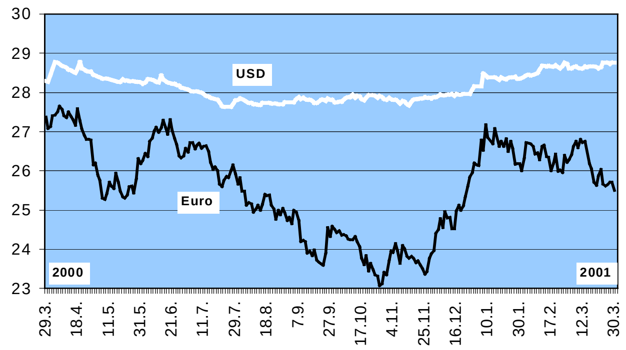
Latvia's economic growth was led by 7 % growth in the service sector. The sector's share of GDP rose to 70 % last year. The largest field in the service sector was trade, which had growth topping 10 % last year. Cargo and oil shipments lifted the transport and communications sector to 16 % of GDP and growth of 7 % y-o-y. Business and financial services also experienced swift growth last year.

Latvian manufacturing output rose 6 % y-o-y, led by increased production in textiles, wood processing, shipbuilding and agricultural machinery. After years of contraction, agricultural output increased 3 % y-o-y. Agriculture's share of Latvian GDP last year was 2.5 %.

Changes in Lithuania's labour related laws. On 22 March, the Lithuanian parliament approved changes in the laws governing labour agreements, wages, holidays and trade unions. The changes include reductions in the severance packages for fired or laid-off workers, reductions in the extent trade unions can be involved in dismissals, and broader opportunities for individuals and employers to agree on the conditions of employment. If the amendments are accepted, work agreements can be signed for certain periods or by the assignment. Proponents of the widely criticised bills argue it is necessary for Lithuania to increase its labour market flexibility. These needed changes, in turn, will help reduce non-compliance with labour laws and promote job creation. The amendments will go into effect after the president signs the bill into law.

BOFIT Discussion Papers. Now posted on our website: BOFIT Discussion Paper 1/2001 "Dollarization in Lithuania: An Econometric Approach" by Igor Vetlov. A printed copy of the paper may also be ordered free of charge.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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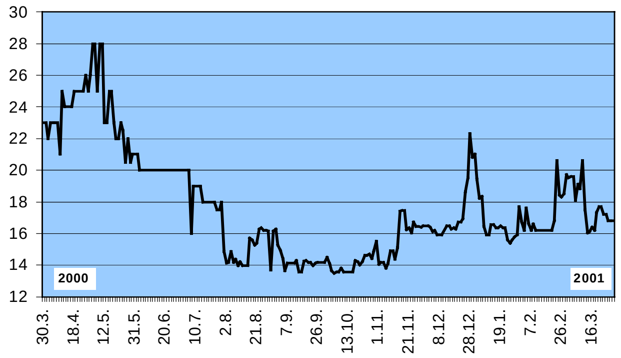

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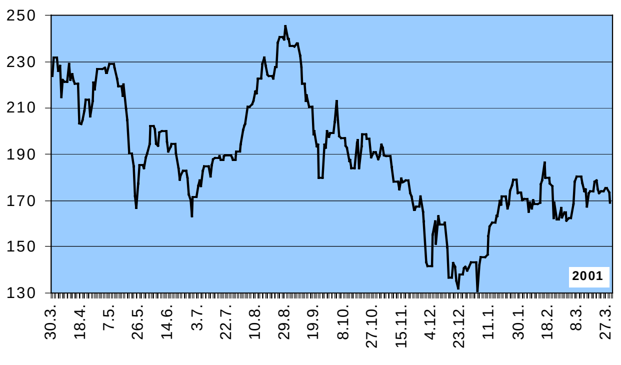

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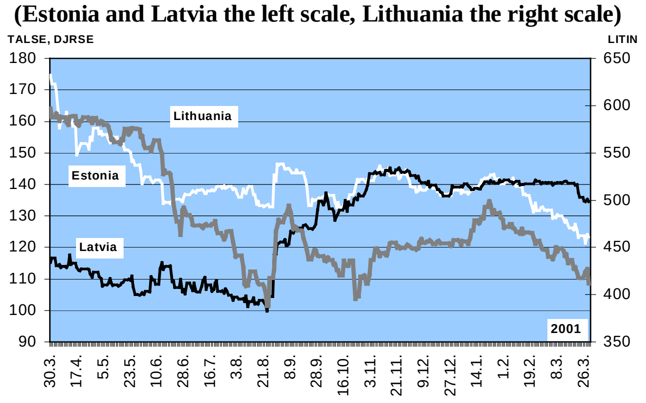

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Editor Timo Harell

President Putin makes annual address to Duma. In his speech to the Duma on Tuesday (3 Apr.), president Vladimir **Putin** stressed the importance of strengthening the state's role and continuing with economic reforms. He referred broadly to different segments of society. His comments on the economy noted the poor investment climate, budget and debt issues, and reform of the pension system. As evidence of Russia's poor investment environment, he cited capital flight in excess of USD 20 billion a year and the low market capitalisation of the Russian stock market (about USD 50 billion). Investments in the energy sector comprised about 60 % of all industrial investment last year. The president also mentioned that Russia seeks to integrate with the global economy and become a WTO member, which makes continuation of customs reform all the more critical.

He also raised discussion on the possibility of dividing the federal budget into two parts. The first part of the budget would guarantee the implementation of basic state commitments, while the other would consist of incomes received in case the international economic situation is better than expected. The income would be placed in a stabilisation fund to be used to support stable economic development during an economic downturn. Mr. Putin also said he wants to improve fiscal relations between the central government and regions. In debt matters he emphasised caution, warning that further borrowing was only justified when the loan could be used effectively and paid back on time. The Russian government should be able to implement its economic program without having to rely on supervision from international financial organisations.

He observed that, despite the progress on the pension front last year (a 28 % increase in real terms and on-time disbursement of pensions), most pensions were still too small to assure a decent living standard. The entire pension system needs to be reformed. This year's goal is to raise the average pension above the subsistence minimum.

Russia posted record current account surplus in 2000. Balance of payments data released by the Central Bank of Russia report that the country's current account surplus swelled last year to USD 46 billion (USD 25 billion in 1999), an amount equivalent to 19 % of Russia's GDP (13.5 % in 1999). The trade surplus was USD 61 billion, while the services deficit increased to USD 8 billion. Factor expenditures were USD 7 billion higher than income mainly due to interest payments on foreign debt. Income from exports of goods and services rose to USD 115 billion (up 36 % from 1999), while the corresponding expenditures increased to USD 62 billion (up 18 %).

According to balance of payments data, foreign direct investment into Russia last year was USD 2.7 billion, down from USD 3.3 billion in 1999. They were also smaller than FDI outflows from Russia, which rose last year to USD 3 billion. The large entry for "errors and omissions" in the balance of payments data exceeded USD 9 billion, suggesting that capital flight from Russia last year may have continued at a rate that at least matched the 1999 level. The CBR's currency and gold reserves rose USD 16 billion last year, and stood at USD 28 billion at the end of the year.

Number of small and medium-sized companies in Russia falls. The State Statistics Committee reports that Russia had about 880,000 small and medium-sized enterprises (SMEs) at the beginning of this year – 1.3 % less than a year earlier. About 46 % of SMEs were shops or food outlets. Some 15 % of SMEs were involved in industry, and another 14 % in construction. SMEs accounted for 4.3 % of Russia's total production and employed over 7 million people. Last year SMEs were ineligible for public support, but this year's budget sets aside RUB 90 million (USD 3 million) in subsidies.

Overzealous local bureaucrats and tax authorities have inhibited growth of the SME sector. SMEs feel that the tax authorities treat them arbitrarily in inspections and in interpreting the tax laws when they make tax rulings. At a recent conference of small Russian business owners, Moscow mayor Yuri **Luzhkov** demanded that the president issue a special decree to correct the situation.

Russia's country risk nearly unchanged. In its survey of 185 countries published in March, *Euromoney* ranked Russia in 97th place. During the six months following the magazine's previous survey last September, Russia's rank fell slightly. Russia's lower rank was mainly due to lowered growth expectations stemming from difficulties in curbing inflation, weakened competitiveness of the Russian industry due to rouble strengthening and a lack of investment. *Institutional Investor's* ranking for Russia was 93.

Country risk rankings for transition countries
as of March 2001, September 2000 and March 2000

Country	Euromoney			Institutional Investor		
	3/01	9/00	3/00	3/01	9/00	3/00
Hungary	32	40	42	36	31	33
Slovenia	33	33	32	30	29	25
Czech Rep.	41	43	44	35	38	34
Estonia	44	55	55	47	45	49
Poland	45	42	43	38	36	36
Slovakia	53	62	66	58	58	61
Latvia	61	61	59	57	59	59
Lithuania	67	69	61	62	69	66
Bulgaria	76	80	84	74	74	76
Romania	83	103	107	89	85	92
Russia	97	95	133	93	95	103

Current account deficits last year fell in Latvia and Lithuania, but rose in Estonia. *Latvia's* current account deficit contracted by a fifth from 1999 to LVL 296 million (USD 490 million), or 6.8 % of GDP. In 1999, the deficit was 9.6 % of GDP. The lower deficit reflected a larger surplus in services.

According to balance of payments statistics, the country's exports rose 12.6 % last year to LVL 1.2 billion. Despite a slight slowing in import growth, Latvia's trade deficit grew to LVL 640 million last year. Latvia's main exports last year were wood, textiles and base metal products. Some 65 % of exports went to EU countries, and Latvia's largest trading partner was Germany.

Latvia's services surplus rose 20 % last year to LVL 270 million. Higher revenues from transport services led the growth.

FDI inflows to Latvia rose 15 % to LVL 240 million (USD 400 million), and were sufficient to cover 82 % of the current account deficit.

Lithuania's current account deficit last year was LTL 2.7 billion (USD 680 million), or 6 % of estimated GDP. The deficit contracted 44 % from the previous year and was the smallest since 1995 in absolute terms.

The contraction was primarily due to a reduce in Lithuania's trade surplus. Lithuanian exports grew last year by nearly a third to LTL 16.2 billion. Import growth slowed, reflecting a decline in real earnings and higher unemployment, and was LTL 20.6 billion. Lithuania's main exports are mineral products, textiles, and machinery and equipment. Nearly half of all exports go to EU countries. Despite higher Russian exports, the share of Lithuanian exports going to CIS countries fell to 16 %.

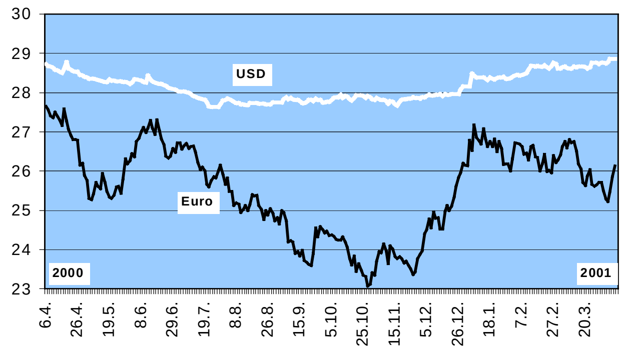
Lithuania's services balance last year showed a surplus of LTL 1.5 billion. The services balance improved, with transportation services growing by nearly a quarter. Traveller services, on the other hand, fell substantially from 1999.

FDI inflows continued to contract last year, falling to LTL 1.5 billion (380 million USD). That amount was sufficient to cover 56 % of the current account deficit.

Estonia's current account deficit last year grew to EEK 5.7 billion (USD 330 million), and corresponded to 6.8 % of GDP. FDI inflows into Estonia was EEK 7 billion (USD 400 million).

Lithuanian president visits Russia. At the end of March, Lithuanian president Valdas **Adamkus** travelled to Moscow to meet with Russia's top political figures and business leaders, including the heads of Gazprom and LUKoil. The discussions between Adamkus and Vladimir **Putin** included economic questions and security policies, as well as the future status of the Kaliningrad enclave. Both countries described their mutual relations as good, despite the fact that Russia still opposes Lithuania's NATO membership. The presidents issued a joint statement that said every state has the right to choose the way of ensuring its security as long as such efforts are not made at the expense of the security of other states. The countries agreed to develop legislation to ease the movement of energy, persons and goods. About the status of Russia's Kaliningrad enclave, in future surrounded by EU member states, is necessary to discuss with Russia, Lithuania and the EU. A Lithuanian president last visited Russia in 1997.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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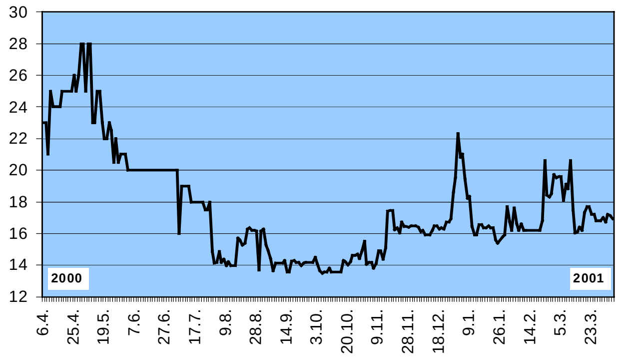

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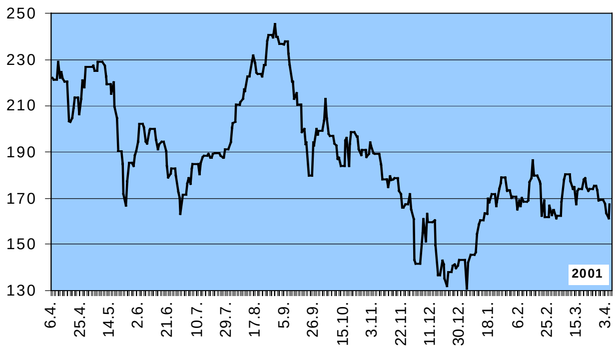

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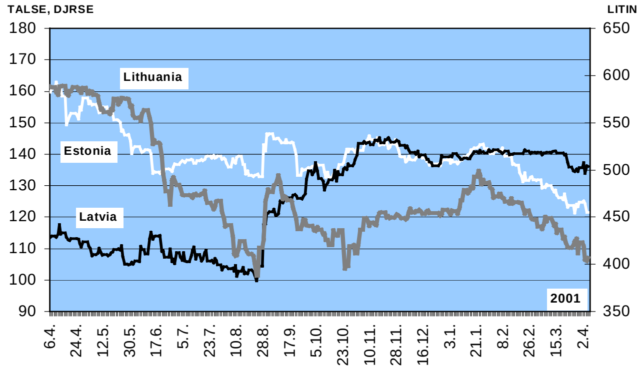

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Editor Timo Harell
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BANK OF FINLAND
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Russian & Baltic Economies
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15•2001

March inflation in Russia still brisk. The 12-month change in consumer prices in March was 23.7 %. Prices were up 1.9 % from February, a slight slowing from the February on-month change of 2.3 %. Charges for paid services rose 3.4 % on-month in March, while food prices increased 1.8 %. Since the start of this year, consumer prices have risen 7 %. The Russian government's inflation target for this year is in the range of 12–14 %.

No progress in Russian and German debt talks. On Tuesday (10 Apr.), German chancellor Gerhard **Schröder** and Russian president Vladimir **Putin** concluded two days of talks in St. Petersburg. The leaders' wide-ranging discussions included economic cooperation and debt issues. Russia's Soviet-era debt to the Paris Club of sovereign creditors is nearly USD 40 billion, of which Germany is owed slightly more than USD 20 billion. Mr. Schröder said he was ready to discuss further restructuring of debt payments for Russia in 2003 and 2004 if debt servicing becomes too burdensome. He added, however, that Russia seemed quite capable of meeting its debt commitments this year.

Differences have arisen over the value of Russian debt in transferable roubles, which were shifted to Germany from East Germany after the 1990 unification. This debt with a nominal value of 6.4 billion transferable roubles is not included in the Paris Club debt. While Germany seeks to have the transferable rouble fixed at a rate of one-to-one with the US dollar, Russia is only willing to agree on rate of about one-third of that.

FDI inflows to Russia remained rather modest last year. The State Statistics Committee reports that foreign direct investment flows into Russia last year amounted to USD 4.4 billion (compared to nearly USD 4.3 billion in 1999). FDI grew 4 % last year, far more modestly than total investments in Russia (up nearly 18 %). Balance of payments data from the Central Bank of Russia indicate that FDI inflows to Russia fell last year to USD 2.7 billion from USD 3.3 billion in 1999.

The Committee's figures also showed that last year some 40 % of total FDI went to industry, mainly the food industry (20 %), oil extraction (10 %) and machine building (5 %). The transport sector received 20 %, trade and food services another 20 %, and telecommunications about 10 %.

Russia's cumulative FDI stock at the end of last year was USD 16 billion, of which a third came from the US. Another 20 % of FDI came from Cyprus, suggesting that investing Russian capital in Russia via foreign company structures was more active last year. Germany, the Netherlands and the UK each account for 6 to 8 % of FDI.

Kazakhstan and Russia open new pipeline to serve world markets. A new oil pipeline from Kazakhstan's Tengiz oil field to the Russian Black Sea harbour of Novorossiisk came on stream on 26 March. The 1,580-kilometre pipeline is the eastern Caspian region's first significant connection to world markets. The pipeline's initial capacity is 560,000 barrels a day, and will eventually rise to 1.5 million barrels a day. The oil reserves in the Tengiz field are estimated at 6 – 9 billion barrels.

Russia also plans to open another 270-kilometer branch of pipeline from Kirishi to the new Primorsk oil terminal on the Gulf of Finland by the end of this year. The new pipeline will have a capacity of 240,000 barrels a day. It will improve Russia's ability to exploit its northern oil fields, including the Timan-Pechora field, while reducing its dependence on Baltic harbours. The total capacity of existing Baltic oil terminals is just under a million barrels a day. Within ten years Russia expects the capacity at the Primorsk terminal and its related infrastructure to reach 800,000 barrels a day.

Inflation remains modest in Latvia and Lithuania. Consumer prices in Estonia rose 5.8 % y-o-y in March. Fuel prices rose quickly partly because the kroon, which is pegged to the euro, fell in relation to the dollar. Food and housing also became more expensive during the last year.

Consumer prices in Latvia rose 1.4 % y-o-y in March. The main factors driving inflation last year were higher prices for food and housing.

Consumer prices in Lithuania were up 0.6 % y-o-y in March. The main factor driving inflation was higher food prices.

Privatisation of LASCO continues. As of the 4 April deadline last week, two firms had submitted initial tenders to the Latvian Privatisation Agency for the Latvian Shipping Company (LASCO). These firms will participate in an 11 May auction of a 68 % stake in LASCO. The identities of the potential buyers and the minimum bid have been withheld from the public. Over the past five years, there have been three failed attempts to sell off LASCO due either to a lack of investor interest or uncertainties about the privatisation process. For this reason, the government last December approved new rules on the privatisation of LASCO. Next, a field of six buyer candidates was reduced to three finalists, who were allowed to continue negotiations.

Lithuanian parliament approves euro peg. In a clear majority vote on 5 April, the Seimas approved a new act prohibiting devaluation of the litas in conjunction with its pegging to the euro. The litas is currently pegged to the dollar, but the euro will become Lithuania's anchor currency in January 2002. Under the new law, the litas will be fixed to the euro at its market price at the moment the peg is changed.

Lithuania considers the pegging of the litas to the euro as part its preparations for EU accession, although candidate countries are not actually required to make such adjustments to their monetary regimes at this stage. Last month Lithuania amended its central bank law to conform with Maastricht Treaty requirements, i.e. central bank independence was increased and price stability was defined as the central bank's main objective. It also forbid the government from borrowing from the central bank.

Lithuania posts modest economic growth. Last year Lithuanian GDP grew 3.3 %, well behind Estonia (6.4 %) and Latvia (6.6 %). Lithuania's nominal GDP was LTL 44.9 billion (USD 11.2 billion) and GDP per capita was calculated to be LTL 12,200 (USD 3,000). GDP growth in the last quarter of 2000 was 3.6 %.

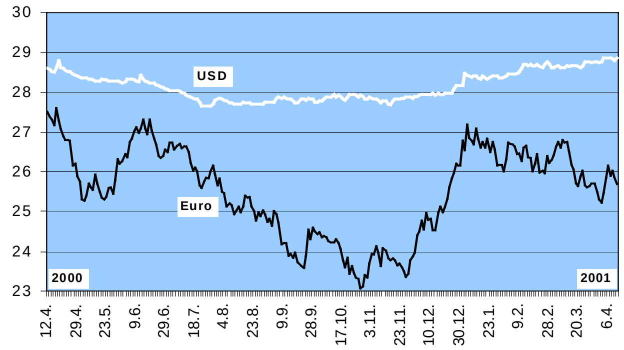
The over 10 % growth posted by manufacturers helped accelerate Lithuanian economic growth. The service sector also enjoyed 4.3 % growth last year. After several years of contraction, even agriculture grew (1.9 %). However, construction and utilities (gas, water and electricity) slowed substantially.

EBRD managing fund for decommissioning of Ignalina reactors. The European Bank for Reconstruction and Development and the Lithuanian government signed a preliminary agreement on 5 April on the use of money from a fund established to finance the permanent decommissioning of the Ignalina nuclear power facility. Specifically, the fund has been established to help finance the costs of shut-down (e.g. construction of machinery and equipment for the treatment of nuclear fuel and nuclear waste) over approximately ten years. The EU, eight EU member states, Norway, Switzerland and Poland have jointly committed over EUR 200 million to fund the project. The first tranche, which has already been agreed on, will be used mostly to fund technical assistance in decommissioning.

Lithuania has decided to shut down Ignalina's number one reactor by 2005. The EU told Lithuania that it will be unable conclude the country's EU membership negotiations until Lithuania also sets a deadline for closure of Ignalina's second reactor. The EU, which considers the facility dangerous, wants Lithuania to complete closure of Ignalina by 2009. Lithuania has postponed its decision on the second reactor to 2004. The Ignalina nuclear facility generates more than 70 % of Lithuania's electricity production. In 1999, about half of the country's electricity production went to customers outside Lithuania.

BOFIT Online. Now posted on our website: **3/2001** (in Finnish) "Suomen Venäjän-kauppa 2000 - Epävakaa toimintaympäristö rajoittaa kauppaa" (Finnish-Russian Trade 2000 – An Unstable Operating Environment Restricts Trade) by Jouko Rautava.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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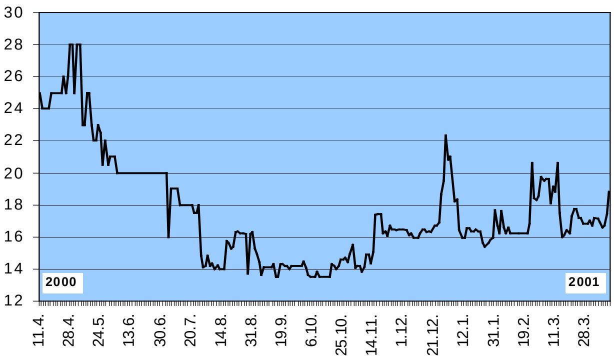
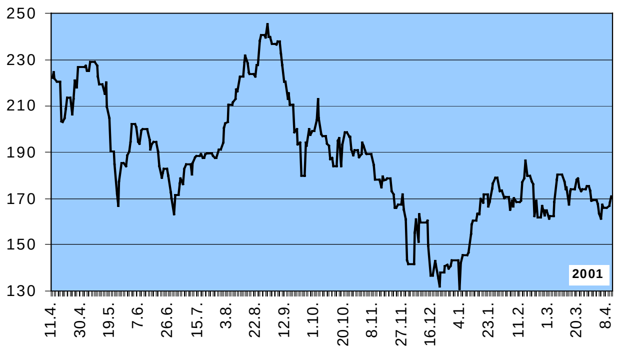
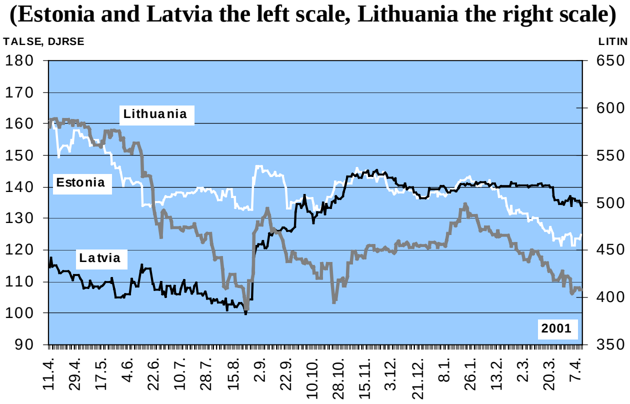


Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Editor Timo Harell
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BANK OF FINLAND
BOFIT
April 20, 2001

Russian & Baltic Economies
The Week in Review
16•2001

Russia reaches deal on Soviet-era debt owed to commercial creditors. Western exporters are owed some USD 4 billion on debts from the Soviet era. These receivables derive from unsecured transactions that were concluded on trade credit or cash payment basis. The debts are booked on accounts of Vnesheconombank, the economy and trade ministry or foreign trade organisations. Using the earlier settlement with London Club creditors as a model, it was agreed last week to forgive 36.5 % of the debt and that the Russian government would finance the remainder through the issue this year of USD 2.6 billion in Eurobonds. Deputy finance minister Sergei **Kolotukhin** said the treaty should improve Russia's creditworthiness.

Russia had large current account surplus in first quarter. According to preliminary data released by the CBR, the current account surplus in January-March was USD 11.5 billion or 18 % of GDP (almost 20 % in the same period last year). The trade goods surplus was USD 14.5 billion, while the services trade deficit was USD 2 billion. Revenues from exports of goods and services rose 4 % on-year, while import expenditures were up 10 %. Crude oil, oil products and natural gas represented 54 % of total export revenues (compared to 50 % in the same period last year). FDI inflows to Russia during the first three months of 2001 amounted to USD 0.4 billion, about the same amount as in the first quarter of 2000.

As of 13 April, the CBR's gold and currency reserves stood at a record USD 30.4 billion, of which gold represented USD 3.8 billion.

Russian industrial output up 3.3 % on-year in the first quarter. The 12-month change for March was 3.6 %. For all of the first quarter of 2001, the bigger industries displaying high growth were chemicals and petrochemicals (over 5 %), fuels (nearly 5 %), and non-ferrous metals and machine building (both over 3.5 %). Production in the forest industry rose 2 %. The food industry, ferrous metallurgy and production of construction materials remained almost unchanged from their Q1 2000 levels. Crude oil production rose 6 % and electricity production was up 1.3 %. Natural gas output dropped 1.7 %.

Russia shows slight budget deficit for January-March. Preliminary information released by Russia's finance ministry shows a deficit in the federal budget in the first quarter of about RUB 7 billion (0.4 % of GDP). Revenues amounted to RUB 319 billion (USD 11 billion) and expenditures of RUB 326 billion. The primary budget surplus, which excludes debt-servicing costs, was RUB 81 billion or 4.5 % of GDP.

The government is expected to consider the 2002 budget in May. Finance minister Alexei **Kudrin** expects next year's budget to be balanced and fully include debt-servicing costs.

Russian pensions hiked. Under a new law just signed by president Vladimir **Putin**, the average monthly pension will be raised from 900 roubles to 1,013 roubles (35 dollars) from 1 May. The Duma is also expected to soon take up legislation to fundamentally reform Russia's pension system. Under the plan, pensions would be made up of three components: a fixed minimum, an amount based on earning history, and the worker's own contributions.

Government critic NTV gets new owners. The long-running ownership dispute over NTV, Russia's only independent nation-wide television broadcaster, ended last Saturday (14 Apr.). Media-Most, owned by Vladimir **Gusinski**, surrendered its majority stake in NTV to state-owned Gazprom-Media. American financier and businessman Boris **Jordan** (34) was installed as the new head of NTV. The change of ownership included widespread resignations and terminations of NTV journalists.

Media-Most also lost its holdings in the *Sem Dnei* (Seven Days) publishing house, which publishes the popular *Segodnya* (Today) daily and *Itogi* weekly. Publication of these magazines has now ended. Many observers see the recent changes as a threat to freedom of speech in Russia.

Several months ago charges of financial wrongdoing by Russia's prosecutor general drove media mogul Gusinski to take up residence in Spain. This week a Spanish court ruled that it had no authority to extradite Gusinski to stand trial in Russia.

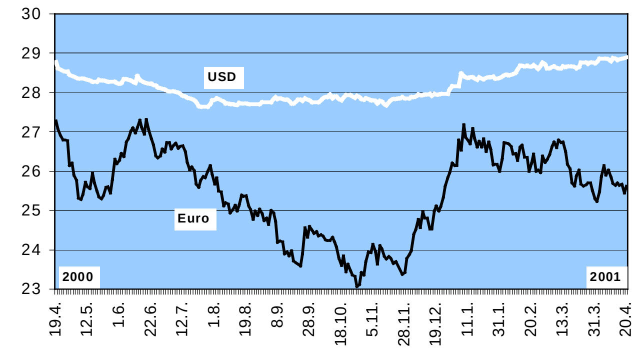
Russia and Estonia negotiate trade agreement. After seven years of deliberation, Russia and Estonia finally last week initialled a treaty on trade and economic cooperation, whereby the parties give each other most-favoured nation treatment. Russia will reduce its current double tariff on Estonian imports to normal levels, when the agreement enters into force. Signing of the treaty is expected this summer. Estonia's foreign trade statistics show that last year Russia accounted for 2 % of Estonia's exports and 8 % of Estonian imports. Russia's role as Estonia's trade partner diminished dramatically during the 1990s. In 1994, for example, over 20 % of Estonian exports went to Russia.

Disposable household income rises in Estonia and Latvia. In *Estonia*, average net income per household member rose last year to 2,184 kroons (129 dollars) a month, a 9 % increase from 1999. Disposable income of households consisted of wages (66 %), income from self-employment (5 %) and transfers (27 %), including pensions (18 %). Other income such as rental income and property sales accounted for about 2 %. Average expenditure per household member was 2,235 kroons a month. The largest household expenditure items last year were food (32 %), housing (15 %) and transport (9 %). Compared to 1999, household expenditures for transport, health care and education rose fastest. A fifth of Estonian households got by on incomes below the subsistence minimum, which was calculated as 1,263 kroons a month per household member.

In *Latvia*, average net income per household member last year was 70 lats (114 dollars) a month, or 7 % more than in 1999. Household disposable income sources were wages (58 %), social transfers (28 %) and income from self-employment (5 %). In 1999, expenditure per household member averaged 64 lats a month. Of disposable income, 38 % went to food, 17 % to housing and 8 % to transport.

In *Lithuania*, average net income per household member last year contracted 3 % to 415 litas (104 dollars) a month. Disposable income of households consisted of wages (52 %), transfers (24 %), income from self-employment (12 %) and income from other sources (11 %). Expenditure per household member averaged 404 litas a month. In 2000, the largest expenditure items were food (44 %), housing costs (14 %) and transport (8 %). Statistics placed 23 % of the population below the poverty line, i.e. they had disposable incomes of less than 260 litas a month.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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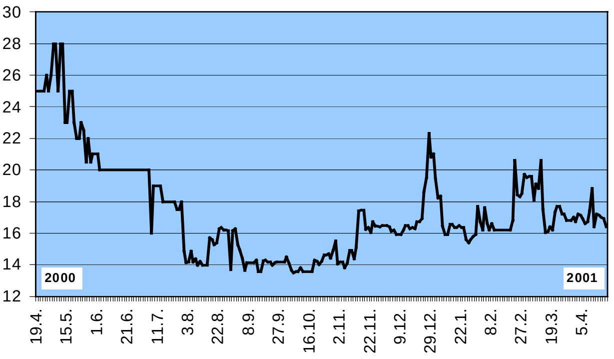
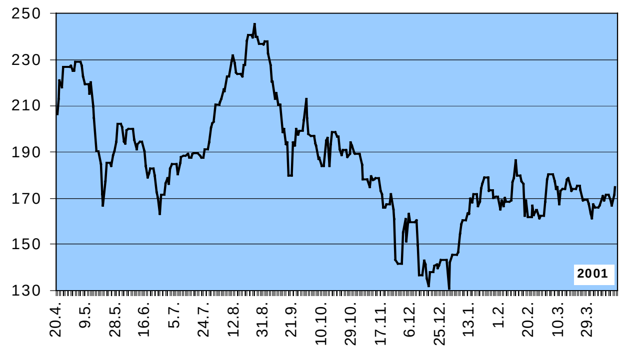


Russian share prices (RTS)



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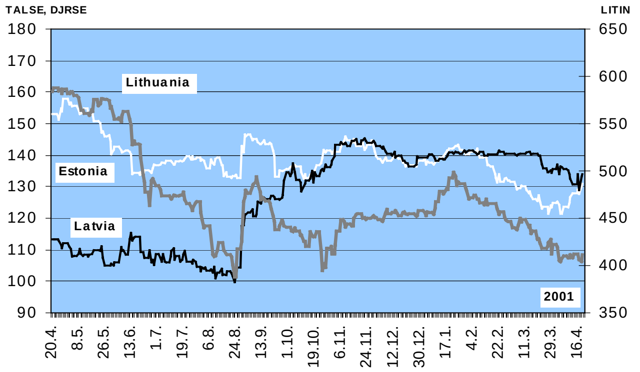

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Russian & Baltic Economies
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17•2001

Russian government and central bank release memorandum on 2001 economic policies. At the end of last month, Russia decided not to officially conclude an agreement with the IMF on its near-finalised economic program and a precautionary stand-by loan. The CBR and the government subsequently released a joint memorandum on economic policy for this year and beyond. Russia presented this memorandum to the IMF and said it wants to pursue a *staff-monitored program*. Under this arrangement, the IMF would refrain from official endorsement of a specific economic plan, but rather monitor the country's progress in economic reforms, at six-month intervals.

The joint memorandum foresees an increase in GDP of 4 % this year. Inflation is expected to be 14 %, slightly higher than earlier estimates. The current account surplus is expected to shrink to 12 % of GDP (compared to nearly 19 % last year). Budget revenues of the public sector should decrease by 3 – 4 % of GDP, while regional budget expenditures could fall by 2 % of GDP due to cuts in public housing support.

Budget and tax policy priorities this year include approval of an enterprise profit tax and liquidation of payment arrears from the federal budget. There is also a push to develop the social safety net to target people's specific needs better and get administration of defence expenditures under the state treasury by the end of this year.

Proposed changes to banking laws to be implemented within a few months include developing the rules for dealing with bank insolvencies, meeting capital requirements and obtaining banking licences. The CBR will only gradually divest its holdings in commercial banks. In the absence of other available monetary policy measures, extra federal budget revenue could be deposited with the central bank and banks' reserve requirements increased. Government debts to the central bank would also continue to be converted into tradable debt securities.

The memorandum also foresees reduction of payment arrears in the enterprise sector, e.g. by allowing cuts of energy deliveries. It contains targets for large monopolies like Gazprom and UES to do business on a cash basis rather than accept non-monetary forms of payment. UES's restructuring plan should be ready within a couple months. A bill to improve creditor protection should be submitted to the Duma by December.

The authorities will refrain from new restrictions on foreign trade or currency movements.

Putin announces budget guidelines for 2002. Russia's president proclaimed last week that the key achievements of last year's federal budget policy were a surplus of 2.5 % of GDP, on-schedule release of budget expenditures and paying off of social sector debts. The main goal of 2002 budget policy is to support macroeconomic stability. Mr. Putin sees that future budgets should be deficit-free and divided into two parts. One part of the budget would be based on conservative estimates of economic performance and export prices. It would be dedicated to financing core state expenditures regardless of international business cycles. The second part of the budget would be funded from revenues resulting from economic outcomes above budget.

The increase in *budget revenues* of 2002 will not be a result of higher taxes, but rather a wider tax base. The new tax laws introduced at the beginning of 2001 succeeded well in their purpose, raising even more revenue than anticipated. The approval of the new enterprise profit tax law is an important part of ongoing tax reform. Mr. Putin also proposed revising taxation of natural resources. The proposed changes could have an impact on e.g. Russia's oil industry.

In discussing *budget expenditures*, Putin stressed the use of clear criteria, transparency and control in the use of state resources. All new laws must be accompanied with assessments of their budgetary impact. Moreover, budgetary relations between the central government and regions require substantial reforms. The state *debt policy* should be developed to improve the debt structure, smooth peaks of debt servicing payments and reduce debt servicing costs.

IMF grants stand-by loan to Latvia. Last Friday (20 Apr.), the IMF extended a USD 42 million stand-by credit facility for the next 20 months. Latvia has no plans to draw on the facility, but rather sees it as precautionary.

The arrangement is part of the Latvian government's economic program agreed with the IMF, whereby Latvia will seek to reduce its budget deficit to 1.75 % of GDP this year and 1 % of GDP next year. The IMF said Latvia faces challenges to sustaining economic stability in coming years, notably investment pressures arising from EU and NATO memberships and selective reductions in the tax rate. In addition to fiscal stability, the program seeks to retain the exchange rate peg of the lats to the SDR. The program foresees GDP growth of 6 % this year and an inflation rate of 3 %.

Lithuania becomes a WTO member. On Tuesday (24 Apr.), the Lithuanian parliament ratified its membership agreement with the World Trade Organisation. The membership takes effect one month from the date of ratification. Membership negotiations between Lithuania and the WTO took more than five years and were completed in October 2000. A general meeting of the WTO approved Lithuania's membership last December 2000. Estonia and Latvia have been WTO members since 1999.

Hansapank buys Lithuania's Savings Bank. The Lithuanian government and Hansapank have reached agreement on the sale of Taupomasis Bankas (Savings Bank) to the Lithuanian subsidiary of Hansapank. Lithuania has tried to privatise the bank for years. Talks between Lithuania and Hansapank were almost terminated on the announcement of the merger of SEB and Hansapank's main owner Swedbank. Agreement was eventually reached on the details of the privatisation sale. Hansapank will pay LTL 150 million (USD 38 million) for a 91 % stake in Taupomasis Bankas. Hansapank is also committed to invest LTL 150 million in the bank over the next two years.

Hansapank announced that it will merge Taupomasis Bankas with its Lithuanian subsidiary. Taupomasis Bankas has traditionally dominated the deposit market in Lithuania, while Hansapank's Lithuanian subsidiary is relatively small. SEB, however, owns the largest commercial bank in Lithuania, Vilniaus Bankas. When the Bank of Lithuania approved the sale of Taupomasis Bankas, it stipulated that in the event SEB and Swedbank merged, Hansapank had to divest its stake in Taupomasis Bankas to prevent market dominance of a single banking group in Lithuania.

Lithuanian Shipping Company sold. On Monday (23 Apr.), the Lithuanian privatisation office announced an agreement on the sale of a 76.4 % stake in the Lithuanian Shipping Company (LISCO) to the Danish DFDS Tor Line. The sale price was USD 47.6 million. DFDS Tor Line also committed to invest USD 60 million in LISCO over the next three years. The final sale price and level of investment required were less than expected, because part of the company's operations will remain with the state. Pending official approval, the sale becomes effective at the end of June.

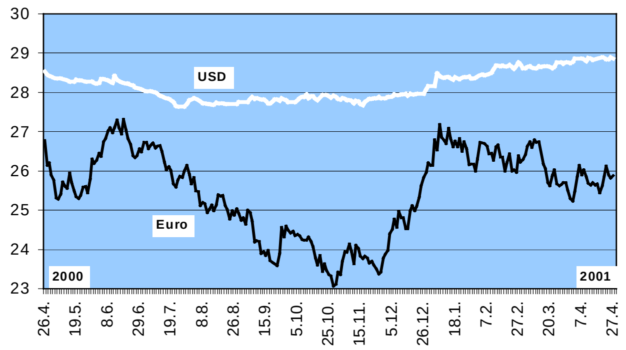
The privatisation of LISCO has been the centre of a long-running debate in Lithuania. The Seimas has been far from unified on the sale, and the national trucking association LINAVA has threatened to challenge the sale in court because it considers the deal to violate Lithuanian national interests.

DFDS Tor Line promised to purchase LISCO's minority shares at the same price it offered the Lithuanian state. The Seimas recently approved an amendment to the law on minority shareholder protection.

The LISCO privatisation sale fell through twice in 1999, when the government failed to get acceptable bids. Last autumn, the privatisation office agreed on the sale of LISCO to the B.B. Bredo B.V. consortium. However, the Dutch group, which included DFDS Tor Line, failed to pay the sale price on time, so the deal was called off.

Ukraine parliament issues no-confidence vote for Yushchenko government. Yesterday's (26 Apr.) vote of no confidence in Ukraine's parliament was 262 to 86. The Communists, the largest parliamentary faction, brought the vote to the floor. The Communists took 124 seats of the country's 450-member parliament in the 1998 elections. They oppose the economic reforms promoted by liberal prime minister Viktor **Yushchenko**, and were supported in the no-confidence vote by representatives whose constituencies will be threatened by the proposed austerity measures.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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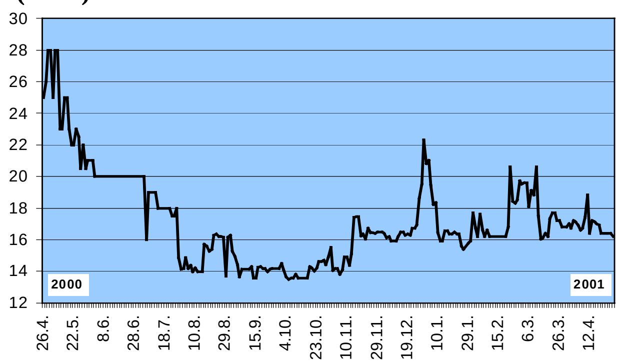
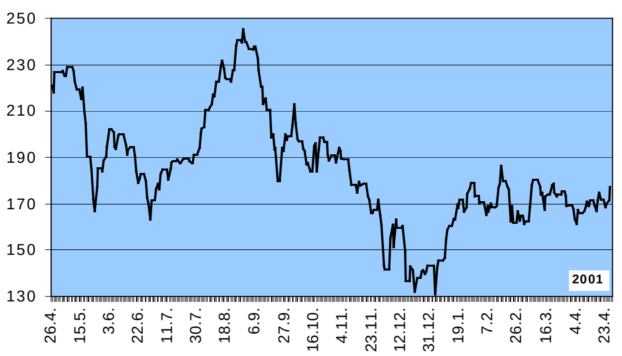


Russian share prices (RTS)



Baltic share prices
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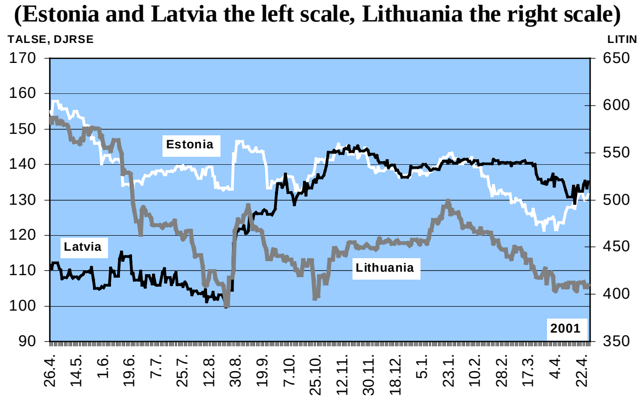

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Editor Timo Harell

Russian budget shows first quarter surplus. The latest figures from the finance ministry indicate that federal revenues for the first quarter of 2001 amounted to RUB 318 billion (16.9 % of GDP) against expenditures of RUB 264 billion (14.1 % of GDP). The resulting RUB 54 billion (USD 1.9 billion) surplus corresponds to 2.9 % of GDP, or almost a full percentage point higher than the surplus registered in Q1 2000. The primary surplus, which excludes debt-servicing costs, was 7.6 % of GDP. The finance ministry earlier announced that the budget was slightly in deficit.

Russia relaxes currency controls. President Vladimir **Putin** wants Russia to simplify its present currency controls to bring them closer into line with international practice. Under an amendment already approved in its third reading in the Duma, permission from the central bank would no longer be required for export credits given for less than three years if they relate to the export of electrical, transport or military equipment. The need for permission would also be dropped on payments related to construction projects abroad. Russian citizens would be allowed to transfer abroad up to USD 75,000 a year for the purpose of purchasing securities in foreign currencies. The amendment would also free up non-commercial transfers of currency such as pension payments and salaries. The bill still requires the approval of the upper-house Federation Council and a presidential signature to become law.

The practical effects of the proposed changes are likely to be minimal because many enterprises have already learned how to circumvent currency control measures. Many observers feel it would be more worthwhile for Russia to eliminate, or at least lower, the current 75 % repatriation requirement on export earnings.

Duma ratifies international treaty on money laundering. Russia's lower house Duma ratified an international treaty on money laundering on 25 April in a vote of 375 to 1. Russia signed the treaty, originally drawn up in November 1990, in May 1999.

Prime minister Mikhail **Kasyanov** believes that Russia will have the necessary legislative changes ready within a few weeks and hopes to have Russia removed from the international money-laundering blacklist.

Russia's centrist parties form alliance. Four centrist groups in the Duma – representatives of Unity, Fatherland-All Russia, Russian regions and People's deputy – will seek to combine into a single party representing centrist interests. The bloc currently comprises 234 Duma deputies. A council of group representatives will coordinate the party's formation. The new mega-party would support the policies of president Vladimir **Putin** and should be incorporated by next October. In anticipation of the new party, the allied groups now try to coordinate their voting in the Duma.

EU predicts continued brisk economic growth for the Baltics. At the end of last month the EU Commission released its forecast of economic development for EU accession candidates in 2001 and 2002. Economic growth in the Baltics is expected to continue brisk thanks to strong domestic demand. Unemployment was identified as a major problem in the Baltics. Most investment will go to raising productivity, so a rapid decline in unemployment is unlikely. The Commission said that inflows of foreign direct investment will continue to help the Baltic countries maintain external balance, and added that close ties with EU states should improve the ability of Baltic countries to deal with external shocks. The Commission expects the levels of public deficit in all Baltic countries to fall this year and next.

Economic development of EU accession candidates 2001 – 2002
(EU Commission forecast)

Country	Real GDP, % change		Inflation, % change		Current account deficit, % of GDP	
	2001	2002	2001	2002	2001	2002
Bulgaria	5.2	4.9	8.5	6.0	-3.9	-4.2
Czech Rep.	3.5	4.0	4.3	4.4	-4.6	-4.2
Estonia	5.9	5.7	4.7	3.5	-4.3	-3.1
Hungary	4.6	5.0	9.0	6.8	-4.2	-4.0
Latvia	5.5	5.5	1.8	3.2	-7.6	-7.6
Lithuania	3.5	4.0	1.5	2.5	-5.0	-4.0
Poland	4.3	4.6	6.8	5.5	-5.9	-5.5
Romania	1.8	2.3	36.7	23.7	-3.6	-4.1
Slovakia	3.0	3.8	7.5	5.3	-4.4	-4.2
Slovenia	4.3	4.3	8.0	5.0	-3.0	-2.8

Eesti Raudtee sold to Baltic Rail Services. On Monday (30 Apr.), Estonia's Privatisation Agency and Baltic Rail Services signed a deal on the purchase of Eesti Raudtee. Baltic Rail Services, a consortium of US, British and Estonian investors, agreed to pay EEK 1 billion (USD 57 million) for a 66 % stake in Eesti Raudtee. Eesti Raudtee handles the country's rail freight services, which includes the highly profitable business of handling transit cargoes moving from Russia via the Port of Tallinn to Central Europe. Due to its strategic implications, every phase of the Eesti Raudtee's privatisation process has been controversial. The political opposition is calling for cancellation of the sale.

The US-based Rail Estonia consortium was first selected as winner of the competitive bidding process, which was started a year ago. However, negotiations between Rail Estonia and the Privatisation Agency were not completed by the deadline because the third-choice bidder, the Estonian RER consortium, went to court on its claim that Rail Estonia had failed to qualify as a strategic investor. With case pending, the Privatisation Agency decided in February to continue negotiations with its number-two choice, Baltic Rail Services. The parties reached an accord before the prescribed deadline. The Tallinn administrative court last month overturned the privatisation agency's selection of the bidder, but the Privatisation Agency maintains that it has operated according to the rules and considers its agreement with Baltic Rail Services valid.

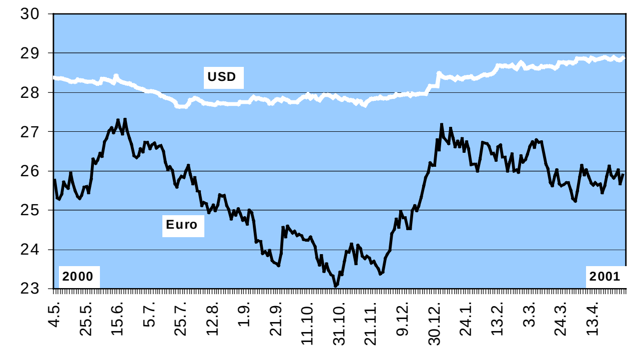
LASCO privatisation sale falls through again. The fourth attempt at the privatisation sale of the Latvian Shipping Company (LASCO) failed when both of the potential bidders at auction failed to pay the required security deposit by the 27 April deadline.

Baltic credit ratings unchanged. Standard & Poor's ratings of the creditworthiness of Baltic countries have remained the same since 1997. On 16 April, S&P reaffirmed its rating of BBB+ for *Estonia's* sovereign foreign currency borrowing. Last December, the outlook on the ratings was revised to positive from stable reflecting successful structural reforms and a disciplined fiscal policy. In its April 2001 report, S&P praised Estonia's well-functioning currency board arrangement, booming exports and the healthy inflow of FDI. S&P warned, however, that the Estonian economy was still quite susceptible to external shocks, mainly due to its large current account deficit. The ratings for Estonia issued by Moody's (Baa1) and Fitch IBCA (BBB+) are equivalent to S&P's rating.

Latvia's credit risk ratings are one notch below Estonia's. Last month Moody's reaffirmed its rating of Latvian long-term foreign currency debt at Baa2. Moody's relatively high rating of Latvia reflects the low indebtedness of Latvia's public sector and the political consensus on the importance of structural reform and EU membership. S&P and Fitch IBCA both ranked Latvian foreign currency government bonds as BBB.

Lithuania received a rating of BBB- from both S&P and Fitch IBCA on its foreign currency debt, a notch below Latvia. Moody's gave an equivalent ranking of Ba1 for Lithuania's long-term foreign currency government debt. When reaffirming Lithuania's ratings last October, Moody's noted the country's commitment to fiscal balance, but cautioned that the economy was sensitive to external shocks. S&P said it expected Lithuania to follow through with structural reforms and privatisation of state enterprises.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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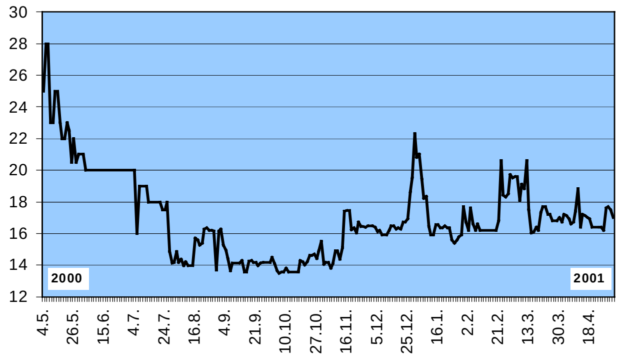
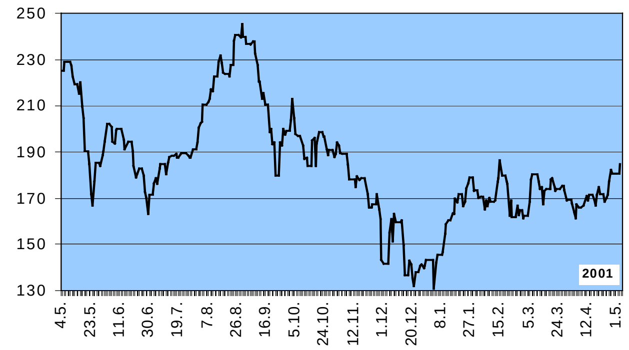


Russian share prices (RTS)



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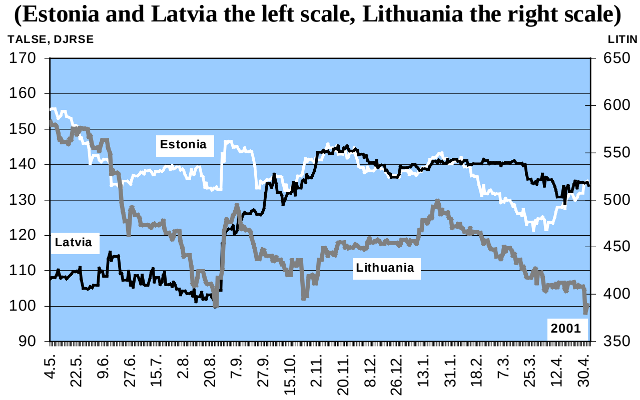

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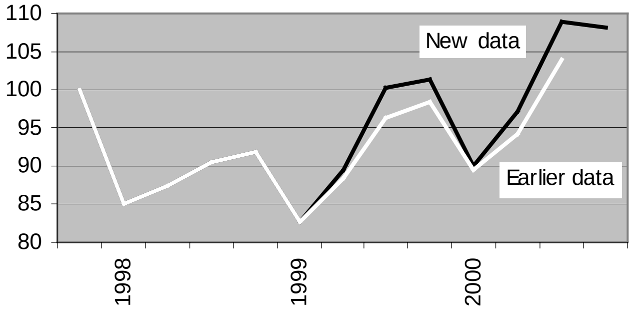
Russian consumer prices up nearly 25 % on-year in April. Although the 1.8 % on-month inflation increase for April was the smallest this year, inflation is presently running considerably higher than it was at the start of 2000. Indeed, if the current high inflation continues, it will well overshoot the government's stated inflation target of around 14 % for this year. In the first four months of 2001, consumer prices rose 9 % y-o-y, compared to just 5 % y-o-y in January-April 2000. During January-April 2001, prices for services rose substantially (particularly prices for housing, telecommunication services, and transport). Among food items, prices for vegetables and meat were up 33 % and 15 %, respectively, from the start of the year. This, in turn, lifted the value of the consumer basket of essential food items nearly 13 %. At the end of April, the basket's value stood at 846 roubles (29 dollars). This figure is used, for example, in calculating the subsistence minimum.

New data suggest Russian GDP growth in 1999 – 2000 was higher than previously announced. Revised figures released by the State Statistics Committee show that GDP rose 5.4 % in 1999 and 8.3 % in 2000 (up from earlier figures of 3.5 % and 7.7 %, respectively). The figures for 1998 remained nearly unchanged after revision. According to the new numbers, GDP grew exceptionally fast in the second half of 1999 (up more than 10 % from a year earlier), then slowed to under 9 % in the first three quarters of 2000 and 7 % in Q4 2000. Russian GDP amounted to RUB 7,063 billion last year, or USD 251 billion at the nominal exchange rate. In 1999, Russia's GDP was valued at USD 193 billion.

Faster growth of value added in industry was a leading factor revising the 2000 GDP growth figure upwards. The adjustments also revealed that the rise in the GDP demand component of fixed capital formation was already quite substantial in 1999. Domestic demand items showed only minor changes in 2000. Private consumer demand rose 9 % last year, while capital formation grew by some 17 %.

Quarterly Russian GDP volume 1998 – 2000
(IV/1997 = 100)



Estonian inflation accelerated in April. The 6.4 % y-o-y jump in Estonian consumer prices in April surprised most analysts. Estonian 12-month inflation has not been at similar levels since December 1998. The 12-month rise in consumer prices in April was 1.4 % in Latvia and 0.8 % in Lithuania.

From March to April consumer prices rose 0.7 % in Estonia, 0.4 % in Latvia and 0.2 % in Lithuania. The appearance of foot-and-mouth disease in Western Europe cause a notable rise in the prices of food items imported to the Baltics.

Latvian cargo handling up in the first quarter. Preliminary data suggest that Baltic freight handling during January-March increased only in Latvia, where the volume of rail freight grew 4 % and the amount of cargo handled in Latvian ports increased 7 % compared to Q1 2000. Cargo handling at the country's largest port, Ventspils, rose 5 % on year. Cargo handling was also up 11 % at the Port of Riga and 12 % at the Port of Liepaja. Cargo handling at Ventspils fell in April, however, dragging overall growth in January-April down to around one per cent y-o-y.

In Estonia and Lithuania freight volumes fell in the first quarter. Rail freight volumes fell 3 % y-o-y in Estonia and 12 % y-o-y in Lithuania. According to preliminary information, the Port of Tallinn, Estonia's largest port, saw cargo handling fall 2 % in the first quarter, but then saw its volumes rebound in April so that for January-April its cargo handling volumes are up nearly one per cent y-o-y. The overall volume of cargo handled by Lithuanian ports was down 26 % in the first quarter. At the Port of Klaipeda, cargo handling was down 22 % in the first quarter, and oil shipments were off 24 %. Russia is currently studying the possibility of increasing shipments through Klaipeda.

Oil and oil products form the most important class of freight in the Baltics, and most freight is transit shipments originating in Russia. Generally, transhipment volumes have been fairly steady recently.

Financial supervisory body to be created under the Bank of Estonia. On Wednesday (9 May), the *Estonia*n parliament unanimously accepted the second reading of a bill to establish an independent authority operating within the central bank to be responsible for supervision of banking, insurance and securities markets. The new supervisory body will bring together insurance and securities market supervision at the finance ministry and the central bank's banking supervision. The new law took several years to draft and will take effect on 1 July. Funding for the new body, however, is only secured from the start of 2002.

Latvia also approved last summer a law creating an independent body to oversee its banking, insurance and securities markets. The new authority is also scheduled to begin operations within the central bank at the start of July.

In *Lithuania*, the central bank will continue to provide banking supervision, while securities markets and the insurance field will be overseen by separate official entities. Lithuanian supervisory bodies, however, have agreed to intensify their cooperation. Moreover, Lithuania and Estonia have agreed to cooperate in financial supervision matters.

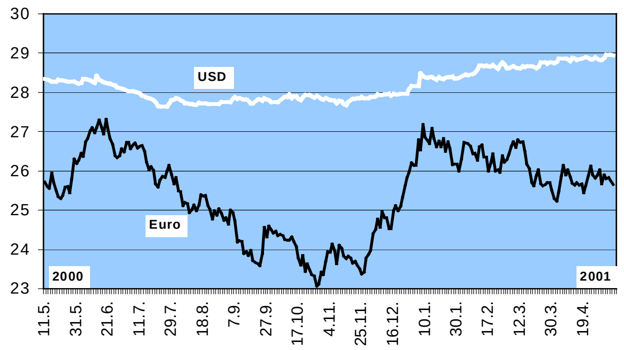
Oil company Mazheikiu Nafta posts first-quarter loss. For Q1 2001, Lithuania's Mazheikiu Nafta oil company showed a loss of LTL 85 million (USD 21 million). The company also posted a loss of LTL 180 million in 2000 and LTL 160 million in 1999. Mazheikiu Nafta attributed its losses to crude oil supply problems that have forced it to operate well below capacity. The company also said it had to pay above-market prices for crude oil deliveries from the Russian LUKoil company, its main supplier.

In October 1999 Lithuania sold a third of Mazheikiu Nafta to the US-based Williams International. Williams not only got operational control in the deal but also an option to purchase a majority stake in the company at a later date. At the time, LUKoil had also expressed an interest in acquiring Mazheikiu Nafta. Williams claims that the interruptions in oil deliveries are the directly attributable to LUKoil, which coordinates Russian oil deliveries to Lithuania. LUKoil admits its lack of enthusiasm for supplying oil to a company in which it has no equity participation. LUKoil also says it is willing to guarantee adequate oil supplies in exchange for a voting majority and purchase of the 59 % stake in Mazheikiu Nafta still held by the Lithuanian state. Williams says it will consider LUKoil as a partner, but it has no intention of surrendering its operational control in Mazheikiu Nafta. Lithuania's prime minister Rolandas **Paksas** is soon expected to resume talks on Mazheikiu Nafta begun in April with the management of LUKoil.

Moldova joins the WTO. The general council of the World Trade Organization has accepted Moldova's membership application. The accession agreement was signed in Geneva on 8 May. After the Moldovan parliament ratifies the agreement, Moldova will become the WTO's 142^{nd} member. Former Soviet Union countries with WTO membership are Estonia, Georgia, Kyrgyzstan, Latvia and Lithuania.

BOFIT Online. Two new papers in Finnish are posted on our website. Paper **4/2001** "EU-kandidaatit ja rahaliitto" (The Candidates for EU Membership and Monetary Union) by Iikka Korhonen, and paper **5/2001** "Venäjän talouden kasvunäkymät" (Prospects for Russian Economic Growth) by Pekka Sutela.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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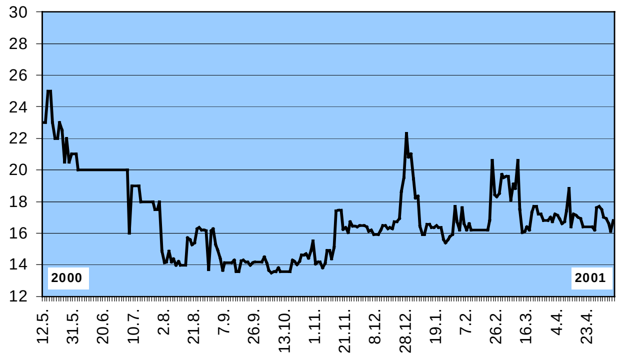
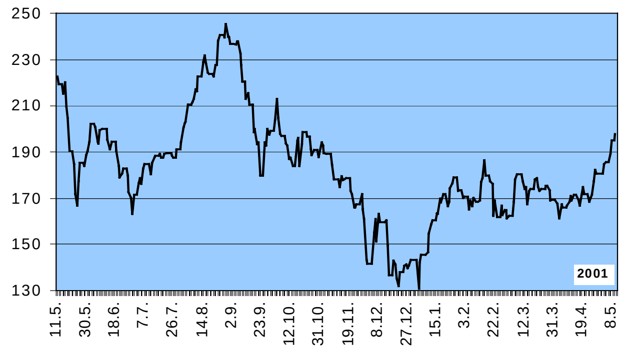
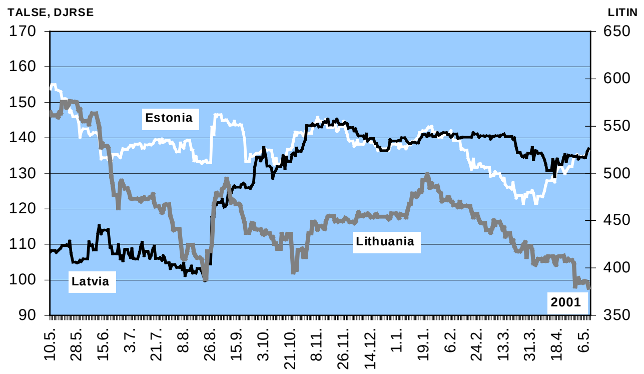


Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Editor Timo Harell

Russia produces sizeable budget surplus for January-April. The finance ministry reports that Russian budget revenues for January-April amounted to RUB 453 billion (17.7 % of GDP) against expenditures of RUB 336 billion (13.1 % of GDP). This gave a budget surplus for the period of RUB 116 billion (4.5 % of GDP, or USD 4 billion). The primary budget surplus, which excludes debt-servicing costs, was RUB 211 billion (8.2 % of GDP).

Finance minister Alexei **Kudrin** is expected to present a draft 2002 budget to the cabinet within a few days. According to preliminary information, the draft budget assumes GDP growth next year in the range of 3 – 4 %, an annual inflation rate of 12 % and an average exchange rate of 31.5 roubles to the dollar. The average price for a barrel of oil is assumed to be 17 dollars.

Rouble exchange rate dips below 29 to the dollar. Since late December, when the rouble exchange rate fell below 28 roubles to the dollar, it has depreciated 3 % in relation to the dollar. During the same period, the rouble appreciated 3 % against the euro. However, due to higher Russian inflation, the rouble has appreciated in real terms this year about 4 % against the dollar and over 10 % against the euro. Central Bank of Russia chairman Viktor **Geraschenko** has noted that substantial currency reserves give the central bank greater room to manoeuvre in exchange rate policy and that this year's budget still allows for a depreciation in the rouble exchange rate to 31 roubles to the dollar.

Russia's gold and currency reserves grow briskly. The gold and currency reserves were USD 32.6 billion in mid-May, of which gold constituted some USD 3.8 billion. The CBR's gold and currency reserves were USD 28 billion at the start of this year, and USD 12.5 billion at the start of 2000. Robust income from oil and gas exports has continued to drive the rapid growth in Russia's reserves. The CBR estimates that its reserves will climb to USD 40 – 45 billion by the end of this year if prevailing energy price levels continue. According to IMF data, Russia has the 19th largest gold and currency reserves in the world. Countries currently holding similar sized gold and currency reserves include Brazil (USD 35 billion), Canada and Thailand (USD 32.5 billion each) and Poland (USD 28 billion).

Slow growth in deposit-taking by Russian banks, lending up modestly. The CBR reports slow growth in bank deposits of households and firms in both rouble and foreign currency accounts during the past year, and that the overall value of such deposits remains below 10 % of GDP. Using more inclusive IMF standards, the share of private sector assets has remained at around 15 % of GDP, which is quite low in relation to other transition economies. The share of foreign currency deposits held by private individuals compared to total deposits has remained slightly above 30 %, while in corporate deposits the share has fallen to 75 %. Last year produced slightly conflicting trends in the maturity of deposits: deposits over six months increased, as did demand deposits of private individuals. About 75 % of deposits were still for periods of less than six months.

The total amount of money lent to enterprises also rose slightly to over 10 % of GDP. The share of rouble-denominated loans to enterprises has risen in the past year to nearly 70 % of all loans to enterprises. About 75 % of rouble-denominated loans are for less than a year, while 45 % of foreign currency loans are for less than a year.

The CBR reports that loans to enterprises account for about a third of the banking sector's total assets. About 15 % of bank assets are held in government debt securities, over 10 % are on domestic and foreign correspondent bank accounts, and 10 % is comprised of required reserves, correspondent accounts and voluntary deposits with the central bank.

CBR slightly increases its voting share after Sberbank share emission. Sberbank (Savings Bank) issued some RUB 5 billion (USD 170 million) in new shares in its recent share emission. The issue will increase the nominal value of Sberbank's share capital by more than a third. The subscription began 25 April and subscription rights were unlimited. Last Friday (11 May), Sberbank announced the subscription had been completed and that the emission had not decisively affected the company's ownership structure. The CBR increases its majority of shares and the voting majority in Sberbank to over 63 % of votes in the company. Sberbank said that the purpose of the emission was to improve the bank's capital adequacy, which had been decreased through active lending last year. The bank's minority shareholders sought a court decision to postpone the share emission. They claimed that minority shareholder rights were not respected and the subscription price set for the new shares was too low.

Sberbank controls over 30 % of total assets in the Russian banking sector. The bank's share of rouble accounts held by private individuals has remained steady at over 85 % during the past year, while the share of foreign-currency deposits has grown to around 50 %. The bank is the only bank in Russia covered by state-sponsored deposit insurance. Sberbank also provides about a third of lending to corporate clients.

Russian incomes rise in the first quarter of 2001. Real disposable incomes were up 3.2 % y-o-y in the first quarter. The growth in wages and pensions was especially brisk. Real wages were nearly 19 % and real pensions were 23 % higher than in Q1 2000. The average Russian monthly wage in March amounted to 2,867 roubles (100 dollars), while the average monthly pension payment was 910 roubles (32 dollars). At the beginning of May, the average pension was raised by law to 1,013 roubles a month.

In the first quarter of this year, 63 % of monetary income came in the form of wages, 16 % as social payments, 13 % as income from entrepreneurship, 6 % as income from property and the remaining 2 % as other income. Over 84 % of monetary income went to the purchase of goods and services, nearly 9 % to mandatory payments, about 6 % to purchase of foreign currency and 3 % to savings.

Russian Duma to extend current session to 14 July. Duma deputies said the main reason for the extension was to gain enough time to deal with passage of reform measures that have to be completed during this spring session. Some of the reforms still awaiting Duma consideration are pension reform, reform of judicial institutions, a money laundering law, reform of corporate operating licence practices, labour law reforms, amendments to the current budget act, amendments to banking legislation, as well as amendments on taxation of corporate profits and taxation under production-sharing agreements.

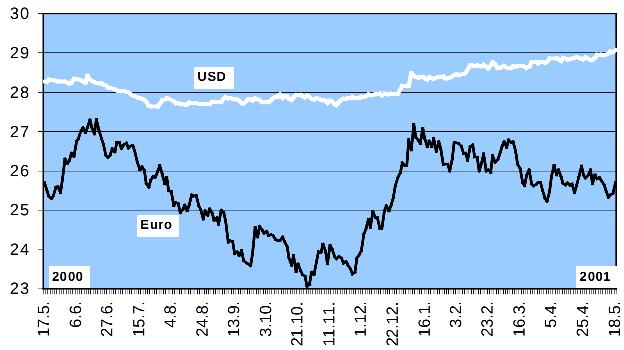
In the beginning of its autumn session the Duma will take up the land code, as well as reform of natural monopolies and political party institutions.

Brisk rise in Baltic industrial output continues. In *Estonia*, the real value of industrial sales grew in the first quarter of this year by 5.8 % y-o-y. The biggest increases were seen in production of machinery and equipment, as well as textiles and metal products. The food industry also enjoyed growth of 4.5 % y-o-y, while electricity, steam and hot water supply declined slightly.

Growth in *Latvian* industrial output continued to accelerate from last year, rising to 7.5 % in first quarter of this year – the fastest pace in the Baltics. Manufacturing was up 10.2 % y-o-y.

Lithuanian industrial output in terms of sales rose 11.8 % y-o-y in the first quarter. Manufacturing grew 14.3 % y-o-y. Lithuania's real GDP grew at a rate of 2.8 % y-o-y in Q1 2000.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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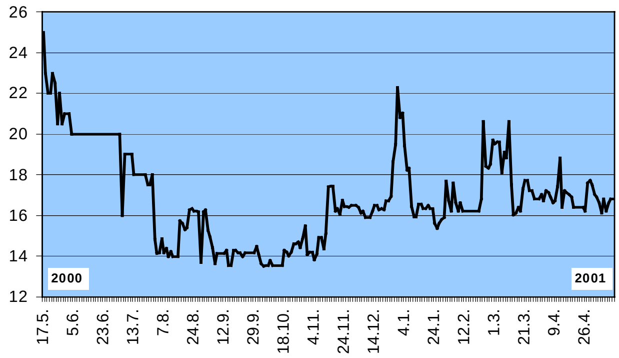
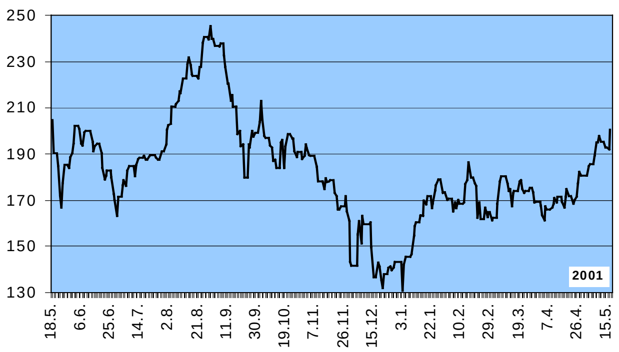


Russian share prices (RTS)



Baltic share prices
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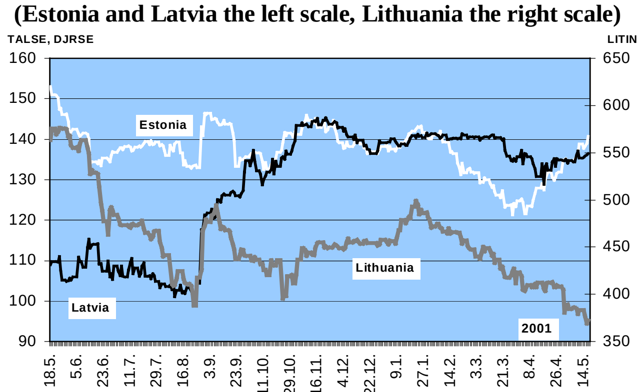

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Editor Timo Harell

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Russian & Baltic Economies
The Week in Review
21•2001

Russia-EU summit in Moscow. A week ago Thursday (17 May), leaders of Russia and the European Union met in Moscow. The summit agenda included discussions on economic policy, energy, the environment and security. The participants decided to establish a high-level working group to study the possibilities creating a common European economic space that includes Russia. EU leaders encouraged president Vladimir **Putin** to increase Russia's use of the euro in trade with the EU, as well as raise the share of euros in the CBR's currency reserves. Russian experts noted, however, that the euro can only interest Russia once its value in relation to the US dollar rises substantially from current levels. EU leaders repeated their support for Russia's WTO membership. Russia expressed its desire to have a bigger voice in European security matters.

Russian government accepts plan to reform UES. Economy and trade minister German **Gref** announced plans to divide Russia's electrical power monopoly Unified Energy Systems (UES), which is 53 % state-owned, into two companies. One company would handle the national power grid and power transfer, and the other would administer and oversee power generation and marketing. UES would cease to exist by end-March 2004. State-owned power plants would be sold off to 8 – 10 large power companies. The assets of regional power companies would be transferred to three wholly-owned UES subsidiaries, which would be responsible for power generation, transfer and distribution. The program would be implemented in three phases from 2003 to 2009. Once the program is implemented, Russia would have no more monopolies and the market would determine the price of electricity in wholesale and retail markets.

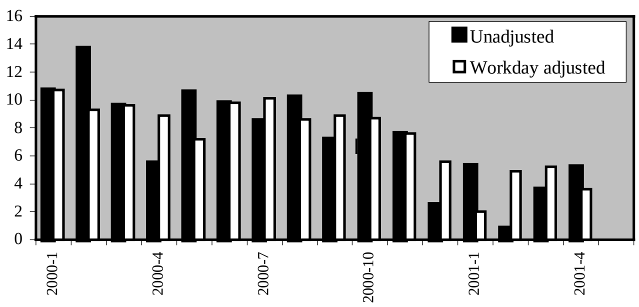
Deregulation of the electricity market is expected to boost electricity prices 100 – 120 % in the first phase, which should be in place by 2004. The higher prices are seen as necessary to finance needed investment. UES hopes for an immediate hike, while the government is seeking a more gentle, and politically more realistic approach that would give consumers time to adjust. The improved revenue stream should also lift the value of UES shares. Indeed, UES' market capitalisation has risen some 40 % since last December. On the other hand, the price of UES shares fell about 5 % on news of the plan's approval due to fears on the part of UES minority shareholders that surrendering parts of regional grids to the state threatened their own interests.

A detailed version of the plan, including a timetable, will be unveiled by prime minister Mikhail **Kasyanov** for signing within the next few weeks. A number of legal reforms will also be needed for the plan's realisation. Arthur Andersen is acting as consultant to the Russian government on the plan. The firm notes that without reforms Russia could face electricity shortages within two years.

Duma approves changes to banking laws. The Duma approved the third, and from its standpoint, final, reading of amendments to laws governing bank operations and bank insolvencies. The IMF has strongly promoted the changes for a couple of years. The changes would give more powers to the central bank for revoking banking licences, e.g. in pulling licences on banks failing to meet capital adequacy requirements. Bankruptcy proceedings would also become more straightforward so that e.g. the period of temporary administration during which the bank had an opportunity to turn itself around would be shortened from 18 months to one year. The amendments are also intended to increase the liability of bank owners and bank management, as well as improve creditor protection during the bankruptcy process. They further include new criteria for determining bank insolvency.

Russian industrial output up 5.2 % on-year in April. The change in March was 3.6 % y-o-y. The State Statistics Committee noted, however, that when the figure for industrial output was adjusted for the number of workdays, the increase was 3.6 % y-o-y in April and 5.2 % y-o-y in March. For January-April, industrial output rose 3.8 % y-o-y and the growth in output adjusted for the number of workdays was 4.4 %.

12-month change in Russian industrial output, %



Baltic trade deficits grow. The Baltics saw a substantial increase in foreign trade in the first quarter of 2001 as compared to 1Q 2000. The brisk increase in imports drove up the trade deficits in all three countries.

Estonian exports and imports rose in the first quarter by about a third as compared to 1Q 2000. The trade deficit exceeded EEK 4 billion (USD 240 million), up from EEK 3.2 billion a year ago. Estonian exports to Finland doubled, accounting for 38 % of all exports. By far, Estonia's most important export category was machinery & equipment, which increased 65 %.

Latvian imports rose 17 % y-o-y at the start of the year. The growth in exports (11 %) was driven mainly by increased exports of metal products and textiles. The largest increase was in exports to Lithuania. Germany continued as Latvia's largest trading partner, accounting for about 19 % of Latvia's total exports. Compared to Q1 2000, Latvia's trade deficit in January-March grew by more than a quarter to LTL 180 million (USD 290 million).

Lithuanian foreign trade grew 15 % y-o-y in the first quarter. Exports and imports grew as fast, raising the country's trade deficit to LTL 1.4 billion (USD 350 million). In January-March Lithuanian exports went to Latvia and Germany 17 % each. Exports to the UK tripled, making it one of Lithuania's most important export destinations.

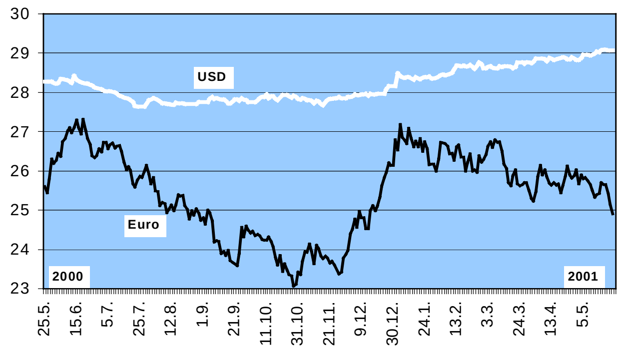
EU membership talks on track for all three Baltic nations. The Baltics have made rapid progress in their EU accession talks during the Sweden's EU presidency, which will be over at the end of June. Latvia and Lithuania belong to the second wave of accession candidates (the so-called Helsinki group), which launched their accession talks last year. Latvia and Lithuania completed their second round of talks this spring last Thursday (17 May). Estonia belongs to the first wave of accession candidates (the Luxembourg group), which began negotiations in 1998. The end of the second round of talks this spring for the Luxembourg group has been postponed to 1 June. The Baltics want to complete negotiations on all 31 chapters of the *acquis communautaire* by the end of next year.

Lithuania made the most progress this spring, concluding preliminary talks on eight chapters and bringing its total to 15 chapters. Last week Lithuania concluded negotiations on the free movement of goods and company law. *Latvia* closed chapters last week on the free movement of capital and company law. Latvia has completed negotiations on a total of 13 chapters. Going into the June negotiations, *Estonia* has already received preliminary agreement on 18 chapters.

According to a public opinion poll commissioned by Estonian authorities, Estonians, of all citizens in accession countries, are the most critical of EU membership. A recent poll found that only 36 % of Estonians interviewed supported EU membership, while 53 % were opposed and 11 % were undecided. Opinion polls also indicate that the proportion of Estonians opposing EU membership has risen substantially during this spring. Some 41 % of Latvians support membership, while 26 % oppose it. Some 50 % of Lithuanians support EU membership, while 28 % oppose it.

Lithuanian parliament decides to ratify European Social Charter. In 1997, Lithuania signed the European Social Charter, which guarantees citizens fundamental social and economic rights. Lithuania's parliament now ratified 86 articles of the Charter. However, twelve articles were not ratified because Seimas representatives felt that the country still lacks the resources to commit to them. These points included raising the minimum wage to 60 % of the average wage and improvement of the social status of the elderly. The Social Charter was introduced in 1965, and updated in 1996. The 23 nations that comprise the Council of Europe have signed the latest version. Estonia ratified the Social Charter last September, while Latvia has yet to ratify it.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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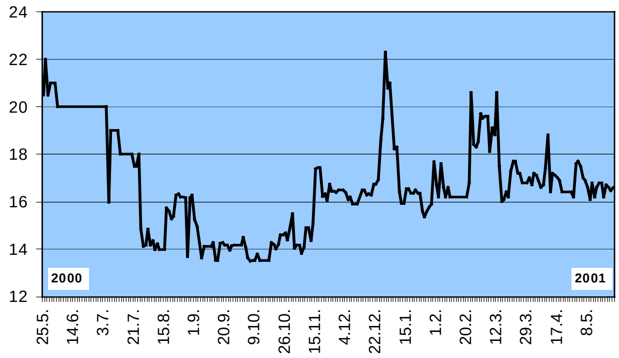
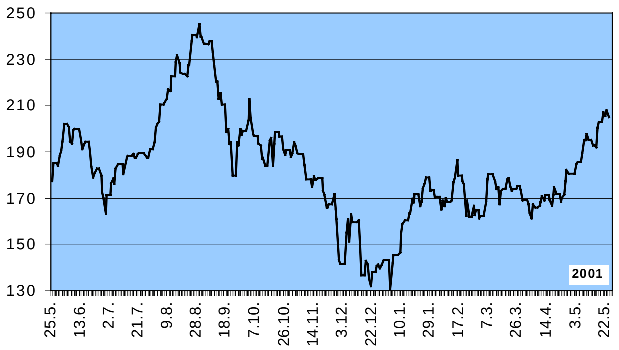


Russian share prices (RTS)



Baltic share prices
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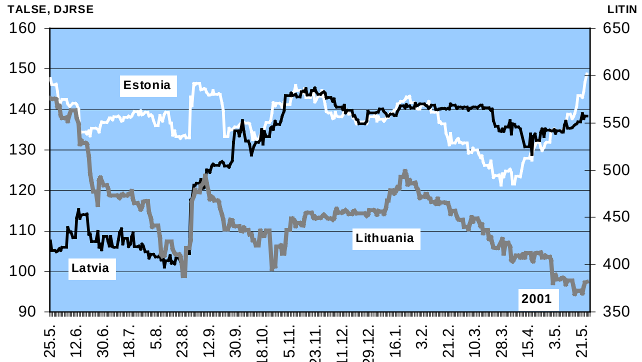

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Russian & Baltic Economies
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22•2001

Gazprom gets new CEO. At Gazprom's board meeting on Wednesday (30 May), the board voted to replace Rem **Vyakhirev** (66) with deputy energy minister Alexei **Miller** (39). President Vladimir **Putin**, however, gave his support to the appointment of Vyakhirev as the gas giant's board chairman. The selection of Miller came as a surprise. He had never previously been mentioned as a possible candidate for the CEO post. Miller earlier worked with Putin in St. Petersburg's city government and is believed to share the government's views on reform. Miller said that Gazprom would not be broken up and would seek to make its finances more transparent and assure efficient investment. The price of Gazprom shares on the Moscow and London exchanges rose immediately after the announcement of the CEO change.

The Russian state owns 38 % of Gazprom. Representatives of the Russian government hold five of the board's eleven seats. The executive group has four seats, and the German Ruhrgas has one seat. The eleventh seat belongs to former Duma deputy Boris **Fyodorov**, who represents minority shareholder interests. Gazprom controls approximately one-fourth of the world's natural gas reserves and gas production. The company is responsible for nearly 95 % of Russia's natural gas production and 8 % of Russian GDP.

Russian share prices up from the start of the year. The Russian Trading System (RTS) index, which indicates the development of Russian share prices, has risen from January lows of around 130 to above 200 points. Russia's equity markets are still quite thin, however. This mainly accounts for the wide swings over the past twelve months. Last August, for example, the RTS index was close to 250.

Since the beginning of this year, the RTS index has deviated from the NASDAQ in the US and avoiding the sharp drops seen on most bourses in the emerging markets. In fact, the RTS has essentially tracked the world price for crude oil, which shouldn't be surprising, given that energy companies account for about two-thirds of market capitalisation of shares traded on the RTS. The announcement of a new CEO at gas giant Gazprom lifted the RTS index to 205.55 on Wednesday (30 May).

Russia approves reform of national railways. Prime minister Mikhail **Kasyanov** last week confirmed a plan, whereby the railways authority would be reformed and partly privatised during this decade. In the first phase of the plan (2001-2002), the railways ministry's regulatory duties would be separated from actual operations. One company would be created to oversee the national railway infrastructure and to run various operations, while several competing firms, each owning their own rolling stock, would be created to handle freight services. These would all share equal access to the national railway system.

To attract investment, the government would then spin off during the second phase (2003 – 2005) those parts of the railways that handle passenger traffic, special freight, maintenance and spare parts supply, as well as deregulate pricing. The third phase of the reform would focus on privatisation of the firms in the rail business.

Russia doubles export tariff on natural gas. The Russian government has increased the export tariff on natural gas from 5 % to 10 %. The new export tariff sets a minimum of 5 euros per thousand cubic metres of gas. The increase comes into force one month from the date of its announcement. The finance ministry said high gas prices justified the tariff hike, as during the past twelve months the gas price has risen from around 70 dollars to over 100 dollars per thousand cubic metres. The finance ministry expects Gazprom to pay an additional USD 400 million in taxes this year. Gazprom opposes the hike, claiming it hurts the company's investment plans.

Russian right combines efforts to form new party. Nine small right-wing groups in the Russian Duma have formed Russia's newest political party. The party was christened the Union of Right-wing Forces (SPS) at last Saturday's (27 May) founding meeting. The group's Duma leader Boris **Nemtsov** (41) was chosen as the new party chairman. SPS also selected a 32-member governing council made up of well-known, reform-minded politicians that included Anatoly **Chubais** (head of electricity monopoly UES), Yegor **Gaidar** (head of the Transition Economy Institute), Sergei **Kiriyenko** (former prime minister and presidential representative), and Irina **Khakamada** (Duma deputy speaker). The new party has 33 representatives in the Duma.

Baltic insurance markets increase international integration. On 17 May, the Danish insurance company Codan acquired a 73 % stake in the Latvian Balta insurance company. The stated sale price of USD 25 million will be confirmed on 1 June. Balta is Latvia's leading insurance company, and its minority shareholders include the Finnish Sampo. Codan, in turn, holds the majority stake in Lithuania's largest insurance company, Lietuvos Draudimas. Codan has also expressed interest in the Estonian insurance market. Sampo Eesti Varakindlustus, Estonia's largest insurance company, is a subsidiary of a major Finnish insurance group.

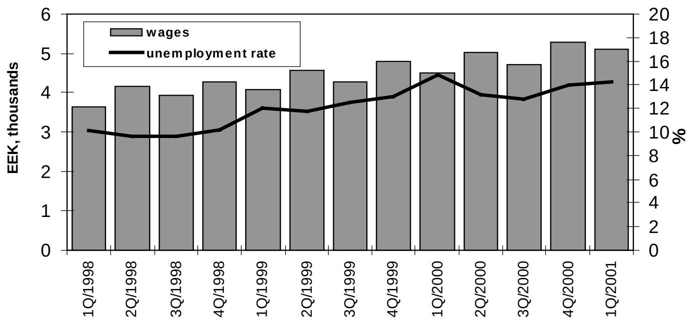
The international AON group has purchased Lithuania's largest insurance broker, Finalas. Last year, Finalas accounted for 10 % of the Lithuanian market. AON began its operations in Estonia two years ago.

Estonian unemployment remains high. Estonian unemployment (based on ILO calculation methods) in the first quarter of 2001 averaged 14.2 %, or slightly higher than at the end of last year. In Q1 2000, Estonian unemployment rate was 14.8 %, its highest level since independence.

The average gross monthly wage in Estonia rose 13.3 % y-o-y in the first quarter. The average monthly wage was 5,100 kroons (300 dollars). The highest average wage, over 13,000 kroons a month, was paid in the finance sector. The lowest average wage was in agriculture, 2,800 kroons a month.

Disposable income per household member was 8 % higher in the first quarter than in Q1 2000. Household expenditure rose 7 % y-o-y.

Estonian unemployment rate and average gross wage



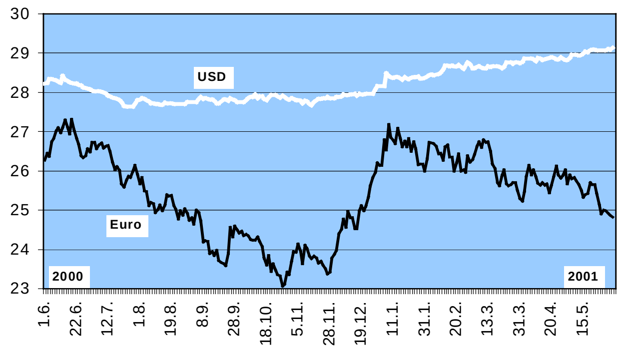
Anatoly Kinakh becomes Ukraine prime minister, Viktor Chernomyrdin named Russia's ambassador to Ukraine. On Tuesday (29 May), Ukraine's 450-member parliament elected Ukraine's Union of Industrialists and Entrepreneurs leader Anatoly **Kinakh** as prime minister in a vote of 239 for. Mr. Kinakh, who was nominated by president Leonid **Kuchma**, had support from the Democratic Union, Greens, Labour Ukraine, Yabloko, Ukraine's Regions and Solidarnist. Among those continuing from the former cabinet of Viktor **Yushchenko** were Oleg **Dubina** (deputy prime minister), Anatoli **Zlenko** (foreign minister), Oleksandr **Kuzmuk** (defence minister) and Yuri **Smirnov** (interior minister).

Kinakh, whose earlier posts include deputy prime minister and administrative head of the Nikolayev region, promised to defend the previous government's achievements. Western observers, however, have remained sceptical of implementation of Ukraine economic reforms. The IMF also interrupted its lending program to Ukraine earlier this year.

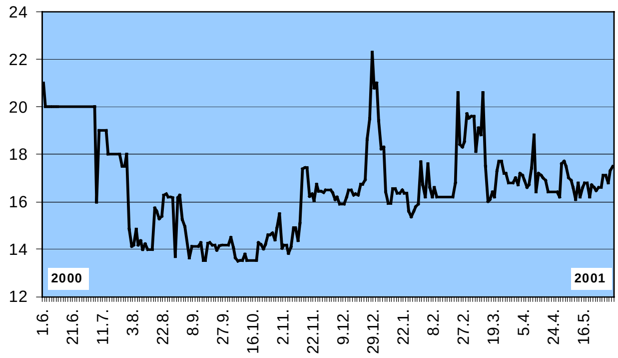
In connection with the prime minister's nomination, Kuchma also gave a decree to establish secretary of state posts for the cabinet and ministries. These posts are intended to strengthen the president's influence. The president will appoint secretaries of state to serve five-year terms concurrent with the president's term. The post would therefore be immune to changes in government.

Last week, Russia's president named long-time prime minister and former head of Gazprom, Viktor **Chernomyrdin** (63) as Russian ambassador to Ukraine.

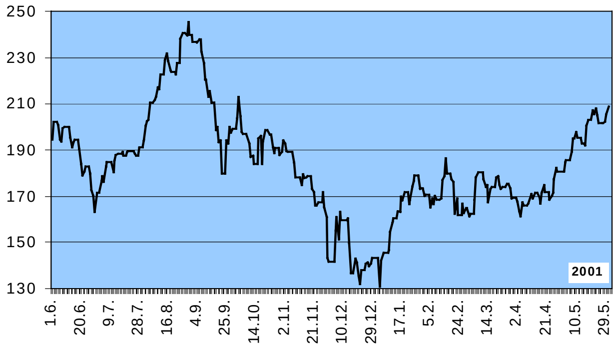
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



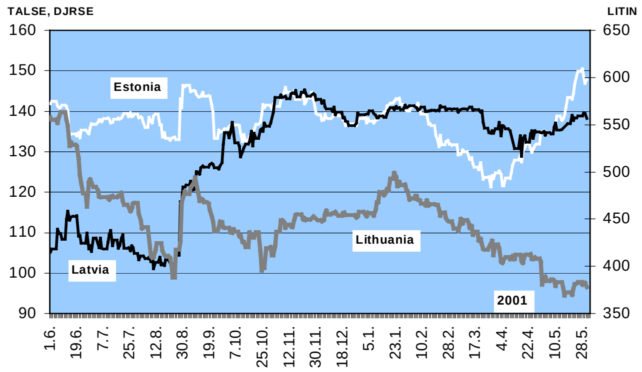
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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June 8, 2001

Russian & Baltic Economies
The Week in Review
23•2001

Russian May inflation continues at April's pace. Consumer prices rose 1.8 % in May. As in April, the 12-month change was nearly 25 %. Consumer prices rose 10.9 % y-o-y during January-May. The change during the same period in 2000 was 6.8 % y-o-y.

Amendments to act on production-sharing agreements move ahead in the Duma. On 23 May, Russia's lower-house Duma approved the second and third readings of amendments to the act on production-sharing agreements. The amendments applies to "direct sharing" arrangements, whereby investors hand over a certain percentage of their output to the Russian state in lieu of profit taxes. The change enables the Russian state to secure its revenues independent of world prices. Russia's oil industry, however, believes the arrangement can only benefit them when the world price of oil is high and their production costs are low. Foreign investors see a threat of double taxation if taxes paid to the Russian state in the form of raw materials are not considered in their home country taxation. The proposed amendments must still be approved by the Federation Council and get the president's signature to become law.

Due to the Duma's slowness in approving production-sharing agreements and uncertainty over the status of foreign investors, foreign investments in production of Russian oil and gas continue to be modest. The original production-sharing act, approved in 1995, has been amended several times and more changes are expected. Under current law, up to 30 % of Russia's oil, gas and raw material resources can be developed under production-sharing agreements.

Russia raises export tariffs on crude oil and import tariffs on white sugar. The new export tariff on crude oil is 30.5 euros per tonne, up from 22 euros per tonne earlier. Russian officials based the increase on the rise in oil prices and the euro's fall in relation to the US dollar. The export tariffs on gasoline, diesel and fuel oil remain unchanged. Export tariffs are reviewed every two months to make sure they are in line with prices on world markets.

Russia has also decided to increase its import tariffs on white sugar from 30 % to 45 % for the next six months. The increase is intended to protect domestic sugar production during the growing and harvest seasons for sugar beets. The rulings will go into effect in 30 days.

Households to bear a larger share of Russian housing costs. The Russian government approved the general guidelines of a housing reform program aiming to reallocate the costs of housing and communal services. After minor adjustment, the program will be resubmitted to the government at end-June for review. The program is intended to shift the burden of housing costs and communal services to residents during 2003. If housing costs exceed a set share of a family's gross income (22 – 25 % during 2001– 2003), the family will become eligible for housing support. Wealthy Russians will be expected to get by without subsidies from the start of 2002. However, it remains unclear what constitutes wealthy in Russia. The government hopes that the condition of buildings will improve and that they will be properly maintained once the sector is fully financed.

As recently as 1994, Russians personally contributed only a few per cent of their actual housing costs. Last year, Russians paid about 40 % of their total housing costs after deducting for housing supports. Housing costs rose nearly 27 % y-o-y in the first five months of this year.

World Bank holds back loan tranches to Latvia and Lithuania. The World Bank decided to postpone the second USD 40 million tranche of its structural adjustment loan to *Latvia*, because it was not satisfied with Latvia's progress in pension reform, privatisation and administrative reform. Latvia's privatisation efforts collapsed last month when the privatisation sale of the Latvian Shipping Company (LASCO) failed to go through. In addition to LASCO, the World Bank expects progress this year in the privatisation of Ventspils Nafta, which handles oil transhipping, and natural gas distributor Latvijas Gaze.

The World Bank also postponed release of a tranche of its structural adjustment loan to *Lithuania*. Again, it was dissatisfied with the pace of reforms in Lithuania's energy and agricultural sectors. Privatisation of the national gas company and restructuring the power utility are running about six months behind schedule. The release of the second half of a USD 100 million loan intended for reforms of the pension system, the private sector, energy and agriculture, and budget management was originally expected in July.

Baltic budget deficits fall. According to preliminary figures, *Estonia's* public sector deficit in the first five months of this year amounted to EEK 130 million (USD 7.6 million). The deficit for all of 2000 was EEK 600 million, or 0.7 % of GDP. As of end-May, 38 % of this year's budgeted income had been collected. According to the finance ministry's budget proposal, the budget will grow nearly 10 % next year. The largest factors increasing the budget are higher defence expenditures and reform of the pension system.

Latvian officials report that the country has done a good job this year in keeping to its public sector deficit below 1.8 % of GDP as agreed with the IMF. In 2000, Latvia's public sector deficit was 2.8 % of GDP.

Lithuania's goal is to keep its public sector deficit this year below 1.4 % of GDP. Since the start of the year, public sector expenditures remained within the budget limits, but revenues ran slightly below target. Last year's deficit amounted to 2.8 % of GDP. The draft budget for 2002 assumes budget growth of about 10 % and the public sector deficit, as agreed with the IMF, is assumed to be 1.3 % of GDP.

Five-member CIS Customs Union becomes Eurasian Economic Community. The new economic area of Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan was created in Minsk on 31 May, after the member-countries had ratified the founding treaty they signed in October 2000. Kazakhstan president Nursultan **Nazarbayev** was chosen chairman of the Eurasian Economic Community's inter-state council.

Separate alliances and unions of several countries have long characterised the twelve-member Commonwealth of Independent States. The five countries in the CIS Customs Union plus Armenia, Azerbaijan, Georgia and Uzbekistan signed Collective Security Treaty in 1992. Azerbaijan, Georgia and Uzbekistan later dropped out of the agreement.

In 1992, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan joined ECO, the Economic Cooperation Organization, originally established by Iran, Pakistan and Turkey.

In 1998, Georgia, Ukraine, Azerbaijan and Moldova created the GUAM alliance for economic and military cooperation. With the later membership of Uzbekistan, the alliance changed its name to GUUAM.

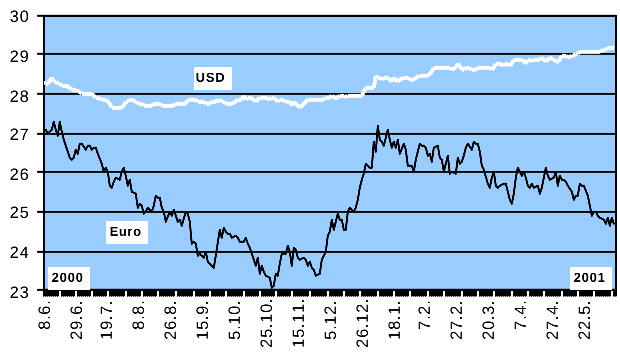
Last week, Kazakhstan, Kyrgyzstan, Tajikistan and Russia signed an agreement on creating joint rapid response forces.

Finland runs trade deficits with Estonia and Russia. According to foreign trade figures released by the Finnish customs, Finland ran a deficit in its trade with Russia in the first quarter of 2001. Finland also began to run a trade deficit with Estonia after imports from Estonia more than doubled in the first quarter as compared to the same period a year earlier. Finland ran slight trade surpluses with Latvia and Lithuania on very modest trade.

Finnish foreign trade, January-March 2001

Country	Export		Import	
	mln euros	change, %	mln euros	change, %
Estonia	273	-27 %	427	125 %
Latvia	61	-5 %	13	57 %
Lithuania	43	12 %	11	25 %
Russia	534	27 %	948	23 %

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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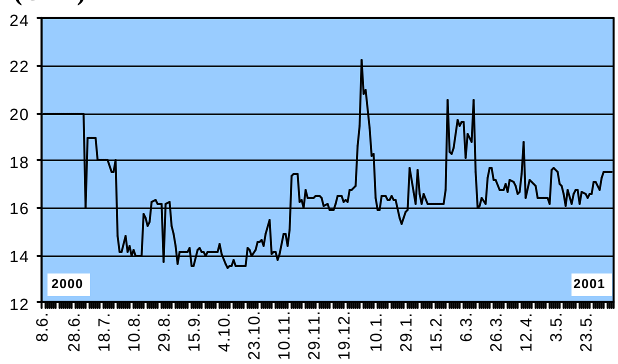
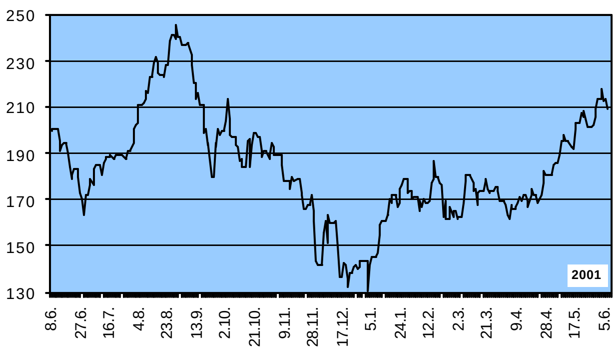


Russian share prices (RTS)



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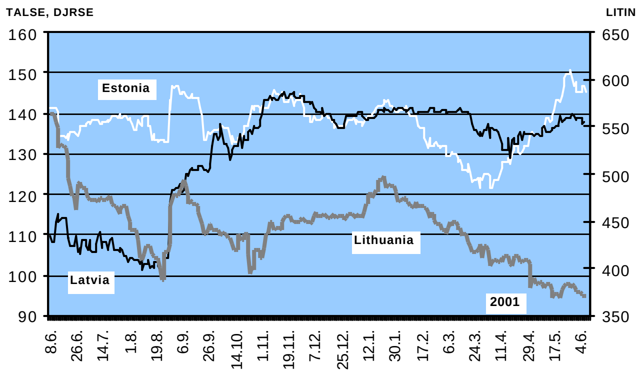

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Editor Timo Harell

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Russian & Baltic Economies
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24•2001

Russian government approves 2002 budget framework. The government's budget proposal envisions revenues next year of RUB 1,642 billion (16 % of GDP) and expenditures of RUB 1,513 billion (14.7 % of GDP). The resulting surplus would be 1.3 % of GDP. If pension reform is implemented next year and a share of pensions are paid out of the federal budget, income would be RUB 1,895 billion (18.5 % of GDP) and expenditures of 1,766 billion (17.2 % of GDP). The surplus would remain the same. The draft budget assumes that Urals crude will average 22 dollars a barrel next year. Inflation is assumed to run in the range of 12 – 13 % and the average exchange rate is assumed to be 31.5 roubles to the US dollar.

The 2002 draft budget commits increased funding to the defence sector, the social sector, education, science and regional budgets. Prime minister Mikhail **Kasyanov** said that Russia expects to be able to service its debts in the next few years without further restructuring. Russia's debt servicing costs will peak in 2003 at around USD 19 billion. The government also decided to establish a stabilisation fund next year. The operating principles of that fund will be defined in the 2002 budget act.

FDI inflows to Russia up slightly... The State Statistics Committee reports that foreign direct investment (FDI) inflows into Russia in the first quarter of this year amounted to USD 960 million, compared to about USD 850 million in Q1 2000. The CBR's preliminary balance of payments information, on the other hand, indicate that FDI amounted to less than USD 500 million dollars.

The State Statistics Committee noted that about a quarter of FDI in the first quarter went to the trade sector, while about a fifth went to the transport sector. About 40 % went to support industrial activity, with oil production, metallurgy and food processing each representing about 10 %. The total FDI stock in Russia at the end of the Q1 2001 stood at around USD 16 billion. Of these, US-based investment accounted for about a third, followed by Germany and the Netherlands with around 8 % each and the UK with 5 %. Cyprus accounted for over a fifth of FDI inflows, which gives an indication that slightly more Russian capital than earlier is being repatriated for investment purposes.

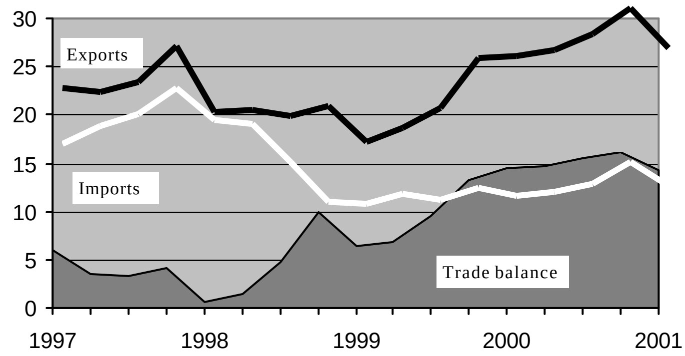
... but growth in investment slowing. Total investments in Russia in January-April were up 4 % from the same period in 2000, when growth exceeded 17 % y-o-y. In the first quarter, companies financed about 50 % of their investments out of their own cash flows. Nearly a fourth of investments were financed from public sector budgets, of which regional and local budgets accounted for 13 %. The federal budget's share was 4 %. Banks provided just 4 % of investment financing.

In Q1 2001, approximately a fourth of total investments was made by the oil and gas industry and over 6 % by metallurgy enterprises. Machinery and equipment and the food industry each took in 3– 4 % of total investments. Transportation accounted for over a fifth of investment, while the housing sector's share was 14 %.

Growth in Russian exports slows, growth in imports continues. The State Statistics Committee reports that Russian *exports* rose 4 % y-o-y in the first quarter (down from over 20 % y-o-y in Q1 2000). Exports were estimated at USD 25 billion, of which export to non-CIS countries were worth nearly USD 22 billion. Exports to non-CIS countries rose 6 %. *Imports* increased 10 %, although growth slowed from the second half of last year. Imports in the first quarter were USD 11 billion, of which imports from non-CIS countries amounted to nearly USD 8 billion. Imports from non-CIS countries measured in dollars were up 11 %, and nearly 20 % measured in euros. The trade surplus was around USD 14 billion, which is essentially unchanged from the Q1 2000.

The drop in world prices for crude oil slowed growth in exports in the first quarter. On the other hand, the volume of Russian crude oil exports rose over 6 % y-o-y. Moreover, the export price for natural gas was about 40 % higher than a year ago, which easily offset a more than 15 % drop in the export volume. The slowing of investment growth was reflected in lower growth of imports of machinery and equipment – a modest 8 % y-o-y increase. Machinery and equipment imports from outside the CIS grew less than 2 % y-o-y.

Russian foreign trade 1997 – 2001, USD billion



Russian Duma approves import of spent nuclear fuel. On 6 June, the Duma approved the second reading of amendments to the act on nuclear energy and the act on the environment that would open the way for imports of spent nuclear fuel for treatment, reprocessing and temporary storage in Russia. Despite opposition from environmental groups and many scientists, the president and government support the idea. The decision was reached in the Duma in a vote of 243 to 125. The only opposition came from the reform-minded Union of Right-wing Forces and Yabloko.

The global stock of spent nuclear fuel is currently around 200,000 tonnes. The Russian government estimates that Russian facilities have sufficient capacity to reprocess about 20,000 tonnes of spent nuclear fuel over the next ten years, and that such operations would generate over USD 20 billion for the state. The government would use its earnings from handling spent nuclear fuel to clean up polluted areas and improve nuclear safety.

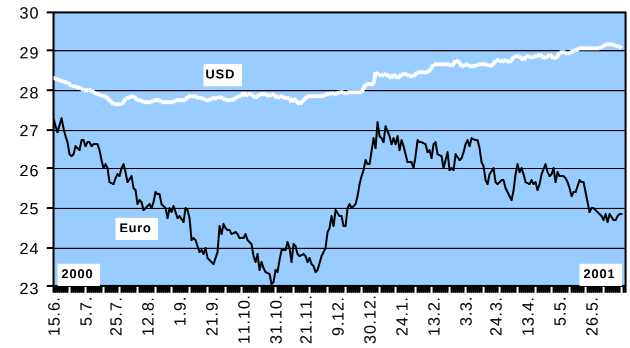
Russia's Customs Committee declares that private individuals from the CIS states must pay VAT on import items. State Customs Committee announced that from the beginning of July private individuals must pay value-added tax on goods they bring into Russia with the intent to sell. The change applies to trade among CIS states, where earlier possible VAT has been assessed for private individuals on a country-of-origin basis. With the shift in Russian tax legislation on 1 July, VAT will be collected from individuals on a country-of-destination basis. Thus, a private individual will now pay VAT to Russia. One probable reason for the reform is the large share of unregistered goods imports flowing into Russia.

Baltic inflation picks up in May. The annual inflation rates in Baltic countries in May were higher than analysts expected. In *Estonia* consumer prices were up 6.9 % y-o-y, 2.7 % in *Latvia* and 1.7 % in *Lithuania*. The inflation was mainly accelerated by rises in food and housing prices. According to some economists, Estonia's higher inflation reflects increased demand resulting from higher real wages and greater purchasing power.

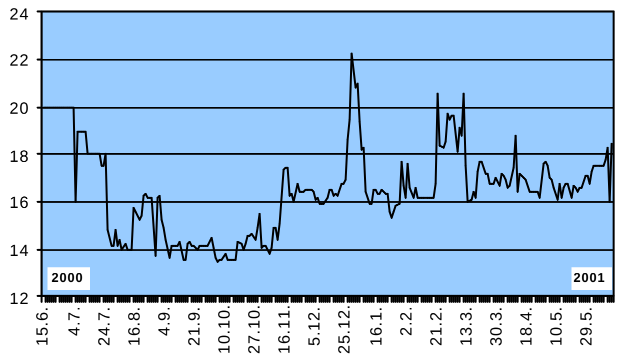
Pulp mill project would have major impact on Latvian economy. A study commissioned by Latvian officials has found that a pulp mill project proposed by the Latvian state, the Finnish Metsäliitto Group and the Swedish Södra Group would increase Latvian GDP by 5 % or EUR 335 million. The mill, which would have a designed capacity of 600,000 tonnes of pulp a year, could generate net exports worth around EUR 270 million a year. The project would have a profound impact on state revenues, and, when completed, would employ 630 people. The total project investment would amount to EUR 966 million. Mill construction would take three years.

The Latvian state has negotiated with Metsäliitto and Södra on project since 1998. The joint-venture company established by the partners to promote the mill project issued positive comments about the project's progress. The Latvian government decided to make its equity investment to the company in form of cash rather than cutting rights in state forests. Thus, the Latvian state will contribute EUR 130 million and hold a one-third stake in the mill. Södra and Metsäliitto will hold the other two-thirds. The promoters still want the government to guarantee 40 % of the plant's raw material supply beforehand.

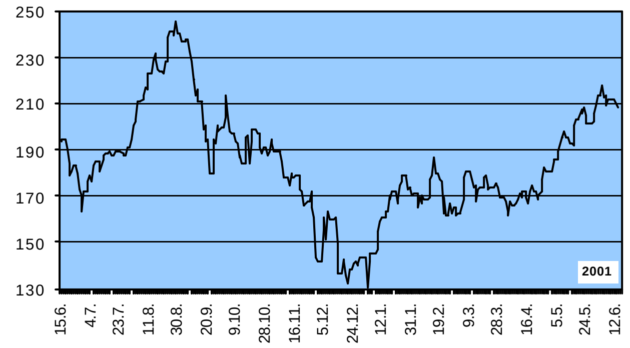
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
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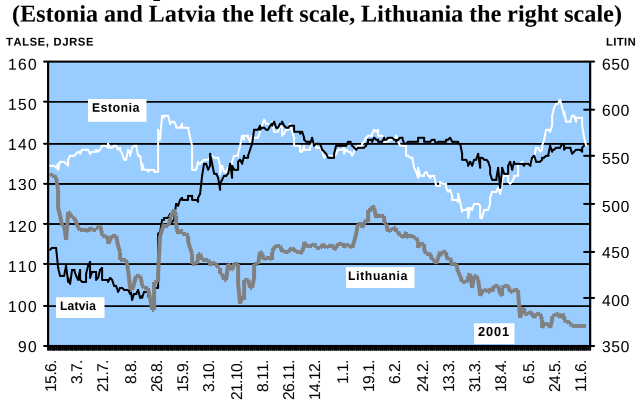

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BANK OF FINLAND
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Russian & Baltic Economies
The Week in Review
25•2001

Duma approves first reading of land code. Last Friday (15 Jun.), the Duma approved the first reading of a new land code by a vote of 251 to 22 – after deputies for the Communist and Agrarian parties marched out in protest. The heated, at time physical, exchange preceding the vote included the charge that the government was selling Mother Russia. Outside the Duma, several hundred protesters expressed opposition to the code.

The government's code excludes farmland (which will be dealt with in a later bill) and focuses mainly with municipal and industrial land, which, according to economy minister German **Gref**, constitutes just a few per cent of Russia's total land area. The code proposes that buildings and structures cannot be privatised unless the lots they are on are also privatised. Moscow and St. Petersburg would be exempted, as there are plans for separate ordinances on their land ownership.

In addition to land code, there are regulations concerning land ownership in several federal laws and regional regulations. The Russian constitution simply mentions private ownership as a permitted form of land ownership. Chapter 17 of the civil code defines general issues related to land ownership, including the right to sell land. This chapter will come into force when the land code is enacted. The land code gives more specific definitions to e.g. general principles of land ownership, maintaining land title registries and zoning.

The second reading of the code will take place next month, and will apparently contain changes. After the first reading, the supporters of the code demanded that it deny non-citizens the right to own land. Many feel the code is too vague and gives regions excessive decision-making power in land issues.

Putin and cabinet support lower profit tax. Economy minister **Gref** announced that the government and the president support lowering the profit tax from its current level of 35 % to 25 %. In exchange, enterprises would give up all deductions and exemptions. Eight percentage points (about one-third) of the revenue would go to the federal budget, and the remaining 17 percentage points (two-thirds) would go to regional budgets. Additionally, regions would have the option of reducing their share of the profit tax up to 5percentage points. Tax reforms aimed at agriculture are still under consideration. In the first reading of the profit tax bill in April, the profit tax was kept at 35 % with tax breaks.

According to the government's calculations, the changes to the profit tax rules will reduce the tax burden on companies and lower budget revenue by RUB 100–110 billion (around USD 3.5 billion). Profit tax revenues of the consolidated 2000 budget amounted to RUB 399 billion, or approximately 19 % of total budget revenues.

Russian industrial output rises 7.0 % on-year in May. Industrial output in April was 5.2 % y-o-y. On month, May industrial output was 0.2 % lower that in April. During the period January-May, industrial output increased 5.9 % y-o-y.

Final approval postponed for plan to revamp UES. Economy minister German **Gref** reported that the government will make its final decision on the reshaping of the Russian electricity monopoly Unified Energy Systems (UES) within the next three weeks. On 19 May, the government accepted a basic framework for the plan while leaving open details to be resolved by competing working group. The final plan, including timetable for implementation, was originally set for approval this week. The decision was postponed, however, due to inconsistencies between the government's plan and the alternative proposal, which is supported by UES minority shareholders and backed by the Kremlin. The government claims that the state should control both the national power grid and the system operator. Some of the grid belongs to regional companies at present – a situation the rival working group would like to see continue.

The Russian state currently owns 53 % of UES, which in its current embodiment would cease to exist in 2004. State-owned power plants would be shifted to 8–10 large power companies. Ownership of regional power utilities would be administered by three UES subsidiaries that would be responsible for power generation, transfer and distribution. The restructuring program would be implemented in three phases during 2003–2009.

Duma dumps anti-corruption bill for third time. The Duma rejected the latest version of an anti-corruption bill in its first reading (13 Jun.). The president and the government also joined in the Duma's rejection. A spokesperson for the president noted that passage of the bill in the form presented to the Duma would have generated substantial added costs without any apparent source of funding. Opponents to the bill also felt it was in conflict with Russia's constitution, because it gave the authorities excessive powers to intrude on the private lives of citizens.

Unemployment insurance now mandatory in Estonia. Estonia's parliament approved on 14 June an act that makes unemployment insurance mandatory for all employees. When the law goes into force next year, the unemployment insurance contribution will be 1.0 % of the gross wage for employees and 0.5 % for employers. The unemployment benefit for the first 100 days following termination would be half of the original wage, and thereafter 40 % for up to one year. Presently, Estonians are only eligible for a nominal unemployment payment of 400 kroons (25 dollars) a month.

Latvian economic growth continues robust. Latvian GDP rose at a brisk 8.2 % y-o-y in real terms in January-March. Latvia's GDP growth was the highest among Baltic states, as in Estonia the GDP grew 5.1 % and 2.8 %

in Lithuania. Latvian GDP rose 6.6 % in 2000. Analysts expect economic growth to slow slightly towards the end of this year, with overall economic growth coming over 5 %.

Services rose 8 % y-o-y, and accounted for 71 % of GDP. Latvia's main service sectors – wholesale and retail trade, transport and communications – grew at around 10 % y-o-y. Manufacturing, which represented 15 % of GDP, grew 11 %. The main manufacturing fields – furniture making, wood processing, textiles and metal fabrication – all grew rapidly. Construction in the first quarter rose 5 % y-o-y. Agricultural output fell 4 %.

Fixed investments in Latvia in the first quarter rose 11 % y-o-y, or 14 % of GDP. Most investments went to the transport and communications sector. Two-thirds of investments were made in and around Riga.

YUKOS and Williams agree on oil deliveries and ownership arrangements for Mazeikiu Nafta. The US-based Williams Group and Russian oil producer YUKOS reached a preliminary equity agreement, whereby YUKOS promises to supply annually 4.8 million tonnes of crude oil to Lithuanian oil refiner Mazeikiu Nafta, and export 4 million tonnes of oil through Mazeikiu Nafta's Butinge oil terminal annually over the next ten years.

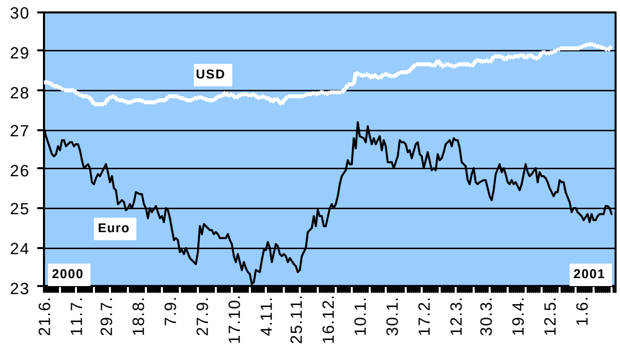
In exchange, YUKOS gets to acquire 26.85 % of the company's shares at a price of LTL 300 million (USD 75 million) and the duty to grant Mazeikiu Nafta another LTL 300 million in loans for five years. Williams retains its voting majority in Mazeikiu Nafta, but its ownership falls from the current 33 % to 26.85 %. As a major shareholder the Lithuanian government has to approve the agreement. Officials hope that the deal can be finalised by mid-September.

The Lithuanian government sold a third of Mazeikiu Nafta to Williams in 1999. Subsequently, the refinery has found it difficult to secure adequate crude oil supplies from Russian LUKoil, which also sought to buy the refining operation. LUKoil was only willing to assure adequate and timely oil supplies for Mazeikiu Nafta if it was willing to give LUKoil operational control in the company.

The Mazeikiu Nafta facility generates about 10 % of Lithuania's GDP. During the first five months of this year, the refinery produced an operating loss of LTL 12.7 million (USD 4.2 million). The refinery, which has an annual capacity of 12 million tonnes, refined just 5 million tonnes of crude oil last year.

Lithuanian government in crisis. Lithuanian prime minister resigns. After months of wrangling over privatisation of the energy sector and reform of taxes, agriculture and pensions, prime minister Rolandas **Paksas** tendered his resignation on Wednesday (20 Jun.). He followed six cabinet ministers from the centre-left New Union, who departed on Monday. President Valdas **Adamkus** accepted the prime minister's resignation and named Eugenijus **Gentvilas** as acting prime minister. Mr. Gentvilas served as economy minister up until last Monday.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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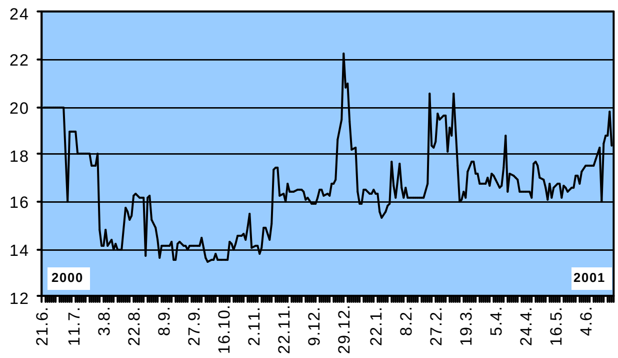

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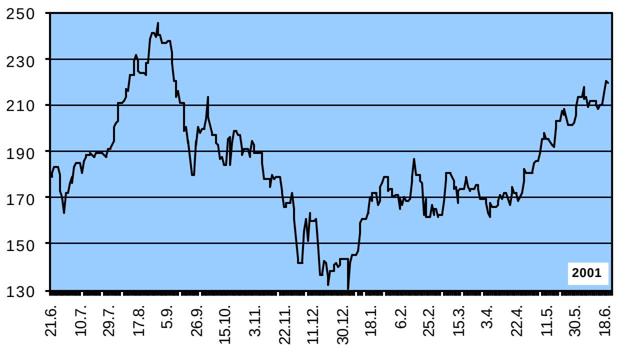

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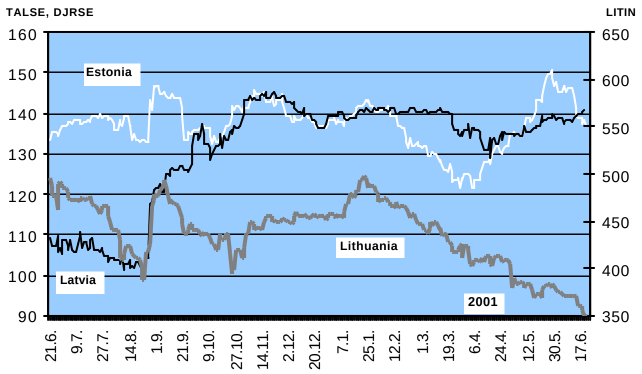

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The Week in Review
26•2001

Duma approves second reading of profit tax bill. Last Friday (22 Jun.), Russia's lower-house Duma voted to lower the profit tax on corporations and banks. If the profit tax bill wins passage in the Duma and Federation Council in its current form, the profit tax will be 24 % from the start of next year. President Vladimir **Putin** and the cabinet sought reduction of the profit tax to 25 % while the Duma asked for 23 %, so 24 % is seen as a reasonable compromise. In exchange for the lower tax rate, deductions will be eliminated.

Most of the revenues from the profit tax will go to regional budgets, which will get about 60 % (14.5 percentage points) of profit tax revenues. The federal budget will get some 31 % (7.5 percentage points) and local budgets about 9 % (2 percentage points). Regions will also have the option to lower the profit tax up to four percentage points. The reduced profit tax is expected to lighten the tax burden on enterprises and reduce state tax revenues by RUB 160 billion (USD 5.5 billion). The reform will cut mainly the revenues of regional and local budgets. It is yet unknown how the loss of revenues will be compensated for.

Russian GDP grew 4.9 % in the first quarter. Growth has clearly slowed since last year, when GDP grew 9 % in the first quarter of 2000. Compared to Q4 2000, GDP in the first quarter contracted 12.7 %. The government's official growth estimate for 2001 is about 4 %, but economy minister German **Gref** believes growth will exceed 5 %. President **Putin**'s economic adviser Andrei **Illarionov** forecasts GDP growth in the range of 2–3 % for 2001. Revised figures for 2000 showed GDP growth of 8.3 %.

Russian unemployment fell in May. Russia's unemployment rate in May as measured by ILO methods was 9.2 %, which means about 6.6 million people unemployed. Of these, just a million are officially registered as unemployed. Russia's ILO-measured unemployment rate stood at 9.6 % in April and 11.4 % in May 2000.

Duma postpones second reading of money laundering bill. On 27 June, the Duma moved review of a bill on money laundering to early July after numerous deputies expressed concerns that the bill still needed further polishing. The government continues to urge passage of the bill soon, however, because the Financial Action Task Force (FATF), an international agency devoted to fighting money laundering, has threatened to impose economical restrictions at the end of September unless Russia shows progress on measures to curb money laundering.

The bill is designed to improve international cooperation in money laundering cases. It requires Russian officials to work with their foreign counterparts in information gathering, preliminary investigations, trial preparations and enforcement of court rulings.

Russian government moves ahead on coal industry reform. On 14 June, the Russian government revealed its plan to reform the coal industry through 2004. The program seeks to eliminate all highly unprofitable mines, while those that remain in business will be modernised and made more productive. The government said that measures on the part of the energy ministry have already reduced state supports paid to the coal industry, caused improvement in the sector's leading indicators and resulted in production targets being met. The government further claims that mine safety and social benefits for workers have improved. At present, some 70 % of Russian coal enterprises have been privatised.

According to the government the number of unprofitable mines to be closed down between 2000 and 2002 will be increased by half compared to original plans. The government has already submitted a supplementary budget to the Duma that includes a request for an additional RUB 800 million (USD 28 million or EUR 32 million) for restructuring of coal companies this year.

Alcohol excise tax stumbles. On 1 June, Russia introduced new system of region-based regulation of tax seals that divides the responsibility for payment of alcohol excises between producers and wholesale distributors. Under the plan, producers would pay their share of taxes to the federal budget, then stamp a tax seal on the bottle and deliver their products to a bonded warehouse approved by the tax authorities. Warehouse owners, in turn, whether producers or distributors, would then pay their share of the excise tax to the regional budget and affix a second seal to the bottle. Earlier, only producers paid the excise.

However, lack of approved warehouses and delays in preparing and distributing new tax seals have complicated implementation of the reform. The tax ministry claims about half of the regions now have their new seals. In principle, products with old seals may be sold until early September. However, most producer doubt that supplies will last that long. For example, the Moscow-based Kristall vodka distillery had to shut down its production temporarily, because without the new stamps, its alcohol production was technically in violation of the law.

The aim of the new regulation was to reduce illicit production and sale of hard liquor. Estimates claim that 40 – 70 % of all alcohol produced and sold in Russia is samogon – moonshine.

The reform mainly affects wholesalers. No significant cost increases are expected for end-consumers. One quarter of government revenues derive from excises, and the main excise tax revenue stream comes from alcohol.

New laws enter into force in Lithuania. New company law, law on bankruptcy, as well as a revised civil code, will enter into force on 1 July. The main amendments to the company law concern the number of shareholders in private firms, decision-making and sale of shares. The minimum share capital requirement remains LTL 10,000 (USD 2,500), but the number of permitted shareholders rises from the current 50 to 100. The size of the qualified majority voting at shareholder meetings was lowered already in April from 75 % to 66 %. In addition, the new law specifies rules regulating pre-emption and redemption rights in private companies. The new law replaces the 1994 business act.

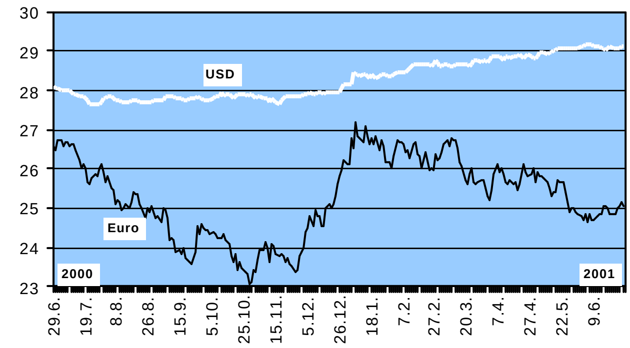
After five years in preparation, the new civil code replaces the civil code introduced in 1964 during the Soviet era. The country's first civil code systematically prescribes the rights and duties of citizens. The six-part code includes family law, property law, wills and trusts, and contract law. The new civil code conforms to EU laws and international treaties.

The new bankruptcy law allows a company to seek bankruptcy when its obligations to creditors exceed half of its total assets. Under the old law, companies were not eligible for bankruptcy unless their debts equalled their assets. Next month a law governing the restructuring of firms also goes into force. It is intended to support firms with temporary liquidity problems.

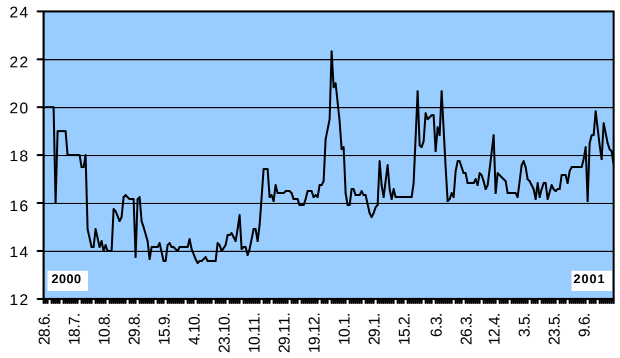
New consolidated financial supervision agency starts operations in Latvia. Next week, Latvia will launch a new supervision agency that integrates the oversight functions for banking, insurance and securities trading that were earlier performed by separate agencies or departments. The new supervisory agency will be politically independent.

Construction starts on Estonian steel terminal. Galvex Estonia OU, which is owned by the US-based International Steel Industries Group, has begun construction of a steel terminal in the industrial port of Muuga located near Tallinn. The project will cost USD 205 million, making it the largest private foreign investment in Estonia's history. The plant will receive steel from Russian and Ukrainian producers via rail, will cut, galvanise and package the products and ship them to the destination countries of buyers. The terminal is expected to be operating in August 2002 and will employ about 150 people.

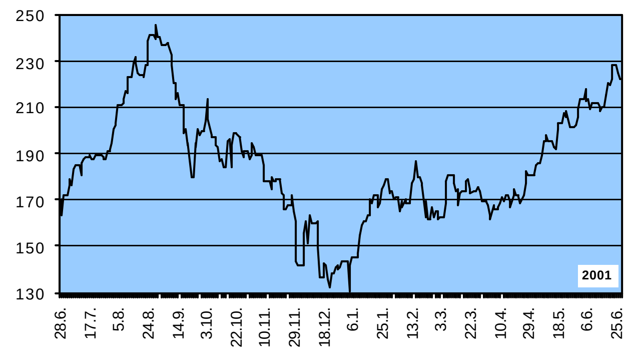
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



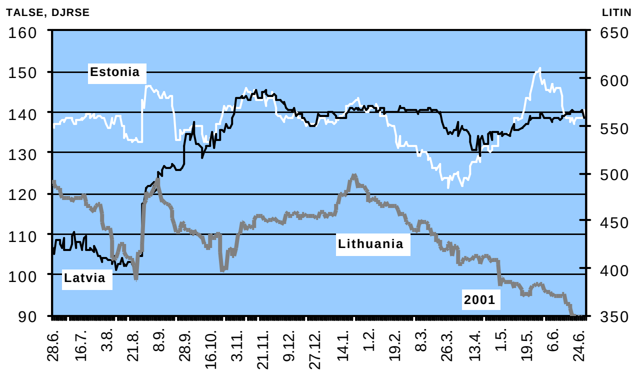
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russian & Baltic Economies
The Week in Review
27•2001

Russian government takes control of Gazprom's board of directors. At Gazprom's AGM on 29 June, the Russian government won a sixth seat on the eleven-member board of directors when a member of the management team gave up his seat. The current board now consists of six representatives of the government, three members of the company, one Ruhrgas representative and one representative of minority shareholders. Rem **Vyakhirev**, Gazprom's former CEO, was chosen a board chairman.

Nearly thirty changes in the company charter were approved at the shareholders' meeting, including abolition of the requirement of written approval of the board on sales of more than 3 % of the company's shares. Also eliminated was the requirement of a unanimous decision by all board members when sacking the CEO or other members of executive management.

PricewaterhouseCoopers continues as Gazprom's external auditor and the agency designated to resolve the relations of Gazprom and Florida-based Itera. Gazprom's just-released 2000 financial statement, which was prepared by PwC, showed that Gazprom guaranteed last year nearly RUB 75 billion (USD 2.6 billion) in loans, most of which were granted to firms owned by members of Gazprom's executive board or their relatives. President **Putin** also noted Gazprom's irregularities last week.

Russia's WTO membership postponed. At last week's WTO working group talks in Geneva, Russia was told to change its legislation to conform with WTO guidelines before membership talks could move ahead. The WTO said Russian legislation still had deficiencies that at present bar it from WTO membership. The WTO member states' biggest differences with Russia are Russia's customs tariffs on agricultural products, chemicals, medicines, furniture and automobiles. The WTO also expressed dissatisfaction with the operations of the Russian customs authority. The WTO also said it was unhappy with Russia's energy price subsidies to industry and Russia's different domestic and foreign pricing policies.

Russian WTO membership application was originally submitted in 1993 by president **Yeltsin**. President **Putin** and the Russian government has sought to secure WTO membership by the beginning of next year. Russia's chief negotiator in WTO talks, Maxim **Medvedkov** expects Russia to be a WTO member within 3–4 years.

Russian minimum wage goes up. On 1 July, the minimum monthly wage in Russia went up from 200 to 300 roubles (10 dollars). The minimum wage sets a baseline for determining e.g. state sector wages, social payments and student stipends, which are increased accordingly. Another hike of the minimum monthly wage to 450 roubles is scheduled for the beginning of December.

Federation Council approves bill on political parties. On 29 June, the Federation Council approved a bill on parties in the form championed by president **Putin**. Under the law, a party must have at least 10,000 registered members and regional offices in at least half of Russia's 89 regions. State support would be paid to parties that win at least 3 % of the vote in either a presidential or parliamentary election. Parties would also be allowed to take financing from private individuals and enterprises on the condition that they declare and itemise their contributions.

Money laundering bill passes second Duma reading. On 4 July, the Duma approved the second reading of a bill on money laundering by a vote of 237 to 43. The third and final reading is scheduled for 11 July. Rapid passage of the bill would make it possible to have the law in effect by the end of September. By then Russian legislation on money laundering should conform to international standards if Russia is to avoid economic restrictions of the Financial Action Task Force (FATF).

Slowing export growth swells Baltic trade deficits. In Q1 2001, *Estonia's* current account deficit rose to EEK 1.5 billion (USD 90 million) or 6.8 % of GDP. In Q1 2000, the current account deficit corresponded to 3.9 % of GDP. The trade deficit rose as the growth of exports slowed, while domestic demand kept imports high. The deficit of income balance was large due to high level of owners' income from foreign direct investments. The FDIs flowed into Estonia at a record rate amounting to EEK 3 billion (USD 190 million) in Q1 2001.

Latvia's current account deficit in the first quarter was slightly less than forecast – LVL 44 million (USD 70 million) or 4.1 % of GDP. The current account deficit in 1Q 2000 amounted to 4.2 % of GDP. The trade gap widened slightly as the growth in imports outpaced exports. The less than LVL 20 million (USD 30 million) in foreign direct investment in Latvia in the first quarter represented only about a third of inflows a year earlier.

Lithuania's current account deficit in the first quarter was about the same as a year earlier, LTL 580 million (USD 145 million) or 5.4 % of GDP. The trade gap was about the same as last year. Growth in the services surplus was driven by increased exports of services related to trade, finance and communications. Foreign direct investment in Lithuania in the first three months of this year were LVL 530 million (USD 130 million), substantially higher than a year earlier.

First quarter GDP growth 5.8 % y-o-y in Estonia and 4.4 % in Lithuania. *Estonian* GDP growth in the first quarter was led by the rise in manufacturing. The main areas of the Estonian service sector – trade, transport and communications – all grew at rates above 6 %. Economic slowing in the EU region has implications for Estonian exports, so last week the Bank of Estonia lowered its growth forecast for 2001 to 4.5–5.3 %, down from 5–6 %. Signs of falling domestic demand have also appeared. Revised figures show that Estonian GDP grew last year in real terms by 6.9 %.

Economic growth in *Lithuania* rose slightly faster than expected in the first quarter. Industrial output rose 14 % y-o-y, and growth has remained brisk thanks to increased oil refining activity. Private consumption has also risen in recent months, and the slump in construction activity is now believed to have finally bottomed out. The cooling export outlook for the rest of the year, however, has led central bank economists to hold their GDP growth for this year at last year's level of about 3.5 %.

Litas will be pegged to the euro on 2 February 2002. The Bank of Lithuania announced last week that it would abandon its peg to the US dollar and repeg the litas to the euro based on the ECB's official rate on 1 February 2002. The repegging reflects the desire to integrate Lithuania's economy with its most important trading partner, the EU. The peg also is seen as part of the country's preparations for EU membership, although officially the EU makes no demands that accession candidates alter their currency arrangements.

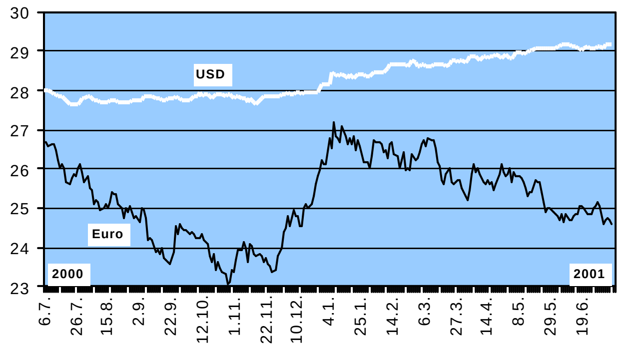
Lithuania gets new prime minister. Algirdas **Brazauskas**, former president and leader of the Social Democrats, is to form Lithuania's twelfth government since independence. The Seimas approved his appointment on 3 July in a vote of 84 to 45. Mr. Brazauskas supports both EU and NATO membership for his country. He has long history in Lithuanian politics: he led Lithuania's Communist Party, when it broke off from the Soviet Communist Party. The prime minister-designate has two weeks to present the parliament with his cabinet and program.

Estonia still the least corrupt among transition countries. Last month Transparency International released its latest perceived corruption index rankings for 91 countries. The study incorporates the perception of business people, academics and country analysts as to how widespread corruption is in government and public administration in each country. These views are combined to give a perceived corruption rating on a scale of zero to ten, whereby zero would be a totally corrupt state.

Corruption index rankings of select transition economies in a field of 91 countries

Country	Corruption index	**Ranking 2001**	Ranking 2000
Estonia	5.6	**28**	27
Hungary	5.3	**31**	32
Slovenia	5.2	**34**	28
Lithuania	4.8	**38**	43
Poland	4.1	**44**	43
Bulgaria	3.9	**47**	52
Croatia	3.9	**47**	51
Czech Rep.	3.9	**47**	42
Slovakia	3.7	**51**	52
Latvia	3.4	**59**	57
Romania	2.8	**69**	68
Russia	2.3	**79**	82
Ukraine	2.1	**84**	87

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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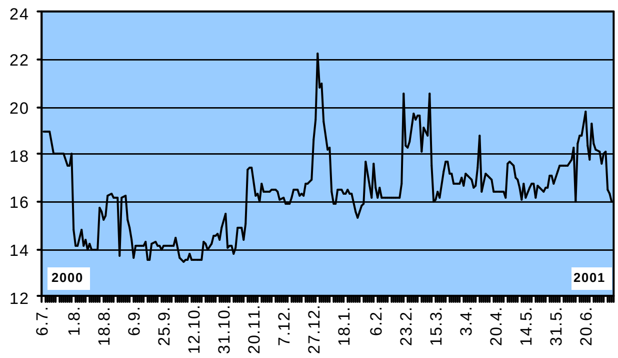
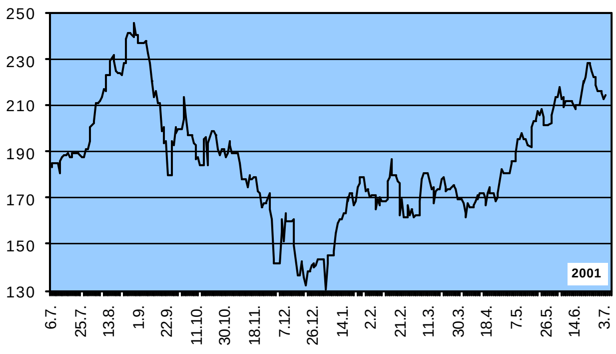


Russian share prices (RTS)



Baltic share prices
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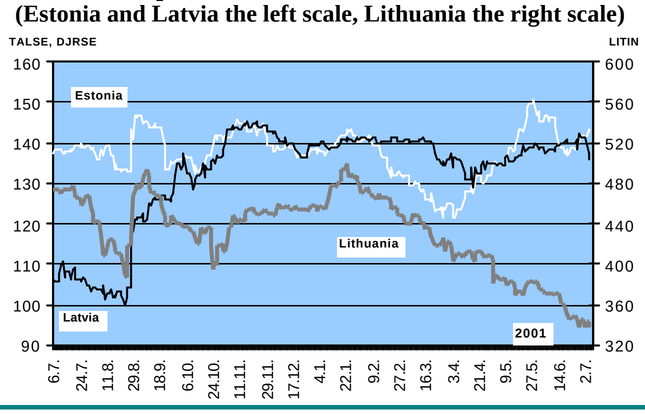

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Editor Timo Harell

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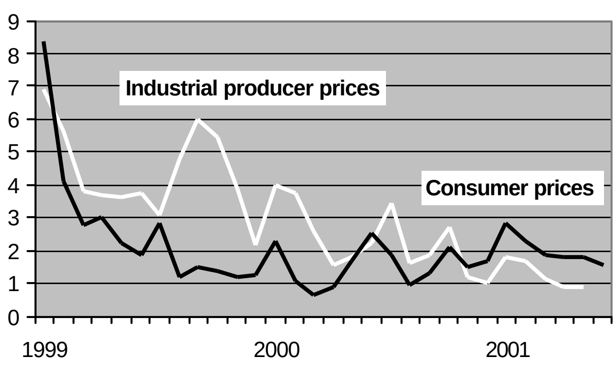
Russian & Baltic Economies
The Week in Review
28•2001

Russian inflation still nearly 24 % y-o-y in June. The monthly rise in inflation, however, slowed in June to 1.6 %. Consumer prices were up 13 % y-o-y in the first half of the year, compared to less than 10 % y-o-y in H1 2000. The latest figures made the government's revised inflation target for all of 2001 (14–16 %) appear optimistic. The biggest rises were in the prices of services (21 % since the start of this year) and housing prices (up 31 %). Food prices were also up substantially in the first half (14 %), notably vegetables (over 60 %) and meat products (over 20 %). The economy ministry reported that over 60 % of January-May consumer price inflation were due to higher food prices, while services represented a 23 % share.

Industrial producer price inflation has moderated from last year, climbing just 1 % per month during March-May. The 12-month increase was 21 % in May, while the rise since the start of the year was below 7 %. Consumer prices were driven particularly by prices for agricultural produce that rose over 13 % during January-May, compared to just 6 % in the same period a year earlier. Producer prices for vegetables rose over 50 % during January-May.

On-month changes in prices, %



CBR raises capital adequacy requirements for new banks. As of end-September, the minimum initial capital requirement for new banks will increase from EUR 1 million to EUR 5 million. The new regulation does not apply to existing banks. Of the more than 1,300 banks operating in Russia, approximately a thousand have registered capital of less than EUR 5 million. The minimum capital requirement for foreign banks is EUR 10 million. The move is to assure more consistent treatment of domestic and foreign banks, as well as lay the groundwork for Russia's WTO membership. Under the articles of the Partnership and Cooperation Agreement (PCA) between the EU and Russia, Russia was expected already two years ago to move towards equal minimum capital requirements on domestic banks and subsidiaries of EU-based banks operating in Russia.

CBR modifies S-account rules. The CBR issued new rules on so-called S-accounts in which non-resident investors are compelled to keep roubles received as part of a settlement deal in the Russian government's default on short-term T-bills (GKOs) issued between 1995 and 1998. The new rules allow transfer of S-roubles to S-accounts of other non-residents. Now the interest and dividends received from Russian bonds and shares bought with S-roubles can also be repatriated without permission from the CBR. However, the new rules limit purchases to bonds and shares rated close to Russia's sovereign rating.

The main way of repatriating S-roubles has been through infrequent foreign currency auctions or through redemption of separately auctioned short-term T-bills. To date, over USD 1 billion has been repatriated. Most estimates put the amount of roubles still in S-accounts at USD 1-1.5 billion. The CBR offered USD 50 million at each of the two most recent currency auctions held in June and July. At the June auction, S-account holders submitted USD 126 million in bids at or above the minimum bid of 30.90 roubles, while the July auction drew USD 120 million in offers at or above the minimum bid of 30.80 roubles to the dollar.

Duma approves bill limiting foreign ownership of national television networks. Last Friday (6 Jul.), the Duma approved the second and third readings of a bill preventing foreign-held majorities in national TV networks. Preparations of the bill started last spring in the wake of the well-publicised dispute over the ownership of NTV. An earlier version of the bill, rejected in June, would have forbidden foreign majority ownership in any media company. The current bill as approved would prevent foreign investors from owning majority stakes in TV networks that broadcast to more than half of Russia's 147 million inhabitants. Presently, foreign investors hold no majorities in any of Russia's four national TV networks.

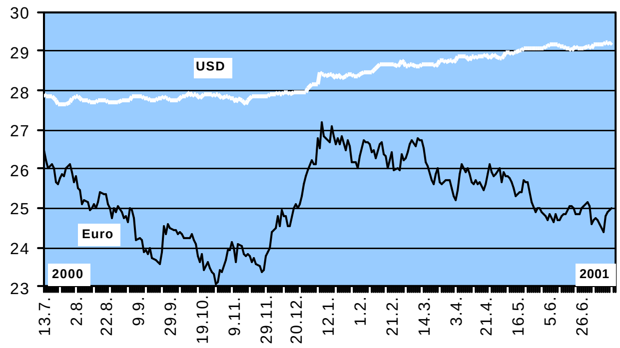
Special development program for southern Russia rolled out. The Russian government has approved a RUB 150 billion development program that focuses on twelve regions in southern Russia. The program objectives include improvement of transportation infrastructure, modernisation of key economic sectors and implementation of regional projects. The program is scheduled to continue through 2006, and initial financing of RUB 41 billion has been set aside for 2002, the program's first operating year.

Year 2000 was quite profitable for Russia's gas and oil producers. Gazprom's financial statement, prepared in accordance with IAS (International Accounting Standards), shows the gas giant had a profit after taxes last year of USD 10 billion (RUB 286 billion) – a significant improvement from 1999 when the company showed a loss of around USD 3 billion. Gazprom's profit before taxes was USD 5.3 billion (RUB 154 billion), compared to less than a billion dollars in 1999. The large after-taxes net profit is largely an accounting manoeuvre, whereby Gazprom had tax benefits due to revaluation of the company's fixed assets. In any case, profitability was a carry-through from high oil prices in 1999, the positive effect of which was mainly felt in 2000 due to a lag of contract gas prices. Gazprom's total sales measured in rouble terms rose 35 % y-o-y in 2000. Gazprom has also succeeded in the stock market. The company's market capitalisation has risen over 50 % in the last two months, mainly due to company's decision to install a new CEO.

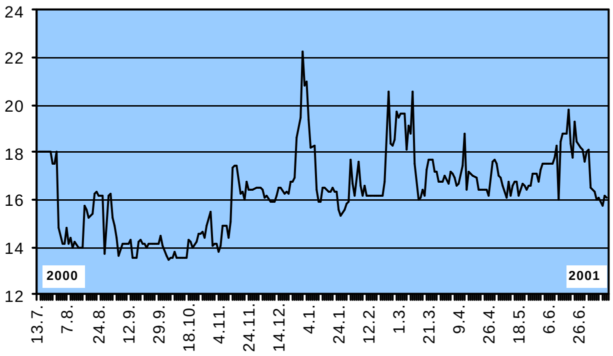
Russia's largest oil companies also showed distinctly higher profitability last year than in 1999. Russia's second largest oil producer, YUKOS, reported its profits tripled in 2000 to USD 3.2 billion (RUB 94 billion) from about USD 1 billion in 1999. The smaller oil companies Tatneft and Sibneft both reported their profitability more than doubled in 2000. The financial statements of LUKoil, Russia's largest oil producer, are about to be released and expected to also show a doubling in profits. The good profitability enjoyed by oil companies last year was due to higher producer prices and increased output. YUKOS, for example, increased its oil output last year over 10 %. The profits of the oil producers mentioned here were reported according to GAAP (Generally Accepted Accounting Practices).

Latvian inflation picks up, inflation almost unchanged in Estonia and Lithuania. *Estonia*'s inflation rate in June continued to hold at 6.9 % y-o-y. The Bank of Estonia said that inflation may decelerate in coming months, while the finance ministry forecast that inflation would accelerate in the absence of dollar weakening. *Latvian* consumer prices rose 3.1 % y-o-y in June. Higher food prices and strong demand resulting from the robust economy drove the pick-up in inflation in Latvia. *Lithuania*'s inflation rate in June remained modest and was 1.5 % y-o-y.

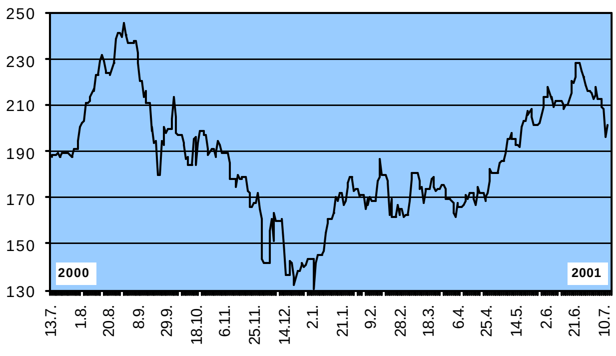
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



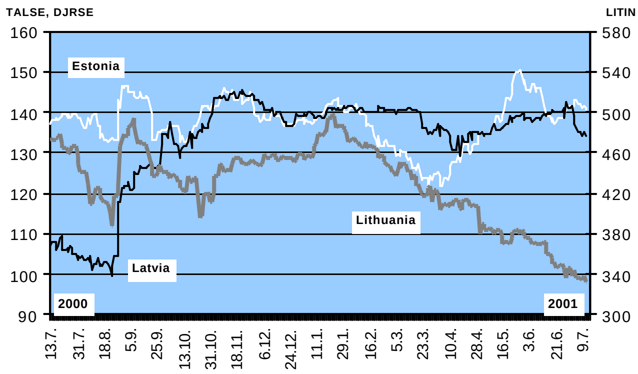
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Editor Timo Harell

BANK OF FINLAND
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Russian & Baltic Economies
The Week in Review

29•2001

Russia and China sign cooperation and friendship treaty. Chinese president Jiang **Zemin** and Russian president Vladimir **Putin** signed a bilateral treaty on friendship and cooperation during their meeting in Moscow on Monday (16 Jul.). In the treaty, Russia recognises Taiwan as part of the People's Republic. Both parties promise to refrain from using nuclear first strike against the other. The treaty notes that Russian-Chinese military cooperation is not targeted against third countries, and that the countries will not engage in military alliances or treaties that threaten the other's security. China and Russia promise to promote economic cooperation in energy production, transport, finance, aviation, information technology, cross-border trade and environmental protection.

A separate preliminary agreement was signed on the construction of a 1,700 km oil pipeline running from Siberia to Beijing. The pipeline's capacity would initially be 20 million tonnes a year from 2005 and rise to 30 million tonnes a year in 2010. The cost of constructing the pipeline is initially put at USD 1.7 billion.

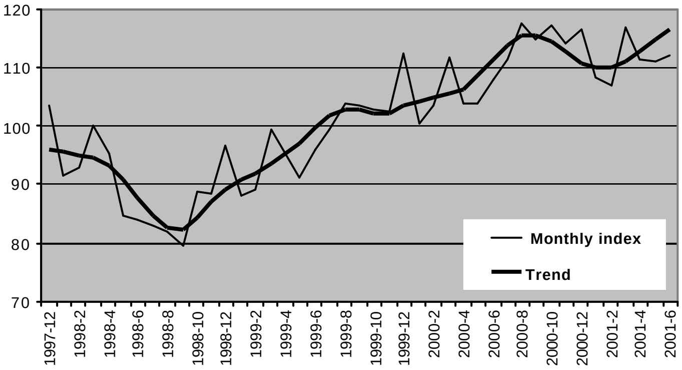
Russian current account surplus shrank in first half. Preliminary balance of payments data released by the Central Bank of Russia state that the country posted a USD 21 billion current account surplus in the first six months of this year, an amount corresponding to 15 % of GDP. In H1 2000, the current account surplus was almost USD 23 billion (21 % of GDP). The surplus in goods trade fell in the first half to under USD 28 billion. The value of goods exports was nearly USD 52 billion and goods imports USD 24 billion. Income from the export of goods and services rose nearly 5 % y-o-y. Spending on imports rose 10 % in dollar terms and more than 25 % in euro terms. The services deficit grew a billion dollars to USD 4.4 billion due increased Russian tourism abroad.

The balance-of-payment data also showed that foreign direct investment inflows into Russia during January-June amounted to USD 1.2 billion (compared to USD 1 billion during H1 2000). The capital deficit in the first half of 2001 was slightly less than USD 11 billion, or about the same as in H1 2000. Some of Russia's capital flight can be inferred from the statistical error entry in the balance-of-payments statistics. In the first half of this year the figure exceeded a negative USD 3 billion, while last year it was slightly less than USD 3 billion.

Russian industrial output up 5.5 % y-o-y in first half. The State Statistics Committee also revised its figure for industrial output growth in 2000 to 12 %, based on the 1999 industrial structure. The workday-adjusted figure for output growth in H1 2001 was nearly 6 % and the seasonally adjusted trend in industrial output returned to last autumn's peak levels.

Among Russia's main industrial sectors, first half growth was highest in industries producing machinery, equipment and metal products (up over 10 % y-o-y). Other fields with strong growth included the chemical and petrochemical industry and the food industry (both up nearly 7 %) and the fuel industry (up nearly 6 %). Slowest growth was registered in the forest industry (2 %) and ferrous metallurgy (0.2 %).

Russian industrial output (Dec. 1995 = 100)



Duma approves change in rules on repatriation of export revenues. Last Friday (13 Jul.) in a vote of 240 – 141, the Duma approved all three readings of an amendment to reduce the foreign currency repatriation requirement on exporters from 75 % to 50 %. Economy minister German **Gref** said that the mandatory amount of currency to be repatriated could be further reduced later, but he expected this amendment to stay in force about a year. CBR chairman Viktor **Geraschenko** wants approval of the bill postponed because he feels the country's foreign currency and gold reserves are still inadequate.

Duma passes third reading of money laundering bill. The Duma kept its bill to prevent money laundering on the fast track to help Russia avoid countermeasures recommended by the international Financial Action Task Force (FATF). The bill would enter into force next February. Unless Russia enacts legislation on money laundering, the FATF recommendation would apply on 30 September.

Corporate profit tax bill also passes third reading in Duma. This bill would lower the profit tax to 24 %, but eliminate a variety of exemptions previously available to firms. Moreover, under the new system, more deductions on business expenses would be allowed and depreciation on fixed assets would be increased.

Progress in privatisation of Latvian gas company and Ventspils oil terminal. Privatisation of natural gas distributor Latvijas Gaze and the major oil terminal Ventspils Nafta returned to the fore after the World Bank decided at the beginning of June to withhold a loan tranche because of dissatisfaction with the slow pace of privatisation in Latvia. Meanwhile, the Latvian government has yet to resolve the conditions of privatising Latvia's major shipping company LASCO.

On Thursday (19 Jul.), the state divested at auction on the Riga stock exchange one-fourth of its 8 % stake in

Latvijas Gaze. The 2% stake was sold for LTL 10 million (USD 16 million). The remaining 6 % are likely to be sold at an auction in August. The largest shareholders in Latvijas Gaze are the Russian Gazprom and the German Ruhrgas (each own about a quarter of the company). The Latvia-based Itera Latvija, which owns 18 % of Latvijas Gaze, has expressed interest in increasing its stake through purchasing the offered shares.

In June, investment bank Raiffeisen Investment AG signed a consulting contract with the Latvian privatisation agency to arrange the sale of the Latvian state's 38.6 % stake in Ventspils Nafta at the beginning of 2002. Latvijas Naftas Tranzits, the terminal's largest shareholder (47 %), has pre-emptory rights until July 2003 to acquire the majority stake in the company.

Lithuania's new government. On 12 July, the Seimas approved the minister-designates and program of Lithuania's new government led by prime minister Algirdas **Brazauskas** (Social Democratic Party). Seven members of the new cabinet served in the previous government, including foreign minister Antanas **Valionis** and defence minister Linas **Linkevicius**. Newcomers include Dalia **Grybauskaite** as finance minister and Petras **Cesna** as economy minister. The Social Democrats will hold four portfolios, the New Union will get one, and nine ministers are independent. The new government pledges to continue the reforms started by its predecessor. Central goals of the program include EU and NATO memberships for Lithuania in the near future. The program also stresses reduction of unemployment as a cornerstone of economic policy.

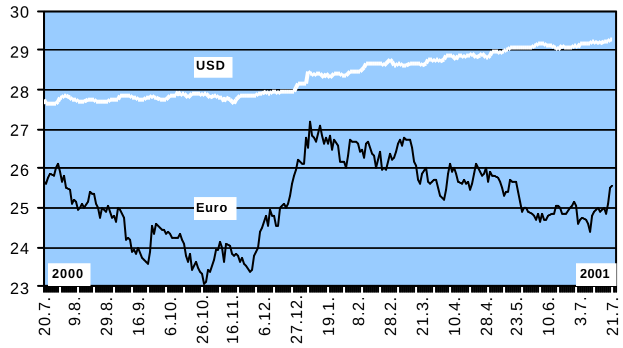
Estonia and Latvia post highest economic growth of EU accession candidates in 2000. Eurostat reports that the countries in Central and Eastern Europe currently in EU membership talks averaged 4.2 % GDP growth last year. In 1999, the corresponding average was just 2.5 %. GDP within the EU region grew 3.3 % last year.

The Eurostat report compares the standards of living in applicant countries against the EU average. According to figures based on purchasing power parity, Slovenia enjoyed the highest living standard among accession candidates, with GDP per capita at 72 % of the EU average. Bulgarians had the lowest purchasing power, just 24 % of the EU average.

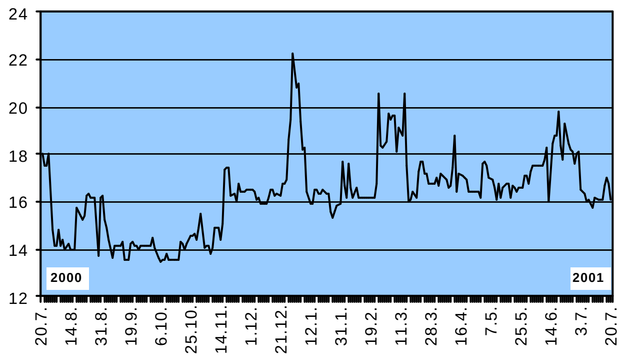
GDP per capita of EU aspirants, %

	EU-15 = 100			GDP growth
	1995	**1998**	**2000**	**2000**
Bulgaria	28	23	24	5.8
Czech Rep.	62	60	58	3.1
Estonia	32	37	37	6.4
Hungary	46	49	52	5.2
Latvia	24	28	29	6.6
Lithuania	28	31	29	3.3
Poland	34	38	39	4.1
Romania	32	28	27	1.6
Slovakia	44	49	48	2.2
Slovenia	64	69	72	4.8

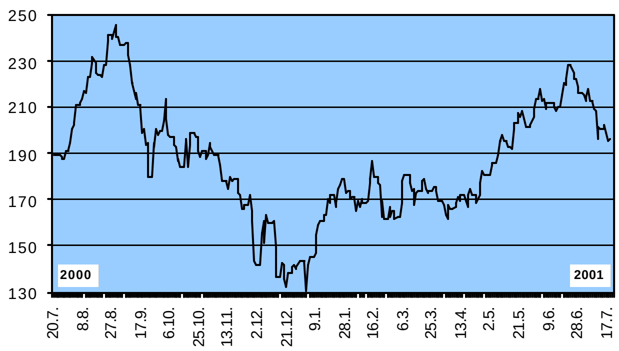
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



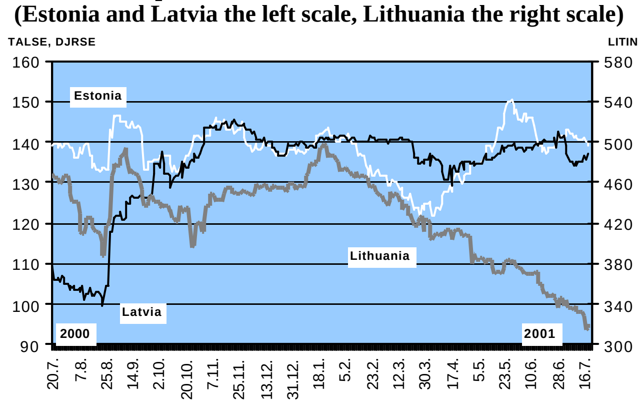
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russian & Baltic Economies
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30•2001

IMF stresses that Russia should get strong grip on monetary and fiscal policy. The IMF's latest country report on Russia under the Post-Program Monitoring highlights the conundrum facing Russian economic policy. The country has been running large current account surpluses, resulting in ample liquidity in the domestic economy. The challenge, notes the IMF, is to stave off high inflation that could spark rouble appreciation in real terms, and thereby stifle economic growth. However, the fiscal stance could ease this year through tax reforms that could decrease budget revenues. If the government fails to sustain sufficiently high budget surpluses, management of liquidity falls on the CBR, which currently doesn't have the needed assortment of monetary instruments to deal with the task.

The IMF board also suggested that freeing up foreign trade and paying down foreign debt faster could ease the situation. The Fund noted that the most delayed areas to move ahead with reform involved the banking system, power production and the gas sector.

Russian share prices drop. The RTS index has fallen for four weeks running. The rise in the first half of this year peaked in mid-June. Since then the RTS index has given up about 15 % of its value, falling from 230 points to 195 points this week. Oil company shares have dropped in response to declines in world oil prices. However, two listed companies – electricity monopoly UES and gas giant Gazprom , which is traded in the Moscow Stock Exchange – have held on well to their gains. Recent problems in Argentina and Turkey have also affected Russian share prices.

Duma considers land code, labour code and pension bills. Before adjourning for the summer recess, which lasts until mid-September, the Duma approved the second reading of the latest version of the land code, which allows foreigners to own land. Foreigners will be able to buy non-agricultural land except in border regions and other areas to be defined by presidential decrees.

The Duma also passed the first reading of a labour bill that deals with working hours, minimum wage, sanctions for not paying workers on time, paid vacation time, termination of workers, establishment of labour unions and collective labour treaties. Three laws from the pension reform package were approved in the first reading. The bills passed consisted of bills on pensions for state pensions, labour pensions, and mandatory pension insurance.

Russia proceeds in slashing red tape for businesses. Urged on by economy minister German **Gref**, the Duma approved bills to reduce administrative obstacles facing businesses. The Duma approved the third reading of a bill that protects firms from excessive official inspections and arbitrary demands. The lower house also passed the third reading of a bill on company registration. It is intended to make company registration more straightforward, simple and speedy when either founding or reorganising a company. In addition, the Duma approved the second reading of a bill on operating licences that is intended to reduce the number of business activities currently requiring a licence. Estimates of such activities now requiring licences range between 500 and 2,000. The bill would reduce that number to around 100.

Russian banks lead transition economy banks in terms of capitalisation. *The Banker* has released its latest rankings of the world's 1,000 largest banks. Russian banks dominated the countries in Eastern and Central Europe. Russian banks included Vneshtorgbank (221st place), Sberbank (300th) and the private Gazprombank (415th). Banks are ranked in accordance with BIS-defined Tier One capital. The order of banks in transition economies in Eastern and Central Europe changed considerably this year as a result of mergers and ownership changes.

Euromoney also ranked the world's 250 largest banks according to share capital. No transition economy bank appeared on this list.

Polish economic growth slows. Poland's GDP grew slightly below forecast – 2.3 % y-o-y in the first quarter of this year. The Polish economy started to cool in the second half of 2000. In Q4 2000 GDP grew 2.4 % y-o-y, down substantially from 5.9 % y-o-y registered in Q1 2000. However, one positive effect is that it now seems likely that the government will meet its stated inflation target of 6–8 %. In the first half of this year consumer prices rose 6.7 % y-o-y. Prices have risen 3.2 % since the start of this year with the biggest increases in the prices of food and housing.

The slowdown in economic growth is the result of subdued domestic demand. Besides high unemployment, domestic demand is weakened by real interest rates, which are still among Europe's highest and despite the fact that the central bank's monetary policy committee lowered the reference rate in June for the third time this year. In addition, Polish exports have been partly burdened by the strong zloty, which strengthened nearly 5 % against the dollar and more than 10 % against the euro in the first half of this year. Despite this, Poland's trade deficit in January-May shrank, while exports measured in euros grew 24 % and imports rose 9 % y-o-y.

Lower economic growth has also put pressure on Poland's state budget deficit. In the first half, it nearly reached the target projected for all of 2001. In response, the government has submitted to Polish parliament a suggestion according to which this year's budget deficit would rise USD 2 billion (PLN 8.6 billion) to 3.9 % of GDP. Last year the deficit was 3.0 % of GDP. The government plans to cover the deficit for instance by increased borrowing. Further cuts in expenditures are considered difficult ahead of September's parliamentary elections.

Hungary leads other countries in Central and Eastern Europe in its progress in EU membership talks. During Sweden's EU presidency during the first six months of this year, EU accession candidates generally made good progress on negotiation of *acquis communautaire* chapters. Leading the talks were Cyprus and Hungary, which have initially closed 22 chapters. Slovenia has provisionally closed 20 chapters, the Czech Republic and Estonia 19, and Poland 16. These countries all belong to the Luxembourg Group of accession candidates admitted to talks in 1998. Prior to Sweden's EU presidency, countries in this group had opened all chapters needed for accession (29 of the 31 chapters in the *acquis*).

The Helsinki Group (Latvia, Lithuania, Slovakia, Bulgaria, Romania and Malta), which started their accession talks in 2000, opened discussions on numerous topics this spring. Both Lithuania and Slovakia made brisk progress, surpassing Poland in the number of completed chapters. Latvia and Malta made laudable progress, while Bulgaria and Romania continue to lag.

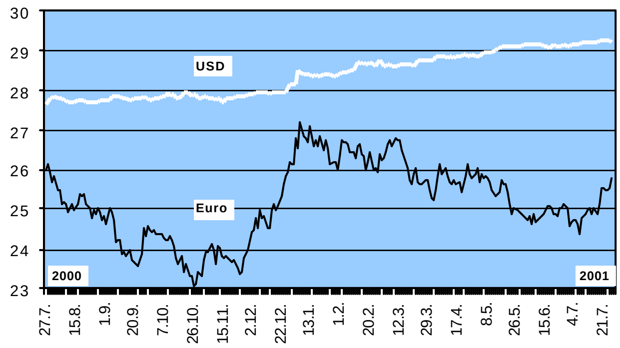
Completion of negotiations could be reached with some countries as soon as next year. The objective is that first new members could participate in the next European parliamentary election in 2004. However, the most difficult chapters, such as freedom of movement for persons, agriculture, taxation and regional policies, are still unresolved for nearly all aspirants. Only Hungary and Cyprus have reached agreement on freedom of movement for persons, and only Hungary has closed its discussions on taxation. Before accession the national parliaments of all current EU members, as well as of individual accession candidates, must still ratify membership agreements.

Progress of EU accession candidates

Acquis chapter status in June 2001 (December 2000)

	closed	opened	unopened
Cyprus	**22** (17)	**7** (12)	**2**
Hungary	**22** (14)	**7** (15)	**2**
Slovenia	**20** (14)	**9** (15)	**2**
Czech Rep.	**19** (13)	**10** (16)	**2**
Estonia	**19** (16)	**10** (13)	**2**
Slovakia	**17** (10)	**7** (6)	**7** (15)
Lithuania	**17** (7)	**8** (9)	**6** (15)
Malta	**16** (12)	**7** (5)	**8** (14)
Poland	**16** (13)	**13** (16)	**2**
Latvia	**15** (9)	**11** (7)	**5** (15)
Bulgaria	**10** (8)	**6** (3)	**15** (20)
Romania	**6** (6)	**6** (3)	**19** (22)

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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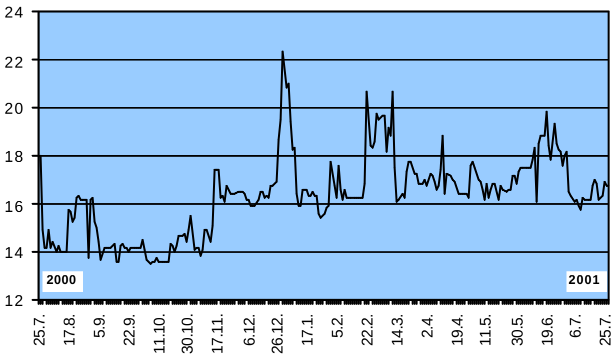

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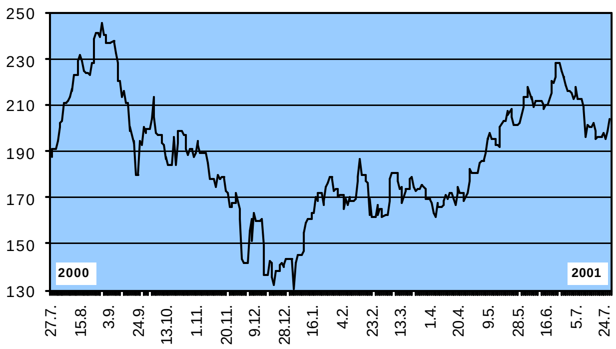

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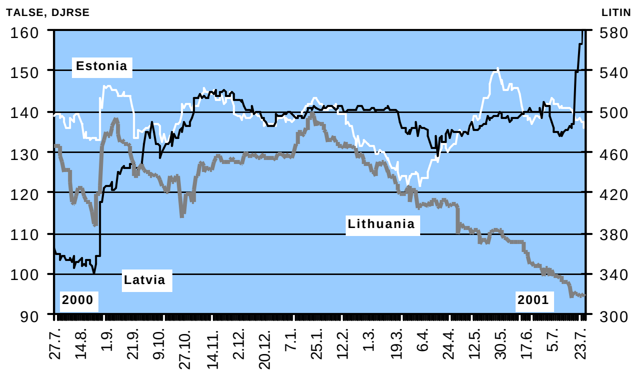

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Russian & Baltic Economies
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31•2001

Russian government releases economic development program for 2002–2004. The main goals of the government's medium-term economic plan include reducing inflation, making the exchange rate predictable, lowering interest rates and establishing monetary balance. The program targets GDP growth of 5 % this year, 3.5 % next year, 2.6 % in 2003 and 4 % in 2004. The agenda also includes increasing crude oil output to around 9 % above the 2000 level by 2004, as well as proposals on elimination of various taxes, including the sales taxes and the tax on purchasing foreign currency. It would also change property and land taxes into a single real estate tax.

Industrial output and retail sales bolstered Russian economic growth in the first half of this year. The State Statistics Committee reports that the overall output of goods and services in the five core sectors of the Russian economy (industry, construction, agriculture, transport and retail sales) rose 5.3 % y-o-y in the first half. Industrial output was up 5.5 %, construction 5.3 %, agricultural output 1.0 %, transportation 2.3 % and retail sales 10 %. In addition, investments rose in the first half of 2001 at a rate of 4.2 % y-o-y. Based on its findings for the five core sectors, the Committee estimated that GDP grew at a rate of about 5 % y-o-y in the first half of this year. The economy ministry's estimate stated that GDP grew at 5.4 % y-o-y in the first half. In H1 2000, total output grew at 8.8 % y-o-y.

The State Statistics Committee reports that the average monthly wage rose 18 % y-o-y in the first half of 2001, but real disposable income only increased 4.4 %. The Committee attributed the difference to reduced tax evasion following the introduction of a flat-rate 13 % income tax at the beginning of the year. The average monthly wage in June was 3,304 roubles (113 dollars).

Gazprom criticises EU plans to deregulate natural gas markets. The European Union wants to increase competition in European gas markets through the elimination of long-term delivery contracts. New EU regulations favour short-term delivery contracts and spot-market purchases. To date, Russian gas giant Gazprom has delivered gas on the basis of long-term delivery contracts, which have had the added advantage of providing collateral against Western loans. Gazprom claims that long-term contracts are also necessary e.g. to secure the massive financing needed for development of natural gas fields.

Gazprom has expressed strong doubts to a basic EU-Russia energy accord that would increase cooperation in the energy field. Gazprom fears that such an agreement would lead to lower transfer fees and open its pipeline grid to competitors. Gazprom currently provides about 30 % of the EU's natural gas supplies and seeks to raise its market share to around 60 %.

Russian government accepts UES reform plan. Prime minister Mikhail **Kasyanov** signed an amended version of a program on reforming national electricity monopoly Unified Energy Systems. The new changes are seen to enhance protection of minority shareholders' rights. The aim of the reform program is to free up competition in Russia's electricity markets. The first phase should be implemented by 2004.

Russian pensions increased 10 %. Pensions went up on Wednesday (1 Aug.) as the result of a presidential decree. The minimum monthly pension was also increased from 453 roubles to 600 roubles, and pensioners living in northern regions and other remote regions also got an additional increase. The average monthly pension during the first half of this year was 932 roubles (32 dollars).

Russian government approves national women's program. A program to promote the position of women in society and the significance of the roles women play will run until the end of 2005. Russian women are underrepresented in management positions, and women's salaries lag men's on average. Only 7 % of Duma deputies are women and not a single woman sits in the upper-house Federation Council. The current cabinet only has one woman, deputy prime minister Valentina **Matviyenko**, who is in charge of the social sector portfolio.

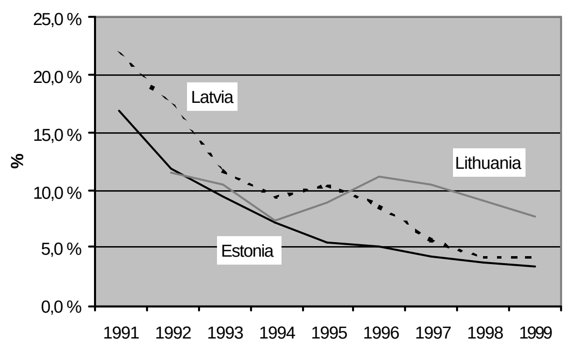
President Putin signs party act. An act setting guidelines for political parties, approved last month, is not expected to create any major changes in Russian political structures. By providing for stricter registration regulations and a minimum party membership requirements, the number of political parties is expected to fall from around 200 at present to perhaps 40. Political party operations are not allowed in state and local administrations, except in representative bodies selected on a political basis. Parties are also barred from active involvement in the nation's military forces.

Baltic agricultural output continues to decline. Agricultural output fell 4 % in Latvia in the first quarter of this year and 7 % in Lithuania. In Estonia, output remained at last year's level. Agricultural output in the Baltics dropped throughout the 1990s. Agriculture is considered one of the most difficult issues in the Baltics' EU membership talks. It is particularly a problem for Latvia and Lithuania, where farms tend to be quite small. Indeed, of the 43,000 farms in Lithuania, over 75 % are under 20 hectares in size and just some 200 are more than 100 hectares in size. Last year, 6 % of Estonia's labour force worked in the agricultural sector, far fewer than the 16 % in Latvia and 19 % in Lithuania.

The EU provides development support under its Special Accession Programme for Agriculture and Rural Development (SAPARD). During the period 2000 – 2006, Estonia will receive EUR 12 million annually in EU support based on constant prices calculated for 2000, while Latvia will receive EUR 30 million and Lithuania EUR

22 million annually. While accession candidates have had difficulties meeting the eligibility conditions for SAPARD support, and implementation of SAPARD projects has been delayed, the support can be paid retroactively once compliance is achieved. The Commission noted that the only applicant countries presently eligible for SAPARD support were Estonia and Bulgaria.

Baltic agricultural output as a share of GDP

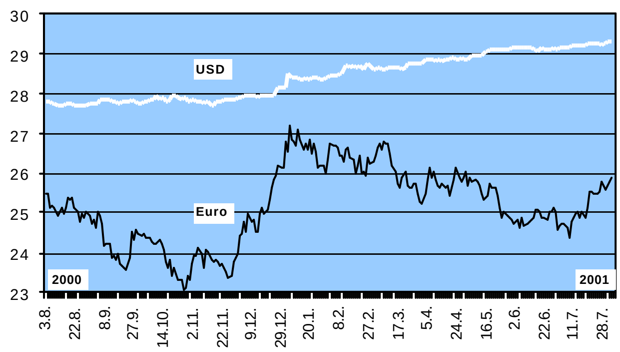


Russia moves up the rankings in UN's human development index. The latest rankings by the United Nations Development Programme (UNDP) on its Human Development Index showed Russia moved up from 62nd place in 2000 to 55th place this year. Factors included in the index measuring living standards are GDP per capita, quality of education and health care, and average life expectancy. Latvia made the biggest gain in rankings among transition economies. Norway ranked first, the US was sixth and Finland ranked tenth.

HDI rankings of transition economies

Country	2001	2000
Slovenia	**29**	29
Czech Rep.	**33**	34
Slovakia	**35**	40
Hungary	**36**	43
Poland	**38**	44
Estonia	**44**	46
Croatia	**46**	49
Lithuania	**47**	52
Latvia	**50**	63
Russia	**55**	62
Bulgaria	**57**	60
Romania	**58**	64
Ukraine	**74**	78

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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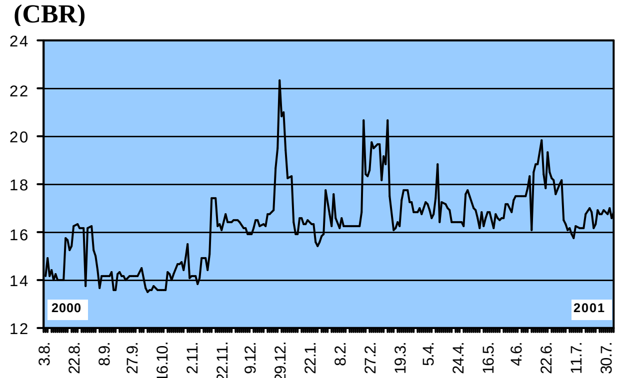

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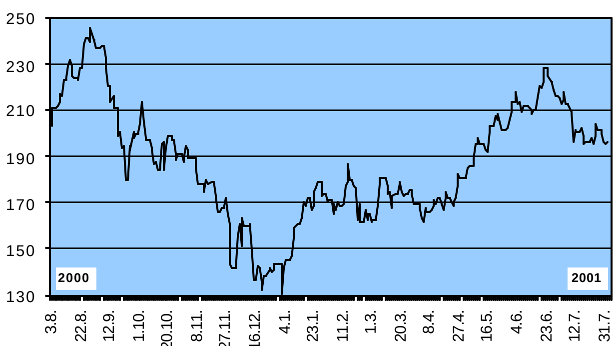

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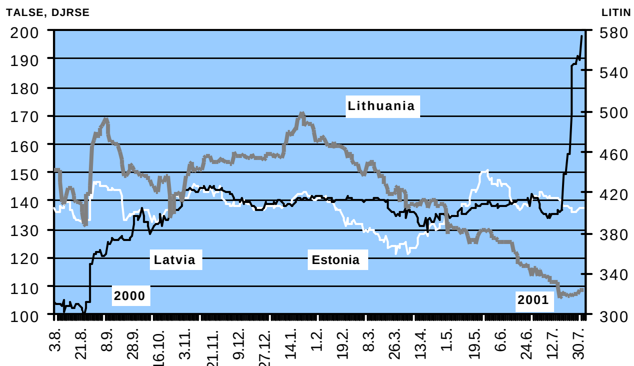

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Russian & Baltic Economies
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32•2001

Russian inflation slows in July. Consumer prices for July were up 22.2 % y-o-y. They were also up 0.5 % m-o-m, which was below the average of 2.1 % m-o-m in the first part of this year. Food prices were down 0.3 % for the month, while the prices of other goods rose 0.5 %. Prices for services rose 2 %. Since the start of the year, prices have risen 12.7 %.

Russian government unveils plans to privatise 450 enterprises next year. Of the 450 enterprises to be privatised, 150 are completely state-owned. The state holds minority stakes in the other 300, minority stakes of no more than 25 % account for about two thirds of the planned sales. Most of the state-owned firms to be privatised are involved in the farm industry or transport. The companies where the state holds minority stakes are mainly involved in energy and agriculture. Although no list of enterprises has yet been released, the government has announced plans to divest its 20 % stake in the Russian-Belarussian Slavneft oil company, as well as its 17 % stake in steel producer Magnitogorsk Metallurgic Plant. The government hopes to raise a total of USD 600 million from the next year's privatisation sales.

Putin approves cabinet recommendation to establish pricing committee. The cabinet proposes that the prices of products and services provided by natural monopolies be set by a committee established in conjunction with the state energy commission. The committee would set domestic prices for the national electricity monopoly UES (Unified Energy Systems), gas giant Gazprom and the state railways. The goal is to achieve consistent price formation and reduce regional influences in such matters. A temporary moratorium on price hikes until the end of the year was also discussed. Prices of goods and services provided by natural monopolies accounted for 38 % of inflation since the start of this year. By keeping certain prices artificially low in relation to world prices the government has been indirectly subsidising the activities of other firms.

Russia to lower crude oil export tariff. Last week the government decided to lower the crude oil export tariff from 30.50 euros a tonne to 23.40 euros a tonne. Officials said the cut reflected lower world prices for crude oil. Export tariffs are reviewed every two months, and the new export tariff becomes effective at the beginning of September. From the beginning of next year, the table for export tariffs on crude oil will be revised. Under the new system, tariffs will be applied to part of the market price above 15 dollar a barrel at a rate of up to 35 %. If the world oil price exceeds 25 dollars a barrel, that additional amount above 25 dollars will be taxed at a rate of 40 %.

Russia plans to lower average import tariff on production equipment by around 5 %. A Russian government customs, duties and tariffs commission reports that it will lower import tariffs equipment for the food, textile and light industries from 10 % to 5 %, and on equipment for heavy industry from 15 % to 10 %. The decision affects around 400 classes of industrial equipment, although the date the change would go into force has yet to be decided. Russia's industrial base has aged rapidly since the end of the Soviet Union.

Parliamentarians approved some chapters of second part of tax code. Last month, Russia's Duma and upper-house Federation Council dealt with taxation on the use of natural resources and sales taxes. The legislation is planned to enter into force at the start of next year. The Duma and the upper house approved a new combined tax on natural resource use, which replaces several old taxes. The new tax is 5 – 8 % for metals extraction and 16.5 % for natural gas. The tax on crude oil will be 16.5 % from the start of 2005, while in 2002 – 2004 the tax will be determined on a per tonne basis depending on world oil prices.

The Federation Council also approved 12 % hikes as measured in roubles on excise taxes on e.g. crude oil, gasoline and alcohol. The increases roughly match inflation in the first half of this year. The Duma accepted the third reading of a bill to preserve the current natural gas excise tax, i.e. 15 % (the tax is 30 % for exports to countries outside the CIS). The first reading of a bill on the sales tax was accepted by the Duma. It states that regions can apply a sales tax of up to 5 % in 2002 – 2003.

Russian government prepares plan to reallocate housing costs. At the end of May, the government accepted the main features of a program to reform housing and housing costs by shifting the burden of housing costs from the state to residents in 2003. After a cabinet meeting on the matter at the beginning of July, economy minister German **Gref** noted that Russian living standards were still so low, that it was unlikely that residents could shoulder the full burden of their housing costs for at least 10 – 15 years. Under the government's new plan, state subsidies to housing companies would be replaced with housing supports channelled directly to needy residents.

The reform is intended to increase competition in the housing market, improve the quality of housing services and lower housing costs by some 15 – 20 %. Trials of the new model will be run in Moscow and Zelenograd this year and next.

Estonia continues to post highest Baltic inflation. The 12-month change in consumer prices in July was 6.3 % in *Estonia*, 3.1 % in *Latvia* and 1.1 % in *Lithuania*. Estonian inflation has begun to slow as expected. Observers also note that Latvian inflation in recent months reflects high economic growth and recovery of domestic demand, while Lithuanian inflation continues to stay below forecast levels.

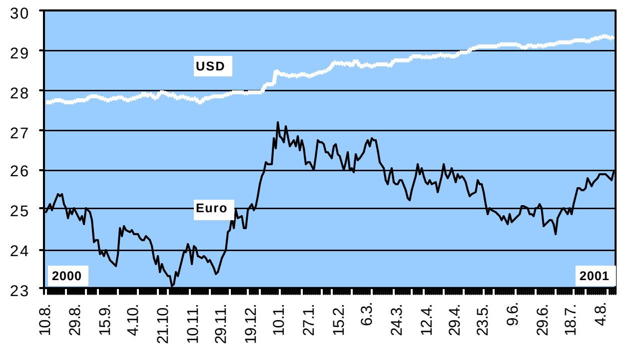
Baltic credit ratings affirmed. At the end of July, the international credit rating agency Fitch IBCA affirmed *Estonia's* long-term foreign currency rating at BBB+, as well as *Latvia's* long-term foreign currency rating at BBB. At the same time, Fitch IBCA changed the ratings outlook for both countries to positive from stable. The rankings indicate that the credit risk for Estonia and Latvia is small and their abilities to service their debts are adequate, although the ability may be impaired by adverse changes in circumstances. Fitch IBCA said Estonia ranks among the most successful transition economies. Its favourable economic development was supported by a stable currency, a firm commitment to moving to a liberal business environment and implementation of prudent fiscal policies. The agency reported that Latvia's economic situation has also improved, particularly due to tight fiscal policy. The credit rating agency commended Latvia for successful export growth to EU countries and attracting foreign direct investment. In July, the international credit rating agency Standard & Poor's affirmed *Lithuania's* long-term foreign currency rating at BBB-. S&P credited Lithuania's tight fiscal policy for success in reducing its public sector deficit, lowering inflation, shrinking the current account deficit, spurring economic growth and accelerating preparations for EU membership.

Strong rise in lending of Baltic banks. Total lending by *Estonia*'s banking sector at end-June stood at EEK 38 billion (USD 2.1 billion), about 10 % higher than a year earlier. In the past twelve months, Estonia's lending portfolio has increased 28 %, mainly due to more loans granted to private individuals. The share of loans in foreign currencies rose slightly. Nearly 70 % of loans were denominated in euros, while about 10 % were denominated in dollars.

The total domestic lending portfolio of *Latvian* banks rose at end-June to LVL 1.2 billion (USD 1.9 billion), 47 % higher than a year earlier. Since the start of this year, Latvia's lending portfolio has grown 12 %. Although the share of foreign currency loans has fallen from last year, they still account for about half of all loans.

Lithuania's total domestic credit at the end of June was LTL 6.9 billion (USD 1.7 billion). Although domestic credit was up about a fifth from last year, the volume of loans to the private sector has remained almost unchanged. At the end of June, about two-thirds of all loans were in foreign currencies. Most loans in foreign currencies were in dollars, despite the recent growth in euro-denominated loans as the repegging of the litas from the dollar to the euro approaches.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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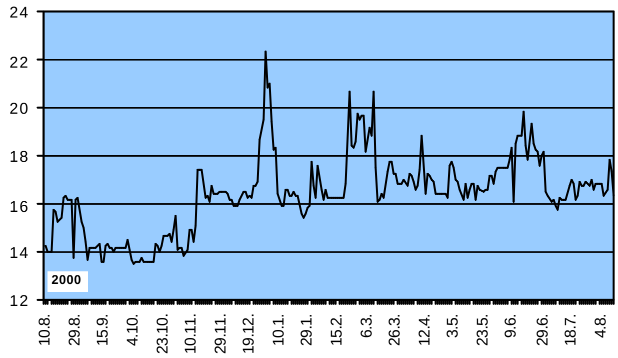

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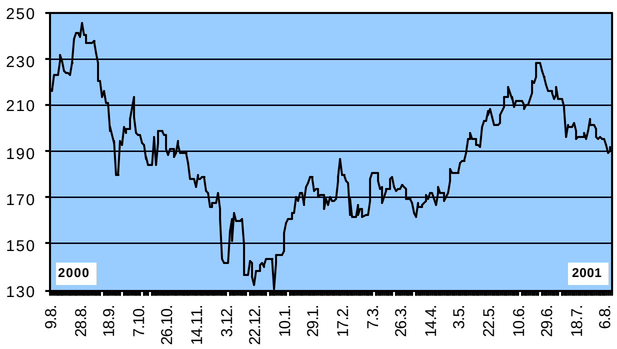
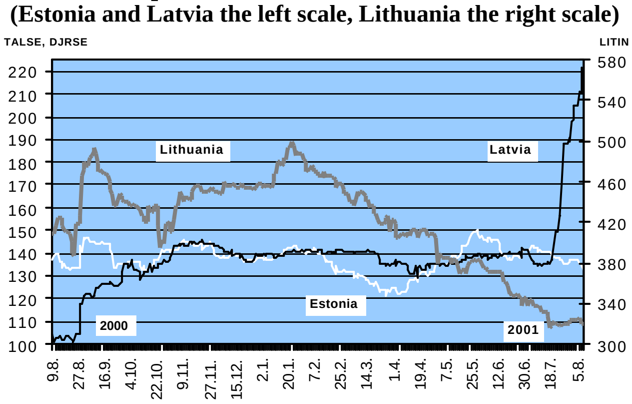


Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russian & Baltic Economies
The Week in Review
33•2001

Change in Russia's rules on repatriation of export earnings in force. A legislative change on the repatriation requirement for export earnings in foreign currency entered into force on 10 August. The former 75 % repatriation requirement on Russian export firms was lowered to 50 % of foreign-currency export earnings. Under the new arrangement, companies will sell half of their export earnings at special auctions, where the main buyer is the Central Bank of Russia. The repatriation requirement is now at the same level as before the 1998 financial crisis. The move is seen as part of the government's efforts to liberalise foreign exchange markets.

Cabinet takes up consideration of revised 2002 budget proposal. The government accepted the basic framework of the earlier budget proposal already in June, but is now considering a new draft. The revised due to higher growth figures draft budget has been submitted to the cabinet, which meets next Tuesday (21 Aug.) to consider the matter. The Duma is scheduled to receive the revised budget on 26 August.

The latest draft budget foresees revenues of RUB 1,995 billion (18.8 % of GDP) and expenditures of RUB 1,867 billion (17.6 % of GDP). Thus, the budget would have a surplus of RUB 128 billion (1.2 % of GDP). The estimates take into account the impact of pension reform on the federal budget. The budget assumes the average price of Urals crude next year to be 22 dollars a barrel. Debt servicing costs are expected to reach around USD 14 billion in 2002, about the same amount as in this year's budget. According to preliminary information, the application of any potential additional revenues above the 2002 budget would not be discussed with the Duma. Inflation is expected to be in the range of 10 – 13 % and the rouble's average exchange rate is assumed to be 31.5 roubles to the dollar. GDP is forecast to grow 4.3 %.

Russia to establish its own agency against money laundering. Following president **Putin**'s signing of a package of bills on money laundering on 6 August Russia has moved ahead with establishing an agency to prevent money laundering activities and track suspicious payment transfers. The legislative package, which was developed in cooperation with the international Financial Action Task Force (FATF) on Money Laundering, requires that Russia's anti-money-laundering agency be operational within two years. The legislation defines the lower limit for suspicious transfers at about 20,000 dollars. Moreover, banks, insurance companies and other financial companies are obliged to report to the task force any unusual payment transfers by individuals or firms outside their regular business activities. The agency would then examine the transfers and evaluate their legitimacy.

Russian government approves first phase of electricity sector restructuring. Under the plan accepted by the cabinet, two companies wholly owned by UES will be established during next winter to operate the federal power grid and the market system. Companies to operate regional power grids will also be established. Shares will be issued for electrical power generators currently belonging to UES so that they can be transferred to newly established generator companies. This autumn, a separate company will be established for the generation of nuclear power. Next winter, mechanisms will also be developed to help reduce payment arrears in the electricity sector, as well as reduce the share of revenues paid to power companies in non-monetary forms. Mechanisms are also being considered for regulation of national and regional prices and unifying electricity rates so that e.g. the government can gradually eliminate "cross-subsidies" between industrial and household ratepayers.

Changes in company law designed to improve the rights of minority shareholders. Last week president Vladimir **Putin** signed into law amendments to the joint stock company law that had been a source of friction between the Duma and Federation Council for nearly two years. The changes go into effect at the start of next year and are primarily intended to protect shareholders in the event of new share emissions. Shareholders will now have greater power in deciding on share emissions. All shareholders get the right of pre-emptory purchase in public and directed emissions. Their status is also protected if the company is divided into smaller companies. Shareholders representing at least a quarter of all shares can jointly demand access to the company's bookkeeping. The amendments set a deadline for payment of dividends if the company has not made a specific decision on the matter.

Russia establishes national TV and radio broadcasting company. On Monday (13 Aug.), president Vladimir **Putin** signed a decree whereby Russia will establish a national television and radio broadcasting company. Broadcasting networks have always been state owned in Russia, but the new corporation will consolidate responsibility for the entire country under a single unit. The president will also appoint the head of the new company. Under the decree, the new company will assume control of the national broadcasting centre in Moscow and regional broadcasting centres.

City of Moscow approves program to reform housing sphere. The program running from 2002 to 2007 is part of a nationwide reform with Moscow serving as one of the experimental areas. Under the program, Moscow residents with high incomes will be first held responsible for all their living costs, while for those with incomes below a certain limit this will be reality only after 5 to 7 years. City officials say Moscow wants to raise rents on housing faster than fees for municipal services. In 2000, Moscow's heating and water fees quadrupled, while rents went up more slowly. Rents have roughly quadrupled since 1997 and their rise has been far slower than the rise in wages. At the beginning of August, Moscow increased water fees by 25 %. Moscow mayor Yuri **Luzhkov** promised no more hikes in electricity and heating costs for at least the rest of this year.

Latvian cargo volumes continue to rise. The volumes of rail freight and cargo handled at *Latvian* ports rose 10 % y-o-y in the first half. Freight volumes rose evenly at all of the country's larger ports. Latvia's truck transport industry has suffered slightly because Russian authorities have been reluctant to issue permits to Latvian trucking companies that handle cross-border transport. Official talks will be held to resolve the situation.

Rail freight in *Estonia* fell 4 % y-o-y during the period January-July. Even so, Estonia's main port, the Port of Tallinn, saw its cargo handling volumes increase 3 % in the same period.

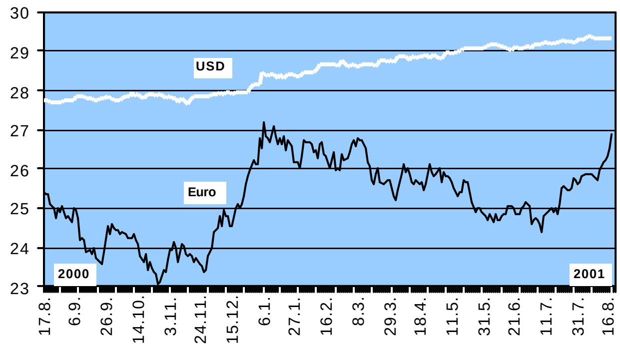
During January-July, cargo volumes handled at *Lithuania's* main port, Klaipeda, fell 17 % and oil transhipment 14 %. Rail freight fell 12 % in the first half. Meanwhile, trucking volumes increased in the first half. Over three million tonnes of crude oil was also transhipped during January-July via the Butinge oil terminal, which was opened in 1999. This amount corresponded to the entire amount transhipped in last year. The terminal's owner, Mazeikiu Nafta, hopes to tranship six million tonnes of oil this year.

Transhipment of Russian oil is the single most important activity for the Baltic transport sector. Competition, however, is expected to stiffen with the planned opening of the Primorsk oil terminal in Russia at the end of this year. Measures to improve the competitiveness of Baltic ports include a planning of a new oil terminal for the Port of Tallinn.

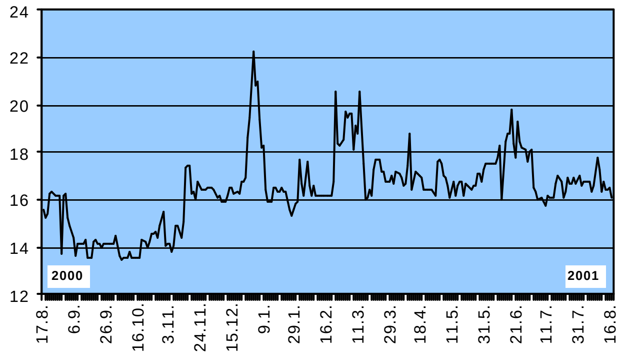
Third attempt at privatisation of Lithuanian Agricultural Bank. The first phase of a competitive bidding for the Lithuanian state's 76 % stake in Agricultural Bank (Lietuvos Zemes Ukio Bankas) closes on 3 October. Lithuania's privatisation agency said it wants the sale finalised during the first quarter of 2002. Agricultural Bank is Lithuania's third largest and the largest state-owned bank in the Baltics. The nominal value of the stake currently up for sale is LTL 78 million (USD 20 million). The bank's new owner is likely to be a foreign bank given that the Lithuanian government has set higher minimum capital requirements (USD 150 million) and credit rating requirements for the buyer than are currently met by any Lithuanian bank.

Privatisation of Agricultural Bank has been attempted on two earlier occasions. The state rejected the bid of sole bidder, Parex Bank, in 1998 on grounds that its offer was inadequate. The only bank to submit a bid in the 2000 bidding round was the Polish-Italian banking consortium Pekao-UniCredito Italiano, which later withdrew from the discussions.

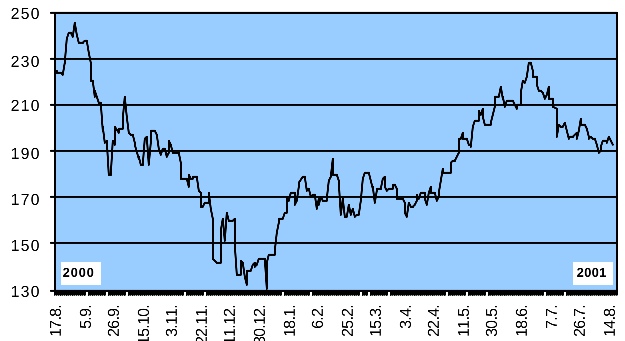
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



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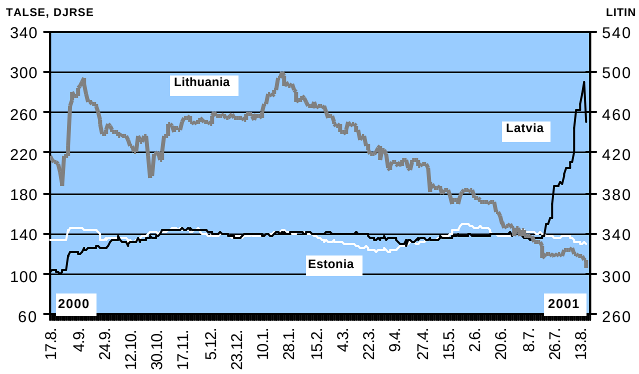

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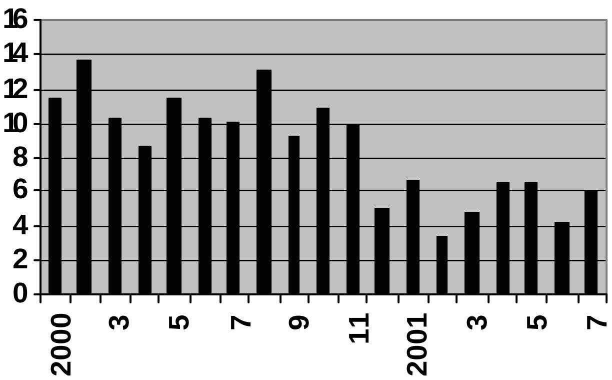
Russian government approves 2002 draft budget. On Tuesday (21 Aug.), the government accepted the finance ministry's proposed budget targets for revenues, expenditures and surplus (18.8 %, 17.6 % and 1.2 % of GDP, respectively). The cabinet, however, raised the limits for debt acquisition and amount of expected privatisation revenues. The maximum limit on foreign debt the country may take on next year was raised to USD 1.5– 2 billion, and next year's privatisation sales are now assumed to bring in USD 1 billion rather than the previous USD 600 million.

Finance minister Alexei **Kudrin** announced there would be no stabilisation fund in the form proposed by presidential advisor Andrei **Illarionov**. Instead, the government plans to add a reserve fund to the budget, which would be funded e.g. by loans and possible income from privatisation sales if they exceed RUB 18 billion (USD 600 million). Fund assets will mainly go to paying down the USD 19 billion in foreign debt coming due in 2003. Next year some USD 14 billion comes due.

Russian output growing. The growth in industrial output in July was 4.5 % y-o-y, compared to 3.7 % in June. The State Statistics Committee reported that workday-adjusted output growth was 2.9 % y-o-y in July and 5.3 % in June. During the first seven months of this year, industrial output rose 5.4 % y-o-y.

Aggregate output of the economy's five largest sectors (industry, agriculture, construction, transportation and retail sales) indicated growth of 6.1 % y-o-y in July and 5.4 % y-o-y for January-July. Thanks to a good July, agricultural output rose more than 6 % y-o-y in January-July, while construction rose 6.7 %. Retail sales grew 10 % and transportation around 2 % in January-July.

12-month change in output of Russian economy's five key sectors, %



Russia produces substantial first-half budget surplus. Budget revenues in the first half of 2001 amounted to RUB 711 billion (17.6 % of GDP), expenditures RUB 550 billion (13.6 % of GDP). The overall surplus was RUB 161 billion (4 % of GDP), while the primary surplus, which excludes debt servicing costs, was RUB 290 billion (7.2 % of GDP). Compared to H1 2000, highest growth in relation to GDP occurred in VAT revenues, customs duties, and excises. The largest increase in expenditures was for regional support.

Lithuania posts highest industrial output growth in the Baltics. Measured in sales, *Estonian* industrial output grew 7 % y-o-y in the first seven months of this year. Among the main manufacturing fields, metal fabrication grew 35 %, textiles 17 % and food processing 10 %. Although machinery and equipment manufacturing rose 65 % y-o-y in the first half, its share of Estonian output remains rather small.

Latvian industrial output growth was steady throughout the first half. June output was up 6% y-o-y. All of Latvia's main production fields (wood, furniture, textiles, and food processing) saw output rise in the first half.

Lithuanian industrial output growth measured in sales grew 16 % y-o-y in the first half. High growth was driven almost exclusively by a 56 % increase in oil refining activity. According to preliminary information, Lithuanian GDP in the first half was up 5 % y-o-y.

Baltic exports up in the first half. The value of *Estonian* exports was up 21 % y-o-y in the second quarter, and up 28 % y-o-y for the first half. Higher export prices (up 43 % y-o-y in Q2 2001) drove export growth. The finance ministry reported that the volume of exports contracted throughout the second quarter. Even growth in a product group crucial to exports, value-added inward processing of machinery and equipment, has slowed in recent months. This year, highest growth was in exports to Finland, which is now the destination for nearly 40 % of all Estonian exports. Imports to Estonia rose 21 % in the first half. The trade deficit remained at last year's level, some EEK 8 billion (USD 470 million).

Latvian exports rose 15 % in the first half. Highest growth was registered in the export of machinery and equipment, metal products and food products. Exports were flat in the wood, pulp and paper industry, one of Latvia's most important industries. More than 40 % of Latvian exports went to Germany, the UK and Sweden. Domestic demand lifted imports in the first half by 13 % y-o-y. At the same time, Latvia's trade deficit grew to LVL 270 million (USD 430 million).

Lithuania's export growth accelerated in the second quarter. The value of exports for the first half was up 25 % y-o-y. Exports to the UK, now second after Latvia as an export destination, more than doubled. Exports grew steadily in the key product groups: textile production and machinery and equipment. However, mineral products, particularly oil, registered the highest export growth (54 %). Imports to Lithuania rose 15 %, while the trade deficit was down about 10 % y-o-y to LTL 2.8 billion (USD 700 million).

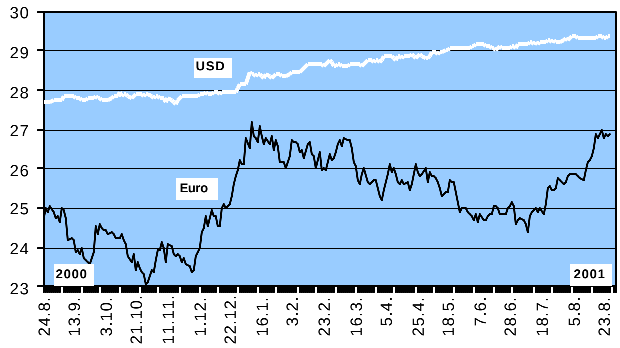
Latvijas Gaze lifts Riga bourse. The DJRSE share index of the Riga Stock Exchange rose to 299 points on 15 August, a level not seen since spring 1998. The rise was due to growth in Latvijas Gaze's stock price after a 19 July auction of a 2 % stake in gas company Latvijas Gaze held by the Latvian government. Ahead of the auction, Latvijas Gaze shares traded at around LVL 4 (USD 6.50). The share price peaked above LVL 11 in mid-August, then fell to LVL 6.5 this week. By mid-week, the DJRSE index has slumped to 196 points. The Latvian state will sell off more of its stake in Latvijas Gaze on 30 August, when it will put up a 3 % stake for sale via the Riga bourse.

Estonian parliament will vote on president next Monday. The final slate of candidates for the upcoming presidential election will be completed only, when the parliament convenes next week (27 Aug.). Candidates must have the backing of at least 21 MPs in Estonia's 101-member parliament. Each of the three parties participating in the coalition government has put forth their own candidates – parliamentary speaker Toomas **Savi** (Reform Party), Prof. Peeter **Tulviste** (Pro Patria Union) and Andres **Tarand** (Moderates). Other candidates include the parliament's deputy speaker Peeter **Kreitzberg** (Centre Party), Mati **Päts** (independent), Jevgeni **Tomberg** (United People's Party), Aarand **Roos** (Christian People's Party), and Soviet-era president Arnold **Rüütel** (People's Union), who pushed strongly for independence.

The winner will be the candidate who garners the support of at least 68 MPs during the three rounds of voting. If no candidate wins a 2/3 majority, the selection will be left to an electoral body comprised of members of parliament and over 300 representatives of local govemment councils. In practice, only candidates put by parties having representation in parliament make it into the first round of voting, and parties without MPs have criticised the presidential selection process.

Lennart **Meri** became Estonia's president in 1992 and won a second term in 1996. Estonia's constitution only permits a president to sit for two five-year terms. The new president assumes office 9 October.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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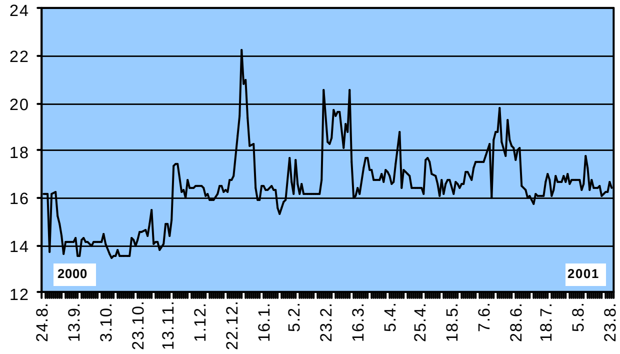
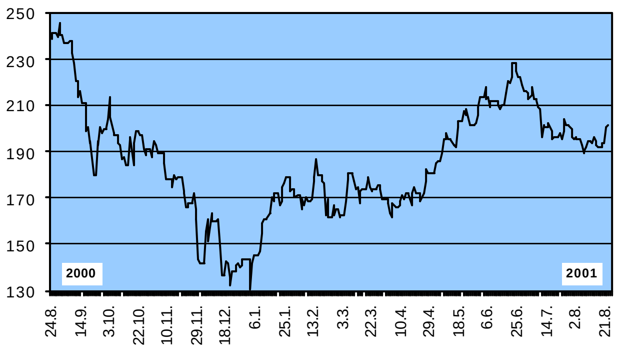


Russian share prices (RTS)



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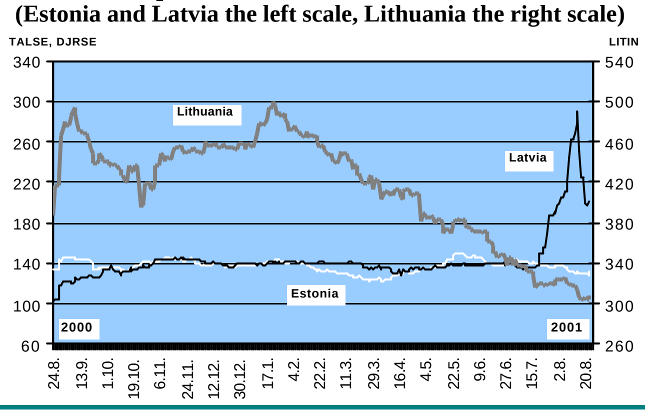

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Russia gets laws liberalising business. On 8 August, president Vladimir **Putin** signed three laws to invigorate the Russian business environment. They apply to company registration, rights of companies against inspections by authorities and business licences. The law on business licences, in particular, should reduce bureaucracy. The law, which enters into force on 10 February 2002, categorises 120 licensed business activities. There are between 400 and 500 such categories at present.

Bureaucracy and lack of legislation have effectively discouraged the formation of small and medium-sized companies in Russia. While in EU countries small and medium-sized businesses employ well over 50 % of the labour force, they employ only about 10 % in Russia.

Russian government approves uniformity of fees for municipal services. Under the decision, the current system of consumer-specific rates will be phased out at the start of 2004 and replaced with a system of uniform charges. From then on consumers will be expected to pay for their water, heating and waste disposal services at prices that reflect the actual costs of delivery and maintaining the necessary infrastructure. Tariff differences will be gradually eliminated during 2002 and 2003. The decision provides for supports to low-income persons.

Russia halts exports of precious metals. Russia suspended precious metal exports on Saturday (25 Aug.) due to the absence of a mechanism for their control. The move came immediately after a presidential decree on simplifying precious metal export procedures took effect. The decree allows precious metal producers to handle exports themselves, while the body responsible for supervision of exports is the State Assay Chamber within the finance ministry. The State Customs Committee however announced that the Assay Chamber had failed to agree with it on the necessary procedural guidelines, and so stopped precious metal exports altogether.

The cessation of Russia's precious metal exports was quickly reflected in international prices for metals, particularly palladium. Some 65 % of the world's palladium deposits are located in Russia.

Russian Customs Committee imposes limits on Far Eastern transit imports. A newly introduced Customs Committee regulation seeks to direct imports of textiles and footwear into Russia via border crossings on the borders of China, Korea, Mongolia and Kazakhstan. The restrictions mainly apply to import of textiles and footwear originating in the Far East, which are imported to Russia via the EU or the Baltics. The restrictions do not apply to goods in transit through Russia, nor do they apply to goods manufactured in Japan or Taiwan.

The regulation was actually issued in January, but due to opposition from many countries, implementation of the regulation was postponed and its scope diminished to textiles and footwear only. The regulation is expected to boost Russia's own transport industry and customs revenues.

Efforts to reduce Russia's federal bureaucracy stumble. Deputy prime minister Alexei **Kudrin** said that about 15 % of over 300,000 posts in the state apparatus were eliminated in 2000. The savings were used to increase the salaries of those remaining. The state apparatus, however, at the same time also continued recruiting new personnel for e.g. the president's plenipotentiary representative offices, the interior ministry's regional offices and tax administration. Annual salaries of the state apparatus are about RUB 25 billion (USD 850 million).

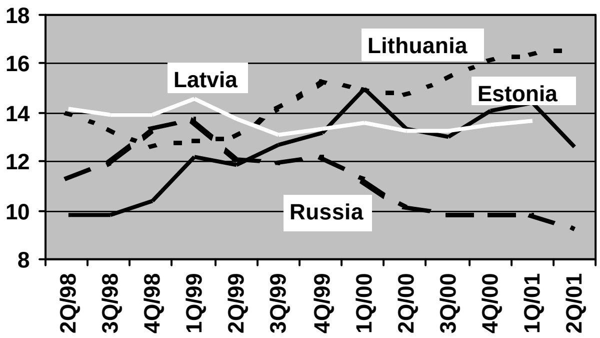
On 4 August, president Putin signed into law an amendment whereby Duma and Federation Council deputies will receive minister-level salaries and the upper- and lower-house speakers will get the same salary as the prime minister. The Duma has a permanent staff of 2,570 members and annual expenditures of about RUB 900 million (USD 30 million).

Russia and Ukraine reconnect their electrical power grids. The national electrical grids of Ukraine and Russia were reconnected last week (20 Aug.). Russia cut its connections with Ukraine's national power company in 1999 due to substantial payment arrears. However, Ukraine's backlog of unpaid electricity bills has now shrunk from USD 120 million to USD 38 million since it was cut off. The advantage of connecting redundant grids is that both countries can supply electricity to the other's grid as needed. The reconnection of the grids is considered a concrete example of improved relations between Russia and Ukraine. Relations have been hurt by Ukraine's debts, mainly unpaid gas bills, to Russia.

Russian unemployment declines. The number of unemployed fell in July to 5.9 million persons, which corresponded to 8.3 % of the workforce. At end-June, 6.6 million persons (9.2 % of the labour force) were unemployed. At end-July 2000, over 7 million persons (over 11 % of the labour force) were unemployed.

Rapid economic growth fails to lower Baltic unemployment as expected. Unemployment in Baltic rural areas remains far more common than in cities. The most intractable forms are long-term and youth unemployment. The quarterly survey by *Estonia's* department of labour found that the share of unemployed in the national labour force in Q2 2001 was 12.4 %, or slightly lower than a year earlier. Unemployment fell most in northeastern Estonia, where the unemployment rate was still above 20 % at the start of the year and now around 16 %. The lowest unemployment (9 %) was registered in the North Estonia province, which includes Tallinn. The most recent figures for *Latvia* using an ILO methodology similar to that used in Estonia show that the unemployment rate in the first half was 13.5 %. In *Lithuania* unemployment continued to rise, reaching 16.6 % in May. Most jobs were lost in the manufacturing, energy and agricultural sectors. The service sector, however, saw the number of persons employed increase from last year.

Unemployment rates in Russia and Baltic countries, % of labour force



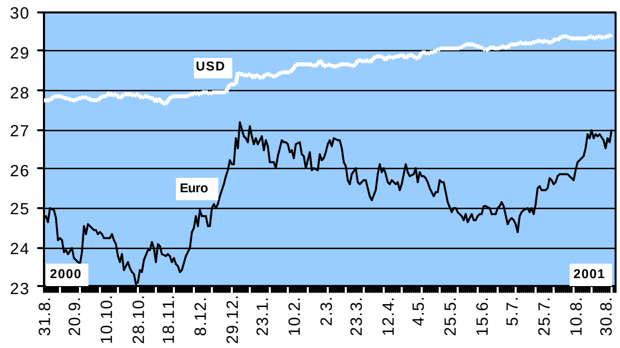
Selection of next Estonian president shifts to electoral body. Estonia's parliament voted three times on Monday and Tuesday (27-28 Aug.) and as anticipated, failed to reach the 68-vote majority required to elect a president. Thus, in accordance with the constitution, the task of selecting a president now shifts to a 367-member electoral body comprising all members of parliament and the representatives of local government councils. The electoral body convenes on 21 September. The parliament will propose two choices to the electoral council, i.e. the two most successful contenders in the third round of parliamentary voting – Pro Patria Union's Peeter **Tulviste** and the Centre Party's Peeter **Kreitzberg**. The electoral body can also name a dark-horse candidate if that candidate has the backing of at least 21 members of the electoral body.

Poland's budget problems precipitate government crisis. On Tuesday (28 Aug.), Polish prime minister Jerzy **Buzek** dismissed finance minister Jaroslaw **Bauc**. Buzek explained he sacked Bauc for his belated revelation of the nation's budgetary difficulties. Bauc warned at the beginning of August that, if current revenue and expenditure trends continue, next year's budget deficit could exceed 10 % of GDP. An independent government-appointed working group confirmed the information this week. Ahead of next month's parliamentary election, deputy finance minister Halina **Wasilewska-Trenkner** (independent) has temporarily assumed the finance minister's post.

The government should submit to parliament its final budget proposal for next year by the end of September, or about a week after the parliamentary election. The government has put PLN 40 billion ceiling on a next year's budget deficit, which is about 5% of GDP. The approaching parliamentary elections, however, have dampened the enthusiasm of elected officials for cost-cutting measures.

This year's budget also has problems due mainly to tax revenues well below original projections. At the beginning of August, Poland had to increase its budget deficit target from 2.6 % to 3.9 % of GDP. The causes of the budget deficit include slowing economic growth, which has fallen from 4 % last year to a projected 2 % this year.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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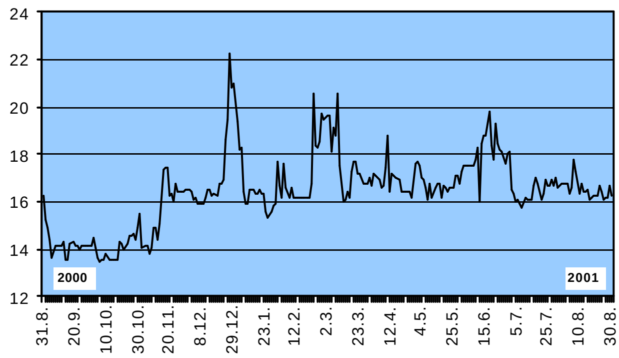
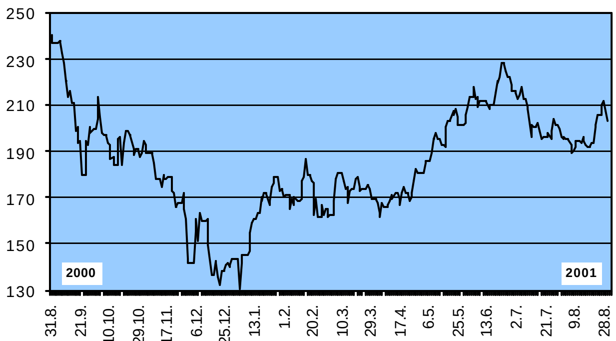


Russian share prices (RTS)



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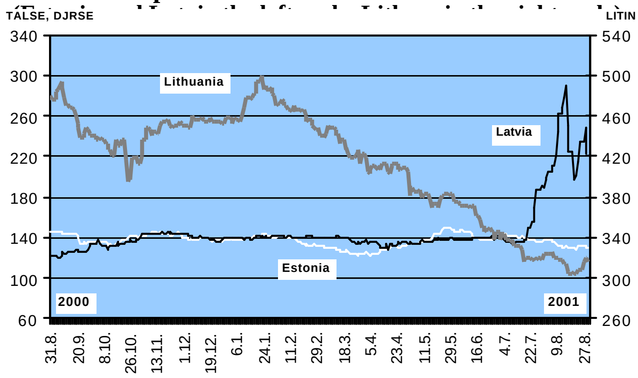

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Russian president pays official visit to Finland. Vladimir **Putin** met with Finnish president Tarja **Halonen** 2–3 September for discussions that included European security, EU and NATO expansion and the situation in Chechnya. The presidents stated that presently there are no unresolved political issues between Finland and Russia. The presidents also considered ways to improve economic cooperation, including cross-border cooperation, construction of a natural gas pipeline under the Baltic Sea to Central Europe and high-speed rail connections between Helsinki and St. Petersburg. During the visit, the Finnish mining company Outokumpu and Russian non-ferrous metals producer Norilsk Nickel signed preliminary agreements on projects worth about FIM 1.5 billion (USD 240 million). The projects involve construction of a new concentrator plant at Norilsk and expansion of the Talnakh concentrator plant.

Russia's consolidated budget revenues grow faster than expenditures. The consolidated budget revenues for the first half of 2001 amounted to 29.7 % of GDP (about one percentage point less in H1 2000). The growth of expenditures was more modest, rising less than a percentage point since H1 2000. Consolidated budget expenditures were 25.3 % of GDP, putting the budget clearly in surplus (4.4 % of GDP). The consolidated budget comprises the federal budget and regional budgets.

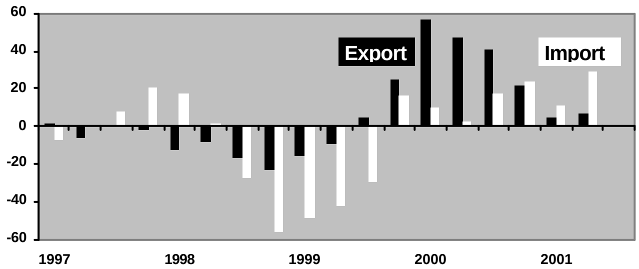
In H1 2001, revenues from income tax, excises and profit taxes grew most in relation to GDP. The new flat 13 % income tax has apparently succeeded in boosting tax revenues. Social expenditures, debt servicing (only interest) and defence expenditures are the largest expenditure items in the consolidated budget. Of these, especially the social expenditures have increased. While expenditure on industry, the energy sector and construction still represent minor items in the consolidated budget; they have risen from around 2 % to 5 % of the budget.

Russian export revenues growth slows, spending on imports picks up. The State Statistics Committee reports that Russian exports grew 6 % y-o-y in the first half of this year. Exports were valued at USD 52 billion, of which exports to non-CIS countries were USD 45 billion. Exports to non-CIS countries rose 5% y-o-y. Imports rose 20 % in the first half, with growth accelerating to nearly 30 % y-o-y in the second quarter. Imports in the first half of this year were estimated at USD 25 billion, of which imports from non-CIS countries were valued at over USD 17 billion. Imports from non-CIS states grew 21 % in dollar terms and nearly 30 % in euro terms. The trade surplus was USD 28 billion, about the same as in H1 2000.

Growth in export revenues slowed in the first half due to a 5 % lower average export price for Urals crude from a year earlier and a 13 % drop in the volume of natural gas exports. However, Russian crude export volumes were up 9 % and the export price for natural gas was 40 – 50 % higher than during the same period a year earlier.

Machinery and equipment imports grew by 25 % in the first half. The share of machinery and equipment in Russian imports from non-CIS countries was about 35 %. Processed foods and food ingredients accounted for another 25 %. For the first half, the State Customs Committee's import figure ignored about a fifth of the imports reported by the State Statistics Committee. In Q1 2000, about a fourth of all imports went unreported.

Russian foreign trade, on-year quarterly change, %



Russian inflation rate falls to zero in August. While the 12-month change in consumer prices was about 21 % at the end of August, the monthly change has been falling. The monthly inflation rate in July was 0.5 % and the 12-month change was 22.2 %. The slowdown in inflation in August was due to seasonal factors. Food prices were down 1 % in August, mainly the reflection of lower prices for fruits and vegetables as the new harvests came to market. Other goods prices rose 0.8 % and prices for services were up 2.3 %. The State Statistics Committee reports that August inflation was over 1 % if the lower prices for fruit and vegetables are excluded.

Russian finance ministry claims no problems with precious metal exports. The finance ministry emphasised that its State Assay Chamber, which oversees export of precious metals, was operating normally. According to the ministry, precious metal exports were halted in response to low world prices rather than discrepancies with the Assay Chamber. The State Customs Committee said last week it halted precious metals exports because the Assay Chamber had not agreed the new procedural guidelines with the Customs Committee.

Fitch IBCA upgrades Estonia's credit rating. International credit rating agency Fitch IBCA raised Estonia's long-term foreign currency borrowing to A-, one notch better than its previous rating of BBB+. Fitch IBCA justified Estonia's higher creditworthiness by citing the country's buoyant economic development during the past 12 months. The credit rating agency gave special praise to Estonia's rapid economic growth, stable public finances, as well as its smaller-than-expected current account deficit. Among the countries of Central and Eastern Europe currently engaged in EU membership talks, only Slovenia (A) has a higher sovereign credit rating. Fitch IBCA rates Latvia's long-term foreign currency borrowing at BBB and Lithuania's at BBB-.

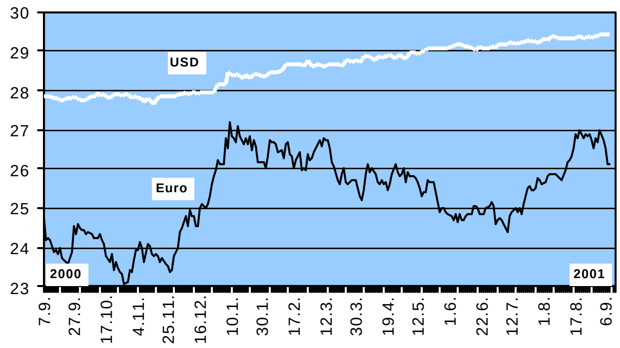
Estonian rail companies sold. Under the agreement reached at the end of April, a 66 % stake in the national rail freight carrier Eesti Raudtee would go the Baltic Rail Service (BRS) consortium, which comprises American, British and Estonian investors. This agreement was confirmed 31 August, when BRS paid the state privatisation agency the EEK 1 billion (USD 60 million) asking price. In addition, BRS presented an EEK 50 million (USD 3 million) development program for Eesti Raudtee backed by guarantees from Hansapank. Under the agreement, BRS is committed to invest nearly EEK 5 billion in Eesti Raudtee over the next ten years.

Another agreement signed last November concerned the sale of Edelraudtee, which operates Estonia's domestic rail passenger services. The sale was cleared at the beginning of August. Confirmation of the agreement was delayed by differences on payment of old loans and fees to be charged for use of infrastructure. Edelraudtee's buyer is GB Railways Eesti AS, which is owned by two Estonian businessmen and the UK-based GB Railways. The buyers paid EEK 10 million for Edelraudtee and doubled the company's share capital to EEK 200 million. GB Railways also announced it would restart services along unprofitable lines in northeastern and southern Estonia. It also preliminary agreed with the Estonian state on subsidies for these lines during the next ten years.

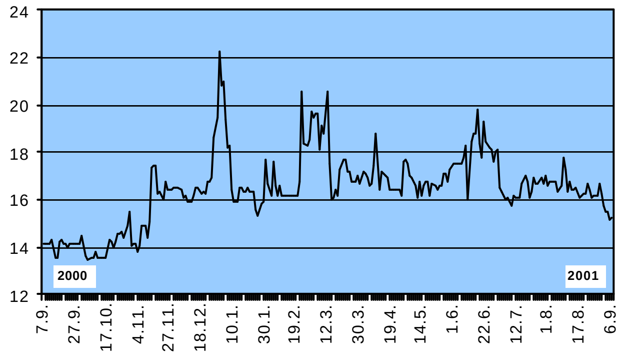
Latvian state moves ahead with sale of Latvijas Gaze. The Latvian state raised LVL 7.3 million (USD 11.6 million) from its sale of a 3 % stake in Latvijas Gaze on the Riga Stock Exchange on 30 August. The share price at auction was 6.13 lats, about 0.50 lats above the minimum price, but less than half the price garnered at a similar auction in July. The biggest buyer at both auctions was Itera Latvija, which announced it had purchased over half of all shares offered. No decision on how to sell the government's remaining 3 % stake has yet been reached.

IMF grants stand-by credit to Lithuania. While Lithuania has no plans to dip into the USD 110 million stand-by credit, it can use the arrangement as an endorsement of its economic policies. The 19-month facility is Lithuania's fifth such arrangement with the IMF since its independence. Many believe the credit will also be the last. The cornerstone of the stand-by credit is the Lithuania's economic program, which focuses on holding Lithuania's public sector deficit below 1.3 % of GDP this year and under 1.4 % of GDP next year – despite the additional costs of EU and NATO membership preparations and pension system reform. Lithuanian government's program commits to external stability and preservation of its currency board arrangement, as well as implementation of structural reforms in such areas as tax administration, and the agriculture and energy sectors. The program foresees Lithuanian GDP growing 3.6 % this year and 4.7 % next year.

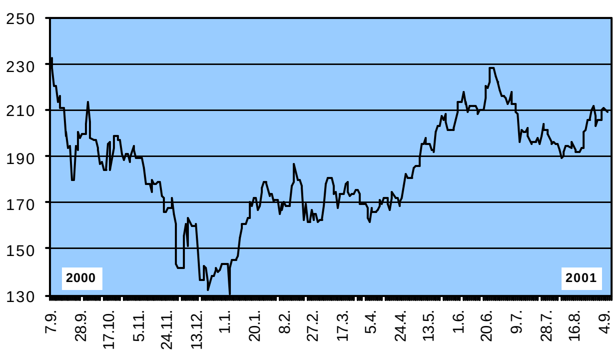
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



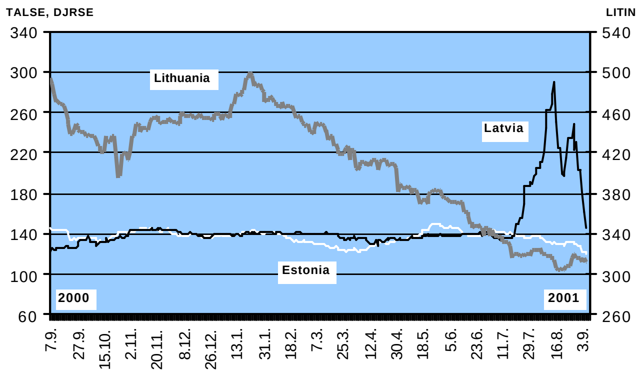
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russia revises growth figures for this year. The revised figures for industrial output in early summer are computed using the industrial structure of 1999, instead of 1995 (see Week in Review 29). Thus, the growth in industrial output, which was below 4 % y-o-y in January-April, was nearly 6 % for January-May. Since then, on-year growth has remained above 5 %. Investment growth, originally reported at just over 4 % in January-June, exceeded 7 % in January-July. The change was due mainly to upward revision of springtime growth figures, rather than a good July. Agricultural output rose 1 % y-o-y in January-June, while growth in January-July exceeded 6 %. In this case the improvement was due to an extremely favourable July, which has a large weighting compared to output earlier in the year.

Modest changes in the structure of Russian investments in the first half. The State Statistics Committee reports that the oil industry's share of all economic investment rose slightly in the first half to 18 %. Broken down, more than 15 % of investment went to crude oil production, while the share going to oil refining rose to over 2 %. The natural gas industry also increased its share slightly to over 5 %. Metallurgy enterprises continued to account for nearly 6 % of all investment, and the transportation sector for over a fifth. The housing sector, by contrast, saw its share of the investment pie fall well below 15 %. Actual housing construction represented less than 10 %.

Firms financed half of their investments out-of-pocket during the first six months of this year. The public sector provided under a fifth of all investment financing. The share of regional and local budgets contracted to 13 %. Banks provided a mere 3 % of investment financing.

FATF satisfied with Russia's new laws to prevent money laundering, lifts sanction threat. On 7 September, the international Financial Action Task Force (FATF) withdrew its call for additional countermeasures against Russia at the end of this month. While the FATF considered the new anti-money-laundering legislation enacted this summer sufficient to lift the threat of sanctions, it also decided to keep Russia on a list of "non-cooperative" countries. To get off the list, Russia must demonstrate effective implementation of its anti-money-laundering laws. Ukraine was added to the list.

Russia sells 9 % of Rosgosstrakh insurance company. The 9 % stake was offered at auction at a starting price of RUB 153 million. The winning bid from the Troika Dialog investment bank was RUB 201 million (USD 7 million). It appears that Troika Dialog purchased the stake for a customer, but would not comment on the deal. Four other firms also participated in the auction. The Russian government still plans this year to sell a 16 % and a 25 % stake in Rosgosstrakh. The state would retain a majority stake.

Rosgosstrakh is a large state-owned insurance company with several subsidiaries and a broad network of branch offices. It employs 20,000 full-time staff and over 40,000 claims adjusters.

Inflation slows in Estonia and Latvia, but accelerates in Lithuania. In August, 12-month inflation in *Estonia* slowed to 6.1 % (6.3 % in July) and 3.0 % in *Latvia* (3.1 % in July). The on-year change in consumer prices in *Lithuania* was 2.4 % in August, up from 1.1 % in July. The pick-up in Lithuanian inflation was driven by a 25 % hike in the price of phone services provided by Lietuvos Telekomas, which will continue to retain its monopoly position until 2003.

Estonian approves new pension system. On Wednesday (12 Sept.), Estonia accepted a new pension savings approach designed to reduce the amount that those currently working pay to support those on pension by also creating a mandatory pension contribution system. New workers will be expected to start making mandatory contributions to their own pensions starting in July 2002. The reform was needed to avoid the inevitable problem faced by the current system, which is an ageing population with fewer contributors and more beneficiaries. Estonia's finance ministry said the gap created by simultaneous financing of the new and current systems will cause additional budget expenditure of EEK 0.5– 1 billion (USD 30 – 55 million) for the next five to six years. The ministry believes, however, that the new pension fund will bring annually about EEK 1.3 billion in investment flows to the financial markets, which should in turn boost business activity.

Agreement on financing for renovation of Narva power plants. On 7 September, three international investment banks (Societé Generale Investment Bank, Bank of Tokyo-Mitsubishi and KBC Bank N.W.) agreed with Estonia's state-owned Eesti Energia and US-based NRG Energy to underwrite a loan for nearly EEK 4.5 billion (USD 250 million) to renovate the Narva power plants. The money will be used to modernise the plant's power blocks and partly to reconstruct oil shale mines, while bringing the operation into compliance with EU environmental regulations. The winning bid for the modernisation was submitted by the Finnish subsidiary of Foster Wheeler, Inc.

The loan is an essential part of a preliminary agreement reached in August 2000, whereby the Estonian state agreed to sell a 49 % stake in the Narva power plants to NRG Energy. The plants generate over 90 % of Estonia's electrical power. The agreement also includes an arrangement whereby 51 % of state-owned Eesti Põlevkivi's shale oil mining operations will be taken over by the Narva power plants. Now that the details of the deal are agreed, NRG Energy will pay the Estonian state the fixed purchase money of EEK 1.3 billion (USD 70 million). The deal should be final within a few weeks.

Estonia's opposition parties and president Lennart **Meri** have vigorously opposed the deal. They claim that the process was unconstitutional as parliament never decided on the matter. Opponents fear the agreement could hurt Estonia by raising the price of Estonian energy above the Nordic average, and thus impair the country's competitiveness.

Bank of Latvia governor to enter politics. Einars **Repse**, who has been the country's leading central banker since 1991, announced last week that he would soon step down from his post of governor and lead a newly formed political party. Mr. Repse's new party in next year's parliamentary elections is said to be supported by Latvia's former president Guntis **Ulmanis** and the previous head of the centrist Latvia's Way Party, former prime minister Vilis **Kristopans**. Repse is known as supporter of a stable, strong lat. His successor will be chosen by Latvia's parliament.

Lukashenko romps to re-election victory in Belarus. According to the country state-run central election committee, Belarus' incumbent president Alexander **Lukashenko** received 76 % of the vote in last Sunday's (9 Sept.) elections. Opposition candidate Vladimir **Goncharik** received just 15 % of the vote. Voter turnout was a brisk 84 %. Despite opposition claims of voting irregularities, the results of the single round of voting stand. Lukashenko, sometimes referred to as an autocrat, secured his second 5-year term as Belarus president.

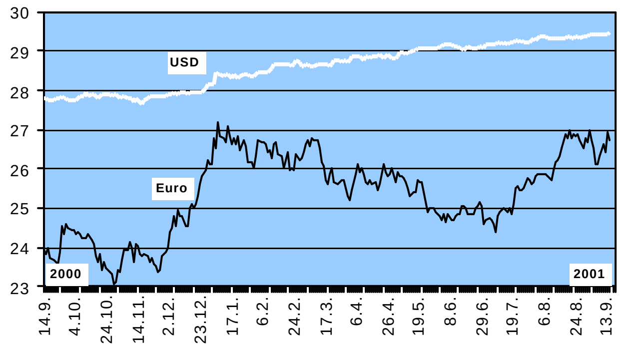
GDP and industrial output up in CIS countries. The CIS Statistics Committee reports on-year GDP increases in the first half for all CIS countries. Industrial output also increased in all CIS countries with the exception of Georgia, where national statistics indicate a decrease. The highest growth in GDP and industrial output was registered in Kazakhstan and Ukraine. Differences in inflation are greater. The lowest inflation was in Azerbaijan; the highest was is Belarus.

Percentage change in GDP, industrial output and consumer price index, H1 2000 to H1 2001

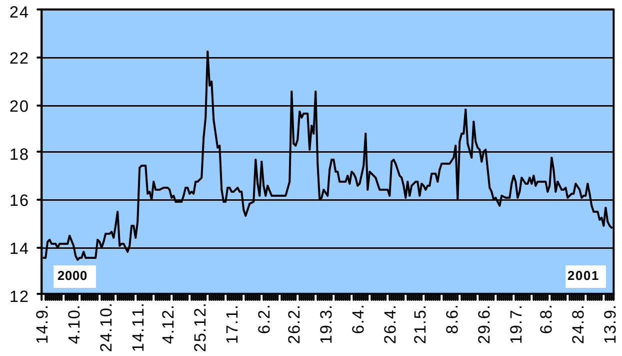
Country	GDP %	Industrial output %	CPI %
Armenia	6.6	2.7	3.3
Azerbaijan	8.4	5.1	1.7
Belarus	3.0	4.1	76.1
Georgia	5.2	-3.1	6.1
Kazakhstan	14.0	13.6	9.2
Kyrgyzstan	6.7	6.0	8.8
Moldova	2.6 1)	12.1	14.0
Russia	5.3 2)	5.5	23.3
Tajikistan	10.3	13.0	50.7
Turkmenistan	-	-	-
Ukraine	9.1	18.5	16.9
Uzbekistan	4.2	-	-

1) January-March; 2) output of key sectors (industry, agriculture, construction, transport and trade)

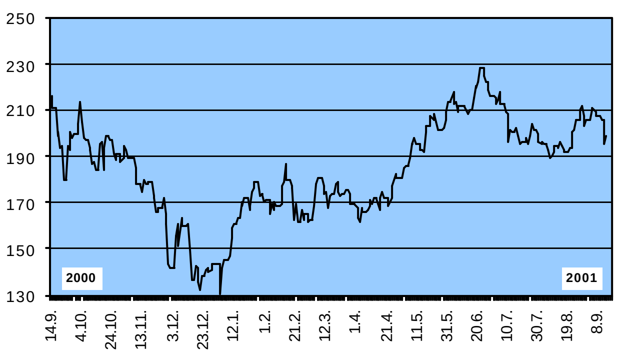
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



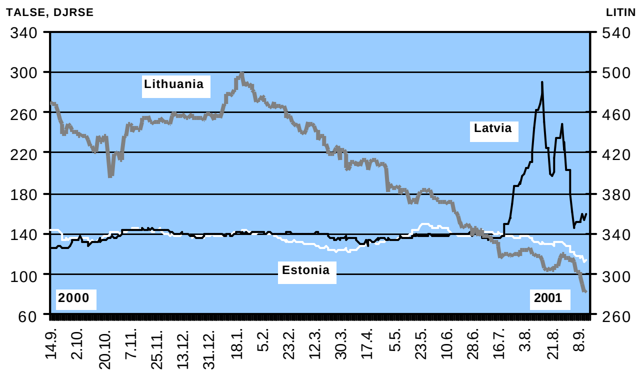
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Indications of increasing foreign direct investment in Russia. The State Statistics Committee reports that FDI inflows to Russia reached USD 2.5 billion in the first half of this year, up considerably from USD 1.8 billion in H1 2000. However, according to the balance of payment data released by the Central Bank of Russia, FDI inflows in H1 2001 amounted to USD 1.2 billion and USD 1.0 billion in H1 2000. Compared to last year, a larger amount, over 30 %, of FDI in H1 2001 went to the trade sector. About 15 % of FDI went to the transport sector and slightly more than 10 % to the food industry. Crude oil production took 7 %, while the machinery and equipment sector and metallurgy each attracted nearly 5 % of FDI.

As of end-June this year, total FDI inflows to Russia amounted to USD 17.6 billion. According to State Statistics Committee, the share of FDI inflows coming from the US fell substantially in the first half to around 20%, while Cyprus continued to hold at around 20 %. The share of FDI coming from the UK increased considerably to 10 %. The share of the Netherlands also rose to 11 %. Germany's share, 8 % of FDI, was unchanged.

Slight improvement in company payment arrears and barter situation. The State Statistics Committee reports some change in the payment arrears situation of Russian firms in the first half of this year. The average share of belated payments in proportion to the total outstanding debt of firms was 40 % as of end-June, down from 45 % at the start of this year. However, compared to earlier improvements payment arrears in proportion to annual GDP only declined slightly from nearly 24 % to 22 %. The amount of late payments owed by firms to other firms at end-June equalled about 10 % of GDP, while arrears to public sector budgets corresponded to less than 9 % of GDP. Surveys by the State Statistics Committee also found that the share of non-monetary payments such as barter in transactions of Russia's large monopoly enterprises fell to around a quarter of total turnover in the early months of this year. It has since held at around that level. The Russian Economic Barometer, which monitors several hundred industrial enterprises in Russia, found that the use of barter in transactions had fallen from around 20 % last autumn to 17 – 18 % this spring.

CBR issues short-term paper. The Central Bank of Russia last issued promissory notes in autumn 1998, when it used this monetary policy tool to mop up excess liquidity in the money market. The latest issue did not include a 0.8 % issue tax, which was introduced in late 1998 and abolished this summer.

Two series were offered at auction at the start of this month, each in the amount of RUB 2 billion (about USD 70 million). 24 bidders participated in each auction. The CBR got bids worth RUB 905 million on the two-week paper and sold RUB 420 million to bidders exceeding the minimum bid price. Offers for three-week paper totalled RUB 1.4 billion, and led to sales of RUB 435 million. The annualised yield on the two-week paper is 9.7 % and 10.3 % on the three-week paper.

Russian government to consider bank reform proposals next week. While several agencies have been preparing proposals on reforming Russia's banking sector, the most publicised proposals are those of the CBR, the Union of Industrialists and Entrepreneurs (RSPP) and the Association of Russian Banks (ARB). The reforms proposed by the CBR and ARB are considered moderate and fairly similar. The RSPP proposal has been characterised as radical, and differs from the others on many points. Recent news reports, however, claim a narrowing in differences in the proposals. The CBR has polished its plan in cooperation with the government, IMF and World Bank.

All proposals agree on the goals of reform. Improvements are needed in the reliability and transparency of bank operations, as well as competition among banks. Moreover, there is a general desire that banks play a more active role in financing economic activity. The most discussed aspects of banking reform involve issues related to the fate of state-owned banks and small banks with modest capitalisation, as well as introduction of financial reporting based on International Accounting Standards (IAS). The RSPP argue that state-owned banks should operate in the fields for which they were originally created. The central bank, on the other hand, wants to preserve the right of state-owned banks to serve a variety of customer bases. The CBR and the RSPP also disagree on minimum capital requirements for small, currently functioning banks. The RSPP would like to raise capital requirements substantially more than the central bank. The CBR says the current two-tier banking system (central bank and commercial banks) should be preserved, while the RSPP would like to implement a three-level system (central bank, national banks and regional banks). The RSPP wants IAS standards introduced immediately, while the central bank demands that such a move be postponed to the beginning of 2004.

Russia expects good grain harvest. The State Statistics Committee reports that as of the start of this month, the gross weight of harvested grain was 64 million tonnes, a nearly 40 % increase from the harvest at the same point a year ago. The dry weight of the harvest (net harvest) is generally 7 – 8 % less. This year's net harvest, estimated to come in at 72 – 75 million tonnes, should substantially exceed last year's 65.4 million tonnes. If the harvest meets current projections, Russia could even be an exporter of grain this year.

Merger of SEB and Swedbank called off, Baltic banks expect little impact. After the EU Commission's demand for large changes in the last February merger plans of the two Swedish banks, both banks lost interest in the merger.

SEB owns Lithuania's largest commercial bank Vilniaus Bankas, Estonia's second largest bank Ühispank and Latvia's second largest bank Unibanka. Swedbank is the main owner of Estonia's largest commercial bank Hansapank, which in turn owns Lithuania's second largest bank Taupomasis Bankas and Latvia's third largest bank Hansabanka. The Bank of Estonia and Hansapank announced that the end of the merger project will have no effect on Estonia's financial sector or Hansapank's operations.

Estonia has highest wage levels in Baltics. The average gross monthly salary in the second quarter of this year was 5,800 kroons (320 dollars) in *Estonia*, 160 lats (250 dollars) in *Latvia* and 1,100 litas (270 dollars) in *Lithuania*. Calculated in terms of purchasing power, Estonian wages were even higher, given that price level is slightly lower than in Latvia and Lithuania. Wages rose fastest in Estonia, up nearly 15 % y-o-y. In Latvia, salaries were up on average 5 %, while in Lithuania they remained at the same level as a year earlier.

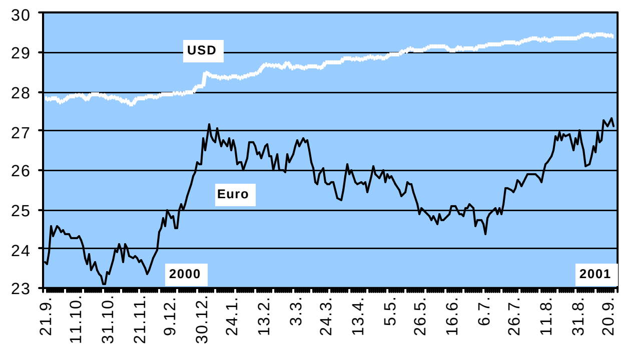
The minimum monthly wage in *Estonia* is currently 1,600 kroons (90 dollars), less than a third of the average salary. In August, the country's employers and labour organisations agreed to increase the minimum wage incrementally so that it reaches 41 % of the average wage by 2008. In *Latvia*, the minimum monthly wage was raised at the beginning of July to 60 lats (100 dollars). The minimum wage in *Lithuania* is 430 litas (110 dollars).

Tourism is one of the main service industries in the Baltics. During the first half of this year, 1.5 million tourists visited *Estonia*, a slight decrease from H1 2000. Tourists stayed longer on average in Estonia, so hotel occupancy rates were up by about 10 % from a year earlier. Most visitors to Estonia stayed in Tallinn and tend to come to Estonia from Finland. Last year, tourism was estimated to account for over 10 % of the country's GDP.

Over 900,000 people visited *Latvia* during the first half, a 12 % rise from H1 2000. The number of overnight stays in Latvia grew by a fifth in the first half of this year. The largest increase was in overnight stays of German and Finnish tourists. Last year, tourists in Latvia spent LVL 75 million, which amounted to about 2 % of GDP. The figure does not reflect all income from tourism, however, so the actual share of GDP is larger.

1.8 million tourists visited *Lithuania* during January-June, a slight increase from a year earlier. Four-fifths of tourists visiting Lithuania came from Latvia, Russia, Belarus or Estonia. The Bank of Lithuania reports that tourism accounts for about 5 % of the country's GDP.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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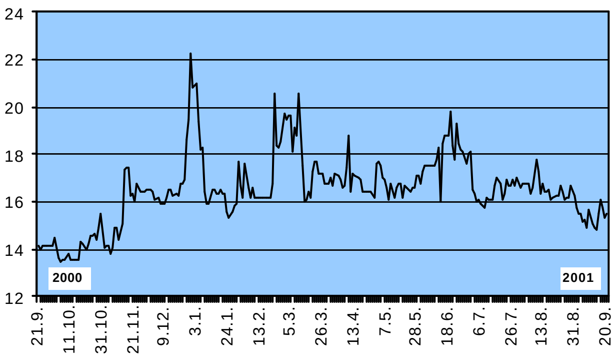
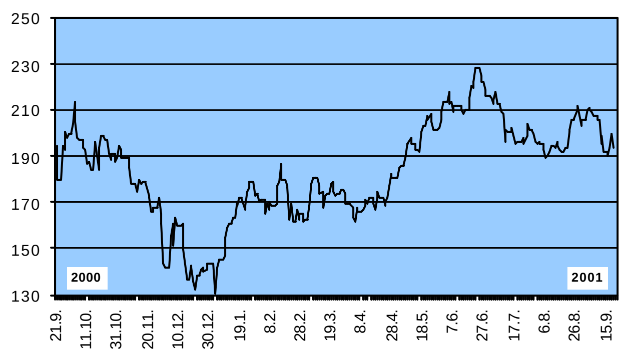


Russian share prices (RTS)



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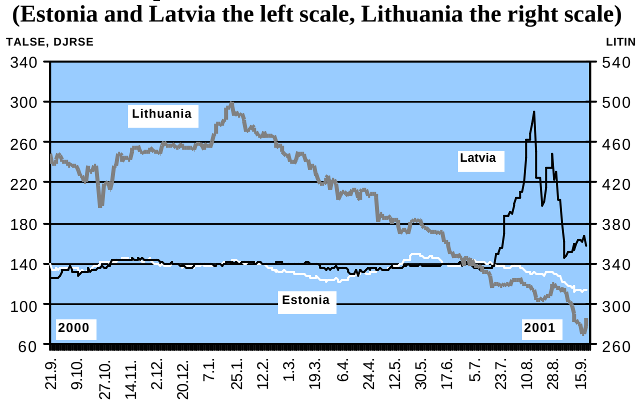

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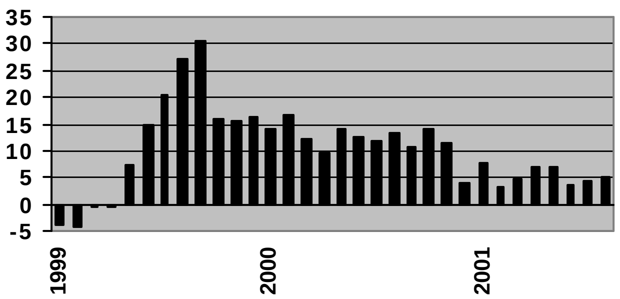
Russian government further revises its 2002 budget proposal. The government's latest budget estimates for next year include revenues of RUB 2,126 billion (19.4 % of GDP), expenditures of RUB 1,947 billion (17.8 % of GDP) and a surplus of RUB 178 billion (1.6 % of GDP). The GDP estimate was also raised from RUB 10,600 billion to RUB 10,950 billion. The GDP growth estimate remained unchanged at 4.3 %.

Finance minister Alexei **Kudrin** said that Russia would be able to handle its debt-servicing obligations even at the "pessimistic" low-end assumption for the annual average price of Urals-grade crude oil of USD 17.50 a barrel during 2002. The government, nevertheless, has decided to prepare for the contingency of lower oil price and increased foreign debt servicing in 2003 by putting money into its reserve fund. The government plans to set aside nearly RUB 110 billion (about USD 3.5 billion) next year, nearly double the government's earlier plans.

While the first reading of the 2002 draft budget in the Duma is scheduled for today (28 Sept.), the relevant committees have already commented on the government's earlier drafts. The latest budget reflects Duma committee demands for higher revenue and GDP projections.

Russian industrial output continues to rise. Industrial output growth was up 5 % y-o-y in August, in line with growth throughout the January-August period. The highest growth was in machinery and equipment and the food industry (January-August growth 8–9 % y-o-y). Growth was also strong in the chemical, petrochemical and fuel industries (6–7 % y-o-y).

12-month change in Russian industrial output, %



Duma approves third reading of land code. The third and final reading of the land code passed by a vote of 257 to 130. Strongest opposition was raised by Communist and Agrarian deputies. The reading of the land code bill in the Federation Council next month is expected to generate heated debate.

The bill as approved requires that, when privatising buildings and structures, the lots they stand on are also to be privatised. The right of foreigners to own land is to be postponed until the president issues a decree listing of the areas where foreigners will not be allowed to own land. Although the land code only applies to about 2 % of Russia's total land area, it still affects millions of residences, enterprises, office buildings and summer houses. A separate law will be drafted for agricultural land.

Brisk growth in Finnish exports to Russia. According to Finland's National Board of Customs, Finnish exports to Russia rose 32 % y-o-y in the first half of this year, while Russia's share of Finland's total exports rose to around 5 %. Machinery and transport equipment exports were slightly over 40 % of all exports to Russia and were up nearly 40 % in the first half. This includes a doubling in the exports of telephone equipment, which now account for 12 % of all Finnish exports to Russia. Exports of paper products increased 37 % and accounted for 10 % of total exports. The share of chemical products remained at 13 % having grown by around 25 %. Food exports rose 12 % and represented nearly 7 % of exports.

The growth in imports from Russia was 12 % in the first half and Russia's share of Finland's total imports was about 10 %. Energy imports remained at about 64 %. Wood imports rose by about 25 %, and accounted for over 12 % of all Finland's imports from Russia. Imports of chemical products rose to about 25 % and accounted for about 8 % of imports from Russia. Metal imports increased overall about 15 % and represented nearly 7% of all imports from Russia.

Opposition candidate becomes Estonia's new president. Arnold **Rüütel** (73) was selected in an Electoral College meeting last week (21 Sept.) to serve a 5-year term as Estonia's president. The election was decided by a second-round vote in which Rüütel got 186 votes while parliamentary speaker Toomas **Savi** got 155 votes. Mr. Rüütel enjoys strong support in rural Estonia, and may have been helped by the proportionally high representation of rural representatives in the Electoral Council.

President Lennart **Meri**'s successor holds a doctoral degree in agriculture. Mr. Rüütel is also the chairman of the opposition People's Union. From 1983 to 1990 he served as chairman of the Estonian Soviet Socialist Republic's supreme soviet. From 1990 to 1992 he was chairman of the Estonian republic's supreme soviet. Estonia's constitution defines the president's role as mostly ceremonial.

Latvian economic growth accelerates. Latvia's real GDP grew 9.2 % y-o-y in the second quarter. For the first half, GDP as measured in fixed prices was 8.8 % higher than in H1 2000. Latvia has successfully sustained growth despite a dimming economic outlook in its main export destination, Western Europe. Growth has been supported by greater transit shipping volumes and robust domestic demand, as well as growth in exports to Russia and other CIS countries. Observers estimate economic growth for the year to come in at around 7 %.

All key service sector categories – trade, transport and corporate services – enjoyed growth at over 10 %. Growth in industrial output continued brisk in July, up 11 % y-o-y. Latvia last experienced such high growth in industrial production in spring 1998. Confidence in the country's economy seems sustained as construction activity increased 5.5 % y-o-y in the first half, and private sector investments grew by a fifth. One-fourth of investments went to the transport sector, while the food industry, the wood industry and retail businesses each received 15 % shares.

IMF satisfied with Ukraine's economic growth and ready to grant new loan tranche. The IMF Board decided last week (20 Sept.) to grant Ukraine a USD 377 million tranche as part of a 1998 Extended Fund Facility (EFF) loan agreement. Including the latest tranche release, Ukraine has taken USD 1.6 billion in EFF credits so far. It has about a USD 1 billion still available under the current program.

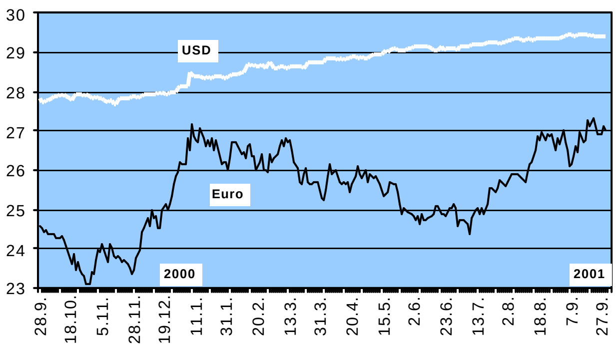
The IMF characterised the country's economic development this year as excellent, noting in particular the rapid economic growth (GDP +9.1 % y-o-y in the first half) and declining inflation (16.9 %). Moreover, monetary and fiscal policies have been in accordance with the EFF program. The IMF still wants to see faster progress in structural reforms, especially with regard to reform of large banks, improving operating conditions for private firms, liberalisation of the agricultural sector and improvements in transparency and corporate governance.

Left succeeds in Polish parliamentary elections. A coalition of the Democratic Left Alliance (SLD) and the tiny Labour Union (SLD-UP) took 41 % of the vote in Sunday's (23 Sept.) parliamentary elections, and secured 216 seats of the country's lower-house 460-seat Sejm. Contrary to earlier forecasts the coalition fell short of an absolute parliamentary majority. Still it is unclear whether the SLD led by Leszek **Miller** will look for a government partner or form a minority government. One potential partner is the Polish People's Party (42 seats), which sat with the SLD in government from 1993 to 1997. Cooperation was not, however, painless.

The current governing party Solidarity and the Freedom Union lost all their places to four new parties. The most successful newcomer was the centre-right Citizen's Platform party (65 seats), which has already refused to join a government with the SLD. Other parties winning seats were the anti-EU-membership Self Defence agrarian party (53), the right-wing Law and Justice (44) and the conservative League of Polish Families (38). Voter turnout was just 46 %.

The new government's most immediate tasks include tackling growing budget problems and moving ahead with EU membership talks.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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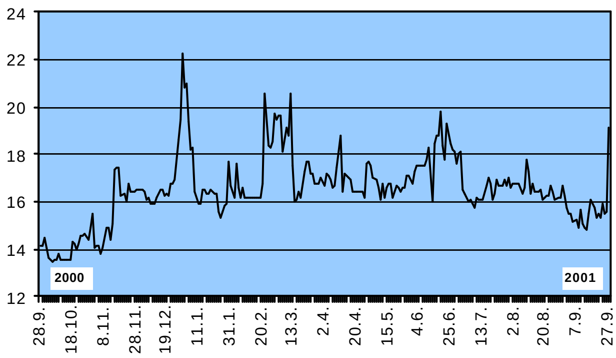
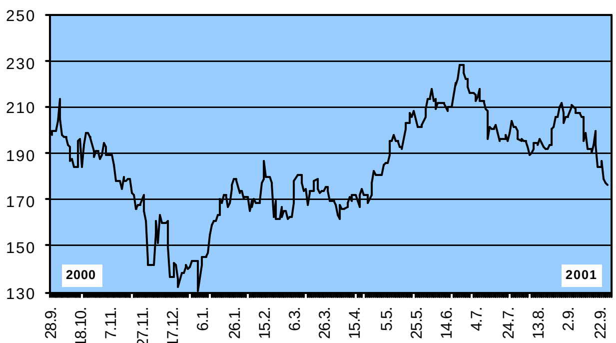
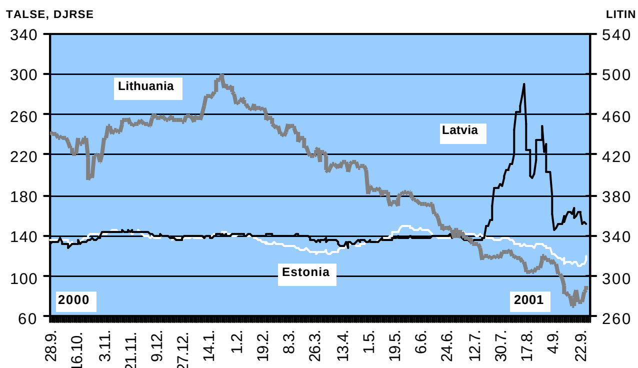


Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russian & Baltic Economies
The Week in Review
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Duma approves first reading of 2002 budget. The budget bill passed its first reading in the Duma by a vote of 262 to 125. Observers said the strong approval reflected the government's concessions to Duma committee demands for higher estimates of revenues, expenditures and next year's surplus. Of a projected RUB 178 billion surplus, a bit less than RUB 69 billion will go to paying off federal debt, while almost RUB 110 billion (USD 3.5 billion) will go to creation of a reserve fund in anticipation of 2003 debt-servicing costs. The second reading of the budget is scheduled for 19 October.

Russian government and central bank approve draft plan on bank reform. Further refinements to the plan are expected in the next several weeks. Moreover, the government continues to prepare its own program on banking sector reform. The program will likely be announced when the government and central bank announce their strategic policies for the economy.

Implementation of banking reform measures envisioned in the current plan require amendments to around 30 laws. CBR first deputy chairman Tatyana **Paramonova** said the central bank retains its role as regulator and supervisor of the banking system, and aims at maintaining stability of the banking system. The draft plan seeks to bring Russia's banking practices into line with EU standards. No restrictions will be set on foreign capital flows into the Russian banking sector. The central bank will also refrain from increasing its stakes in banks where it currently has equity participation and it will not establish any new state-owned banks. The CBR may also fully divest its holdings in certain banks. No agreement has been reached in the controversy over basic capital requirements for banks. A separate law on a federal deposit insurance scheme will be prepared.

Russia's foreign debt decreases, little change in size of domestic debt. The finance ministry reports that at the beginning of July, Russia's foreign debt stood at USD 137.9 billion, down from USD 144.4 billion at the beginning of the year. The figure includes debts Russia inherited from the Soviet Union. The largest payment item is to Paris Club creditors. Domestic debt stood at RUB 566.2 billion (USD 19.5 billion) at the beginning of July, mostly on issue in the form of state bonds. Domestic debt has risen slightly less than 2 % since the start of the year.

Consumption drives economic expansion in Russia. The State Statistics Committee reports that Russian GDP grew at a rate of 5.1 % in the first half of this year. Private consumption increased nearly 9 % in the first quarter and over 11 % in the second quarter. Fixed capital formation (investment) grew slightly more than 3% in the first quarter, then growth surged to 7 % in the second. Public consumption in the first half fell about 1 %. As a share of GDP, private consumption increased to about 50 %. The share of fixed capital formation fell to 16 %, while public consumption's share remained slightly below 15 %. Net exports dipped below 16 %, since the share of export earnings of GDP dropped to around 40 %.

There was a modest shift in the structure of GDP output. Industry accounted for about a third, while services rose slightly to above 56 %. The share of trade in the service sector as a share of GDP remained at slightly more than one-fifth while transport and communications were less than 10 %. Construction's share remained at about 6 % and agriculture's share, which due to seasonal fluctuation is small before autumn, remained at several percent.

Strategic Russian oil pipeline projects near completion. The laying of a new pipeline running from the Tengiz oilfields in Kazakhstan to the Novorossiisk oil terminal on the Black Sea is expected to be completed this month. Russia built the 1,580-kilometer pipeline, which cost USD 2.5 billion and can carry about 15 million tonnes a year, in order to secure its dominant market position in Central Asian oil transport.

In addition, the new Sukhodolnaya – Rodionovskaya pipeline has just opened. It skirts the Ukraine border, directing oil to the Novorossiisk and Tuapse oil terminals on the Black Sea. The rationale for the 260-kilometer, 180-million-dollar pipeline, which has an initial annual capacity of 25 million tonnes, is to eliminate reliance on the oil terminal in Odessa, which is in Ukraine. The goal is to next year increase the volume of oil shipped to 35 million tonnes a year. Transneft made the decision to bypass Ukraine after Ukraine refused to lower its annual USD 60 million fee for allowing oil to be piped across its territory.

Estonian economic growth slows. Estonia's real GDP grew in the second quarter by 5.0 %. Growth in the first quarter was 5.8 %. The slowing was due to a slackening of domestic demand as household incomes in real terms were lower than expected. The reasons were persistent low employment and relatively high inflation. Estonian exports have suffered in recent months as markets abroad weakened. Economic growth was sustained in the second quarter mainly by growth in export of services (6 %) and investments in real estate (11 %). Some production has also gone to build up inventories. Observers now expect growth for the year to come in at around 4 %.

Estonia's most important service areas experienced on-year growth in the second quarter: transportation was up 4 %, trade 9 % and real estate, renting and business activities 7 %. Agricultural output rose 14 %. The growth in industrial output sales has continued steady, and was up 7 % in January-August as measured in constant prices. Key manufacturing sectors (food processing, wood processing, textiles and metallurgy) grew briskly. Machinery and equipment manufacturing increased nearly 60 %, but mobile phone production dropped by half.

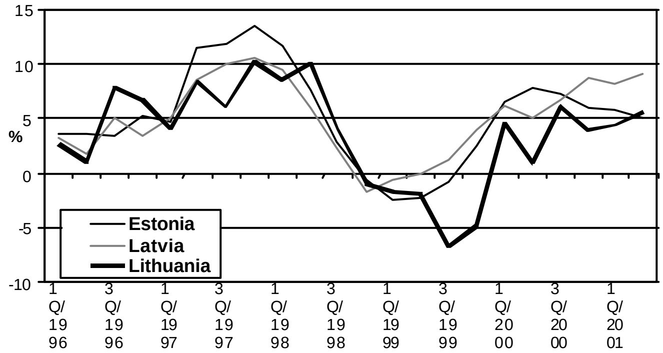
Current account deficits in second quarter shrink in Estonia and Lithuania, unchanged in Latvia. The Baltics posted the following current account deficits in the second quarter: Estonia EEK 890 million (USD 50 million), Latvia LVL 75 million (USD 120 million) and Lithuania LTL 550 million (USD 140 million). As a percentage of GDP, the deficits were 3.5 % in Estonia, 6.3 % in Latvia and 4.6 % in Lithuania. A year earlier, the current account deficits in relation to GDP were 5.3 % in Estonia, 6.7 % in Latvia and 6.1 % in Lithuania. The trade deficits of Estonia and Lithuania diminished in the second quarter as exports outpaced imports. The trend halted, however, in July as exports slowed and the trade deficit began to grow again. Latvia's trade deficit grew slightly. Service surpluses grew in Latvia and Lithuania, but fell slightly in Estonia.

As compared to the same period a year earlier, direct investments to the Baltics increased in April-June, rising to EEK 1.2 billion (USD 70 million) in Estonia, LVL 60 million (USD 90 million) in Latvia and LTL 800 million (USD 200 million) in Lithuania. The largest private investments involved Lithuanian Shipping (LISCO) and the privatisation of Lithuanian Savings Bank. Foreign direct investment outflows from Estonia to other countries doubled in the second quarter to EEK 1.3 billion. Most of this money went to investment projects in Latvia and Lithuania as international companies extended their operations in Estonia to the other Baltic states.

Lithuanian GDP growth accelerates to 5.7 % in the second quarter. GDP grew 4.4 % in the first quarter. Revised figures for all last year indicate GDP grew at a rate of 3.9 %. The pick-up in economic growth was driven by increased exports of goods and services (23 %). Private consumption rose 4 % in the second quarter. Fixed investments, however, were down 5 % compared to a year earlier.

Lithuania's important service sectors (trade and real estate, renting and business activities) increased during the second quarter. Output in the transport and communications sector fell 5 %. Industrial output rose 25 % in the second quarter, but growth then slowed in August. The largest growth was registered in oil refining, textiles and wood processing. Agricultural output declined 9 %.

On-year change in Baltic GDP (quarterly)



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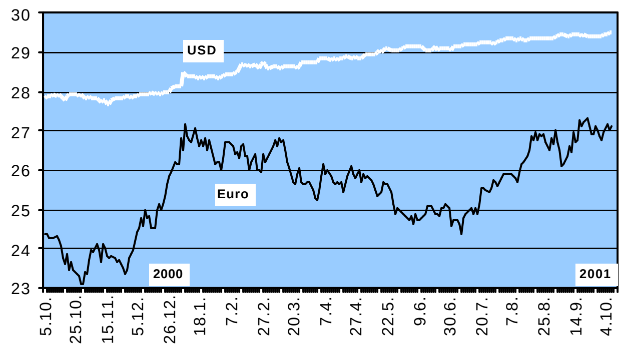

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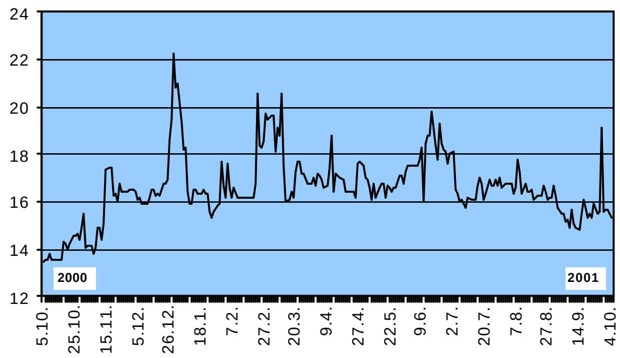

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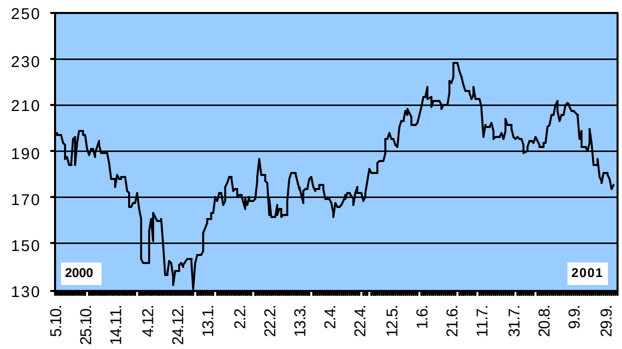

Baltic share prices
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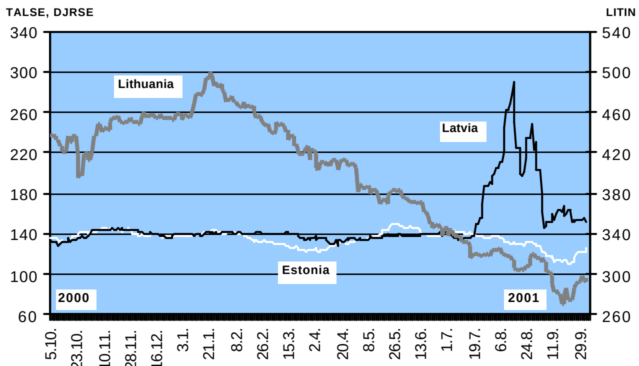

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Russian & Baltic Economies
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41•2001

Federation Council approves Russian land code. In a vote of 103 to 29, the Federation Council approved the land code. Most of those voting against the bill sit on the Federation Council's agriculture committee. Passage of the land code ends a six-year dispute over ownership of urban and industrial land. With the president's signature it becomes law. A separate bill on farmland is expected to emerge within the next six months.

Russia has good possibilities to handle its 2003 debt servicing. Under the government's proposed budget for next year, Russia would be able to meet its debt-servicing obligations for both 2002 and 2003 so long as the price of oil stays above 18 dollars a barrel. If the oil price exceeds that level, any resulting budget surpluses would be set aside in a reserve fund. Russia could also bolster its finances in coming years through further privatisation sales or issues of domestic and foreign bonds. Surpluses this year are expected to generate at least USD 3.5 billion for the reserve fund – as of end-June some USD 2.5 billion had already been set aside. The price of Brent crude, however, has fallen from around 29 dollars a barrel in mid-September to about 22 dollars a barrel in the first week of October. The price per barrel of Russian Urals-grade oil is typically several dollars below Brent grade.

Russian consumer prices up 20 % y-o-y in September. The relatively slow rise in prices in September (0.6 % m-o-m) reflected an ongoing decline in prices for fruits and vegetables (-10 % from August) as the harvest season continued. Excluding the drop in fruit and vegetable prices, consumer prices rose in September 1.3 %. The price of services, particularly those related to housing, continued to rise briskly. The economy ministry predicts annual inflation will come in at around 18 % this year.

	Aug. 2001	Sept. 2001	Sept. y-o-y
Consumer prices, total	0.0	0.6	20.0
Food	-1.0	-0.2	18.6
Other goods	0.8	1.2	14.1
Services	2.3	2.6	38.0
- Housing related	3.6	2.9	55.5
- Passenger traffic	1.2	1.7	33.5

Russia's creditworthiness upgraded. The international credit rating agency Fitch IBCA raised Russia's long-term foreign-currency rating and eurobonds to B+. The rating for short-term foreign-currency bonds was left at B. Fitch IBCA explained Russia's improved creditworthiness was justified by robust economic development, progress in structural reforms and reduced foreign debt. Standard & Poors, which already upgraded Russia's long- and short-term borrowing to B a couple of months ago, also indicated further rating improvements could be ahead in coming months.

Russian share prices fell in September. Russia's main share index, the RTS, peaked in mid-summer at around 230 and thereafter declined. The RTS stood at 210 in early September, but then dropped nearly 20 % to 170–180 in early October. Such levels were last seen in April. In the wake of the September 11 terrorist attacks on New York and Washington D.C., the drop was about 7 %. The shock to world oil prices a week later drove down the RTS (which is heavily weighted with oil companies) another 10 %. However, the biggest losers in September were some major telecommunications companies. The decline of Russian oil company shares is, according to assessments based on stock market indicators, cushioned by their gross undervaluation. This week the RTS index bounced back to the 190 level. The price of Gazprom shares, which are listed on the Moscow Stock Exchange, has fallen since mid-summer back to its May levels.

Russia and Czech Republic agree on debt restructuring. A novel approach to debt restructuring devised by Russia and the Czech Republic may serve as a model for settling old debts between Russia and other former COMECON states. Russia owes its former-COMECON neighbours approximately USD 14 billion, of which the Czech Republic was owed some USD 3.6 billion.

Under the restructuring deal, the Czechs agree to forgive USD 2.5 billion in debt in exchange for USD 550 million worth of electricity delivered by the Russian Unified Energy System UES to the Czech Falkon Capital. Of the remaining USD 1.1 billion, USD 700 million will be paid with interest and USD 400 million without interest by 2020. Under this rather complicated arrangement, UES is able to use its obligation to settle its debts to Gazprom, which, in turn, can then pay its debts to the federal budget.

Estonia again posts highest inflation in Baltics. Consumer prices in September rose 5.7 % y-o-y in *Estonia* (6.1 % y-o-y in August), 3.6 % in *Latvia* (3.0 %) and 2.1 % in *Lithuania* (2.4 %). The monthly increase from August to September was 0.1 % in *Estonia* and 0.6 % in *Latvia*. On-month inflation fell 0.2 % in *Lithuania*. Estonia's inflation rate is expected to slow in coming months as both domestic and foreign demand weaken. Strong domestic demand caused the acceleration in Latvian inflation. The drop in consumer prices in Lithuania in September reflected lower food prices and cheaper rates for local phone calls.

Lithuanian government decides on the way of selling gas company Lietuvos Dujos. The decision is an important step in the Lithuanian energy sector's slow progress in reforms. Some 34 % of the company will initially be sold to a strategic Western investor, and another 25 % stake to a Russian natural gas supplier that will be decided later. A 9% stake will be sold to potential Lithuanian partners of the gas supplier. The World Bank suggested the 9 % stake should have been auctioned via the stock exchange. Gazprom, which supplies Lietuvos Dujos with most of its natural gas, demanded that the stake of the gas supplier and its potential partners should at least match that of any strategic Western investor.

The Lithuanian government plans to announce the bidding rules for strategic investors this month. The gas supplier will be chosen after the strategic investor is determined. The Lithuanian state currently plans to retain a 24 % stake in the company.

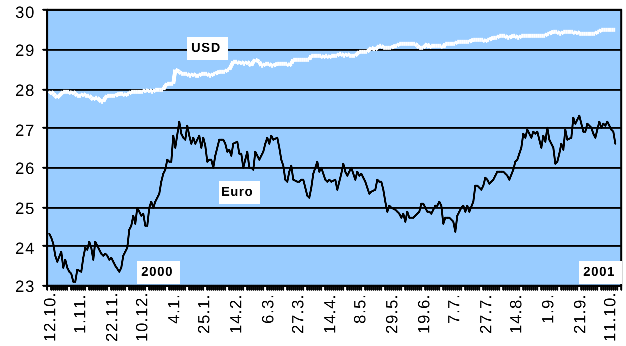
Only one bid submitted by deadline for stake in Lithuanian Agriculture Bank. On sale is a 76 % stake in Lithuania's third largest bank. Lithuania's privatisation agency reports that initially four banks – the Austrian Raiffeisenbank, the German Nord/LB, the Nordic Nordea and the Finnish Sampo – responded to the invitation to bid on Agriculture Bank (Lietuvos Zemes Ukio Bankas) by ordering information packages on the privatisation offer.

Few changes in country risk rankings of transition economies. *Euromoney's* September issue presents its semi-annual country risk rankings for 185 countries. *Institutional Investor* also released a similar survey of 141 countries. Slovenia led the rankings of transition economies in both surveys. Estonia, Poland, Slovakia and Latvian showed declines in the *Euromoney* evaluation, while *Institutional Investor* left unchanged or upgraded its rankings in relation to March 2001 of all transition economies shown in the table below. Russia's rankings improved slightly in both surveys.

Country risk figures for transition economies
Rankings September 2001, March 2001 and September 2000

Country	Euromoney			Institutional Investor		
	09/01	3/01	9/00	09/01	3/01	9/00
Slovenia	31	33	33	28	30	29
Hungary	35	32	40	32	36	31
Czech Rep.	41	41	43	34	35	38
Poland	48	45	42	38	38	36
Estonia	49	44	55	46	47	45
Slovakia	58	53	62	56	58	58
Latvia	64	61	61	55	57	59
Lithuania	66	67	69	60	62	69
Bulgaria	74	76	80	70	74	74
Romania	82	83	103	85	89	85
Russia	94	97	95	92	93	95

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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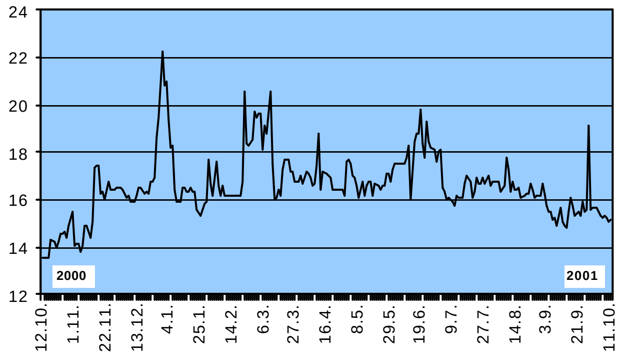

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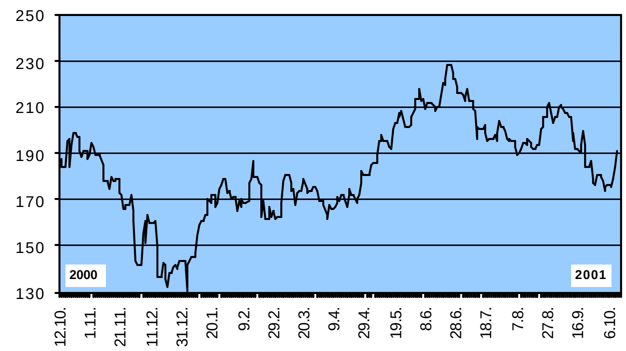

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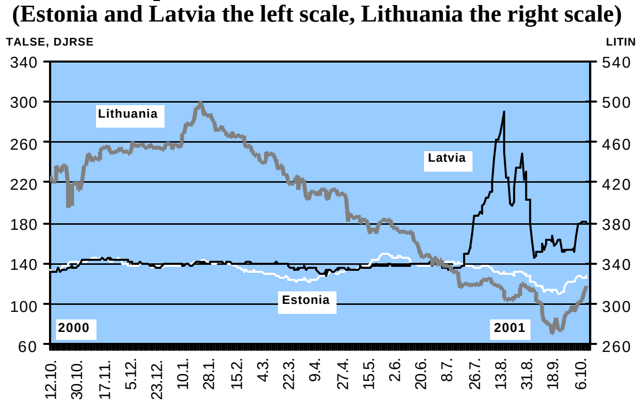

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Editor Timo Harell
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Russian & Baltic Economies
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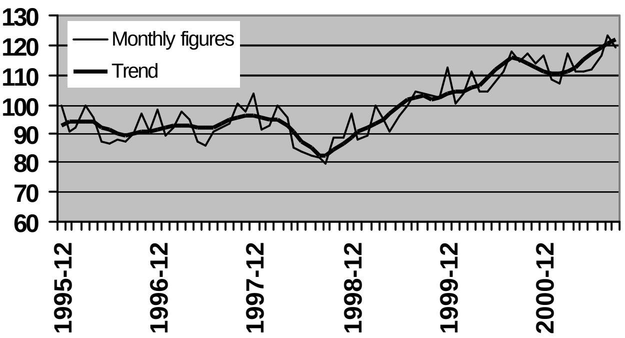
Russian industrial output growth exceeded 5% during first nine months of this year. The workday-adjusted figure for industrial output in the first three quarters of this year was 5.4 % y-o-y. In the third quarter, growth slowed to 4.5 % y-o-y. Among the largest industrial sectors, fastest growth during January-September was seen in the food processing and machinery and equipment (each 8 % y-o-y), chemicals and petrochemicals (just under 7 %) and the fuel industry (just over 6 %). Crude oil production increased 7.5 % and electricity production was up 1.4 %. Natural gas production fell nearly 2 %.

Russian industrial output, December 1995 (100) to September 2001



Russia to repay an IMF loan ahead of schedule. With some USD 2.7 billion owed on a 1998 loan to the central bank, Russia now intends to start paying off the debt this year rather than 2003 under the earlier agreed payment schedule. President **Putin** revealed Russia's intentions to IMF managing director Horst **Köhler**, visiting Moscow last week. No precise repayment dates have been given. The premature repayment will not affect the Russian government's IMF debts, which stood at USD 7.9 billion as of end-June.

Even reduced, Russia's current account surplus remains substantial. Preliminary balance-of-payments figures from the Central Bank of Russia indicate that the current account surplus for the first nine months of this year was USD 28 billion, which corresponds to 12 – 13 % of GDP. In the third quarter, however, the surplus fell to under 10 % of GDP. Last year the surplus in January-September exceeded USD 33 billion, or 18 % of GDP.

The goods trade surplus shrank in the first three quarters to slightly under USD 40 billion. Russia's earnings on exports of goods and services rose 2.4 % y-o-y, but fell 3 – 4 % in the third quarter. For January-September, export earnings on natural gas grew substantially, while other export earnings overall just held their ground (see table). Imports of goods and services increased in the first three quarters by 20 % when measured in dollars and over 25 % measured in euros. Imports grew at about the same rate also in the third quarter. The services trade deficit rose to over USD 7 billion for January-September, due mainly to increased spending on tourism. Spending on tourism accounted for nearly 17 % of all import spending.

According to balance-of-payments figures for January-September, foreign direct investment inflows into Russia amounted to USD 1.7 billion (USD 1.5 billion a year earlier). The overall financial account deficit for January-September was just under USD 13 billion, on the same order as last year (USD 14 billion not counting debt forgiveness granted by the London Club of commercial creditors). Reflecting unreported capital flight, the statistical-error figure (almost always negative in Russia's case) stood at nearly USD 6 billion for the period and remained nearly constant in relation to the value of trade flows.

	Jan-Sep 2001 change from Jan-Sep 2000, %	Share of export income, %
Total export income (goods and services)	2,4	100
- Crude oil	1	22
- Oil products	–7	9
- Natural gas	14	16
- Other exports	2	53

Bank deposits and loan stocks in Russia continue to grow gradually. CBR figures show that the stock of bank deposits of households and enterprises corresponded to some 10 % of GDP, up from 9 % a year earlier (excluding the figure for Vnesheconombank). Household bank deposits were 7 % of GDP, slightly more than the amount of rouble cash in circulation (6 %).

The share of household deposits fell slightly this year (68 % at the beginning of August) as the share of their rouble deposits fell (44 % of all deposits). The share of foreign-currency deposits of households rose slightly (24 % of all deposits). Enterprises have increased especially foreign-currency deposits (nearly 25 % of all deposits). The average maturity on deposits has also risen slightly, driven mainly by rouble deposits of households. On the other hand, the shares of demand deposits and short-term deposits have risen as banks seek to broaden their customer bases.

The stock of outstanding bank loans to enterprises stood at about 11 % of GDP at the beginning of August (just over 9 % a year earlier). Loans to households represented 1% of GDP. The share of rouble-denominated loans in borrowing by enterprises rose to 68 %, driven mainly by brisk growth in short term lending. The share of currency denominated loans with maturity of 6 to 12 months grew. At the beginning of August, a third of deposits and two-thirds of company loans had maturities of over six months. The maturity mismatch of deposits and credits began to ease last year, but bank loans of more than half-year maturity stand at over twice the amount of deposits with similar maturities.

Russian grain harvest beats expectations. At the beginning of October, the gross grain harvest was 86.6 million tonnes or 31 % more than at the same time a year earlier. Some 88 % of the land under grain cultivation had been harvested as of two weeks ago. The agriculture ministry estimates that the net harvest for 2001 will come in at 82.5 million tonnes, well above last year's net harvest of 65.4 million tonnes. Prime minister Mikhail **Kasyanov** also raised the growth forecast for agricultural output this year from 3.5 % to 5 %. The good harvest reflects favourable weather conditions this year, timely fuel deliveries and reduced losses during transport and storage.

Russia and Ukraine reach agreement on gas debts. Last week (4 Oct.), Russian prime minister Mikhail **Kasyanov** and Ukrainian prime minister Anatoly **Kinakh** met in Kiev to sign an agreement on Ukraine's settlement of its USD 1.4 billion gas bill with Gazprom. The deal gives Ukraine twelve years to pay, and during the first three years Ukraine only has to pay interest. After Ukraine's government declined to issue government bonds to pay the bills, the country's gas and oil monopoly Naftogaz is to issue a series of 12-year eurobonds yielding the LIBOR rate plus one percentage point.

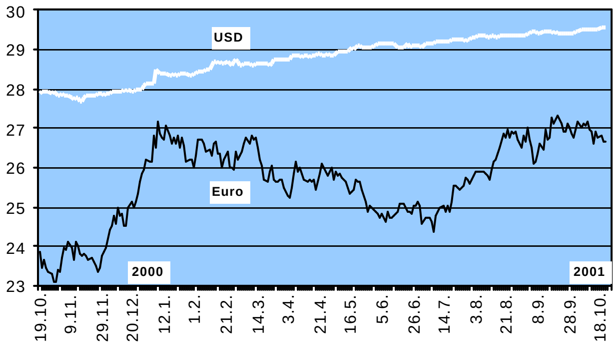
The agreement also retains Ukraine's right to re-export Russian natural gas. Ukraine imports nearly 60 billion cubic meters of natural gas each year, nearly half of which is provided by Gazprom as payment for use of Ukraine's gas pipeline network.

Estonia and Finland sign framework agreement on construction of power cable. Construction of the 100-million-euro power cable will commence next spring and it is expected to be in service in 2004. Seven power companies in Estonia, Latvia, Finland, Sweden and Norway are participating in the project. While the line's main purpose is to carry cheap electricity produced in the Baltics to Nordic markets, it could also be used to provide electricity to the Baltics. This is a way for Estonia and Latvia to reduce their dependence on Russian electricity, as Russia is currently their sole foreign power provider.

Lithuania has spent years negotiating with Poland on integrating the two counties' power grids. Recently, however, problems arose over selling electricity to third countries via Poland. The result was that Lithuania failed to restart power exports to Poland at the beginning of September after a one-and-a-half-year interruption. Most of Lithuania's energy exports this year will go to Belarus and Latvia.

Problems for proposed Latvian pulp mill project. The Latvian government announced that it will not lease state forests in conjunction with a pulp mill planned by the Finnish Metsäliitto and the Swedish Södra. Metsäliitto has earlier noted that the withholding of cutting licenses means the project must be scrapped. The Latvian state, Metsäliitto and Södra have been negotiating details of the near one-billion-euro mill project since 1998.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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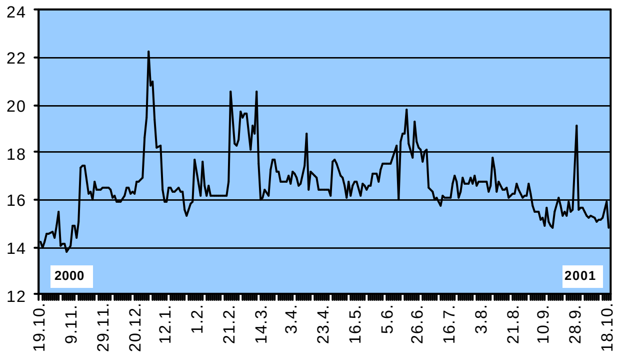
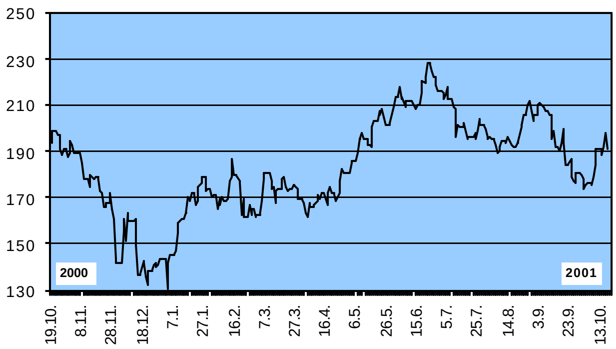
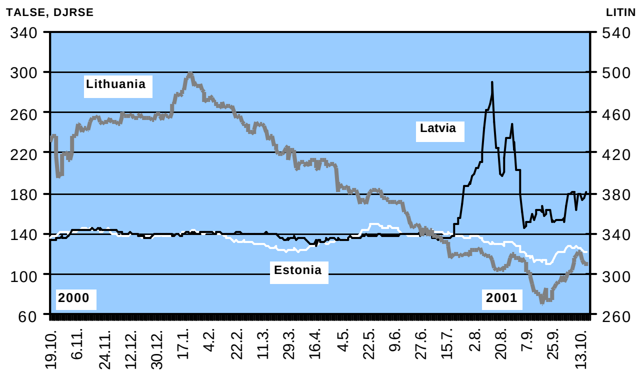


Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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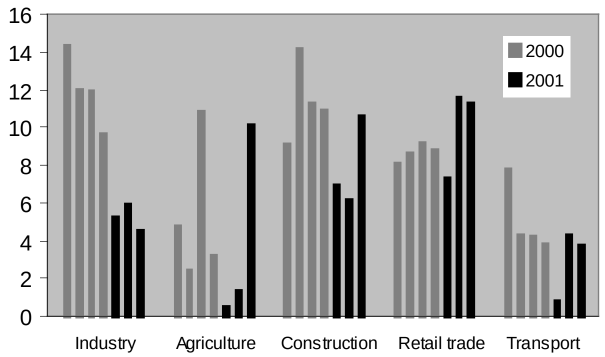
Russian Duma approves second reading of 2002 federal budget. The second reading of the budget draft was based on earlier assumptions for revenues (RUB 2,126 billion) and expenditures (RUB 1,947 billion). However, Duma deputies voted for slight changes in the allocation of expenditures. Some expenditure categories received more funding as a result of increased revenue projections that were introduced at the first reading. Spending was also trimmed slightly in such categories as "international operations" and "state debt servicing." Funding was increased in the areas of social policy, regional transfers, construction and maintenance of roads, industry, agriculture, security and defence. The third reading of the budget is scheduled for 30 November.

Strong growth in Russian economic output continues. The output index comprising five key sectors of the Russian economy (industry, agriculture, construction, retail trade and transport) indicated growth of 5.7 % y-o-y in the first three quarters of this year. Third quarter growth reached 6.4 % y-o-y. During January-September, retail sales increased 10 % y-o-y. Construction increased along with a fairly brisk rise in investments (both up about 8 %). Agricultural output rose over 7 % and industrial output about 5 %. Freight volumes rose slightly less than 3 %.

Economic growth in key sectors 2000–2001, percentage change from the respective quarter of the previous year



Russian government releases draft of investment plan for new pension savings system. The proposal is part of a package of seven new laws to reform Russia's pension system. In July, the Duma accepted the first readings of bills concerning mandatory pension insurance, state pensions and labour pensions. Under the current plan, Russia seeks to adopt a three-pillar pension scheme, i.e. pensions in the future would consist of a basic pension payment paid out of the federal budget, payments based on mandatory contributions into a special Pension Fund, and savings specified as a percentage of wages determined by age. Up to mid-2003, funds contributed to the Savings Fund can only be invested by the Pension Fund. Thereafter, the savings component could be shifted either to the state-run Pension Fund or private pension funds. Initially, the Pension Fund will invest in government bonds. Later, it may also consider holding foreign securities in the amount of up to 20 % of the Fund's value. Several agencies, whose operations would be governed by the government's proposed legislation, would supervise the Fund's investment activities. The move to the new pension system is planned for next year.

Russia further lowers import tariffs. Earlier this month, the State Customs Committee lowered import tariffs on about 400 customs categories. The most common rates, 10 to 15 % will fall to 5 to 10 %. The move will mainly affect importers of machinery and equipment to be used as production technology not otherwise available in Russia. The aim is to encourage investments in production by Russian firms. Russian customs introduced a broad reform of import tariffs at the start of this year, when its schedule of about 3,500 item categories was simplified and made more consistent with global trade practices. Customs Committee chairman Mikhail **Vanin** said that more changes in import tariffs can be expected at the beginning of next year.

CBR relaxes currency rules. Since the beginning of October, permission from the Central Bank of Russia is no longer required for Russian citizens or enterprises granting or taking foreign currency loans from abroad with maturities longer than 180 days unless such loans exceed USD 100 million. In accordance with its goal of liberalising currency controls, parties to such transactions are only required to report the transaction to the CBR.

At the end of September, the CBR also introduced a regulation, whereby natural persons may open accounts in banks abroad as long as the bank they are dealing with is situated in one of the about thirty states that are members of the OECD or the international Financial Action Taskforce on Money Laundering (FATF). When opening the account, persons are obliged to inform Russian tax officials that the account has been opened. Money from business activities may not be deposited in the account. Since the start of June, Russian citizens have also been allowed to transfer without special permission up to USD 75,000 a year abroad for the purpose of purchasing foreign securities. The impact of the new rule is expected to be small as earlier restrictions were easy to circumvent.

Russian population continues to shrink. Last month, the government released a demographic forecast that showed the Russian population contracting from 144 million inhabitants at present to around 135 million by 2016. Throughout the 1990s, Russia's population fell at a rate of nearly a million persons a year.

The main causes of Russia's population decline are low birth rates and high mortality rates. In 2000, the birth rate was 8.7 per 1,000 inhabitants, while the death rate was 15.3 persons per thousand. This ratio moved towards balance during 1994 – 98, but decayed thereafter. The most disturbing trend is mortality of working-age men, which is now four times higher than mortality rates for women of similar age. The average life expectancy in Russia is currently 65.9 years. Russian women, however, live twelve years longer on average than Russian men.

Up to 1998, immigration from former Soviet republics compensated for as much as 40 % of the population loss. Since then, immigration has only been able to cover 10 – 15 % of the loss.

Baltic governments submit their budgets. All Baltic draft budgets for next year call for increased expenditures to cover costs related to preparations for NATO membership and EU accession. The Baltics generally will also increase funding for education and social services.

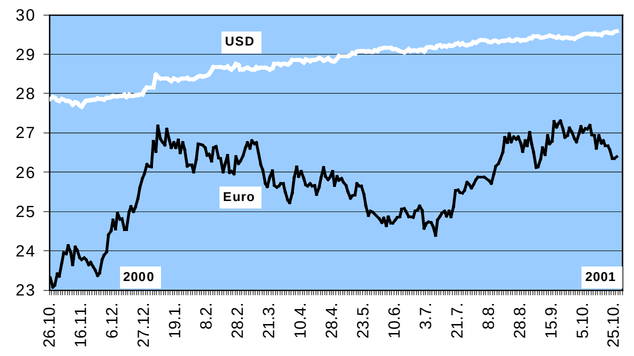
The *Estonian* government submitted its budget to parliament at the end of September. Debate on the budget was taken up on 17 October. In accordance with Estonian law, the proposed budget is balanced. Under the proposal for next year, state expenditures would rise 13 %. The government has promised to re-examine the budget's revenue projections in November, if needed, as the present budget was based on a fairly optimistic GDP growth projection of 5 % for next year. This year's budget produced a modest surplus for the first three quarters.

With *Latvia's* parliamentary elections coming next year, the government only managed to complete its budget negotiations last Friday (19 Oct.). The draft budget now before the parliament would increase state expenditures next year by about 8 %. GDP is forecast to rise 6 %. The IMF has strongly criticized the budget proposal that envisions a state deficit of 2.5 % of GDP next year (an amount far above the maximum agreed with the IMF). During January-September this year, Latvia kept its public sector deficit below the agreed ceiling of 1.8 % of GDP.

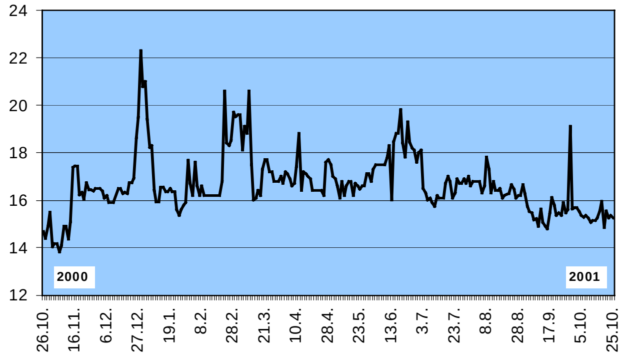
The *Lithuanian* government's budget proposal as submitted foresees GDP growth of 4.7 % next year. In the draft budget, expenditures are some 5 % higher than this year and the budget deficit equals 2.3 % of GDP. Preliminary estimates of the aggregate deficit of public sector (state and municipal) budgets, social funds and road funds now seems likely to stay below the 1.5 % of GDP ceiling agreed with the IMF. Lithuania's public sector deficit this year threatens to exceed the 1.4 % of GDP ceiling agreed with the IMF because revenues have remained below estimates despite relatively high economic growth.

Tallinn bourse to switch to Helsinki Stock Exchange's trading system. HEX Oy, operator of the Helsinki Stock Exchange, announced that shares of companies listed on the Tallinn Stock Exchange would be incorporated into the Helsinki Stock Exchange's trading system on 28 January 2002. The arrangement will help member brokers of the Helsinki Stock Exchange buy and sell shares listed on the Tallinn exchange. It is also hoped that the arrangement will increase interest in holding shares in Estonian firms. Pricing of shares listed on Tallinn exchange will shift to euros. HEX Oy purchased a 60 % stake in the Tallinn bourse earlier this year.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



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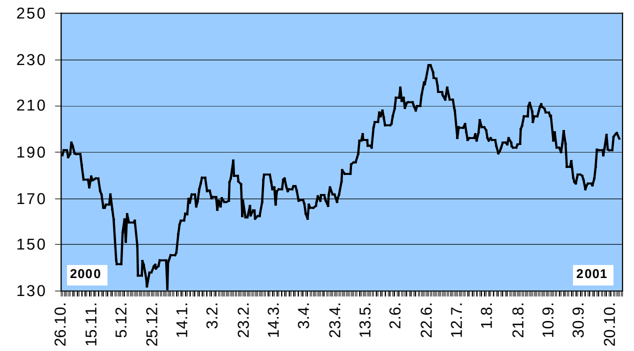

Baltic share prices
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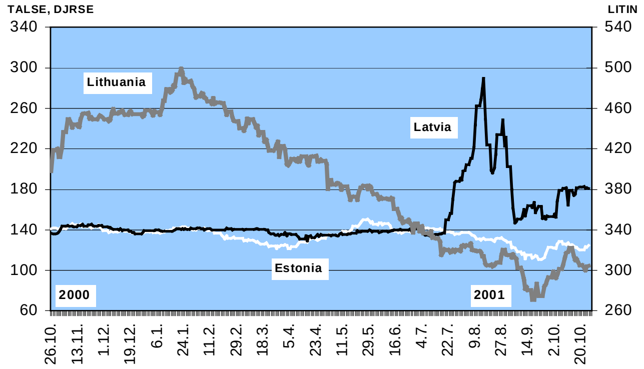

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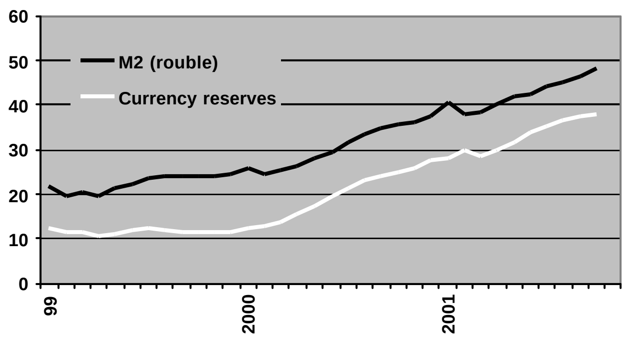
Russia's land code becomes law. Last week (25 Oct.), president Vladimir **Putin** signed a major piece of land code legislation. The new law entered into force on Tuesday (30 Oct.). Now, urban land, industrial land and recreational (summer house) land can be bought, sold, donated, inherited, or used as collateral. At the same time, dozens of old laws, presidential decrees, government decisions, and regional regulations on land ownership were phased out.

Russia's currency reserves and money supply grow. The Central Bank of Russia reports that as of 26 October its gold and foreign currency reserves stood at USD 38.8 billion. Despite ongoing capital flight, the CBR's currency reserves have grown this year by USD 13 billion, or more than 50 %, due to Russia's substantial current account surplus. The growth in currency reserves slowed in recent months along with stagnant export earnings and rising spending on imports. The CBR's currency reserves are currently sufficient to cover six months worth of imports.

The size of the CBR's currency reserves has risen from 70 % to 80 % in relation to the rouble money supply (M2 = rouble cash and rouble bank deposits). This trend has bolstered the central bank's ability to react to fluctuations in the external value of the rouble through market interventions. However, the increase in the currency reserves has also increased money supply in the economy. The rouble cash supply rose 42.5 % last year and various observers argue this has helped keep inflation above official targets this year.

CBR's currency reserves and rouble money supply 1 Jan. 1999 – 1 Oct. 2001, in USD billion



Russia reduces minimum capital requirement for foreign banks. The CBR plans to lower the minimum capital requirement for newly established foreign bank subsidiaries from EUR 10 million to EUR 5 million. The date of the change, however, is still undecided. In any case, the CBR decided to keep the EUR 10 million minimum in place until the end of this year. At the beginning of October, the CBR raised the minimum capital requirement on new Russian banks from EUR 1 million to EUR 5 million. Russia's Partnership and Cooperation Agreement (PCA) with the EU and WTO membership both call for more equitable treatment of domestic and foreign banks. The changes have few practical implications since the rise does not affect existing Russian banks while generally foreign banks tend to be well capitalised.

Russia prepares for lower oil prices. In his address to the World Economic Forum in Moscow, president **Putin** reiterated his country's intent to service its foreign debt without taking additional foreign loans. He added that Russia nevertheless seeks to maintain good relations with international financial institutions. Last week finance minister Alexei **Kudrin** commented that if oil prices fall substantially below USD 18.50 a barrel, Russia could quickly arrange an IMF lending program. According to Kudrin, the matter was discussed with IMF managing director Horst **Köhler** during his Moscow visit early October. Kudrin also suggested Russia could retire its Paris Club debt prematurely, although no details have yet been discussed with Paris Club creditors. According to some information, Russia may seek to pay off part of its Paris Club debt with company stock and goods. However, there were also hints that Russia is contemplating a request for partial debt forgiveness again. Prime minister Mikhail **Kasyanov** noted that Russia was not going to ask for debt reduction, merely more flexible repayment conditions if needed.

France's Dalkia may lease district-heating companies in Tallinn and Vilnius. French giant Dalkia International SA has won a bidding competition to lease district-heating companies in Tallinn and Vilnius. Dalkia, largest heating system operator in Europe, operates 250 district-heating networks in several countries. It began its Baltic operations in 1999.

Dalkia's offer is to pay EEK 42 million (USD 2.4 million) yearly to lease Tallinn's district-heating company (Tallinna Soojus). The bid guarantees that during the first six years the company will only raise prices to keep up with inflation or world energy prices. Pending approval of the Tallinn city council, the lease would extend 30 years from the date of signing.

Dalkia entered talks on leasing the Vilnius district-heating company (Vilniaus Silumos Tinklai) on Tuesday (30 Oct.). The management of the heating system will be transferred to the investors by 1 April 2002. The French company plans to invest a total of LTL 430 million (USD 110 million) in the Vilnius district-heating network over the next 15 years. It has promised to lower district-heating costs 5 – 8 % from current levels.

IMF satisfied with Estonia's development. An IMF representative who recently visited Estonia noted that the country's political structures are strong enough to promote confidence of financial markets. As a result, Estonia no longer needs to apply for an IMF standby-credit facility or get IMF approval of its economic policies. Estonia's fourth, and final, agreement with IMF on a standby credit facility was signed in March 2000. Estonia never used any of its stand-by credit.

Poland's new cabinet wins parliamentary endorsement. Last Friday (26 Oct.), Poland's lower-house parliament, the Sejm, voted 306 to 140 to accept the new cabinet proposed by prime minister Leszek **Miller**. The core of the new government coalition combines Miller's Democratic Left Alliance (SLD), the Union of Labour (UP) and the Polish Peasants Party (PSL). In addition, the new government also has the support of the radical farmers' party, Self-Defence (Samoobrona). In the new cabinet, the SLD took twelve ministerial portfolios, the PSL received portfolios for agriculture and the environment, while the UP got the infrastructure minister portfolio. Deputy prime ministers are finance minister Marek **Belka** (SLD), agriculture minister Jaroslaw **Kalinowski** (PSL) and infrastructure minister Marek **Pol** (UP).

The new government's main tasks for will be stabilising public finances and completing Poland's EU accession talks next year. The government seeks to revive the economy and reduce unemployment. Prime minister Miller said the government's other goals include improving the conditions for small and medium-sized enterprises.

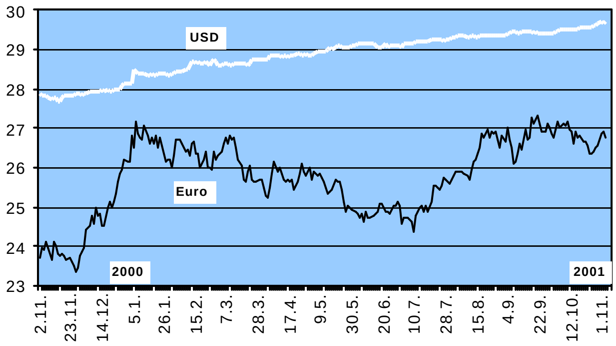
Hungary most competitive among transition countries. The 2001-2002 competitiveness survey from the Swiss-based World Economic Forum compares 75 countries using two indices. The first describes each country's relative current competitiveness; the other, growth competitiveness and outlook for economic growth over the next five years. Finland topped the rankings in both categories. Transition economies, not counting Russia, were stronger in their technology sub-index rankings than in other macroeconomic areas. The Baltics, Romania and Slovenia were ranked for the first time in this survey. The survey is based on compiled statistics and interviews with 4,600 corporate leaders.

Competitiveness rankings of transition economies

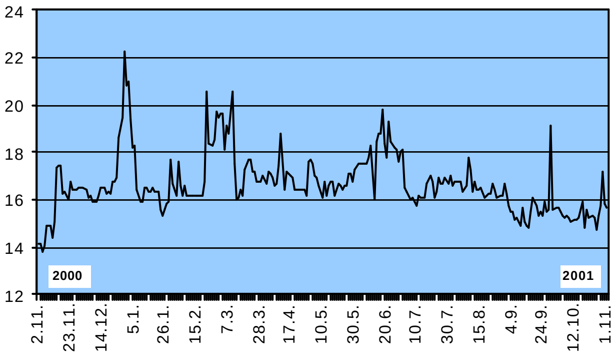
Country	Growth competitiveness		Current competitiveness	
	2001	2000	**2001**	2000
Hungary	**28**	25	**26**	32
Estonia	**29**	-	**27**	-
Slovenia	**31**	-	**32**	-
Czech Rep.	**37**	31	**35**	34
Slovakia	**40**	38	**39**	36
Poland	**41**	34	**41**	41
Lithuania	**43**	-	**49**	-
Latvia	**47**	-	**42**	-
Romania	**56**	-	**61**	-
Bulgaria	**59**	57	**68**	55
Russia	**63**	43	**58**	52
Ukraine	**69**	56	**60**	56

Source: World Economic Forum

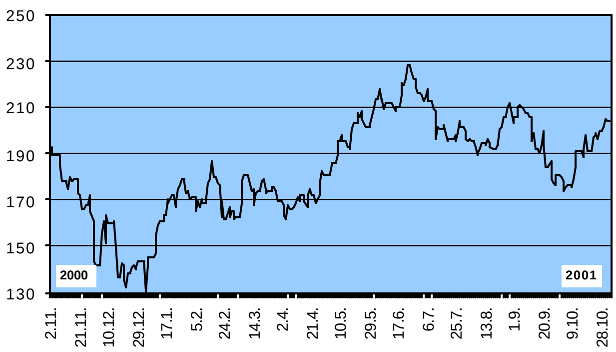
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



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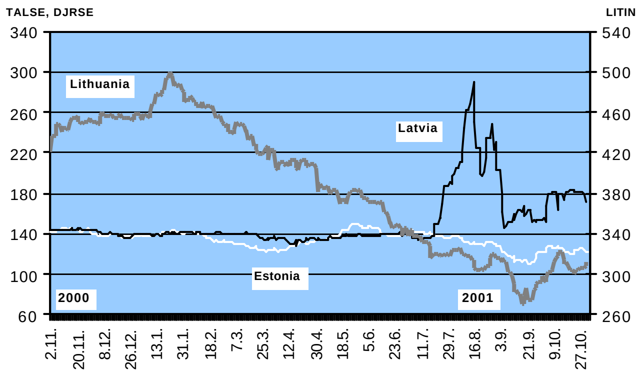

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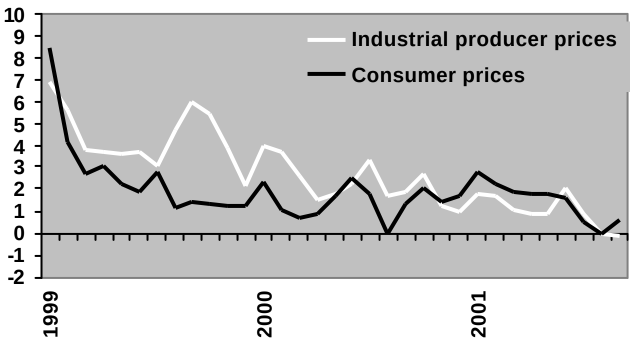
Russian government proposes further changes to 2002 budget. President Vladimir **Putin** asked the government to revise the 2002 draft budget as a precautionary measure in case the government's pessimistic scenario for next year, whereby the price of oil would average only 18.50 dollars a barrel, will materialise. The government will propose to the Duma that certain non-interest spending would be financed only if extra revenues reach RUB 37 billion (USD 1.2 billion).

Annual inflation in Russia falls below 20 %. In October, consumer prices showed a rise of 19 % y-o-y (20 % y-o-y in September). Monthly inflation, however, picked up slightly in October (1.1 %), because the harvest season that had earlier depressed food prices was over. The prices of services rose nearly 2 % in October, with the fastest rise in housing-related services (over 3 %).

The rise in producer prices has slowed in the past couple of months. Industrial producer prices rose 15 % y-o-y in September; construction costs were up 19 %. Agricultural producer prices rose 23 %.

Russian inflation, % change from previous month



Progress in reform of Vnesheconombank and Vneshtorgbank. As part of its efforts to reform the Russian banking sector, the Russian government at the end of October considered the future of two major state-owned banks. Vnesheconombank (VEB), founded early in the Soviet era, will be split in half. VEB's role of handling payment transactions involving government foreign debt and collecting foreign receivables will be delegated to a separate government agency. VEB's CEO Andrei **Kostin** said the banking activities of VEB would be concentrated in a new VEB, starting with an initial capital base of USD 2 billion formed out of VEB's current assets. VEB would also be merged with Roseximbank, which is almost entirely owned by the Russian state. A more detailed plan of the changes will be presented to the government early next spring.

Kostin added that Vneshtorgbank (VTB), which is almost completely held by the Central Bank of Russia, will become state-owned or privatised. The CBR is expected to divest the bank by the end of next year. A possible partner is the European Bank for Reconstruction and Development (EBRD). Founded in 1990, VTB currently has total assets of about USD 5 billion, making it Russia's second largest bank. The government has requested detailed plans on VTB's future before Christmas.

Russia lowers export tariffs on natural gas. The new export tariff is 5 %, or at least 2.50 euros per 1,000 m^3. Last summer, the State Customs Committee raised the tariff to 10 %, or at least 5 euros per 1,000 m^3. Now the tariff returns to its earlier level. The decrease affects natural gas exports to non-CIS countries and CIS members such as Ukraine and Moldova, which are not part of the CIS customs union.

Real incomes continue to rise in Russia. Real incomes in September were, on average, 8 % higher than a year earlier. Real wages rose 24 % and real pensions were up 26 % y-o-y. Real disposable income now slightly exceeds the July 1998 level, but real wages are still about 5%, and real pensions about 15 %, below summer 1998 levels. Wages remain lowest in agriculture and education – about half of the average wage in August. Wages in the oil and gas industry, in contrast, are 4–5 times higher than the average wage. Wage arrears in relation to GDP have remained essentially unchanged this year and are about 0.4 % of GDP (RUB 34 billion).

President Putin establishes Financial Monitoring Committee to fight money laundering. President Vladimir **Putin** on 1 November issued a decree creating the Financial Monitoring Committee. The anti-money-laundering law passed last August required the setting up of the committee within a year from the time the law went into force. Deputy prime minister Alexei **Kudrin** said that the new committee, which will operate under the finance ministry, will begin work next February. The committee has the right to access information protected by banking secrecy rules as long as the matter is part of an international money-laundering investigation. Deputy finance minister Viktor **Zubkov** (60) was named committee chairman. The committee chairmanship carries the status of first deputy finance minister.

Estonia's privatisation agency ceases operation on 2 November. Last spring, Estonia's parliament voted to close the state privatisation agency, as most privatisation sales had been completed. Unfinished business of the agency will be shifted to the finance ministry. During a decade of operations, the privatisation agency signed over 3,500 sales agreements and received payments worth a total of about EEK 12 billion (USD 660 million). The state auditor's office reports that the privatisation agency still owes about EEK 4 billion.

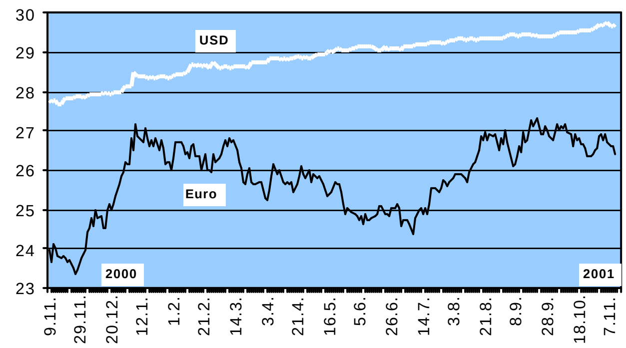
Latvian telecom will lose its monopoly status at the start of 2003. The Latvian parliament has approved a new law on telecommunications that liberalises the sector in accordance with EU regulations. Under the decision, Lattelekom's monopoly on fixed-line services will end on 1 January 2003. In 1994, as part of the sale of a 49 % stake in Lattelekom to a consortium of the Finnish Sonera and the British Cable & Wireless, it was agreed that the company's monopoly status would extend through 2013. Sonera, which now owns 45 % of Lattelekom through holding company Tilts, took the Latvian government to arbitration court for breach of contract, charging that its had reneged on its guarantee of monopoly status and after discussions on compensation damages remained unresolved. The Latvian state then raised a counter-suit against Tilts, charging that the modernisation of Lattelekom had not proceeded as agreed. The matter is being heard in an international chamber of commerce arbitration court.

IMF and Latvia at odds over next year's planned budget deficit. An IMF mission visited Latvia last week to evaluate the country's economic program and the stand-by loan agreed last spring with the IMF. The IMF was generally satisfied with Latvia's economic development this year, but unsatisfied with the government's official projected budget deficit for next year. The 2.5 % budget deficit foreseen in the current version of the 2002 draft budget submitted by the government to the parliament clearly exceeds the deficit ceiling agreed with the IMF. Failure to resolve the matter means that the economic program and the stand-by loan facility will be terminated at the end of this year. IMF representatives will return to Latvia in April, when they will decide on whether to continue cooperation.

Upon news of the withdrawal of the stand-by loan facility and reduced cooperation between the IMF and Latvia, the World Bank decided to postpone the release of the December tranche in a structural adjustment loan to Latvia. The World Bank had already reduced the amount of the tranche from USD 40 million to USD 20 million due to Latvia's delays in implementing privatisation measures.

Latvian state to offer 3 % stake in natural gas company for privatisation vouchers. The Latvian govemment decided to sell its remaining 3 % stake in the gas company Latvijas Gaze for privatisation vouchers. Every holder of privatisation vouchers would be entitled to purchase up to 200 shares in the company. One share is currently worth a bit more than 1,000 lats (1,700 dollars). The restriction is intended to keep the shares out of the hands of a large private buyer. The largest shareholders in Latvia's gas monopoly are the Russian Gazprom (25 % stake), Florida-based Itera (24 %), and the German Ruhrgas (26 %) and E.ON Energie AG (17 %).

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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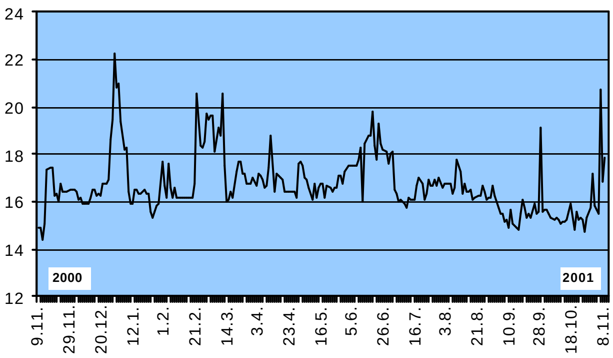

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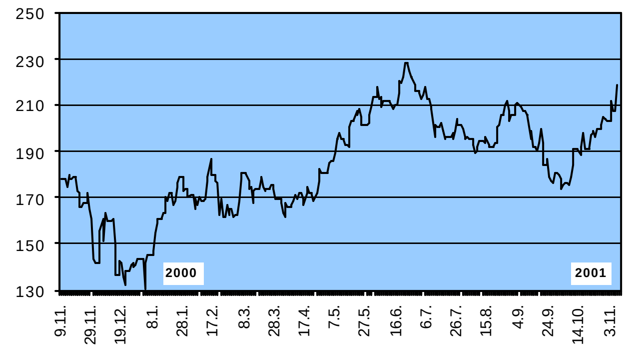

Baltic share prices
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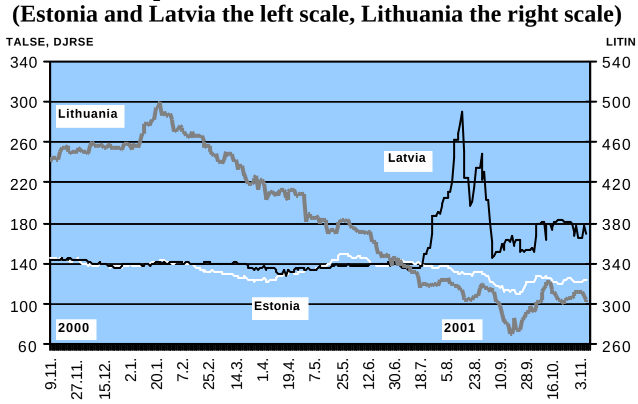

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Russian government revises economy and budget scenarios. The government has prepared three scenarios to illustrate the impact of oil prices on the Russian economy next year. The optimistic scenario assumes the price of Urals-grade oil averages 23 dollars a barrel next year. In this case, the Central Bank of Russia's foreign currency reserves would rise by USD 4–5 billion and some USD 3–4 billion could be set aside in the budgetary reserve fund. No foreign loans would be taken and, in accordance with budget assumptions, inflation would average 10–13 %. The government would also not have to call on the Duma to slash 37 billion roubles in expenditure from the budget.

In the second alternative, the price of oil would average around 18 dollars a barrel. Here, the CBR's currency reserves would be unchanged, the reserve fund would increase by USD 2–3 billion, no foreign loans would be needed and inflation would average slightly above 13 %.

In the pessimistic scenario, the oil price would fall to 15 dollars a barrel. Currency reserves would decline USD 5–6 billion, a billion dollars in foreign loans would be taken and inflation would run in the range of 13–18 %. Since no money would be available to the reserve fund, Russia would face difficulties in meeting its 2003 debt servicing obligations. In this case, possibly USD 2 billion in foreign loans would be needed and another billion in debt would have to be restructured.

Russia's benchmark RTS index soars. Russia's main share index, the RTS, reached its highest point this year on Wednesday (14 November) morning, climbing to 243. Thereafter, it retreated to around 220 due to uncertainty over trends in oil prices and OPEC attempts to cut production. In January, the RTS index stood at 130; in early October it ranged between 170 and 180. Daily trading volumes in September and October were USD 10 – 25 million. The RTS index is heavily weighted with oil company stocks. LUKoil, Surgutneftegaz and YUKOS alone represent about half of the RTS's entire capitalisation. During recent months, shares in these companies as well as the shares of gas giant Gazprom, listed in the Moscow Stock Exchange, have risen substantially. Although the price of oil has fallen, investors see a promising market outlook in the medium- and long-term. Market analysts say that Russian money that had fled to Cyprus is now returning to Russia due e.g. to low corporate and income taxes.

CBR holding more currency auctions for S-account holders. During the past two months, the CBR has arranged four special currency auctions for foreign investors whose assets were frozen in "S-accounts" by the Russian government when it defaulted on T-bills and bonds ahead of the 1998 financial crisis. Currency bought at auction with S-account roubles can be repatriated.

Bids exceeded the USD 50 million offered at each auction this autumn. At the first two auctions, bids totalling well over USD 100 million were received and the CBR's minimum bid rate was 31.40 – 31.50 roubles per dollar or roughly 6 % over the official exchange rate. In the latter two auctions, demand was lower (received bids were USD 53 and 83 million) and the minimum bid was 30.80–30.90 roubles to the dollar, or 3–4 % above the official exchange rate.

A total of seven auctions have been held this year for S-account holders. While observers generally estimate that about one billion dollars worth of roubles still lie in S-accounts, some estimates go much higher. Russia received special exemption from the IMF on S-account repatriation restrictions in autumn 2000.

Russia to open own ports, bypass Baltic transhipping businesses. Russia now spends, according to its own estimates, about USD 1.5 billion yearly on services for transhipping through the Baltics and Finland, but this may soon change. The Ust-Luga dry-goods harbour, now under construction, is expected to reduce fertiliser shipments through the Baltics and Finland. The full implications of Russian actions will become apparent after the Primorsk oil terminal begins operations at the end of this year.

In early August, Russia substantially lowered its rail cargo tariffs on foreign-bound shipments travelling through St. Petersburg and the Leningrad region. Russia's transport ministry also will limit the volume of road transport moving through the Baltics. For example, permits for Latvian lorries were reduced from 17,000 to 12,000 for next year. Corresponding reductions are also planned for passenger traffic next year.

Last year, 95 million tonnes of foreign freight travelled to the West via northwestern Russia. Some 44 % of all freight and 73 % of oil and liquid chemicals were shipped through the ports of Baltic countries. Understandably, Baltic countries are worried about the impact increased Russian operations will have on their economies. At the end of the 1990s, Russian transhipments represented 7–9 % of Estonian GDP, 8–10 % of Latvian GDP and 4–6 % of Lithuanian GDP. In contrast, Russian transhipments amounted to only about 0.1 % of Finnish GDP.

Lithuania continues to post lowest inflation in the Baltics. In October, consumer prices rose 4.8 % y-o-y in Estonia (5.7 % in September), 3.3 % in Latvia (3.6 %) and 2.3 % in Lithuania (2.1 %). Estonian inflation continued to slow with the euro's strengthening against the dollar (the kroon is pegged to the euro) and lower growth in domestic demand. While the pick-up in Latvian inflation was driven by strong domestic demand, Lithuania's inflation pick-up was driven by higher prices for food and phone calls.

EU Commission issues positive assessment of membership aspirants. On 13 November, the European Commission published its progress report on 13 accession candidates. It also released a strategy paper that stakes out the path to EU enlargement. The individual assessments for most countries were quite positive. The Commission said ten of the countries seeking EU membership already had established functioning market economies; only Bulgaria, Romania and Turkey have yet to accomplish this. The Commission encouraged all aspirants to continue with structural reforms so that their economies will be able to withstand the pressures of competition within the EU.

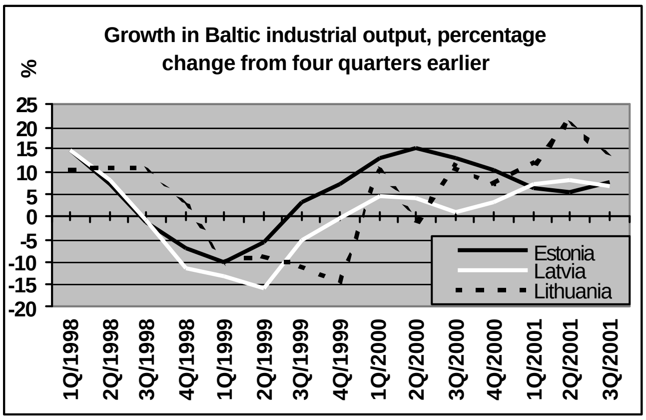
Turkey is the only EU aspirant that failed to meet the Copenhagen political criteria. The Commission encouraged many member candidates to make their public sectors more efficient, strengthen their judicial systems and improve the status of minorities. Some countries received special warnings to pay special attention to fighting corruption.

In its strategy paper, the Commission states that a sufficient basis for the accession of up to ten new member states (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) in 2004 has been provided.

Signs of slowdown in Baltic industrial output. *Estonian* industrial sales in January-September rose 6 % y-o-y. Growth in output slowed significantly in September, when output was only up 2 % from a year earlier. Estonian industrial output still rose 15 % in July and 7 % in August. Key industrial sectors (wood processing, textiles, metal fabrication, and furniture making) all experienced growth. While the strongest decline was registered in mobile phone manufacture, production of food and chemicals also was lower in September as compared to a year earlier.

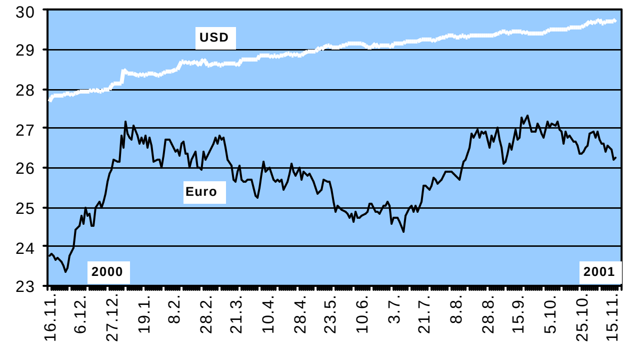
In recent months, growth in *Latvian* industrial output has also slowed. In September, output was up just 4 % y-o-y. All of Latvia's major industrial fields increased output, with the best showings in metal fabrication, furniture making and wood processing.

Growth in *Lithuanian* industrial output continued brisk during the third quarter, despite clear signs of an impending economic slowdown. July-September industrial sales rose 13 % y-o-y. Oil refining, which grew rapidly from the start of the year, was up 19 % y-o-y, and both textiles and the wood processing continued to show strong growth. According to preliminary information, Lithuania's real GDP growth slowed in July-September to 5.1 % y-o-y (5.7 % in April-June).

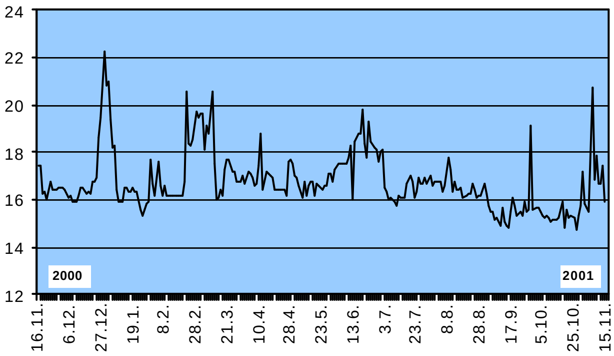


Growth in Baltic industrial output, percentage change from four quarters earlier

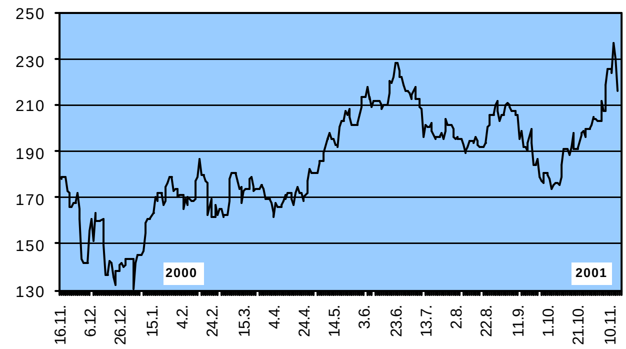
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



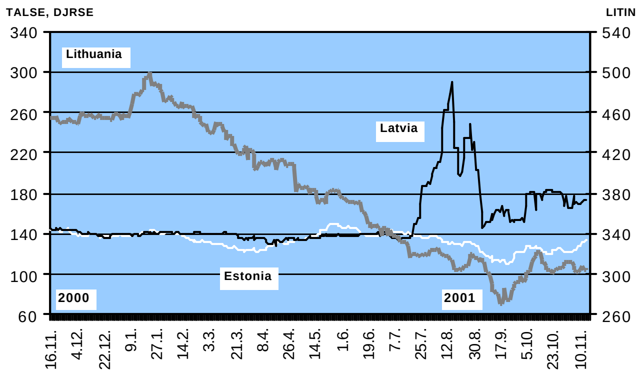
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russian & Baltic Economies
The Week in Review
47•2001

Russia promises limited cut in oil production. With world oil prices falling since mid-September, OPEC and Russia have increased mutual contacts. Last week Russian oil companies and the government promised OPEC that they would reduce Russian crude oil output and exports by 30,000 barrels a day during the last quarter of this year. OPEC members felt the promised reduction was very insufficient. OPEC decided last week (14 Nov.) to reduce its production overall by 1.5 million barrels a day on 1 January 2002 if non-OPEC oil exporters reduce their production by 0.5 million barrels a day. OPEC countries have already cut production earlier this year.

Deputy prime minister Viktor **Khristenko** recently indicated "more serious measures" might be possible. Today, Russia raised its offer for the cut to 50,000 barrels a day. This cutback would represent 0.7 % of Russia's total oil production or less than 2 % of Russian oil exports.

Several of Russia's largest oil companies, virtually all of which are in private hands, favour cutbacks to support oil prices. Other oil companies, however, reject the cuts as they are burdened by recent capital investments, but say they are ready to follow the government's decisions. Despite the continued attempts of OPEC to coordinate a strategy with non-OPEC members, the world price of oil has fallen further. This week the price of Brent crude ranged between 17 and 20 dollars a barrel, while Russian Urals-grade oil ranged from 16 to 19 dollars a barrel.

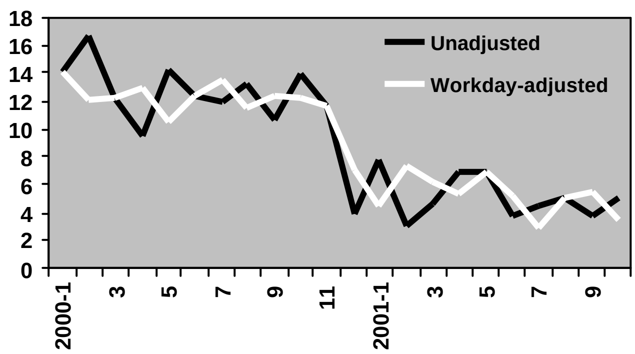
Russia, which currently produces about 7 million barrels a day, is the world's second largest producer after Saudi Arabia. Russia accounts for about 8 – 9 % of world oil production. Russian crude output rose 7– 8 % this year during January-October, while the volume of crude oil exports increased about 10 %. Between 1990 and 1997, Russian oil production levels fell. In contrast, production in OPEC countries rose continuously until 1998.

Russia's budget surplus smaller, but still substantial. During the first nine months of this year, Russian budget revenues equalled 16.8 % of GDP and budget expenditures 13.8 % of GDP. The surplus amounted to 3 % of GDP. Revenues from value-added taxes, export and import tariffs, and excise taxes are up this year as compared to last year.

During January-August, monthly surpluses varied from 0.1 % to 9.6 % of GDP. The surpluses vanished in August and September, however, so that the budget was nearly in balance. The main reason for the vanishing surplus was that Russia's debt-servicing costs (excluding paying down principal) remained relatively large, while the share of tax revenues shrank in relation to GDP. The primary surplus (i.e. excluding debt-servicing costs) in January-September was 6.3 % of GDP. Tax revenues accounted for over 90 % of federal budget revenues. Debt-servicing costs were the largest expenditure item in the federal budget during January-September – RUB 212 billion (3.2 % of GDP).

Russian industrial output shows moderate rise in October. The State Statistics Committee reports that Russian industrial output rose 5.1 % y-o-y in October. It further noted workday-adjusted output grew 3.5 % y-o-y, indicating a slowdown from previous months. For all of January-October, industrial output was up 5.2 % y-o-y.

12-month change in Russian industrial output 1/2000 – 10/2001, %



Russian government proposes uses for this year's interest savings. Interest costs for state debt this year are about RUB 12.5 billion (USD 400 million) below budget. As a result, the government has proposed that about RUB 5 billion of the savings be directed to the armed forces, RUB 3.5 billion to paying off public sector arrears, RUB 1.3 billion to regional supports, and the rest to other expenses. The armed forces would apply the money to purposes that include general modernisation projects, equipping the troops and improving the living quarters of military personnel. The money going to regions would be used mainly to pay public sector wages.

Weak EU economy hurts Baltic exports. In recent months, Latvia and Lithuania have managed to compensate for the weakening outlook in Western European markets through boosting their exports to Russia and other CIS countries. Estonia, however, has had trouble increasing its exports to Russia, because of Russia's double import tariffs on Estonian goods. The two countries negotiated a trade agreement last spring that would reduce tariffs to normal levels, but neither country has yet ratified the agreement.

The strong growth seen earlier this year in *Estonian* exports slowed in July. In July-September, the value of Estonian exports was 13 % less that in the same period a year earlier. The fall in exports reflected the difficulties of Estonian subcontractors, particularly those involved in the manufacture of components for mobile phones. In other areas, exports have continued to grow. While Estonian imports have fallen in recent months, the trade deficit nevertheless rose by nearly a fifth during January-September.

Growth in *Latvian* exports (January-September 14 %) has remained steady this year. The greatest increases were registered in exports of machinery, food, textiles and metal products. Exports of sawn wood, the country's leading export product, have fallen this year. Robust domestic demand has increased imports. The trade deficit rose 14 % y-o-y in the first three quarters of this year.

Lithuania's trade deficit contracted 7 % in the first three quarters due to rapid export growth (21 % y-o-y). Growth in export of refined oil products slowed slightly, but exports of transportation equipment components, machinery and foods increased rapidly. The important inward processing textile industry benefited from increased exports (140 % y-o-y) to the United Kingdom.

Bank of Latvia lowers bank reserve requirements. From the beginning of next year, the reserve requirement for banks operating in Latvia will be lowered from 6 % to 5 %. Latvia's central bank has steadily lowered reserve requirements with a view to convergence with the 2% requirement for banks within the EMU area.

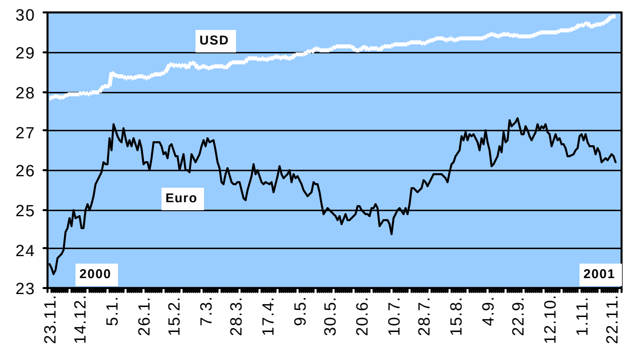
Lithuanian energy monopoly to be divided. On 5 November, shareholders in energy company Lietuvos Energija accepted a Seimas-approved plan to divide the company into five units by the end of this year. Under the plan, two distribution network operators and two power-generation companies would be created. Lietuvos Energija would continue to operate the transmission grid.

The measure is part of reform of Lithuania's energy sector, which also includes privatisation of Lietuvos Energija. The state currently owns an 86 % stake in the energy company, while the Swedish Vattenfall holds slightly over 10 %. Ownership proportions in the newly created companies will remain the same as in Lietuvos Energija. Lithuania's Ignalina power plant, the Baltics sole nuclear power facility, does not belong to Lietuvos Energija.

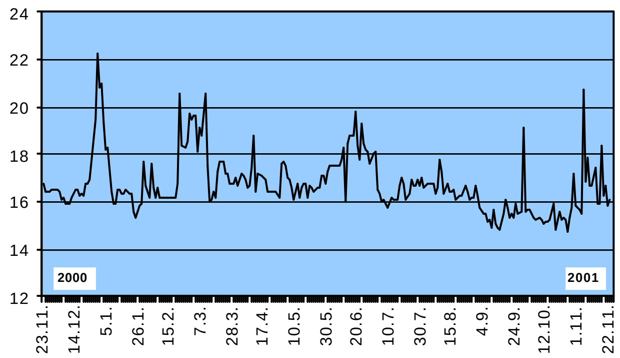
Bidding competition underway for Lithuanian gas company. A bidding competition on the sale of a 34 % stake in Lithuania's national gas company Lietuvos Dujos to a strategic investor began on Monday (19 Nov.). Companies participating in the bidding must be domiciled in an EU, NATO or OECD country and have at least ten years of experience in the distribution of natural gas and management of distribution networks. Potential bidders must declare their interest in participating by 19 December. The winning strategic investor will be announced before the end of June next year.

After the strategic investor has been decided, a second competition for another 34 % stake in Lietuvos Dujos will be opened to gas suppliers. Under the rules approved by the Lithuanian government, companies delivering natural gas to Lithuania or their Lithuanian partners are barred from participating in the first bidding competition. Correspondingly, companies that submit bids as strategic investors are barred from submitting bids in the second competition.

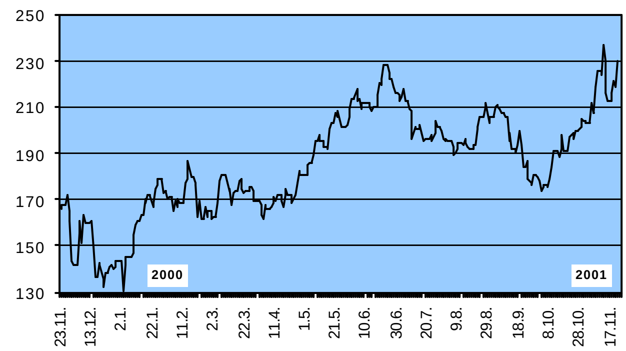
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



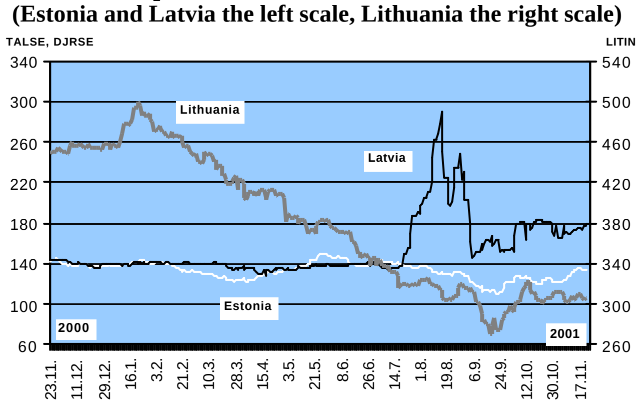
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russian & Baltic Economies
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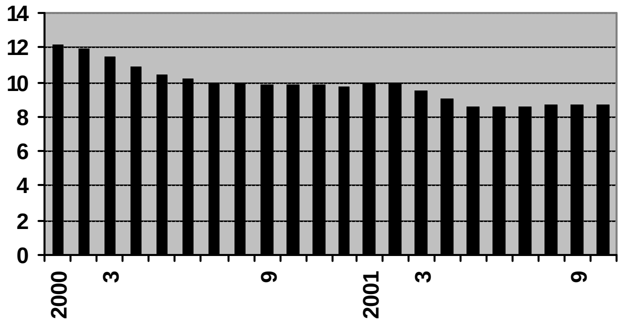
Russia promises further modest cuts in oil production. Following concessions on the part of several non-OPEC countries to reduce their oil production levels, the Russian government and Russian oil companies met again last Friday (23 Nov.) to consider further cuts in oil production. Russia said it could lower its crude oil output by 50,000 barrels a day, instead of its previous offer of 30,000 barrels a day. The reduction corresponds to only 0.7 % of Russian total oil output and less than 2 % of Russian oil exports. Other oil-producing nations would like to see Russia reduce its production by some 200,000 to 300,000 barrels a day. Deputy prime minister Viktor **Khristenko** said that measures to make deeper cuts might be possible from the start of next year. The government and the oil companies will review their options in two weeks.

Retail trade and construction sectors continue to show brisk growth in October. The composite indicator of five key economic sectors rose 5.3 % y-o-y in October. Third-quarter growth was 6.4 % compared to 5.7 % in the second quarter. Growth in retail sales accelerated in October to nearly 13 %, after ranging between 10 and 12 % over the previous five months. Construction was up about 12 % y-o-y in the last three months. Industrial output grew over 5 % y-o-y in October, while agriculture had a weak month, which lowered average growth during January-October to below 6 %. The transport sector continued to grow about 3 %.

Russian unemployment figures revised upwards. The State Statistics Committee reports that the unemployment rate at end-October was 6.2 million persons as calculated with ILO methods. The Committee also revised its unemployment figures for the past four months upwards, with the sharpest increase in the September figure (from 5.7 million to 6.2 million). According to the latest data, the substantial drop in unemployment early this year has been replaced with a modest rise that began in June. As of end-October unemployment stood at 8.7 %, down from nearly 10 % a year earlier.

Unemployed as share of Russian labour force, January 2000 – October 2001, %



Russia enjoys good grain harvest. By early November, this year's grain harvest had reached a gross weight of 91.3 million tonnes, which translates to a net harvest of approximately 83 million tonnes. Ongoing maize harvesting will have little impact on the final figure.

Last year's net grain harvest amounted to 65.5 million tonnes. The average grain harvest during the early 1990s averaged around 88 million tonnes, then fell to 65 million tonnes between 1996– 1999. This year's relatively good harvest reflects the conjunction of several factors including a slight increase in the area of farmland under grain cultivation, favourable weather conditions, improved productivity, and better management of fuel deliveries, transport and storage. Nearly 90 % of grain is produced on large farms, mostly former collective farms.

President Putin signs third part of Russian civil code legislation. The third part of the civil code, which deals with inheritance, will enter into force at the beginning of March 2002. At the signing, president Vladimir **Putin** noted that these reforms in inheritance law would secure better rights of private ownership and protection of human rights, as well as strengthen the rule of law. The president noted that the right and possibility to leave acquired property to heirs would encourage people to successful work. Russia's earlier inheritance law mainly was based on Soviet legislation from 1964.

CBR encourages holders of national currencies of euro countries to exchange their money soon. On Tuesday (27 Nov.), the Central Bank of Russia issued a press release enjoining Russian citizens and enterprises to visit banks and bureaux de change to familiarise themselves with displays on the look and security features of euro banknotes and coins. The CBR warned of the risk of criminals circulating counterfeit euros. The CBR further noted that, as of January, persons wanting to exchange national currencies of euro participants must bear the costs of shipping the money back to the issuing central bank, where it will be exchanged for euros.

Estonia abolishes language requirements for deputies. Estonia's parliament approved the amendment abolishing a requirement that MPs and members of municipal councils should be able to speak Estonian language. The bill has gone to the president for signing. The Commission on Security and Cooperation in Europe's Estonian office expressed satisfaction with the Riigikogu's decision to eliminate legislation that was not in conformity with articles of the UN charter. The CSCE's office now considers its mission in Estonia complete, as its main work was to foster greater understanding among ethnic groups. Its latest statement is seen as an important advance in Estonia's progress towards NATO and EU memberships. The language competency requirement was originally passed by the Estonian parliament in December 1998.

Latvia and Lithuania speed up EU-membership talks. Latvia and Lithuania have reached initial acceptances on 21 chapters of the EU's acquis communautaire, and thus have surpassed first-wave applicant Estonia, which currently has reached initial agreements on 20 chapters. Membership requires that applicants achieve approvals on 29 of 31 chapters.

Latvia made the most headway this autumn by completing negotiations on five chapters in the past two months. Closed chapters include those on environmental policy and fishing. These were earlier considered to be among the most challenging chapters for Latvia. On Wednesday (28 Nov.), Lithuania closed discussions on three chapters, while Estonia completed one chapter.

European Commission lowers its forecasts for economic growth in accession candidate countries. With a weakening outlook for the global economy, the European Commission now predicts GDP growth in the countries of Central and Eastern Europe that are now seeking EU membership will average just 3.1 % this year and next. Last year growth in these countries averaged 3.7 %. The Commission expects economic growth to pick up again in 2003.

The lower growth is likely to limit further employment gains, and in fact unemployment is expected to increase slightly this year. The Commission expects inflation to slow substantially during 2001 – 2003 from last year's 12.7 % inflation rate.

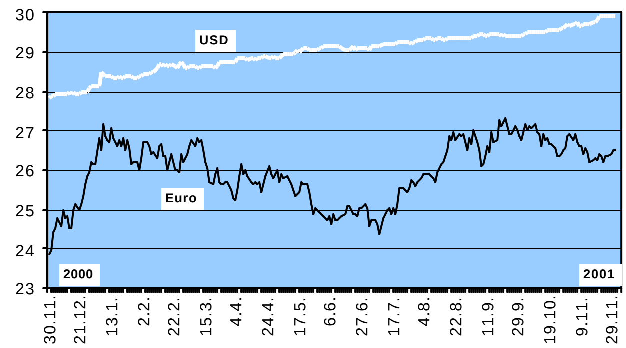
The weaker prospects for growth reflect a downturn in the applicant countries' main market area – the EU. On the other hand, the Baltics have managed to offset some of the slowdown's effects through increased exports to Russia and bigger oil transhipment volumes from Russia. The Commission said that the economic growth among EU aspirants during 2001– 2003 will be fully driven by increasing domestic demand.

European Commission forecasts for economic growth in EU applicant countries, 2001-2003

Country	On-year change in GDP, %			Annual inflation, %		
	2001	2002	2003	2001	2002	2003
Bulgaria	4.2	3.6	4.4	7.5	5.5	5.0
Czech Rep.	3.5	3.8	4.2	4.6	4.5	4.2
Estonia	5.3	4.7	5.4	5.9	4.2	4.5
Hungary	3.8	3.2	4.6	9.1	5.7	4.2
Latvia	7.9	4.5	6.5	2.5	3.0	3.0
Lithuania	4.5	3.5	4.3	1.4	2.8	2.5
Poland	1.5	1.9	3.4	5.6	4.7	4.5
Romania	4.6	4.4	4.8	34.1	26.0	17.5
Slovakia	2.7	3.5	4.0	7.4	6.3	5.5
Slovenia	3.7	3.3	4.0	8.5	6.5	6.0
Weighted average	**3.1**	**3.1**	**4.1**	**9.2**	**7.2**	**5.9**

Source: EU Commission

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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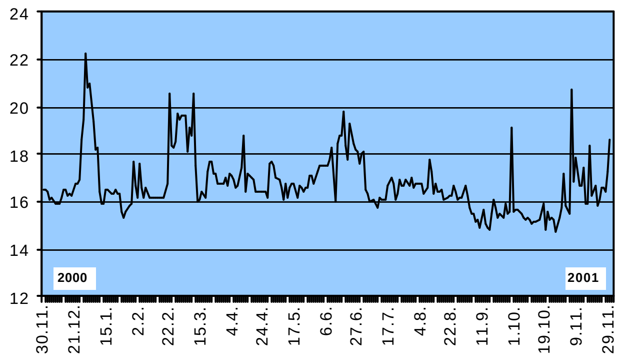

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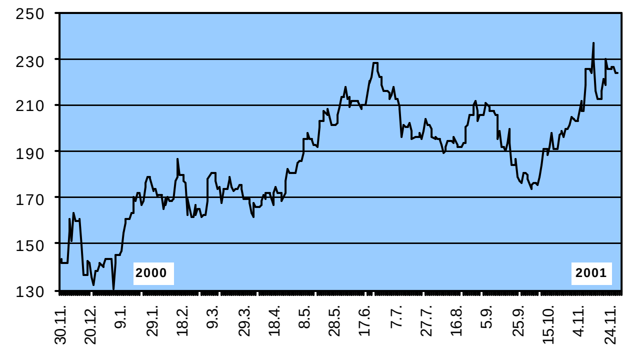

Baltic share prices
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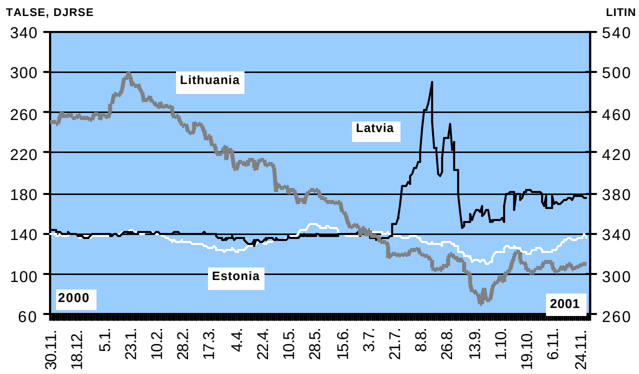

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Russia offers to reduce crude by 150,000 barrels a day. On Wednesday (5 Dec.), Russian prime minister Mikhail **Kasyanov** and Russian oil companies met to discuss the possibility of further cuts in production to sustain the oil price. Russia will lower its crude oil output from the start of next year. The latest offer in production cutback corresponds to about 2 % of Russia's output or 5 % of Russia's crude oil exports.

Russia's 2002 budget passes third Duma reading. Last Friday, the Duma approved by a clear majority the third reading of next year's federal budget, as well as three amendments connected to the budget.

In the first amendment, the Duma accepted the budget committee's proposal to postpone the financing of some 69 billion roubles in expenditures to the end of 2002. They will be realised only if sufficient funds are available. Almost quarter of the cuts would be financial aid to regions, while some 15 % would be taken from defence and another 10 % from road maintenance. According to estimates, the cuts would occur if the oil price drops to 16 dollars per barrel.

The second amendment would have the government set ceilings by 15 January 2002 on increases in charges for energy (gas, electricity and heating) in 2002. These ceilings could only be exceeded if the Duma approves a special budget amendment. For the following years, the ceilings have to be approved by the government before the budget act is submitted to the Duma.

The third amendment concerns the reserve fund, which is to have a special account with the central bank.

The fourth reading of the budget is slated for 14 December.

Russian Duma approves amendment on use of 2001 above-budget revenues. The amendment merely reaffirms the already almost totally executed distribution of extra budget revenues. Of the RUB 318 billion in additional revenues in 2001, some RUB 244 billion is dedicated to servicing foreign debt, with RUB 25 billion set aside in a reserve fund. Some 75 billion roubles would be distributed among several non-interest expenditure items. This is USD 12 billion more than according to the originally approved distribution rules, and represents money Russia "earned" from lower-than-expected interest costs this year.

Russian economic growth expected to slightly slow next year. Last month, major international institutions published outlooks for the Russian economy. Across the board, during this year they have revised upwards their economic growth forecasts for Russia. In addition to Russia's economy ministry, the IMF, the OECD and the European Bank for Reconstruction and Development estimate that Russian GDP will grow 5.5 to 6 % this year. The latest consensus forecasts compiled from analysts at Western and Russian private banks, companies, and research institutions, foresee economic growth this year of 5 %. Estimates of next year's growth have also been cautiously raised, despite a general agreement that economic growth will slow somewhat. The forecasts of the IMF, the EBRD, as well as the consensus forecasts, predict growth of 4 %. The OECD foresees 5 % growth.

Russia's current account surplus is expected to contract from USD 35 to 37 billion this year to USD 24 to 27 billion next year (7 to 8 % of GDP). Export earnings are expected to fall slightly, while imports should increase some 10 %. In key estimates, the world price of crude oil is expected to average 20 to 22 dollars a barrel.

This year's inflation estimates are around 20 % (e.g. Russia's economy ministry expects prices rise 18 % this year). The Russian government and CBR expect inflation to slow to 10 to 14 % next year. The inflation forecast of the IMF, OECD and EBRD are in the range of 12 to 13 %, while the consensus forecasts are currently running at around 15 %.

Russian central bank holds deposit auctions, raises deposit rates. Three auctions were held last Friday (30 Nov.) offering one-week, two-week and one-month deposit possibilities to banks without running deposit-interest agreements with the CBR. The minimum deposit requirement was RUB 10 million for Moscow banks and RUB 3 million for other regional banks. Based on the interest offers made at auction, the CBR raised its running deposit rates. The CBR used similar auctions in June, July and October to set interest rates on deposits. They also resulted in higher deposit rates. After the most recent auction, the interest paid on the most-common type of deposits is: the one-week deposit paid 9 % p.a. (4.5 % at the start of this year), the two-week 9 % (6 %), the one-month 11 % (8 %) and overnight deposits 3 % (1.5 %). The CBR will hold its next deposit auction on 10 December.

Pension package passes Russian Duma. Last Friday (30 Nov.), the Duma approved three crucial bills on pension reform – the act on work pensions, the act on pension security and the act on mandatory pension insurance. The bills now move to the Federation Council, which will consider the package on 18 December. Under the bills, pensions will be made up of three parts from the start of next year. A basic pension of 450 roubles a month will be paid out of the federal budget to all pensioners. The amount of other two parts depends on earnings. According to estimations, the part based on mandatory pension contributions, will average around 646 roubles a month at the beginning of next year. The third part would derive from voluntary savings by employees, whereby a small part of wages would be set aside in a special employee-specific account. The retirement age in Russia is 60 years for men and 55 years for women.

Pension fund director Mikhail **Zurabov** said the new pension laws give the possibility for substantial pension increases for about a third of Russia's 38 million pensioners. Pensions should also be subject to their regular index adjustment in February 2002.

Latvian parliament approves 2002 budget and lower corporate taxes. The parliament approved a budget deficit for next year of LVL 140 million (EUR 250 million), or 2.5 % of forecast GDP. Budget expenditures will increase 7 % over this year's budget. The largest growth is in defence spending, which will be boosted in anticipation of NATO membership. Additional funds will also go to reform of health care and the pensions system. A substantial raise for teachers' salaries will increase spending on education. The budget assumes Latvian GDP will grow 6 % next year and inflation will average 3 %.

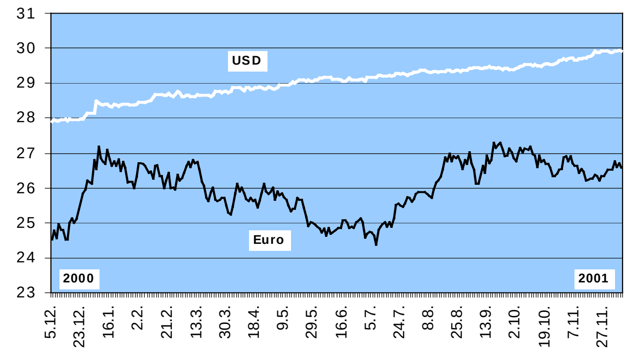
When an IMF mission visited Latvia in October-November, it did not approve Latvia's proposed budget deficit, because it clearly exceeded the maximum of 1 % of GDP agreed between the IMF and Latvia last spring. Thus, the IMF will suspend Latvia's stand-by credit facility early next year. Reinstatement of the arrangement will be discussed next April.

Latvia's parliament approved lowering company profit taxes from the current 25 % to 22 % from the beginning of next year. The plan is to gradually lower the profit tax until it reaches 15 % in 2004. The finance ministry noted that lowering the profit tax is expected to reduce budget revenues by some LVL 12 million next year.

Latvia issues eurobonds. Last week Latvia issued eurobonds on the international market. The EUR 200 million issue has a seven-year maturity and is intended to finance most of next year's budget deficit. The yield was 155 basis points above corresponding German bond. The international credit rating agency Fitch IBCA gave the new eurobonds a BBB rating. Latvia last issued eurobonds in 1999.

Bank of Latvia governor enters politics. Central bank president Einars **Repse** tendered his resignation last Friday (30 Nov.), and headed for a new career in politics as head of the just-founded right-wing New Era party. A recent opinion poll showed New Era has already become one of Latvia's largest parties, registering 13 % support in November. Deputy governor Ilmars **Rimsevics** will be the central bank's acting governor until the Latvian parliament names Repse's successor.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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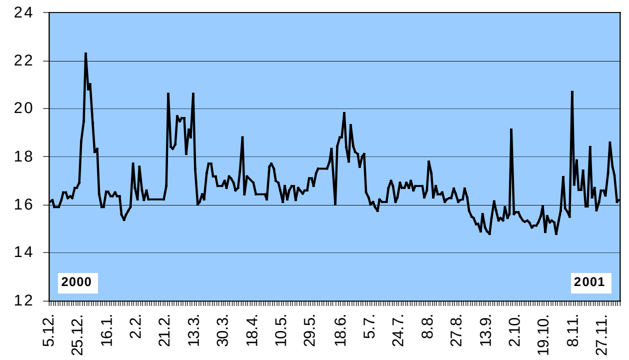
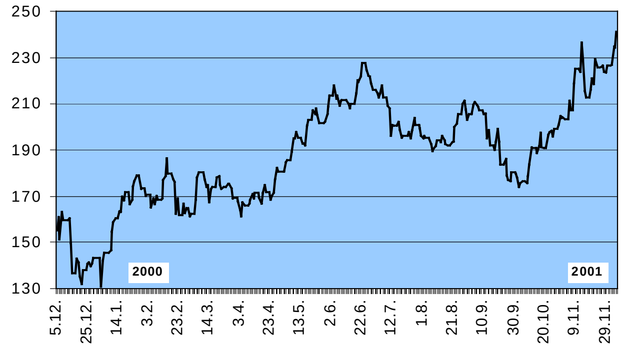
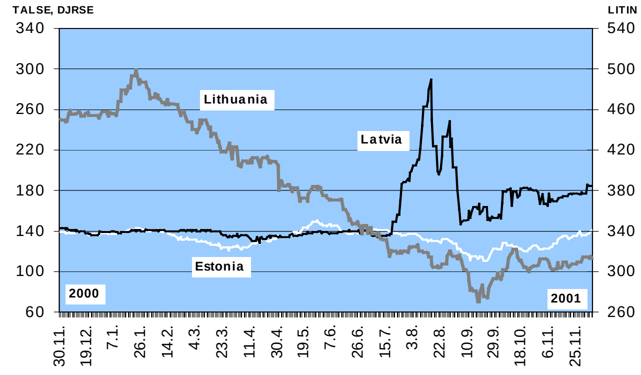


Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Russian & Baltic Economies
The Week in Review
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On-year rise in Russian consumer prices under 19 % in November. Monthly inflation, however, accelerated to 1.4 % in November driven by higher food prices. The on-month rise in the price of services slowed from previous months, indicating that the government has generally adhered to its decision late last summer to rein in hikes in regulated prices this year.

The latest figures from Russia's economy ministry show that 48 % of January-October consumer price inflation came from higher food prices, which are highly weighted in consumer shopping basket. Some 30 % of the rise in consumer prices was due to the rise in the prices of services, including 22 % due to increased prices for regulated services (e.g. housing-related services and passenger transport).

	October	November	November y-o-y
All consumer prices	**1.1**	**1.4**	**18.7**
Food	0.7	1.5	17.0
Other goods	1.3	1.1	13.0
Services	1.9	1.5	37.3
- Housing-related	3.2	1.7	57.0
- Passenger transport	0.4	0.8	26.8

Rouble exchange rate weakens to over 30 roubles to the dollar. At the end of November and in early December, the Central Bank of Russia intervened actively in the foreign exchange markets to hold the rouble's exchange rate below 30 roubles to the dollar. At the start of this week, the CBR then repeated a familiar pattern by letting the rouble weaken abruptly. On several occasions this autumn, CBR chairman Viktor **Gerashchenko** stated that the central bank's exchange rate target for the end of this year was 30 roubles to the dollar. The assumption for this year's federal budget was an average exchange rate of 30 roubles to the dollar. Observers point out that the rouble's exchange rate was supported until early autumn by high world prices for crude oil. The uncertain outlook for oil prices in recent weeks has put modest downward pressure on the rouble's price.

Drop in CBR's currency reserves. After months of increase, the CBR reported a decline in its foreign currency and gold reserves. The reserves shrank from USD 39 billion to USD 37 billion at end-November and fell to just over USD 36 billion in the first week of December. The November decline was caused by the government's larger-than-usual payments on foreign debt principal and interest. Banks operating in foreign exchange markets also noted the CBR's repeated interventions before it let the rouble exchange rate slip above 30 roubles to dollar.

Slight decline in Russian exports, imports continue to rise. The State Statistics Committee reports that in the third quarter revenues from the export of Russian goods fell 3 % in dollar terms as compared to a year earlier. For all of January-September, export revenues grew 3 %. Imports in the third quarter were up 20 % from a year earlier. Imports from non-CIS countries rose nearly 40 %, compared to over 30 % in the second quarter.

The decrease in exports was due to a drop in the prices of key exports. For example, the price of crude oil in the third quarter was more than 10 % lower than a year ago and the price of natural gas was down 2 %. In addition, the export prices for oil products and metals were substantially lower than a year earlier. On the other hand, the volumes of crude oil and natural gas exports rose more than 10 % y-o-y in the third quarter.

Comparison reveals that nearly a quarter of imports in the first three quarters reported by the State Statistics Committee were not reported by the State Customs Committee. According to the Customs Committee, imports of food and ingredients to Russia rose 27 % y-o-y during January-September. Their imports from non-CIS countries rose 35 %. The customs figures indicate that food sector's share of imports was less than a fourth of total imports. Imports of machinery and equipment (excluding passenger cars) rose more than 25 % and represented 30 % of total imports and a third of imports from non-CIS countries. Russian customs data show imports from EU countries rose 33 % y-o-y in January-September and accounted for 35 % of total imports.

Government imposes 35 % average ceiling on tariff increases by Russia's natural monopolies. The government added that it would decide on specific ceilings later. The Duma voted last week to require the government to announce tariff ceilings for 2002 by mid-January, but left it unclear as to whether they meant ceilings on specific tariffs or the already imposed average ceiling. Economy minister German **Gref** said that the railways ministry had demanded tariff hikes of 66 % next year, electricity monopoly UES wanted a hike of 44 % and gas giant Gazprom asked for nearly a 38 % increase.

Minister Gref observed that the tariff increases of natural monopolies could accelerate inflation in 2002 above the target level to 15–15.5 %. However, the government has no intention to change its budget proposal to account for higher tariffs. The finance ministry and the CBR are currently preparing plans on keeping inflation subdued next year, and the government has charged the economy ministry and energy commission with the task of analysing the 2002 investment programs of natural monopolies by the end of this year.

Baltic inflation slows in November. The 12-month change in consumer prices in November was 4.2 % in Estonia (4.8 % in October), 3.1 % in Latvia (3.3 %) and 1.9 % in Lithuania (2.3 %). No change in prices from October to November was registered in Estonia or Lithuania, but there was a slight rise of 0.2 % in Latvia. Low oil prices have tended to abate inflation pressures.

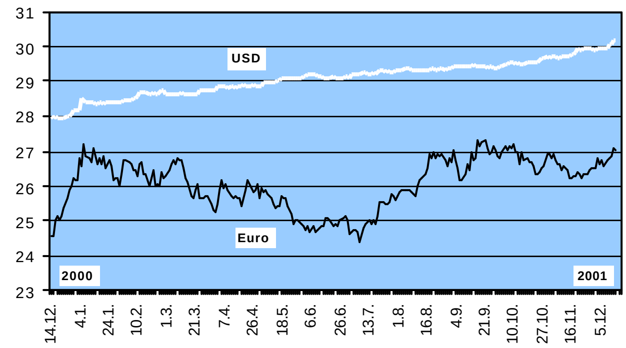
Nord/LB wins bidding for Lithuania's Agricultural Bank. Lithuania's privatisation officials are now in talks with the German Nord/LB on the sale of Agricultural Bank (Zemes Ukio Bankas). Lithuania hopes to sell its 76 % stake in Lithuania's last state-owned bank. Nord/LB, the only bank to submit a bid for Agricultural Bank, was declared the winner of the competitive bidding. The bid amount was not published. Nord/LB is Germany's tenth largest bank. In addition to opening a branch in Lithuania in 1999, it also acquired a majority stake in the Latvian Prima Bank last year and recently opened a representative office in Tallinn.

Mazeikiu Nafta continues to operate in red. Lithuania's largest company Mazeikiu Nafta showed a loss of LTL 175 million (USD 44 million) in the period January-October. The amount was substantially more than during the same period a year ago. Williams International, which now operates Mazeikiu Nafta, blamed the losses on the refinery's out-of-date production and difficulties in securing crude oil supplies. As of end-October, the refinery had processed less than 6 million tonnes of crude oil. Annual capacity is 12 million tonnes.

The EBRD has expressed interest in helping finance modernisation of the refinery on the condition that Mazeikiu Nafta secures crude oil delivery contracts. Mazeikiu Nafta and the Russian oil producer YUKOS have yet to reach a final understanding on ownership arrangements and oil deliveries. Under the preliminary agreement reached last June, YUKOS would purchase 27 % of Mazeikiu Nafta shares for LTL 300 million (USD 75 million), as well as furnish the company with a five-year loan in the equivalent amount. Williams, in turn, would keep its voting majority in Mazeikiu Nafta, but its shareholdings would be reduced from the current 33 % to 27 %. The government's current 59 % stake would be reduced to 40 %. In return, YUKOS would guarantee delivery of 4.8 million tonnes of crude oil annually to Mazeikiu Nafta, as well as tranship 4 million tonnes of crude oil annually through Mazeikiu Nafta's Butinge oil terminal for ten years.

The Seimas approved the arrangement in August, and YUKOS announced on 10 December that it expected finalisation of the agreement within two to three months. The delays were caused by legal suits filed against the 1999 sale of a 33 % stake in Mazeikiu Nafta to Williams. Talks also bogged down over differences between Williams and the Lithuanian government. At the end of November, Mazeikiu Nafta accused the Lithuanian government of breaking its trade agreement and announced that it was suspending interest payments on its loans from the Lithuanian government.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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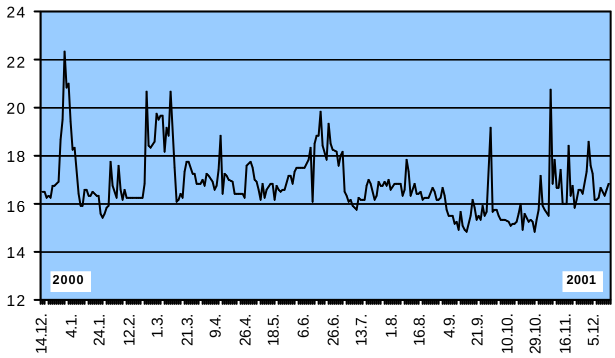
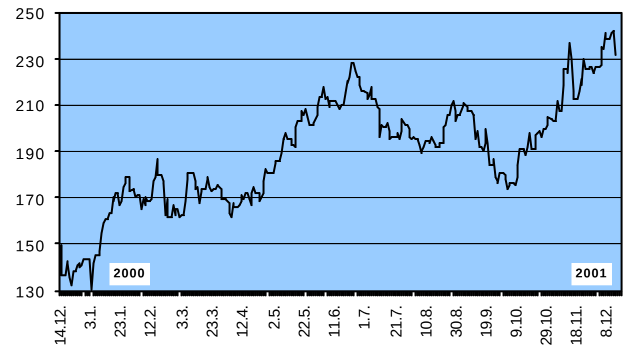


Russian share prices (RTS)



Baltic share prices
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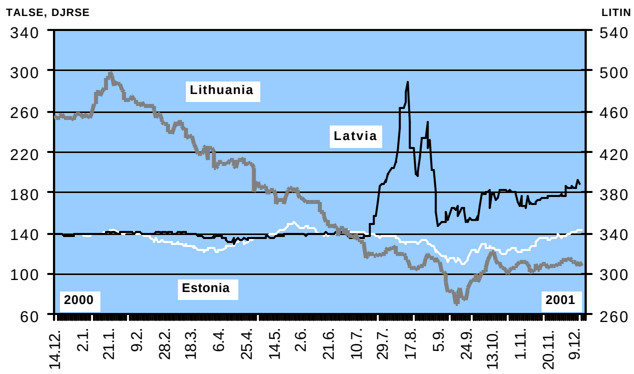

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Editor Timo Harell

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Russian & Baltic Economies
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51•2001

Duma approves 2002 budget. Seven of the Duma's nine voting blocs accepted the fourth and final reading of next year's budget. The budget will be the first in post-Soviet history with a planned surplus (if the average price of Urals crude is more than about 18 dollars a barrel). Revenues are RUB 2,126 billion (19.4 % of GDP) against expenditures of RUB 1,947 billion (17.8 % of GDP), giving a surplus of RUB 178 billion (1.6 % of GDP). Nearly RUB 69 billion of the surplus will go to paying off foreign debt, while some RUB 110 billion (USD 3.5 billion) will be transferred to a special reserve fund. The 2002 budget assumes GDP of RUB 10,950 billion, annual inflation of 12 %, and an average exchange rate of 31.5 roubles to the dollar.

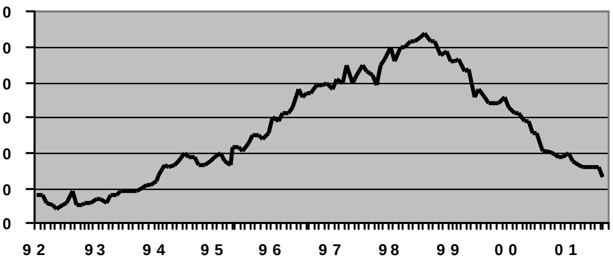
The budget devotes over a fifth of expenditures to the social sector. The relative increase next year in social sector spending mainly reflects the impact of the unified social tax, which brings earlier off-budget revenues partly onto the federal budget. Debt servicing, defence and transfers to other budgets each account for nearly 15 % of expenditures. The budget now goes to the Federation Council for approval, then on to president Vladimir **Putin**, who is expected to sign the budget act into law before the new year.

Russian import tariffs lowered. The amendments to the customs tariff act, which go into force at the start of 2002, affect 140 imported commodities. Tariffs will be reduced for about 90 % of these commodities, with an average decrease of 5%. For example, the tariffs on consumer electronics, furniture, and fruit will be changed. The move is part of a broad reform of import tariffs launched at the start of 2001, which harmonised tariffs on some 3,500 commodities. In October 2001, import tariffs were lowered on about 400 commodities. Import tariffs should continue to fall and another round of import tariff revisions is expected next summer.

In addition to the amended customs tariff act, a revised ten-step schedule of foreign trade commodities (TN VED), containing about 11,000 commodities, will also go into force at the start of next year. One in four commodities will get a new tariff code.

Russian enterprises continue to decrease reliance on barter. Regular polls of Russian firms find that reliance on barter continued to decline this year. The Russian Economic Barometer, which includes several hundred industrial firms, found that barter as a share of sales fell to 16 % at the start of this year and to 13 % this summer. In addition, a survey of nearly a thousand firms by the Institute for the Economy in Transition headed by former prime minister Yegor **Gaidar** found that barter had fallen to 12 – 14 % early this year and was 10– 12 % this summer. A State Statistics Committee survey of sales of Russia's largest taxpaying and monopoly enterprises found that the share of payments in forms other than cash (IOUs, securities, offsets and barter) remained at a level of 22– 25 % during the first nine months of this year.

Barter as a total share of sales in Russian industrial enterprises, % (Russian Economic Barometer)

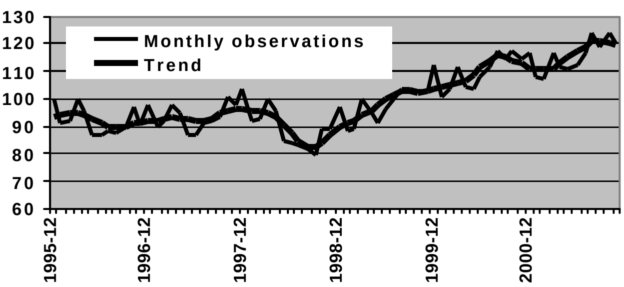


Little change in FDI inflows to Russia. The State Statistics Committee reports that foreign direct investment (FDI) inflows to Russia during January-September amounted to USD 2.9 billion, down slightly from USD 3.2 billion in the same period in 2000. Preliminary balance-of-payments figures from the Central Bank of Russia show a slight rise in FDI for the same period (USD 1.7 billion for Q1-Q3 2001 and USD 1.6 billion for Q1-Q3 2000). The figures of both organisations indicate a substantial drop in FDI during the third quarter of this year.

The State Statistics Committee figures indicate that nearly 30 % of FDI in the first nine months of this year went to the retail and wholesale trade sectors, while about 20 % went to the transport sector. The food industry's share contracted from last year to 12 %. Crude oil production's share held at 10 %, while machinery and equipment's share grew to 6.5 %. As of end-September, the Committee states that Russia's total FDI stock amounted to USD 17.7 billion. Of that, some 23 % originated from the US, 21 % from Cyprus, 12 % from the Netherlands, 10 % from the UK and 8.5 % from Germany.

Growth in Russian industrial output stalls. The State Statistics Committee reports industrial output grew in November 4.7 % y-o-y. Due to higher growth in earlier months, overall growth during January-November was 5.1 % y-o-y. The State Statistics Committee said that seasonally adjusted industrial output in November was unchanged from October. The trend in November showed a small drop.

Russian industrial output, December 1995 (100) – November 2001



Estonian government to resign. On Wednesday (19 Dec.), Mart **Laar** announced that he would resign as prime minister on 8 January 2002. Under Estonian law, Mr. Laar's entire cabinet must also resign. Laar said his decision to resign came after the party he leads, Fatherland Union, and his government coalition partner, the Moderate Party, developed irreconcilable differences with the government's third coalition member, the Reform Party. The Reform Party last week allied with the largest opposition party, the Centre Party, in Tallinn's municipal government. Laar's government served from March 1999.

Estonian parliament approves 2002 budget. In accordance with Estonian law, the budget is balanced with equal revenues and expenditures of EEK 34.6 billion (USD 2 billion), a 12 % increase from last year. Some EEK 300 million, mostly administrative expenditures, were cut after the finance ministry lowered next year's GDP growth estimate from 5 % to 4 %. Budget expenditures are particularly aimed at pension reform as well as measures required for EU and NATO membership (e.g. improvements in environmental protection and defence).

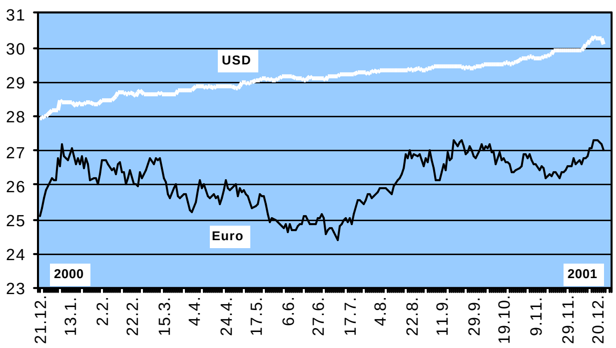
Lithuanian parliament approves 2002 budget. Next year's state expenditures are LTL 10 billion (USD 2.5 billion) and revenues LTL 8.9 billion. The finance ministry claims the whole public sector deficit will stay below the ceiling of 1.5 % of GDP agreed with the IMF (1.4 % of GDP in 2001). The budget assumes that GDP will grow 4 % next year and that inflation will average 2.6 %.

The parliament also approved revenues and expenditures for the extra-budgetary Social Insurance Fund next year. Expenditures will go up 1.6 % to LTL 4.6 billion. The Fund's deficit is also to be halved next year to LTL 34 million.

Parliamentary growth targets for national budget revenues are 4 % in 2003 and 7 % in 2004. The upcoming broad tax reform will affect the revenues in coming years. The parliament approved on Thursday a bill that will lower corporate profit tax at the start of 2002 from the current 24 % to 15 %. Reinvested profits, which are currently untaxed, will be taxed at the same rate. The plan is to harmonise the value-added tax and taxes on tobacco products and gasoline with EU standards. The government also seeks to reduce from the start of 2003 the income tax from its current 33 %.

Ukraine approves land code legislation. Most of the land code legislation approved at the end of October enters into force at the start of 2002. It allows for the privatisation, sale and use of land as collateral. In practise this will be possible only years later, as many other laws and regulations should be harmonised with the land code. The sale of agricultural land becomes possible from the start of 2005 and up to 2010 individuals will be limited to owning no more than 100 hectares of agricultural land. While foreigners are banned from owning agricultural land, they will be able to own lots with buildings or commercial structures on them. Ukraine's communists are planning a legal challenge to the land code approval process.

Russia: RUB/EUR & RUB/USD exchange rates (CBR)



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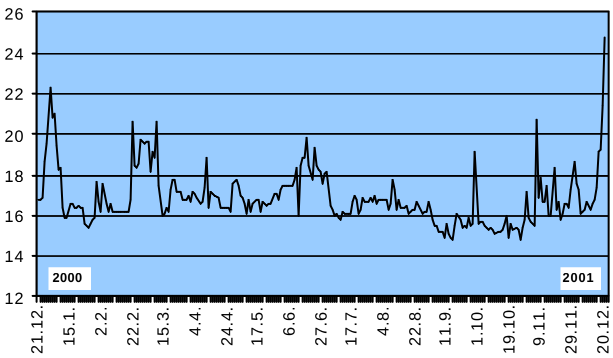

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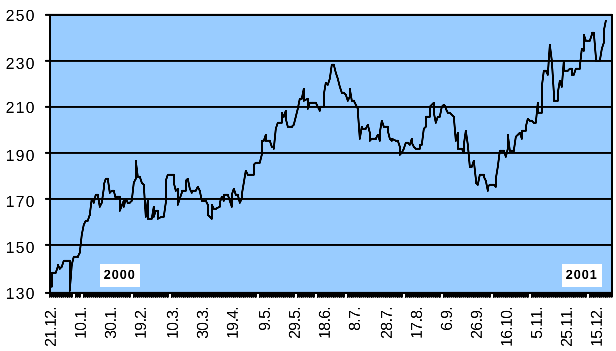

Baltic share prices
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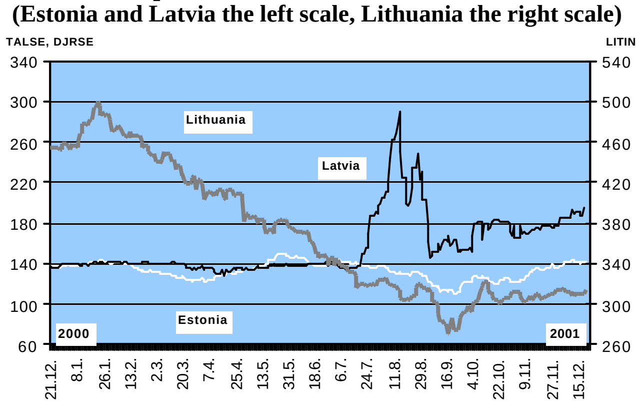

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Federation Council approves 2002 budget. In a vote of 132 to 2, the Federation Council approved Russia's 2002 budget act. Next year's budget foresees a surplus equal to 1.6 % of GDP. Finance minister Alexei **Kudrin** said that Russia would be able to meet its expenditures and debt-servicing obligations even if the oil price falls.

New legislation enters into force next week. In early 2002, several key pieces of economic reform legislation, mostly pertaining to enterprises, will come into force. Perhaps the most important is the *corporate profit tax act*, which lowers the profit tax to 24 %. It also increases deduction possibilities but eliminates a variety of company-specific exemptions. Amendments to the *companies act* will also enter into force next week. The changes will improve protection of shareholder rights, for example, in connection with share emissions. Among the package of laws on liberalisation of corporate activities passed last August, perhaps the most important was the *business permits act,* which is intended to reduce bureaucracy.

New *pension laws* coming into force at the start of 2002 are important for private individuals. They grant substantial pension increases to about a third of Russian pensioners. The *money laundering act* comes into force at the end of February.

The Duma has also approved the second (19 Dec.) and third (21 Dec.) readings of a new *labour act*. It includes new rules on labour contracts, wages, paid vacations and labour unions. Russia's current labour act dates from 1972. The new labour bill still requires approval from the Federation Council and a presidential signature to become law.

IMF assessment finds Russian economy relatively strong, but predicts slightly slower growth in 2002. As part of a scheduled Article IV consultation, the IMF mission held bilateral discussion earlier this month in Moscow. In its concluding press release, the IMF noted that Russia's substantial current account surplus, its budget surplus and a comfortable level of currency reserves have put Russia in a good position to weather the recent downturn of the global economy.

The IMF's forecast for the world economy was also released in mid-December. The Fund expects Russian GDP to grow 3.6 % next year (down from the October forecast of about 4 %), as well as consumer inflation of 14 % (13 %) and a current account surplus of USD 18 billion (USD 27 billion) or 5.6 % of GDP. The revisions were primarily due to a lower assumption for oil prices next year. The latest forecast assumes the price of crude oil will average 18.50 dollars a barrel in 2002.

Russian public sector wages get boost at the beginning of December. The most substantial pay hikes, 100% in rouble terms, went to teachers, medical doctors and workers in the cultural field. Other public sector wages rose about 50 %.

Oil industry receiving higher share of domestic investment. The State Statistics Committee reports that Russian domestic investments in January-October rose 8 % y-o-y. Oil investment has not only benefited the oil industry, but the transport sector as well, due e.g. to pipeline operations. The share of investments going to the housing sector fell.

Share of total investments, %

	January-September 2001	January-September 2000
Industry	43.7	42.9
- Fuel industry	23.3	21.5
- Crude oil production	15.2	14.3
- Oil refining	2.2	1.4
- Natural gas production	5.0	4.8
- Ferrous and nonferrous metallurgy	5.6	5.4
Transportation	22.9	22.1
Housing and municipal services	13.6	15.7

Euro roll-out in Moscow. The EU representative office in Moscow hosted a "Euro Day" event on 11 December to inform representatives of Russia's banking and financial world about Europe's new currency. Russians were advised to get ready in time for the advent of euro cash. The Central Bank of Russia added its own warning about the risk of counterfeiting.

The introduction of physical euros has forced Russia to clarify how euro banknotes will be brought into the country and distributed. At the beginning of December, commercial banks were haggled with customs officials over the import of euro banknotes. As euro banknotes are not yet legal tender, the customs officials were confused as to whether the money should be classified as currency or printed matter. On 7 December, the CBR ended the dispute when it said that the 1993 regulation agreed between central bank and the customs committee governing the import and export of foreign currency also applied in the case of the euro. Even so, the chairman of Sberbank, Andrei **Kazmin,** noted that the Russian banking system would technically not be ready for eurocash operations on 1 January. Russian citizens are estimated to hold considerable amounts of foreign cash, including, about 9 billion in German marks.

The CBR is studying the possibility of allowing commercial banks to convert to euros their foreign currency accounts in currencies of euro participants without first getting permission from account holders. For example, Sberbank potentially has about EUR 40 million on deposit in its foreign currency accounts. The CBR also said that conversion of euro-area national currencies to euros would not be considered a currency exchange transaction taxable by law.

Latvian economic growth slowed in third quarter. Latvia's real GDP rose 6.3 % y-o-y in Q3 2001 (9.2 % y-o-y in Q2 2001). For the first nine months of this year, GDP was up 7.9 % y-o-y. Although growth slowed more than expected, Latvia continued to lead the Baltics in economic growth. Preliminary data indicate Estonia's GDP grew 4.9 % y-o-y in the first three quarters, while Lithuanian GDP rose 5.1 %.

Robust growth continued in July-September in all of Latvia's key economic sectors (trade 7 %, transport 8 %, manufacturing 10 %, real estate and corporate services 14 %). There were, however, signs of slowing growth in trade. Growth in Latvian exports also slowed. Transportation volumes, mainly road freight, declined after August when Russians began to prefer domestic ports.

Baltics ready for euro launch. The Estonian kroon has been pegged to the German mark since 1992. In 1998, the peg was revised to incorporate a pegging to the euro at a rate of 15.6466 kroons. This month the Estonian parliament passed an amendment eliminating the German mark peg altogether from 1 January 2002, while keeping the kroon's pegging to the euro in place.

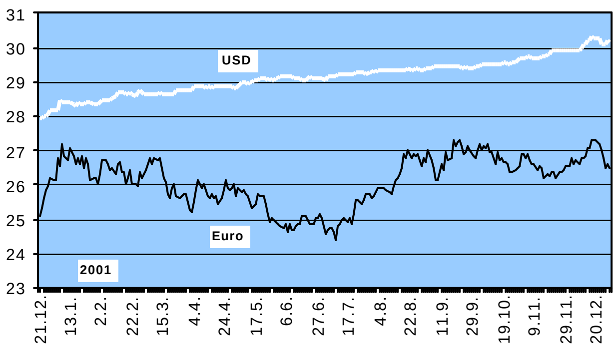
Latvia has announced that, up until the time of joining the EU, it will continue to peg the lats to the SDR, the IMF's currency basket.

Lithuania will drop the dollar as its anchor currency for the litas, switching to a euro peg on 2 February 2002. The official pegging rate will be based on the ECB's official dollar-euro exchange rate announced in the afternoon of 1 February 2002. A Bank of Lithuania press release noted that careful preparations have been made for the shift. For example, the central bank has imposed rules on commercial banks to prevent them from charging excessive currency exchange fees as the country gets ready for repegging. One major reason for repegging the litas was the desire to more closely integrate Lithuania's economy with its main trading partner, the EU.

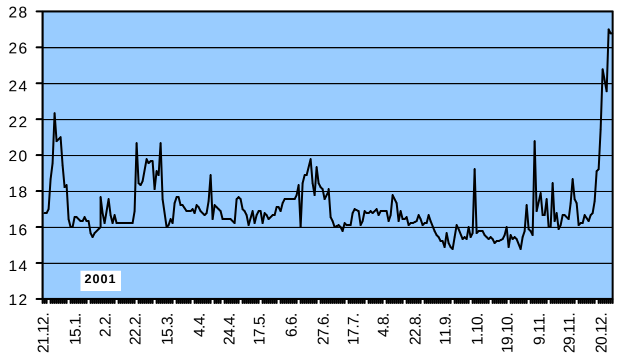
Ilmars Rimsevics takes over as head of Latvia's central bank. The Latvian parliament approved the nomination of Ilmars **Rimsevics**, the Bank of Latvia's deputy governor, as successor to Einars **Repse**. Mr. Rimsevics began his six-year term as central bank governor last Friday (21 Dec.). Mr. Repse resigned from the governor's post on 30 November to pursue a career in politics.

OSCE will close its representative offices in Estonia and Latvia next week. The Organisation for Security and Cooperation in Europe decided to shut down its Estonian office after the Estonian parliament eliminated the requirement that members of parliament and municipal representatives must possess fluency in the Estonian language. While the Latvian parliament has not approved a similar amendment to its language act, president Vaira **Vike-Freiberga** and prime minister Andris **Berzins** have recommended that such a change be implemented. The OSCE's main task in both Estonia and Latvia was securing the rights of Russian-speaking minorities. The closing of the representative offices should strengthen the view that countires are ready to join the EU and NATO.

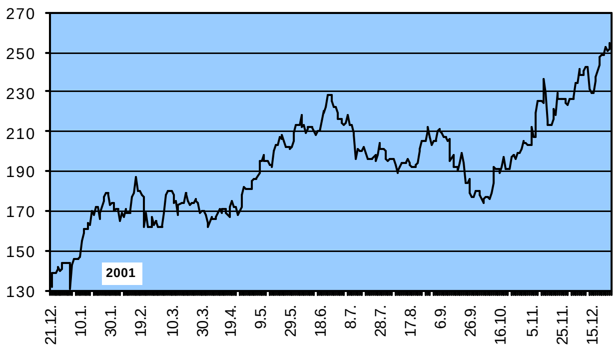
Russia: RUB/EUR & RUB/USD exchange rates (CBR)



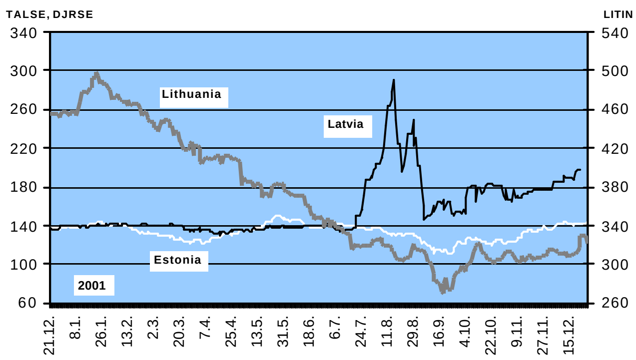
Russia: 31 – 90 days interbank rate (Mibor), % p.a. (CBR)



Russian share prices (RTS)



Baltic share prices
(Estonia and Latvia the left scale, Lithuania the right scale)



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Venäjän keskuspankki		**Central Bank of Russia**	
Valuuttakursseja		**Exchange rates**	
Lähde:	http://www.cbr.ru/currency_base/dynamics.asp		
Source:			
Date	**US Dollar**	**Euro**	**FIM**
4.1.2001	28,16	26,79	4,506
5.1.2001	28,48	26,53	4,461
6.1.2001	28,43	27,18	4,571
10.1.2001	28,39	26,86	4,518
11.1.2001	28,38	26,77	4,503
12.1.2001	28,39	26,69	4,488
13.1.2001	28,35	27,09	4,556
16.1.2001	28,35	26,82	4,511
17.1.2001	28,32	26,62	4,476
18.1.2001	28,39	26,76	4,500
19.1.2001	28,36	26,62	4,477
20.1.2001	28,34	26,82	4,511
23.1.2001	28,37	26,50	4,458
24.1.2001	28,39	26,75	4,499
25.1.2001	28,39	26,57	4,469
26.1.2001	28,40	26,16	4,399
27.1.2001	28,36	26,18	4,403
30.1.2001	28,36	26,18	4,403
31.1.2001	28,37	26,00	4,373
1.2.2001	28,40	26,31	4,425
2.2.2001	28,44	26,72	4,494
3.2.2001	28,45	26,71	4,493
6.2.2001	28,44	26,69	4,490
7.2.2001	28,45	26,63	4,480
8.2.2001	28,47	26,43	4,445
9.2.2001	28,50	26,46	4,451
10.2.2001	28,59	26,28	4,420
13.2.2001	28,68	26,62	4,477
14.2.2001	28,68	26,66	4,484
15.2.2001	28,67	26,36	4,433
16.2.2001	28,68	26,35	4,432
17.2.2001	28,66	26,00	4,373
20.2.2001	28,66	26,20	4,406
21.2.2001	28,69	26,43	4,445
22.2.2001	28,65	25,99	4,370
23.2.2001	28,61	26,02	4,377
24.2.2001	28,68	25,96	4,366
27.2.2001	28,76	26,39	4,439
28.2.2001	28,72	26,22	4,409

1.3.2001	28,62	26,29	4,422
2.3.2001	28,62	26,42	4,443
3.3.2001	28,65	26,63	4,479
6.3.2001	28,66	26,75	4,498
7.3.2001	28,63	26,60	4,473
8.3.2001	28,62	26,80	4,507
12.3.2001	28,62	26,72	4,493
13.3.2001	28,67	26,75	4,499
14.3.2001	28,65	26,51	4,459
15.3.2001	28,66	26,18	4,403
16.3.2001	28,66	26,06	4,383
17.3.2001	28,66	25,71	4,324
20.3.2001	28,65	25,63	4,310
21.3.2001	28,62	25,88	4,353
22.3.2001	28,65	26,03	4,378
23.3.2001	28,76	25,67	4,317
24.3.2001	28,76	25,62	4,309
27.3.2001	28,76	25,65	4,314
28.3.2001	28,73	25,71	4,324
29.3.2001	28,76	25,71	4,324
30.3.2001	28,76	25,50	4,288
31.3.2001	28,74	25,29	4,254
3.4.2001	28,77	25,23	4,244
4.4.2001	28,86	25,47	4,285
5.4.2001	28,86	25,86	4,349
6.4.2001	28,86	26,14	4,397
7.4.2001	28,86	25,90	4,355
10.4.2001	28,84	26,02	4,376
11.4.2001	28,79	25,85	4,347
12.4.2001	28,87	25,68	4,319
13.4.2001	28,86	25,64	4,313
14.4.2001	28,82	25,71	4,324
17.4.2001	28,85	25,64	4,313
18.4.2001	28,86	25,67	4,318
19.4.2001	28,87	25,44	4,279
20.4.2001	28,90	25,62	4,309
21.4.2001	28,88	25,86	4,350
24.4.2001	28,84	26,12	4,393
25.4.2001	28,85	25,90	4,357
26.4.2001	28,90	25,82	4,343
27.4.2001	28,86	25,88	4,353
28.4.2001	28,83	26,02	4,377
29.4.2001	28,83	25,67	4,318
4.5.2001	28,88	25,90	4,356
5.5.2001	28,96	25,80	4,339
8.5.2001	28,96	25,84	4,345
9.5.2001	28,96	25,75	4,330
11.5.2001	28,95	25,66	4,316

12.5.2001	28,96	25,50	4,289
15.5.2001	28,99	25,33	4,261
16.5.2001	29,04	25,40	4,271
17.5.2001	29,02	25,42	4,276
18.5.2001	29,07	25,71	4,324
19.5.2001	29,09	25,65	4,313
22.5.2001	29,09	25,65	4,314
23.5.2001	29,08	25,43	4,277
24.5.2001	29,07	25,15	4,230
25.5.2001	29,08	24,90	4,189
26.5.2001	29,07	25,01	4,207
29.5.2001	29,07	24,98	4,202
30.5.2001	29,10	24,93	4,192
31.5.2001	29,09	24,87	4,182
1.6.2001	29,14	24,82	4,174
2.6.2001	29,15	24,72	4,157
5.6.2001	29,16	24,83	4,176
6.6.2001	29,16	24,63	4,142
7.6.2001	29,16	24,86	4,181
8.6.2001	29,16	24,70	4,154
9.6.2001	29,13	24,71	4,155
10.6.2001	29,13	24,78	4,167
14.6.2001	29,12	24,85	4,180
15.6.2001	29,08	24,86	4,182
16.6.2001	29,07	25,07	4,216
19.6.2001	29,05	25,08	4,219
20.6.2001	29,09	25,00	4,204
21.6.2001	29,14	24,86	4,182
22.6.2001	29,08	24,87	4,183
23.6.2001	29,10	24,85	4,180
26.6.2001	29,10	25,01	4,206
27.6.2001	29,09	25,04	4,212
28.6.2001	29,12	25,14	4,228
29.6.2001	29,11	25,03	4,210
30.6.2001	29,07	24,57	4,132
3.7.2001	29,16	24,70	4,154
4.7.2001	29,18	24,74	4,161
5.7.2001	29,18	24,72	4,158
6.7.2001	29,17	24,62	4,141
7.7.2001	29,17	24,39	4,102
10.7.2001	29,22	24,79	4,170
11.7.2001	29,23	24,88	4,184
12.7.2001	29,20	24,96	4,198
13.7.2001	29,21	25,02	4,208
14.7.2001	29,20	24,89	4,186
17.7.2001	29,23	25,01	4,206
18.7.2001	29,21	24,87	4,183
19.7.2001	29,24	25,13	4,227
20.7.2001	29,27	25,53	4,294

21.7.2001	29,28	25,55	4,297
24.7.2001	29,25	25,48	4,285
25.7.2001	29,28	25,46	4,282
26.7.2001	29,25	25,54	4,296
27.7.2001	29,23	25,75	4,330
28.7.2001	29,25	25,70	4,322
31.7.2001	29,27	25,60	4,305
1.8.2001	29,32	25,68	4,319
2.8.2001	29,30	25,81	4,340
3.8.2001	29,33	25,88	4,352
4.8.2001	29,36	25,88	4,353
7.8.2001	29,34	25,83	4,345
8.8.2001	29,31	25,78	4,336
9.8.2001	29,31	25,71	4,325
10.8.2001	29,34	25,95	4,365
11.8.2001	29,34	26,16	4,400
14.8.2001	29,31	26,21	4,408
15.8.2001	29,33	26,33	4,428
16.8.2001	29,34	26,51	4,458
17.8.2001	29,35	26,88	4,522
18.8.2001	29,36	26,76	4,501
21.8.2001	29,37	26,99	4,540
22.8.2001	29,35	26,77	4,502
23.8.2001	29,35	26,90	4,525
24.8.2001	29,37	26,84	4,515
25.8.2001	29,37	26,90	4,525
28.8.2001	29,35	26,73	4,496
29.8.2001	29,36	26,53	4,462
30.8.2001	29,36	26,80	4,507
31.8.2001	29,37	26,67	4,486
1.9.2001	29,41	27,01	4,542
4.9.2001	29,41	26,72	4,494
5.9.2001	29,45	26,51	4,459
6.9.2001	29,45	26,12	4,393
7.9.2001	29,45	26,14	4,396
8.9.2001	29,43	26,34	4,430
11.9.2001	29,43	26,62	4,477
12.9.2001	29,44	26,44	4,447
13.9.2001	29,45	26,94	4,531
14.9.2001	29,47	26,72	4,495
15.9.2001	29,45	26,78	4,504
18.9.2001	29,44	27,29	4,590
19.9.2001	29,43	27,14	4,565
20.9.2001	29,45	27,24	4,581
21.9.2001	29,43	27,30	4,592
22.9.2001	29,40	27,10	4,558
25.9.2001	29,42	26,89	4,522
26.9.2001	29,43	26,93	4,530
27.9.2001	29,40	27,13	4,563

28.9.2001	29,40	27,02	4,544
29.9.2001	29,39	26,86	4,518
2.10.2001	29,43	26,77	4,502
3.10.2001	29,45	26,99	4,540
4.10.2001	29,48	27,16	4,568
5.10.2001	29,50	27,02	4,545
6.10.2001	29,52	27,12	4,561
9.10.2001	29,52	27,09	4,557
10.10.2001	29,52	27,19	4,573
11.10.2001	29,50	26,95	4,532
12.10.2001	29,53	26,93	4,529
13.10.2001	29,50	26,61	4,476
16.10.2001	29,51	26,93	4,529
17.10.2001	29,49	26,74	4,497
18.10.2001	29,54	26,80	4,508
19.10.2001	29,55	26,68	4,487
20.10.2001	29,55	26,67	4,486
23.10.2001	29,54	26,57	4,468
24.10.2001	29,54	26,35	4,432
25.10.2001	29,57	26,35	4,432
26.10.2001	29,59	26,40	4,440
27.10.2001	29,63	26,51	4,458
30.10.2001	29,68	26,54	4,463
31.10.2001	29,70	26,87	4,519
1.11.2001	29,68	26,89	4,523
2.11.2001	29,70	26,77	4,502
3.11.2001	29,73	26,89	4,523
6.11.2001	29,74	26,71	4,492
7.11.2001	29,68	26,62	4,478
9.11.2001	29,68	26,63	4,479
10.11.2001	29,71	26,43	4,446
13.11.2001	29,71	26,55	4,466
14.11.2001	29,72	26,47	4,452
15.11.2001	29,72	26,21	4,408
16.11.2001	29,76	26,24	4,414
17.11.2001	29,78	26,28	4,421
20.11.2001	29,80	26,26	4,416
21.11.2001	29,91	26,39	4,438
22.11.2001	29,90	26,34	4,431
23.11.2001	29,90	26,21	4,408
24.11.2001	29,93	26,34	4,430
27.11.2001	29,93	26,34	4,430
28.11.2001	29,93	26,42	4,443
29.11.2001	29,93	26,52	4,461
30.11.2001	29,90	26,52	4,460
1.12.2001	29,90	26,52	4,461
4.12.2001	29,93	26,77	4,502
5.12.2001	29,93	26,61	4,475
6.12.2001	29,94	26,72	4,493

7.12.2001	29,92	26,57	4,469
8.12.2001	29,95	26,75	4,498
11.12.2001	30,09	26,79	4,506
12.12.2001	30,08	26,83	4,513
14.12.2001	30,19	27,09	4,557
15.12.2001	30,18	27,04	4,547
18.12.2001	30,30	27,32	4,595
19.12.2001	30,28	27,32	4,596
20.12.2001	30,28	27,32	4,595
21.12.2001	30,26	27,19	4,573
22.12.2001	30,08	27,00	4,541
25.12.2001	30,12	26,79	4,506
26.12.2001	30,12	26,49	4,456
27.12.2001	30,21	26,58	4,470
28.12.2001	30,14	26,49	4,455