THE CENTRAL BANK OF THE RUSSIAN FEDERATION

ANNUAL 2004 REPORT

Approved by the Bank of Russia Board of Directors on May 12, 2005

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INTRODUCTION

The year 2004 was a good one for the Russian economy. The key macroeconomic indicators testified to continuing rapid economic growth, an increase in fixed capital investment and real income, and a considerable improvement in the financial standing of enterprises. Despite the failure of the Russian Government and Bank of Russia to meet the target set for inflation in 2004, consumer price growth last year was lower than in 2003.

Inflation in the Russian economy was largely due to developments which, in the short term, were not the immediate result of the monetary policy pursued by the Bank of Russia and this considerably restricted its capability to control inflation by using monetary policy instruments.

External economic conditions continued to exert a great influence on the Russian economy due to its increased integration into the world economy and its position as an energy-exporting country. Considerable growth in world energy prices and low interest rates on the world's financial markets in 2004 ensured a steady flow of export earnings to the domestic market, stimulated an influx of foreign capital to the real economy and contributed to a rise in federal budget revenue and the considerable expansion of the Stabilisation Fund of the Russian Federation (hereinafter referred to as the Stabilisation Fund). A strong balance of payments led to considerable growth in Russia's international reserves, making the country less dependent on international creditors' policy in tackling its debt problems.

At the same time, the massive inflow of foreign exchange made it more difficult to pursue a monetary policy designed to reduce inflation and the Bank of Russia had to deal with two different problems.

On the one hand, the balance of payments in the favourable external economic situation created preconditions for both real and nominal growth in the value of the national currency. It was necessary in this situation to ensure smooth exchange rate dynamics so that the exchange rate adequately corresponded to fundamental macroeconomic factors and to protect the economy from external shocks. Therefore, while maintaining the managed floating exchange rate regime, the Bank of Russia had to cushion abrupt exchange rate fluctuations on the domestic foreign exchange market and prevent the ruble from rising sharply in order to maintain the competitiveness of the Russian economy.

On the other hand, foreign exchange purchases on the domestic market were a major source of money supply from the Bank of Russia. The economy's saturation with money meant increased domestic demand was the principal factor of high business activity. However, the Bank of Russia had to sterilise excess liquidity in the economy to reduce the inflationary pressure created by the accelerated growth in the money supply. Since the possibilities of using the sterilisation instruments of monetary policy were limited by the need to maintain a sensible level of interest rates on the money market, a large part of the increase in the money supply created by Bank of Russia operations on the domestic foreign exchange market in 2004 was absorbed through the Stabilisation Fund.

To maintain rapid economic growth rates, encourage investment growth and implement an effective monetary policy, the Bank of Russia continued to upgrade the banking sector. In 2004, the Russian Government and Bank of Russia continued jointly to elaborate the Banking Sector Development Strategy for the Period until 2008. The principal objective of the Strategy is to build an up-to-date and competitive banking sector, capable of meeting the strategic interests of the Russian economy, and implement a set of measures designed to upgrade the legal and institutional environment of the banking business.

The national currency continued to be seen as highly credible in 2004. Despite the temporary outflow of personal deposits from commercial banks in the middle of the year, the value of ruble-denominated bank deposits increased significantly over the year under review. The expansion of the deposit base of commercial banks led to growth in lending to the real sector. The establishment of the deposit insurance system contributed to public confidence in banks.

The improvements in the Russian economy, sustained economic growth and political stability did not pass unnoticed by international rating agencies and in November 2004 Fitch Ratings raised Russia's sovereign rating to investment grade.

The Bank of Russia Annual Report for 2004 presents the results of the Bank of Russia activities in the context of the analysis of the country's internal and external economic conditions, which is a major element of its transparency as a central bank and helps make its policy more credible. The financial statements confirmed by the auditor's report are an inalienable part of this document.

THE ECONOMIC AND FINANCIAL SITUATION IN RUSSIA

I

I.1. THE ECONOMIC SITUATION IN RUSSIA

The Russian economy developed well in 2004. The output of goods and services grew faster than expected and although the target set for inflation was exceeded, consumer price growth last year was lower than in 2003. Inflation slowed amid nominal gains made by the ruble against the US dollar and while the real effective rate of the ruble was rising, Russia recorded a strong balance of payments.

Higher consumer and investor demand facilitated economic growth. Growth in expenditures on final consumption and gross capital formation in 2004 was faster than in 2003 and this may point to the increased importance of growth internal factors.

Favourable external economic conditions contributed to economic growth in 2004. According to estimates, the world prices of major Russian export commodities in 2004 rose by 20% on average year on year.

Russia continued to enjoy a strong balance of payments. Its current account surplus grew significantly and reached a record level.

Russia's federal budget surplus accounted for 4.4% of GDP in 2004 as against 1.7% of GDP in 2003. The significant excess of federal budget revenue over expenditure was largely due to external economic conditions that were better than expected, the improved financial standing of Russian enterprises and the spending policy pursued by the Russian Government.

To lessen the federal budget's dependence on external economic conditions and reduce the inflationary pressure on the economy, the Russian Government created the Stabilisation Fund within the framework of the federal budget in 2004.

The good external economic conditions and world economic growth were the major factors behind the expansion of the export-oriented sectors. According to estimates, output growth in the fuel and non-ferrous metallurgy sectors accounted for more than a quarter of industrial production growth in 2004. However, this represents a decrease on 2003 when these two sectors accounted for nearly a third of industrial production growth. The role of the manufacturing sector increased in industrial growth in 2004, creating conditions for making the Russian economy less dependent on external economic conditions and maintaining sustainable economic growth.

Consumer prices rose by 11.7% in 2004 (December on December), whereas they increased by 12.0% in 2003.

The exchange rate dynamics played a major role in slowing consumer price inflation. The relatively stable nominal effective rate of the ruble contained growth in the prices of imported consumer goods and, consequently, the prices of their domestically manufactured counterparts. The effect of the exchange rate on non-food price dynamics was more significant than on food price

DYNAMICS OF CONSUMER PRICES, CORE INFLATION AND REGULATED SERVICE PRICES
(growth as % of corresponding month of previous year)

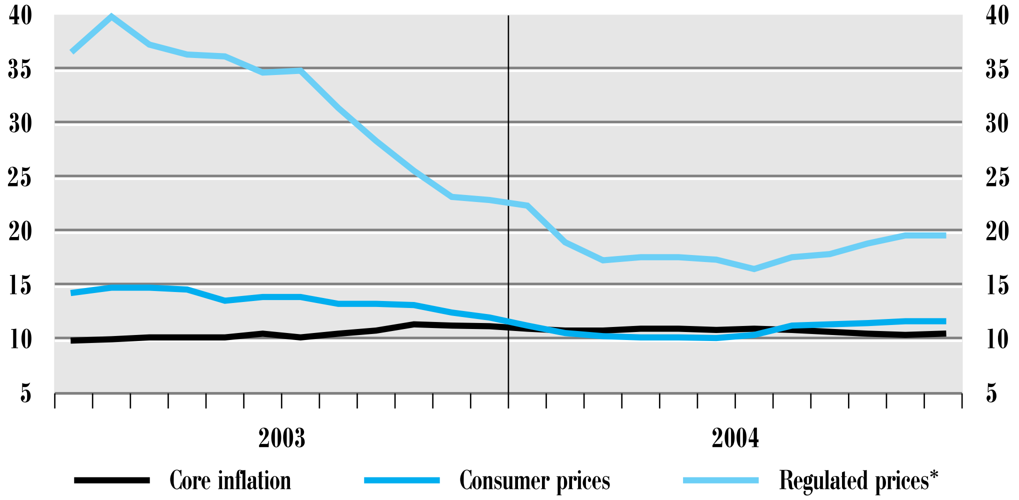


Chart 1

* Estimate.

dynamics. The budget surplus, relatively low inflationary expectations and slower growth in the prices regulated at the federal and regional levels than in 2003 also contributed to slowing consumer price growth.

The achievement of the inflation target in 2004 was made more difficult by the increased influence on consumer price growth of factors which were not connected with the monetary policy in the short term. These are, above all, the sharp rise in world energy prices and instability of some food supplies on the domestic and world markets.

Core inflation stood at 10.5% in 2004 as against 11.2% in 2003. Since foodstuffs excluding vegetables and fruit, make up a large part of the products taken into account in calculating the base consumer price index, the acceleration of growth in the prices of this group of products had an adverse effect on core inflation in 2004. Consumer prices of foodstuffs, excluding vegetables and fruit, rose by 13.1% in 2004 as against 11.8% in 2003. The most significant increase was registered in the prices for meat, poultry, bread and bakery products. Meat and poultry prices went up by 19.6%, an increase of 10.7 percentage points on the previous year. Growth in meat prices accelerated as the supply of meat on the domestic market declined and meat prices rose on the world market. Although bread and bakery product prices in 2004 increased less than in 2003 (by 16.7% as against 30.4%), growth remained high due to the poor grain harvest in Russia and Europe in 2003.

Slowing non-food price growth contributed to reduced core inflation. Over the year, non-food prices rose by 7.4% as against 9.2% in 2003.

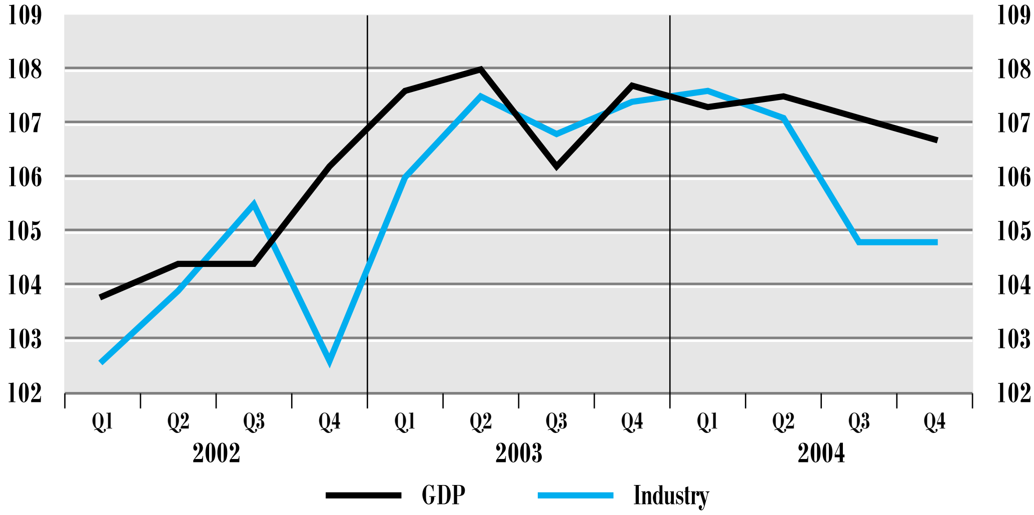
The price of petrol went up by 31.3% in 2004 as against 16.8% in 2003. Growth in world energy prices accelerated producer price growth in the oil-extracting and oil-refining industries in 2004 as compared with 2003 and, consequently, growth in the consumer price of petrol.

Although growth in service prices slowed in 2004 year on year, they continued to rise at rapid rates. Over 2004, service prices increased by 17.7% as against 22.3% in 2003. The most significant increase was registered in rental and utility prices (23.5%). Growth in passenger transport fares accelerated to 18.0% as against 13.7% in 2003 and pre-school tuition fees rose to 21.6% as against 15.1%.

Industrial producer prices rose by 28.3% in 2004 as against 13.1% in 2003. Growth in industrial producer prices was due to the increase in the world market prices of energy and other raw material products. The biggest producer price growth was registered in the ferrous metallurgy and fuel sectors (65.8% and 64.7% respectively). In the fuel sector, the most significant increase in

Chart 2

GDP AND INDUSTRIAL OUTPUT DYNAMICS
(as % of corresponding quarter of previous year)



prices was registered in the gas industry (88.5%). Producer prices in the oil-extracting industry rose by 65.4% as against 1.6% in 2003, the oil-refining industry 48.9% as against 14.8% and the coal industry 51.4% as against 10.1%.

In the machine-building, chemical and petrochemical and timber, woodworking and pulp-and-paper industries producer prices increased faster than in 2003. At the same time, producer price growth slowed down in the electric-power, non-ferrous metallurgy, building materials and light and food industries. In light industry, producer prices went up by 8.1% in 2004 as against 15.2% in 2003 and in the food industry, producer price growth slowed to 11.4% from 14.8%. Slowing producer price growth in these industries had a favourable effect on consumer price dynamics.

The **number of jobs** in the economy increased, and the unemployment rate slowed down. The number of jobless, calculated according to ILO methodology, stood at 8.2% of the economically active population in 2004 as against 8.6% in 2003.

The number of people out of work and registered with the government employment services increased in 2004, whereas the number of vacancies reported to these services by employers declined. As a result, the unemployment-vacancy ratio rose to 21 jobless per 10 vacancies in 2004 as against 19 jobless per 10 vacancies in 2003.

GDP increased by 7.1% in 2004 year on year as against 7.3% in 2003. Unlike the situation in 2003, the production of services increased more rapidly than any other component of GDP in 2004.

Industrial output grew by 6.1% in 2004. Estimates show that in 2004, as in 2003, the fuel, machine-building and food industries accounted for most of industrial production growth. The fuel sector increased output by 7.1%, and the food industry by 4.0%. Light industry was the only key industry that registered a fall in output (by 7.5%).

Production growth led to higher demand for investment goods. As a result, output grew rapidly in the machine-building and building materials industries. Production growth in machine-building stood at 11.7% in 2004, an increase of 2.3 percentage points on 2003, and output in the building materials industry increased by 5.3%.

Agricultural production was up 1.6% in 2004 as against 1.3% in 2003. Gross grain output at all categories of farms rose by 16.2% year on year, slowing growth in bread and bakery product prices on the consumer goods market.

The improved world market price situation and higher foreign and domestic demand had a positive effect on the **financial standing of Russian enterprises.**

The enterprise sector's profit (net financial result of enterprises, excluding small businesses, banks, insurance companies and budget-financed organisations) in 2004 aggregated 2,083.9 billion rubles, an increase of 52.4% on 2003. The share of loss-making enterprises contracted by 5.5 percentage points year on year to 35.8%.

The Russian enterprise sector's production profitability[1] increased from 8.5% in 2003 to 10.2% in 2004; in industry it rose from 8.7% to 11.8%. This growth was largely the result of reduced unit production and marketing costs.

Rapid growth in industry's profits was due to increased profits in the export-oriented industries, especially the oil industry and metallurgy sector, which were due not only to high world prices, but also to the pricing policies they pursued on the domestic market. The profitability of production at large and medium-sized enterprises in these sectors far surpassed the industrial average and increased to an estimated 21.0% in the oil-producing industry, 24.6% in the ferrous metallurgy sector and 23.8% in the non-ferrous metallurgy sector. At the same time, the profitability of production in industries oriented to the domestic market remained at lower levels. As a result, despite changes for the better, the financial differentiation of industry by sector persisted.

The improvement of the financial performance of large and medium-sized enterprises was accompanied by increased financial and business activity and a more effective use of funds.

The increased return on circulating assets (from 14.5% to 18.3%) was accompanied by an acceleration in their turnover. Non-payments in total receivables contracted by 5 percentage points to 16.2% in 2004. The share of bank loans and borrowings in total debt obligations increased from 39.9% to 43% in 2004.

All kinds of non-payments to creditors continued to decrease. Overdue debt obligations in total debt obligations declined by 5.8 percentage points in the period under review, to 18.9%. The enterprise sector's overdue debt on bank loans and borrowings in total loan debt contracted from 2.7% to 1.8%.

Real disposable money income increased by 8.4% in 2004 year on year. The highest-income 20% of the population last year accounted for 46.4% of total money income as against 46.2% in 2003, whereas the lowest-income 20% of the population accounted for 5.5% of total money income in 2004, as in 2003.

The number of people with an average per capita money income below the national subsistence minimum decreased from 29.3 million, or 20.3% of the total population, in 2003 to 25.5 million, or 17.8%, in 2004.

Expenses on goods and services accounted for 70.1% of household money income in 2004 as against 69.1% in 2003. Growth in real disposable money income led to increased consumer demand and this had a favourable effect on the dynamics of retail trade turnover and paid services provided to the public.

Retail trade turnover grew by 12.5% in comparable prices year on year. Foodstuffs accounted for 45.7% of retail trade turnover and non-food products 54.3% (as against 46.3% and 53.7% in 2003 respectively). Non-food trade turnover grew faster than food trade turnover. The value of paid services provided to the public in 2004 rose by 7% in comparable prices year on year.

Expenditures on final consumption in 2004 increased faster than in 2003 (9.2% as against 6.2%). At the same time, household sector expenses on final consumption rose by 11.3% as against 7.5% in 2003, whereas government sector expenditures increased by 2.3% as against 2.2% in 2003.

Russian companies demonstrated a high level of investment activity in 2004. **Growth in fixed capital investment** in 2004, as in 2003, was faster than growth in the output of goods and services. As a result, fixed capital investment increased by 10.9% year on year (as against 12.5% in 2003).

In 2004, as in the previous years, most of the fixed capital investments made by large and medium-sized enterprises went to the fuel sector, transport and the development of community amenities. The raw material sectors accounted for more than 70% of fixed capital investment in Russian industry in 2004.

Significant growth in fixed capital investment and inventories led to the expansion of gross capital formation, which increased by 13.9% in 2004 year on year (as against 13.2% in 2003).

As real imports grew faster than real exports, **net exports** in 2004 decreased by 9.3% in real terms.

Positive trends continued in the **external economic situation** in 2004. Accelerated world eco-

[1] *Production profitability has been calculated on the basis of Rosstat data as the ratio of enterprises' financial result to earnings from sale of goods, products, work and services.*

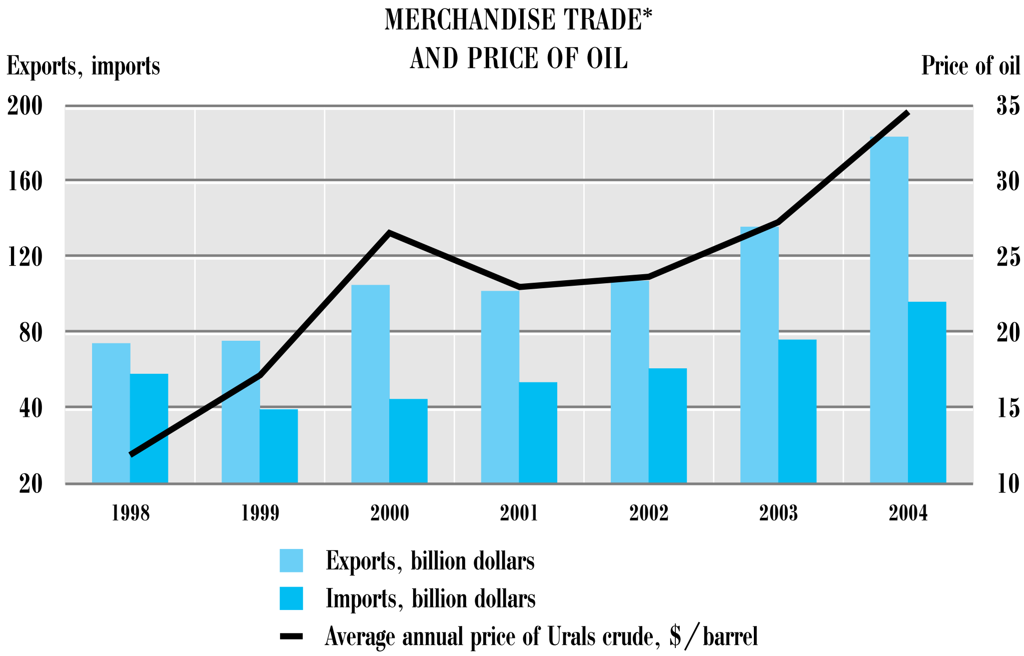


Chart 3

* Balance of payments data.

nomic growth, greater international trade, the favourable price situation on world commodity markets for Russian exporters and increased demand for Russian goods led to the further improvement of the country's balance of payments. It was characterised by significant growth in the current account surplus and foreign exchange reserves and a massive inflow of foreign capital to the private sector. The current account surplus increased by 70% in 2004 as against 20% in 2003 and accounted for an estimated 10.3% of GDP as against 8.2% of GDP in 2003. The capital and financial account deficit (measured without taking into account the change in reserves) accounted for an estimated 1.5% of GDP as against 0.2% of GDP in 2003.

Foreign exchange mainly flowed into the country through exports of goods and services. Export growth was due to not only the significant increase in prices, but also the considerable growth in Russian commodity deliveries to foreign markets. The value of energy exports (oil, petroleum products and natural gas) in 2004 rose by 36.2% year on year (in 2003 it increased by 31.0%). At the same time, the value of oil exports grew by 49.4% (as against 36.3% in 2003). Growth in the value of exports of other products also accelerated, from 21.9% in 2003 to 33.5% in 2004. Despite the significant expansion of the share of oil in exports of goods (from 29.2% in 2003 to 32.3% in 2004), the share of major energy products in exports grew slightly in 2004 due to the contraction of the share of natural gas. As for other products, the most significant increase was registered in the value of metal exports.

Importers' demand for foreign exchange was high on the domestic foreign exchange market. The import of services accelerated in 2004, while the import of goods grew slightly year on year largely due to higher import volumes. Growth in the value of engineering imports, which account for the largest part of investment goods imports, accelerated in 2004. Imports of goods and services grew more slowly than exports, and the increase in import prices was smaller than the increase in export prices. The terms of Russia's trade with foreign countries continued to improve.

The supply of foreign exchange on the domestic foreign exchange market exceeded by far economic agents' demand for it and this led to significant growth in foreign exchange reserves. Over 2004, Russia's international reserves increased by 60% year on year.

Foreign trade remained a major source of federal budget revenue in 2004. As a result of high energy prices and greater export volumes, tax revenues from foreign trade almost doubled in 2004.

I.2. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

Budgetary policy in 2004 was designed to ensure economic growth, raise living standards, implement the budget reform to achieve maximum efficiency in managing government finance, alleviate further the tax burden, limit growth in non-interest expenditures to rates not exceeding economic growth, establish the Stabilisation Fund and prepare the separation on a long-term basis, beginning from 2005, of the revenue sources and expenditure obligations between the different levels of the Russian budget system.

The continued positive dynamics of key macroeconomic indicators in 2004, the favourable foreign trade situation, the higher real price of Urals crude than the price used in calculating the federal budget indicators for 2004 and the improvement of tax administration made it possible to exceed the federal budget revenue and federal budget surplus targets set in the 2004 Federal Budget Law.

According to Finance Ministry preliminary data, federal budget revenue aggregated 3,426.3 billion rubles in 2004. The ratio of federal budget revenue to GDP increased by 0.8 percentage points year on year to 20.4%.

Federal budget expenditure totalled 2,695.6 billion rubles, or 16.1% of GDP as against 17.9% of GDP in 2003. Of this, non-interest expenditures amounted to 2,490.8 billion rubles, or 14.8% of GDP as against 16.2% of GDP in 2003. The federal budget surplus stood at 730.7 billion rubles, or 4.4% of GDP as against 1.7% of GDP in 2003.

The significant excess of the average price of Urals crude over the basic price and over the price used in calculating 2004 federal budget indicators allowed the Government to form a Stabilisation Fund of 522.3 billion rubles at the beginning of 2005.

FEDERAL BUDGET EXPENDITURE IN 2004 (%)

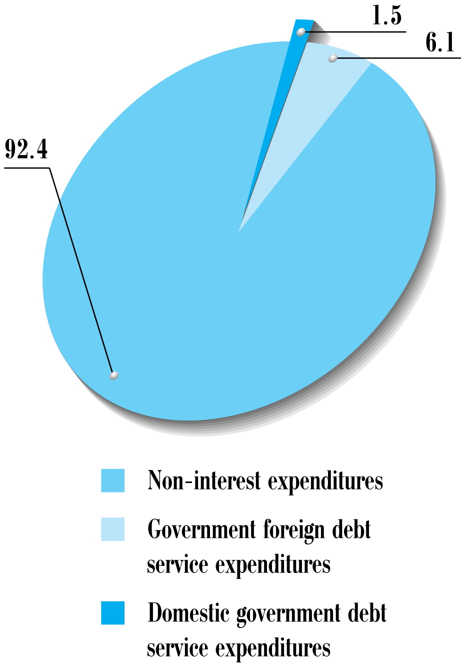
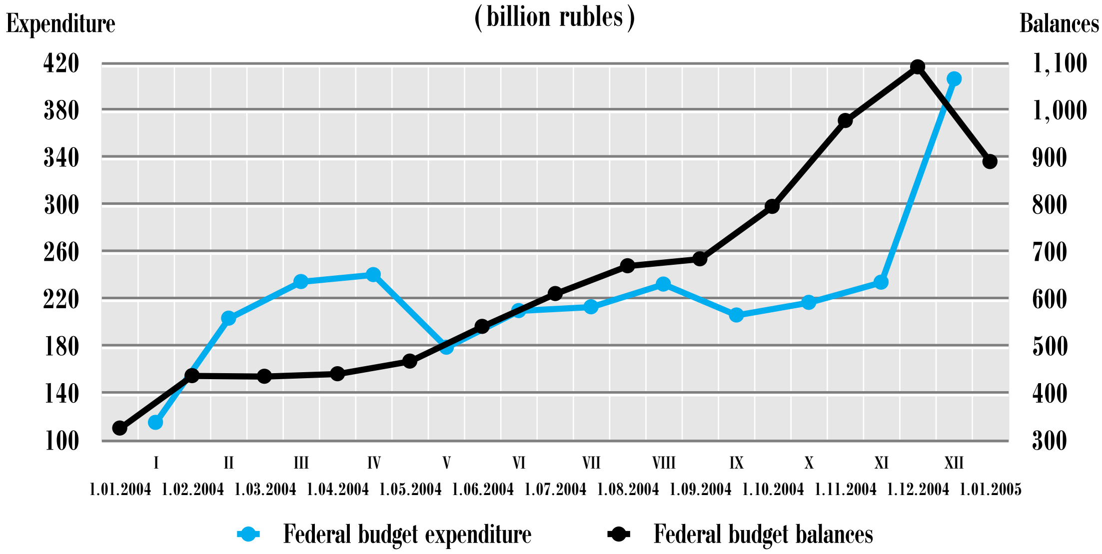


Chart 4

Chart 5

FEDERAL BUDGET EXPENDITURE AND BALANCES OF FEDERAL BUDGET ACCOUNTS OPENED WITH THE BANK OF RUSSIA IN RUBLES IN 2004
(billion rubles)



Over 2004, the balances of ruble-denominated federal budget accounts with the Bank of Russia, including the Stabilisation Fund accounts, increased by 3.5 times and at the end of the year stood at 843.1 billion rubles.

According to Finance Ministry data, consolidated federal budget revenue in 2004 amounted to 5,427.3 billion rubles, or 32.3% of GDP, expenditure 4,665.4 billion rubles, or 27.8% of GDP, and the surplus 761.9 billion rubles, or 4.5% of GDP, of which the consolidated budget revenues and expenditures of the constituent territories of the Russian Federation aggregated 2,403.2 billion rubles and 2,372.0 billion rubles respectively, and the surplus amounted to 31.2 billion rubles.

According to preliminary data, the revenues and expenditures of the Pension Fund in 2004 stood at 1,015.8 billion rubles and 967.5 billion rubles respectively, the Social Insurance Fund at 159.3 billion rubles and 140.6 billion rubles, and the Federal Compulsory Health Insurance Fund at 6.81 billion rubles and 6.76 billion rubles.

According to Finance Ministry data, Russia's domestic government debt increased by 96.4 billion rubles, or 14.1%, over the year and stood at 778.5 billion rubles (the upper limit set for it by the 2004 Federal Budget Law was 988.1 billion rubles). The ratio of Russia's domestic government debt to GDP stood at 4.6% as of January 1, 2005, as against 5.2% as of January 1, 2004.

The structure of Russia's domestic government debt changed significantly in 2004. The share of outstanding government securities on the organised securities market increased considerably (from 46.1% to 71.6%) due to the restructuring under Article 113 of the 2004 Federal Budget Law of permanent and variable coupon-income federal loan bonds and debt depreciation federal loan bonds with a total nominal value of 51.9 billion rubles into new issues of permanent coupon-income federal loan bonds and debt depreciation bonds and the issue by the Finance Ministry of debt depreciation and fixed coupon-income federal loan bonds in accordance with Russian Federation Government Resolution No. 122-r, dated January 23, 2004. The value of fixed coupon-income federal loan bonds decreased by 28.1 billion rubles to 171.2 billion rubles, permanent coupon-income federal loan bonds by 7.2 billion rubles to 43.3 billion rubles and variable coupon-income federal loan bonds by 24.1 billion rubles to 1 million rubles.

In 2004, the Finance Ministry redeemed the entire amount (11.5 billion rubles) of non-marketable government loan bonds and as of January 1, 2005, there were no non-marketable government loan bonds in Russia's domestic government debt.

The value of short-term government bonds decreased by 2.7 billion rubles over the year and as of January 1, 2005, stood at 20 million rubles.

The share of the Finance Ministry's debt to the Bank of Russia in Russia's domestic government debt contracted by 6.1 percentage points to 38.5% in 2004. The Finance Ministry's ruble-denominated debt to the Bank of Russia decreased by 5.1 billion rubles, or 1.7%, to 299.4 billion rubles (at par) as of January 1, 2005, mainly due to the redemption of 3.8 billion rubles of Finance Ministry promissory notes and Bank of Russia securities sales with a commitment of reverse repurchase and direct securities sales on the open market in line with the state monetary policy.

The nominal value of Finance Ministry's debt to the Bank of Russia on federal loan bonds stood at 295.1 billion rubles, of which 67.1% have zero coupon income and 88.4% are due in 2018—2029.

In pursuance of Article 111 of the 2004 Federal Budget Law, the Finance Ministry bought from the Bank of Russia the RSFSR state republic internal loan bonds of the 1991 issue.

The Finance Ministry's foreign currency-denominated debt to the Bank of Russia, including the debt on the funds transferred to Vnesheconombank in 1998—1999 under Federal Law No. 192-FZ, dated December 29, 1998, "On Budget and Fiscal Policy Priorities," and Federal Law No. 36-FZ, dated February 22, 1999, "On the 1999 Federal Budget" for the effectuation of urgent payments to redeem and service the Russian Government's foreign debt, is considered part of the Russian Government's foreign debt under Russian legislation.

I.3. THE FINANCIAL SECTOR

As of the end of 2004, the institutions of financial intermediation comprised 1,299 operating credit institutions, 1,280 registered insurance companies, 241 unit investment funds and 295 non-governmental pension funds. The ratio of credit institutions' capital to GDP in 2004 stood at 5.6% as against 6.2% in 2003, insurance companies' capital 0.8% as against 0.6%, non-governmental pension funds' own property 1.0% as against 0.9% and unit investment funds' net assets 0.6% (unchanged from 2003).

A major internal factor of financial sector development in 2004 was increased competition among the financial intermediaries. Although credit institutions continued to play a leading role in financial intermediation, some segments of the financial market registered a rise in competition from non-bank financial institutions, especially in a bid to attract savings from the highest-income population groups. The total volume of the financial market, including the capitalisation of the stock market, non-financial sector debt on bank loans and the market portfolio of government and corporate bonds, expanded at rates comparable with GDP growth rates in 2004.

The value of bank loans extended to the non-financial enterprise and household sectors and corporate debt instruments increased in 2004, while growth in stock market capitalisation, which has been a major factor of the overall growth of the Russian financial market in the past few years, slowed down. The volumes of outstanding instruments in the government securities segment of the market expanded entirely due to growth in ruble bond volumes, while the role of foreign currency instruments declined.

Trade volumes continued to expand in all segments of the financial market in 2004. The foreign exchange market remained the principal sector of the money market in terms of turnover and influence on the overall financial market situation. Differences in the dynamics of major sectors of the corporate securities market remained in 2004. The corporate bond market continued to grow faster than other segments of the financial market, and the stock market demonstrated weak and uneven growth.

The dynamics of the key financial sector's price indicators had a significant effect on the performance of all financial intermediaries. Interest rates and yields on financial instruments mostly declined.

The average annual effective GKO—OFZ market portfolio indicator dropped from 8.7% p.a. in 2003 to 7.6% p.a. in 2004. The average annual interest rate on the ruble-denominated promissory notes discounted by banks fell by 1.4 percentage points to 12.1% p.a. Interbank interest rates remained lower than interest rates on other segments of the financial market. The average rate on ruble-denominated interbank

INTEREST RATES ON RUBLE OPERATIONS (% p.a.)

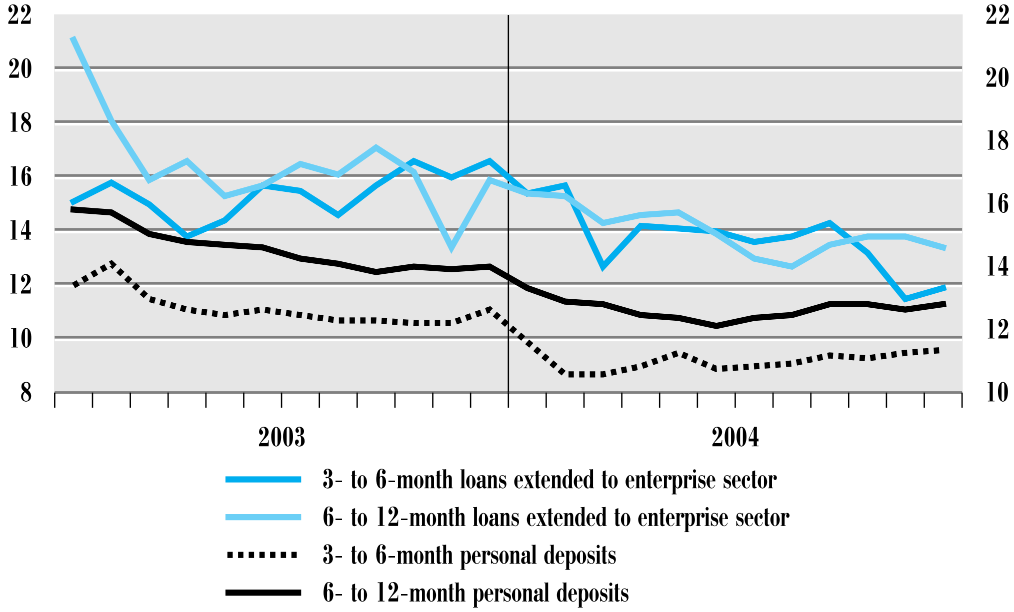


Chart 6

INTEREST MARGIN ON BANKS' LENDING AND DEPOSIT OPERATIONS WITH NON-FINANCIAL CUSTOMERS WITH DIFFERENT TERMS IN 2003 AND 2004 (annual average in percentage points)

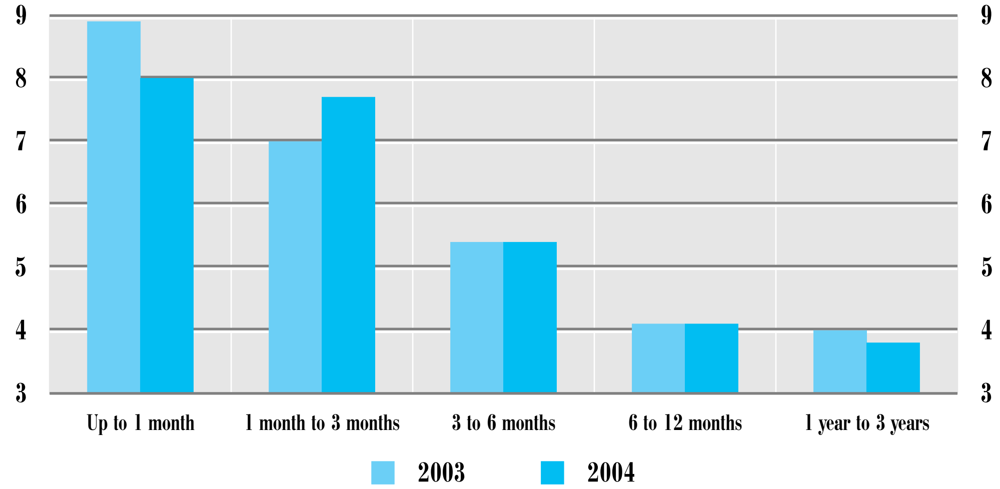


Chart 7

loans for all terms stood at 3.8% p.a. in 2004 as against 4.2% p.a. in 2003.

Bank loans became more affordable for the non-financial enterprise and household sectors in 2004 due to lower interest rates. The average annual interest rate on ruble loans extended to the enterprise sector for all terms declined to 11.5% p.a. as against 13.1% p.a. in 2003. The most significant reduction was registered in long-term interest rates, which declined from 15.3% p.a. in January to 10.8% p.a. in December 2004.

Interest rates on household loans remained higher than interest rates on loans to the enterprise sector due to the higher costs of retail operations and inadequate competition. Nevertheless, the average annual interest rate on loans extended to the household sector for all terms also fell in 2004, to 19.5% p.a. from 21.1% p.a. in 2003. Consumer credit continued to grow despite the relatively high cost of borrowing and it grew faster than other lending operations.

The fall in interest rates on loans was accompanied by a reduction in the cost of resources raised by banks. The average annual interest rate on ruble-denominated personal time deposits declined from 11.1% in 2003 to 9.0% in 2004. There was not enough competition in the banking sector for the reduction of the interest margin, which did not change much from the previous year as a result. The lowest average annual interest margin on operations with non-financial customers was registered in the 1- to 3-year maturity period (3.8 percentage points). This was the result of the accelerated reduction of interest rates on long-term loans. As before, the interest margin on operations with the household sector in 2004 was higher than the interest margin on operations with the enterprise sector.

Interest rates on operations conducted by Moscow-based banks had the decisive effect on the country's average interest rates. Interest rates on bank operations in other regions were higher, as a rule. The regional differentiation of the loan market is the result of inadequate competition on the regional banking services market and different levels of credit risk due to the different economic development dynamics of the Russian regions.

I.3.1. CREDIT INSTITUTIONS

Credit institutions remain the principal financial intermediaries as their operation volumes exceed by far those of the insurance and finance companies and collective investment institutions.

Credit institutions expanded the scale of financial intermediation in 2004. As of January 1, 2005, bank loans to the Russian non-financial enterprise sector accounted for 18.8% of GDP as against 17.2% a year earlier, household deposits accounted for 11.7% as against 11.5% and funds attracted from the enterprise sector 11.8% as against 10.5%. At the same time, some banking sector growth indicators in 2004 were smaller than in 2003. Aggregate banking sector assets expanded by 27.4% over the year as against 35.1% in 2003. As a result, the ratio of banking sector assets to GDP was virtually unchanged from the previous year at 42.5%. The ratio of banking sector own funds (capital) to GDP contracted slightly, from 6.2% as of January 1, 2004, to 5.6% as of January 1, 2005.

There were several reasons for the slowing of banking sector growth in 2004. One was the gradual escalation of international competition for Russian customers among credit institutions registered in Russia and abroad. Russian enterprises, especially large companies, have been borrowing more and using more banking services in foreign banks.

The efforts made by the Bank of Russia to prevent bank capital creation with improper assets, which put up a serious obstacle to the use of fictitious capitalisation schemes, represented another factor in the slowing of banking sector capital growth.

The dynamics of banking sector indicators were also seriously affected by the "crisis of confidence" in the spring and summer of 2004. In May 2004, the Bank of Russia revoked the banking licence of Sodbiznesbank. For the first time, one of the reasons for the licence's revocation was the bank's failure to comply with the law on countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism. After that, many banks made the necessary changes in their risk evaluation systems, reducing and sometimes closing their mutual credit limits on the interbank market.

These developments provoked alarming media reports. The deposit insurance system had not yet been established and depositors were justifiably concerned about their deposits. The situation was compounded by the use of such methods of unfair competition as the dissemination of false black lists of banks and mentioning known banks in a negative context. As a result, the level of mutual confidence between banks and the level of depositor confidence in the banks declined dramatically.

These developments were accompanied by an absolute reduction in banks' free ruble liquidity and marked growth in their foreign assets, which was the result of the change of the ruble/dollar exchange rate trend. While ruble liquidity contracted, interbank lending rates soared.

As a result of the combination of all these developments and factors, the interbank market shrank in May—July 2004. Interbank lending volumes on the domestic market contracted by 12.2% in May and 13.3% in June. Many banks preferred to stop extending interbank loans altogether to be able to accumulate additional liquidity.

At the same time, some banks experienced a run on deposits. Several Moscow-based banks began to experience it in June. Excluding Sberbank and Vneshtorgbank, net outflow of deposits (outflow minus inflow) amounted to 5.2 billion rubles in June and 18.1 billion rubles in July. The adversity spread to regional banks in July when the outflow of deposits from these banks amounted to 6.3 billion rubles. The situation came to a head early in July when Guta-bank, which had branches in many regions, stopped making payments.

The following measures were taken to stabilise the situation.

On June 15, the Bank of Russia set a single required reserve ratio of 7% and on July 8, it lowered it to 3.5%. This gave the banking sector additional liquidity: the value of required reserves deposited with the Bank of Russia declined by 118.6 billion rubles, or almost by half, in July.

To boost depositor confidence in the banking system Parliament urgently drafted and passed the Federal Law “On Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System,” which applies to depositors of the banks that are not part of the deposit insurance system and had their licence revoked after the Deposit Insurance Law came into force, i.e., after December 27, 2003.

Vneshtorgbank decided to acquire Guta-bank, assuming the obligation of restoring its solvency. At the same time, the Bank of Russia deposited $700 million with Vneshtorgbank.

As a result of the implementation of these measures, the “crisis of confidence” was overcome. In August, the interbank market began to recover and the flow of personal deposits to banks resumed.

Despite the adverse developments of the spring and summer of 2004, the banking sector continued to move forward.

The level of capital and asset consolidation in large banks has remained virtually unchanged in the past few years. The top 200 banks in terms of assets accounted for 89.0% of aggregate banking sector assets as of January 1, 2005, as against 88.0% as of January 1, 2004. At the same time, the number of credit institutions with a capital of more than 5 million euros continued to increase. By the beginning of 2005, there were 501 of them, or 38.6% of the total number of operating credit institutions (as against 462 and 34.8% respectively as of January 1, 2004). At the same time, these banks accounted for 94.0% of aggregate banking sector capital.

The regions’ saturation with banking services in 2004 was virtually the same as in 2003. Not counting the Central Federal District, where more than half of Russia’s operating credit institutions are registered, the Northwestern Federal District has the highest banking service saturation ratio. The Volga Federal District also has a higher saturation ratio than the national average[1]. The lowest saturation ratio is registered in the Siberian Federal District, although the gap between it and the Southern, Ural and Far Eastern Federal Districts became minimal in 2004.

STRUCTURE OF BANKING SECTOR LIABILITIES. Unlike the situation in the past few years, the principal source of the expansion of the resource base of credit institutions in 2004 was enterprise sector funds[2], which accounted for more than 39.1% of total growth in banking sector liabilities. Over the past year, the value of funds attracted from the enterprise sector increased by 43.4% as against 26.9% in 2003 and as of January 1, 2005, it stood at 1,986.1 billion rubles. Growth in the value of attracted enterprise sector funds was registered by 86.2% of operating credit institutions and the share of this source in banking sector liabilities expanded from 24.7% to 27.8%. The value of corporate deposits rose by 80% and settlement, current and other accounts by 30.1%, while their share in banking sector liabilities increased from 5.6% to 7.9% and from 17.5% to 17.8% respectively. At the same time, short-term resources (balances of settlement and current accounts) continued to account for the largest part of funds attracted from the enterprise sector (64.1%).

Personal deposits in banks continued to increase, although at a slower pace, accounting for 29.3% of growth in banking sector liabilities. Total personal deposits increased by 29.7% in 2004 as against 47.1% in 2003 and aggregated 1,964 billion rubles. Personal deposits grew by 68.4% of operating credit institutions in 2004 as against 74.3% in 2003 and as of January 1, 2005, they accounted for 27.5% of banking sector liabilities.

At the same time, the terms of household deposits were getting longer. Personal deposits with terms longer than one year increased by 70% and their share in total deposits expanded from 43.7% as of January 1, 2004, to 57.6% as of January 1, 2005. Personal deposits with terms longer than one year accounted for 15.8% of banking sector liabilities as of January 1, 2005, as against 11.8% as of January 1, 2004.

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[1] *The average saturation of Russian regions with banking services was determined for this calculation without taking account of credit institutions based in Moscow and the Moscow region.*

[2] *Credit institutions excluded.*

STRUCTURE OF BANKING SECTOR LIABILITIES (%)

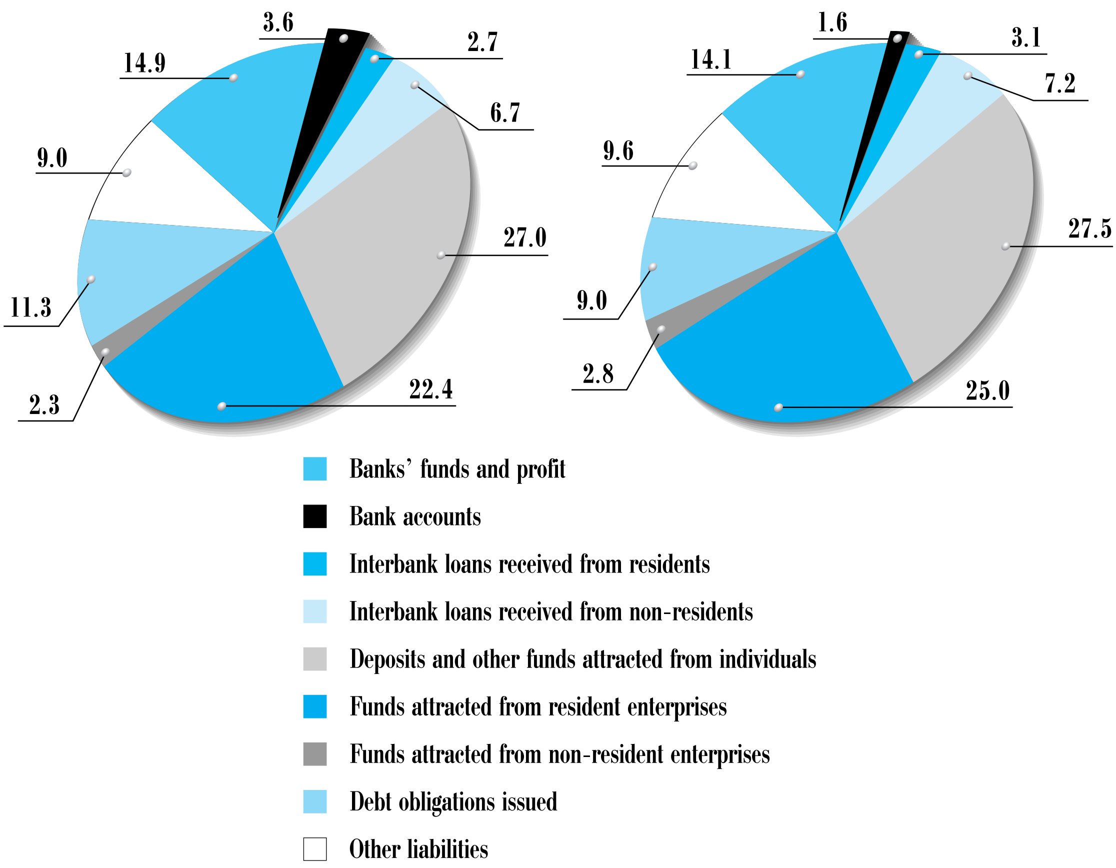


Chart 8

As a result of increased public confidence in the national currency, ruble-denominated personal deposits grew faster than foreign currency deposits for the second straight year. In 2004, the share of ruble deposits expanded from 69.4% to 73.6% of total personal deposit accounts. Sberbank increased the value of ruble deposits by 27.0%, while other banks by 64.2%. The ruble component of personal deposits expanded from 78.3% to 80.5% in Sberbank and from 53.9% to 63.2% in other banks. As a result of the establishment of the deposit insurance system and the increased competition for depositors' funds, Sberbank's share of the retail banking market contracted from 63.3% as of January 1, 2004, to 60.3% as of January 1, 2005.

The value of funds raised by credit institutions by issuing debt obligations increased by a lowly 1.5% in 2004 as against 40.8% in 2003 and as of January 1, 2005, it stood at 644.2 billion rubles. This source of funds accounted for 9.0% of banking sector liabilities against 11.3% as of January 1, 2004. At the same time, almost 38.0% of debt obligations were issued by banks for terms longer than one year.

The slowing of growth in debt obligations issued by banks was due to the volatility of the demand for them. In the middle of the year, for example, the fall in the demand for bank promissory notes was caused by lower yields on promissory note operations. As a result, the value of bank promissory notes increased by 8.6% last year as against 25.1% in 2003. Nevertheless, promissory notes continued to account for the largest part of bank debt obligations (78.6% as of January 1, 2005).

The value of certificates of deposit decreased by 33.0% in 2004. Certificates of deposit were an alternative to bank promissory notes when banks exceeded the N13 ratio, which set a limit on the issue of promissory notes, and banks actively used them as a source of funds in 2003, when their value increased by 120%. However, after the Bank of Russia issued Instruction No. 110-I, dated January 16, 2004, "On Banks' Required Ratios," which cancelled the N13 ratio, certificates of deposit became far less attractive. However, some banks continue to use them to raise funds, mostly on a long-term basis (certificates of deposit with terms longer than one year accounted for 51.6% of their total value as of January 1, 2005).

Although other debt instruments, such as bonds and savings certificates, still account for a very small part of banking sector liabilities (0.5% as of January 1, 2005, as against 0.3% as of January 1, 2004), the trend towards growth in their issue is becoming more noticeable (each of the two banking products grew by 2.2 times over the year).

Credit institutions actively raised funds on the interbank market in 2004. Over the year, the value of loans, deposits and other funds received by banks from other banks rose by 40.3% to 737.1 billion rubles and this source of funds accounted for 10.3% of banking sector liabilities as of January 1, 2005, as against 9.4% as of January 1, 2004. The value of loans and deposits attracted on the domestic interbank market increased by 49.8% and the value of loans and deposits attracted from non-resident banks grew by 36.6%. Obligations on loans with terms longer than one year accounted for 58.3% of obligations on loans taken from non-resident banks.

The tenor of the funds raised by credit institutions continued to increase in 2004. The aggregate share of the major components of the funds raised for terms longer than one year (deposits and other funds borrowed from individuals and corporate entities, banks' long-term obligations and loans and deposits attracted on interbank markets) expanded from 21.4% of banking sector liabilities as of January 1, 2004, to 27.2% as of January 1, 2005.

At the same time, the banking sector's long-term resource base does not yet meet completely the needs of dynamic growth in long-term bank lending to the non-financial sector and the task of large-scale modernisation of the enterprise sector's fixed assets.

STRUCTURE OF BANKING SECTOR ASSETS. Increased bank lending to the real economy was a major factor of growth in banking sector assets in 2004. In the past year, loans extended by banks to the non-financial enterprise sector increased by 39.0% as against 42.4% in 2003 and as of January 1, 2005, they were valued at 3,149.9 billion rubles. These loans accounted for 44.1% of banking sector assets as against 40.5% a year earlier. Of the total number of operating credit institutions, 70.1% increased lending to the non-financial enterprise sector and of the total value of loans extended to this sector, 72.4% were extended in rubles.

Loans with terms longer than one year increased by 44.7% and accounted for 39.5% of total loans to the Russian non-financial enterprise sector as against 37.9% a year earlier.

Data on growth in loan debt by sector show that this debt rose by 70% in agriculture, 50% in the construction sector and 40% in transport and communications.

The same factors determined positive dynamics of lending to the non-financial enterprise sector in 2004 as in 2003. On the one hand, there was the sector's sustained high demand for loans, on the other hand, there was growth in the supply of bank loans, which was due to the increase in the funds raised by credit institutions for a specified term, including terms longer than one year.

The repeated cuts made by the Bank of Russia in the refinancing rate (from 16% to 13%) and the reduction of the reserves credit institutions were required to deposit with the Bank of Russia led to a fall in the cost of funds raised by banks, allowing credit institutions to reduce the price of bank loans and make them affordable to a broader range of borrowers.

Lending to resident individuals continued to expand rapidly in 2004. The value of these loans in 2004, as in 2003, rose by 110% to 616.5 billion rubles as of January 1, 2005. It is highly significant that 85.2% of these loans were extended in rubles. Lending to the household sector is becoming an important area of banking: loans extended to individuals accounted for 8.6% of banking sector assets in 2004 as against 5.3% in 2003 and 13.8% of total bank loans as against 9.8% a year earlier.

STRUCTURE OF BANKING SECTOR ASSETS (%)

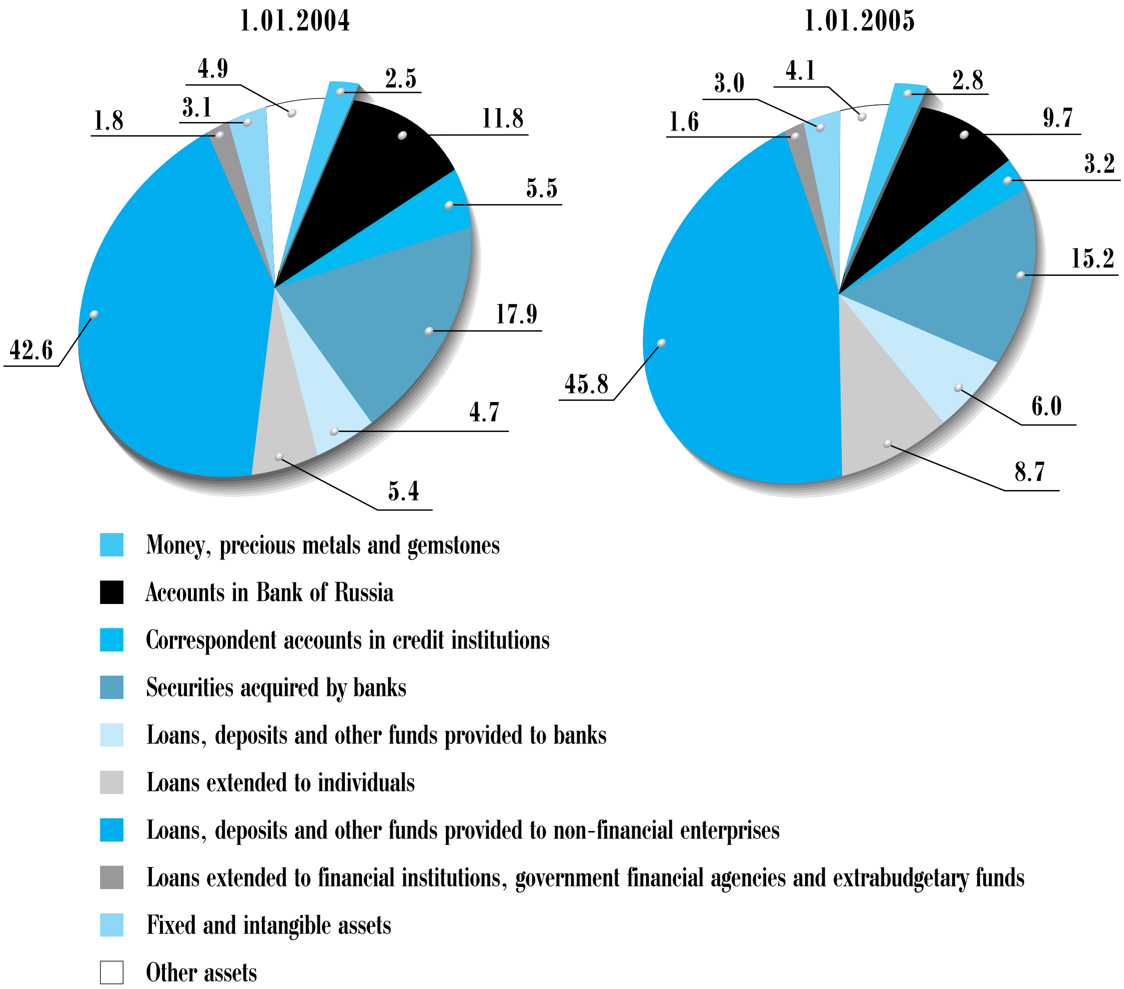


Chart 9

The value of claims on interbank loans, deposits and other placements with the banking sector as a whole increased by 61.5% over the year and they accounted for 6.0% of banking sector assets as against 4.7% a year earlier. The value of loans extended on the domestic interbank market rose by 60.7% and these loans accounted for 3.2% of banking sector assets as of January 1, 2005, as against 2.6% as of the beginning of 2004. The value of loans extended to non-resident banks grew by 62.4% and they accounted for 2.7% of banking sector assets as against 2.2% a year earlier.

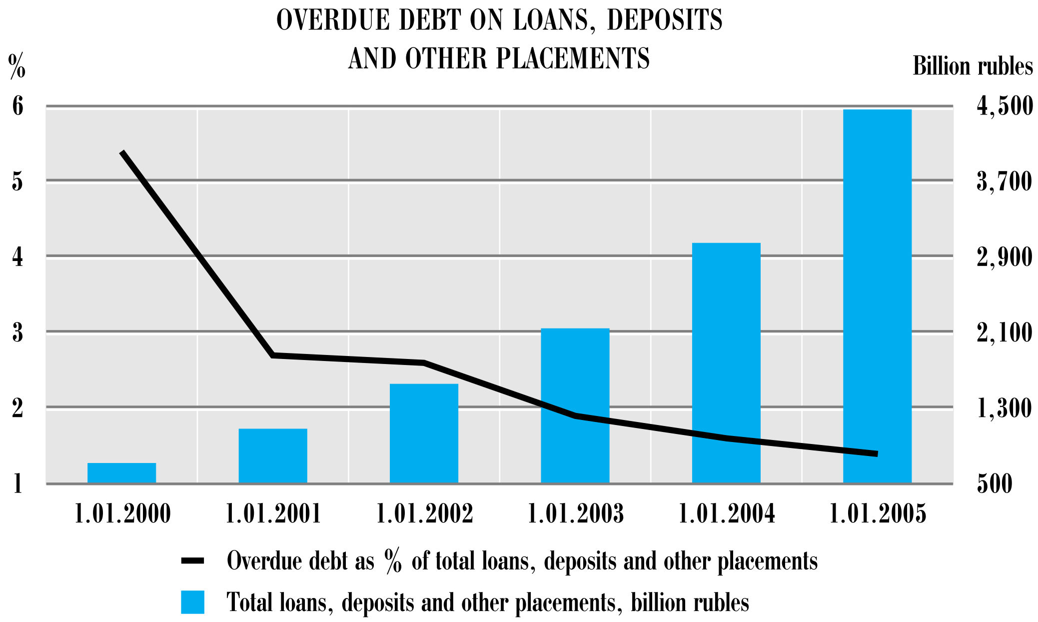
According to banks' data, the quality of the loan portfolio remained fairly good in 2004: the quantitative characteristics of overdue loan debt and loan loss provisions allow one to evaluate banking sector credit risk as moderate.

Overdue debt accounted for 1.4% of total loans in 2004 as against 1.6% in 2003. At the same time, as loans extended to individuals grew rapidly, the risk involved in these operations increased: overdue debt on this kind of loans increased by 2.5 times over the year to 1.4% of total loans as of January 1, 2005, as against 1.1% a year earlier.

As of January 1, 2005, the actual loan loss provisions covered 5.3% of loan debt as the aggregate share of problem and bad loans stood at 3.8%.

Bank investments in securities increased by 8.4% in 2004 and as of January 1, 2005, they stood at 1,086.9 billion rubles. At the same time, the securities portfolio expanded slower last year than other active operations, especially lending. As a result, investments in securities accounted

Chart 10



for 15.2% of banking sector assets as against 17.9% a year earlier.

The share of debt obligations in banks' securities portfolios expanded from 62.4% to 69.2% in 2004, but in banking sector assets it contracted slightly (from 11.2% to 10.5%). Investments in federal government securities accounted for almost 58% of total investments in debt obligations as against 71.5% as of January 1, 2004. Over 2004, the value of federal government debt obligations decreased by 2.6% and their share in banking sector assets contracted from 8.0% to 6.1%.

At the same time, last year saw banks step up their activity in conducting operations with corporate securities: investments in resident corporate debt instruments increased by 83% in value to 108.0 billion rubles and their share in banking sector assets expanded from 1.1% to 1.5%.

Investments in stocks and shares rose by 21.7% in 2004 to 140.9 billion rubles, although they accounted for a meagre 2.0% of banking sector assets as of January 1, 2005, as against 2.1% as of the beginning of 2004. At the same time, investments in Russian non-financial enterprise sector stocks accounted for 68.0% of total investments.

There was a significant decline in investment in promissory notes, whose share in banking sector assets contracted from 4.7% as of January 1, 2004, to 2.7% as of January 1, 2005. The value of promissory notes discounted by banks fell 26.0% over the year to 193.4 billion rubles. Enterprise sector promissory notes accounted for 46.8% of the discounted promissory note portfolio, bank promissory notes 49.2% and non-resident promissory notes, excluding bank promissory notes, 3.2%. The reduction of investment in promissory notes was particularly noticeable in large banks in the third quarter of 2004 due to the September fall in promissory note market yields.

By and large, the dynamics of banks' active operations and the changes in their structure testify to the diversification of the factors that shape the risk profile of the banking sector. From 2000 up to 2003, it is currency risk that accounted for most of the aggregate value of market risk, whereas as of the beginning of 2004 stock market risk accounted for the largest part (40.3%) of market risk and as of January 1, 2005, interest risk prevailed for the first time ever (in December its share expanded from 33.9% to 41.8%).

At the same time, the evaluations of the Russian banking sector's financial stability and its vulnerability to the changes in the main risk factors conducted by stress testing and other methods show that credit risk remains the principal factor of potential capital loss. One reason for this situation is the expansion of the banking business, especially lending operations. In addition, banking sector stability is still affected by risks created by the shortage of long-term resources and the conversion of short-term liabilities into long-term investments.

FINANCIAL CONDITION OF CREDIT INSTITUTIONS. The financial situation of credit institutions remained largely stable in 2004. The minor slowing of growth in banking sector assets had no negative effect on the dynamics of credit institutions' return and profitability.

Banking sector profit continued to increase rapidly in 2004: over the year, it grew by 38.6% as against 38.1% in 2003. As of January 1, 2005, operating credit institutions made a profit of 177.9 billion rubles and their profit including previous years' financial result aggregated 199.4 billion rubles as against 128.4 billion rubles and 114.7 billion rubles respectively as of January 1, 2004. For the first time since the 1998 crisis, profit comprising the financial result of the past few years exceeded current profit, mainly because credit institutions had finally covered the losses they incurred during the crises.

Profit-making credit institutions accounted for 98.2% of all operating credit institutions as against 96.6% in 2003. The number of loss-making credit institutions declined from 41 to 22 over the year, or from 3.1% to 1.7% of the total number of operating credit institutions, while the latter's losses decreased to 551 million rubles in 2004, whereas as of January 1, 2004, they amounted to 5.0 billion rubles.

Banking sector profitability indicators have been quite good in the past four years and return on capital in the banking sector continues to exceed return on capital in the economy as a whole. Return on banking sector assets increased from 2.6% in 2003 to 2.9% in 2004 and return on banking sector capital grew from 17.8% to 20.3% respectively[1].

The banking sector income structure was largely determined by the continued expansion of credit investment, increased attractiveness of foreign exchange operations and reduced yields on the securities market instruments.

The basis of net income[2] is net interest income, which accounted for 62.3% of net income in 2004 as against 55.6% in 2003.

The dollar's gains in spring and summer 2004 and growth in imports led to more bank operations with foreign exchange and foreign currency values and a corresponding increase in incomes from these operations. As a result, the share of net income from operations with foreign exchange and foreign currency values (including exchange rate differences) in total banking sector income increased by almost 2.7 times over the year to 4.9% as against 1.8% in 2003.

Net commission incomes continued to grow in 2004 and their share of net income expanded from 19.0% as of January 1, 2004, to 22.6% as of January 1, 2005.

At the same time, 2004 saw a sharp fall in net incomes from the sale and purchase and revaluation of securities, which was largely the result of the reduction of credit institutions' investments in federal government debt obligations. Incomes from operations with securities were also affected by the significant decline in the prices of securities in the second quarter of 2004 and their corresponding negative revaluation after a long period of growth in Russian stock prices. As a result, net income from operations with securities accounted for 16.0% of total net income as of July 1, 2004, as against 34.6% as of April 1, 2004. Subsequently, it continued to fall and as of January 1, 2005 registered 12.5%.

An analysis of the key bank financial performance indicators in 2004 shows the Russian banking sector's stability. As of January 1, 2005, the number of credit institutions without any shortcomings in their performance (Group 1) rose to 352 from 297 as of January 1, 2004. Over that period, the number of credit institutions with few shortcomings in their performance (Group 2) fell from 982 to 904. Overall, financially sound credit

[1] *Return on assets has been calculated as the ratio of the full-year financial result before taxation to banking sector assets and return on capital as the ratio of the full-year financial result to banking sector capital. Assets and capital have been calculated as annual averages (chronological averages) for the reporting period.*

[2] *Net income is the financial result before the creation (recovery) of reserves and is calculated without taking account of operating and administrative expenses. It is calculated in compliance with the Profit and Loss Statement of Credit Institutions (Form 0409102).*

institutions (Group 1 and 2) accounted for 96.7% of total credit institutions, while the share of problem banks (Group 3 and 4) contracted to 3.2% over the year from 3.5% as of January 1, 2004.

Financially sound credit institutions accounted for 99.3% of aggregate banking sector assets as the share of flawless credit institutions (Group 1) increased significantly (from 6.7% to 14.0%, Sberbank excluded). The funds raised by credit institutions were almost entirely placed with financially sound banks against the backdrop of an increased share of flawless banks (Group 1) in total placements.

As of January 1, 2005, banking sector own funds (capital) aggregated 946.6 billion rubles. There was a significant slowdown in the rate of growth in banking sector own funds (capital) in 2004, which increased by 16.2% last year as against 40.2% in 2003. As a result, the ratio of banking sector capital to GDP contracted slightly and stood at 5.6%[1].

As for the principal factors of the slowing of capital growth in 2004, mention should be made of the 8.1% fall in proceeds from the issue of bank shares (a year earlier they increased by 28.1%) and slowing growth in the value of subordinated loans, which rose by 54.1% as against 84.6% in 2003.

In 2004, banking sector own funds (capital) grew mostly due to increased profits and the funds created from profits (65.4% of total growth in own funds) and growth in the paid-up authorised capital of operating credit institutions, included in the own funds (capital) calculation (30.9%).

[1] *If it were not for the singular, uncharacteristic capital creation developments in 2003 and 2004 (the revocation of licence from the bank SBS-AGRO in January 2003, the capitalisation of the bank Rossiisky Kredit in August—November 2003, which was managed by the ARCO, and the change in the loan loss provisioning procedure in 2004), the difference between capital growth rates in 2004 and 2003 would have been considerably smaller: according to estimates, capital growth rates would have been 22.6% in 2003 and 17.9% in 2004.*

1.3.2. OTHER FINANCIAL INSTITUTIONS

INSURANCE COMPANIES. According to the Federal Insurance Supervision Service, 240 insurance companies which had failed to raise their authorised capital to the required level by July 1[1], had their licences revoked in 2004. The 1,067 insurance companies which presented their statements for 2004[2] collected a total of 471.6 billion rubles in insurance premiums, an increase of 9.0% on 2003. Insurance indemnities rose by 8.1% over the reporting period and totalled 307.6 billion rubles.

Unlike the situation in 2003, last year saw voluntary insurance premiums fall by 2.8% year on year and the share of life insurance premiums in them decline by 31.6%. Nevertheless, voluntary life insurance continued to account for the largest part (67.9%) of aggregate insurance premiums. Personal insurance, with the exception of life insurance, accounted for 16.5% of total voluntary insurance premiums as of January 1, 2005, as against 12.6% as of January 1, 2004. Personal insurance premiums increased by 27.3% over the year and property insurance premiums rose by 21.8%. This kind of insurance has predominated since the middle of 2004 in voluntary insurance premiums (47.8%) and in aggregate insurance premiums (32.5%).

The rate of growth in aggregate compulsory insurance premiums slowed to 46.9% from 66.1% in 2003. The share of compulsory medical insurance premiums contracted from 71.5% to 64.3%, while the share of compulsory motor third party liability insurance premiums expanded from 24.2% to 32.5%.

The ratio of total insurance indemnities to premiums changed slightly in 2004 and stood at 65.2%. Hence, the initial conditions for profit-making in the insurance business and for investment resource creation remained stable.

UNIT INVESTMENT FUNDS (PIFs). The fall in yield on stock market instruments brought about a slowdown in the collective investment industry in 2004 in comparison with 2003. Some PIFs not only failed to ensure growth in the value of their shares, but were unable to save shareholders' funds from inflation-induced devaluation.

According to the National Managers' League, the number of PIFs increased by 105 in 2004 to 241 as of January 1, 2005[3]. The number of open-end PIFs rose from 87 to 149, interval PIFs from 35 to 49 and closed-end PIFs from 14 to 43. Open-end PIFs grew faster than other PIFs because they ensured investors the flexible management of their funds.

The total value of PIFs' net assets stood at 108.3 billion rubles as of January 1, 2005. In 2004, it grew considerably more slowly than in 2003 (by 40.3% whereas in 2003 it rose by 6.1 times).

The contributions made by different types and categories of PIFs to the total value of their net assets changed in 2004. The expansion of the open-end PIFs' net assets (from 10.2% as of January 1, 2004, to 13.6% as of January 1, 2005) was the collective investment market's natural reaction to the increased volatility of the stock market. Due to slow growth in the value of stock funds' net assets (over the year, they increased by 25.0%, the slowest rate of growth of all categories of PIFs), their share in the total value of PIFs' net assets contracted from 85.9% in 2003 to 76.5% in 2004.

Closed-end real estate funds, favoured by investors in 2004 due to the high return on investment on the housing market, were the most dynamic unit investment funds. The value of their net assets increased by 3.5 times over the year and their share of total PIF net assets expanded from 4.2% to 10.6%. Overall, closed-end PIFs

[1] Under Federal Law No. 172-FZ, dated December 10, 2003, "On Amendments and Addenda to the Russian Federation Law on Insurance and Invalidating Some Federal Laws," which came into force in January 2004.
[2] As of January 1, 2005, there were 1,280 insurance companies (1,397 as of January 1, 2004) in the Finance Ministry's State Register of Insurers.
[3] Here and below, data are on PIFs which had become completely established by January 1, 2005.

accounted for 66.2% of the total net asset value of PIFs, almost the same figure as in 2003.

As PIFs became more competitive and attractive as an instrument of collective investment, the minimum price of shares decreased and the share sales network developed. The number of management companies rose by 48 over the year to stand at 177 as of January 1, 2005. Ninety-four management companies, or 53.1% of their total number, managed PIFs in 2004 as against 52 companies, or 40.3% of the total, as of January 1, 2004. The top four management companies, each holding over 10 billion rubles of PIF funds in trust, accounted for 66.4% of total PIF net asset value (82.5% as of January 1, 2004).

NON-GOVERNMENTAL PENSION FUNDS (NPFs). According to the Federal Financial Market Service, the total value of own property of 292 NPFs that were in operation as of October 1, 2004, increased by 22.2% in 2004 to 153.5 billion rubles. The value of pension reserves in it is estimated at 114.5 billion rubles (an increase of 27.8% from January 1, 2004), while the value of property for authorised activity stood at 36.2 billion rubles (an increase of 14.9%). In 2004, the rates of growth in these key performance indicators for NPFs were considerably slower than in 2003, mainly due to the completion of the active period of NPFs' preparations for entry into the compulsory pension insurance system.

Unlike the situation in 2003, most of growth (88.8%) in NPFs' own property was due to the pension reserves created largely from pension contributions and intended for the fulfilment by NPFs of their obligations. As a result, pension reserves accounted for 74.5% of total own property as of January 1, 2005, as against 71.3% as of January 1, 2004. Total investment from pension reserves and the value of property for authorised activity reached 147.3 billion rubles as of October 1, 2004, an increase of 26.4% on January 1, 2004 (in the same period of 2003 growth stood at 52.2%). The corporate nature of most of the largest NPFs predetermines the stable structure of their aggregate investment portfolio, which is oriented to the founders' interests. As of October 1, 2004, shares and bonds accounted for 59.5% of the investment pension reserves worth 113.3 billion rubles, which represents an increase of 7.3 percentage points on the same date in 2003. The share of investments in promissory notes contracted from 16.3% as of October 1, 2003, to 13.4% as of October 1, 2004. The purchase of government securities, mostly issued by regional governments, accounted for 9.3% of the pension reserves invested by NPFs as against 8.2% as of the same date in 2003 and bank deposits accounted for 12.5% of these funds as against 15.2% a year earlier.

I.3.3. FINANCIAL MARKETS

INTERBANK LOAN MARKET

Interest rates on ruble-denominated loans and interest and credit risks continued to decline on the Russian interbank loan market in 2004. At the end of the year, the value of interbank loans had increased by more than 60% year on year to over 425 billion rubles.

The improved financial situation of most Russian banks led to an improvement in the quality of the interbank loan portfolio. As of the end of 2004, overdue debt in total interbank loans contracted to 1.4% as against 2.7% a year earlier.

As the ruble stopped making gains in the second quarter of 2004, short-term foreign currency assets temporarily became attractive again. This and the deterioration of the financial situation in some banks led to fewer interbank loans being extended to small and medium-sized banks, and more local growth in ruble interbank rates. Increased Bank of Russia activity on the money market, especially the expansion of the refinancing of commercial banks, and the reduced required reserve ratio helped restore stability on the interbank loan market.

Average monthly interest rates on overnight ruble loans, which predominate on the Russian interbank loan market, changed within the range of 1.1—10.3% p.a. in 2004 as against 1.5—10.2% in 2003. The average rate on these loans stood at 3.7% p.a. in 2004 as against 4.2% in 2003. The fall in interest rates on ruble-denominated interbank loans was accompanied by less short-term volatility.

FOREIGN EXCHANGE MARKET

The situation on the domestic foreign exchange market in 2004 developed under the influence of the dynamics of the inflow of export earnings and Russian companies' borrowings abroad, operations conducted by the Bank of Russia in line with its monetary policy, including the exchange rate policy, credit institutions' currency position management strategy and the changes in the US dollar's rate against the euro on the world currency market. At the same time, the demand for foreign exchange, which was determined, in particular, by such fac-

DYNAMICS OF OFFERED AND ACTUAL INTERBANK INTEREST RATES ON OVERNIGHT RUBLE LOANS IN 2004 (% p.a.)

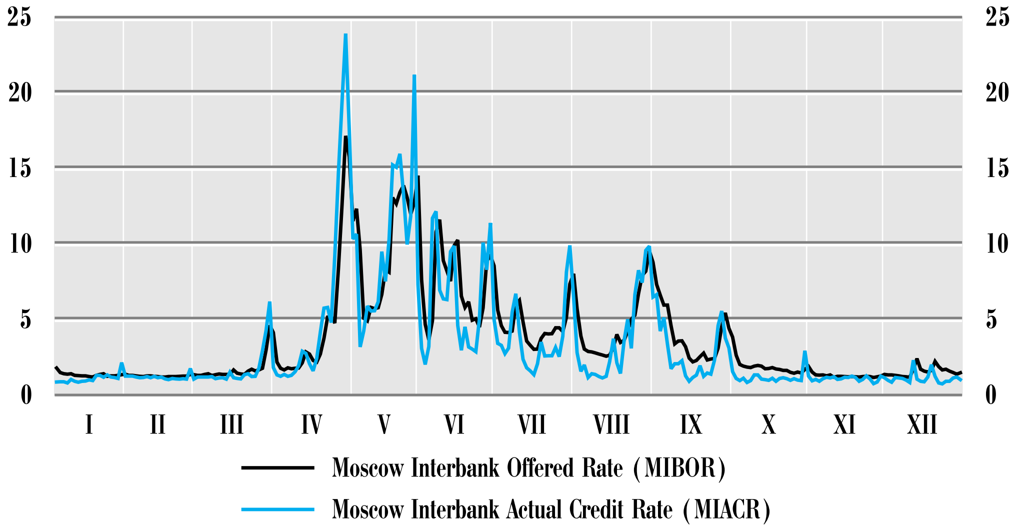
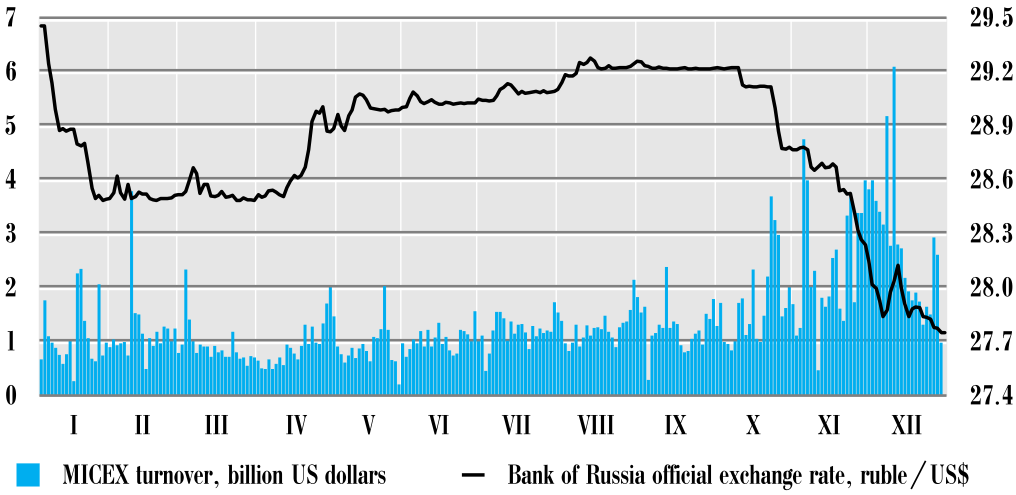


Chart 11

Chart 12

DOMESTIC FOREIGN EXCHANGE MARKET INDICATORS IN 2004



tors as payments for imports of goods and services and considerable payments on corporate foreign debt, was insufficient to keep an equilibrium with supply on the domestic foreign exchange market given the current exchange rate.

From January to the middle of April, the supply of foreign exchange on the domestic foreign exchange market grew as a result of the massive flow of export earnings to the economy and market players' activity in establishing short currency positions in the period until the middle of February. Given the excessive supply of foreign exchange, the Bank of Russia supported demand, thereby slowing the ruble's rise against the dollar.

In the second half of April, credit institutions began to increase their long currency positions amid the dollar's rally on the world currency market. The devaluation expectations of market players were also affected by data on the rapid rate of growth in the real effective rate of the ruble in the first quarter of the year and the anticipation of a readjustment in the Bank of Russia's exchange rate policy designed to keep this indicator within the range set in the Guidelines for the State Monetary Policy in 2004, i.e., at 7% (calculated on the December-to-December basis).

In the second half of April, the dollar's nominal rally against the ruble ended and the exchange rate steadied at 29.0—29.3 rubles to the dollar, as the situation on the world currency market changed. The ruble resumed making nominal gains in late October as the inflow of export earnings increased and the dollar weakened on the world currency market.

The vast amounts of foreign exchange that flowed into the economy as a result of favourable external economic conditions led to a further increase in the aggregate turnover of conversion transactions. As was the case in the previous years, ruble/dollar transactions predominated in the currency structure of the interbank market, reflecting the leading role played by the US dollar in international settlements. At the same time, the turnover of operations with the euro expanded as credit institutions and their customers, including private individuals, showed increased interest in transactions with the single European currency. The average daily interbank ruble/euro turnover rose by 48% to an equivalent of $179 million.

The interbank market's average daily spot ruble/dollar turnover increased by 32% in 2004 year on year to $16.4 billion. The average daily spot dollar/euro turnover increased by 37% to $4.1 billion.

Over 2004, the total value of ruble/dollar exchange operations more than doubled[1] year on year and stood at $347.5 billion. The turnover of

[1] *Including UTS and SELT MICEX turnovers, currency swap transactions and other ruble/dollar operations on MICEX.*

the Unified Trading Session of several interbank currency exchanges (UTS) amounted to $84.7 billion in trades for "today" settlements and $119.1 billion in trades for "tomorrow" settlements. The main reason for growth in exchange turnovers was the Bank of Russia's massive interventions and sale of large amounts of export earnings in UTS trades. In addition, a major factor of growth in exchange turnover was the merger of the UTS and local trading session within the Electronic Lot Trading System (SELT) of the Moscow Interbank Currency Exchange (MICEX). The value of currency swap transactions between market players increased by four times year on year to $106.0 billion. The total value of ruble/euro exchange operations declined by 10% in 2004 to 2.0 billion euros due to several factors containing the development of exchange trade in the ruble/euro segment, including the secondary nature of this market, which virtually entirely depends on the situation on the dollar/euro and dollar/ruble markets, and the 100% deposit requirement for trading participants.

To improve the infrastructure of the domestic foreign exchange market, the Bank of Russia and currency exchanges merged the UTS with the local trading session in the SELT MICEX for ruble/dollar trades for "today" and "tomorrow" settlements and ruble/euro trades for "today" settlements. In addition, UTS traders received the opportunity to conduct ruble/dollar swap transactions and conclude non-system deals. The merger of the two sessions helped increase the exchange market's liquidity, eliminate the exchange rates diversity with regard to instruments with the same value date and provided broader opportunities for regional participants to conduct exchange operations with foreign currency.

STRUCTURE OF AVERAGE DAILY TURNOVER OF INTERBANK SPOT CONVERSION OPERATIONS IN 2004
(%)

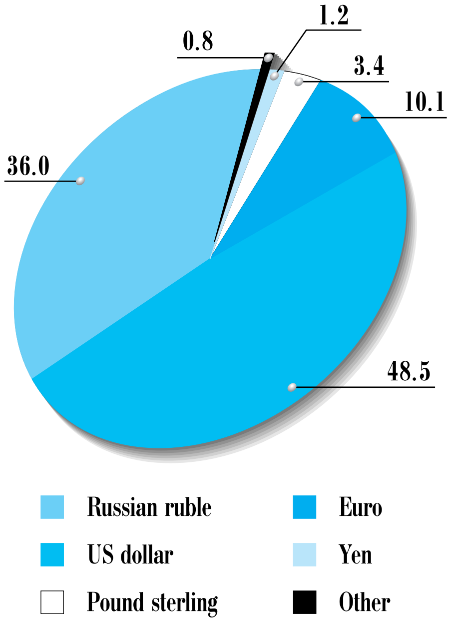


Chart 13

Futures currency market turnovers remained low due to legislative problems relating to financial derivatives. At the same time, futures exchange trade turnovers continued to expand in 2004: the average daily value of US dollar open positions on the MICEX and the St Petersburg Currency Exchange (SPCEX) increased from $29.7 million in 2003 to $82.9 million in 2004. The average daily forward over-the-counter ruble/dollar market turnover also increased and stood at about $152 million.

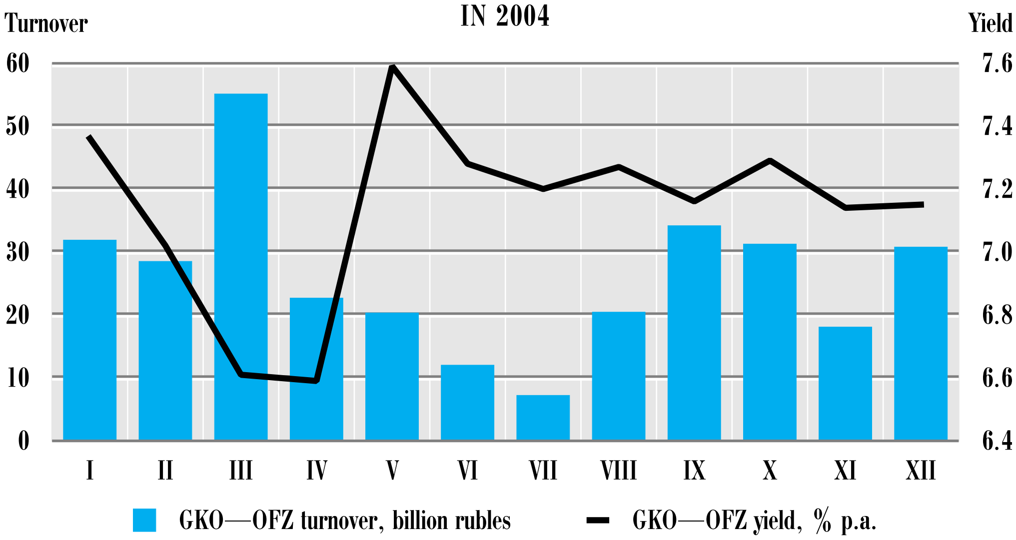
GOVERNMENT SECURITIES

GKO—OFZ MARKET. The situation on the government securities market in 2004 developed under the influence of the Finance Ministry's domestic government debt management policy, the situation on the domestic foreign exchange market and banking sector liquidity dynamics. In addition, the situation on the sovereign eurobond market was a major factor of government bond interest rate dynamics, especially in the first half of 2004: preparations for the liberalisation of foreign exchange regulation created expectations of a more pronounced positive correlation between the quoted prices of outstanding financial assets in the foreign and domestic segments of the Russian government debt market.

Over the year, the effective yield on government bonds fell by 0.51 percentage points to

Chart 14

GKO—OFZ SECONDARY MARKET TURNOVER AND YIELD IN 2004



6.95% p.a. as of December 30, 2004, from 7.46% p.a. as of December 30, 2003. The average daily secondary trade turnover expanded by 32% at actual prices year on year to 1.25 billion rubles[1] ; at the same time, "technical operations," which arose from the specific discounting policies pursued by investor companies and had no relation to market forces, accounted for a large part of the total value of transactions.

As demand for government securities remained high in the first quarter of 2004, the value of funds raised by the issuer accounted for more than 40% of the full-year value of borrowings. The small range of the domestic financial market instruments and a high level of banking sector liquidity allowed the Finance Ministry to place government bonds virtually without offering a premium to their market yield.

As the situation on the domestic foreign exchange market changed in April, government securities became less attractive to investors. The re-orientation of the financial flows to the foreign exchange market caused GKO—OFZ interest rates to rise amid a contraction in borrowing volumes. The reduction of the liquidity level of government securities market players led to the further decline in their activity: in the second quarter of 2004, the average daily trade volume on the GKO—OFZ market shrank by more than half compared to the first quarter.

The GKO—OFZ market situation in 2004 was characterised by small volumes of operations conducted to regulate the banking sector's current liquidity: market players preferred to cover the shortage of funds by concluding repo deals with the Bank of Russia. The main reason for the reduced role played by the GKO—OFZ market in regulating market players' free funds was the low liquidity level of government securities, which did not allow traders quickly to strike deals with these financial assets at acceptable prices.

Bank of Russia Ordinance No. 1465-U, dated June 29, 2004, "On Establishing the Requirements to Make Reserves when Entering Funds to Special Bank Accounts and Writing down Funds from Special Bank Accounts," which came into force on August 1, 2004, established the requirement for a non-resident entering an amount of money to a special bank account intended for operations with government securities to deposit a reserve of 20% of this sum for one year. The regulations that were previously in force did not allow foreign investors to put new funds into government securities. The new procedure for regulating foreign players' operations did not arouse their interest in the ruble-denominated Russian instruments. Government bonds had too little

[1] *This does not include Finance Ministry and Bank of Russia auctions.*

speculative value and this along with the forbidding reserve requirement could not stimulate a foreign capital inflow to the GKO—OFZ market.

Banking sector liquidity started to grow again in September, causing the demand for government securities to rise. However, the principal players on the OFZ market were, as before, the biggest investors, who bought government securities as a long-term investment of their free funds.

In 2004, the Finance Ministry held 27 primary GKO—OFZ auctions, raising 95.8 billion rubles. Over the year, the nominal value of the domestic government debt market rose by 77% to 557.6 billion rubles and the market portfolio duration increased from 2.7 years to 4.8 years. Except for the Series 21172 GKO bond issue and Series 27026 OFZ-FK bond issue, the Finance Ministry offered no new government bond issues, making additional placements of outstanding and earlier issues.

Investor demand in 2004 was focused on the debt depreciation federal loan bonds, which had a relatively high yield and some potential for price growth.

Dealers[1] remained the holders of the largest government securities portfolio in 2004. The contraction of their share in aggregate government bond market volume was due to the expansion of the government bond market portfolio held by the Bank of Russia owing to its restructuring. The expansion of the resident investors' share of the market is attributable to operations conducted by the Russian Government's Pension Fund, which placed funds to implement the pension reform programme.

The concentration of government bond issues in the portfolios of several major players, who make long-term investments to receive stable income, is an obstacle to growth in the liquidity of the domestic debt market, because the turnover ratio of the bond issues in their portfolios is extremely low.

REGIONAL AND MUNICIPAL GOVERNMENT BOND MARKET. In 2004, the Finance Ministry registered the terms of issue and circulation of bonds

GOVERNMENT BOND MARKET STRUCTURE BY TERM TO REDEMPTION (as of end of 2004, %)

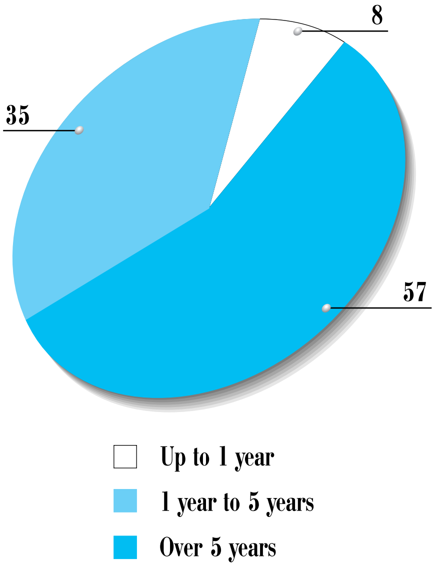


Chart 15

of 35 constituent territories and municipalities (31 in 2003). Most of the primary bond placements were made on the exchange market. In the period under review, 20 regional issuers placed 28 bond issues on the MICEX and two regional issuers placed three bond issues on the SPCEX.

The Moscow bond market remained the largest segment of the regional bond market. Seven auctions of Moscow municipal internal loan bonds (OGOVZ) with a nominal value of 29.5 billion rubles (as against 22.9 billion rubles in 2003) were held on the MICEX in the period under review. The average annual auction yield of OGOVZ bonds fell to 8.1% p.a. as against 10.5% p.a. in 2003. The total volume of secondary trade in Moscow government bonds on the MICEX expanded by 160% year on year to 241.0 billion rubles.

There was a marked contraction in the volume of trade in St Petersburg government registered bonds (GIO) in 2004. Three auctions of GIO bonds with a nominal value of 1.6 billion rubles (as against 3.3 billion rubles in 2003) were held on the SPCEX.

[1] Dealers are professional securities market participants who have concluded an agreement with the Bank of Russia granting them the right to act as dealers on the government securities market and conclude transactions with bonds on their own behalf and at their own expense, and at the expense and on behalf of investors.

The biggest bond issues in volume after Moscow and St Petersburg were floated by the Moscow, Novosibirsk and Irkutsk regions and Krasnoyarsk Territory. The aggregate turnover of secondary exchange trade in regional bonds exceeded 350 billion rubles in 2004 as against 138.5 billion rubles in 2003.

RUSSIAN FOREIGN CURRENCY DEBT MARKET. The Russian government's bonded foreign debt was represented in 2004 by eurobonds, Series V—VII domestic government foreign currency loan bonds (OVGVZ) and government foreign currency loan bonds of the 1999 issue (OGVZ). According to Finance Ministry data, the total nominal value of these bonds stood at $42.9 billion as of the beginning of 2004 and $42.5 billion as of October 1, 2004.

In 2004, the commercial debt of the former USSR was exchanged for $899.8 million of Russian eurobonds due in 2010 and 2030. Russia redeemed its 1997 eurobond issue with a nominal value of 2.0 billion Deutsche marks and effected coupon payments on all foreign currency bond issues in full and on schedule. Interest payments totalled $2.9 billion.

The value of Russian eurobond trades on the MICEX with settlements in US dollars more than doubled in 2004 in comparison with 2003 and totalled the equivalent of 2.2 billion rubles. The actual value of MICEX eurobond trades with ruble settlements amounted to 3.7 billion rubles. The level of prices of these instruments on the domestic market was the same as on the international market.

The occasional brief periods of decline in quoted prices and growth in yields on Russian foreign currency debt instruments in the first half of 2004 were caused by the volatility of the world capital market, especially the emerging markets' sovereign debt segment. From the middle of May to the end of the year, the yield on Russia's foreign currency-denominated government securities constantly declined.

BANK SECURITIES

The value of promissory notes placed by banks in 2004 increased slightly (by 8.6%) and as of January 1, 2005, it stood at 506.2 billion rubles. Investors used bank promissory notes as a means of payment and short- and medium-term investments.

To stimulate the development of the money market, the Bank of Russia registered 53 terms of issue and circulation of certificates of deposit and 15 terms of issue of savings certificates in 2004. As was the case in 2003, Moscow-based banks accounted for most of the issue value (396 million rubles).

In 2004, credit institutions stepped up their issuing activity and the increase in the total value of the shares and bonds floated (from 53.6 billion rubles to 73.6 billion rubles) bears this out. The value of the registered share issues rose from 41.4 billion rubles in 2003 to 50.3 billion rubles in 2004, an increase of 17.7%. The same trend applied to bank bonds: the value of the registered bond issues stood at 23.3 billion rubles in 2004, which represents an increase of 11.1 billion rubles, or 90%, on 2003.

To increase their authorised capital, credit institutions in 2004 registered 246 share issues with a total value of 43.2 billion rubles in comparison with 274 issues with a value of 35.9 billion rubles in 2003. Of this, three credit institutions issued 200 million rubles of additional shares in the process of reorganisation (six credit institutions issued 2.6 billion rubles of additional shares in 2003).

Three credit institutions issued 500 million rubles of shares when they were being transformed from limited liability companies into joint-stock companies.

Nineteen share issues with a total value of 6.6 billion rubles were floated without increasing authorised capital (share consolidation, splitting and conversion) in comparison with 11 share issues with a total value of 1.2 billion rubles floated in 2003.

The most active regions from the viewpoint of issuing securities were the Krasnodar Territory and Novosibirsk, Rostov, Samara, Sverdlovsk and Tyumen regions.

Seven wholly foreign-owned banks issued 5.1 billion rubles of securities in 2004, of which six banks issued 3.6 billion rubles of shares and one issued 1.5 billion rubles of bonds.

Most of the bond-issuing banks in 2004 were based in Moscow. They registered 18 bond issues with a total value of 21.2 billion rubles. Three banks based in the Republic of Tatarstan issued 2.0 billion rubles of bonds.

Credit institutions normally issue bonds with a nominal value of 1,000 rubles at the outside and a maturity period of at least two or three years.

In the period under review, credit institutions generally made primary bond placements at MICEX auctions. The conditions of many bank bond issues allowed the issuer to set coupon income by instalments and provided for the possibility of early redemption at investors' request.

Quoted prices of the most liquid bank shares grew rapidly in 2004 and there was an expansion in aggregate trade volumes. Credit institutions accounted for nearly 3% of MICEX and RTS total secondary stock trade volumes, which represents an increase on the previous year. Secondary trade in bank bonds expanded significantly in the period under review. The trade in bank bonds increased to almost 12% of the total volume of secondary trade in corporate bonds on the MICEX and the RTS.

NON-FINANCIAL SECTOR CORPORATE SECURITIES MARKET

Most of the exchange operations with securities were conducted on the MICEX and the St Petersburg Stock Exchange and the RTS.

There was a sharp slowdown of growth in the Russian **stock market** key price indicators in 2004. Due to the high volatility of market quoted prices within the period under review, the annual growth of the MICEX index stood at 7.3% and the RTS index 8.3%. At the end of the period under review, the RTS stock market had a capitalisation of $168.3 billion, an increase of 6.2% on the previous year.

MICEX secondary stock trade turnover expanded by 29.6% in 2004 year on year to 2.8 trillion rubles. Most operations were conducted with electricity and fuel companies' stocks.

The **corporate bond market** in 2004 registered growth in the value of primary placements at the exchange auctions. In the period under review, corporate bonds with a total value of 141.1 billion rubles were placed on the MICEX, an increase of 80% on the previous year. The MICEX secondary corporate bond trade turnover expanded by 70% year on year to 422.4 billion rubles. Debt securities issued by fuel, electricity, telecommunications

MICEX STOCK TRADE DYNAMICS IN 2004

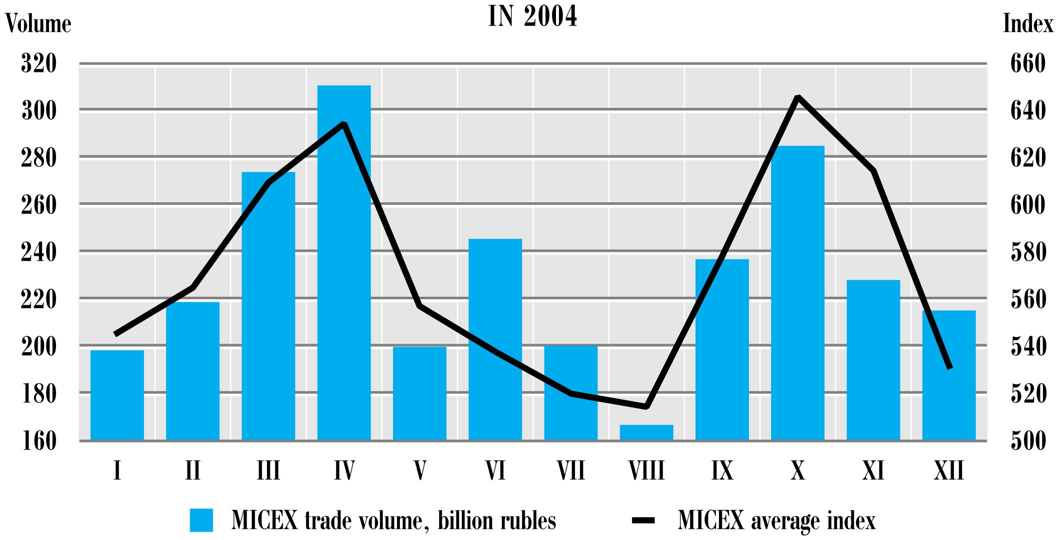
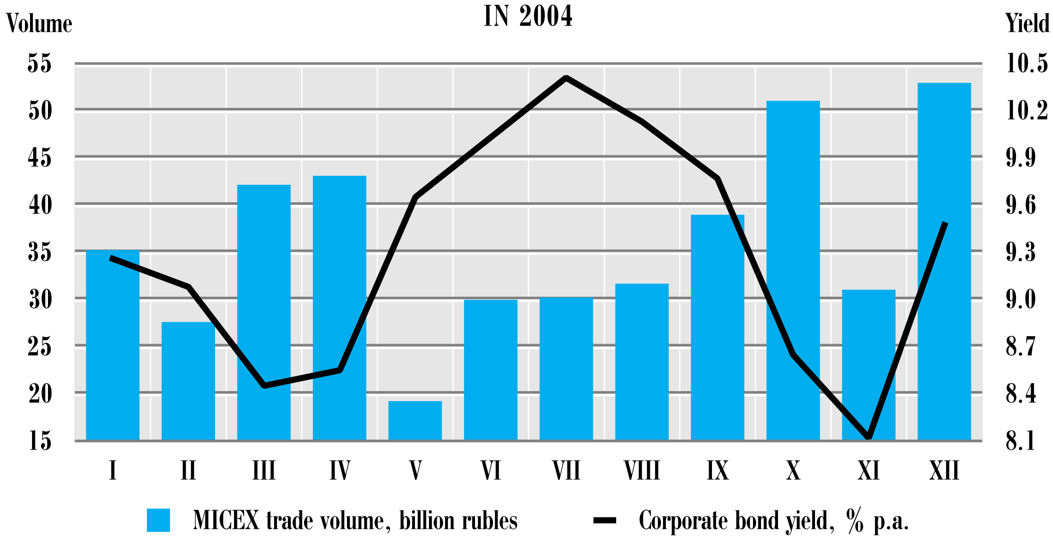


Chart 16

MICEX CORPORATE BOND TRADE DYNAMICS IN 2004

Chart 17



and communications and food companies accounted for the largest part of MICEX trades.

The average yield on corporate bonds traded on the secondary market declined year on year in 2004. Within this period, yields changed keeping pace with the changing price situation on the debt market and banking sector liquidity dynamics.

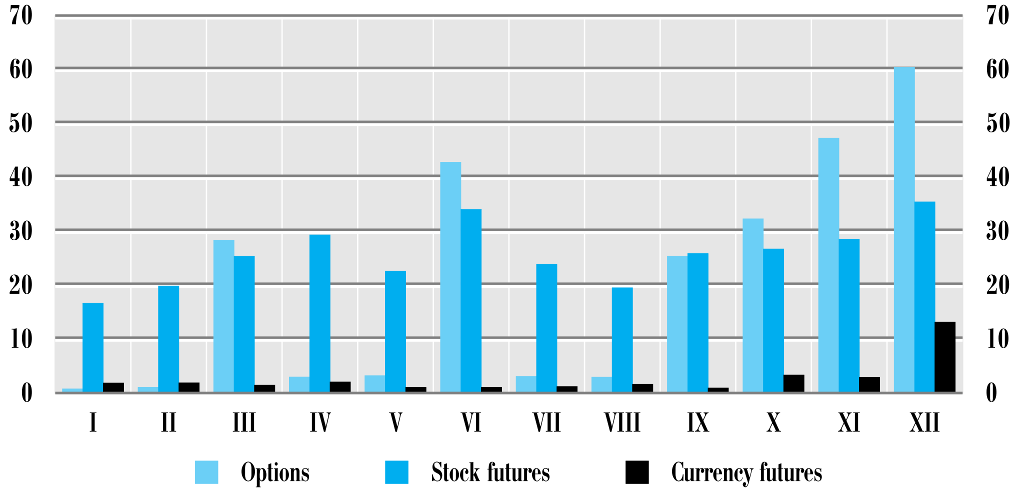
FINANCIAL DERIVATIVES MARKET

Aggregate futures and options trade turnover on the MICEX, the RTS and on the St Petersburg Stock Exchange and St Petersburg Currency Exchange almost doubled in 2004 in comparison with 2003 and stood at 598.8 billion rubles. New types of stock and currency futures and options contracts were introduced on the financial derivatives market.

Futures contracts for the stocks of the leading Russian issuers accounted for the largest

FUTURES EXCHANGE TRADE TURNOVERS OF BASIC ASSETS IN 2004
(billion rubles)

Chart 18



volume of operations. Traders' activity rose sharply in the currency futures segment in the fourth quarter, ensuring significant year-on-year growth in aggregate trade volume in this segment in 2004. The commodities segment of the forward market, represented by oil futures contracts, did well.

The options segment of the market continued to expand rapidly and in 2004 its share in aggregate derivatives exchange trade turnover increased to 41.8% from 29.2% in 2003.

Contracts with terms of up to three months accounted for most of the futures trade, while the share of futures contracts with terms of three to six months expanded slightly. In the middle of the year, the MICEX introduced in its forward segment the one-year US dollar-ruble futures, but no deals were struck on this instrument.

I.4. BALANCE OF PAYMENTS AND FOREIGN DEBT

I.4.1. BALANCE OF PAYMENTS

Owing to the favourable external economic situation, Russia continued to register a stable balance of payments in 2004. Its current account surplus reached a record high, the government serviced its foreign debt in full and on schedule and the country's international reserves continued to grow.

CURRENT ACCOUNT

The current account surplus increased by 70% in 2004 year on year and reached $60.1 billion (the previous high of $46.8 billion was registered in 2000). The principal factor of this growth was the increase (by 45.6%) of the merchandise trade surplus to $87.1 billion. The overall situation on international commodity markets was good for Russia: export prices rose faster than import prices by 14 percentage points on average. Foreign trade turnover expanded by 32.0%, export volumes grew by 10.7% and import volumes by 18.8%.

Exports of goods increased by 35.0% to $183.5 billion. The price factor was responsible for nearly 70% of the increment. The average contract price of Russian oil rose by 30.3%, natural gas by 3.4% and petroleum products by 29.2%.

Higher demand for metals by major consumers, especially the United States and some developing countries, stimulated growth in metal exports, which grew by 60% year on year and accounted for 16.8% of total exports as against 13.8% a year earlier.

Engineering products accounted for 7.7% of total exports and chemicals and related products 6.6%.

Imports of goods aggregated $96.3 billion, an increase of 26.6% on 2003. Most of the growth in import value was due to the rapid expansion of import volumes.

The rise in imports of machinery, equipment and transport vehicles, mostly from non-CIS countries, accounted for more than half of the increase in imports. The share of this commodity group in total imports went up from 37.4% to 41.2% and its value increased by 50%.

The share of food products and raw materials for their production contracted from 21.0% to 18.3% of total imports.

The share of chemicals and related products, the third most important Russian import, contracted slightly year on year to 15.8%.

The deficit of the **balance of international services** increased from $10.9 billion in 2003 to $13.4 billion in 2004, whereas their turnover increased by 24.5% to $54.0 billion.

Exports of services are valued at $20.3 billion, an increase of 25.0%. Transport services ac-

DYNAMICS OF MAJOR BALANCE OF PAYMENTS COMPONENTS AND INTERNATIONAL RESERVES (billion US dollars)

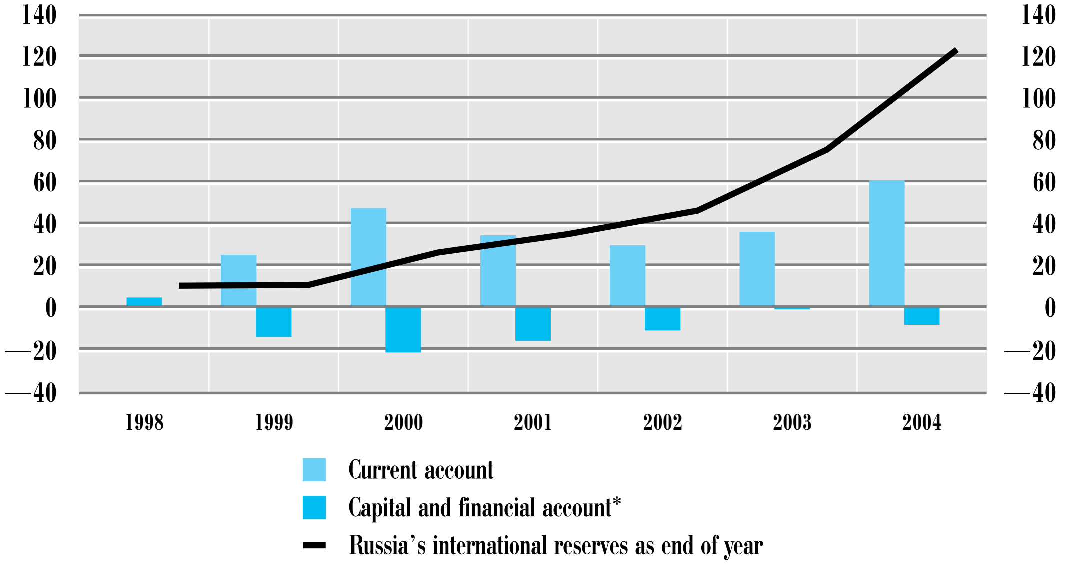


Chart 19

* Without taking into account change in reserves.

counted for 38.4% of total exports of services and travel for 25.8%.

The value of transport services provided to non-residents stood at $7.8 billion. This represents an increase of 27.3% on the previous year, which is chiefly due to growth in the value of cargo and passenger transportation.

Exports of services connected with non-residents' brief stay in Russia increased by 16.1% to $5.2 billion, mainly due to growth in the average expenses per trip in dollar terms.

Exports of insurance and financial and construction services grew at particularly rapid rates (by 60% and 50% respectively).

Imports of services increased by 24.3% in value year on year to stand at $33.7 billion.

Services relating to Russian nationals' trips abroad accounted for the lion's share of service imports (46.7%). These were followed by business, professional and technical services (15.7%), transport services (11.5%) and construction services (9.1%).

The number of resident trips abroad continued to rise in 2004 and there was a significant increase in the number of private visits. As a result, the total value of services paid for by Russian nationals during their trips abroad rose by $2.9 billion to $15.7 billion.

The 25.2% increase in the value of imports of transport services was due to increased cargo and passenger carriage costs, especially by air.

Imports of financial services grew rapidly (by 120%), as did imports of cultural and recreation services (60%) and services categorised as "royalties and licence fees" (50%).

There was a negative **balance of wages:** wage payments to non-residents exceeded wage remittances from residents working abroad by $600 million.

Wage payments to non-residents doing temporary work in Russia increased by 90% to $1.8 billion. The dynamics of these payments reflected growth in the number of migrant workers, which is typical of the past few years.

The incomes of Russian nationals in the form of wages and salaries paid to them by non-residents are estimated at $1.2 billion, which represents an increase of 48.2% largely due to a rise in the number of Russians working abroad.

There was a deficit of $12.2 billion in the **balance of investment incomes,** which decreased by $800 million year on year. The contraction was the result of growth in the monetary authorities' revenues from the expansion of foreign reserve assets and the reduction in incomes paid by nonfinancial enterprises to direct foreign investors.

CAPITAL AND FINANCIAL ACCOUNT

CAPITAL ACCOUNT. The deficit of the balance of capital transfers increased to $1.6 billion in 2004 as against $1.0 billion in 2003.

The *general government sector* registered a deficit of $900 million: $500 million was received in transfers (the writing off of debt to non-residents, including the discount received when the former Soviet Union's debt to the International Investment Bank and International Bank for Economic Co-operation was settled) and $1.4 billion was transferred in favour of non-residents (the writing off of debt of some developing countries as a result of the negotiation on the restructuring of this debt).

The *household sector* balance of capital account also had a deficit of $700 million. Transfers connected with Russian nationals' emigration are estimated at $1.1 billion, in which non-CIS countries account for $800 million. The value of property and financial assets brought into Russia by immigrants, primarily from CIS countries, stood at $400 million.

FINANCIAL ACCOUNT. Growth in residents' **foreign liabilities** is estimated at $30.9 billion in 2004 as against $27.9 billion in 2003.

The *federal government's* obligations decreased by $2.6 billion. As noted above, one reason for the decrease ($500 million) was the writing off of a part of the former USSR's debt. The total also comprises growth in obligations to non-residents which arose as a result of operations on the secondary government securities market denominated in the national and foreign currencies. Non-resident financial claims on these obligations rose by more than $3 billion.

The amount of new loans was small: $700 million came under long-term agreements with international financial organisations and foreign governments to finance infrastructure development projects.

Russia's regions made no significant borrowings either, so their foreign liabilities increased by $200 million.

The foreign liabilities of the *monetary authorities* were virtually unchanged.

A total of $8.5 billion was actually paid on the principal debt of the general government sector and monetary authorities in the form of IMF loans. Payments on the new Russian debt amounted to $5.6 billion, or 66.4% of total debt payments, of which $1.3 billion was paid to redeem the eurobonds issued by the Russian Government in 1997. Russia paid $2.9 billion on its Soviet-era debt (33.6%), of which $2.1 billion, or 24.7%, was paid to the Paris Club of creditor nations.

Owing to increased export revenues, Russia's solvency indicators relating to government debt have improved significantly. The government foreign debt service ratio (the ratio of the sum of payments, including interest payments, to exports of goods and services) fell from 9.5% to 6.6% and relative to consolidated budget revenue, total debt payments decreased from 10.7% to 7.1%.

Growth in *private sector* foreign liabilities remained unchanged from 2003 at a high level of $33.3 billion: growth in commercial banks' foreign borrowings slowed by $3.9 billion to $7.4 billion, whereas growth in non-financial enterprise sector borrowings accelerated by almost the same figure to $25.9 billion. The quarterly dynamics of growth in the sector's foreign liabilities were uneven: more than half of the full-year growth in foreign borrowings occurred in the fourth quarter.

There was a significant contraction in the share of short-term financial instruments (from 60.0% to 48.9%) in the structure of banking sector foreign liabilities. Foreign currency-denominated liabilities accounted for 89.0%, in which dollar-denominated liabilities accounted for 80.9% and liabilities denominated in euros 7.0%; the share of the ruble-denominated liabilities declined to 11.0%.

Residents' **foreign assets** (official foreign exchange reserves excluded) increased by $37.8 billion. In the *general government sector* they grew by $100 million. The value of loans extended to foreign states stood at $600 million. Other major changes accounted for in the corresponding section of the balance of payments were connected with growth in overdue debt on loans extended to foreign states by the former USSR ($900 million) and their partial write-down as a result of the restructuring.

The foreign assets of the *monetary authorities* (net of foreign exchange reserves) rose by $1.3 billion as against $600 million in 2003.

Foreign assets of the *banking sector* increased by $3.6 billion. As the dollar declined on the international and domestic financial markets, the share of the dollar-denominated claims contracted from 76.0% to 70.8% in 2004. The euro-denominated claims accounted for 15.7% as against 11.4% a year earlier and the ruble-denominated assets accounted for 5.2%.

The banking sector's net international investment position continued to move further into negative ground: as of the beginning of the year under review, it stood at —$6.0 billion, whereas by the end of 2004 it had declined to —$11.1 billion.

The foreign assets of the *non-financial enterprise and household sectors* increased at the most rapid rates: in 2004 they expanded by $32.8 billion as against $25.9 billion in 2003.

Foreign exchange outside the banks continued to shrink (by $3.4 billion), though it did so slower than in 2003 when it contracted by $6.6 billion.

Net capital outflow from the private sector as a whole increased from $1.9 billion in 2003 to $9.4 billion in 2004.

INTERNATIONAL RESERVES. Russia's international (gold and foreign exchange) reserves increased by $47.6 billion and as of January 1, 2005, they aggregated $124.5 billion.

Russia had enough gold and currency reserves to cover potential balance of payments-related risks. The indicator characterising the economy's capability to finance imports from the accumulated reserves stood at 11.5 months as against 8.9 months as of January 1, 2004.

I.4.2. FOREIGN DEBT

Russia's foreign debt[1] rose by $25.7 billion in 2004 to $211.4 billion as against $185.7 billion in 2003.

The general government's debt obligations accounted for 46.0% of the debt, monetary authorities 3.8% and private sector 50.2%.

The debt assumed by Russia as the successor to the former USSR contracted by $2.2 billion to $55.9 billion as of the end of 2004 (57.6% of the general government's debt), of which the debt to the Paris Club stood at $43.3 billion (77.5% of the former USSR's debt) and debt to the former Soviet-bloc countries equalled $2.7 billion (4.8%).

The new Russian debt increased by $1.0 billion to $39.6 billion in 2004. The most significant growth was registered in obligations in the form of debt securities (from $26.8 billion to $28.9 billion), which resulted from the issue of sovereign eurobonds in the course of the restructuring of the former USSR's debt to the International Investment Bank and International Bank for Economic Co-operation. As of January 1, 2005, obligations on outstanding debt securities accounted for 73.0% of Russia's new debt. Other categories of debt changed slightly: loans from international financial organisations are valued at $6.2 billion (15.7%), inter-governmental loans $4.2 billion (10.6%) and other obligations $200 million (less than 1%).

Regional governments' foreign debt stood at $1.6 billion as of January 1, 2005, and monetary authorities' debt obligations at $8.0 billion, of which debt to the IMF was valued at $3.6 billion.

The private sector remained the principal borrower of foreign capital. Russian banks' debt to non-residents increased by $7.6 billion to over $32.5 billion in 2004. As noted above, the non-financial enterprise sector's foreign debt obligations grew even faster. They rose by $18.6 billion in value to $73.7 billion in 2004.

Long-term debt obligations accounted for 83.5% of the foreign debt owed by all sectors of the economy. The currency structure of the debt was virtually unchanged from the beginning of the year: 93.3% of debt obligations were denominated in foreign currency.

Relative to GDP, Russia's foreign debt stood at 36.3% as of January 1, 2005, as against 43.1% a year earlier. The general government's debt relative to GDP contracted from 22.7% to 16.7%.

[1] *Data are cited taking into account exchange rate and market revaluation.*

I.5. THE WORLD ECONOMY AND INTERNATIONAL FINANCIAL MARKETS

According to an IMF estimate, the world output of goods and services increased by 5.1% in 2004 as against 4% in 2003. Economic growth in the industrialised nations is estimated at 3.4% in 2004 as against 2% in 2003 and in the emerging markets at 7.2% as against 6.4% in 2003. International trade in goods and services expanded by 9.9% in 2004, according to an IMF estimate, as against 4.9% in 2003. Exports from the industrialised nations increased by an estimated 8.1% as against 2.8% in 2003 and imports to these countries grew by an estimated 8.5% as against 3.6% in 2003. Emerging markets' exports rose by 13.8% as against 10.7% in 2003 and imports 15.5% as against 8.9% in 2003.

ECONOMIC GROWTH. The favourable starting conditions for economic growth in the industrialised nations in 2004 were due to continuing low interest rates in the United States and the European Economic and Monetary Union (EMU) at the beginning of the year. Higher employment and wage growth led to more individual consumption. Technological modernisation, the improved financial performance of companies, the accessibility of borrowings to a wide range of corporations and increased investor interest in holding shares in their capital stimulated growth in investment.

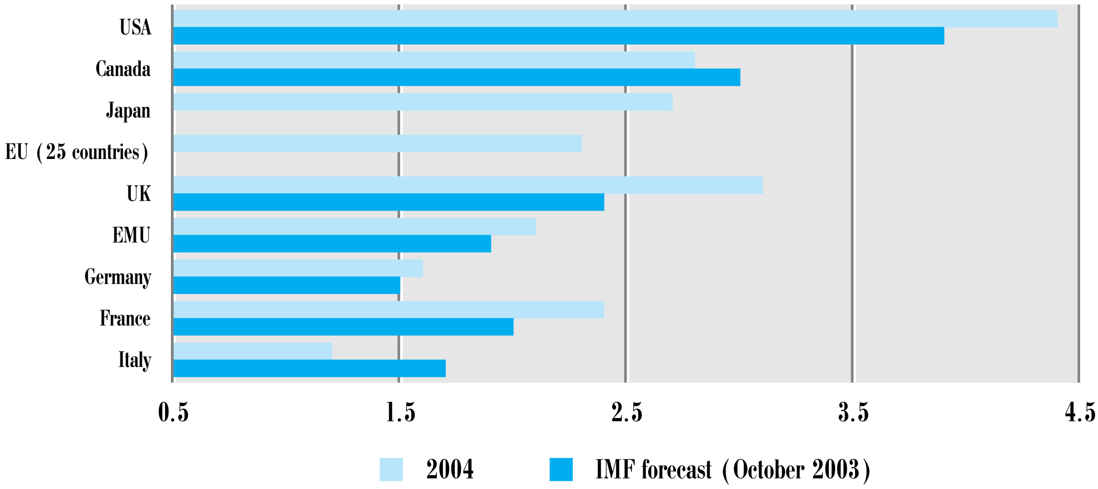
Real GDP in the US increased by 4.4% in 2004 year on year as against 3% in 2003. Growth was due to higher domestic demand, while the acceleration of growth was largely caused by an increase of 10.6% in private sector fixed capital investment in production. Growth in individual consumption in the US quickened to 3.8% as against 3.3% in 2003 due to the stimulating effect of the increase in real disposable income (by 3.5%).

Eurozone GDP growth was mostly due to higher domestic demand (consumption, investment and inventories). In 2004, for the first time in four years, the EMU registered a rise (of 2.1%) in fixed capital investment. Economic growth in the 12-nation EMU accelerated to 2.1% in 2004 as against 0.5% in 2003. GDP growth in Germany stood at 1.6%, France 2.4%, Italy 1.2%, the Netherlands 1.4% and Spain 2.7%. In the UK, the largest EU member country outside the eurozone, real GDP increased by 3.1% in 2004 as against 2.2% in 2003. The output of goods and services in the 25 EU member countries, including the 15 developed countries which joined the EU before May 1, 2004, and 10 emerging markets which joined the EU on May 1, 2004, increased by 2.3% as against 0.8% in 2003.

Japan's economic growth accelerated to 2.7% in 2004 as against 1.4% in 2003. The expansion of consumption and private sector investment (by 2.6%, taking into account the change in inventories) made the biggest contribution to this growth. This was due to the household sector's increased confidence in the continuing growth in money

REAL GDP GROWTH IN LEADING INDUSTRIALISED NATIONS IN 2004
(as % of 2003)

Chart 20



Based on data from official sources of statistical information of corresponding countries.

income and the improved financial performance of the enterprise sector achieved thanks to industrial sales growth, low interest rates and the company restructuring.

Despite the measures taken by China's government and central bank to restrain excessive investment activity in some industries, the level of investment activity in that country remained high due to large-scale construction. The increased money incomes of the urban and rural population stimulated individual consumption. As a result, China's real GDP growth accelerated to 9.5% in 2004 as against 9.3% in 2003.

Economic growth accelerated significantly in the new industrial countries of Asia in 2004 due to increased domestic demand and exports. Production growth rates also accelerated year on year in most of the economically advanced countries of South-East Asia as a result of growth in consumption and private sector investment.

Economic growth in the Commonwealth of Independent States (CIS), including Russia, stood at 8.2% in 2004 as against 7.9% in 2003 (Russia excluded, it stood at 10.5% as against 9.1%). In Ukraine, Russia's leading trading partner in the region, real GDP growth accelerated to 12.1% as against 9.6% in 2003 due to increased domestic demand and exports. In Belarus, growth in the output of goods and services accelerated to 11% in 2004 as against 7% in 2003 and in Kazakhstan to 9.4% as against 9.3%.

INFLATION. US consumer prices went up 3.3% in 2004 (December on December) as against 1.9% in 2003. Core inflation (growth in the prices of goods and services included in the consumer goods basket, excluding foodstuffs and energy) accelerated to 2.2% in the United States in 2004 as against 1.1% in 2003.

Food price growth in the US slowed to 2.7% in 2004 as against 3.6% in 2003.

The average price of gasoline of all brands in the United States soared by 25.2% in December 2004 year on year as against 4.1% in the same period of 2003.

The level of consumer prices in the EMU rose by 2.4% in 2004 as against 2% in 2003. China's inflation slowed to 2.4% from 3.2% in 2003. In Belarus, inflation ran at 14.4% as against 25.4% in 2003, in Ukraine 12.3% as against 8.2% and in Kazakhstan 6.7% as against 6.8%.

GOVERNMENT FINANCE. The US federal budget deficit stood at $375.6 billion, or 3.3% of GDP, in 2004 as against $364.5 billion, or 3.3% of GDP, in 2003. As economic growth accelerated, federal budget revenues from the taxation of personal incomes and, in particular, corporate incomes increased significantly. The US consolidated federal budget deficit stood at 4.3% of GDP in 2004 as against 4.6% of GDP in 2003. Federal government debt in the US amounted to $7.6 trillion, or 64.7% of GDP, as of the end of 2004 as against $7 trillion, or 63.6% of GDP, a year earlier. In October 2004, the limit set by US legislation on federal government debt was raised from $7.38 trillion to $8.18 trillion.

According to the European Commission, the limit of 3% of GDP set by the European Stability and Growth Pact on the federal budget deficit was exceeded by four countries that joined the EU before May 1, 2004 (Germany, France, UK and Greece). As for the countries that joined the EU on May 1, 2004, the 3% limit was exceeded by five countries, including Hungary, Poland and Slovakia. According to an IMF estimate, China's central government budget deficit in 2004 contracted to 2.4% of GDP from 2.8% in 2003.

Ukraine's consolidated budget deficit expanded to 3.4% of GDP in 2004 as against 0.2% in 2003, Kazakhstan's consolidated budget deficit contracted to 0.2% of GDP in 2004 from 0.9% in 2003 and Belarus registered a consolidated budget surplus of less than 0.1% of GDP, whereas in 2003 it had a budget deficit of 1.6% of GDP.

INTERNATIONAL TRADE AND BALANCES OF PAYMENTS. Trade turnover in the US expanded by 14.7% in 2004 to $2.9 trillion. Exports grew 12.4% and imports 16.3%. Growth in US exports was due to higher investor and consumer demand in the United States' trading partners. Similar trends in the US economy led to growth in imports of investment and consumer goods into the United States. The US trade deficit rose to $617.1 billion in 2004 as against $496.5 billion in 2003. The EMU trade turnover expanded by 7.9% in 2004 and Japan's trade turnover grew 12.3%. There was a significant year-on-year expansion in the trade surplus of the EMU and particularly Japan.

China's merchandise trade turnover increased by 35.7% in 2004 to $1.2 trillion. Chinese exports grew by 35.4% and imports by 36%. The country registered a trade surplus of $32 billion in 2004 as against $25.5 billion in 2003. The manufacturing sector accounted for more than 55% of Chinese exports and nearly 40% of imports. China's leading trading partners in 2004 were the EU, which accounted for 15.4% of China's trade turnover, the United States (14.7%) and Japan (14.5%). Geographically, the United States accounted for the largest share of Chinese exports (21%) and Japan accounted for the largest share of Chinese imports (16.8%). In 2004, China registered an increase in the surpluses of its trade with the EU and the United States and a rise in the deficit of its trade with Japan.

The US current account deficit rose to 5.7% of GDP in 2004 as against 4.8% of GDP in 2003. A major factor of its financing was the expansion of international reserves of some countries, especially in Asia. Private capital inflow to the US economy increased. The EMU's current account surplus increased to 0.6% of GDP in 2004 as against 0.3% of GDP in 2003. Japan's current account surplus expanded to 3.7% of GDP as against 3.2% in 2003 and, according to the IMF, China saw its current account surplus grow to 4.2% of GDP as against 3.2% in 2003. Foreign direct investment in the Chinese economy increased by 13.3% in 2004 year on year to $60.6 billion (more than 70% of this went to the manufacturing sector).

Ukraine's merchandise trade turnover increased by 33.8% in 2004 to $61.7 billion, Belarus's by 40% to $30.1 billion and Kazakhstan's by 54.4% to $32.9 billion. Ukraine's trade surplus stood at $3.7 billion in 2004 (in 2003 Ukraine registered a virtual balance in its trade). Belarus's trade deficit rose to $2.6 billion in 2004 as against $1.6 billion in 2003, while Kazakhstan's trade surplus increased to $7.3 billion as against $4.6 billion in 2003. Geographically, export and import operations with Russia accounted for 28.7% of Ukraine's foreign trade in 2004, 58.5% of Belarus's foreign trade and 23.3% of Kazakhstan's foreign trade. These and most other CIS countries had a deficit in trade with Russia.

COMMODITY MARKETS. The level of energy and non-energy raw material prices rose on world markets in 2004. The world price of oil soared to the record highs registered during the most volatile periods on the world oil market in the 1970s. The main reason for the oil price rise in 2004 was the acceleration of growth in the demand for oil in the world, especially the United States and China. The supply of oil on the world market grew slower than demand, largely due to the tough policy pursued by OPEC in setting quotas on oil production. The average price of the Brent, Dubai and WTI brands of crude gained 30.7% to $37.76 per barrel as against an increase of 15.8% in 2003. The acceleration of growth in ferrous and non-ferrous and the rise in precious metal prices in 2004 was due to the increased economic activity in the world, which stimulated the demand for metals, especially in the United States and China.

FOREIGN EXCHANGE MARKET. The dollar declined against most world currencies in 2004. It lost 9.9% on average against the euro and 7.1% against the Japanese yen. The average rate of the Ukrainian hryvnia against the US dollar in 2004 remained virtually unchanged from 2003. Over the year, the Belarussian ruble fell against the dollar. China maintained a fixed rate of the yuan against the dollar in 2004.

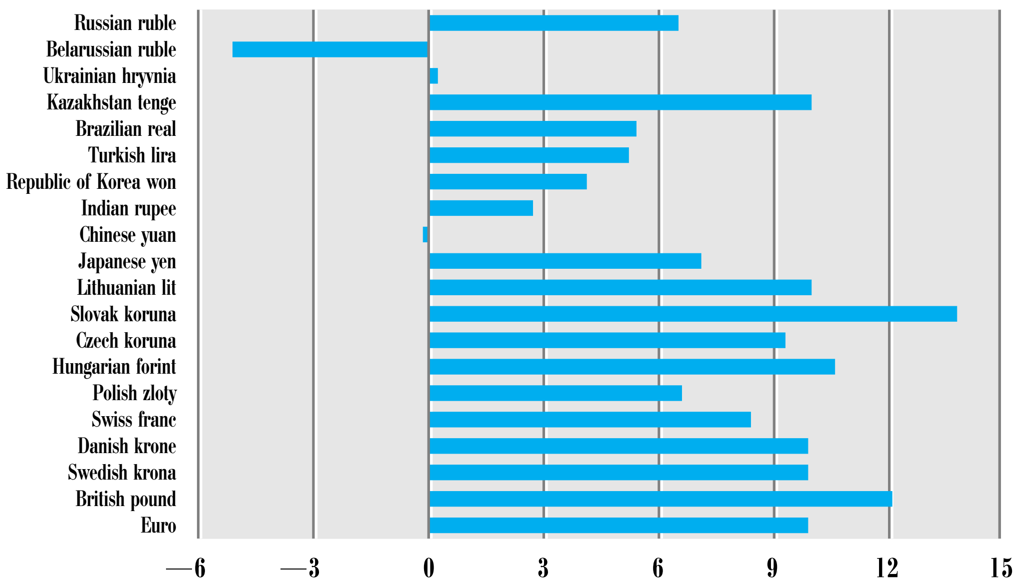
MONEY AND CAPITAL MARKETS. The US Federal Reserve raised the federal funds rate five times in 2004: from 1% to 1.25% in June, to 1.5% in August, to 1.75% in September, to 2% in November and to 2.25% in December. In December 2004, this benchmark interest rate surpassed the refinancing rate of the European Central Bank for the first time since April 2001. On average, the LIBOR on the dollar-denominated deposits with terms from one month to one year increased by 0.3—0.8 percentage points and in December 2004 they were higher than the LIBOR on the euro-denominated deposits with the same terms (they were lower in December 2003).

Growth in economic agents' demand for financial resources along with the need for borrowings to finance budget deficits and the efforts by the monetary authorities of some countries to raise short-term interest rates led to growth in the yield on financial assets on the capital markets of the industrial nations. The yield on US treasuries with terms to redemption from two to 10 years in 2004 rose by 0.3—0.7 percentage points on average year on year, whereas the yield on EMU government securities remained virtually unchanged and at the end of 2004 it was lower than the yield on US treasury bonds (it was higher at the end of 2003).

The 2004 rise in share prices on the major stock markets of North America, Europe and Asia was due to world economic growth, the improved financial performance of companies and the reduced debt burden on corporations' own capital. The Dow Jones Industrial Average, the index reflecting the dynamics of stock prices of US leading industrial corporations listed on the New York Stock Exchange, made an average year-on-year gain of 14.5% in 2004. The NASDAQ, the index of the over-the-counter segment of the US stock market, rose by 20.1%. Germany's corporate stock price index Xetra DAX-30 was up 24.7% and Japan's corporate stock price index Nikkei 225 gained 20.1%.

AVERAGE ANNUAL GROWTH IN EXCHANGE RATES OF INDIVIDUAL CURRENCIES AGAINST THE US DOLLAR IN 2004 (as % of 2003)*

Chart 21



* (—) signifies appreciation of the dollar, (+) depreciation of the dollar.
Source: Reuters.

II

BANK OF RUSSIA ACTIVITIES

II.1. MONETARY POLICY

II.1.1. OBJECTIVES AND RESULTS OF MONETARY POLICY

In 2004, as in the past few years, the monetary policy pursued by the Bank of Russia was aimed to reduce the inflation rate consistently and create favourable conditions for sustainable economic growth. According to the Guidelines for the State Monetary Policy in 2004, its ultimate objective was to reduce consumer price growth to 8—10%. At the same time, the Bank of Russia was guided by the Russian Federation social and economic development forecast, which envisaged GDP growth at 5.2%. The rate of core inflation, corresponding to the inflation target, was projected at 7—8% in 2004.

With consideration for the significant influence which the situation on world commodity and financial markets exerted on the Russian economy, the Bank of Russia continued to maintain the managed floating exchange rate regime. To implement the tasks set in the Guidelines for the State Monetary Policy in 2004, it had to cushion the sharp fluctuations of the exchange rate of the ruble, which were not caused by fundamental economic factors.

When evaluating the demand for money in 2004, the Bank of Russia believed that it would be primarily affected by such factors as the continuing economic growth, increased household income and the public's growing propensity to save stimulated by increased confidence in the ruble. Growth in the demand for money was expected at 19—25% in 2004. At the same time, given the exchange rate regime and the weakening of the short-term connection between the dynamics of monetary aggregates and consumer prices, the Bank of Russia did not consider the parameters for growth in the demand for money as rigidly set and did not rule out the possibility of exceeding them. Money supply characteristics remained important indicators largely for determining the medium-term inflation trend.

In effect, the macroeconomic situation in 2004 developed to a great extent in accordance with a scenario similar to that of 2003 and was characterised by production growth rates that were higher than expected (7.1%). This created more demand for money than had been expected. Therefore, when drafting the Guidelines for the State Monetary Policy in 2005, the Bank of Russia raised its projection for growth in the demand for money in 2004 to 35—40%.

The demand for money had volatile dynamics in 2004 largely due to external economic factors and the extreme changeability of economic agents' preferences for the currency of assets. In the first and fourth quarters of the year, there was a rise in economic agents' demand for the ruble as the latter made gains against the dollar, but in the second and third, the banking, non-financial enterprise and household sectors turned to foreign

PROJECTED AND ACTUAL M2 GROWTH RATES
(month on month of previous year, %)

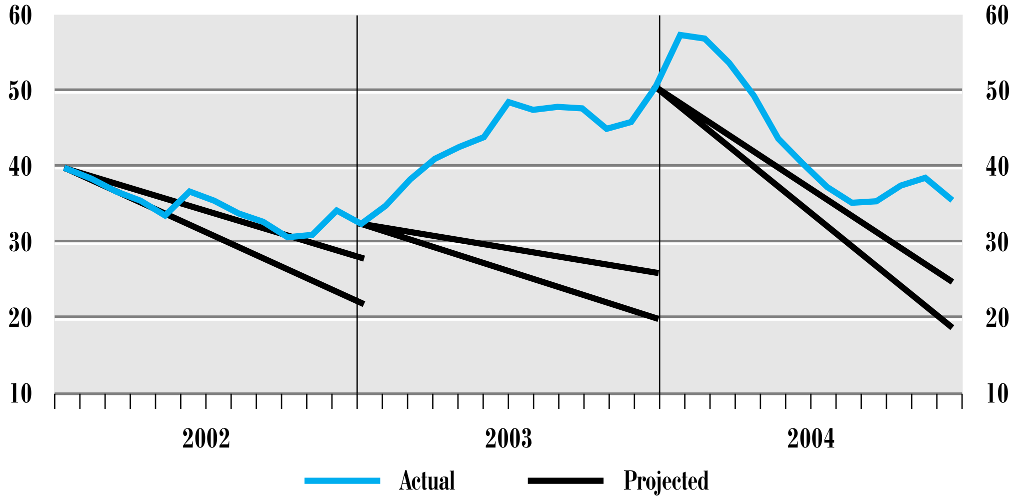


Chart 22

currency when the dollar rallied and amid banking sector instability.

The Bank of Russia in some periods contained the ruble's nominal rise against the dollar in the past year. Owing to the gains the ruble made in 2004 the de-dollarisation of the Russian economy continued, although at a slower pace than in 2003. According to Russia's balance of payments data, cash foreign exchange outside the banking system contracted by $3.4 billion in the period under review, whereas it decreased by $6.6 billion in 2003. The household and enterprise sectors' foreign currency deposits contracted from 18.9% of the money supply in the monetary survey definition, that is, including foreign currency deposits, as of January 1, 2004, to 17.6% as of January 1, 2005, or by 1.3 percentage points (whereas in 2003 their ratio declined by 6.5 percentage points).

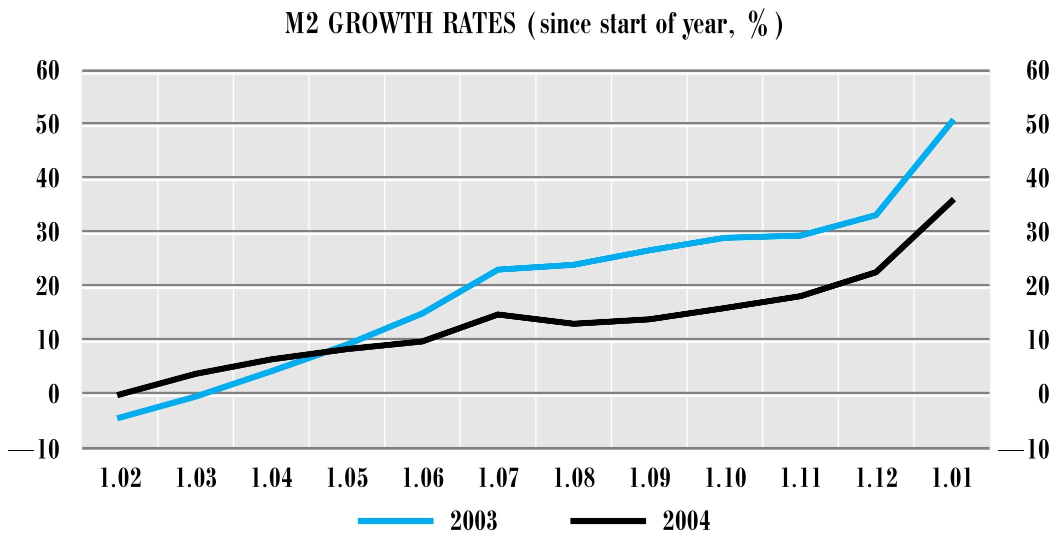
Over 2004, the supply of rubles increased by 35.8%, exceeding the initial forecast for the year. At the same time, it remained within the Bank of Russia's revised estimate of the demand for money. The slowing of growth in the ruble supply as compared with the previous year, including the significant reduction (by almost 1.5 times) in the rate of growth in cash, the most liquid component of the money supply, had a restraining effect on inflation dynamics. The money supply in the monetary survey definition grew slower (by 33.7%) than the M2 monetary aggregate. However, the difference between the two rates was more significant in 2003 (38.5% as against 50.5%) and this serves as an indication that the de-dollarisation process was slower in 2004.

The structure of the ruble supply (M2 monetary aggregate) changed in favour of the least liquid components. The cash ratio, for example, contracted from 35.7% as of January 1, 2004, to 35.2% as of January 1, 2005. Despite the temporary outflow of personal deposits in the middle of the year, the share of the ruble-denominated time deposits expanded from 32.1% as of January 1, 2004, to 34.7% as of January 1, 2005.

The velocity of money continued to decline in 2004. Calculated on an average annual basis by the M2 monetary aggregate, it slowed from 5.2 as of the beginning of 2004 to 4.6 as of the beginning of 2005. At the same time, its reduction in 2004, especially in the second half of the year, was slower than in 2003. Overall, in the period under review, M2 velocity slowed by 11.1% in comparison with 15.2% in 2003. The rate of the economy's monetisation, calculated by the M2 monetary aggregate, gradually increased during 2004 and reached 21.5% as against 19.1% in 2003.

The sources of money supply growth in 2004 were both growth in banking sector net foreign assets and growth in bank claims on the non-financial sector. At the same time, a large part of the aggregate money supply created by the inflow of foreign exchange to the country was absorbed by the increased balances of the general

Chart 23



government's accounts with the Bank of Russia, including the Stabilisation Fund mechanism, and the monetary regulation instruments used by the Bank of Russia.

The year under review saw significant growth in banking sector claims on the non-financial enterprise and household sectors, which were the biggest sources of money supply growth for most of the year. Their average monthly rate of growth surpassed the 2003 rate by 1.5 times and the full-year increase in these claims stood at 47% in 2004 as against 43% a year earlier.

Last year, the Bank of Russia sought to enhance the importance of interest rates as a monetary policy instrument, but as the supply of foreign exchange on the market far surpassed demand, raising interest rates to toughen monetary policy could have stimulated the inflow of speculative foreign capital to the country due to the significant difference between interest rates in Russia and abroad, and thus increase upward pressure on the ruble.

The average cost of short-term money, set by the interest rate band on Bank of Russia operations, tended to decline in the year under review. This created conditions for reduced inflationary expectations and interest rates on bank loans to non-financial borrowers and made credit more affordable for the real economy.

As the level of banking sector liquidity rose in 2004, interest rates continued to decline on the money market and on bank operations. The average weighted interest rate on overnight interbank ruble loans on the Moscow money market fell to 3.3% in 2004 as against 3.8% in 2003. The average weighted interest rate on ruble loans extended to corporate borrowers by banks, including Sberbank, for terms up to one year dropped from 12.4% in December 2003 to 10% in December 2004.

The 2004 level of interest rates was a factor of growth in credit to the non-financial enterprise and household sectors. The general reduction of interest rates amid the high level of banking sector liquidity stimulated growth in the enterprise sector's investment activity. Loans extended in rubles grew faster than foreign currency loans and loans extended to the enterprise sector accounted for the largest share of ruble and foreign currency loans.

At the same time, consumer credit, which has been growing rapidly in recent years, continued to increase in 2004. Loans to individual borrowers accounted for 8.6% of banking sector assets at the end of 2004, which represents an increase of more than 50% year on year. The increased accessibility of credit became a factor of growth in consumer activity, which can be seen in increased expenses on goods and services. Higher consumer demand, accompanied by investment growth, was a major element of economic growth in 2004.

The ruble exchange rate dynamics in 2004 had a restraining effect on consumer price growth as they restricted increases in the prices of imported consumer goods and, consequently, the prices of their domestically produced counterparts.

The policy of maintaining the federal budget surplus and the Stabilisation Fund established by

MONEY SUPPLY STRUCTURE
AND M2 VELOCITY DYNAMICS

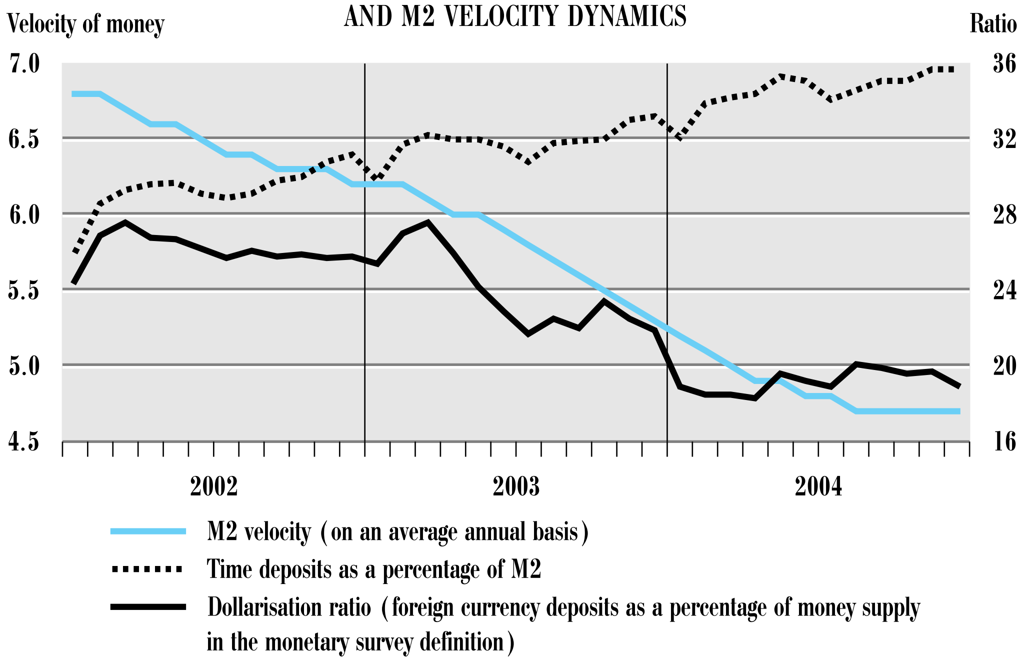


Chart 24

M2 VELOCITY
AND CONSUMER PRICES

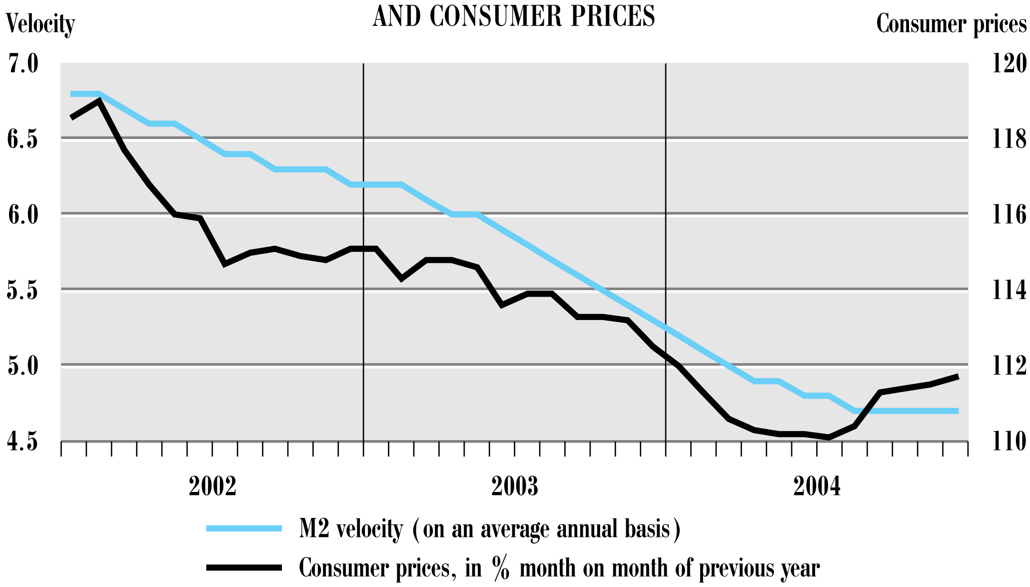


Chart 25

the Russian Government, which accumulated additional revenues from high energy prices on the world market, helped absorb the excess liquidity during the budget year created by the strong balance of payments. This was a major factor of slowing the inflation rate.

Nevertheless, inflation in 2004 exceeded the target set for it. It should be noted that monetary factors played a limited part in inflation during the year under review, since the main reasons why consumer price growth exceeded the target were outside the monetary sphere. Rapid growth in the prices of paid services provided to the public and the prices of some products, especially meat and petrol, had a negative effect on overall consumer price dynamics. There is reason to believe that the general trend towards slowing growth in the money supply and the expansion of the least liquid elements in it will produce a restraining effect on inflation in the medium term.

II.1.2. THE DYNAMICS OF MONETARY AUTHORITY INDICATORS AND USE OF MONETARY POLICY INSTRUMENTS

The key factors of importance for the broad monetary base[1] in 2004 were a stronger balance of payments, the expansion of the Stabilisation Fund and changes in the exchange rate expectations of credit institutions and their customers.

As the current account surplus increased by 70% largely due to the improved international market price situation for Russian exports, net international reserves of the monetary authorities (at fixed cross-rates of foreign currencies against the US dollar as of the beginning of the year) expanded by $46.7 billion in 2004 as against $27.7 billion in 2003. The excess of the supply of foreign exchange over demand on the domestic market and the need to carry out measures to prevent the ruble from gaining too much and cushion sharp fluctuations in its exchange rate predetermined more Bank of Russia interventions on the domestic foreign exchange market, which became the principal source of growth in the monetary base in the period under review.

To ensure that the demand for money matched the money supply, the monetary authorities used all the instruments at their disposal.

The year 2004 saw budgetary policy have increased influence on monetary indicator dynamics due to the significant increase in budget revenue and the establishment of the Stabilisation Fund. As there was a considerable consolidated budget surplus (4.5% of GDP in 2004), nearly half the growth in the money supply created by the Bank of Russia as a result of its operations on the domestic foreign exchange market was absorbed by the expansion (by 649.2 billion rubles) of the balances in the general government accounts with the Bank of Russia. The use of the budget mechanism to sterilise surplus money supply amid the strong balance of payments was extremely important for preventing inflation growth.

A major factor behind the slowing of growth in the demand for rubles and money supply was the change in economic agents' expectations in 2004, especially with regard to the exchange rate dynamics, which were connected to a great extent with the exchange rate fluctuations of the world's major currencies, particularly the dollar and the euro. The ruble's decline against the dollar in April—August 2004 stimulated growth in the demand for foreign exchange by banks and their customers and this was reflected in the increase of banking sector net foreign assets and slower expansion of the monetary base. In the subsequent period, the ruble's nominal rally against the dollar brought about the opposite trend in the dynamics of these indicators.

The broad monetary base expanded by 24.7% over the year under review as against 55.3% in 2003 and its dynamics were uneven throughout the year.

Growth in the money supply in the first and fourth quarters of 2004 was mainly due to Bank of Russia interventions on the domestic foreign exchange market, which led to significant growth in banking sector liquidity. The average daily value of banking sector aggregate reserves[2], which are the measure of the banking sector's ruble liquidity level, was larger than their annual average by 20.1% in the first quarter and 4.8% in the

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[1] The broad monetary base comprises cash issued by the Bank of Russia, including cash balances in banks' tills, funds in required reserve accounts with the Bank of Russia, credit institutions' correspondent and deposit accounts with the Bank of Russia, credit institutions' investments in Bank of Russia bonds, reserves for foreign exchange operations deposited with the Bank of Russia and other Bank of Russia obligations on ruble operations with credit institutions.

[2] Banking sector aggregate reserves include the balances of credit institutions' correspondent and deposit accounts with the Bank of Russia and required reserve accounts with the Bank of Russia, reserves deposited with the Bank of Russia for foreign exchange operations, Bank of Russia commitments of reverse repurchase of bonds, including Bank of Russia bonds, and cash balances in credit institutions' tills.

EXCHANGE RATE DYNAMICS AND SOURCES OF MONEY SUPPLY IN 2003 AND 2004
(quarter on quarter change, billion rubles)

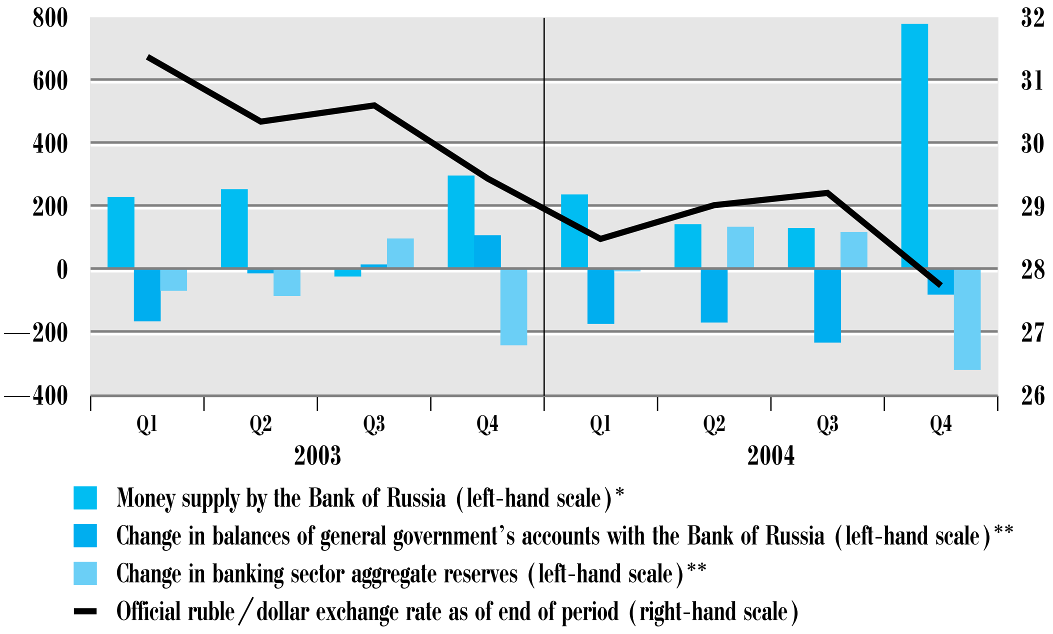


Chart 26

* Due to change in foreign currency reserves, repo operations, currency swap transactions and extension of overnight and Lombard loans.
** (—) signifies increase, (+) signifies decrease.

fourth and by 71.1% in comparison with 2003 Q1 and 29.0% in comparison with 2003 Q4.

In the second and third quarters, when the dollar's rally on international financial markets accelerated growth in the banking and non-financial enterprise sector demand for foreign exchange, the rate of growth in the monetary base slowed significantly. As of the end of the first quarter, the broad monetary base had expanded by 50.8% year on year (in the moving 12-month period), as of July 1, 2004, it had grown by 25.2% and as of October 1, 2004, it had increased by 23.1%. Credit institutions' average daily aggregate reserves in Bank of Russia accounts were down 12.4% from their annual average in April—September 2004 and rose by 4.5% in comparison with the same period of 2003. Given this situation, the Bank of Russia took measures to raise the banking sector's liquidity level.

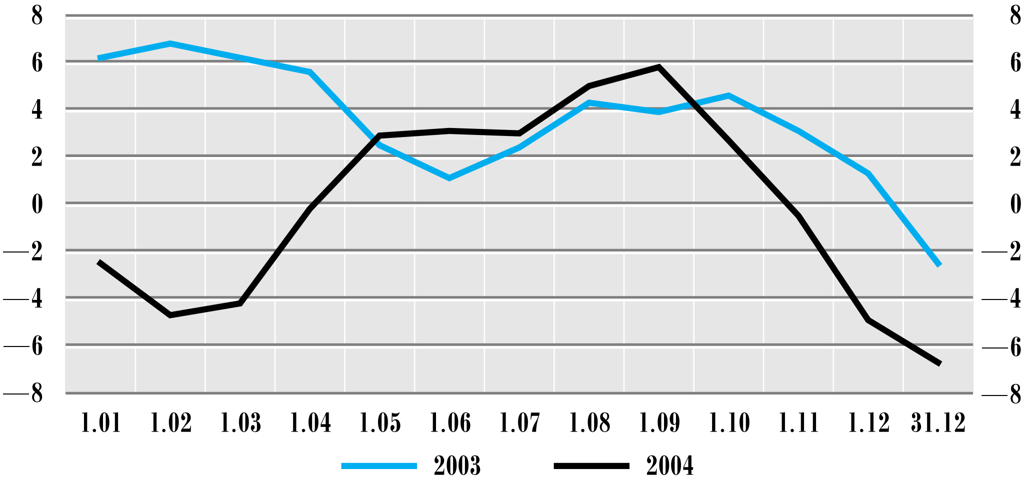
To prevent the acceleration of inflation as a result of the money supply growth caused by massive inflow of foreign currency to the domestic foreign exchange market, the Bank of Russia in the first and fourth quarters of the year under review upgraded and aggressively used market and standing instruments of monetary regulation to sterilise credit institutions' temporarily free funds.

As market liquidity absorption instruments, the Bank of Russia used deposit auctions, reverse modified repo auctions and Bank of Russia bond auctions and sold government securities from its own portfolio without a commitment of reverse repurchase. In addition, credit institutions could constantly deposit their free funds with the Bank of Russia as the latter conducted daily **deposit operations** at fixed interest rates on the following standard terms: tom-next, spot-next, 1 week, spot-1 week and call. Interest rates on tom-next, spot-next and call deposit operations were set at 0.5% p.a. in 2004 and on 1-week and spot-1 week deposits at 1% p.a.

The terms of the deposit auctions held weekly on Thursday were as follows: two weeks (until the end of January 2004), four weeks (from February 5, 2004) and three months. The average weighted interest rates on four-week deposits in 2004 were 1.94% p.a. and three-month deposits 3.33% p.a. Despite the low level of interest rates (0.5—1%), the daily deposit operations to

Chart 27

DYNAMICS OF CREDIT INSTITUTIONS' NET FOREIGN ASSETS IN 2003 AND 2004
(billion US dollars)*



* Credit institutions' net foreign assets have been calculated on the basis of data from the monetary survey, which is compiled using a methodology different from the one used in calculating the banking sector's international investment position, especially with regard to accounting for data on non-resident investments in the capital of Russian credit institutions.

sterilise banking sector liquidity played the leading role. The debt on Bank of Russia deposits varied from 30 billion rubles to 275 billion rubles and the average daily debt stood at 113 billion rubles, an increase of 35 billion rubles on 2003.

As credit institutions' free funds increased significantly at the beginning of 2004, the Bank of Russia conducted **reverse modified repo (OMR)** operations for terms longer than four months. The rates offered by the Bank of Russia on these operations ranged from 2% to 5% p.a. and the average reverse repurchase term was 141 days. The average daily debt owed by the Bank of Russia on OMR operations in 2004 stood at 64.0 billion rubles and about 60% of the year's transactions were concluded in the first quarter. In the second half of the year, after issuing Bank of Russia bonds, the Bank of Russia began to replace OMR deals by operations with its own bonds.

The Bank of Russia actively conducted **operations to sell federal loan bonds (OFZ) from its own portfolio without a commitment of reverse repurchase** until the middle of April of the year under review when there was no offer of government bonds from the Finance Ministry and Pension Fund. These operations were used as an additional means of absorbing excess liquidity. The Bank of Russia conducted these operations on the secondary market, some of them at auctions. In the period under review, it sold a total of 36.4 billion rubles of federal loan bonds on the open market. The restructuring in November 2004 of part of the Finance Ministry's debt to the Bank of Russia into marketable securities with a total nominal value of 52 billion rubles gave the Bank of Russia broader opportunities for regulating the money supply: as a result of the exchange, the Bank of Russia added to its portfolio four new OFZ bond issues, two of which it used in open-market operations.

In September 2004, for the first time since 2001, the Bank of Russia floated its **own bonds (Bank of Russia bonds, or OBR)** on the open market. The principal objective of OBR operations is to ensure the medium-term sterilisation of banking sector liquidity and the development of a representative money market interest rate curve. Diversifying the monetary regulation instruments by adding OBR operations to them allowed the Bank of Russia to react faster to market changes.

The Bank of Russia energetically conducted OBR operations in the fourth quarter of 2004 when the level of banking sector liquidity was rather high. The average daily debt owed by the Bank of Russia on OBR bonds stood at 21 billion rubles in October—December 2004 and interest rates ranged from 4.2% to 5.7% p.a.

DYNAMICS OF EXCHANGE RATE AND BANK OF RUSSIA OBLIGATIONS ON DEPOSIT, REVERSE MODIFIED REPO AND BANK OF RUSSIA BOND OPERATIONS WITH CREDIT INSTITUTIONS IN 2004

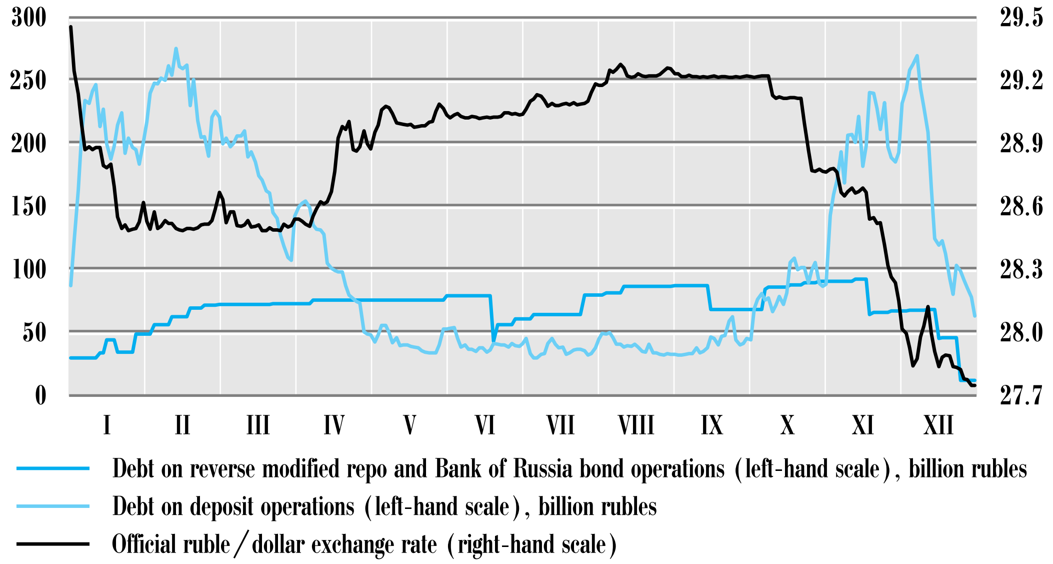


Chart 28

In 2004, when setting interest rates on liquidity sterilisation operations, the Bank of Russia sought to avoid situations that would stimulate the inflow of short-term foreign capital, which could increase pressure on the exchange rate of the ruble and force the Bank of Russia to allow the money supply to grow more than it deemed necessary. As a result, some OMR auctions were cancelled as participants asked for yields unacceptable to the Bank of Russia.

As the supply of foreign exchange far outstripped demand, the Bank of Russia Board of Directors in December 2004 decided to lower **the compulsory sale requirement for residents' foreign currency earnings on the domestic foreign exchange market** from 25% to 10%.

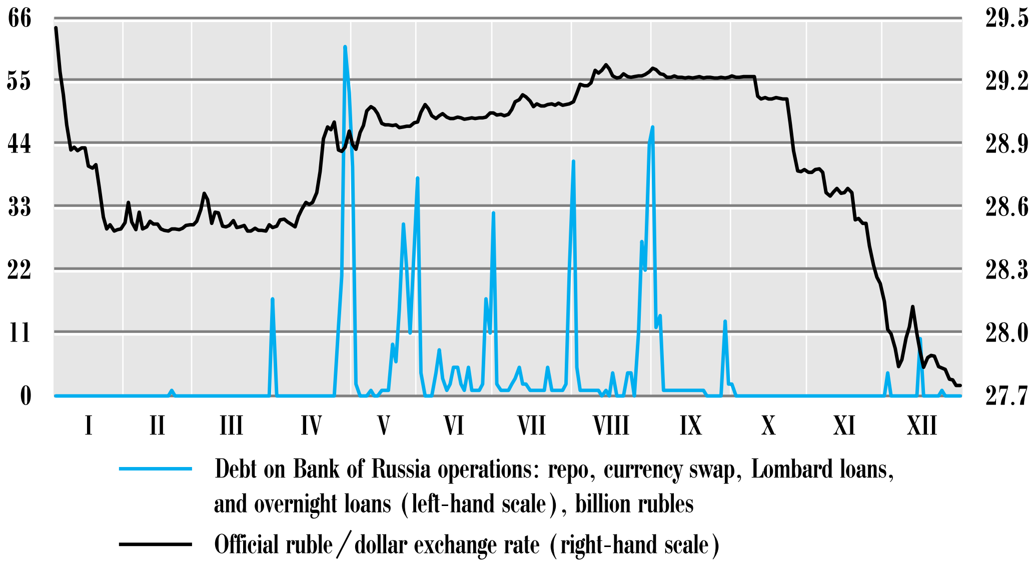
The decisions taken by the Bank of Russia in 2004 to lower **the required reserve ratios and introduce a procedure for averaging required reserves** were highly important for the regulation of banking sector liquidity. These decisions were prompted by the developments on the interbank market in the spring and summer of 2004 and the need gradually to equalise the competitive conditions of Russian and foreign credit institutions and bring the required reserve ratios to a level comparable with those established by central (national) banks in the industrialised nations.

In accordance with decisions taken by the Bank of Russia Board of Directors, the required ratio for the ruble funds attracted from corporate entities and foreign currency funds attracted from corporate entities and private individuals was reduced on April 1 from 10% to 9%, on June 15 from 9% to 7% and on July 8 from 7% to 3.5%. On July 8, the reserve requirement for personal ruble funds was also lowered from 7% to 3.5%.

On August 1, 2004, the Bank of Russia changed the composition of the required reserve base, including in it credit institutions' obligations to non-resident banks and establishing a reserve requirement of 2% for these obligations, and introduced the procedure for averaging the required reserves. The averaging mechanism signifies that the average balance of the corresponding account of a credit institution's head office with the Bank of Russia is accepted as the partial fulfilment of the reserve requirement by the credit institution. For the purposes of this mechanism, the Bank of Russia established the averaging factor at 0.2 at the outside, which means that a credit institution may keep up to 20% of the required reserves in its correspondent account. The maximum averaging factor for the settlement non-bank credit institutions and clearing centres of the organised securities market was set at 1.0 from November 1, 2004.

Chart 29

DYNAMICS OF EXCHANGE RATE AND DEBT ON BANK OF RUSSIA MONEY LENDING OPERATIONS IN 2004



The averaging mechanism has been well received by credit institutions. By the end of 2004, 40% of operating credit institutions were using it. At the same time, the required reserves kept by credit institutions in correspondent accounts with the Bank of Russia aggregated nearly 12 billion rubles in December. Overall, the total value of credit institutions' required reserves deposited with the Bank of Russia decreased by 145.6 billion rubles, or 54.5%, and as of January 1, 2005, it stood at 121.7 billion rubles.

As aggregate banking sector reserves declined in the second and third quarters of 2004, the Bank of Russia focused its efforts on increasing the funds provided to credit institutions at repo and Lombard loan auctions, and through currency swap transactions and by extending intraday and overnight loans.

Banking sector demand for **intraday loans** increased in 2004 and their value doubled in comparison with 2003 (it rose from 1.54 trillion rubles to 3.05 trillion rubles). The average monthly value of intraday loans extended in 2004 amounted to 254 billion rubles as against 126 billion rubles a year earlier. Intraday loans were extended to more than 150 credit institutions, which used them to meet their current short-term needs in liquidity. Intraday loans were extended free of charge.

The value of funds provided to the banking sector through **repo operations** increased by 80% in 2004 year on year (from 331 billion rubles to 594 billion rubles). Most of the funds (about 50% of the full-year amount) were provided by the Bank of Russia through repo operations in May—July 2004 when there was a shortage of funds on the interbank market caused by the drop in market players' confidence in one another. The demand was mainly for short-term borrowings, such as overnight repo, and interest rates on these operations varied between 6.0% and 10.8%, depending on the situation on the money market.

Overnight **currency swap operations,** which were conducted at an interest rate equalling the Bank of Russia refinancing rate, were in particularly high demand on the market in April, when the accumulation of funds in budget accounts amid Bank of Russia net sales of foreign currency on the domestic foreign exchange market created a shortage of ruble liquidity. For some credit institutions the refinancing through currency swap deals was virtually the only way of getting liquidity: most commercial banks had plenty of dollars, but the securities accepted as collateral for repo operations were distributed extremely unevenly among market players. In 2004, the total value of currency swap transactions amounted to 160.3 billion rubles, or $5.5 billion.

In 2004, the Bank of Russia extended 30.3 billion rubles in **overnight loans** to credit institutions, twice the amount registered in 2003. More than 43% of total overnight loans were extended in the third quarter of 2004, when the interbank market was in trouble. Overnight loans were extended at an interest rate equal to the Bank of Russia refinancing rate. The Bank of Russia changed the refinancing rate twice in 2004: on January 15 the Bank of Russia Board of Directors decided to cut it from 16% to 14% p.a. and on June 15 it lowered it to 13% p.a.

The Bank of Russia continued to hold 14-day **Lombard loan auctions** in 2004. Credit institutions in all regions could receive Bank of Russia Lombard loans (in accordance with the procedure and on terms and conditions established by the Bank of Russia). The total value of Lombard loans extended in the year under review stood at 4.5 billion rubles, of which more than half was extended in the third quarter. The average weighted Lombard loan auction interest rate varied from 7.32% to 8.57% p.a. in 2004.

In 2004, the Bank of Russia extended the list of assets it accepted as security for its loans and repo operations. Specifically, it included in the Bank of Russia Lombard List Russian Government foreign loan bonds, Russian Government foreign currency loan bonds of the 1999 issue, regional and municipal loan bonds with the international investment grade rating (Moscow government bonds), mortgage agency bonds guaranteed by the Russian Government (bonds issued by the Housing Mortgage Lending Agency) and mortgage-backed bank bonds guaranteed by regional and municipal governments (bonds issued by the commercial joint-stock bank Moskovskoye Ipotechnoye Agentstvo (Moscow Mortgage Agency)).

II.1.3. EXCHANGE RATE POLICY

In the year under review, the Bank of Russia, following the Guidelines for the State Monetary Policy in 2004, continued to pursue the exchange rate policy in the managed floating exchange rate regime. The need to maintain this regime was dictated by the conditions of the Russian economy, which depends to a great extent on the situation on international markets. The exchange rate policy pursued by the Bank of Russia in 2004 aimed to cushion abrupt exchange rate fluctuations, contain inflation and prevent the ruble from getting too strong in order to ensure an acceptable balance between maintaining the current competitiveness of domestic producers and creating conditions for the modernisation of the technological base of the Russian economy in the medium term.

Owing to the terms of foreign trade in the period under review, Russia's current account surplus increased significantly year on year. The sharp increase in the prices of major Russian export commodities on the world market brought vast amounts of foreign currency earnings to the country. Specifically, the average price of Urals crude rose to $34.6 per barrel in 2004, exceeding all macroeconomic projections in the Guidelines for the State Monetary Policy in 2004. Capital inflow, stimulated by US dollar dynamics on the world currency market and growth in Russian companies' borrowings abroad, also had significant effect on the balance of the demand for foreign exchange and its supply on the domestic foreign exchange market during the year. Hence, the extent to which the main factors affected the balance between demand and supply on the domestic foreign exchange market in 2004 was quite different from that considered when the country's macroeconomic development scenarios were written and conditions for the implementation of the exchange rate policy were determined.

As the supply of foreign exchange surpassed demand far more significantly than was forecast in the Guidelines for the State Monetary Policy in 2004, Bank of Russia decisions to intervene on the domestic foreign exchange market to prevent the ruble's excessive growth were based on an analysis of the influence which the changes in the exchange rate had on the current and could have on the future state of the Russian economy, taking into account its structure and inflationary developments. When implementing the exchange rate policy, the Bank of Russia also took into account the euro/dollar dynamics on the world currency market, because the euro has become the second most important world currency for the Russian economy, especially in foreign trade.

The ruble/dollar conversion operations on the domestic foreign exchange market were the principal foreign exchange policy instrument and Bank of Russia quoted buying and selling prices of foreign currency were the main guide for market price dynamics.

The Bank of Russia conducted currency conversion operations on currency exchanges and on the over-the-counter interbank foreign exchange market. The Unified Trading Session (UTS) was the principal venue for Bank of Russia operations. The value of transactions concluded by the Bank of Russia at the UTS exceeded the total value of Bank of Russia operations on other segments of the foreign exchange market by 124%.

As the country's current account surplus increased by 70% in 2004, Bank of Russia interventions on the domestic foreign exchange market went up by 43% in value year on year and totalled $63.2 billion, and the net value of foreign exchange bought by the Bank of Russia rose by 51% year on year.

The year under review can be divided into three periods from the standpoint of how the situation on the domestic foreign exchange market developed. In January and February, when the supply of foreign exchange exceeded demand on the domestic foreign exchange market, the Bank of Russia bought up vast amounts of dollars to prevent the ruble from getting too strong against the dollar.

In March, however, the dollar began to rally against the ruble on the domestic foreign exchange market due to the dollar's rise against the euro on the world currency market and this trend continued until September. In that situation, mar-

VOLUME OF BANK OF RUSSIA INTERVENTIONS IN 2003 AND 2004 AND DYNAMICS OF OFFICIAL US DOLLAR EXCHANGE RATE

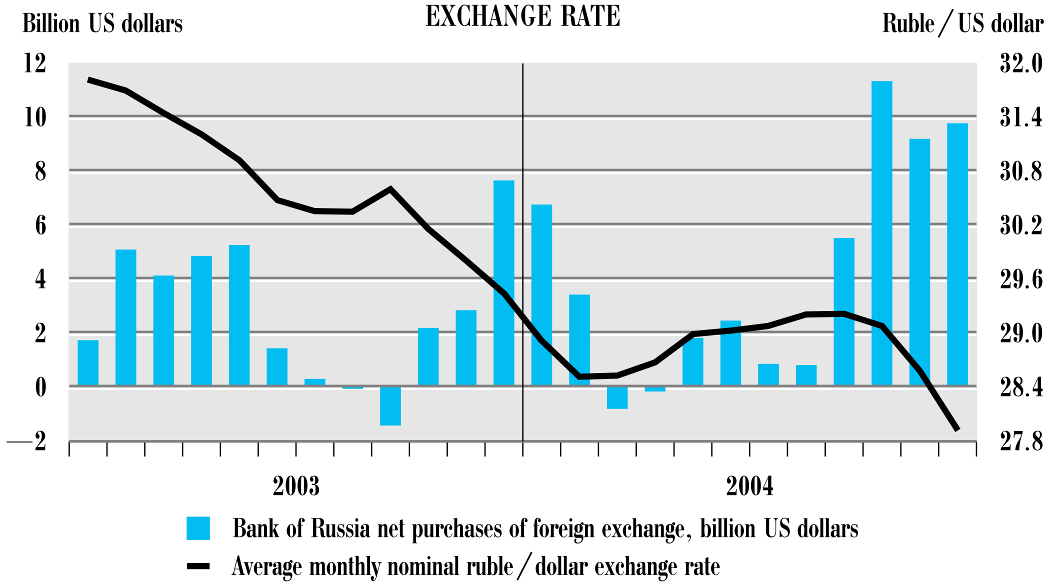


Chart 30

ket players began to take mostly long currency positions and, naturally, faced the need to finance them and this led to a significant reduction of the level of banking sector ruble liquidity. The situation on the financial market as a whole deteriorated as a result, causing rates to rise and mutual limits on the interbank lending market to contract. In that period, the principal objective of the Bank of Russia's exchange rate policy was to reduce ruble volatility and, therefore, the Bank of Russia conducted currency interventions to balance the demand for foreign exchange and its supply by banks on the domestic foreign exchange market.

The dollar's sharp fall on the world currency market, which began in September, was the principal factor of significant growth in the capital inflow to Russia[1] and this, coupled with the huge amounts of incoming foreign currency earnings from exports, created conditions for the sustained oversupply of US dollars on the domestic foreign exchange market. In that situation, the Bank of Russia bought vast amounts of US dollars to smooth out the exchange rate dynamics. The dynamics of Bank of Russia rates in that period corresponded to the dynamics of the dollar/euro rate on the world currency market.

The main provisions of Federal Law No. 173-FZ, dated December 10, 2003, "On Foreign Exchange Regulation and Foreign Exchange Control," which came into force in the summer of 2004, made the Russian foreign exchange market far more accessible for foreign capital. The reserve requirements established for entering funds to or writing them down from special accounts when conducting most of the foreign exchange operations connected with capital inflow were not a major obstacle to cross-border capital movement because the Bank of Russia set them at a lower level than the above law stipulated. At the same time, against the backdrop of macroeconomic factors, the changes in foreign exchange regulation had no significant effect on the balance of supply and demand on the domestic foreign exchange market and, consequently, on the conditions of the exchange rate policy implementation.

Over the year, the average monthly nominal ruble/dollar rate rose by 5.4%, whereas the ruble/euro rate fell by 3.3% (December 2004 as against December 2003). The average monthly real rate of the ruble gained 14.0% against the dollar and 6.0% against the euro. The real effective rate of the ruble gained 4.7%, an increase of 0.6 percentage points on 2003.

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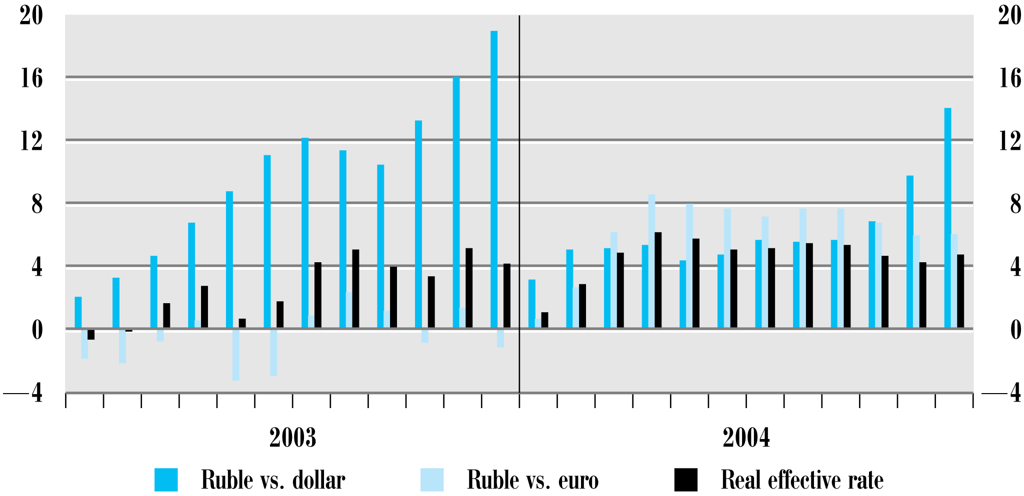
[1] The Q4 balance of the financial account stood at $13.6 billion.

Chart 31

REAL RUBLE RATE DYNAMICS IN 2003 AND 2004
(growth as % of December of previous year)



In addition to the specific conditions of the world currency market and the market for major Russian export commodities in 2004, the ruble's rise in real terms was preconditioned by the excess of the inflation rate in Russia over the rates of inflation in its major trading partners. At the same time, the acceleration of inflation in some Eastern European and CIS countries in the second half of the year ensured slower growth in the real effective rate of the ruble. As a result, in the first half of the year growth in the ruble's real effective rate was mostly within the limits set by the increase in the real rates of the ruble against the dollar and the euro, whereas in the second half it exceeded these limits.

II.2. INTERNATIONAL RESERVE MANAGEMENT

The value of Russia's international reserves, calculated according to the IMF methodology[1], increased from $76.9 billion to $124.5 billion in 2004. Bank of Russia foreign-exchange reserves increased from $70.3 billion to $119.1 billion over the year.

The Bank of Russia managed its international reserves pursuant to Point 7 of Article 4 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)." Bank of Russia gold and foreign-exchange reserves are a part of Russia's international reserves. In 2004, the Bank of Russia managed its international reserves in line with the Core Principles of Managing Bank of Russia Foreign-Exchange Reserves, approved by the Bank of Russia Board of Directors, other Bank of Russia standards and procedures and the generally accepted practice of managing central bank international reserves.

The objective of reserve management was to ensure the optimal combination of the security, liquidity and profitability of reserves.

The security of reserves was achieved by using a comprehensive risk management system, based on the use of high-security financial market instruments, establishing stringent requirements for the foreign counterparties of the Bank of Russia and limiting risk assumed for each counterparty to the extent of its evaluated creditworthiness and conducting operations on the basis of agreements concluded between the Bank of Russia and its counterparties and protecting the interests of the former.

To ensure the optimal combination of liquidity and profitability, the Bank of Russia foreign-exchange reserves are grouped into operating and investment portfolios. The operating portfolio comprises the balances of correspondent accounts and short-dated money market instruments, such as deposits, repo deals and short-term discount securities. The management of this portfolio ensures that the necessary liquidity level of the foreign-exchange reserves is maintained.

The investment portfolio funds are invested in longer-term and, consequently, riskier and more profitable instruments of the international capital market. The investment portfolio is managed to receive additional profit.

In 2004, the value of the Bank of Russia operating portfolio of foreign-exchange reserves increased from $54.8 billion to $102.1 billion. The value of the investment portfolio rose from $13.6 billion to $18.5 billion[2]. The main factor of growth in the foreign-exchange reserve portfolios last year

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[1] *Balance of Payments Manual. IMF, Fifth Edition, 1993.*

[2] *The sum of the operating and investment portfolio values differs from the value of the Bank of Russia foreign-exchange reserves calculated according to the IMF methodology because the accounting of the currency assets for*

was Bank of Russia purchases of foreign currency on the domestic foreign exchange market. Other contributing factors were incomes from operations with Bank of Russia assets in foreign currency and precious metals, and changes in the exchange rates of the reserve currencies (the euro and pound sterling), in which a part of Bank of Russia reserves were denominated, against the dollar. In 2004, the Bank of Russia transferred a small part of funds from the operating portfolio to the investment portfolio. It made no significant transfers from the operating portfolio to the investment portfolio as it expected securities prices to fall on growth in discount rates in major world currencies.

The management of foreign-exchange reserves is connected with the Bank of Russia's assuming financial risks. The principal financial risks are market (currency and interest) risk and credit risk. Risk management in conducting operations with foreign-exchange reserves included the detection of risk, its evaluation, setting limits and monitoring compliance with them.

The management of currency risk is based on establishing a standard currency structure of Bank of Russia foreign-exchange reserves and setting limits on possible deviations of the actual currency structure from the standard one. In 2004, Bank of Russia reserves were invested in assets denominated in the US dollar, euro and pound sterling.

Due to significant dollar purchases on the domestic foreign exchange market, the Bank of Russia bought euros and pounds sterling for dollars on the international currency market in 2004 to comply with the required dollar ratio in its foreign-exchange reserves.

Interest risk is the possibility of incurring financial losses due to changes in interest rates on each reserve currency. Modified duration indicators are used as indicators for the level of interest risk. To lower interest risk, limits are set on the extent to which the duration of the Bank of Russia actual foreign-exchange reserve portfolios can deviate from the standard level.

Credit risk is restricted by limits set on Bank of Russia counterparties and the requirements made on the credit quality of the issuers of the securities in Bank of Russia foreign-exchange reserves (no credit limits were set directly on the securities issuers). The lowest permissible long-term credit rating of Bank of Russia counterparties and debtors on operations with Bank of Russia foreign-exchange reserves was set at A in accordance with the classifications of the rating agencies Fitch Ratings and Standard & Poor's or A2 in accordance with Moody's classification. The lowest permissible issue rating (or issuer rating) was set at AA- according to the classification of Fitch Ratings and Standard & Poor's or Aa3 according to Moody's classification. Deals relating to the management of foreign-exchange reserves were struck with foreign counterparties on the corresponding list and within the credit risk limits set for them.

A standard ratio of risk to return as the expected reward for the risk assumed by the Bank of Russia in managing foreign-exchange reserves was established for each reserve portfolio. Actual profitability indicators were calculated on a daily basis, taking into account both realised income and the changes in the value of the portfolio assets. Return was evaluated for each currency in the operating and investment portfolios.

Profitability indicators for the Bank of Russia foreign-exchange reserve portfolios in 2004 are shown in Table 33.

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the purposes of operating and investment portfolio management is different in coverage and valuation from the accounting of international reserves calculated according to the IMF methodology.

II.3. BANKING REGULATION AND SUPERVISION

II.3.1. UPGRADING THE LEGAL FRAMEWORK OF BANKING AND BANKING SUPERVISION

To implement the Guidelines for the State Monetary Policy in 2004, the action plan for the Russian Government's Medium-Term Social and Economic Development Programme (2003—2005) and the draft of the Banking Sector Development Strategy for the Period until 2008, approved in principle by the Russian Government at a session on July 1, 2004, the Bank of Russia continued to upgrade banking legislation in 2004.

To build up confidence in the banking system, Russia enacted Federal Law No. 96-FZ, dated July 29, 2004, "On Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System," which established the legal, financial and organisational principles of effecting such payments by the Bank of Russia. In pursuance of this Law, the Bank of Russia issued regulations establishing the procedure for the selection by competition of agent banks for making the said payments by the Bank of Russia, the procedure for co-operation between agent banks and the Bank of Russia and the procedure for effecting Bank of Russia payments on personal deposits in banks declared bankrupt and not covered by the compulsory deposit insurance system.

The Bank of Russia participated in drafting Federal Law No. 218-FZ, dated December 30, 2004, "On Credit Histories," which established the procedure for creating, keeping and using credit histories and set out the principles of co-operation between credit bureaux and borrowers, federal and local government structures and the Bank of Russia and Federal Law No. 121-FZ, dated August 20, 2004, "On Amending the Federal Law 'On the Insolvency (Bankruptcy) of Credit Institutions' and Invalidating Some Laws (Provisions of Laws) of the Russian Federation," which changed the procedure for regulating the relations arising in connection with bank failures.

The Bank of Russia also took part in the discussion of the following draft federal laws designed to amend the Tax Code of the Russian Federation with regard to the taxation of mortgage-backed bond issuers and settling problems involved in the taxation of interest income from personal bank deposits.

The Bank of Russia participated in drafting amendments to Article 7 of the Russian Federation Law "On the Tax Authorities of the Russian Federation," which freed banks from the obligation to monitor the observance of cash operation rules by organisations and drafted federal laws establishing the procedure for issuing state housing certificates and granting subsidies to individuals.

In collaboration with the Ministry of Finance, the Bank of Russia in 2004 elaborated the draft concept and specifications of the federal law amending the Federal Law "On Banks and Banking Activities" and the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)." The purpose of the amendments was to grant to the Bank of Russia the power to supervise bank holding companies, review and specify the terminology and harmonise with international financial reporting standards the regulations relating to the banking groups and bank holding companies and their methods of disclosing information to users.

The Bank of Russia contributed to the concept of the draft federal law to amend and specify the provisions of the Federal Law "On Banks and Banking Activities" and the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" relating to the requirements established for the chief executive officers, chief accountants and members of the boards of directors (supervisory boards) of credit institutions.

II.3.2. OFF-SITE SUPERVISION AND INSPECTION OF CREDIT INSTITUTIONS

In 2004, the Bank of Russia continued to take steps to upgrade the applicable system of banking regulation, taking into account national and international best practice, including the recommendations of the Basel Committee on Banking Supervision. During the year under review, it issued several major regulations, which replaced some old rules and instructions.

Bank of Russia Regulation No. 254-P, dated March 26, 2004, "On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans and Loan and Similar Debts," introduced a number of fundamental changes in supervisory practice. It established professional judgement as the main principle of evaluating the quality of loans and establishing the size of the reserve. The document stipulated that professional judgement should be made on basis of the results of a comprehensive and objective analysis of the borrower's activities, taking into account the borrower's financial standing and debt service performance and all information the credit institution has on all aspects of the borrower's activities and risks.

Bank of Russia Instruction No. 110-I, dated January 16, 2004, "On Banks' Required Ratios," cut the number of the required ratios, reduced the instant liquidity (N2) and current liquidity (N3) ratios, changed the methodology of calculating some required ratios and established the requirement for credit institutions to comply with the required ratios on a daily basis. The regulations issued in pursuance of this Instruction stipulated the cases in which a Bank of Russia regional branch can require a bank to report the required ratio values as of an intramonth date or intramonth dates and established the requirement to calculate as of an intramonth date all indicators involved in the calculation of the required ratios, including the own funds (capital) of a bank, should the Bank of Russia demand that the bank calculate the required ratios as of an intramonth date or intramonth dates[1].

To implement the Housing Mortgage Lending Development Concept, passed by Russian Federation Government Resolution No. 28, dated January 11, 2000, "On Measures to Encourage Housing Mortgage Lending in the Russian Federation," the Bank of Russia issued, pursuant to the Federal Law "On Mortgage Securities," Instruction No. 112-I, dated March 31, 2004, "On the Required Ratios for Credit Institutions Issuing Mortgage-Backed Bonds." The Instruction established the calculating procedure and values of the required ratios stipulated by the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" and Federal Law "On Mortgage Securities" and the value and methodologies of calculating additional required ratios by credit institutions issuing mortgage-backed bonds and specified the implementation of Bank of Russia supervision of compliance with these requirements.

In 2004, the Bank of Russia carried out a range of measures designed to maintain banking sector stability and protect the legitimate interests of bank creditors and depositors. It continued to detect credit institutions whose own funds (capital) were created using improper assets. During selective inspections conducted in credit institutions taking into account the requirements of Bank of Russia Regulation No. 215-P, dated February 10, 2003, "On the Methodology of Determining a Credit Institution's Own Funds (Capital)," the quality of capital was evaluated in 761 credit institutions, or 58.6% of the total number of operating credit institutions.

At the proposal of the Bank of Russia, 14 credit institutions corrected their own funds (capital) to the total amount of 413.5 million rubles. After considering the materials submitted by Bank of Russia regional branches, the Bank of Russia

[1] *A list and brief description of these regulations can be found in the Addendum "Principal Measures Implemented to Upgrade Banking Regulation and Supervision in 2004."*

Banking Supervision Committee ordered four credit institutions to make capital corrections to the amount of 614.2 million rubles.

The Bank of Russia continued to upgrade the substantive supervision of credit institutions, including the problem of making the evaluation of their financial stability more accurate. When supervising credit institutions and taking supervisory measures, the Bank of Russia was guided, above all, by the nature of the risks assumed by credit institutions and the quality of risk management.

As in the past, the Bank of Russia laid emphasis on prevention when dealing with errant credit institutions in 2004. Guided by the results of an analysis of reports presented by 1,175 banks, it notified in writing the management and/or boards of directors (supervisory boards) of credit institutions about the shortcomings discovered in their work and held meetings with managers of 373 banks. Data on specific measures used against credit institutions in 2004 are presented in Table 44 "Sanctions used against credit institutions in 2004."

In 2004, the Bank of Russia continued to implement a programme on introducing curatorship as an instrument of supervision and retrained supervisors to this end.

To improve reporting, the Bank of Russia cancelled its Instruction No. 17, dated October 1, 1997, "On the Compiling of Financial Statements" and amendments to it (Bank of Russia Ordinance No. 1503, dated September 22, 2003, "On Eliminating Discrepancies in Bank of Russia Regulations"). It prepared recommendations for its regional branches on the analysis of statements compiled to IFRS standards[1].

In 2004, the Bank of Russia, fulfilling the functions assigned to it, controlled the conduct of mandatory annual audits by credit institutions and banking (consolidated) groups.

To make banking supervision more efficient, the efforts of the Bank of Russia in regard to the audit of credit institutions and banking (consolidated) groups were focused on arranging closer co-operation with the Finance Ministry and audit organisations. Designed to upgrade audit legislation and promote standards based on International Audit Standards, this co-operation was conducted within the framework of the Finance Ministry's Audit Council and its working groups.

The Bank of Russia pays special attention to the issue of transparency of individual credit institutions and the banking sector as a whole. In 2004, it released its regular Banking Supervision Report. The Bank of Russia intends to improve this publication by broadening the scope of analysis and the range of the instruments used, bringing it closer to international best practice standards.

The Bank of Russia is expanding the range of information disclosed on its website. More than half of the operating credit institutions now post information on their activities on the Bank of Russia website, and Bank of Russia regional branches are broadening the exchange of analytical materials in the Bank of Russia corporate portal. Nearly 20 Bank of Russia regional branches now regularly post the results of their analysis of the activities of credit institutions and banking services development in their respective regions on this corporate portal.

During the year under review, the Bank of Russia paid close attention to the development and upgrading of the analysis of risks involved in lending to the non-financial enterprise sector. A major element of this work is the practical utilisation of the results of enterprise monitoring and an analysis of demand for the banking services for supervision purposes and in the interests of the banking community. In 2004, the Bank of Russia implemented a pilot project to test the procedure for providing aggregated analytical materials prepared as a result of monitoring enterprises to credit institutions for risk valuation. Thirteen Bank of Russia regional branches and over 360 credit institutions based in different regions were involved in the project.

BANK OF RUSSIA INSPECTIONS. A major objective of the Bank of Russia at the current stage of economic development is to increase the role of the banking sector and, at the same time, enhance its stability. Therefore, inspection is becoming

[1] *Bank of Russia Operating Ordinance No. 35-T, dated February 28, 2005, "On Methodological Recommendations for the Analysis of the Financial Statements Compiled by Credit Institutions in Accordance with IFRS."*

increasingly important as an element of banking regulation, which helps to detect shortcomings in the performance of credit institutions and take timely measures to eliminate them.

In 2004, the Bank of Russia focused its attention when conducting inspections on the evaluation of credit institutions' compliance with federal laws and Bank of Russia regulations and credibility of the financial, statistical and accounting statements credit institutions presented to the Bank of Russia.

In 2004, inspections were conducted in the context of the recently enacted Federal Deposit Insurance Law. Hence, when considering banks' applications for entry into the deposit insurance system, the Bank of Russia focused on the quality of own funds (capital) to make sure that investors formed them with proper assets, the quality of the loan portfolio, the character and level of risk, the management and efficiency of internal controls and the observance of legislation on countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism.

Bank of Russia authorised representatives conducted 2,595 inspections of credit institutions and branches of credit institutions in 2004.

In accordance with the Summary Plan of Comprehensive and Selective Inspections of Credit Institutions and their Branches for 2004, the Bank of Russia conducted 1,442 inspections of credit institutions and branches of credit institutions, of which 771 inspections were conducted in the head offices of credit institutions, 503 in branches of credit institutions and 168 in Sberbank branches. Interregional inspections were conducted in 53 credit institutions and 120 branches of credit institutions. The Bank of Russia conducted 330 comprehensive inspections and 1,112 selective inspections of credit institutions and branches of credit institutions.

In addition, it conducted 1,153 unscheduled inspections of credit institutions and branches of credit institutions: 1,033 in the head offices of credit institutions, 79 in branches of credit institutions and 41 in Sberbank branches. The unscheduled inspections largely aimed to make sure that banks met the requirements for participation in the deposit insurance system, that they complied with the procedure for increasing authorised capital by more than 20% of the previously registered amount and that the acquirers of shares (stakes) in credit institutions used the right sources of funds when paying for them.

Pursuant to Article 45 of the Federal Deposit Insurance Law, the Bank of Russia conducted selective inspections in 1,125 credit institutions.

The inspections in 2004 revealed 17,883 infractions of laws and regulations by credit institutions and their branches, including violations of the required ratios and accounting, lending, and settlement rules and the requirements of the Federal Law "On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism."

After the inspections, the Bank of Russia used 1,562 disciplinary measures against credit institutions, of which 815 were preventive and 747 enforcement.

In 2004, the Bank of Russia continued to upgrade the methodology of conducting on-site inspections.

The effectiveness of inspections largely depends on the performance of the inspection divisions of Bank of Russia regional branches and interregional inspectorates of the Main Inspectorate for Credit Institutions, which co-ordinate inspections in the regions. Therefore, the Bank of Russia provided organisational and consultative assistance to the inspection divisions of its regional branches.

II.3.3. REGISTERING AND LICENSING BANKING ACTIVITIES

The number of licensed credit institutions decreased by 30 in 2004 and stood at 1,299 as of January 1, 2005, of which 50 were non-bank credit institutions. In the year under review, the number of registered credit institutions declined from 1,666 to 1,516.

As the Bank of Russia tightened the requirements for access of new credit institutions to the banking services market, only three credit institutions were registered in 2004 as compared with 16 in 2003 and 41 in 2002. The main reason was the establishment of more stringent requirements for the financial standing of the corporate founders of credit institutions.

The tightening of Bank of Russia supervisory requirements also led to the reduction in the number of credit institutions granted additional banking licences (54 in 2004 as against 65 in 2003). The principal Bank of Russia requirements applied to the financial standing of credit institutions which applied for permission to expand the range of their activities and the disclosure of information by these credit institutions on members and their groups (affiliated persons), allowing the Bank of Russia to identify the persons who can, directly or indirectly, influence the decisions taken by management of the credit institutions. In addition, the Bank of Russia extended all the requirements made to the banks applying for entry into the deposit insurance system to the banks applying for permission to handle household funds.

In 2004, the Bank of Russia did not permit 17 credit institutions to expand the range of their activities: nine credit institutions were denied permission because they were found to have created own funds (capital) by using improper assets, because of financial instability and failure to comply with Bank of Russia requirements for the size of own funds (capital), and eight credit institutions because their share (stake) ownership structures were opaque.

At the same time, the Bank of Russia issued 21 licences to credit institutions to conduct banking operations with rubles and foreign currency, 11 general licences, six licences to take household funds on deposit and six licences to take on deposit and place precious metals.

Overall, as of January 1, 2005:

— 1,165 credit institutions, or 89.7% of the total, had licences to take household funds on deposit;

— 839 credit institutions, or 64.6% of the total, had licences to conduct operations with rubles and foreign currency;

— 311 credit institutions, or 23.9% of the total, had general licences;

— 182 credit institutions, or 14.0% of the total, had licences to take on deposit and place precious metals and permission to conduct operations with precious metals.

As a result of the measures taken by shareholders and members of credit institutions to increase their capitalisation in 2004, the aggregate authorised capital of operating credit institutions grew from 362.0 billion rubles as of January 1, 2004, to 380.5 billion rubles as of January 1, 2005. However, the rate of growth in the credit institutions' capital base slowed down in the period under review. In 2003, it expanded by 61.6 billion rubles, whereas in 2004 growth slowed to 18.5 billion rubles. The slowdown was due to the tightening of Bank of Russia authorised capital requirements, including control over the quality of own funds (capital) of credit institutions and the financial condition of their corporate members.

The trend towards fewer credit institutions with an authorised capital of less than 60 million rubles continued in the period under review. The number of such credit institutions fell by 87, or 11.6%, in 2004 to 663, or 51% of the total number of credit institutions, as of January 1, 2005. At the same time, the number of credit institutions with an authorised capital of 60 million rubles and more rose by 57, or 9.8%, to 636.

As the situation in the Russian banking sector continued to change for the better in 2004, it continued to attract foreign investors. Over the year, non-resident stakeholding in the authorised capital of Russian credit institutions increased by 4.7 billion rubles, or 24.9%, to 23.6 billion

DYNAMICS OF NUMBER OF REGISTERED OPERATING CREDIT INSTITUTIONS AND BANKING LICENCES GRANTED TO THEM

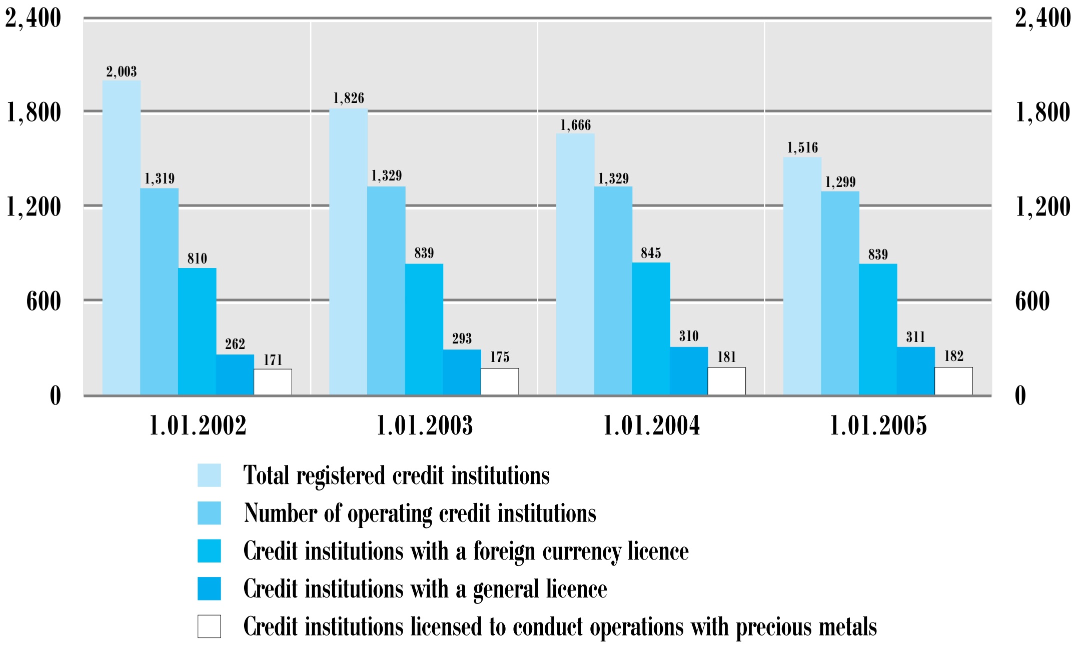


Chart 32

DYNAMICS OF REGISTERED AUTHORISED CAPITAL OF OPERATING CREDIT INSTITUTIONS

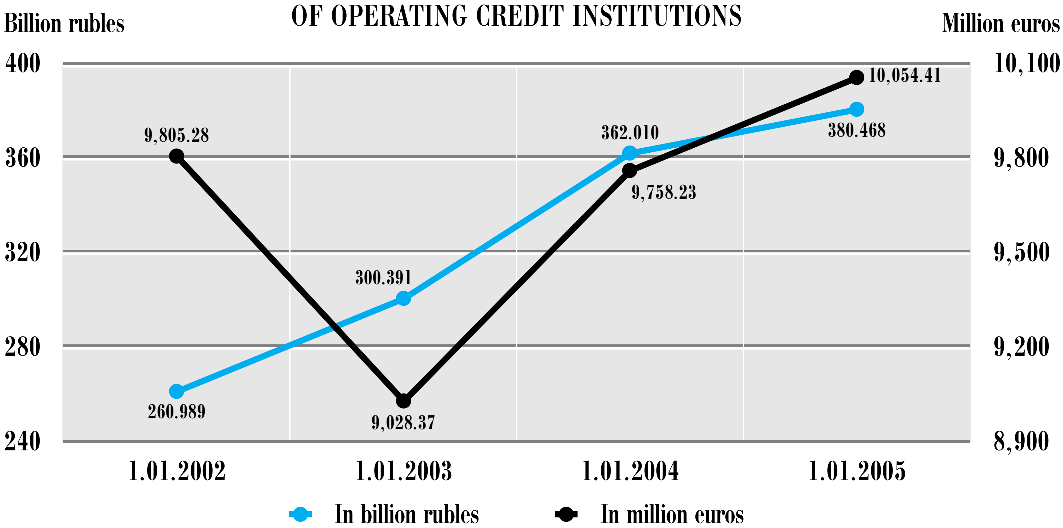


Chart 33

rubles, or 6.2% of the registered authorised capital of operating credit institutions (as against 18.9 billion rubles, or 5.2%, as of January 1, 2004). At the same time, the number of operating credit institutions with foreign stakeholdings rose slightly, to 131 as of January 1, 2005, as against 128 as of January 1, 2004. Of these, four credit institutions had more than 50% of their authorised capital owned by investors from CIS countries (Azerbaijan, Armenia, Uzbekistan and Kazakhstan).

Credit institutions with foreign investments could be found in 29 Russian regions; 87 of them, or 66.4%, were based in Moscow and the Moscow region, eight in St Petersburg and four in the Tyumen region.

Chart 34

DYNAMICS OF NUMBER OF OPERATING CREDIT INSTITUTIONS GROUPED BY AUTHORISED CAPITAL (%)

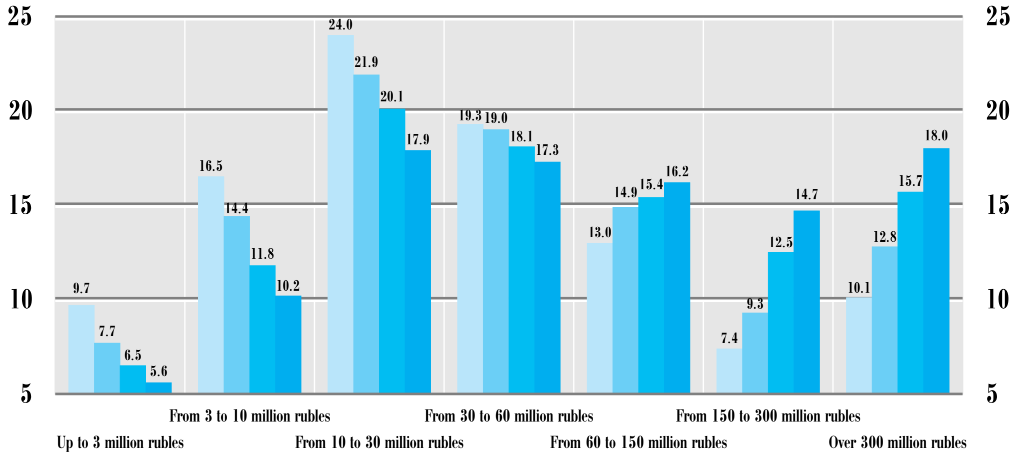
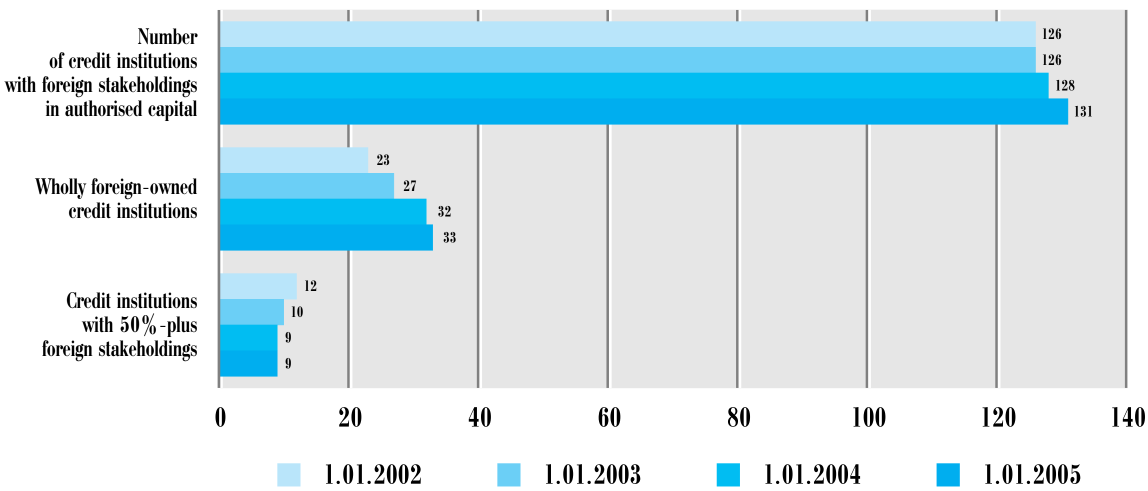


Chart 35

DYNAMICS OF NUMBER OF OPERATING CREDIT INSTITUTIONS WITH FOREIGN STAKEHOLDINGS IN AUTHORISED CAPITAL



There were fewer reorganisations of credit institutions in 2004 than in 2003: three credit institutions merged with other credit institutions (there were seven mergers in 2003) and five were transformed (10 credit institutions in 2003). One non-bank credit institution changed its status and became a bank. None of the banks was converted into a non-bank credit institution in 2004. The reduction in the number of reorganisations was partly because credit institutions were too busy preparing for entry into the deposit insurance system.

There was a change in the trend of the branch network of operating credit institutions. In the previous three years the number of branches of credit institutions had declined (in 2001—2003 the number of branches decreased by 574, or 15.1%), whereas in 2004 it increased (from 3,219 as of January 1, 2004, to 3,238 as of January 1, 2005, a rise of 0.6%).

As of January 1, 2005, there were 1,011 Sberbank branches, which accounted for 31.2% of the total number of branches of credit institutions. In 2004, the number of Sberbank branches

DYNAMICS OF NUMBER OF BRANCHES OF OPERATING CREDIT INSTITUTIONS IN RUSSIA

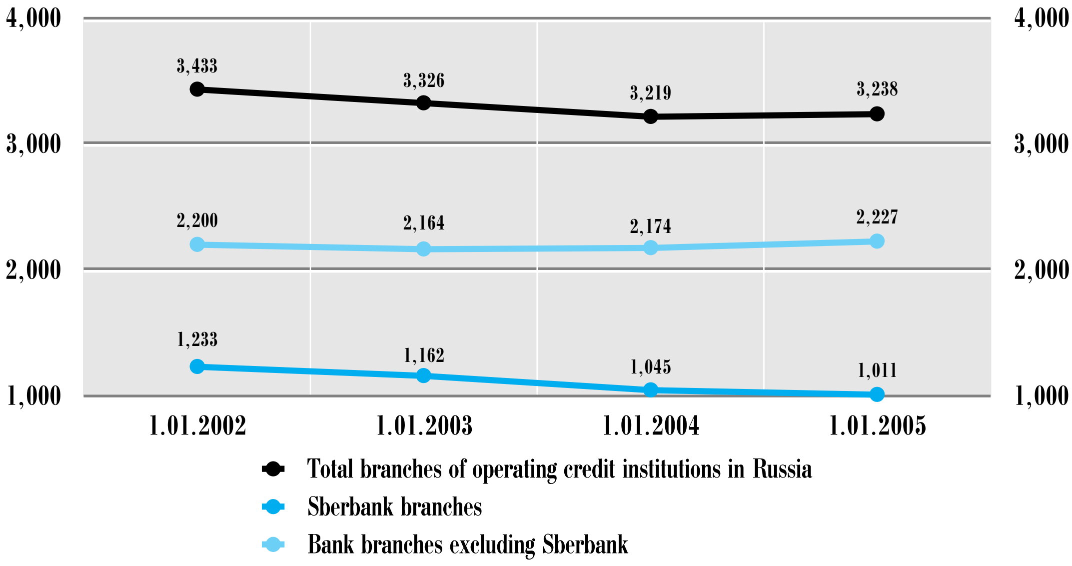


Chart 36

declined by 34, or 3.3% (in 2003, the number of Sberbank branches fell by 117, or 10.1%), due to the implementation of the branch network optimisation plan.

The trend towards more internal divisions of credit institutions and their branches, registered in the previous years, continued in 2004. To some extent, this was the result of the introduction of a new internal division, the credit and cash office, by the Bank of Russia. In the period under review, credit institutions and branches of credit institutions opened 111 credit and cash offices. The number of cash desks outside cash departments fell from 19,060 to 18,491. The total number of internal divisions of credit institutions and branches of credit institutions rose by 1,202, or 4.5%, and stood at 27,670 as of January 1, 2005, as against 26,468 as of January 1, 2004.

II.3.4. BANK BANKRUPTCY (INSOLVENCY) PREVENTION AND WITHDRAWAL OF INSOLVENT CREDIT INSTITUTIONS FROM BANKING SERVICES MARKET

In 2004, the Bank of Russia dealt with credit institutions which had grounds for the implementation of the insolvency (bankruptcy) prevention measures under Article 4 of the Federal Law "On the Insolvency (Bankruptcy) of Credit Institutions." In the period under review, the Bank of Russia ordered 59 credit institutions to carry out financial rehabilitation measures, of which 45 credit institutions were ordered to match their own funds (capital) with the authorised capital.

In 2004, 44 credit institutions eliminated the grounds for the implementation of insolvency (bankruptcy) prevention measures on their own, without waiting for the Bank of Russia to order them to do so.

Overall, an analysis of the dynamics of the total number of credit institutions which, as of the reporting dates, had grounds for the implementation of insolvency (bankruptcy) prevention measures shows that the trend towards fewer institutions continued in 2004. The number of such organisations declined from 20 as of January 1, 2004, to 16 as of January 1, 2005.

In the year under review, the Bank of Russia controlled the implementation of the financial rehabilitation plans of 26 credit institutions, of which 16 restored their financial standing during the year.

In 2004, the Bank of Russia oversaw 35 provisional administrations of credit institutions (hereinafter referred to as provisional administrations). Thirty of them were appointed in the period under review and 28 of these were appointed in connection with the revocation of banking licences from credit institutions and two were appointed to operating credit institutions. After the decision to revoke banking licences from these credit institutions was taken, the powers and tenure of the provisional administrations were specified in compliance with the requirements of the federal laws.

Twenty-one provisional administrations were disbanded in 2004, of which four were disbanded in connection with a ruling from the arbitration court to liquidate them and appoint the liquidator and 17 provisional administrations were disbanded as the arbitration court declared the credit institution insolvent (bankrupt) and appointed the receiver.

Due to the amendments made to the Federal Law "On the Insolvency (Bankruptcy) of Credit Institutions," which assigned to the state-run Deposit Insurance Agency the functions of the receiver of bankrupt credit institutions and provided for the possibility of including its employees in provisional administrations, Deposit Insurance Agency employees were included in four provisional administrations in 2004. In accordance with the arbitration court ruling, the Deposit Insurance Agency was appointed the receiver of one bankrupt credit institution.

Pursuant to Article 74 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" and Articles 20 and 23 of the Federal Law "On Banks and Banking Activities," the Bank of Russia ordered the revocation (cancellation) of banking licences from 33 credit institutions in 2004. Nineteen of them had their banking licences revoked as they were unable to meet their creditors' pecuniary claims and/or effect compulsory payments and two credit institutions had their banking licences revoked for repeated infractions during one year of the provisions of the Federal Law "On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism."

As of January 1, 2005, liquidation proceedings had been conducted in 205 out of 218 credit institutions which had had their banking licences revoked. In 45 credit institutions declared absent debtors by arbitration courts liquidation proceedings were conducted by Bank of Russia employees and Bank of Russia employees were appointed the receivers of 17 of these credit institutions. Bankruptcy proceedings were completed in 2004 in 28 credit institutions liquidated by Bank of Russia employees. The duration of liquidation proceedings in these credit institutions, as a rule, did not exceed one year.

In 2004, the Bank of Russia took the decision on state registration with regard to liquidation of 147 credit institutions which had their banking licences revoked (cancelled).

In 2004, the Bank of Russia conducted 27 inspections of the activities of receivers (liquidators). After the inspections, it ordered the errant receivers (liquidators) to rectify the faults discovered in their work and set deadlines for doing so. Information on infractions discovered by inspections was made known to arbitration courts, the Ministry of Justice and committees of creditors of credit institutions that were being liquidated.

In 2004, the Bank of Russia considered 419 applications to issue new and extend the term of expiring receivers' (liquidators') certificates.

Having considered these applications, the Bank of Russia issued 48 receivers' (liquidators') certificates, extended the term of 236 certificates and rejected one extension application.

II.3.5. HOUSEHOLD DEPOSIT INSURANCE

Federal Law No. 177-FZ, dated December 23, 2003, "On Insurance of Household Deposits with Russian Banks" (Deposit Insurance Law), established for the first time in Russia the legal, financial and organisational principles of creating and operating a deposit insurance system.

In pursuance of this law, the Bank of Russia issued regulations in 2004 that became the basis for examining credit institutions' applications for admission to the deposit insurance system.

Bank of Russia Regulation No. 248-P, dated January 16, 2004, "On the Bank of Russia Procedure for Considering a Bank's Request to the Bank of Russia to Issue a Decision on the Bank's Compliance with the Requirements for Participation in the Deposit Insurance System," established the stages, time frames and procedure for passing the decision by the Bank of Russia Banking Supervision Committee on whether a bank meets the requirements set for the participation in the deposit insurance system.

Bank of Russia Regulation No. 247-P, dated January 16, 2004, "On the Bank of Russia Procedure for Considering a Bank's Appeal against the Bank of Russia's Negative Decision on the Bank's Repeat Application for Admission to the Deposit Insurance System," set the procedure for appealing against the Bank of Russia's decision to reject a bank's repeat request for entry into the deposit insurance system, considering the appeal by the Bank of Russia and sustaining or rejecting it by the Bank of Russia Banking Supervision Committee or Bank of Russia Chairman.

Bank of Russia Ordinance No. 1379-U, dated January 16, 2004, "On Evaluating the Financial Stability of a Bank for the Purpose of Recognising it Able to Participate in the Deposit Insurance System," established a set of indicators and the methodologies of calculating them and obtaining the overall result for the purpose of determining whether a bank is financially sound enough to participate in the deposit insurance system.

The Bank of Russia also issued regulations establishing the procedure for terminating the right of a bank which has refused or failed to qualify for the deposit insurance system to take household funds on deposit and open personal accounts.

In 2004, the Bank of Russia conducted extensive work to select credit institutions for the deposit insurance system. When deciding whether banks were fit to participate in this system, the Bank of Russia used sophisticated methods to evaluate their financial stability. Specifically, it used indicators on the quality of management, profitability, ownership transparency, risk management and internal controls. It paid particular attention to analysing the state of a bank's assets, the correctness of their classification by risk and the completeness of reserves created for the corresponding assets. It also focused on the issue of lending to groups of related borrowers and establishing the existence of such groups. Whenever it was found out that a bank failed to adequately evaluate the quality of assets, the Bank of Russia Banking Supervision Committee made the corresponding representation to such a bank.

In all, 1,150 banks applied for admission to the deposit insurance system within the time period set by the Deposit Insurance Law. Of these, 16 banks retracted their applications and 11 banks had their banking licences revoked by the Bank of Russia in 2004.

In 2004, the Bank of Russia admitted to the deposit insurance system 421 banks based in 70 regions (37% of the total number of banks that applied for entry), of which 415 banks had licences to take household funds on deposit and six received such licences as they expanded the range of their operations.

As of January 1, 2005, the assets of the banks admitted to the deposit insurance system aggregated 5,122.7 billion rubles, or 72% of aggregate banking sector assets. The value of the household deposits in the banks admitted to the deposit insurance system stood at 1,760.2 billion rubles, or 90% of total household sector bank deposits. At the same time, 98 banks registered in Moscow and the Moscow region and admitted to the deposit insurance system accounted for 1,513.8 billion rubles, or 77% of the total value of bank deposits.

The credit institutions participating in the deposit insurance system are constantly monitored to ensure they comply with the access requirements.

In pursuance of the Deposit Insurance Law, the Bank of Russia and Deposit Insurance Agency last year signed an agreement on co-ordinating efforts and sharing information, and an agreement on electronic information exchange. They also approved a procedure for co-operating in the electronic exchange of information.

II.4. THE RUSSIAN PAYMENT SYSTEM

II.4.1. THE STATE OF THE RUSSIAN PAYMENT SYSTEM. DEVELOPING AND UPGRADING THE BANK OF RUSSIA PAYMENT SYSTEM

In 2004, **the Russian payment system** satisfied the demands of credit institutions, economic agents and private individuals in non-cash and cash settlements, and created conditions facilitating the execution of the federal budget and the implementation of the monetary policy by the Bank of Russia.

As of January 1, 2005, settlement services in the Russian payment system were provided by 941 Bank of Russia establishments (main cash settlement centres and cash settlement centres and operating divisions)[1], 1,302 credit institutions[1], including 47 non-bank settlement credit institutions and 3,238 branches of credit institutions. Moreover, settlement services were provided to customers by 9,068 additional offices of credit institutions and branches of credit institutions.

The number of Bank of Russia cash settlement centres declined by 198, or 17.4%, in 2004 as a result of the measures taken by the Bank of Russia to optimise its structure. At the same time, although the number of credit institutions decreased slightly (by 29, or 2.2%[1]), the number of branches of credit institutions and additional offices of credit institutions and branches of credit institutions increased by 1,679, or 15.8%. As a result, the total number of Bank of Russia establishments, credit institutions, branches of credit institutions and additional offices of credit institutions and branches of credit institutions stood at 100.2 per 1 million of the population, an increase of 11.1% year on year (2003 growth stood at 6.2%).

As of January 1, 2005, Bank of Russia establishments, credit institutions and branches of credit institutions opened 315.2 million accounts for clients, which can be used for effecting payments. Of these, 4.9 million accounts, or 1.6%, were opened for corporate clients other than credit institutions and 310.3 million accounts, or 98.4%, for private individuals. The number of accounts increased by 31.5 million over the year, mainly due to the opening of personal and banking card accounts. The number of accounts per resident increased from 2.0 to 2.2 in 2004.

The Russian payment system conducted 992.0 million payments totalling 223.9 trillion rubles in 2004. The rate of growth in the num-

[1] *Source: BIC Directory of the Russian Federation.*

STRUCTURE OF PAYMENTS EFFECTED BY THE RUSSIAN PAYMENT SYSTEM (%)

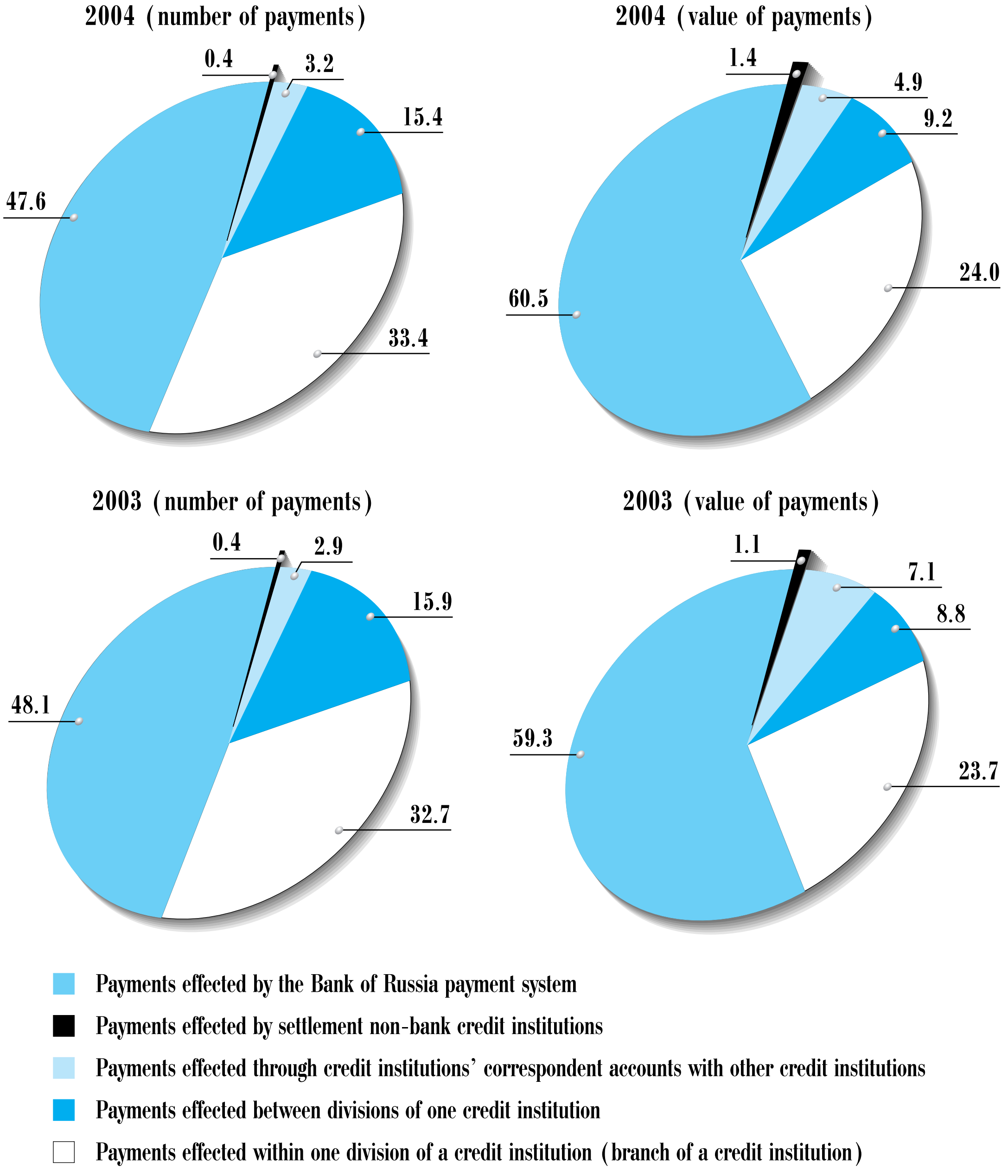


Chart 37

ber of payments was unchanged from the previous year at 16.0%, but growth in the value of payments slowed from 40.0% in 2003 to 22.9% in 2004.

The ratios in the structure of non-cash payments effected by the Bank of Russia payment system and non-bank settlement credit institutions, through credit institutions' correspondent accounts in other credit institutions and between various divisions within one credit institution and within one division of a credit institution or branch of a credit institution did not change significantly from 2003.

The year-on-year increase in the value and number of payments effected by the Russian payment system in 2004 was largely due to growth in payments effected by the Bank of Russia payment system and payments effected within one division of a credit institution or branch of a credit institution.

In 2004, as in 2003, most payments were non-cash settlements effected by payment orders, which accounted for 77.5% of the total number of payments and 93.4% of the total value of payments (as against 77.9% and 90.6% in 2003 respectively).

The share of settlements effected for collection and by letters of credit and also by cheques issued by credit institutions was unchanged from the previous year.

In terms of retail payment services, the use of payment cards, which were issued and/or acquired by 733 credit institutions as against 698 credit institutions as of the beginning of 2004, continued to gain popularity and the number of them increased by 5.0% over the year.

In 2004, the number of payment card operations conducted in Russia totalled 609.6 million and were worth 2,079.9 billion rubles, which represents an increase of 48.5% in number and 68.3% in value year on year. In 2003, the respective growth rates were 45.9% and 69.0%.

Cash withdrawal operations in 2004 exceeded non-cash payment card operations, although the latter did tend to increase.

The cash turnover of the tills of the Bank of Russia and credit institutions last year aggregated 19,017.8 billion rubles. This represents an increase of 38.9%, which was mainly due to growth in nominal money incomes, and prices of goods and services.

The average daily cash turnover of the tills of Bank of Russia establishments and credit institutions expanded by 17.5 billion rubles in 2004 year on year to 62.8 billion rubles. Cash receipts enabled Bank of Russia establishments and credit institutions to supply 95.3% of their clients' needs in cash in 2004 as against 94.1% in 2003.

As of January 1, 2005, 1,302 credit institutions[1] and 1,848 branches of credit institutions[1], which had correspondent accounts (subaccounts) opened for them in the Bank of Russia, were members of the **Bank of Russia payment system.** The number of these credit institutions and branches rose slightly in 2004 (by 0.4%).

The number of clients other than credit institutions serviced by the Bank of Russia decreased from 62,702 to 53,512, or by 14.7%, in the year under review, whereas in 2003 it fell by 5.6%. The main reason for the decline was the transfer of clients from the closed cash settlement centres to settlement services in credit institutions (branches) and the continued consolidation of federal treasury accounts at the level of the federal treasury divisions, the transfer of budget-financed institutions and regional and local government budgets to federal treasury services, and the creation of treasuries in Russian regions and municipalities.

The payments effected by the Bank of Russia payment system in 2004 accounted for 47.6% of the total payments effected by the Russian payment system and 60.5% of the total value of payments.

In the year under review, the payments effected by the Bank of Russia payment system increased by 14.6% year on year by number and by 25.1% by value. This corresponds to the rates of growth in payments effected by the Russian payment system. The average daily number of payments effected by the Bank of Russia payment system stood at 1.9 million in 2004 as against 1.6 million in 2003, an increase of 18.8%.

Payments effected by credit institutions and branches of credit institutions through the Bank of Russia payment system last year accounted for 84.2% by number as against 83.1% in 2003 and 86.2% by value as against 82.8% in 2003.

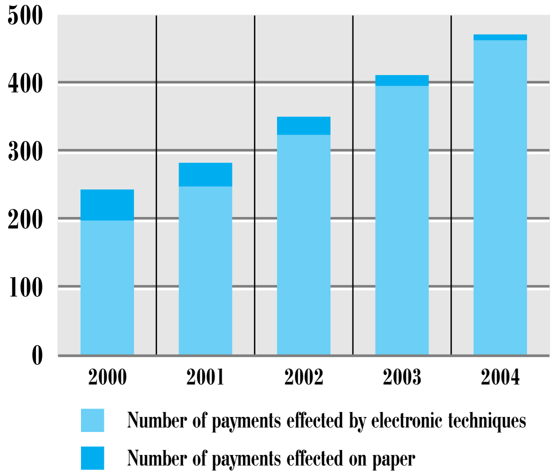
Most of the payments effected through the Bank of Russia payment system in 2004, as in 2003, were intraregional payments, which accounted for 85.8% of the total number of payments and 81.5% of the total value of payments. Interregional payments accounted for 14.2% and 18.5% respectively.

Electronic payments continued to account for most of the payments effected through the Bank of Russia payment system. In 2004, they accounted for 98.4% of the total number of payments and 97.7% of the total value of payments (as against 96.4% and 94.7% in 2003 respectively).

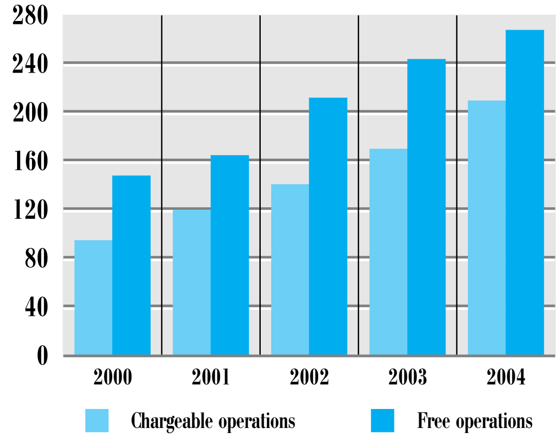
By the end of 2004, the number of credit institutions and branches of credit institutions involved in the exchange of electronic documents increased as follows: the exchange of electronic

[1] *Source: BIC Directory of the Russian Federation.*

RATIO BETWEEN ELECTRONIC AND PAPER-BASED PAYMENTS EFFECTED THROUGH THE BANK OF RUSSIA PAYMENT SYSTEM (million units)



RATIO BETWEEN CHARGEABLE AND FREE OPERATIONS CONDUCTED BY THE BANK OF RUSSIA PAYMENT SYSTEM (million payments)



Charts 38, 39

documents was conducted with 2,950 credit institutions and branches, which accounted for 93.7% of the total number of Bank of Russia-serviced credit institutions and their branches as against 92.4% as of January 1, 2004. There was also a rise in the number of non-credit institutions involved in the exchange of electronic documents; they were mainly federal treasury bodies.

Payments that entered the Bank of Russia payment system through the communications channels accounted for 93.1% of total payments in 2004 as against 90.1% in 2003.

The average intraregional payment times decreased to 0.83 days in 2004 as against 0.94 days in 2003 due to reduced average electronic payment times, whereas the average interregional payment times remained virtually unchanged from 2003 at 1.17 days.

Pursuant to Russian legislation, the Bank of Russia conducted operations with all budget funds free of charge. Free payments accounted for 56.1% of total payments in 2004. Operations conducted by the Bank of Russia on a chargeable basis accounted for 43.9%, and the charge remained unchanged from 2003.

To evaluate the smoothness of its payment system, the Bank of Russia introduced a set of indicators in 2004 used to analyse the accessibility of its payment system on the basis of data on the observance of the procedure for exchanging settlement documents between the Bank of Russia and its clients. This work resulted in the optimisation of the procedure for exchanging settlement documents in several Bank of Russia regional branches.

In fulfilling the functions of the payment system regulator, the Bank of Russia continued to upgrade the regulatory framework of the Russian payment system in 2004.

To provide broader opportunities for using settlements by letters of credit and bring these settlements closer to international standards, the Bank of Russia issued Ordinance No. 1442-U, dated June 11, 2004, "On Amending Bank of Russia Regulation No. 2-P, Dated October 3, 2003, 'On Non-Cash Settlements in the Russian Federation,'" which amended Sections 4—6 of Regulation No. 2-P regulating ruble settlements by letters of credit. The amended document established new rules for the banks using various settlement schemes and methods of fulfilling obligations when checking documents and document verification times and provided for the possibility of using electronic means of communications at all stages of effecting settlements by letters of credit.

To provide a legal basis for the development of the new kinds of payment instruments, the Bank of Russia issued Regulation No. 266-P, dated December 24, 2004, "On the Issuance of Bank Cards and on Bank Card Operations," which set the requirements for individuals conducting operations with prepaid cards and established the procedure for extending loans for settlements on bank card operations and uniform requirements for documenting bank card operations. In connection with the changes in foreign exchange legislation, the Bank of Russia in its Regulation provided broader opportunities for conducting foreign exchange operations in Russia and abroad.

In connection with the amendments to the Budget Code and Federal Law "On the Budget Classification of the Russian Federation," the Bank of Russia issued Ordinance No. 1493-U, dated August 25, 2004, which made the corresponding changes to the formats of settlement documents.

In addition, in the year under review the Bank of Russia issued Ordinance No. 155-T, dated December 31, 2004, making known to its regional branches Ministry of Finance Order No. 106n, dated November 24, 2004, "On the Approval of the Rules on Indicating Information in the Margins of Settlement Documents on the Transfer of Taxes, Duties and other Payments to the Budget System of the Russian Federation."

The work carried out by the Bank of Russia helped automate the processing of information contained in settlement documents and accelerate the entry of tax and other payments to the Russian budget system and their transfer for the financing of budget expenditures.

II.4.2. THE DEVELOPMENT OF THE TECHNICAL INFRASTRUCTURE OF THE BANK OF RUSSIA PAYMENT SYSTEM

The international financial community has recently attached great importance to payment system efficiency. Particular attention is paid to developing advanced technical infrastructures, which make the delivery of payment messages far faster and more secure, reduce the time taken to process them and improve the system's protection from various negative effects.

Taking into account current international trends, the Bank of Russia upgraded the technical infrastructure of its payment system to make it more efficient. It began to develop a centralised computer-based infrastructure for the processing of payment messages from its regional branches. This will allow in the near future to make significant cutbacks in the number of regional payment data processing centres, use standard highly efficient and reliable hardware/software platforms and cut the number of accounting operating centres.

For these purposes, the Bank of Russia established two consolidated payment data processing centres. At the same time, it drew up technological and technical documentation on the centralised processing of data, which made it possible to transfer eight Bank of Russia regional branches to data processing in the consolidated centres. Preparations have been completed in 19 Bank of Russia regional branches to transfer their payment document processing to these centres.

The Bank of Russia has completed the development of a prototype real-time gross settlement system for large urgent payments (RTGS), which is based on the internationally accepted principles of constructing RTGS systems and best practice standards.

To link Bank of Russia regional branches with the consolidated data processing centres, the Bank of Russia developed regional segments of the single telecommunications banking network (STBN) in nine regional branches in the Far East and the Bank of Russia Main Division for the Chita region. It separated the payment and information segments of the STBN, upgraded the STBN segments in the national banks of the Kabardino-Balkar Republic and Karachai-Cherkess Republic and developed an STBN segment in the national bank of the Republic of Adygeya.

To meet the security requirements established for the payment system, the Bank of Russia completed the development of a uniform STBN trunk line, which connects STBN regional segments with the STBN Centre in Moscow.

The Bank of Russia has conducted test runs of the standardised formats of electronic banking messages between the Bank of Russia and its clients. It completed the development and testing of electronic digital signatures for such messages based on the cryptographic document authentication system Signatura, which was put into practice in the prototype standard Bank of Russia customer workplace.

Following the recommendations made by the world's leading financial institutions on the development of disaster-proof technical infrastructures for systemically important payment systems, the Bank of Russia began to develop a configuration on the basis of the aforementioned two consolidated data processing centres in 2004.

It completed the development of the Unified Payment Message Delivery Subsystem for interregional electronic settlements, which will allow the now obsolete email-based system built in the early 1990s to be discarded in 2005. This meant the Bank of Russia could begin to establish an electronic settlement delivery system by integrating the existing payment data delivery subsystems into a foolproof, efficient and safe system for exchanging electronic messages between the settling participants in the Bank of Russia centralised payment data processing system.

II.5. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

Federal Law No. 173-FZ, dated December 10, 2003, "On Foreign Exchange Regulation and Foreign Exchange Control" (hereinafter referred to as Federal Law No. 173-FZ), which came into force on June 18, 2004, differed from the previous act in that it lifted all restrictions on foreign exchange operations between residents and non-residents, except for the operations expressly specified in the law, and abandoned administrative controls in favour of economic methods of regulating capital movement operations.

At the same time, the law stipulated that the regulatory authorities, including the Bank of Russia, had the right to regulate a small range of operations, especially capital movement operations, by requiring residents and non-residents to use special bank accounts and reserve a part of the funds in conducting such foreign exchange operations.

In the period until the middle of June 2004, the Bank of Russia issued 37 regulations and instructions in pursuance of the above law and in accordance with the powers this law delegated to it.

After adopting a differentiated approach to the regulation of capital inflow and outflow, the Bank of Russia introduced special bank accounts for residents and non-residents conducting certain kinds of regulated foreign exchange operations and the requirements for using these accounts. It established the procedures for depositing and returning reserves after and before the expiry of the reservation term and specified the reservation procedure for customers other than credit institutions who have accounts opened for them with the Bank of Russia.

Realising that the authorised banks needed time to carry out the necessary organisational and technical measures, the Bank of Russia brought the reservation requirements into effect on August 1, 2004. To regulate operations connected with the inflow of capital to the country, the Bank of Russia set the reserve requirement at 3% of the value of operation for a term of 365 days (except for the capital inflow operations on the government bond market, for which Federal Law No. 173-FZ set the highest reserve requirement of 20% for a term of 365 days). As for the regulated operations connected with capital outflow, the Bank of Russia set for them the reserve requirement of 50% for 15 days. This is far less than the maximum reserve amount and maximum reserve period that could be established under Federal Law No. 173-FZ. At the same time, the Bank of Russia decided not to set any reserve requirements for operations with stocks and investment shares of the unit investment funds and long-term loans (with terms longer than three years), as it believed that such operations would hardly be actively used for the speculative movement of capital.

From August to December 2004, residents and non-residents transferred a total of 55.1 billion rubles from special accounts opened in the authorised banks to an account with the Bank of Russia to meet the reserve requirements. Of this, 50.3 billion rubles were returned and as of January 1, 2005, the balance stood at 4.7 billion rubles. Residents contributed about 90% of total reserves. Operations with securities accounted for 60.6% of residents' total reserves, lending to non-residents 31.5% and loans from non-residents with terms up to three years 7%.

As the financial situation was fairly good, the Bank of Russia, building upon its experience of using regulating instruments, took a decision in December 2004 to lower the reserve requirements for foreign exchange operations conducted on resident and non-resident special bank accounts and connected with capital inflow and outflow.

In addition, to prevent double encumbrance of non-resident bank lending to resident banks in rubles, the Bank of Russia repealed the requirement for non-resident banks to use special accounts when conducting such operations. As a result, capital inflow in such operations is now regulated exclusively by monetary policy instruments, such as the requirement to deposit reserves with the Bank of Russia.

At the same time, the Bank of Russia established the requirement to use special bank accounts and, consequently, the requirement to make provisions when conducting foreign exchange operations between residents and non-residents, connected with the initial placement (issuance) of bonds by residents, regardless of their term to redemption, in connection with the probable risk of speculative circulation of these securities.

The adoption of the new foreign exchange regulation instruments amid the low reserve requirements established by the Bank of Russia did not lead to any significant changes in the capital movement dynamics and allowed the Bank of Russia to gain experience in using them.

Federal Law No. 173-FZ retained the requirement for exporters to sell some of their currency earnings on the domestic foreign exchange market. As a result, in 2004 exporters sold $42.8 billion of their currency earnings, a decrease of $4.7 billion from 2003. Due to the Bank of Russia policy of liberalising this segment of the domestic foreign exchange market, the average annual share of compulsory foreign currency sales in total export earnings entered to customers' transit accounts in the authorised banks contracted from 37% in 2003 to 25% in 2004.

To further ease foreign exchange market controls, the Bank of Russia lowered the currency sale requirement for exporters to 10% on December 27, 2004.

As the ruble appreciated, the decline in the supply of foreign exchange for compulsory sale was accompanied by growth in foreign currency sales from transit accounts, where exporters kept their foreign currency earnings after selling a part thereof. As a result, foreign currency earnings sold by exporters on top of the required amount increased by 2.6 times in 2004 year on year and amounted to $27.9 billion. The volume of the primary market for export currency earnings (compulsory and additional sales from transit foreign currency accounts) expanded by 21% in 2004 year on year to $70.7 billion.

The dynamics of the demand for foreign exchange on the domestic market in 2004 were largely affected by the change in the ruble's rate against the dollar and the euro. The reduction in private individuals' net demand for foreign exchange (the difference between the value of foreign exchange sold to individuals and paid out from their accounts and the value of foreign exchange bought from individuals and entered into their accounts), registered in 2003, gave way to growth. Net demand expanded by 69% year on year to $14.1 billion.

Taking into consideration that the provisions of Federal Law No. 173-FZ, granting resident corporate entities the right to open accounts in banks outside Russia, are to come into force on June 18, 2005, the Bank of Russia established a temporary procedure for issuing corresponding permits until that date, granting the corresponding powers to its regional branches. At the same time, it retained the applicable notification procedure for opening accounts abroad by resident corporate entities to effect settlements under international construction contract agreements and provide services to their offices abroad.

As for the opening of foreign currency and ruble accounts by resident individuals with banks in the foreign states that are not members of the Organisation for Economic Co-operation and Development (OECD) and Financial Action Task Force (FATF), the Bank of Russia established a requirement for the preliminary registration of such an account with the tax authorities at the resident's place of registration. At the same time, Federal Law No. 173-FZ stipulated that in other cases resident individuals could open accounts abroad without any restrictions but had to notify the tax authorities within a month after opening an account. As a result of the liberalisation of the procedure for opening personal accounts abroad, the number of such accounts doubled in 2004 as compared with 2003 and stood at 1,236, according to the Federal Tax Service.

II.6. BANK OF RUSSIA WORK TO COUNTER THE LEGALISATION (LAUNDERING) OF CRIMINALLY OBTAINED INCOMES AND TERRORIST FINANCING

In 2004, the Bank of Russia continued to exercise the powers granted to it by the Federal Law "On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism" (hereinafter referred to as Federal Law No. 115-FZ) and make the banking community's efforts in this area more effective.

To ensure the implementation of the provisions of this law, the Bank of Russia quickly drafted and issued regulations establishing the following:

— requirements for the instruction and training of employees in a credit institution, including the elaboration and approval of training programmes in the field of anti-money laundering and financing of terrorism (AML/FT); the subjects and duration of training and the persons responsible for it; determining the divisions of a credit institution whose staff must undergo training and establishing the procedure for testing the trainees;

— qualification requirements for the executive responsible for AML/FT and other employees of the corresponding division if such a division is organised under the guidance of the executive in charge;

— requirements for credit institutions to identify their customers and beneficiaries, including the list of data which a credit institution is required to collect in order to identify its clients, the range of persons who should be regarded as beneficiaries and the list of operations which are particularly risky from the viewpoint of money laundering and terrorist financing;

— requirements for the procedure for presenting information by credit institutions to the authorised agency under Federal Law No. 115-FZ in connection with the extension of the list of operations subject to mandatory control under Federal Law No. 88-FZ and information on the refusal by a credit institution to conclude a bank account (deposit) agreement with an individual or corporate entity and conduct operations.

The Bank of Russia attached great importance to improving control over credit institutions from the standpoint of AML/FT. To prevent the banking system from being used for terrorist financing, the Bank of Russia promptly made the Federal Financial Monitoring Service's lists of persons suspected of being involved in extremist and terrorist activities known to credit institutions. In 2004, it made known to credit institutions four lists containing information on 132 legal entities and 1,050 private individuals.

To improve supervision techniques in this field, the Bank of Russia issued regulations containing methodological recommendations on inspections of credit institutions and their branches.

To monitor how credit institutions were complying with the laws and Bank of Russia regulations on AML/FT, the Bank of Russia and its regional branches included the corresponding tasks in the plans of 2,592 inspections of credit institutions and their branches in 2004 (1,699 inspections in 2003). It should be noted that the Bank of Russia not only increased the number of inspections, but also significantly improved their quality.

The most typical problems detected in the course of inspections were: errors in creating and sending electronic reports to the authorised agency (failing to fill out or filling out incorrectly the reporting form); failure to present data on operations subject to mandatory control to the authorised agency on time; failure to present data to the authorised agency as a result of wrongly classifying operations as not being subject to mandatory control or non-detecting operations subject to mandatory control; failure to send to the authorised agency reports that had previously been rejected for being incorrect.

The main reasons for infractions in 2004, as in 2003, were generally connected with managements failing to exercise the appropriate level of control over the activities of the corresponding divisions. Consequently, internal controls conducted poor inspections and executives responsible for AML/FT either did nothing or were poorly qualified to take action. At the same time, credit institutions have become more proactive in fulfilling the requirements of the AML/FT legislation, and the year-on-year increase by 80% in the number of reports sent by credit institutions to the Federal Financial Monitoring Service in 2004 bears this out.

In 459 cases inspections resulted in preventive measures being taken against credit institutions (the shortcomings discovered in their work were made known to the management of such credit institutions). As for enforcement measures, in 142 cases the errant credit institutions were ordered to eliminate the shortcomings discovered in their work; fines were imposed in 105 cases; in 50 cases restrictions were imposed on some banking operations conducted by credit institutions; in 21 cases credit institutions were prohibited from conducting some banking operations; and two credit institutions had their licences revoked.

In addition, when considering credit institutions' requests to participate in the deposit insurance system, the Bank of Russia sent letters to its regional branches in respect to 43 credit institutions, indicating their problems and recommending measures to improve their work in AML/FT.

Throughout 2004, the Bank of Russia provided the necessary methodological assistance to its regional branches and credit institutions. In response to requests, it issued five circulars clarifying various aspects of the application of AML/FT legislation. To provide methodological assistance and improve the banking community's knowledge of the new international standards in this area, the Bank of Russia made known to credit institutions the FATF report on the typologies of money laundering and terrorist financing in 2003—2004.

In 2004, the Bank of Russia continued to provide training for executives and experts at its regional branches in AML/FT. It held seven thematic seminars, which involved more than 300 people.

To make co-operation with the Federal Financial Monitoring Service more effective, the Bank of Russia on May 17, 2004, signed with it the Agreement on Co-operation in the Field of Information to Be Implemented in Pursuance of the Federal Law "On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism." The Agreement provides for the sharing of information for the purpose of AML/FT, the implementation of joint training programmes in the methods of AML/FT and the provision of consultative aid.

To detect on time and prevent violations of law in the sphere of credit and finance, maintain banking sector stability, protect the interests of depositors and creditors and counter money laundering and the financing of terrorism, the Bank of Russia on May 17, 2004, signed a co-operation agreement with the Interior Ministry.

In 2004, the Bank of Russia actively co-operated with international organisations. Specifically, Bank of Russia representatives repeatedly participated in FATF plenary meetings and working groups on the development of the methodology of evaluating compliance with AML/FT standards and took part in the meeting of the MONEYVAL Committee of the Council of Europe, the Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures, which approved the second-round anti-money laundering evaluation report on Russia. In December 2004, Bank of Russia representatives took part in the first plenary meeting of the Eurasian Group (EAG), formed on Russia's initiative to facilitate the dissemination of international AML/FT standards. In October 2004, this six-nation organisation, which brought together Russia, Belarus, Kazakhstan, Kyrgyzstan, China and Tajikistan, was granted observer status in the FATF.

II.7. BANK OF RUSSIA WORK RELATING TO GOVERNMENT FINANCE

In 2004, the Bank of Russia's work in the field of government finance focused on co-ordinating the budget and monetary policies, servicing budget accounts at all levels of the Russian budget system, improving the regulatory framework and co-operating with the Finance Ministry federal treasury bodies. Specifically, the Bank of Russia assisted the latter in completing the implementation of the provisions of the Concept of the Finance Ministry's Federal Treasury Single Federal Budget Revenue and Funds Account and the transition of the federal institutions and agencies executing regional government budgets to financing through personal accounts opened in a single federal treasury register.

Pursuant to Article 113 of the 2004 Federal Budget Law, Bank of Russia-owned permanent coupon-income federal loan bonds, variable coupon-income federal loan bonds and debt depreciation federal loan bonds with a total face value of 51.9 billion rubles were restructured into new issues of permanent coupon-income federal loan bonds and debt depreciation federal loan bonds without changing the bond redemption schedule with a breakdown by year.

Under Article 111 of the 2004 Federal Budget Law, the Finance Ministry bought from the Bank of Russia RSFSR domestic government loan bonds of the 1991 issue, reducing the value of these bonds in Russia's domestic government debt.

To accelerate the transfer of federal agencies' operations with funds from entrepreneurial and other income-yielding activities to servicing through personal accounts opened in a single federal treasury register, the Bank of Russia provided information assistance to the Finance Ministry, passing on a quarterly basis to regional federal treasury bodies information on the accounts opened by federal government agencies in Bank of Russia establishments and in credit institutions and branches of credit institutions for the accounting of operations with these funds. The Bank of Russia also agreed with the Finance Ministry the procedure for suspending by federal treasury bodies of operations on accounts opened by federal government agencies in the Bank of Russia and in credit institutions and branches of credit institutions for the accounting of funds received from entrepreneurial and other income-yielding activities.

To accelerate the transfer of funds to federal treasury accounts, the Bank of Russia continued to maintain the exchange of electronic documents between Bank of Russia establishments and federal treasury bodies. As of January 1, 2005, 519 out of the 1,162 federal treasury bodies which had accounts opened for them in the Bank of Russia exchanged documents with Bank of Russia establishments electronically.

To isolate the accounting of the funds intended for cash payments to budget fund recipients with personal accounts in the single federal treasury register, Bank of Russia establishments opened 2,200 separate accounts for the federal treasury bodies for this purpose in 2004. This led to overall growth in the number of accounts opened for the federal treasury bodies in Bank of Russia establishments, by 500 over the year to 6,000 as of January 1, 2005.

In line with a federal government decision to reform the budget process and change the procedure for granting state social assistance to citizens, Bank of Russia establishments opened separate accounts for the federal and regional compulsory medical insurance funds at the end of 2004 for the separate accounting of funds allocated from the federal budget to social support and additional aid for some categories of citizens.

At the same time, the efforts made by the Bank of Russia last year to help regional governments execute their budgets through federal treasury bodies, centralise the accounting of non-cash operations with federal and regional budget accounts and funds received from entrepreneurial and other income-yielding activities, and improve the regulation of these processes led to a further fall in the total number of Bank of Russia customers other than credit institutions.

In the year under review, the number of regional and local government budget executing bodies, clients of the Bank of Russia, and the number of accounts opened for them fell by 1,300 and 4,400 respectively, the number of organisations financed from budgets of all levels by 3,800 and 15,800, the number of government extrabudgetary funds by 500 and 800 and other organisations by 3,500 and 5,100. The number of accounts opened for organisations financed from budgets of all levels to account for the funds received from entrepreneurial and other income-yielding activities decreased by 800 in 2004, and as of January 1, 2005, it stood at 28,400.

However, the number of payments (write-downs) effected by the Bank of Russia payment system through the accounts of Bank of Russia clients other than credit institutions rose by 11.3% in 2004 to 79.3 million.

II.8. CASH ISSUE MANAGEMENT

In 2004, cash issue management aimed to facilitate the implementation of the Bank of Russia policy of rationalising cash circulation in Russia.

According to cash issue balance sheet data, there were 1,673,294.1 million rubles of Bank of Russia notes and coins in circulation, including 1,662,246.7 million rubles in banknotes (4.54 billion units) and 11,047.4 million rubles in coins (22.1 billion units), including coins made of precious metals. Notes accounted for 99.3% of the total value of cash and coins 0.7%; of the total number of banknotes and coins, banknotes accounted for 17.0% and coins 83.0%.

The structure of the Bank of Russia notes and coins of the 1997 issue is shown in Tables 46 and 47.

As the Bank of Russia completed the withdrawal of Bank of Russia notes of the 1993 issue, including their 1994 modification, and of the 1995 issue, USSR and Bank of Russia coins of the 1961—1996 issues and USSR 1-, 2- and 3-kopeck coins minted before 1961, the amount of 1,060.8 million rubles resulting from the writing off of old currency that was not produced for exchange were included in Bank of Russia income.

The amount of Bank of Russia notes and coins of the 1997 issue, including coins made of precious metals, increased by 445,473.9 million rubles, or 36.3%, in 2004, of which the amount of banknotes rose by 443,264.9 million rubles (450 million units) and coins by 2,209.0 million rubles (3.8 billion units).

Growth in the amount of cash in circulation was due to the expansion of cash turnover connected with increased nominal money income and consumer prices.

There was a significant rise in the amount of cash in December 2004 due to the early payment of wages and allowances, including the cash payments that replaced benefits in kind, which should have been paid in the first 10 days of January 2005. Cash issue in December 2004 amounted to 250,831.3 million rubles, or 56.3% of the full-year amount. In addition, there was a rise in the value of cash paid out from household accounts in 2004.

Growth in income and consumer prices in 2004 brought about some changes in the note structure of cash in circulation. The share of 500-ruble and 1,000-ruble notes expanded by 3.8 percentage points in 2004 and stood at 91.2% as of January 1, 2005, while the share of 50-ruble and 100-ruble notes contracted to 8.3% from 12.0% as of January 1, 2004.

In analysing the note structure of cash, the Bank of Russia predicted and regulated the production of banknotes and coins, ensuring their regular delivery to reserve funds. There were no disruptions in the payment of cash by Bank of Russia establishments through the fault of the Bank of Russia in 2004.

CHANGE IN THE AMOUNT OF CASH IN CIRCULATION IN 2004
(billion rubles)

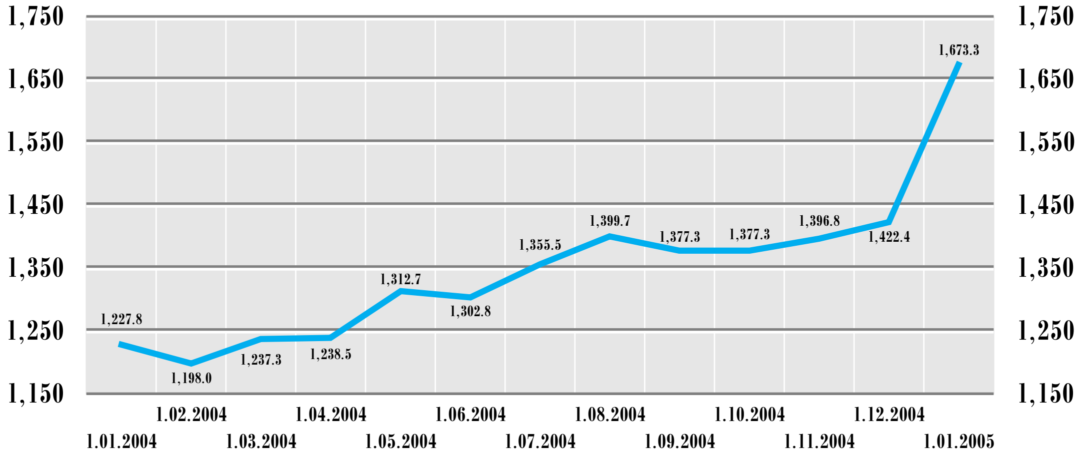


Chart 40

In 2004, commercial banks took the Russian currency out of the country and other countries and brought it into this country and other countries. They conducted such operations to augment non-resident banks' ruble accounts, supply their cash operations departments with funds for paying travelling expenses to enterprises and organisations, and to provide cash to the exchange offices opened in other countries. According to data provided by credit institutions, they brought 5,873.8 million rubles into Russia and took 778.6 million rubles out of Russia (3,241.2 million rubles and 260.0 million rubles in 2003 respectively).

Bank of Russia establishments provided cash services in compliance with federal laws and Bank of Russia regulations under agreements they concluded with their clients.

As of January 1, 2005, Bank of Russia establishments provided cash services to 5,670 credit institutions and their divisions and 119,701 organisations other than credit institutions. As for the Bank of Russia system as a whole, the number of credit institutions and their divisions which received cash services from Bank of Russia establishments increased by 63 in 2004 due to the reorganisation of the branch network conducted by credit institutions, while the number of organisations other than credit institutions decreased by 5,616 due to the liquidation of cash settlement centers and the transfer of clients to cash services provided by credit institutions.

According to Bank of Russia regional branches, 15,149 counterfeit Bank of Russia notes and coins were detected, withdrawn from circulation and passed to the Interior Ministry in 2004. Of these, 8,515 counterfeit Bank of Russia notes and coins were detected by Bank of Russia experts. The number of counterfeit Bank of Russia notes and coins increased by 2.4% over the year. The number of detected counterfeit Bank of Russia notes increased from 12,491 to 13,782, whereas the number of counterfeit Bank of Russia coins decreased from 2,299 to 1,367.

The number of counterfeit 1,000-ruble notes rose from 1,593 to 2,819, whereas the number of counterfeit 500-ruble notes fell from 4,053 to 3,163.

The largest number of counterfeit notes and coins was detected in 2004, as in 2003, in the Central and Volga Federal Districts.

In the period under review, Bank of Russia establishments examined 29,965 banknotes of 11 foreign currencies sent to them for analysis by credit institutions. Bank of Russia establishments and credit institutions detected and passed to the Interior Ministry bodies 12,086 counterfeit foreign banknotes, an increase of 6.5% on 2003.

In 2004, the Bank of Russia issued modified banknotes of the 1997 issue, which mostly had the increased security elements intended for public scrutiny.

Due to the issue of the modified banknotes, the Bank of Russia readjusted cash processing machines to the notes containing new machine-readable high security elements.

The Bank of Russia continued to increase the technical strength of the cash units of its establishments and credit institutions, upgrading the regulations on their management and operation, tightening control over the fulfilment of the capital construction and repair plans of Bank of Russia establishments and reconstruction plans of credit institution buildings, and providing assistance to Bank of Russia regional branches in modernising their security systems.

In 2004, the Bank of Russia issued 52 commemorative coins, of which 15 coins were made of gold, 28 of silver, six of gold and silver and three of copper-nickel alloys. A total of 376,200 coins made of precious metals were issued and more than 10.9 tonnes of silver and 1.5 tonnes of gold had been used to make them.

II.9. BANK OF RUSSIA WORK TO UPGRADE ACCOUNTING AND REPORTING

II.9.1. PRINCIPAL MEASURES TAKEN TO UPGRADE ACCOUNTING AND REPORTING

The Bank of Russia establishes the accounting and reporting rules for the Russian banking system under the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)."

In 2004, the Bank of Russia took steps towards harmonising Russian accounting practices with International Financial Reporting Standards (IFRS) and drafted proposals for upgrading the legal framework of accounting and reporting.

As a result of the upgrading of accounting standards and the enactment of new federal laws, the corresponding changes were made to the accounting rules in the Russian banking system, which were complemented by 17 Bank of Russia regulations. Specifically, these documents provided for making the accounting of the loss provisions on banking operations, operations connected with bank transactions to acquire the right of claim from third parties for the fulfilment of pecuniary obligations, fixed assets, intangible assets and material values, trust estate, etc.

Pursuant to Federal Law No. 173-FZ, dated December 10, 2003, "On Foreign Exchange Regulation and Foreign Exchange Control," the Bank of Russia issued regulations on the opening of special bank accounts by non-residents in rubles and foreign currency, on making the accounting of resident and non-resident operations with special bank accounts in rubles and on the accounting procedure to be used by authorised banks in conducting some kinds of banking operations and other transactions with foreign exchange and rubles, including cheques with a face value expressed in foreign currency.

Several regulations established the procedure which the Bank of Russia and its divisions should follow when accounting for profit tax, value added tax and other payments to the budget.

The Bank of Russia drafted and sent credit institutions and its regional branches instructions on the procedure for compiling IFRS-compatible annual accounting reports.

In 2004, the Bank of Russia conducted preparations for the conversion of the Russian banking system to the accrual method, the principal IFRS method of financial result formation. To this end, the Bank of Russia analysed its applicable rules and regulations in order to determine which had to be repealed or revised, and established the stages by which the new methods would be phased in.

II.9.2. BANK OF RUSSIA WORK TO CONVERT THE BANKING SECTOR TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In line with the Russian Banking Sector Development Strategy, approved by the Russian Government and Bank of Russia on December 30, 2001, credit institutions in Russia have started since January 1, 2004, to compile financial statements to IFRS, beginning from the statements for the period after January 1, 2004.

The Russian banking sector's conversion to IFRS was the outcome of the long and consistent work conducted under the guidance of the Bank of Russia.

The Russian banking sector's transition to IFRS was due to the following developments: Russia's integration into the world economy, advanced corporate governance techniques in banks, access to foreign stock markets, increased public confidence in the banking sector and its stronger role in the country's economy, and the use of financial statements in banking supervision.

As Russian credit institutions need to make a realistic evaluation of their business, harmonise their governance techniques with contemporary international practices and prepare for being compared with foreign banks to be able to compete with them, the conversion to IFRS was well timed.

One of the key elements in the Russian banking sector reform is the transition of all credit institutions to compiling financial statements to IFRS from January 1, 2004.

In 2003, the Bank of Russia Board of Directors took a decision to convert credit institutions to IFRS and issued a communiqué setting out the principles of conversion and the procedure and time frames for compiling IFRS statements. The Bank of Russia carried out the necessary measures for conversion. Specifically, it issued the regulation "On Compiling and Presenting Financial Statements by Credit Institutions" and methodological recommendations "On the Procedure for Compiling and Presenting Financial Statements by Credit Institutions," which established the principles, procedure and time frames for compiling financial statements, presented standard reporting forms and instructions on how they should be completed, and formulated the principles of disclosing information contained in the statements.

The Bank of Russia organised training programmes for its own specialists and specialists with credit institutions in the theory and practice of compiling financial statements in line with IFRS, and worked out programmes for training specialists in various segments of the banking system, including credit institutions, in international standards. Training was conducted on the basis of schedules and in specially approved disciplines, including mandatory practicals for accountants.

In 2004, the Bank of Russia opened on its website the section "Conversion of the Russian Banking System to IFRS," where credit institutions can find answers to their queries.

In November 2004, the Bank of Russia held the conference "The Russian Banking Sector's Conversion to IFRS is the Key to Enhancing the Competitiveness of Russian Banks," which discussed crucial theoretical and practical issues relating to the compiling and analysis of credit institutions' IFRS statements. The executives of more than 750 credit institutions responsible for financial reporting, Bank of Russia employees and representatives of the London-based International Accounting Standards Board (IASB), Audit Chamber and Finance Ministry of the Russian Federation and audit firms attended.

The organisational measures taken by the Bank of Russia and the training and methodological support it provided for conversion of the banking sector to IFRS reporting, envisaged by the Plan for the Conversion of the Russian Banking Sector to International Financial Reporting Standards from January 1, 2004, allowed credit institutions to present financial statements for the period from January 1, 2004, to September 30, 2004, in compliance with Bank of Russia Ordinance No. 1363-U, dated December 25, 2003. Statements for the first nine months of 2004 were presented by 1,290 credit institutions, or 99.3% of total credit institutions that were in operation as of January 1, 2005. According to Bank of Russia regional branches, 13 credit institutions failed to present IFRS statements, of which four credit institutions had their banking licences revoked in the period from October 1, 2004, to December 31, 2004. The Bank of Russia investigated why credit institutions failed to present IFRS statements and disciplined them.

To provide a basis for the use of IFRS, the Bank of Russia co-operated with the Finance Ministry and took part in drafting the Accounting and Reporting Development Concept for Russia. Endorsed by Finance Ministry Order No. 180, dated July 1, 2004, the Concept stipulated that the banking sector's transition to IFRS would be implemented in accordance with a special plan. The banking and non-financial sectors should convert to international accounting standards simultaneously. To upgrade the legislation relating to conversion to IFRS, the Bank of Russia drafted amendments to the Federal Law "On Accounting," the Federal Law "On Auditing" and a draft Federal Law "On Consolidated Financial Statements."

When implementing measures to convert the Russian banking sector to IFRS, the Bank of Russia also collaborated with the IASB, an independent body established by an agreement between certified accountants of many countries and designed to standardise the accounting principles used in compiling financial statements the world over. In 2004, the Bank of Russia submitted to the IASB its comments on the drafts of new standards being developed, the changes made in the applicable standards and criticisms on the translation of three standards being drafted (IAS 1 "Presentation of Financial Statements," IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 34 "Interim Financial Reporting").

II.10. INTERNATIONAL CO-OPERATION

II.10.1. CO-OPERATION BETWEEN THE BANK OF RUSSIA AND INTERNATIONAL FINANCIAL AND ECONOMIC ORGANISATIONS

In 2004, the Bank of Russia participated in meetings of the International Monetary Fund and World Bank, which discussed prospects for the world economy, how to make the IMF's supervisory practices more effective for the purposes of crisis prevention and measures to increase international aid to low-income countries. The Bank of Russia continued consultations under Article IV of the IMF Articles of Agreement and co-operated with IMF missions on issues such as the adoption of inflation targeting when creating conditions for the effective use of monetary regulation instruments, banking sector liquidity prediction, the payment system's development, the financial aspects of the functioning of the Bank of Russia and the creation of the deposit insurance system, mortgage lending, risk management and the methodology of stress testing.

In the year under review, the Bank of Russia carried out preparatory work with the Finance Ministry and the Federal State Statistics Service on Russia's adoption of the IMF Special Data Dissemination Standard (SDDS), including the compilation of data in the SDDS format. As a result, on January 31, 2005, Russia officially announced its accession to the SDDS.

In 2004, the Bank of Russia continued to take steps to make its activities as transparent as required by international standards and codes, and the progress it made in this area was recorded in the Data Module of the Report on the Observance of Standards and Codes in Monetary and Financial Policies, which was published by the IMF in May 2004.

To put into practice the recommendations of the IMF's new *Monetary and Financial Statistics Manual*, the Bank of Russia made changes to the methodology of calculating some monetary statistics indicators and published the revised data series. To make the transition to compiling statistical data on the financial sector as a whole, the Bank of Russia conducted its first selective study of the structure of assets and liabilities of insurance companies to assess how possible it was to establish a database in the format complying with international standards. The Bank of Russia took part in a discussion of specific methodological issues relating to the compilation of national accounts within the framework of the programme for making changes to the compilation manual, which is being currently implemented by the IMF and some other international financial and economic organisations.

The Bank of Russia participated in a discussion of the Compilation Guide on Financial Soundness Indicators within the framework of the Financial Sector Assessment Programme and the IMF financial soundness indicator calculation and dissemination survey. In addition, the Bank of Russia sent the IMF quarterly detailed balance of payment statements, compiled in compliance with IMF requirements, and analytical reports and detailed balance of payment components, international reserve structure data and other indicators.

The Bank of Russia took part in work to update the IMF Annual Report on Exchange Arrangement and Exchange Restriction.

It continued to co-operate with the World Bank on issues relating to the implementation of the financial institution development project and plans to launch a new project in support of regional banks and small and medium-sized businesses.

At the request of the Finance and Economic Development ministries, the Bank of Russia was involved in work connected with the evaluation of the projects implemented in the Russian banking sector by the **International Finance Corporation (IFC)** and the **European Bank for Reconstruction and Development (EBRD).**

The Bank of Russia participated in central bankers' meetings in the **Bank for International Settlements (BIS),** which discussed ways to maintain the stability of financial markets and institutions and eliminate imbalances in the world economy. They also focused on the exchange rate mechanisms, the effect of fiscal policy on central banks, measures to ensure debt sustainability of emerging markets given volatile interest rates, the role played by rating agencies and the implementation of the International Convergence of Capital Measurement and Capital Standards (Basel II). Bank of Russia representatives participated in the activities of working groups formed within the Committee on Payment and Settlement Systems and Basel Committee on Banking Supervision, including the Basel II Group.

The Bank of Russia was closely involved in organising the 14th conference of the Basel Committee's Regional Group for Banking Supervision of the Transcaucasia and Central Asia Countries and Russia, held in St Petersburg in August 2004, which discussed ways to improve the regulatory framework of the capital adequacy calculation, taking into account all kinds of risk, financial crisis and bank insolvency and the interaction between banking supervision and internal controls and external auditors.

The Bank of Russia took part in the work of the Irving Fisher Committee on Central-Bank Statistics and the Second Independent Conference of Central Bank Statisticians, held under the aegis of the BIS in September 2004, which dealt with the role played by central banks in developing and analysing national and financial accounts.

The Bank of Russia became more actively involved in the work carried out by the BIS to integrate international information resources. BIS and Bank of Russia experts held a number of working meetings on issues relating to co-operation with the BIS Data Bank. In 2004, the Bank of Russia significantly broadened the range of information it passed to the BIS Data Bank. It also co-operated with the BIS to receive more opportunities for using data from the BIS Data Bank. Since September 2004, the Bank of Russia has been using the information exchange system, allowing it to receive current information from the BIS Data Bank on a daily basis.

The Bank of Russia and the Finance Ministry took part in organising and holding board meetings of the **International Investment Bank (IIB)** and **International Bank for Economic Co-operation (IBEC),** which discussed issues relating to the settlement of these banks' debts both receivable and payable and the conceptual development problems of the IIB and IBEC.

The Bank of Russia participated in elaborating Russia's strategies of co-operation with **other regional development banks,** such as the **Black Sea Trade and Development Bank (BTDB)** and **Asian Development Bank (ADB),** and in international consultations on Russia's entry into the ADB.

The Bank of Russia participated in all meetings of **Group of Eight** and **Group of 20** finance ministers and central bank governors and prepared reports for two seminars on the creation of stable domestic financial markets and regional economic integration. It also prepared reports on the Russian money remittance system for G8 and G20 meetings. In line with the decisions of the G8 summit, held in Sea Island, USA, the Bank of Russia drafted proposals for developing partnership relations and programmes with CIS countries in the field of cross-border money remittances and for microfinancing. It also prepared information on the implementation of the new version of the FATF's Forty Recommendations and raising the level of transparency and control standards on the financial markets.

In the year under review, the Bank of Russia continued to broaden ties with the **Organisation for Economic Co-operation and Development (OECD)** and its working bodies. It participated in the meetings of the OECD committees on investment policy and financial markets and in discussion of the OECD reviews on Russia's economy and investment policy. It also prepared proposals on the draft concept of Russia's accession to the OECD and on the revised programme for co-operation between Russia and the OECD. A representative of the Bank of Russia was included in the joint Russian Government commission on the WTO and co-operation with the OECD, which was formed in 2004. At its first meeting, the commission decided to begin preparations for negotiations on Russia's accession to the OECD. In line with this decision, the Bank of Russia started to conduct a comparative analysis of Russian banking legislation and OECD standards and rules.

The Bank of Russia continued to participate jointly with the Economic Development Ministry in international negotiations on Russia's accession to the **World Trade Organisation (WTO).**

In 2004, the Bank of Russia stepped up its co-operation with the **Asia-Pacific Economic Co-operation (APEC)** organisation and took part in the meeting of APEC deputy finance ministers and central bank governors and, for the first time ever, in the meeting of the APEC Technical Working Group and in the meeting of APEC finance ministers. The Bank of Russia prepared the report "Institutional Development in the World of Free and Volatile Capital Flows."

II.10.2. CO-OPERATION BETWEEN THE BANK OF RUSSIA AND FOREIGN COUNTRIES AND THEIR CENTRAL (NATIONAL) BANKS

The Bank of Russia co-operates with foreign countries and their central (national) banks with the objective of creating favourable conditions for advancing Russia's economic interests on international markets.

In 2004, the top priority for the Bank of Russia in this area was the implementation of the Joint Action Plan of the Russian Government and Central Bank and the Belarussian Government and National Bank for the introduction of a common currency of the Russia-Belarus Union State for the period from 2001 to 2005. The **Interbank Monetary Council of the Central Bank of the Russian Federation and National Bank of the Republic of Belarus** held regular meetings and examined the progress made in carrying out the measures planned. It also discussed economic development issues and the principal elements of the monetary policy of the two countries, the harmonisation of the instruments of monetary regulation, the effectuation of settlements in the Union State's payment system, exchange rate policy and other issues.

At a meeting held in September 2004, the Interbank Monetary Council came to the conclusion that the mechanisms described in the draft Agreements between the Russian Government and Bank of Russia, on the one hand, and the Belarussian Government and National Bank of Belarus, on the other, in respect to the use of the Russian ruble as the only legal tender in Belarus and related interbank documents, and the extent of the harmonisation of the monetary policies of the Bank of Russia and the National Bank of the Republic of Belarus allowed the sides in principle to introduce and use the Russian ruble as the only legal means of payment in Belarus.

As the date of the introduction of the Russian ruble in Belarus was postponed, the Bank of Russia and the National Bank of the Republic of Belarus drew up a plan of actions for the introduction of the Russian ruble as the sole legal tender in Belarus from January 1, 2006.

The Bank of Russia participated in the work of the **CIS Interstate Monetary Committee.** Specifically, it took part in carrying out measures designed to ensure the implementation of the Concept of Co-operation and Co-ordination of the Activities of the CIS Member Countries in the Monetary Sphere.

The Bank of Russia participated in drafting a number of major documents designed to stimulate the monetary and financial integration of the member states of the **Eurasian Economic Community (EurAsEC).** These include the Concept of Monetary Co-operation, the Agreement on Co-operation in Organising an Integrated Foreign Exchange Market, the Agreement on the Conceptual Framework of the Policy of Foreign Exchange Regulation and Foreign Exchange Control in Respect to Operations Connected with the Capital Movement and the Plan for Co-operation in Banking Regulation and Supervision for 2005—2006.

Three meetings of the EurAsEC Central (National) Bankers' Council, set up to co-ordinate monetary co-operation, were held in 2004. They discussed ways of upgrading co-operation between the EurAsEC national payment systems, convert EurAsEC banking practices to international accounting and financial reporting standards, the key elements of the national monetary policies and other issues.

In 2004, EurAsEC central (national) bank governors signed the Agreement on Standardising the Procedure for Opening Accounts by Residents of EurAsEC Countries in Banks of other EurAsEC Countries to Serve the Activities of their Representative Offices and the Agreement on Co-operation in Training EurAsEC Central (National) Bank Personnel. The Co-ordinating Council on the Vocational Training of EurAsEC Central (National) Bank Personnel was set up to implement the corresponding agreement.

In the period under review, the Bank of Russia was involved in the formation of the **Common Economic Space covering Belarus, Kazakhstan, Russia and Ukraine,** drafting Agreement on Common Approaches to the Monetary and Foreign Exchange Policy Implementation and Agreement on Harmonising Banking Legislation in Compliance with the Basel Committee's Core Principles for Effective Banking Supervision, and participated in drafting some other documents.

It continued to make vigorous efforts to turn the **Interstate Bank** into an effective mechanism for economic integration of CIS countries. In collaboration with the Finance Ministry, the Bank of Russia prepared a new draft of the Articles of Association of the Interstate Bank and a draft protocol on amendments to the Interstate Bank Founding Agreement, which assign to the Interstate Bank two major functions: the effectuation of mutual payments and settlements in the national currencies and the financing of investment projects in the interests of the member states.

A significant event in 2004 was the international seminar "European System of Central Banks/Bank of Russia," organised in Helsinki by the Bank of Russia in collaboration with the European Central Bank, at which the Bank of Russia presented the following reports: "Free Movement of Capital: New Challenges for Monetary Policy" and "Banking Sector Development and Financial Sector Stability."

In 2004, the Bank of Russia took part in the work of bilateral **intergovernmental commissions** and their structures (the committees on trade, economic, scientific and technological co-operation, and subcommittees and working groups on financial and banking co-operation), attaching priority to relations with the European Union, India, China, Vietnam and Kazakhstan.

In 2004, Russia and Uzbekistan set up the Subcommittee on Interbank Co-operation, and Russia and Egypt decided to form a working group on interbank co-operation. The Bank of Russia signed a Memorandum of Understanding with South African Reserve Bank and a protocol to the Agreement on Interbank Settlements in Cross-Border Trade with China, and agreed a draft Memorandum of Understanding with the Central Bank of Brazil.

Bank of Russia representatives held meetings and seminars with their colleagues and representatives of commercial banks from China, Vietnam, Indonesia and Brazil, at which they discussed key issues of Russian banking and foreign exchange legislation and how to improve co-operation between the banking systems of Russia and these countries.

II.11. UPGRADING THE BANK OF RUSSIA SYSTEM AND MAKING IT MORE EFFICIENT

II.11.1. THE BANK OF RUSSIA ORGANISATIONAL STRUCTURE AND MEASURES TAKEN TO IMPROVE IT

In 2004, the Bank of Russia, as in the previous few years, continued to carry out measures designed to improve its organisational structure, gradually overhaul the structure of its internal divisions and optimise the size of its management.

It believes that the most important result of the measures it implemented in 2004 was the reduction of the total number of employees of the Bank of Russia Cash Settlement Centre by 2,100, or 10% (due to the closure of many cash settlement centres and the transfer of their customers to credit institutions and the nearest cash settlement centres) and the reduction of the staff of the main divisions (national banks) and main cash settlement centres by 2,500, or 7.5%.

The Bank of Russia established the Main Division for Expert Appraisal to conduct an independent examination of construction projects and contracts for the purchase of goods and services by the Bank of Russia and optimise the provision of information and methodological support for regional branches and organisations.

As a result of the measures taken by the Bank of Russia, the Bank of Russia staff decreased by more than 6,000, or 7%.

As of January 1, 2005, the Bank of Russia structure comprised the central office, 59 main divisions, 19 national banks, the Bank of Russia representative office in the Chechen Republic, 935 cash settlement centres, five divisions and the Operations Department of the Main Division for Moscow, field offices, the Central Depository Directorate and six interregional depositories, four specialised computer centres and auxiliary services.

II.11.2. CO-ORDINATING THE ACTIVITIES OF BANK OF RUSSIA REGIONAL BRANCHES

In the year under review, the Bank of Russia co-ordinated the activities of its regional branches with the objectives of implementing the state monetary policy, increasing banking sector stability, improving banking supervision, ensuring the secure and efficient operation of the payment system, fulfilling the requirements of the law on countering money laundering and terrorist financing, implementing foreign exchange control and optimising the structure and size of personnel of its regional branches.

The Bank of Russia co-ordinated the activities of its regional branches by issuing regulations and recommendations, sending central office specialists to regional branches to conduct inspections and provide assistance, and holding seminars and meetings on current problems and developments.

To improve co-ordination between the divisions of the Bank of Russia central office and regional branches, the Bank of Russia established the procedure for considering the Bank of Russia regional branches' annual reports for 2003 (Bank of Russia Order No. R-193, dated April 20, 2004, "On the Procedure for Considering the Bank of Russia Regional Branches' Annual Reports for 2003"). The corresponding divisions of the Bank of Russia central office examined the Bank of Russia regional branches' annual reports in accordance with this procedure, studied the problems raised in them and prepared the corresponding conclusions on them.

Having considered the problems raised by the Bank of Russia regional branches in their annual reports for 2003, the corresponding divisions of the Bank of Russia central office sent their summary conclusion to the regional branches for information and practical use, and informed the regional branches about the measures taken on these problems in 2004.

To improve the performance of its regional branches last year, the Bank of Russia continued to work on the draft Regulation on the Bank of Russia Regional Branches, taking into account the amendments made to Russian legislation in respect to banking and the changes in its own regulations. The draft Regulation included the draft of the Standard Structure of the Management of the Bank of Russia Regional Branches and the principles of its formation, which were designed to improve the organisational structure of Bank of Russia regional branches.

II.11.3. STAFFING AND PERSONNEL TRAINING

When carrying out measures to optimise the personnel structure and size of Bank of Russia establishments and organisations last year, the Bank of Russia paid particular attention to personnel placement in accordance with each person's competence and growth potential, improving organisational and managerial skills in internal divisions, as well as raising the managerial competence of executives and the qualification level of specialists.

As of January 1, 2005, specialist and executive positions were filled by 98.7%. Most of the Bank of Russia's employees are between 30 and 50 years old (65.1%) and have worked in the Bank of Russia system from three to 15 years (68.1%). In the past few years, the number of executives and specialists with a higher education has been consistently increasing and the share of employees under 30 has been falling (1,381 Bank of Russia employees completed a training course in higher education establishments in 2004).

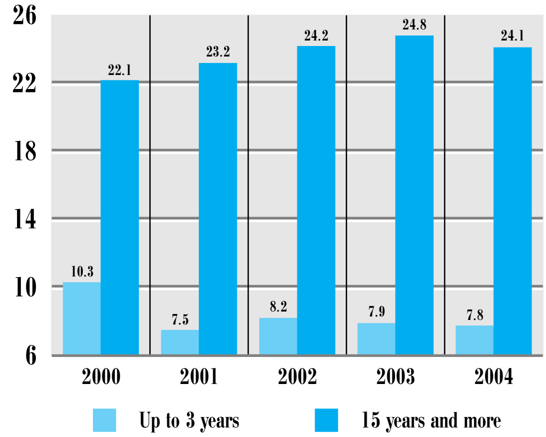
As in the previous years, Bank of Russia regional branches continued to create a reserve of executives for their internal divisions in 2004 and its quality has now improved. More than 70% of appointments to executive positions of different levels were made from this reserve in 2004. Personnel assessments remain a technique constantly used in tackling various managerial tasks: 80% of executives and specialists at regional branches were involved in personnel assessments in the year under review, about 30,000 managerial decisions were taken as a result of personnel assessments and assessment results were taken into account 1.7 times more often in managerial personnel decisions. Considerable attention was paid to personnel development: more than 20,000 Bank of Russia executives and specialists were involved in advanced vocational training programmes in 2004.

In line with the Russian Banking Sector Development Strategy, the Bank of Russia continued to provide vocational retraining for its supervisors: 247 supervisors from 78 regional branches and central office divisions were covered by the vocational retraining programme in 2004.

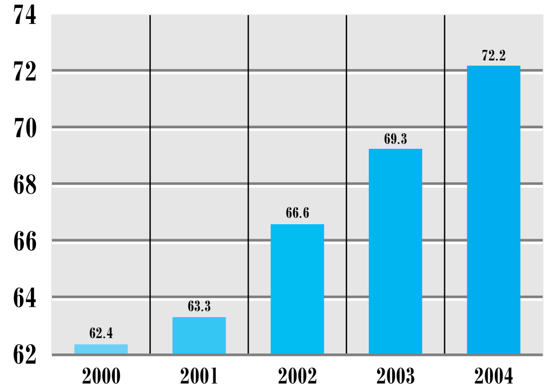
As banks began to present financial statements to international standards from January 1, 2004, the Bank of Russia last year conducted 34 seminars for its executives and specialists, and 107 seminars for credit institution managers and chief accountants, which involved more than 2,600 people.

The Bank of Russia launched a pilot project designed to train a group of senior executives and specialists with the central office for taking the Association of Charted Certified Accountants (ACCA) examinations.

CHANGES IN PERSONNEL STRUCTURE BY LENGTH OF WORK IN THE BANK OF RUSSIA SYSTEM (%)



EXECUTIVES AND SPECIALISTS WITH HIGHER EDUCATION (as % of total staff)



Charts 41, 42

STRUCTURE OF BANK OF RUSSIA PERSONNEL TRAINING BY SUBJECT IN 2004 (as % of total number of trainees)

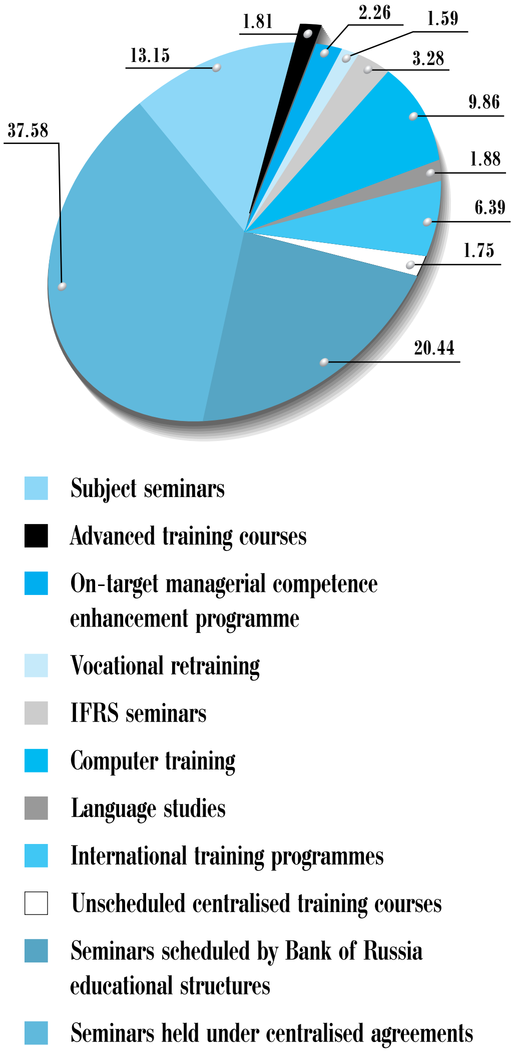


Chart 43

To systematise and raise the level of managerial expertise and skills, the Bank of Russia held 34 seminars, which involved over 500 heads of Bank of Russia internal divisions. Compared with the previous year, the number of Bank of Russia employees who received advanced training in managerial skills in 2004 increased by 2.4 times and central office executives and employees by 7.3 times. For the first time, the Bank of Russia organised in collaboration with the Russian Government's Financial Academy a two-week training course in project management for 20 medium-level Bank of Russia executives.

In 2004, the Bank of Russia completed the optimisation of its educational structures. More than 380 advanced training sessions, which involved over 6,000 people, were held at six state-certified and accredited banking schools (colleges).

More than 16,000 Bank of Russia specialists in information technology, information security, cash issue operations and other areas received advanced training on a contractual basis.

Foreign organisations and personnel training centres conducted 173 courses and seminars in advanced banking practices within the framework of Bank of Russia co-operation agreements with foreign countries in 2004.

The TACIS Bank of Russia Personnel Training Project, financed by the European Commission, started in 2004. In the period under review, the Project Steering Committee held four meetings and 34 courses and seminars were held in Russia, which involved 542 Bank of Russia specialists. These included a high-level seminar on the role played by central banks in monitoring financial stability and four instruction trips abroad. An instruction visit was organised to France within the framework of the TACIS Banking Supervision and Accounting Project, co-sponsored by PricewaterhouseCoopers Audit, a close-end joint-stock company.

The Bank of Russia continued to implement a programme for co-operation in personnel training with the central (national) banks of the CIS and EurAsEC member countries, which included seminars, consultations, secondments and visits to exchange experience. On March 12, 2004, representatives of EurAsEC central (national) banks signed in Minsk an Agreement on Co-operation in Central (National) Bank Personnel Training, which was later signed by the Central Bank of the Republic of Armenia.

In accordance with the decisions taken earlier by the EurAsEC Central (National) Bankers' Council and the agreement signed between the EurAsEC central (national) banks, 20 mutual secondments were organised, which involved about 60 EurAsEC central (national) bank employees (eight secondments involving 18 Bank of Russia representatives and 12 Bank of Russia secondments for 43 representatives of EurAsEC central (national) banks).

Ten seminars in which nearly 120 central (national) bank specialists participated were held within the framework of the Catalogue of the Programmes for the CIS and EurAsEC member states in 2004.

II.11.4. BANK OF RUSSIA INFORMATION AND TELECOMMUNICATIONS SYSTEM DEVELOPMENT

The Bank of Russia Information and Telecommunications System (ITS) is a top-down structure of integrated systems (networks), subsystems, technical facilities (computers and telecommunications and engineering equipment) and software, which constitute a single integrated centre ensuring the operation of the Bank of Russia using advanced information technology, computers and communications and management systems.

The Bank of Russia ITS ensures the operation of the operation accounting, information analysis, organisational and internal business management systems and security facilities, as well as the sharing of information with other federal government structures. About 20% of the entire amount of data processed and transmitted by the ITS are related to the payment system and more than 80% to other spheres of activity of the Bank of Russia.

In the period under review, the Bank of Russia operated, upgraded and modernised the ITS systems (networks), subsystems and centres. It continued to develop primary networks using digital communications lines in its regional branches and develop and modernise the structured cable systems and local computer networks in its establishments.

To reduce operational risk in the automatic systems, the Bank of Russia continued to expand the integrated system of control of telecommunications and information resources, which is now operating in 83 Bank of Russia regional branches and organisations.

The Bank of Russia continued to expand its electronic mail service, which ensured the exchange of messages between Bank of Russia internal divisions and electronic document turnover and record keeping in the Bank of Russia. There are regional mail services in 77 Bank of Russia regional branches used by almost 20,000 people.

To raise the efficiency of its staff and internal divisions, the Bank of Russia developed an Intranet system and tested the Bank of Russia Intranet corporate portal. Currently it covers 21 internal divisions of the central office and 77 Bank of Russia regional branches and six organisations. About 9,000 people are registered Bank of Russia Intranet corporate portal users.

II.11.5. BANK OF RUSSIA WORK TO IMPROVE BANKING LEGISLATION. MANAGING SUITS AND CLAIMS IN BANK OF RUSSIA ESTABLISHMENTS

The efforts made by the Bank of Russia to improve banking legislation in 2004 focused on the adoption of a wide range of federal laws that were important for the functioning of the Russian banking system.

Significant amendments were made to bank insolvency (bankruptcy) legislation by **Federal Law No. 121-FZ, dated August 20, 2004, "On Making Amendments to the Federal Law 'On the Insolvency (Bankruptcy) of Credit Institutions' and Invalidating Some Federal Laws (Provisions of Federal Laws)."** The law included a number of provisions which significantly simplified the procedure for bankruptcy of credit institutions. When a credit institution is declared bankrupt, bankruptcy proceedings shall be initiated and conducted without surveillance procedure. The maximum tenure of the provisional administration was reduced from 9—12 to six months. Another new point was that the Deposit Insurance Agency became the receiver of bankrupt credit institutions which had licences to take household funds on deposit, and the arbitration court and Bank of Russia received the right to oversee the activities of the receiver. The law allows subsidiary responsibility to be placed by a court ruling for a credit institution's obligations upon the founders (members), members of the board of directors (supervisory board) and managers of the credit institution if the latter went bankrupt through their fault.

After several years of debate on the need to upgrade the banking system's infrastructure, Russian legislators passed **Federal Law No. 218-FZ, dated December 30, 2004, "On Credit Histories,"** which is to come into effect on June 1, 2005. The law defines a credit history and establishes the procedure for compiling, keeping and using credit histories. It also regulates the activities of credit bureaux.

The Bank of Russia will play a major role in implementing this law, as the Central Catalogue of Credit Histories, an internal division of the Bank of Russia, will be a single information centre where one will be able to find out for free in which credit bureau a particular credit history is kept.

From September 1, 2005, credit institutions will be required with a borrower's consent to present to at least one credit bureau information on the fulfilment by the borrower of the obligations he/she assumed under loan (credit) agreements.

Federal Law No. 219-FZ, dated December 30, 2004, "On Making Amendments to Some Federal Laws in Connection with the Adoption of the Federal Law 'On Credit Histories,'" provided for making the corresponding amendments to the Civil Code, the Federal Law "On Banks and Banking Activities" and other federal laws. Specifically, it revised some bank secrecy regulations as the law "On Credit Histories" stipulated that credit institutions may, with the borrower's consent, pass information to credit bureaux.

Federal Law No. 96-FZ, dated July 29, 2004, "On Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System," was passed with the objective of increasing confidence in the banking system as a whole. The law extended to the depositors of the banks outside the compulsory deposit insurance system the same guarantees as those that existed within this system. Under the law, Bank of Russia funds are used as a source of payments to depositors of those banks outside the deposit insurance system.

Federal Law No. 97-FZ, dated July 29, 2004, "On Amending Some Laws in Connection with the Adoption of the Federal Law 'On Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System,'" made the following changes to the Civil Code, the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" and the Federal Law "On Banks and Banking Activities":

— claims that have passed to the Bank of Russia as a result of the payments made to depositors as part of the claims of the first-priority creditors must be met as such in accordance with the procedure established for the claims that have passed to the Deposit Insurance Agency, that is, on a first-priority basis;
— the Bank of Russia has been granted the right until December 31, 2006, to impose restrictions in some cases on the interest rate set by a credit institution in a bank deposit agreement concluded (extended) during the restriction period;
— banks with a licence to take household funds on deposit must disclose information on interest rates set in the bank deposit agreements with private individuals, information on their debt on household deposits and information on the receipt of cash by private individuals under bank deposit agreements in accordance with the procedure established by the Bank of Russia.

Federal Law No. 193-FZ, dated December 29, 2004, "On Making Amendments to the Federal Law 'On Mortgage Securities,'" is designed to safeguard the interests of mortgage security holders if a credit institution goes bankrupt. Should a credit institution, an issuer of mortgage-backed bonds go bankrupt, the mortgage shall be removed from bankruptcy assets and used to meet the claims of the holders of such bonds. The law also gave credit institutions the right to issue mortgage participation certificates and specified the procedure for the state regulation and control of the mortgage securities market.

Federal Law No. 192-FZ, dated December 29, 2004, "On Making Amendments to Some Federal Laws in Connection with the Adoption of the Federal Law 'On Mortgage Securities,'" made some changes to the Civil Code, the Federal Law "On Insolvency (Bankruptcy)," the Federal Law "On Banks and Banking Activities," the Federal Law "On Joint-Stock Companies" and the Federal Law "On Limited Liability Companies." These amendments were needed to regulate the status of mortgage in bank bankruptcies and they lifted restrictions (the size of authorised capital or security provided by third persons) on the issue of mortgage-backed bonds by corporate entities. In addition, the amendments made to the Federal Law "On Banks and Banking Activities" were in accord with the changes made to the Federal Law "On the Insolvency (Bankruptcy) of Credit Institutions" and set out some new principles of regulating the Bank of Russia-initiated liquidation of credit institutions.

To harmonise Russian legislation with international standards in countering money laundering and terrorist financing, Russia passed **Federal Law No. 88-FZ, dated July 28, 2004, "On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism.'"**

Some other federal laws affecting the Bank of Russia and credit institutions were passed last year, such as **Federal Law No. 106-FZ, dated August 20, 2004, "On Amending Article 49 of the Federal Law 'On Insurance of Household Deposits with Russian Banks,'" Federal Law No. 58-FZ, dated June 29, 2004, "On Making Amendments to Some Federal Laws and Invalidating Some Federal Laws in Connection with the Implementation of Measures to Upgrade Government Administration."**

As for the law-making activities of the Bank of Russia, in the period from January 1 to December 31, 2004, it issued 198 regulatory documents (12 instructions, 19 regulations and 167 ordinances), of which 92 Bank of Russia regulatory documents were registered with the Ministry of Justice.

The Bank of Russia continued to eliminate discrepancies in and optimise its regulatory documents. Of the 167 ordinances it issued last year, 44 were designed to update and optimise regulation. As a result, the Bank of Russia invalidated 282 regulations and some provisions in 42 regulations and repealed 120 non-regulatory documents which clarified Bank of Russia regulations.

MANAGING SUITS AND CLAIMS IN BANK OF RUSSIA ESTABLISHMENTS

In 2004, Bank of Russia regional branches had 926 property claims made against them to the total amount of 322.1 million rubles and 90,000 US dollars, of which only 81 claims to the amount of 1.3 million rubles were upheld.

These figures show that most of the claims and suits filed against the Bank of Russia in respect to the servicing of credit institutions' correspondent accounts and the recovery of funds at bank depositors' requests were unjustified and could not be upheld.

In 2004, 224 suits filed against the Bank of Russia in respect to labour relations were considered in common courts of law.

As for credit institutions' appeals against the decision by the Bank of Russia to use sanctions against them, four out of the 14 suits of this kind, involving a total of 2.5 million rubles, were upheld.

Bank of Russia establishments, for their part, filed claims and suits against credit institutions as part of the supervision process. They filed 610 claims to the amount of 21.0 million rubles and 53 suits to the amount of 5.9 million rubles, of which by the end of the period under review 518 claims and suits to the amount of 13.1 million rubles had been upheld.

II.11.6. BANK OF RUSSIA INTERNAL AUDIT

The Bank of Russia chief auditor's service in 2004 oversaw the Bank of Russia and the institutions and organisations accountable to it to make sure that they conducted financial and business operations properly.

The chief auditor's service did so on the basis of a plan approved by the Bank of Russia Chairman, which provided for comprehensive audits and selective inspections to be conducted in Bank of Russia internal divisions and organisations. In addition to the planned audits, the chief auditor's service conducted unscheduled inspections at the request of Bank of Russia management.

Virtually all Bank of Russia divisions which compile a separate balance sheet were subjected to comprehensive and selective inspections.

Particular attention was paid to inspections designed to verify the correctness of the calculation and payment of taxes and the fulfilment of other taxpayers' duties. Information system audits continued.

Great emphasis was placed on the evaluation of internal controls and to ensure that internal controls were adequate to the scale of the operations being conducted.

Audit and inspection results show that by and large the Bank of Russia ensured the observance of Russian legislation and Bank of Russia regulations, and accuracy in the material aspects of accounting and reporting. In addition, the results showed that the internal controls of the Bank of Russia were adequate to the nature and scale of its activities.

At the same time, despite a fall in the number of violations in most fields of activity, there are still problems with the way the expenditure budget is used and real estate and property are managed.

The decisions taken upon the examination of audit (inspection) results took into account the nature of the identified problems and a number of important decisions were taken to use materials and labour more effectively, and optimise production techniques.

A set of measures was carried out to improve the internal audit and create conditions for making it more efficient.

Surveys of the most typical infractions discovered in the principal fields of activity in the previous year were made known to the managers of all regional branches to prevent and eliminate problems.

In 2004, the Bank of Russia took steps towards methodological uniformity and improving the quality of inspections to make them more effective. To this end, it held a seminar for the managers of audit services who are invited to head comprehensive inspections of regional branches. In the year under review, the Bank of Russia sent its regional branches methodological recommendations on auditing cash issue operations, expenditures on the construction and repairs of buildings and facilities and operations with financial instruments. Methodological recommendations were issued on auditing the management of non-cash settlements and the work carried out by regional branches in connection with banks' entry to the deposit insurance system. Recommendations are now being prepared on the audit of other activities of Bank of Russia establishments.

Measures were implemented to improve the competence of the staff of the chief auditor's service with special emphasis made on the study of IFRS.

The Bank of Russia chief auditor's service expanded co-operation with similar services in CIS central banks, including co-operation within the framework of the annual consultative meetings of the heads of these services. During the year, employees of the chief auditor's service visited the central banks of UK, Germany, Italy, France, Armenia, Kazakhstan and Finland to study the practices of the corresponding internal audit services.

Pursuant to Article 13 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the National Banking Board in November 2004 examined the Bank of Russia Chief Auditor's Report "The Inspection Activities of the Bank of Russia Chief Auditor's Service in 2004."

II.11.7. BANK OF RUSSIA STAKEHOLDINGS IN THE CAPITAL OF RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

Pursuant to Article 8 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia participated in the capital of the **Savings Bank (Sberbank)** in 2004 and in the capital of the following resident organisations ensuring the operation of the Bank of Russia: **the Moscow Interbank Currency Exchange (MICEX), the St Petersburg Currency Exchange (SPCEX) and the National Depository Centre (NDC).** The Bank of Russia participated in the management and control of these resident organisations through its representatives in their management and supervisory bodies.

The Bank of Russia stake in the capital of **Sberbank** was unchanged in 2004 at 60.57%. The purpose of the Bank of Russia stakeholding in Sberbank was to ensure that it conducted an efficient and open policy when providing the entire range of its services. In the year under review, Sberbank's Supervisory Board and shareholders' meeting approved, with the active participation of the Bank of Russia, a set of amendments to Sberbank's Article of Association, designed to give the bank's shareholders and customers more access to information about the bank's activities and broaden the powers of the control bodies to oversee Sberbank's day-to-day activities. To introduce best corporate governance practice, Sberbank set up a personnel and remuneration committee in 2004 and an audit committee under the Sberbank Supervisory Board, which included Bank of Russia representatives.

Dividends paid to the Bank of Russia in 2004 from Sberbank's 2003 profit amounted to more than 1.5 billion rubles. According to preliminary data, Sberbank made a profit of 52.6 billion rubles in 2004, an increase of 35.6% on 2003.

Stakeholdings in the MICEX and the SPCEX allowed the Bank of Russia to control operations on the domestic foreign exchange market and government debt market through its representatives on the exchange boards and commissions of these two largest bourses of the Central and Northwestern Federal Districts and use exchange infrastructure for the purposes of its monetary and exchange rate policies.

The Bank of Russia share in **MICEX** capital remained unchanged in 2004 and as of January 1, 2005, it stood at 28.76% of the exchange's equity capital.

In 2004, the Exchange Board considered how to expand and improve further the various segments of the exchange market, including the foreign exchange trade and government securities sections, and improve risk management in exchange trade. During the year under review, the MICEX carried out several major projects: it united the unified trading session of several interbank currency exchanges and the afternoon session (SELT) into the Unified Trading Session, which allowed it to increase the liquidity of individual foreign currency instruments, opened the MICEX Stock Exchange and transferred trade from its stock market section to the MICEX Stock Exchange.

The Bank of Russia actively used the MICEX in operations to regulate banking sector liquidity. Exchange refinancing mechanisms, such as currency swaps and repo operations, were a major means of maintaining the current liquidity of exchange market participants. In March 2004, the Bank of Russia began to conduct deposit operations in the MICEX electronic trade system (ETS). Such operations were conducted at auctions or at fixed interest rates. By conducting deposit operations through the MICEX electronic trade system, the Bank of Russia received an additional opportunity quickly to react to the changing liquidity market situation and ensured all credit institutions, including regional ones, equal access to the monetary regulation instruments and enabled credit institutions to use new asset management technologies.

In 2004, overall trade on the MICEX came close to $550.0 billion, or almost double the figure compared with 2003 ($280.7 billion). In 2004, the MICEX posted a net profit of more than 500 million rubles, which represents an increase of 170% on the previous year. In 2004, for the first time in 10 years, the MICEX paid dividends for 2003 at 56.6% of net profit. The Bank of Russia received over 28 million rubles.

The Bank of Russia share in the capital of the **SPCEX** contracted from 10.0% to 8.9% in 2004 as a result of the placement of an additional issue of SPCEX shares with other investors with the objective of bringing the equity capital structure into conformity with federal legislation and thus being able to qualify for a stock exchange licence.

The principal objective of the Bank of Russia representatives in the SPCEX Exchange Board in 2004 was to ensure the adoption of decisions which would give traders more opportunities when conducting transactions with various financial instruments in both the SPCEX and MICEX trading systems. To bring the exchange's internal documents into conformity with the recommendations of the Federal Financial Markets Service, the Bank of Russia representatives proposed making the corresponding amendments to stock exchange trade and access rules and clearing regulations. An amendment was made to the SPCEX Articles of Association in 2004, establishing the procedure for electing Exchange Board members by cumulative voting, which ensured the proportional distribution of shareholder votes among candidates.

The SPCEX foreign exchange and securities trade turnover expanded by almost 70% in 2004 to over a trillion rubles as against 684.2 billion rubles in 2003. Trade in standard contracts increased by 170% year on year. In 2004, the SPCEX used the profit for 2003 to modernise the technological base and exchange market infrastructure of the Northwestern Federal District, supply the needs of the interregional exchange trade system in foreign currency and stimulate trade in securities.

Consistently implementing its policy of promoting the development of the financial market infrastructure, the Bank of Russia participates in the capital of the **NDC.** In 2004, the Bank of Russia stakeholding in the NDC remained unchanged from the previous year at 49.0%.

In 2004, the NDC general meeting decided on the basis of the materials prepared by the NDC's policy-making committees and commissions, on which Bank of Russia representatives sat, to expand the membership of the partnership, create conditions for servicing all kinds of securities issued by Russian issuers and reduce fees. The NDC general meeting, in which Bank of Russia representatives played an active part, passed amendments to the NDC articles of partnership designed to improve the management of the depository and form a Board of Directors.

In collaboration with the MICEX, the NDC organised an exchange of information in real time last year between the trade and depository systems, began to handle Russian eurobonds through an account opened in the MICEX Clearing House and carried out a range of projects designed to upgrade the computerised depositor service system and raise the level of internal automation.

In 2004, the NDC used the profit it received for 2003 to finance the development of its regional infrastructure, improve the electronic document turnover by converting it to international standards and establish correspondent inter-depository relations with international organisations.

The group of Russian overseas banks comprises the Moscow Narodny Bank (London), Banque Commercial pour l'Europe du Nord-Eurobank (Paris), Ost-West Handelsbank (Frankfurt am Main), Donau-Bank (Vienna) and East-West United Bank (Luxembourg). These banks operate in compliance with their host country's legislation and are supervised by the local supervisory authorities, while the Bank of Russia participates in managing these banks through its representatives on their supervisory boards.

The Bank of Russia holds a 15.0% stake in the Donau-Bank (Vienna) and East-West United Bank (Luxembourg). It has retained its blocks of shares in these banks at the recommendation of the local supervisory authorities. The Bank of Russia owns 88.89% of the capital of the Moscow Narodny Bank (London), 87.04% of the capital of Eurobank (Paris) and 51.62% of the capital of the Ost-West Handelsbank (Frankfurt am Main).

Pursuant to Article 8 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia disposes of stakeholdings in these banks in agreement with the Russian Government. Article 13 of the said law places decision-making concerning the participation of the Bank of Russia in the capital of credit institutions within the competence of the National Banking Board.

Implementing the decisions of the National Banking Board, the Bank of Russia continued to create conditions for its withdrawal from the capital of Russian overseas banks in 2004. Specifically, it took steps to make these banks more independent financially from the Bank of Russia, held meetings and consultations with their host countries' supervisory authorities and studied possible forms of share alienation. Work continued in the period under review to transfer to the Bank of Russia the rights to the shares in the Russian overseas banks which are historically registered as being owned by "nominal shareholders."

III

BANK OF RUSSIA ANNUAL FINANCIAL STATEMENTS AS OF JANUARY 1, 2005

INTRODUCTION

The annual financial statements reflect the operations conducted by the Bank of Russia in fulfilling its principal purposes and functions established by Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)."

The annual financial statements (hereinafter referred to as the financial statements) as of January 1, 2005, presented below comprise:

- the Annual Balance Sheet;
- the Profit and Loss Account;
- the Statement on Profit and its Allocation;
- the Statement on Bank of Russia Reserves and Funds;
- the Statement on Bank of Russia Management of Securities and Stakeholdings that are Bank of Russia Property;
- the Statement on Bank of Russia Personnel Costs;
- the Statement on Capital Investment Budget Performance;

The principal objectives of the Bank of Russia are as follows:

- to protect the ruble and ensure its stability;
- to develop and strengthen the Russian banking system;
- to ensure the effective and smooth functioning of the payment system.

The monetary policy pursued by the Bank of Russia in 2004 aimed to create conditions for the country's long-term economic development. When pursuing its foreign exchange policy, the Bank of Russia used the regime of managed floating, which was designed to cushion any abrupt fluctuations of the exchange rate of the national currency and prevent the ruble's excessive appreciation.

In the year under review, the banking sector retained its positive development trends and strengthened its role in the system of financial intermediation. The reliable operation and upgrading of the Bank of Russia payment system ensured that payments were effected in good time.

ANNUAL BALANCE SHEET
AS OF JANUARY 1, 2005

(million rubles)

	Note	2004	2003
ASSETS			
1. Precious metals	3	**60,188**	**48,738**
2. Funds placed with non-residents and securities issued by non-residents	4	**3,439,517**	**2,205,795**
3. Loans and deposits, of which:	5	**178,378**	**194,937**
3.1. extended to resident organisations		169	838
3.2. intended for foreign debt service		152,618	182,618
4. Securities, of which:	6	**345,575**	**330,008**
4.1. Russian government securities		324,902	297,894
5. Other assets, of which:	7	**76,502**	**73,304**
5.1. fixed assets		58,710	56,405
Total assets		**4,100,160**	**2,852,782**
LIABILITIES			
1. Cash in circulation	8	**1,673,294**	**1,228,881**
2. Funds in Bank of Russia accounts, of which:	9	**1,914,817**	**1,195,275**
2.1. Russian government funds		891,113	326,601
2.2. funds of resident credit institutions		700,694	661,240
3. Float	10	**220,105**	**6,520**
4. Other liabilities	11	**103,901**	**123,873**
5. Capital, of which:		**188,043**	**298,233**
5.1. authorised capital		3,000	3,000
5.2. reserves and funds		188,389	300,489
5.3. losses incurred in 1998		(3,346)	(5,256)
Total liabilities		**4,100,160**	**2,852,782**

Bank of Russia Chairman **S.M. Ignatiev**

Bank of Russia Chief Accountant **L.I. Gudenko**

PROFIT AND LOSS ACCOUNT

(million rubles)

	Note	2004	2003
INCOME			
Interest income	13	53,986	44,862
Income from operations with securities	14	26,750	18,378
Income from operations with precious metals		2,928	4,521
Income from stakeholdings in credit and other institutions		1,750	1,462
Net income from recovery of provisions	15	844	11,875
Other income	16	3,922	17,719
Total income		**90,180**	**98,817**
EXPENSES			
Interest expenses	17	3,064	3,083
Expenses on operations with securities	18	9,292	7,179
Cash turnover management expenses	19	6,065	3,139
Expenses on operations with precious metals		85	74
Other operating expenses	20	22,138	18,859
Personnel costs	21	30,390	29,196
Total expenses		**71,034**	**61,530**
Financial result: profit		**19,146**	**37,287**

CAPITAL, FUNDS AND PROFIT ALLOCATION

(million rubles)

	Authorised capital	Reserve fund	Accrued exchange rate differences	Social fund	Fixed assets revaluation fund	Other funds	Losses for 1998	Allocation of profit for 2004	Total
Balance as of January 1, 2004	**3,000**	**31,664**	**257,495**	**3,106**	**8,117**	**107**	**(5,256)**	**—**	**298,233**
Full-year profit								19,146	19,146
Allocation of profit for 2004:									
— taxes and duties paid								(45)	(45)
— to be transferred to the federal budget								(15,281)	(15,281)
— allocated to funds and to cover losses for 1998		1,757		153			1,910	(3,820)	—
Accrued exchange rate differences			(113,470)						(113,470)
Allocated to funds from other sources					1	2			3
Used from funds		(4)		(380)	(153)	(6)			(543)
Balance as of January 1, 2005	**3,000**	**33,417**	**144,025**	**2,879**	**7,965**	**103**	**(3,346)**	**—**	**188,043**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS OF JANUARY 1, 2005

1. ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES

The Bank of Russia's accounting and financial reporting is pursuant to the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the Federal Law "On Accounting," Bank of Russia Accounting Rules No. 66, dated September 18, 1997 (with subsequent changes and amendments) and other Bank of Russia regulations issued in pursuance of the above federal laws.

(a) Accounting principles

Accounting is conducted according to the principle of accounting for balance sheet items at their initial cost at the time of the acquisition of assets or the occurrence of liabilities. The principles of revaluating individual sets of assets and liabilities are set out below.

(b) Financial reporting principles

These financial statements have been compiled on the basis of the balance sheet data of the Bank of Russia, including its regional branches and other divisions making up the structure of the Bank of Russia as a corporate entity.

These financial statements have been compiled without including the financial statements of credit and other institutions within and outside Russia which have Bank of Russia stakeholdings and whose activities are controlled by the Bank of Russia.

These financial statements have been compiled in the Russian currency, the ruble, in millions of rubles, abbreviated as Rbs m.

Whenever necessary, comparative data have been readjusted, taking into account the changes in the form of presentation of the financial statements for the year under review.

Figures in parentheses denote negative values.

(c) Precious metals

Precious metals are accounted for at their acquisition cost. Precious metals in deposits and impersonal metal accounts in non-resident credit institutions are accounted for at their acquisition cost and included in the balance sheet item "Funds placed with non-residents and securities issued by non-residents."

(d) Foreign currency assets and liabilities

Foreign currency assets and liabilities are accounted for in rubles at the official rates of exchange of the foreign currencies against the ruble set by the Bank of Russia (hereinafter referred to as the official exchange rates) as of the balance sheet compilation date. Foreign currency assets and liabilities are revalued daily at the official exchange rates. Income and expenses on Bank of Russia foreign currency operations are accounted for in the balance sheet in rubles at the official exchange rates as of the date of their receipt or conduct.

Unrealised exchange rate differences, which occur in the course of revaluing the balances in debit and credit balance sheet foreign currency accounts, are accounted for as "Accrued Exchange Rate Differences" and are not included in the Profit and Loss Account. Realised exchange rate differences, which occur when operations with foreign currency values are conducted at an exchange rate different from the official exchange rate of foreign currencies against the ruble, are calculated for in each operation and included in Bank of Russia income or expenses.

Should the accrued negative unrealised exchange rate difference exceed the accrued positive unrealised exchange rate difference over the reporting year, the excess is compensated for at the expense of the previously accrued exchange rate differences. In the event of the lack or shortage of the balance in the balance sheet account "Accrued exchange rate differences," negative unrealised exchange rate differences shall be accounted for as Bank of Russia operating expenses by decision of the Bank of Russia Board of Directors.

The official rates of exchange used in recalculating foreign currency assets and liabilities on the last business day, December 31, 2004, were as follows: 27.7487 rubles to the US dollar (2003: 29.4545 rubles to the US dollar) and 37.8104 rubles to the euro (2003: 36.8240 rubles to the euro).

(e) Securities

Under the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia has the right to buy and sell government securities on the open market. The accounting principles used in accounting for investments in government securities are as follows:

- government securities in the investment portfolio are accounted for at their acquisition (restructuring) price;
- government securities in the trade portfolio are revalued upon the results of trades if there are market quotations or accounted for at their acquisition price if there are none;
- Finance Ministry promissory notes are accounted for at their acquisition price.

In addition, the following accounting principles are used in respect to other securities:

- foreign issuers' securities are accounted for at their acquisition price;
- credit institutions' promissory notes are accounted for at their acquisition price.

Promissory notes that have not been retired when due and have not been protested are accounted for at the acquisition price, taking into account the discount and interest.

Bonds issued by the Bank of Russia are accounted for at their nominal value. The difference between the nominal value and actual selling (redemption) price of the bonds is accounted for during their maturity period in the accounts used to register deferred income and expenses on securities. When a bond issue is redeemed, the accrued deferred income and expenses on this issue are netted and the result is accounted for in the Bank of Russia income or expense accounts.

(f) Investment

Bank of Russia investments in the authorised capital of credit and other institutions within and outside Russia are accounted for at their acquisition price.

(g) Loans extended to credit institutions

Loans extended to credit institutions are accounted for in the sum of the principal debt.

(h) Provisions for possible losses on Bank of Russia operations

To protect its assets against the risk of depreciation, the Bank of Russia, using internationally accepted banking practice and its rules and regulations, makes provisions for possible losses on loans extended to credit institutions, for the devaluation of investments in securities and for other active operations it conducts. Risks on Bank of Russia assets, for which provisions are made, are evaluated by determining the probability of non-return of Bank of Russia funds invested in assets and the probable level of Bank of Russia losses. Bank of Russia provisions are made in rubles from Bank of Russia expenses. When loans are repaid, deposits returned and promissory notes retired and the quality of assets improves (or the risk factor is reduced), the provisions made for them earlier are recovered to Bank of Russia income. The provisions made are accounted for as part of other liabilities.

(i) Fixed assets

Fixed assets are accounted for at their residual value, that is, the acquisition price with account of revaluation net of accrued depreciation.

Bank of Russia fixed assets are revalued pursuant to the Russian Government's resolutions. The latest revaluation was made on January 1, 1997.

The depreciation of the fixed assets acquired and put into operation before January 1, 2002, is charged at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated October 22, 1990, "On Standard Rates of Depreciation Charges for the Complete Restoration of Fixed Assets of the National Economy of the USSR":

% a year

Buildings	1.0—12.5
Equipment (including computers, furniture, transport vehicles, etc.)	5—20

Fixed assets put into operation on January 1, 2002, are subject to the rates of depreciation set by Bank of Russia Order No. OD-239, dated May 8, 2003, "On the Enforcement of the Regulation on the Procedure for Using the List of Depreciated Fixed Assets of the Bank of Russia, Broken down into Depreciation Groups and Indicating Serviceability Periods and the List of Depreciated Fixed Assets of the Bank of Russia, Broken down into Depreciation Groups and Indicating Serviceability Periods," based on Russian Federation Government Resolution No. 1, dated January 1, 2002, "On the Classification of Fixed Assets Included in Depreciation Groups."

% a year

Buildings	1.1—14
Equipment (including computers, furniture, transport vehicles, etc.)	4—92

(j) Cash in circulation

The Bank of Russia is the sole issuer of cash and organiser of cash circulation. The banknotes and coins put into circulation are accounted for in the balance sheet at their face value.

(k) Funds in Bank of Russia accounts

Funds in accounts with the Bank of Russia comprise federal government funds, credit institutions' funds in correspondent accounts, credit institutions' required reserves deposited with the Bank of Russia, credit institutions' deposits with the Bank of Russia and regional and local government budget funds and government extrabudgetary funds.

(l) Float

Float as of the end of the year includes the balances connected with the closing of accounts of intraregional and interregional electronic payments, settlements effected using letters of advice, balances resulting from operations between Bank of Russia establishments and funds the Bank of Russia must enter to customers' accounts.

(m) Capital

The capital of the Bank of Russia comprises:

— authorised capital. Under Article 10 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia has an authorised capital of 3 billion rubles;

— various reserves and funds formed to enable the Bank of Russia to fulfil the functions assigned to it by the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)." Information on the sources and uses of the reserves and funds is contained in the Statement on Bank of Russia Reserves and Funds.

The balance sheet item "Capital" shows also the amount of uncovered losses incurred in 1998 as a result of the devaluation of the Bank of Russia government securities portfolio as of January 1, 1999. Losses incurred by the Bank of Russia in 1998 are covered from Bank of Russia retained profit.

(n) Recognition of Bank of Russia income and expenses

Income and expenses are accounted for in the Profit and Loss Account on a cash basis, i.e., after income has been received and expenses have been made.

(o) Balance sheet profit/loss

Balance sheet profit/loss is accounted for in the Profit and Loss Account under the heading "financial result: profit/loss" as the difference between the sum of income received and expenses involved in the Bank of Russia core and sideline activities over the reporting year.

(p) Taxation of the Bank of Russia

The Bank of Russia and its divisions pay taxes and duties in compliance with the Tax Code of the Russian Federation. The Bank of Russia has elaborated and adopted the accounting policy for the purposes of taxation, which describes the tax accounting methods and establishes the principles of and the procedure for making the accounting of the Bank of Russia activities for the purposes of taxation.

2. IMPACT OF ECONOMIC CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

In 2004, the Russian economy continued to be largely determined by favourable external economic conditions.

Owing to the managed floating regime and massive inflow of foreign exchange to the country, Russia's international reserves continued to increase.

Economic growth and high world market prices for major Russian export commodities led to a federal budget surplus, part of which was used by the Government to establish the Stabilisation Fund. The Federal Government's funds in accounts with the Bank of Russia increased by almost 2.7 times.

In pursuance of the 2004 Federal Budget Law, the Russian Government last year continued to restructure some government securities in the Bank of Russia portfolio into securities with characteristics allowing the Bank of Russia to conduct operations with them on the open market.

Growth in cash in circulation continued, although the share of cash in the Bank of Russia consolidated balance sheet liabilities contracted slightly.

Bank of Russia profit in 2004 was largely due to the increased income from international reserve placements and income from Bank of Russia operations with government securities.

3. PRECIOUS METALS

Growth under this item is due to gold purchases.

4. FUNDS PLACED WITH NON-RESIDENTS AND SECURITIES ISSUED BY NON-RESIDENTS

(million rubles)

	2004	2003
Foreign issuers' securities	1,807,588	1,144,396
Balances in correspondent accounts, loans extended and deposits placed in non-resident banks	1,609,728	1,037,330
Loans extended and deposits placed in Bank of Russia subsidiaries abroad	22,201	24,069
Total	**3,439,517**	**2,205,795**

Foreign issuers' securities are mainly US treasury bills, government debt obligations of Germany, France, Belgium, the Netherlands, Austria, Spain, Finland and Ireland and debt instruments of extrabudgetary funds and federal agencies of the above countries and international financial organisations. The increase under this balance sheet item was due to growth in investments in foreign issuers' securities, caused by the expansion of international reserves.

Growth under the item "Balances in correspondent accounts, loans extended and deposits placed in non-resident banks" is due to the increase in international reserves.

5. LOANS AND DEPOSITS

(million rubles)

	2004	2003
Funds provided for government foreign debt service	152,618	182,618
Loans and deposits in resident banks (in foreign currency)	21,921	2,945
Loans extended to resident banks (in rubles)	169	838
Other	3,670	8,536
Total	**178,378**	**194,937**

Pursuant to Federal Law No. 192-FZ, dated December 29, 1998, "On Budget and Tax Policy Priorities" and Federal Law No. 36-FZ, dated February 22, 1999, "On the Federal Budget for 1999," the Bank of Russia in 1998 and 1999 provided to the Finance Ministry through Vneshekonombank foreign currency funds to effect urgent payments on the redemption and service of the Russian Government's foreign debt. Pursuant to Federal Law No. 145-FZ, dated December 25, 2000, "On Making Amendments and Addenda to the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues," the term of repayment of the Finance Ministry's debt to the Bank of Russia on the funds provided through Vneshekonombank in US dollars for urgent payments on the redemption and service of the Russian Government's foreign debt was extended until December 1, 2007. The decrease under this item is due to repayment of part of the debt and the rise of the official rate of the ruble against the US dollar.

The item "Loans and deposits in resident banks (in foreign currency)" shows the deposits placed in resident banks. Growth under this item is due to the placement of a deposit with Vneshtorgbank.

The reduction of the debt on loans extended to resident banks (in rubles) is due to the redemption of credit institutions' debt obligations to the Bank of Russia and the writing off of part of the debt at the expense of the Bank of Russia provisions made earlier in line with decisions of the Bank of Russia Board of Directors on excluding credit institutions from the Single State Register of Corporate Entities.

The decrease under the item "Other" is due to the repayment of the loan extended to the National Bank of the Republic of Belarus through the open credit line in 2001—2002.

6. SECURITIES

(million rubles)

	2004	2003
Russinan government securities		
Federal loan bonds (OFZ)	223,610	213,402
of which:		
— trade portfolio	198,867	165,616
— investment portfolio	24,743	47,786
Internal and external government foreign currency-denominated loan bonds	97,962	77,315
Finance Ministry promissory notes	3,330	7,177
Subtotal	**324,902**	**297,894**
Shares issued by credit and other institutions (Bank of Russia stakeholdings)	**20,646**	**20,409**
Credit institutions' promissory notes acquired by Bank of Russia	**27**	**11,705**
Total	**345,575**	**330,008**

The Bank of Russia OFZ portfolio was formed as a result of the restructuring of government securities in 2003—2004 pursuant to the federal budget laws and their purchase on the domestic market in 2004. The characteristics of the securities received as a result of the restructuring meet the requirements of the federal laws.

The securities in the investment portfolio, broken down by coupon income and maturity period as of January 1, 2005, are shown below:

OFZ bond types	**Balance sheet value** *(million rubles)*
0% coupon-income debt depreciation OFZ	
due in 2025—2029	10,578
0.34% coupon-income debt depreciation OFZ	
due in 2029	7,474
5.95% coupon-income debt depreciation OFZ	
due in 2023	6,691
Total	**24,743**

The investment portfolio contains OFZ bonds due from 2023 to 2029 and carrying a coupon income of 0% to 5.95% p.a. Zero coupon-income bonds account for 43% of the total value of the investment portfolio.

The securities in the Bank of Russia trade portfolio, broken down by coupon income and maturity period as of January 1, 2005, are shown below:

OFZ bond types	**Balance sheet value** *(million rubles)*
0% coupon-income debt depreciation OFZ	
due in 2019—2027	146,337
10% coupon-income debt depreciation OFZ	
due in 2018	20,220
11% coupon-income debt depreciation OFZ	
due in 2012	256
6% permanent coupon-income OFZ	
due in 2012	18,843
7.5% fixed coupon-income OFZ	
due in 2005	13,211
Total	**198,867**

The trade portfolio contains OFZ bonds due from 2005 to 2027. Zero coupon-income bonds account for 73% of the total value of the trade portfolio.

The nominal value of the OFZ bonds sold by the Bank of Russia from the trade portfolio with a commitment of reverse repurchase stood at 2,838 million rubles as of January 1, 2005.

Growth in “Internal and external government foreign currency-denominated loan bonds” is due to the purchase by the Bank of Russia of Russian Government eurobonds due in 2030 on the over-the-counter market.

In the period under review, Bank of Russia investments in Finance Ministry promissory notes decreased by 3,847 million rubles as the Finance Ministry retired the promissory notes received as a result of the restructuring, pursuant to Russian legislation, of the debt on centralised loans and interest on them and APK Series promissory notes into domestic government debt in 1994—1996.

Bank of Russia investments in shares of credit institutions and other organisations are shown below:

(million rubles)

Name of credit institution	**Investment amount (at acquisition price)**	**% share in authorised capital (at par)**
Moscow Narodny Bank, London	7,668	88.89
Eurobank, Paris	4,818	87.04
Sberbank	4,563	60.57
Ost-West Handelsbank, Frankfurt am Main	1,347	51.62
Donau-Bank, Vienna	412	15.00
East-West United Bank, Luxembourg	174	15.00
Other	1,664	—
Total	**20,646**	**—**

Letters of comfort were signed in respect to some Russian overseas banks, pledging the Bank of Russia to maintain stability and liquidity of the above banks.

Debt on “Credit institutions’ promissory notes acquired by Bank of Russia” includes the debt on the promissory notes received by the Bank of Russia in 2001 under the conditions of the amicable agreement. The debt decreased after it was written off following the exclusion of a credit institution from the Single State Register of Corporate Entities and the sale of a promissory note at an auction.

7. OTHER ASSETS

(million rubles)

	2004	2003
Fixed assets		
Buildings	30,195	29,234
Equipment (including computers, information and data processing systems, furniture, transport vehicles, etc.)	28,515	27,171
Subtotal of fixed assets	**58,710**	**56,405**
Till cash	3,801	3,574
Bank of Russia interest claims	3,708	2,232
Incomplete construction projects	3,655	3,492
Settlements with CIS and Baltic states' banks	1,297	1,297
Settlements with suppliers, contractors and buyers	864	1,040
Sundry settlements with Finance Ministry*	352	352
Bank of Russia correspondent accounts	177	40
Other	3,938	4,872
Subtotal of other assets	**17,792**	**16,899**
Total	**76,502**	**73,304**

** See Note 12 "Relations between the Bank of Russia and the Ministry of Finance".*

Data under the item "Fixed assets" are shown at residual value.

The increase in "Bank of Russia interest claims" is largely due to the accrued interest on funds placed with non-residents, on which payment has not yet fallen due.

The item "Settlements with CIS and Baltic states' banks" shows the balance of mutual claims relating to interstate settlements for 1992—1993 of the CIS and Baltic states.

The decrease in "Other" is largely due to the writing off of the debt on Bank of Russia claims on credit institutions struck off the Single State Register of Corporate Entities.

The composition and value of fixed assets net of accrued depreciation:

(million rubles)

	2004	2003
Buildings	33,486	32,135
Computers, office equipment and furniture	21,953	17,344
Equipment	12,061	11,475
Information and data processing systems	10,583	9,360
Transport vehicles	1,865	1,813
Intangible assets	588	434
Other	1,192	1,719
Total	**81,728**	**74,280**

The increase in the value of "Buildings" is largely due to the construction and reconstruction of Bank of Russia office buildings.

The increase in the value of "Computers, office equipment and furniture" is due to the purchase of computers and other systems and devices designed to automate the transmission, storage and processing of data in the Bank of Russia payment, operational and information analysis systems and facilities to protect banking information.

"Equipment" includes the cost of the cash-processing machines, cash registers, guaranteed continuous electricity supply systems and similar equipment.

The increase under the item "Information and data processing systems" is largely due to the installation of new data processing and information security facilities and systems.

"Transport vehicles" include the cost of the special transport vehicles used to move cash and bank documents.

Fixed asset movement:

(million rubles)

	2004	2003
Fixed asset value net of accrued depreciation		
Balance as of January 1	74,280	70,277
Receipt	8,234	7,044
Retirement	(786)	(3,041)
Balance as of January 1 of reporting year	**81,728**	**74,280**
Accrued depreciation		
Balance as of January 1	17,875	14,381
Depreciation deductions due to expenses	5,656	4,746
Depreciation deductions due to other sources	5	36
Depreciation deductions for retired fixed assets	(518)	(1,288)
Balance as of January 1 of reporting year	**23,018**	**17,875**
Residual value as of January 1 of reporting year	**58,710**	**56,405**

8. CASH IN CIRCULATION

The increase in cash in circulation is due to the expansion of cash turnover.

9. FUNDS IN BANK OF RUSSIA ACCOUNTS

(million rubles)

	2004	2003
Federal government funds	891,113	326,601
Credit institutions' funds in correspondent accounts	487,585	306,566
Required reserves deposited with the Bank of Russia	121,740	267,388
Non-resident banks' funds	109,358	70,394
Credit institutions' deposits with the Bank of Russia	91,369	87,286
Other	213,652	137,040
Total	**1,914,817**	**1,195,275**

The increase in "Federal government funds" is due to growth in the federal budget balances.

The decrease in "Required reserves deposited with the Bank of Russia" is due to the reduction in credit institutions' required reserves made by decision of the Bank of Russia Board of Directors and the granting to credit institutions of the right to average the required reserves within the limits of the averaging coefficient set by the Bank of Russia.

"Non-resident banks' funds" comprise funds attracted from non-resident banks in transactions relating to the sale of securities with a commitment of reverse repurchase. The securities passed as collateral for these deals are accounted for in off-balance sheet accounts.

"Credit institutions' deposits with the Bank of Russia" include the balances of funds attracted from resident credit institutions in rubles.

"Other" funds include the balances of regional and local budget accounts and accounts of government extrabudgetary funds and other customers of the Bank of Russia. The increase under this item is mainly due to growth in the balances of regional budget accounts and Social Insurance Fund and local budget accounts.

Pursuant to Article 23 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia conducts operations with federal budget funds, government extrabudgetary funds and regional and local budget funds without charging commission.

10. FLOAT

The increase under this item is due to growth in the volume of interregional electronic payments for December 31, 2004, which were completed in the first working days of January 2005.

11. OTHER LIABILITIES

(million rubles)

	2004	2003
Bank of Russia provisions	39,607	52,098
Supplementary pension provisions for Bank of Russia staff	23,405	20,524
Deferred income from securities	12,064	12,268
Bank of Russia bonds	9,986	—
Deferred income from lending operations	5,390	5,595
Other	13,449	33,388
Total	**103,901**	**123,873**

"Bank of Russia provisions" comprise the following provisions made in 1998—2004:

(million rubles)

	2004	2003
Provisions for foreign exchange operations	34,635	32,238
Provisions for promissory notes acquired from credit institutions and for credit institutions' debt on other operations	291	12,219
Provisions for other active operations	2,852	2,840
Provisions for debt owed by the National Bank of the Republic of Belarus	—	2,250
Provisions for debts owed by CIS and Baltic states	1,446	1,446
Provisions for loans extended to credit institutions	31	753
Provisions for Finance Ministry debt	352	352
Total	**39,607**	**52,098**

The decrease in "Bank of Russia provisions" is due to the writing off from the Bank of Russia balance sheet of bad debt at the expense of the provisions made earlier and debt repayment by the National Bank of the Republic of Belarus and credit institutions.

The Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" permits the Bank of Russia to create a pension fund for paying supplementary pensions to its employees. The Bank of Russia pension plan is implemented in compliance with Bank of Russia regulations, which take into account the fact that Bank of Russia employees are not covered by guarantees provided for civil servants, and internationally accepted practices of central banks. The funds to be paid in supplementary pensions to Bank of Russia employees are determined on the basis of an actuarial evaluation conducted by an independent actuary. As of January 1, 2005, the Bank of Russia increased the funds intended for supplementary pension payments.

Deferred incomes from securities mainly comprise deferred incomes from government securities and the Finance Ministry's other debts restructured under the 1999—2001 federal budget laws and later restructured under the 2003—2004 federal budget laws.

Deferred incomes from lending operations are mostly debt on accrued interest on foreign currency loans and deposits and accrued interest on centralised loans restructured into Finance Ministry promissory notes in pursuance of the federal laws.

"Other" include funds (80% of profit received for the year after the payment of taxes and duties under the Tax Code of the Russian Federation) that must be transferred to the federal budget under Article 26 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)."

12. RELATIONS BETWEEN THE BANK OF RUSSIA AND THE MINISTRY OF FINANCE

In the period under review, relations between the Bank of Russia and Ministry of Finance were regulated by the 2004 Federal Budget Law (with amendments) and Russian Federation Government Resolution No. 80, dated February 14, 2004, "On Measures to Implement the 2004 Federal Budget Law" (with amendments).

The structure of the Finance Ministry's debt to the Bank of Russia is shown below:

(million rubles)

	2004	2003
Finance Ministry debt to Bank of Russia in rubles		
Russian government debt obligations	226,940	220,579
Debt on technical loans*	352	352
Subtotal	**227,292**	**220,931**
Finance Ministry foreign currency debt to Bank of Russia		
Bank of Russia funds transferred to Vneshekonombank to extend loans to Finance Ministry for Russian government foreign debt redemption and service**	152,618	182,618
Russian government debt obligations	97,962	77,315
Subtotal	**250,580**	**259,933**
Total	**477,872**	**480,864**

** See Note 7 "Other assets".*
*** See Note 5 "Loans and Deposits".*

The increase in the Finance Ministry's ruble-denominated debt to the Bank of Russia in the year under review is due to the purchase by the Bank of Russia on the secondary market of fixed coupon-income and debt depreciation federal loan bonds.

Russian government ruble-denominated debt obligations

The Russian government's ruble-denominated debt obligations, accounted for at their balance sheet value, comprised as of January 1, 2005:

— permanent coupon-income and debt depreciation federal loan bonds received by the Bank of Russia in 2003—2004 as a result of the restructuring, pursuant to the 2003 Federal Budget Law and the 2004 Federal Budget Law, of Bank of Russia-owned permanent and variable coupon-income and debt depreciation federal loan bonds while maintaining the existing bond payment schedule broken down by year with a total balance sheet value of 210,071 million rubles (2003: 182,936 million rubles);

— debt depreciation federal loan bonds with a balance sheet value of 328 million rubles (2003: 0 million rubles), acquired by the Bank of Russia on the secondary market;
— permanent and variable coupon-income federal loan bonds received by the Bank of Russia as a result of the restructuring in 1999—2001, pursuant to the federal laws, of government securities and other Finance Ministry debts to the Bank of Russia and permanent coupon-income federal loan bonds acquired by the Bank of Russia under Article 3 of the 1999 Federal Budget Law with a total balance sheet value of 0 million rubles (2003: 30,466 million rubles);
— fixed coupon-income federal loan bonds with a balance sheet value of 13,211 million rubles (2003: 0 million rubles), acquired by the Bank of Russia on the secondary market;
— Finance Ministry promissory notes with a total balance sheet value of 2,703 million rubles (2003: 5,919 million rubles), received by the Bank of Russia as a result of the restructuring into Russian government domestic debt in 1994—1996, pursuant to the federal laws, of the debt on centralised loans and accrued interest on them, falling due in 2005—2006 and Finance Ministry APK Series promissory notes due in 2005 with a total balance sheet value of 627 million rubles (2003: 1,258 million rubles).

Finance Ministry debt on technical loans

The Finance Ministry's debt on technical loans to the amount of 352 million rubles (2003: 352 million rubles) arose as a result of the transfer to the Finance Ministry's federal budget revenue accounts of funds by Ukraine, the Republic of Moldova and the Republic of Armenia in 1996—1998 as payment for these countries' debt to the Bank of Russia and is accounted for as "Other assets."

Bank of Russia funds transferred to Vneshekonombank for extending loans to the Finance Ministry for redemption and service of Russian government foreign debt

The Finance Ministry's debt to the Bank of Russia on foreign currency funds transferred to Vneshekonombank in 1998—1999 pursuant to Federal Law No. 192-FZ, dated December 29, 1998, "On Budget and Tax Policy Priorities" and Federal Law No. 36-FZ, dated February 22, 1999, "On the Federal Budget for 1999," for extending loans to the Finance Ministry for the redemption and servicing of Russian government foreign debt amounted to 152,618 million rubles as of January 1, 2005 (2003: 182,618 million rubles), a decrease of 30,000 million rubles over the year due to the redemption of part of the said debt and the increase in the official ruble rate against the US dollar.

Russian Government foreign currency-denominated debt obligations

The Russian Government's foreign currency debt obligations comprise internal and external loan bonds (OGVZ and OVGVZ) with a total balance sheet value of 97,962 million rubles (2003: 77,315 million rubles). The increase in the balance sheet value of these bonds is due to the purchase by the Bank of Russia of Russian Government eurobonds on the over-the-counter market.

13. INTEREST INCOME

(million rubles)

	2004	**2003**
Interest income from securities	28,850	27,998
Interest income from foreign currency loans and deposits	24,638	16,547
Interest income from ruble loans extended to credit institutions	411	233
Other	87	84
Total	**53,986**	**44,862**

"Interest income from securities" comprises interest received on foreign issuers' debt obligations acquired to manage foreign exchange reserves and also interest from investments in Russian government debt instruments.

"Interest income from foreign currency loans and deposits" includes interest received from funds deposited by the Bank of Russia with non-resident banks and funds deposited in 1998—1999 with Vneshekonombank for the extension of loans to the Ministry of Finance to repay and service the federal government's foreign debt.

14. INCOME FROM OPERATIONS WITH SECURITIES

(million rubles)

	2004	2003
Income from operations with foreign currency-denominated securities	15,230	9,216
Income from operations with ruble-denominated Russian government debt instruments	5,729	2,800
Other	5,791	6,362
Total	**26,750**	**18,378**

"Income from operations with foreign currency-denominated securities" accounts for income received from the sale and redemption of foreign issuers' securities and a positive revaluation of foreign currency-denominated government securities in the trade portfolio due to a change in their market value.

The increase in "Income from operations with ruble-denominated Russian government debt instruments" is due to the purchase and sale of federal loan bonds by the Bank of Russia on the securities market and a positive revaluation of government securities in the trade portfolio due to a change in their market value.

"Other" comprise funds received as a result of the retirement of Finance Ministry promissory notes and sums included in income that were previously accounted for as deferred income.

15. NET INCOME FROM THE RECOVERY OF PROVISIONS

(million rubles)

	2004	2003
Decrease in provisions for OFZ operations and other debt	—	6,945
Increase/(decrease) in provisions for foreign exchange operations	(2,472)	6,010
Decrease in provisions for loans extended to credit institutions	697	1,053
Decrease in provisions for promissory notes acquired from credit institutions	381	117
Decrease/(increase) in provisions for debt owed by National Bank of the Republic of Belarus	2,250	(2,250)
Provisions for other active operations with banks	(12)	—
Total	**844**	**11,875**

Net income from the recovery of provisions is due to the difference between the provisions made earlier and then accounted for as Bank of Russia income in connection with the fulfilment (termination) of obligations to the Bank of Russia and the value of the provisions made for the Bank of Russia's active operations.

16. OTHER INCOME

(million rubles)

	2004	2003
Income from sale of coins made of precious metals	955	871
Payment for settlement services provided by Bank of Russia	891	718
Realised exchange rate differences	497	15,692
Past years' incomes disclosed in reporting year	71	71
Reimbursement by customers of telegraph and other expenses	7	8
Fines and penalties received	5	13
Other	1,496	346
Total	**3,922**	**17,719**

"Other" are Bank of Russia income received from writing off old currency that was not presented for exchange to the amount of 1,061 million rubles in connection with the completion by the Bank of Russia of the redemption of the Bank of Russia notes of the 1993 issue (including their 1994 modification) and 1995 issue and USSR and Bank of Russia coins of the 1961—1996 issues and also 1-, 2- and 3-kopeck USSR coins minted before 1961.

17. INTEREST EXPENSES

(million rubles)

	2004	2003
Interest expenses on credit institutions' deposits	1,882	2,489
Interest expenses on funds attracted against the collateral of foreign currency-denominated securities	1,178	590
Other	4	4
Total	**3,064**	**3,083**

The decrease in interest expenses on credit institutions' deposits during the year under review is due to lower interest rates on deposit transactions and the changed structure and range of deposit transactions.

The increase in "Interest expenses on funds attracted against the collateral of foreign currency-denominated securities" is due to the payment of interest on loans taken from non-resident banks.

18. EXPENSES ON OPERATIONS WITH SECURITIES

The increase under this item is due to the Bank of Russia's conducting of operations with federal loan bonds (OFZ) in the trade portfolio for the purpose of sterilising credit institutions' free ruble liquidity by selling securities with a commitment of reverse repurchase and selling securities on the open market, and the negative revaluation of outstanding government securities relating to the trade portfolio due to a change in their market value.

19. CASH TURNOVER MANAGEMENT EXPENSES

This item comprises the expenses involved in the manufacture and destruction of banknotes and coins, their protection against counterfeiting, and the purchase and delivery of packing materials and accessories needed to process cash.

Growth under this item is due to the expansion of currency production and increased production costs due to the introduction of Bank of Russia notes of the 2004 modification with a wider range of security features, which make them more difficult to forge and easier for the public to ascertain their authenticity.

20. OTHER OPERATING EXPENSES

(million rubles)

	2004	2003
Depreciation deductions	5,656	4,746
Repair expenses	2,047	2,091
Security expenses	2,008	1,972
Expenses on maintaining computer hardware and software systems and support services	1,772	1,618
Expenses on maintaining buildings	1,218	1,156
Expenses on delivery of bank documents and valuables	1,137	1,052
Taxes and duties paid	1,079	64
Postage, telegraph and telephone expenses and expenses on leasing communication lines and channels	994	1,091
Expenses on foreign exchange operations	287	351
Other	5,940	4,718
Total	**22,138**	**18,859**

The increase in "Taxes and duties paid" is mainly due to the payment by the Bank of Russia of property tax in pursuance of Federal Law No. 139-FZ, dated November 11, 2003, "On Making an Amendment to Part Two of the Tax Code of the Russian Federation."

"Other" operating expenses reflect an addition of 3,031 million rubles to the pension plan for Bank of Russia employees, made on the basis of the evaluation by an independent international actuary.

21. PERSONNEL COSTS

For explanation, see the Statement on Bank of Russia Personnel Costs.

STATEMENT ON PROFIT AND ITS ALLOCATION

(million rubles)

	2004	2003
1. Actual profit received for the year	19,146	37,287
2. Taxes and duties paid from Bank of Russia profit under the Tax Code of the Russian Federation	45	30
3. To be transferred to federal budget under Article 26 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)"	15,281	29,806
4. Retained profit, total	3,820	7,451
of which:		
— used to cover Bank of Russia losses incurred in 1998	1,910	3,726
— transferred to the Reserve Fund	1,757	3,427
— transferred to the Social Fund	153	298

Under Article 11 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," Bank of Russia profit for the year is determined as the difference between income from banking operations and transactions conducted pursuant to Article 46 of the above law and income from stakeholdings in the capital of credit institutions and expenses involved in the fulfilment by the Bank of Russia of the functions established by Article 4 of the law.

The profit made by the Bank of Russia in 2004 was largely due to income it received from investing foreign exchange reserves, which grew significantly over the year, and operations with government securities. At the same time, there was an increase in Bank of Russia expenses involved in the use of the monetary regulation instruments and cash circulation management.

Profit received by the Bank of Russia for the year is allocated in accordance with the procedure established by Article 26 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," which stipulates that after the approval of the Bank of Russia financial statements by the Bank of Russia Board of Directors, the Bank of Russia transfers to the federal budget 50% of its actual full-year profit after the payment of taxes and duties as is required by the Tax Code of the Russian Federation. Profit remaining at the disposal of the Bank of Russia is transferred by its Board of Directors to reserves and various funds.

Article 126 of Federal Law No. 173-FZ, dated December 23, 2004, "On the Federal Budget for 2005," suspended from January 1 to December 31, 2005, the first sentence of Part 1 of Article 26 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)." Article 23 of the 2005 Federal Budget Law established the amount of funds the Bank of Russia must transfer to the federal budget at 80% of its profit for 2004 remaining after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation.

STATEMENT ON BANK OF RUSSIA RESERVES AND FUNDS

(million rubles)

	Reserve fund	Social fund	Accrued exchange rate differences	Fixed assets revaluation fund	Other funds	Total
Balance as of January 1, 2004	**31,664**	**3,106**	**257,495**	**8,117**	**107**	**300,489**
Transferred to reserves and funds as a result of profit allocation	1,757	153	—	—		**1,910**
Transferred from other sources	—		—	1	2	**3**
Reserves and funds used	(4)	(380)	(113,470)	(153)	(6)	**(114,013)**
Balance as of January 1, 2005	**33,417**	**2,879**	**144,025**	**7,965**	**103**	**188,389**

Pursuant to Article 26 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia, after the approval of its annual financial statements by the Board of Directors, transfers the profit that remains at its disposal after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation to reserves and various funds. The procedure for allocating profit retained by the Bank of Russia is established by Bank of Russia Regulation "On the Procedure for Allocating Profit Retained by the Bank of Russia," approved by the National Banking Board on April 9, 2003.

According to the Bank of Russia Regulation "On the Procedure for Creating and Using the Bank of Russia Reserve Fund," the Bank of Russia forms the Reserve Fund with the objective of ensuring its stable operation and the fulfilment of the functions assigned to it by the law. By the decision of the Bank of Russia Board of Directors, money may also be transferred to the Bank of Russia Reserve Fund from other funds and reserves, which are part of the Bank of Russia own funds (capital). The principal purpose of the Reserve Fund is to cover the losses incurred in conducting settlement and cash operations.

In accordance with the approved procedure for allocating profit remaining at the disposal of the Bank of Russia and by the decision of the Board of Directors, 1,757 million rubles were allocated to the Reserve Fund from Bank of Russia profit for 2004 (2003: 3,427 million rubles).

The Social Fund is chiefly designed for one-off payments to Bank of Russia employees to meet their everyday needs. It is formed from Bank of Russia profit.

The procedure for forming and spending the Social Fund is established by Bank of Russia Regulation "On the Formation and Use of the Social Fund of the Central Bank of the Russian Federation."

In accordance with the procedure for allocating profit retained by the Bank of Russia and the decision of the Bank of Russia Board of Directors, 153 million rubles, or 4% of the Bank of Russia's retained profit were transferred to the Social Fund from the Bank of Russia's profit for 2004 (2003: 298 million rubles, or 4%).

The accrued exchange rate differences are the result of the revaluation of the balances of the Bank of Russia's debit and credit foreign exchange balance sheet accounts. As of January 1, 2005, the accrued exchange rate differences decreased by 113,470 million rubles due to the accrual in the reporting year of negative exchange rate differences to the amount of 118,408 million rubles as a result of the ruble's nominal gains and the recovery of 4,938 million rubles in accrued exchange rate differences, which were previously used to write down part of the participation loan extended to the Eurobank. As a result of the decrease in the accrued exchange rate differences, the capital of the Bank of Russia contracted significantly.

The fixed assets revaluation fund represents growth in the value of property as a result of the revaluations of fixed assets carried out by the decision of the Russian Government in 1992, 1994, 1995, 1996 and 1998.

STATEMENT ON BANK OF RUSSIA MANAGEMENT OF SECURITIES AND STAKEHOLDINGS THAT ARE BANK OF RUSSIA PROPERTY

BANK OF RUSSIA INVESTMENTS IN DEBT INSTRUMENTS AND PROMISSORY NOTES

(million rubles)

	2004	2003
Foreign issuers' debt obligations, of which:		
US issuers' debt obligations	1,561,566	961,841
— denominated in US dollars	1,554,956	955,625
— denominated in euros	6,610	6,216
EU issuers' debt obligations	216,353	153,143
— denominated in US dollars	—	—
— denominated in euros	216,353	153,143
Debt obligations issued by international organisations	29,669	29,412
— denominated in US dollars	10,938	10,879
— denominated in euros	18,731	18,533
Subtotal	**1,807,588**	**1,144,396**
Russian government debt obligations		
denominated in rubles	226,940	220,579
— federal loan bonds	223,610	213,402
— Finance Ministry promissory notes	3,330	7,177
bills denominated in US dollars	97,962	77,315
— Russian government eurobonds	89,748	68,519
— OVGVZ and OGVZ bonds issued in 1999	8,214	8,796
Subtotal	**324,902**	**297,894**
Credit institutions' promissory notes	**27**	**11,705**
Total	**2,132,517**	**1,453,995**

Investing in foreign issuers' securities denominated in foreign currency is part of the management of Bank of Russia foreign exchange reserves pursuant to paragraph 7 of Article 4 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)."

The principal objective of managing Bank of Russia foreign exchange reserves is to ensure the optimal combination of safety, liquidity and profitability of reserve assets. The Bank of Russia invests in the most secure and liquid securities of foreign issuers.

Foreign issuers' securities are mostly US debt obligations and treasury bills, government debt obligations of Germany, France and the Netherlands and debt securities issued by extrabudgetary funds and federal agencies of these countries. In addition, these include debt securities issued by the governments of Austria, Belgium, Spain, Finland and Ireland and several international financial organisations, such as the International Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank and Asian Development Bank, and debt securities issued by Germany's mortgage and regional banks (Landesbanken) and backed by federal government loans.

The value of Bank of Russia investments in foreign issuers' debt obligations increased by 663,192 million rubles in 2004, largely due to the considerable expansion of Bank of Russia foreign exchange reserves in the period under review. In addition, the change in the balance sheet value of investments in foreign issuers' debt obligations in the period under review was affected by the change in the official exchange rates of foreign currencies against the ruble.

RUSSIAN GOVERNMENT DEBT OBLIGATIONS

To implement the state monetary policy, the Ministry of Finance and the Bank of Russia, guided by Article 113 of the 2004 Federal Budget Law, restructured 51.9 billion rubles of federal loan bonds in the Bank of Russia portfolio and 2.3 billion rubles of Finance Ministry obligations to the Bank of Russia on the first payment on the permanent coupon-income federal loan bonds issued in pursuance of Article 108[1] of Federal Law No. 194-FZ, dated December 30, 2001, "On the Federal Budget for 2002," into federal government securities, maintaining the existing payment schedule broken down by year. The government securities received from the Finance Ministry as a result of the restructuring were accounted for at the balance sheet value of the restructured securities.

In 2004, the Bank of Russia continued to make energetic use of market instruments of monetary regulation. Depending on the monetary situation, it conducted either sterilisation operations on the GKO—OFZ market or operations to supply credit institutions with liquidity, such as:

- selling government securities from the Bank of Russia portfolio without a commitment of reverse repurchase;
- buying government securities without a commitment to resell;
- 1-day and 7-day repo operations;
- selling government securities with a commitment of reverse repurchase (reverse modified repo) for a term of up to 800 days;
- placing, buying and selling Bank of Russia bonds.

The main factor of growth in Bank of Russia investments in Russian government debt obligations denominated in US dollars was the purchase by the Bank of Russia of Russian Government eurobonds on the over-the-counter market.

Finance Ministry promissory notes are those that fall due on December 25 and 26, 2005 and 2006, which the Bank of Russia received as a result of the restructuring, pursuant to the relevant federal laws, into domestic government debt in 1994—1996 of the debt on centralised loans and interest on them and Finance Ministry APK Series promissory notes payable on sight but not before August 31, 2005, acquired by the Bank of Russia from credit institutions.

In the period under review, Bank of Russia investments in Finance Ministry promissory notes decreased by 3,847 million rubles due to the retirement by the Finance Ministry of Series VII-APK promissory notes with a balance sheet value of 631 million rubles and promissory notes with a total balance sheet value of 3,216 million rubles, received as a result of the restructuring, pursuant to the relevant federal laws, of the debt on centralised loans and interest on them in 1994—1996 into domestic government debt.

BANK OF RUSSIA INVESTMENTS IN THE AUTHORISED CAPITAL OF BANKS AND OTHER ORGANISATIONS

(million rubles)

Investment	2004 Balance sheet value	2004 % share in authorised capital (at par)	2003 Balance sheet value	2003 % share in authorised capital (at par)
Investments in residents' shares, of which:	**4,866**	—	**4,866**	—
Sberbank	4,563	60.57	4,563	60.57
Moscow Interbank Currency Exchange (MICEX)	300	28.76	300	28.76
St Petersburg Currency Exchange (SPCEX)	3	8.90	3	10.00
Investments in non-residents' shares, of which:	**15,780**	—	**15,543**	—
Moscow Narodny Bank, London	7,668	88.89	7,523	88.89
Eurobank, Paris	4,818	87.04	4,692	87.03
Ost-West Handelsbank, Frankfurt am Main	1,347	51.62	1,312	51.62
Donau-Bank, Vienna	412	15.00	401	15.00
East-West United Bank, Luxembourg	174	15.00	169	15.00
Bank for International Settlements, Basel	1,076	0.55	1,143	0.55
Intelsat Ltd, Bermudas	285	0.53	303	0.53
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	0.055	0.001	0.054	0.001
Other investments in residents' capital, of which:	**25**	—	**25**	—
National Depository Centre (non-profit partnership)	25	49.00	25	49.00
Other investments, of which:	**10**	—	**10**	—
Inrterstate Banks	10	50.00	10	50.00

The Bank of Russia participates in the capital of credit institutions and other resident organisations under Article 8 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)."

In 2004, the Bank of Russia did not conduct any operations with its shares and stakes in the authorised capital of resident organisations. Its stakeholdings in the authorised capital of Sberbank, Moscow Interbank Currency Exchange and National Depository Centre in the period under review remained unchanged from the previous year. The Bank of Russia share in the authorised capital of the St Petersburg Currency Exchange contracted from 10% in 2003 to 8.9% in 2004 as the SPCEX issued and placed with other shareholders an additional share issue in order to bring its shareholder structure into compliance with Russian legislation and qualify for stock exchange licence.

The Bank of Russia participates in the capital of Moscow Narodny Bank (London), Eurobank (Paris), Ost-West Handelsbank (Frankfurt am Main), Donau-Bank (Vienna) and East-West United Bank (Luxembourg) under Article 8 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)."

Under Article 9 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia participates in the capital of the Basel-based Bank for International Settlements and Moscow-based Interstate Bank.

The change in the balance sheet value of the Bank of Russia stakeholdings in non-resident organisations (in rubles) is due to the change in the official exchange rates of the currencies in which the shares of the above non-resident banks are denominated against the ruble. The Bank of Russia stakeholding in the capital of the Paris-based Eurobank increased by 0.01% as the latter passed to the Bank of Russia 25 Eurobank shares free of charge.

STATAMENT ON BANK OF RUSSIA PERSONNEL COSTS

(million rubles)

Items of expenditure	2004	2003
Remuneration of labour	23,205	21,790
Charges on payroll and on other payments to employees	5,039	5,232
Other payments to employees	2,146	2,174
Total Bank of Russia personnel costs	**30,390**	**29,196**

Remuneration of labour accounted for 76.3% of Bank of Russia personnel costs as against 74.6% in 2003, other payments to employees accounted for 7.1% as against 7.5% in 2003 and charges on payroll and on other payments accounted for 16.6% as against 17.9% in 2003.

Remuneration expenses comprise: wages and salaries; hardship payments to employees working in the Extreme North and similar regions under the applicable legislation; other increments provided for by labour legislation; annual paid leave and study leave; bonus payments, including monthly and year-end bonus payments; other payments.

Other payments made to Bank of Russia employees under the applicable legislation are: holiday and emergency allowances; compensation for holiday travel expenses of employees working in the Extreme North and similar regions and non-working members of their families; compensation for expenses involved in the movement of employees working in the Extreme North and similar regions and members of their families for permanent residence elsewhere upon the expiry of their labour contract or due to retirement; payments to employees living or working in the regions affected by the Chernobyl nuclear power plant disaster; payments to employees taking leave to care after the child until the age of three.

The number of Bank of Russia employees decreased by 6,021, or 7.2% in 2004 and as of January 1, 2005, stood at 77,864. The decline is due to the implementation of measures to improve the organisational structure of the Bank of Russia and optimise the number of its staff.

The average monthly income of a Bank of Russia employee in 2004 was 27,017 rubles as against 24,325 rubles in 2003.

The average unified social tax rate, calculated using the regressive scale of the tax rate, stood at 19.7% in the year under review as against 21.6% in 2003; deductions to the Social Insurance Fund for compulsory social insurance against employment injury and occupational disease were made at the effective rate of 0.2%.

STATEMENT ON CAPITAL INVESTMENT BUDGET PERFORMANCE

(million rubles)

Capital investment	Approved for 2004	Actual amount in 2004	Actual amount in 2003
Capital investment	**9,840**	**8,372**	**7,801**
Capital investment in fixed assets, of which:	9,211	8,201	7,041
— capital investment in information technology	3,833	3,567	2,615
— capital investment in construction (reconstruction) and material and technical support for Bank of Russia activities (except cash turnover management)	3,486	3,025	2,953
— capital investment in cash turnover management	1,079	830	686
— capital investment relating to security of Bank of Russia facilities	813	779	787
Capital investment in intangible assets	253	171	760
Centralised capital investment reserve	376	—	—
For the record:			
Other capital expenditure	**943**	**870**	**—**
Total capital expenditure	**10,783**	**9,242**	**7,801**

Capital investments in information technology and construction (reconstruction) and material and technical support for Bank of Russia activities accounted for most of the Bank of Russia's capital investment (42.6% and 36.1% respectively). Capital investment in security accounted for 9.3%, cash turnover management 9.9% and intangible assets 2.1%.

Capital investment in construction (reconstruction) and the maintenance of Bank of Russia facilities, excluding cash turnover management, were made in accordance with the approved capital construction projects and plans for the purchase of large-size appliances, equipment, furniture and transport vehicles.

In 2004, these expenses increased by 72 million rubles, or 2.4%, as compared with 2003.

In 2004, capital investments were made in 141 construction (reconstruction) projects as against 107 in 2003, of which 27 projects were continued from the previous years, 40 launched and 74 were in the blueprint stage.

Large-size appliances, equipment and furniture were purchased to fit out projects after capital and current repairs, replace outdated equipment, appliances and furniture and maintain the air-conditioning and ventilation systems in offices containing information and telecommunications systems.

Capital investments relating to cash turnover management in 2004 increased by 144 million rubles, or 21.0% year on year and were used to build (reconstruct) money vaults and cash centres (12 projects, as in 2003), of which four projects were continued from the previous years and eight were in the blueprint stage; modernise the banknote counting and sorting machines designed to determine the authenticity of banknotes with new security features; fit out depositories with standard rack equipment; purchase basic equipment for mechanising and automating cash operations; and buy (modernise) special-purpose transport vehicles and luggage wagons to carry reserve funds.

Capital investments in information technology include the expenses on the operation of the Bank of Russia payment, operation accounting and information analysis systems and systems designed to automate the administrative and internal business activities of the Bank of Russia and the technical infrastructure ensuring their work capacity and security.

When implementing this work, the Bank of Russia purchased computers, software, printers, office equipment and auxiliary equipment for data-processing systems, hardware and software communications and telecommunications systems, information protection systems and technical maintenance facilities.

Capital investments in information technology increased by 952 million rubles, or 36.4%, as the Bank of Russia had to replace technically obsolete computer and telecommunications systems, and develop new data processing and information security systems.

Capital investments relating to security and the protection of Bank of Russia facilities include the expenses on the replacement of outdated security equipment and the installation and modernisation of access control systems and security and surveillance television systems.

The value of capital investments in these projects remained virtually unchanged from 2003.

As in the previous years, capital investments in intangible assets were used to develop computer software and databases for the purpose of information and data security, which constitute the intellectual property of the Bank of Russia.

In the year under review, “Other capital expenditure” includes the expenses on the purchase of software products (the rights to use those that are not intangible assets) for the needs of the Bank of Russia activities and information security, the maintenance of the security facilities and the acquiring of licences, certificates and permits with terms longer than a year.

The centralised capital investment reserve, created for emergencies, was not used.

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AUDITOR'S REPORT
on the Bank of Russia Annual Financial Statement as of January 1, 2005

To the Management of the Central Bank of the Russian Federation:

1. We have audited the attached Annual Financial Statements of the Central Bank of the Russian Federation (hereinafter referred to as the Bank of Russia) for the period from January 1, 2004, to December 31, 2004, inclusive. Under Article 25 of Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia Annual Financial Statements are the annual balance sheet, the profit and loss account, including the statement on profit and its allocation, the statement on Bank of Russia reserves and funds, the statement on Bank of Russia management of securities and stakeholdings that are Bank of Russia property, the statement on Bank of Russia personnel costs and the statement on capital investment budget performance (hereinafter all these statements are referred to as the Annual Financial Statements). The Annual Financial Statements have been prepared by the Bank of Russia management on the basis of accounting reports compiled in compliance with the requirements of Russian Federation legislation and Bank of Russia regulations. The Annual Financial Statements prepared on this basis differ significantly from financial statements compiled in accordance with International Financial Reporting Standards, especially in respect to the evaluation of assets and capital and the recognition of liabilities.

2. The responsibility for compiling and presenting the Annual Financial Statements is borne by the management of the Bank of Russia. Our responsibility is to express our opinion on the basis of the audit we have conducted on the credibility of these Annual Financial Statements in all material respects and on the compliance of the accounting procedure with the requirements of Russian Federation legislation and Bank of Russia regulations in all material respects for the purposes of compiling the Annual Financial Statements.

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3. We have conducted this audit in compliance with:

- the Federal Law “On Auditing”;
- the Federal Law “On the Central Bank of the Russian Federation (Bank of Russia)”;
- the Federal Audit Rules (Standards);
- Bank of Russia regulations;
- International audit standards.

We have planned and conducted our audit in compliance with the requirements of Russian Federation legislation so that we can say with a fair degree of certainty that the Annual Financial Statements do not contain any material distortions. According to the Federal Audit Rules (Standards), the purpose of the audit of the Annual Financial Statements we have conducted was not to pronounce a judgement on whether the Bank of Russia’s work fully complied with the requirements of Russian Federation legislation. Pursuant to Russian Federation legislation, we have conducted our audit on a sample basis and included a test study of the evidence that confirmed the numerical data and the disclosure of information in the Annual Financial Statements about the financial and business activities of the Bank of Russia, an assessment of how the accounting principles and rules used in preparing the Annual Financial Statements are observed, an examination of the major estimated indicators received by the Bank of Russia management and also an evaluation of the general presentation of the Annual Financial Statements. We believe that allowing for the limitation on the scope of our work, described below in paragraph 4, the audit we have conducted in compliance with the requirements of Russian Federation legislation provides sufficient grounds for expressing our opinion on the credibility of the Annual Financial Statements in all material respects and on the compliance of the accounting procedure with the requirements of Russian Federation legislation and Bank of Russia regulations in all material respects for the purposes of compiling the Annual Financial Statements.

4. The scope of our work and our audit were limited in respect to some balance sheet and profit and loss accounts and operations, access to which was restricted by the provisions of Russian Federation Law No. 5485-1, dated July 21, 1993, “On State Secrecy” (with subsequent amendments). Under Article 25 of the Federal Law “On the Central Bank of the Russian Federation (Bank of Russia),” the credibility of the data cited below, which are included in the items of the balance sheet and profit and loss account within the Bank of Russia Annual Financial Statements as of January 1, 2005, has been confirmed by the Audit Chamber of the Russian Federation. As of January 1, 2005, these operations and items within the Bank of Russia Annual Financial Statements comprise:

- assets totalling 69,979 million rubles, including:
  - — precious metals to the amount of 8,100 million rubles;
  - — funds placed with non-residents and securities issued by non-residents to the amount of 13,452 million rubles;
  - — loans and deposits to the amount of 105 million rubles;
  - — securities to the amount of 47,804 million rubles;

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— other assets to the amount of 518 million rubles;

- liabilities totalling 700 million rubles, including:

— funds in accounts with the Bank of Russia to the amount of 5,405 million rubles;

— a debit balance on float to the amount of 4,700 million rubles;

— a debit balance on other liabilities to the amount of 11 million rubles;

— capital to the amount of 6 million rubles;

- income totalling 5,953 million rubles, including:

— interest income to the amount of 5,042 million rubles;

— income from operations with precious metals to the amount of 884 million rubles;

— other income to the amount of 27 million rubles;

- expenses totalling 7,194 million rubles, including:

— interest expenses to the amount of 4 million rubles;

— expenses on the management of cash turnover to the amount of 5,764 million rubles;

— expenses on operations with precious metals to the amount of 80 million rubles;

— other operating expenses to the amount of 297 million rubles;

— personnel costs to the amount of 1,049 million rubles.

The above items of the balance sheet and profit and loss account within the Bank of Russia Annual Financial Statements as of January 1, 2005, have been confirmed by the Audit Chamber of the Russian Federation in its Report on the Results of the Audit of the Accounts and Operations of the Central Bank of the Russian Federation for 2004 Covered by Russian Federation Law No. 5485-1, dated July 21, 1993, "On State Secrecy" (approved by the decision of the Collegium of the Audit Chamber of the Russian Federation, dated April 22, 2005).

5. We believe that leaving aside any corrections that might have been necessary if there had been no limitation on the scope of our work, indicated in paragraph 4 of the Auditor's Report, the attached Bank of Russia Annual Financial Statements as of January 1, 2005, reflect truly and fairly in all material respects the financial situation of the Bank of Russia as of January 1, 2005, and the financial results of its activity for the period from January 1, 2004, to December 31, 2004, inclusive, taking into consideration the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" and Federal Law "On Accounting," and the Accounting Rules of the Central Bank of the Russian Federation (Bank of Russia) No. 66, dated September 18, 1997.

6. Without changing our opinion about the credibility of the Bank of Russia Annual Financial Statements as of January 1, 2005, we draw your attention to the fact that, as Note 6 to the Bank of Russia Annual Financial Statements as of January 1, 2005, indicates, the Bank of Russia securities portfolio comprises Russian Federation federal loan bonds (hereinafter referred to as OFZ) with a balance sheet value of 223,610 million rubles, of which about 70% of the OFZ portfolio have a coupon income of 0%, while 85% of the bonds in the OFZ portfolio fall due in 2018—2029.

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The fair value of these securities differs significantly from their balance sheet value. According to our estimate, as of January 1, 2005, the balance sheet value of these OFZ bonds exceeded their fair value by 77 billion rubles.

In addition, as of January 1, 2005, the Bank of Russia had commitments of reverse repurchase of OFZ bonds in sale transactions with a commitment of reverse repurchase at the nominal value totalling 2,838 million rubles. According to our estimate, as of January 1, 2005, the accounting value of these OFZ bonds exceeded their fair value by nearly 2 billion rubles.

Therefore, as of January 1, 2005, the excess of the balance sheet value of the Bank of Russia OFZ bond portfolio and the value of the commitments of reverse repurchase of OFZ over the fair value of these securities stood at 79 billion rubles.

May 12, 2005

Director of the Close Joint-Stock Company
PricewaterhouseCoopers Audit — Y.V. Filippova

Auditor — T.A. Klyuchkina
Certificate of Competence No. K 008368,
issued on November 12, 2003,
for an indefinite term

THE AUDIT CHAMBER
OF THE RUSSIAN FEDERATION

AUDITOR

2, Zubovskaya St. GSP-2, 119992 Moscow

May 12, 2005 No. 06-108/06-3

To Sergey M. Ignatiev

Chairman
of the Central Bank
of the Russian Federation

STATEMENT
on the results of an audit of the accounts and operations of the Central Bank of the Russian Federation for 2004 covered by Russian Federation Law No. 5485-1, dated July 21, 1993, "On State Secrecy" (approved by the decision of the Collegium of the Audit Chamber of the Russian Federation, dated April 22, 2005 (minutes No. 17 (434))

The Audit Chamber of the Russian Federation audited the accounts and operations of the Central Bank of the Russian Federation, covered by Russian Federation Law No. 5485-1, dated July 21, 1993, "On State Secrecy," in the period from February 17 to April 20, 2005, according to the working schedule of the Audit Chamber of the Russian Federation for 2005 (point 4.4.9) and pursuant to Article 25 of Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)."

The responsibility for relating information to data covered by the Russian Federation State Secrecy Law and, consequently, for separating the competencies of the Audit Chamber of the Russian Federation and the Auditor of the Bank of Russia in respect to the Bank of Russia Annual Report for 2004 is borne by the management of the Central Bank of the Russian Federation.

The responsibility of the Audit Chamber of the Russian Federation under the applicable legislation is to prepare a report on the results of the examination of Bank of Russia accounts and operations covered by the Federal State Secrecy Law.

When conducting this examination, the Audit Chamber of the Russian Federation considered the following issues: how soundly the Bank of Russia conducted operations covered by the Federal State Secrecy Law; how the applicable legislation of the Russian Federation and Bank of Russia regulations were observed in making the accounting of the Bank of Russia operations covered by the Federal State Secrecy Law; the completeness and credibility of accounting and reporting data, including the Bank of Russia consolidated annual balance sheet as of January 1, 2005 (in respect to subaccounts and off-balance accounts) and profit and loss account as of January 1, 2005; the soundness of the data contained in the Bank of Russia annual financial statements (the part thereof that falls within the competence of the Audit Chamber of the Russian Federation), notably, the Bank of Russia annual balance sheet as of January 1, 2005, profit and loss account for 2004, the statement on Bank of Russia reserves and funds; the statement on Bank of Russia management of securities and stakeholdings that are part of Bank of Russia property; the statement on Bank of Russia personnel costs and the statement of capital investment budget performance.

The results of the audit conducted by the Audit Chamber of the Russian Federation allow it to express an opinion on the credibility of the annual accounting reports of the Central Bank of the Russian Federation for 2004 (the part thereof that falls within the competence of the Audit Chamber of the Russian Federation). The Audit Chamber of the Russian Federation confirms the data contained in the consolidated annual balance sheet of the Central Bank of the Russian Federation as of January 1, 2005 (in respect to subaccounts and off-balance accounts) and profit and loss account as of January 1, 2005 (the part thereof that falls within the competence of the Audit Chamber of the Russian Federation).

The Bank of Russia annual financial statements for 2004 complies with the accounting and reporting regulations and rules and, in the opinion of the Audit Chamber of the Russian Federation, reflect in all material respects the Bank of Russia assets and liabilities as of January 1, 2005, and Bank of Russia income and expenses on the accounts and operations for 2004, which are covered by the Federal State Secrecy Law.

The Audit Chamber of the Russian Federation confirms the data of the Bank of Russia annual balance sheet as of January 1, 2005 in respect to its part which falls within the competence of the Audit Chamber of the Russian Federation (balance sheet assets totalling 69,979 million rubles and balance sheet liabilities totalling 700 million rubles), profit and loss account for 2004 (income totalling 5,953 million rubles and expenditure totalling 7,194 million rubles) and data of other reports included in the Bank of Russia annual financial statements for 2004.

According to accounting data of the Central Bank of the Russian Federation as of January 1, 2005, there must be 1,673,269.7 million rubles of Bank of Russia notes and coins in circulation (not counting precious metal-containing coins issued to mark anniversaries and other occasions). In the period from January 1 to December 31, 2004, inclusive, the Bank of Russia issued banknotes and coins (not counting precious metal-containing coins issued to mark anniversaries and other occasions) to the amount of 2,986,933.7 million rubles and redeemed banknotes and coins (not counting precious metal-containing coins issued to mark anniversaries and other occasions) to the amount of 2,541,467.3 million rubles. Thus, in the period under review the sum of Bank of Russia banknotes and coins of the 1997 issue (not counting the precious metal-containing coins issued to mark anniversaries and other occasions) in circulation increased by 445,466.4 million rubles.

Enclosure: six pages in one copy.

N. I. Tabachkov

Annex No. 1

BANK OF RUSSIA ANNUAL BALANCE SHEET AS OF JANUARY 1, 2005, (the part that falls within the competence of the Audit Chamber of the Russian Federation)

(million rubles)

	ASSETS	
1	Precious metals	8,100
2	Funds placed with non-residents and securities issued by non-residents	13,452
3	Loans and deposits, of which:	105
3.1	extended to resident credit institutions	14
4	Securities, of which:	47,804
4.1	Federal government securities	47,804
5	Other assets, of which:	518
5.1	fixed assets	368
	Total:	**69,979**
	LIABILITIES	
2	Funds in Bank of Russia accounts, of which:	5,405
2.1	Federal government funds	5
2.2	resident credit institutions' funds	409
3	Float	—4,700
4	Other liabilities	—11
5	Capital, of which:	6
5.2	reserves and funds	6
	Total:	**700**

Annex No. 2

PROFIT AND LOSS ACCOUNT FOR 2004
(the part that falls within the competence of the Audit Chamber of the Russian Federation)

(million rubles)

Income	
Interest income	5,042
Income from operations with securities	0
Income from operations with precious metals	884
Dividend received from stakes and shares	0
Net income from recovery of provisions	0
Other income	27
Total income:	**5,953**
Expenses	
Interest expenses	4
Expenses on operations with securities	0
Expenses on cash turnover management	5,764
Expenses on operations with precious metals	80
Net expenses on provisions	0
Other operating expenses	297
Personnel costs	1,049
Total expenses:	**7,194**
Financial result: loss	**1,241**

Annex No. 3

STATEMENT OF BANK OF RUSSIA RESERVES AND FUNDS (the part that falls within the competence of the Audit Chamber of the Russian Federation)

(million rubles)

	Reserve fund	Social fund	Accrued exchange rate differences	Fixed assets revaluation fund	Other funds	Total
Balance as of January 1, 2004	—	—	—	6.2	—	6.2
Transferred to reserves and funds as a result of allocation of profit	—	—	—	—	—	—
Transferred from other sources	—	—	—	—	—	—
Reserves and funds used	—	—	—	—	—	—
Balance as of January 1, 2005	—	—	—	6.2	—	6.2

Annex No. 4

STATEMENT OF BANK OF RUSSIA MANAGEMENT OF SECURITIES AND STAKEHOLDINGS THAT ARE PART OF BANK OF RUSSIA PROPERTY (the part that falls within the competence of the Audit Chamber of the Russian Federation)

Bank of Russia investments in debt obligations and promissory notes

(million rubles)

Title	2004	2003
1. Foreign issuers' debt obligations, of which:	—	—
1.1. US issuers' debt obligations	—	—
1.1.1. denominated in US dollars	—	—
1.1.2. denominated in euros	—	—
1.2. EU issuers' debt obligations	—	—
1.2.1. denominated in US dollars	—	—
1.2.2. denominated in euros	—	—
1.3. Debt obligations issued by international organisations	—	—
1.3.1. denominated in US dollars	—	—
1.3.2. denominated in euros	—	—
2. Russian government debt obligations, of which:	47,803	50,968
2.1. denominated in rubles	290	534
2.1.1. Federal loan bonds	—	—
2.1.2. Finance Ministry promissory notes	290	534
2.2. denominated in US dollars	47,513	50,434
2.2.1. Russian government eurobonds	45,367	48,156
2.2.2. OVGVZ and OGVZ bonds issued in 1999	2,146	2,278
3. Credit institutions' promissory notes	—	—

Annex No. 5

STATEMENT ON BANK OF RUSSIA PERSONNEL COSTS (the part that falls within the competence of the Audit Chamber of the Russian Federation)

(million rubles)

Items of expenditure	2004	2003
Remuneration of labour	857	780
Other payments to employees	90	85
Charges on payroll and on other payments to employees	102	155
Total Bank of Russia personnel costs	**1,049**	**1,020**

Annex No. 6

STATEMENT ON CAPITAL INVESTMENT BUDGET PERFORMANCE (the part that falls within the competence of the Audit Chamber of the Russian Federation)

(million rubles)

Capital investment	Approved for 2004	Actual amount for 2004	Actual amount for 2003
Capital investment	**44**	**42**	**109**
Capital investment in fixed assets,	34	33	95
of which:			
capital investment in construction (reconstruction) and material and technical support for Bank of Russia activities (except cash turnover management)	8	8	31
capital investment in cash turnover management	3	3	3
capital investment in information technology	15	14	29
capital investment relating to security of Bank of Russia facilities	8	8	32
Capital investment in intangible assets	10	9	14
Centralised capital investment reserve	—	—	—
For the record.			
Other capital expenditure	**3**	**3**	**—**
Total capital expenditure	**47**	**45**	**109**

ADDENDA

IV

PRINCIPAL MEASURES CARRIED OUT BY THE BANK OF RUSSIA TO IMPLEMENT THE STATE MONETARY POLICY IN 2004

1. MONETARY POLICY INSTRUMENTS AND MEASURES

REQUIRED RESERVES. To improve the regulation of the required reserves, the Bank of Russia issued Regulation No. 255-P, dated March 29, 2004, "On Credit Institutions' Required Reserves."

To implement the decisions of the Bank of Russia Board of Directors, the Bank of Russia issued the following ordinances:

— Ordinance No. 1395-U, dated March 19, 2004, "On Setting the Required Reserve Ratios;"

— Ordinance No. 1445-U, dated June 11, 2004, "On Setting the Required Reserve Ratios and on Carrying Out the Extraordinary Regulation of Credit Institutions' Required Reserves;"

— Ordinance No. 1456-U, dated June 25, 2004, "On Setting the Required Reserve Ratios and the Averaging Coefficient for Calculating the Average Value of the Required Reserves;"

— Ordinance No. 1471-U, dated July 6, 2004, "On the Specific Procedure for Depositing the Required Reserves by Credit Institutions with the Bank of Russia in Connection with the Coming into Force of Bank of Russia Regulation No. 255-P, dated March 29, 2004, 'On Credit Institutions' Required Reserves;'"

— Ordinance No. 1473-U, dated July 7, 2004, "On Setting the Required Reserve Ratios and Carrying Out the Extraordinary Regulation of the Required Reserves;"

— Ordinance No. 1506-U, dated October 13, 2004, "On Amending Bank of Russia Regulation No. 255-P, Dated March 29, 2004, 'On Credit Institutions' Required Reserves;'"

— Ordinance No. 1507-U, dated October 13, 2004, "On Establishing the Averaging Coefficient for the Settlement Non-bank Credit Institutions, the Settlement Centres of the Organised Securities Market."

INTEREST RATES. In 2004, the Bank of Russia Board of Directors cut the refinancing and overnight interest rate from 16% to 13% p.a. Bank of Russia Ordinance No. 1372-U, dated January 14, 2004, and Ordinance No. 1373-U, dated January 15, 2004, set these rates at 14% and Bank of Russia Ordinance No. 1443-U and Ordinance No. 1444-U, dated June 11, 2004, set these rates at 13%.

The Bank of Russia Board of Directors set the following highest cut-off rates for *deposit auctions:*

— 7% p.a. for two-week deposits;

— 9% p.a. for four-week deposits;

— 10% p.a. for three-month deposits.

The lowest cut-off rates for the two-week *Lombard loan auctions* were set at 7% p.a.

The Bank of Russia in 2004 made no changes in the *fixed interest rates on deposit operations,* which remained at 0.5% p.a. for the standard tom-next, spot-next and call deposit operations and 1% p.a. for the one-week and spot-week operations.

The Bank of Russia lowest cut-off rates at the repo auctions remained unchanged in 2004 and were as follows:

— 6% p.a. for terms from one day to seven days;

— 6.5% p.a. for one week;

— 9% p.a. for three months.

The highest cut-off rate at the 28-day reverse modified repo auctions was also unchanged at 9% p.a., whereas the highest reverse modified repo rate for terms longer than six months was set by the Bank of Russia Board of Directors at 12% p.a.

REFINANCING BANKS. To extend the Bank of Russia Lombard list in 2004 by including Russian government foreign loan bonds, 1999 government foreign currency loan bonds, regional government bonds with the investment grade international rating (Moscow municipal bonds), mortgage agencies' bonds guaranteed by the Russian government (bonds issued by the Mortgage Housing Lending Agency) and mortgage-backed bonds issued by credit institutions and guaranteed by regional governments (bonds issued by the Moscow Mortgage Agency, an open-end joint-stock commercial bank), the Bank of Russia drafted and issued the following ordinances:

— Bank of Russia Ordinance No. 1368-U, dated January 9, 2004, and Ordinance No. 1482-U, dated July 28, 2004, "The Securities on the Bank of Russia Lombard List;"
— Bank of Russia Operating Ordinance No. 110-T, dated September 16, 2004, and Operating Ordinance No. 140-T, dated December 6, 2004, "On the Inclusion of Securities in the Bank of Russia Lombard List;"
— Bank of Russia Ordinance No. 1496-U, dated August 30, 2004, "On Amending Bank of Russia Regulation No. 236-P, Dated August 4, 2003, 'On the Procedure for Extending Bank of Russia Loans to Credit Institutions against the Collateral of Securities."'

The Bank of Russia set coefficients of correction for the new securities included in the Bank of Russia Lombard List by drafting and publishing in the Bank of Russia Bulletin Bank of Russia Order No. OD-682, dated September 22, 2004, "On the Calculation of the Cost of Collateral for Bank of Russia Loans" and Bank of Russia Order No. OD-848, dated December 6, 2004, and Order No. OD-906, dated December 31, 2004, "On the Bank of Russia Coefficients of Correction."

To ensure that increment coefficients are not applied to overnight interest rates when overnight loans are extended for three consecutive times or more, the Bank of Russia drafted and issued Ordinance No. 1430-U, dated May 25, 2004, "On the Size of the Fee Charged for the Right to Use Intraday Loans."

CURRENCY SWAPS. Bank of Russia Order No. OD-471, dated June 10, 2004, "On the Conclusion of Currency Swap Transactions by the Bank of Russia on the Domestic Foreign Exchange Market," changed from June 11, 2004, the procedure for determining the swap difference for the currency swap transactions conducted by the Bank of Russia on the domestic foreign exchange market by including the US dollar interest rate in the parameters of the swap difference calculation. As a result, the method of calculating the cost of refinancing through currency swaps now corresponds to the internationally accepted practice of determining the conditions of such operations.

DEPOSIT OPERATIONS. To upgrade the regulatory framework of the deposit operations conducted by the Bank of Russia with resident credit institutions in rubles, the Bank of Russia issued the following documents:

— Bank of Russia Operating Ordinance No. 82-T, dated July 16, 2004, "On the Procedure for Calculating the Sum of Interest on a Deposit Taken from a Credit Institution;"
— Bank of Russia Order No. OD-718, dated October 20, 2004, "On the Bank of Russia's Conducting of Deposit Operations with Credit Institutions in the Currency of the Russian Federation."

OPERATIONS WITH BANK OF RUSSIA BONDS. To improve the monetary policy instruments used by the Bank of Russia, the latter began to sell Bank of Russia bonds (by the decision of the Bank of Russia Board of Directors of August 6, 2004).

2. FINANCIAL MARKET DEVELOPMENT

To make open-market operations more effective and stimulate the development of the domestic foreign exchange market, the Bank of Russia implemented the following measures:

— part of the Finance Ministry's debt to the Bank of Russia was restructured into four federal loan bond issues with a total nominal value of 51.9 billion rubles, of which two issues with a total nominal value of 45.2 billion rubles were to be sold on the open market;
— the Bank of Russia participated in discussing amendments to the Federal Law "On the Central Bank of the Russian Federation (Bank of

Russia)," designed to extend the list of securities used by the Bank of Russia in open market operations, proposed by members of the lower house of Russian parliament, the State Duma, and drafted taking into account the recommendations made by the State Duma after the discussion of the Bank of Russia Annual Report for 2003. If passed, the amendments will help make the banking sector regulation mechanism more efficient and have a favourable effect on the refinancing of credit institutions;

— the Bank of Russia took part in drafting amendments to the Federal Law "On the Securities Market" and Federal Law "On the Protection of the Rights and Legitimate Interests of Investors," which allowed the Bank of Russia to issue its own bonds without state registration (the State Duma has passed the first reading of the amendments). If passed in all three readings, the amendments will help the Bank of Russia accelerate operations with its bonds when implementing monetary policy;

— the Bank of Russia in collaboration with the Moscow Interbank Currency Exchange (MICEX) merged the unified trading session of several interbank currency exchanges (UTS) with the local SELT MICEX trading session for ruble/dollar instruments traded for "today" and "tomorrow" settlements and ruble/euro instruments traded for "today" settlements. In addition, UTS traders received the opportunity to conduct ruble/dollar currency swaps and strike out-of-system deals. The merger of the two sessions helped increase the exchange market liquidity, ended the diversity of quotations for instruments with the same value date and gave regional market players broader opportunities for conducting exchange operations with foreign currency.

3. RELATIONS WITH FEDERAL BUDGET

In 2004, the Bank of Russia continued to assist the final implementation of the Concept of the Finance Ministry's Federal Treasury Single Federal Budget Revenue and Funds Account by upgrading the regulatory framework for servicing the accounts to register budget funds of all levels of the Russian budget system, drafting regulations, some of them in collaboration with the Finance Ministry, and implementing individual provisions of the 2004 Federal Budget Law.

The Bank of Russia established special procedures for the provision of cash settlement services by the various divisions of its settlement network and credit institutions for the federal treasury accounts given the opening of personal accounts by the principal budget managers, budget managers and budget recipients in the single federal treasury register (Bank of Russia and Ministry of Finance Regulation No. 257-P and No. 46n, dated May 20, 2004). The Bank of Russia made changes to the Accounting Rules in the Bank of Russia and Credit Institutions (Bank of Russia Ordinance No. 1466-U, dated June 30, 2004, Ordinance No. 1527-U, dated December 10, 2004, and Ordinance No. 1447-U, dated June 11, 2004) and established a special accounting procedure for the funds paid out in cash to the budget recipients who have personal accounts in the single federal treasury register.

Due to the changes made during the budget reform to the budget classification of the Russian Federation and pursuant to the 2005 Federal Budget Law, the Federal Law "On Amending the Federal Law 'On the Budget Classification of the Russian Federation' and the Budget Code of the Russian Federation," the Bank of Russia made the necessary changes to the format of the payment order for the transfer of taxes and duties to the budget system (Bank of Russia Ordinance No. 1493-U, dated August 25, 2004).

To complete as soon as possible the transfer of federal agency operations with funds received from entrepreneurial and other gainful activities to servicing through personal accounts opened in the single federal treasury register and pursuant to Articles 139, 141 and 142 of the 2004 Federal Budget Law:

— the Bank of Russia drafted Ordinance No. 1491-U, dated August 18, 2004, which provides for supplying the federal treasury bodies with information on the accounts opened by federal agencies in Bank of Russia establishments and credit institutions or branches of credit institutions to register operations with funds received from entrepreneurial and other gainful activities. Such information was provided to the federal treasury regional branches as of October 1, 2004, and January 1, 2005, and passed on to the Finance Ministry;

— the Bank of Russia on October 26, 2004, considered and agreed with Finance Ministry Order No. 94n, dated October 26, 2004, "On the Approval of the Procedure for Suspending by Federal Treasury Bodies of Operations on the Accounts Opened by Federal Agencies in the Establishments of the Central Bank of the Russian Federation and Credit Institutions or Branches of Credit Institutions to Register Operations with Funds Received from Entrepreneurial and Other Gainful Activities;"

— the Bank of Russia drafted Ordinance No. 1459-U, dated June 28, 2004, which set the procedure for accounting for operations with funds from entrepreneurial and other gainful activities, conducted by regional government agencies or the bodies providing cash services to the regional budget authorities;

— the Bank of Russia made amendments to its Regulation No. 198-P, dated October 7, 2002, "On the Procedure for Calculating and Charging Fees for the Bank of Russia Settlement Services," and Ordinance No. 1262-U, dated March 28, 2003, "On the Procedure for Calculating and Charging Fees by Bank of Russia Establishments for the Settlement Services Provided by the Bank of Russia," which exempted from payment for Bank of Russia settlement services the bodies providing cash services to the regional budget authorities for operations on accounts for registering funds from entrepreneurial and other gainful activities received by institutions accountable to the regional governments (Bank of Russia Ordinance No. 1501-U, dated September 14, 2004, and Ordinance No. 1500-U, dated September 14, 2004).

The Bank of Russia issued jointly with the Finance Ministry Regulations No. 264-P and No. 108n, dated December 3, 2004, which established, pursuant to Article 151 of the 2004 Federal Budget Law, the procedure for completing operations on the 2004 federal budget accounts opened in the divisions of the Bank of Russia settlement network and credit institutions or their branches.

To implement the sub-programme "State Housing Certificates" for 2004—2010, the Bank of Russia issued an ordinance setting the procedure for accounting for the housing subsidies provided to individual recipients from the federal budget (Bank of Russia Ordinance No. 137-T, dated November 26, 2004).

To improve the procedure for granting state social aid to individuals and ensure that the federal and regional compulsory medical insurance funds make the accounting of the funds allocated from the federal budget for additional free medical care for some categories of people, the Bank of Russia drafted an ordinance requiring federal and regional compulsory medical insurance funds to keep these funds in separate personal accounts in Bank of Russia establishments (Bank of Russia Ordinance No. 159-T, dated December 31, 2004).

To improve the regulatory framework for servicing the budget accounts at all levels of the Russian budget system and optimise the procedure used by Bank of Russia establishments and credit institutions for accounting for budget account balances, the Bank of Russia repealed a number of its regulations, some of them issued jointly with the Finance Ministry, Federal Tax Service and Federal Compulsory Medical Insurance Fund, and amended the procedure for compiling reports presented by credit institutions and Bank of Russia establishments on the balances of accounts opened to register the revenues distributed between the various levels of the Russian budget system and federal budget funds.

4. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

To ensure the implementation of Federal Law No. 173-FZ, dated December 10, 2003, "On Foreign Exchange Regulation and Foreign Exchange Control," which came into force on June 18, 2004, the Bank of Russia issued 37 regulations and instructions within the powers delegated to it:

— four regulations on the introduction of foreign exchange regulation instruments such as the requirement to use special accounts (bank accounts or sections of depot accounts) when conducting specified foreign exchange operations and on the procedure for making provisions when entering (writing down) funds to (from) special resident and non-resident accounts opened in authorised banks;

— nine regulations establishing the procedure for the compulsory sale of part of foreign currency earnings and presenting confirmation documents and information by customers to authorised banks when conducting foreign exchange operations, the procedure for filling in the foreign exchange transaction, accounting and control certificates and the procedure for conducting specified foreign exchange operations, including currency exchange operations;

— four regulations relating to the procedure for opening accounts abroad by resident corporate entities;

— four regulations establishing temporary procedures for using ruble-denominated bank accounts by non-residents, opened before Federal Law No. 173-FZ came into force;

— three documents amending the accounting rules in credit institutions in connection with the introduction of the requirement for residents and non-residents to use special bank accounts;

— 13 documents invalidating Bank of Russia regulations, including regulations issued jointly with the federal government agencies, in connection with the adoption of Federal Law No. 173-FZ.

To regulate capital inflow and outflow, the Bank of Russia on August 1, 2004, established the requirements for the size and duration of the provisions made for operations conducted with resident and non-resident special bank accounts (Bank of Russia Ordinance No. 1465-U, dated June 29, 2004, "On Establishing Reserve Requirements for Entering Funds to Special Bank Accounts and Writing down Funds from Special Bank Accounts").

To further ease up controls on foreign exchange operations and taking into account the favourable financial situation, the Bank of Russia:

— on December 27, 2004, lowered the requirement for exporters' compulsory sale of foreign currency earnings on the domestic foreign exchange market from 25% to 10% (Bank of Russia Ordinance No. 1520-U, dated November 26, 2004, "On Amending Bank of Russia Instruction No. 111-I, Dated March 30, 2004, 'On Compulsory Sale of Part of Foreign Currency Earnings on the Domestic Foreign Exchange Market of the Russian Federation'");

— took a decision to reduce the size of provisions (Bank of Russia Ordinance No. 1540-U, dated December 29, 2004, "On Amending Bank of Russia Ordinance No. 1465-U, Dated June 29, 2004, 'On Establishing Reserve Requirements for Entering Funds to Special Bank Accounts and Writing down Funds from Special Bank Accounts,"' which came into force on February 20, 2005).

To preclude double encumbrance of operations conducted by non-resident banks to extend ruble-denominated loans to resident credit institutions, the Bank of Russia cancelled the requirement for non-resident banks to use special accounts in such cases (Bank of Russia Ordinance No. 1529-U, dated December 16, 2004, "On Amending Bank of Russia Instruction No. 116-I, Dated June 7, 2004, 'On the Types of Resident and Non-resident Special Accounts,"' which came into force on February 6, 2005).

The Bank of Russia was actively involved in drafting amendments to the Federal Law "On Foreign Exchange Regulation and Foreign Exchange Control" (the amendments were submitted to the State Duma by State Duma deputies at the end of 2004 (draft No. 126084-4)). These amendments are designed to eliminate the shortcomings in the foreign exchange regulation discovered during the implementation of this Law.

PRINCIPAL MEASURES CARRIED OUT TO IMPROVE BANKING REGULATION AND SUPERVISION IN 2004

The Bank of Russia carried out the principal measures to improve banking regulation and supervision in 2004 in line with the Guidelines for the State Monetary Policy in 2004, the implementation plan for the Medium-Term Social and Economic Development Programme of the Russian Federation (2003—2005) in the field of banking and the draft Banking Sector Development Strategy for the Period until 2008, which the Russian Government approved in principle at a meeting on July 1, 2004.

The Bank of Russia's efforts to improve banking regulation and supervision aimed to encourage substantive approaches, especially to the nature and level of risks assumed by a credit institution and the quality of its management and internal controls. These approaches could be seen in the methodology of current supervision and the evaluation of the performance of credit institutions.

1. MEASURES CARRIED OUT TO DEVELOP A DEPOSIT INSURANCE SYSTEM

The principal measures to upgrade banking regulation and supervision in 2004 were carried out by the Bank of Russia in pursuance of federal laws, including the Federal Law "On Insurance of Household Deposits with Russian Banks." In 2004, the Bank of Russia drafted and issued a set of regulations on the application of this law.

Regulation No. 248-P, dated January 16, 2004, "On the Procedure for Considering by the Bank of Russia a Bank's Request to the Bank of Russia to Take a Decision on the Bank's Compliance with the Requirements for Participation in the Deposit Insurance System," established the stages and procedure for passing the decision (positive or negative) by the Bank of Russia Banking Supervision Committee on a bank's compliance with the requirements for participation in the deposit insurance system.

Bank of Russia Regulation No. 247-P, dated January 16, 2004, "On the Procedure for Considering by the Bank of Russia an Appeal against its Negative Decision on the Repeat Request by a Bank to Consider its Compliance with the Requirements for Participation in the Deposit Insurance System," set the procedure for filing an appeal against the Bank of Russia's negative decision on the repeat request by a bank to consider its compliance with the requirements for participation in the deposit insurance system, considering an appeal by the Bank of Russia and passing the decision by the Bank of Russia Banking Supervision Committee or Bank of Russia Chairman to meet (or refuse to meet) a bank's request.

Bank of Russia Ordinance No. 1379-U, dated January 16, 2004, "On Evaluating the Financial Stability of a Bank for the Purpose of Recognising it Able to Participate in the Deposit Insurance System," established a set of indicators and the methodologies of calculating them and determining the overall result on them for the purpose of recognising that a bank was financially stable to participate in the deposit insurance system.

Bank of Russia Ordinance No. 1417-U, dated April 1, 2004, "On the Form of the Register of Bank Obligations to Depositors," drafted at the proposal of the Deposit Insurance Agency, established the procedure for registering a bank's obligations to individual depositors when taking money on deposit, the form of the bank's register of obligations to depositors and the duty of the bank in respect to which the insured event has occurred to compile a register of obligations, taking into account the bank's obligations to depositors and counter-claims to depositors, and present it to the Deposit Insurance Agency within seven days after the insured event occurred. The document also set the procedure for co-operation between the Deport Insurance Agency and provisional administration of a bank, appointed by the Bank of Russia, in compiling and submitting a register of obligations when the insured event has occurred.

Bank of Russia Ordinance No. 1476-U, dated July 16, 2004, “On the Procedure for Requiring a Bank by the Bank of Russia to Submit an Application for the Termination of the Right to Handle Deposits,” set the procedure and the time frames within which the Bank of Russia should require a bank to make an application for the termination of its right to conduct deposit operations in the event of the bank’s refusal to participate in the deposit insurance system or if the bank has failed to meet the conditions set for participating in this system.

Bank of Russia Ordinance No. 1477-U, dated July 16, 2004, “On the Procedure for Invalidating the Licence of a Bank to Take Household Deposits in Rubles, Licence to Take Household Deposits in Rubles and Foreign Currency or General Licence in the Event of the Bank’s Refusal to Participate in the Deposit Insurance System or Failure to Qualify for Participation in the Deposit Insurance System,” set the procedure for replacing (cancelling) the licences of banks that have not entered the personal bank deposit insurance system.

Bank of Russia Ordinance No. 1483-U, dated July 30, 2004, “On the Procedure for Prohibiting a Bank that Has Refused to Participate in the Deposit Insurance System or Has Been Found Unfit to Participate in the Deposit Insurance System from Taking Household Deposits and Opening Personal Bank Accounts,” set the procedure for prohibiting banks, which had the right to handle deposits as of the day the Federal Deposit Insurance Law came into force, from taking household funds on deposit and opening personal accounts and stipulated the conditions and time frames for notifying credit institutions of the prohibition.

Bank of Russia Operating Ordinance No. 87-T, dated July 23, 2004, “On Actions to Be Taken by Bank of Russia Regional Branches in the Cases of Authorised Capital Payment with Improper Assets when Considering the Performance of Credit Institutions and Issuing Banking Licences,” contains recommendations on how the Bank of Russia regional branches should respond to the established fact or suspicion that the authorised capital or a part thereof was formed with improper assets when taking the decision on the correctness of payment for shares (stakes) in the credit institution, the expansion of the range of the credit institution’s activities by obtaining the corresponding banking licences and meeting the credit institution’s request for entry into the deposit insurance system.

Bank of Russia Operating Ordinance No. 88-T, dated July 27, 2004, “On the Application by the Bank of Russia Regional Branches of Bank of Russia Ordinance No. 1379-U, Dated January 16, 2004, ‘On Evaluating the Financial Stability of a Bank for the Purpose of Recognising it Able to Participate in the Deposit Insurance System,”’ contains recommendations on how the Bank of Russia regional branches should take decisions on a bank’s compliance with the requirements for participation in the deposit insurance system from the standpoint of evaluating the transparency of the bank’s ownership structure to ensure the openness of the Bank of Russia procedure for evaluating the established indicators.

The Bank of Russia drafted Ordinance No. 1542-U, “On the Specifics of the Inspections of Banks Conducted with the Participation of Deposit Insurance Agency Staff.”[1]

The following recommendations were drafted for the Bank of Russia regional branches:
— on the questions to be included in the bank inspection assignment;
— on drafting a report on the results of the final analysis on regional branches being able or unable to support a bank’s request on its compliance with the requirements for participation in the deposit insurance system.

[1] *Bank of Russia Ordinance No. 1542-U was issued by the Bank of Russia on January 13, 2005.*

2. MEASURES TAKEN TO IMPROVE THE METHODOLOGY OF CURRENT SUPERVISION OF CREDIT INSTITUTIONS

To improve the methodology of substantive risk-focused supervision of credit institutions, the Bank of Russia issued the following regulatory documents in 2004:

— Bank of Russia Regulation No. 232-P, dated July 9, 2003, "On Loan Loss Provisions by Credit Institutions," which came into force on April 1, 2004, and Bank of Russia Regulation No. 254-P, dated March 26, 2004, "On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans and Loan and Similar Debts." These two regulatory documents created conditions for professional judgement to be used in evaluating the quality of credit institutions' assets and, consequently, the required reserve levels;

— Bank of Russia Ordinance No. 1449-U, dated June 15, 2004, "On Making Amendments and Addenda to Bank of Russia Ordinance No. 1318-U, Dated August 7, 2003, 'On the Formation and Size of the Reserve for Credit Institution Operations with Residents of Offshore Zones,"' which came into effect on July 15, 2004, expanded the list of operations with offshore zone residents, for which credit institutions should make provisions, with operations under broker services agreements and clarified the procedure for making a provision for the warranties and guarantees given to offshore zone residents if the credit institution is the guarantor in the operation in which the principal and beneficiary are both offshore zone residents.

To upgrade the regulation of risks assumed by the banks and improve liquidity management, the Bank of Russia issued Instruction No. 110-I, dated January 16, 2004, "On Banks' Required Ratios," which cancelled the ratios which were not required by the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" and the ratios which the Bank of Russia deemed unnecessary. In addition, it lowered the required instant liquidity ratio (N2) and current liquidity ratio (N3), changed the procedure for calculating the bank own funds (capital) adequacy ratio (N1) and some other required ratios, such as the liquidity ratios, and introduced a requirement for credit institutions to observe the required ratios on a permanent basis.

In elaborating some provisions of its Instruction No. 110-I, dated January 16, 2004, "On Banks' Required Ratios," the Bank of Russia issued the following regulatory documents:

— Operating Ordinance No. 47-T, dated April 27, 2004, "On the Application of Section 10 of Bank of Russia Instruction No. 110-I, Dated January 16, 2004, 'On Banks' Required Ratios,'" which stipulates the cases in which the Bank of Russia regional branches can require a bank to present information on the required ratios as of an intramonth date (dates);

— Bank of Russia Ordinance No. 1489-U, dated August 13, 2004, "On Making Amendments to Bank of Russia Instruction No. 110-I, Dated January 16, 2004, 'On Banks' Required Ratios,'" which stipulates that the calculation base of the required ratios N6, N7, N9.1, N10.1 and N12, which limit a bank's credit risks, is reduced by the amount of the imputed loan loss provisions and requires banks to calculate as of an intramonth date all indicators involved in the calculation of the required ratios, including own funds (capital), should the Bank of Russia demand the calculation of the required ratios as of an intramonth date (dates);

— Bank of Russia Operating Ordinance No. 106-T, dated September 10, 2004, "On the Calculation of Maximum Risk per Borrower or Group of Related Borrowers (N6 Ratio)," which recommends considering as a group of related borrowers of a bank corporate entities and private individuals who are economically connected in such a way that the deterioration of the financial condition of one of them leads to or makes possible the deterioration of the financial condition of another borrower (other borrowers), which may result in non-fulfilment (inappropriate fulfilment) by this borrower (these borrowers) of obligations on the bank's credit claims;

— Bank of Russia Operating Ordinance No. 114-T, dated September 28, 2004, "On the Termination of the Subordinated Loan Agreement," which explains to regional branches what they should do when a credit institution has failed to comply with the required ratios as a result of excluding a subordinated loan from the own funds (capital) calculation;
— Bank of Russia Official Clarification No. 31-OR, dated December 17, 2004, "On the Application of Some Provisions of Bank of Russia Instruction No. 110-I, Dated January 16, 2004, 'On Banks' Required Ratios,'" which contains the list of persons who may be regarded as bank insiders.

The Bank of Russia Ordinance No. 1523-U, dated November 30, 2004, "On Amending Bank of Russia Regulation No. 89-P, Dated September 24, 1999, 'On the Procedure for Calculating Market Risk by Credit Institutions,"' which excluded securities acquired in repo deals and received as collateral from the market risk calculation.

When implementing the Concept of the Development of the Housing Mortgage Lending System, the Bank of Russia issued Instruction No. 112-I, dated March 31, 2004, "On the Required Ratios for Credit Institutions Issuing Mortgage-Backed Bonds," which established the procedure for calculating the required ratios and the values of these ratios pursuant to the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" and the Federal Law "On Mortgage Securities," the values and methodology of calculating additional required ratios for credit institutions issuing mortgage-backed securities and the specifics of supervision by the Bank of Russia of compliance with these requirements.

To improve the supervision of credit institutions on a consolidated basis, the Bank of Russia issued Regulation No. 246-P, dated January 5, 2004, "On the Procedure for Compiling Consolidated Statements by the Parent Credit Institution of a Banking/Consolidated Group," and Operating Ordinance No. 1-T, dated January 5, 2004, "On Methodological Recommendations on the Compiling of Consolidated Statements."

Bank of Russia Regulation No. 242-P, dated December 16, 2003, "On Organising Internal Controls in Credit Institutions and Banking Groups," which came into force in February 2004, is based on a comprehensive approach to the organisation of internal controls in credit institutions, determined the objectives, areas and bodies of internal controls and set out the principles by which the internal controls (internal audit) services should be guided in their work.

In pursuance of its Regulation No. 242-P, dated December 16, 2003, "On Organising Internal Controls in Credit Institutions and Banking Groups," the Bank of Russia issued Operating Ordinance No. 70-T, dated June 23, 2004, "On Typical Banking Risks," which defined credit, market, stock market, currency, interest, operational, legal and other risks. This document is designed to help banks draw up common approaches to risk management, which is a key element in the work of each credit institution.

To provide methodological assistance to its regional branches in analysing the performance of credit institutions, the Bank of Russia:
— issued Operating Ordinance No. 151-T, dated December 28, 2004, "On Recommendations for the Analysis of the Activities of Credit Institutions and the Development of Banking Services in the Region," which enables Bank of Russia regional branches to evaluate the level of banking risk in the region, the extent to which the region is saturated with banking services and current trends and prospects for the development of credit institutions in the region;
— continued to take steps to improve the 2000 recommendations on the analysis of the financial conditions of credit institutions and the computer-based system "The Analysis of the Financial Situation of a Bank," which changed the methodology for analysing the financial standing of a bank, bringing it into compliance with the methods used by the Bank of Russia in evaluating the financial soundness of banks to ascertain that it can participate in the deposit insurance system;
— drafted methodological recommendations on the analysis of the financial statements compiled by credit institutions according to International Financial Reporting Standards[1].

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[1] *Bank of Russia Letter No. 35-T, dated February 28, 2005.*

To modernise banking technologies, the Bank of Russia issued:

— Operating Ordinance No. 16-T, dated February 3, 2004, "On Recommendations on the Information Content and Organisation of Websites of Credit Institutions," which provided credit institutions with guidelines on how they should arrange their Internet sites;
— Ordinance No. 1390-U, dated March 1, 2004, "On the Procedure for Informing the Central Bank of the Russian Federation by Credit Institutions about the Introduction and Use of Internet Technologies in Banking," which set the procedure for presenting data by credit institutions to the Bank of Russia on the use of Internet-based telecommunication technologies in their work.

In 2004, the Bank of Russia continued to improve the conditions and forms of its co-operation with foreign banking supervisory authorities. It issued Ordinance No. 1381-U, dated January 29, 2004, "On the Procedure for Exchanging Information and (or) Documents between the Bank of Russia and the Central Banks and Banking Supervisory Authorities of Foreign States." In August 2004, the Bank of Russia signed the agreement on co-operation in supervising credit institutions with the National Bank of the Kyrgyz Republic. During the year, the Bank of Russia discussed the wording of agreements (memoranda of understanding) in the field of banking supervision with the supervisory authorities of 15 countries.

To promote the use of substantive (risk-focused) methods of supervision, which include the evaluation of the performance of credit institutions and the use of supervisory measures based, above all, on the substance and realistic evaluation of banking risk from the standpoint of its possible effect on the stability of credit institutions, the Bank of Russia:

— began to draft regulations on the evaluation of the financial stability of a credit institution (based on the methods used in evaluating banks' compliance with the requirements for admission to the deposit insurance system) and on supervision regimes (supervisory actions are to be taken on the basis of the financial soundness assessments and a credit institution's performance is to be evaluated and acted upon by supervisors on the basis of professional (substantive) judgement);
— continued to introduce curatorship into Russia's supervisory practice, organising for this purpose a retraining course for Bank of Russia employees under the programme "The Curator of a Commercial Bank." The Bank of Russia also drafted the Regulation "On the Curator of a Credit Institution" and Methodological Guidance for the Curator, the "curator's manual." This work is to be completed in 2005;
— has almost completed the development of a system designed to detect problems in credit institutions at the early stages (an early warning system). Bank of Russia experts have developed software for the system, which has been pilot-tested in Bank of Russia regional branches.

Within the framework of EU/TACIS Banking Supervision and Reporting Project, launched in September 2003 and set to run for two years, the Bank of Russia continued to optimise and upgrade prudential reporting. When the project is completed, changes are to be made in the content of prudential statements and the procedure for presenting them. This work is being carried out in close co-operation with the banking community (the new, modified reporting forms will be tested by the pilot banks involved in the project).

3. MEASURES CARRIED OUT TO IMPROVE INSPECTION

In 2004, the Bank of Russia issued the following regulatory documents designed to optimise inspections and the procedure for organising and conducting on-site inspections of credit institutions and their branches[1]:

— Ordinance No. 1543-U, "On Making Amendments to Bank of Russia Instruction No. 105-I, Dated August 25, 2003, 'On the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation;"'

— Ordinance No. 1544-U, "On Making Amendments to Bank of Russia Instruction No. 108-I, Dated December 1, 2003, 'On Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)."'

These documents take into account the provisions of the Federal Law "On Foreign Exchange Regulation and Foreign Exchange Control" and the amendments made to some Bank of Russia regulations.

To ensure uniformity in conducting inspections and make them more effective, the Bank of Russia issued the following documents:

— Operating Ordinance No. 116-T, dated October 1, 2004, "On Methodological Recommendations on the Inspection of Cash Operations in Credit Institutions and their Branches;"

— Operating Ordinance No. 68-T, dated June 18, 2004, "Clarifications in Respect to Questions Raised by Bank of Russia Regional Branches when Organising and Conducting Inspections of Credit Institutions and their Branches."

The Bank of Russia and its regional branches began to test run the Automated Inspection Unit System (ASIP), which makes it possible to keep all inspection data (from planning an inspection to the ultimate completion of all inspection-related procedures and paperwork) in a single database in real time, reduce the number of reports compiled by the Bank of Russia regional branches without losing any important information and make inspection management more effective.

When conducting inspections in pursuance of the Federal Law "On Insurance of Household Deposits with Russian Banks," the Bank of Russia carried out in-depth pre-inspection analyses of banks' activities using the results of their previous inspections and reports to determine more precisely the questions that need to be included in the inspection assignment. An analysis had to pronounce an informed judgement on the financial stability of the bank in question. The methodology for evaluating banks on the basis of a series of formalised indicators, using the computer-based analysis system "The Analysis of the Financial State of a Commercial Bank," or AFSKB, and the KALIPSO-inspector package of tables containing the most important analytical indicators, was tested in practice.

4. MEASURES TAKEN TO IMPROVE THE DECISION-MAKING PROCEDURE FOR REGISTERING CREDIT INSTITUTIONS, LICENSING BANKING OPERATIONS AND REGISTERING SECURITIES ISSUED BY CREDIT INSTITUTIONS

To improve the licensing and registration of credit institutions and the licensing of banking operations, the Bank of Russia issued Instruction No. 109-I, dated January 14, 2004, "On the Bank of Russia Decision-Making Procedure for the State Registration of Credit Institutions and Licensing of Banking Operations," which:

— requires Bank of Russia regional branches to check inside a credit institution the sources of funds paid for its shares (stakes), verify the financial status of the buyers to ensure they

[1] *Bank of Russia Ordinance No. 1543-U and Ordinance No. 1544-U were approved by the Bank of Russia on January 13, 2005.*

have enough money of their own (net assets) to acquire the shares (stakes) if the authorised capital of a credit institution is increased by more than 20% or if there is reason to believe that the shares (stakes) in the credit institution were paid for in breach of the established regulations;
— sets the procedure for receiving from the founders of a credit institution any information on the financial standing and activities of persons who can directly or indirectly determine decision-making in a credit institution and establishes the right to require a credit institution applying for permission to expand the range of its activities on the basis of new banking licences to present information on its members and their groups;
— sets a limit of 20% of authorised capital for property (non-pecuniary) contributions to the authorised capital of a credit institution;
— enables credit institutions to open a new kind of internal division, the cash and credit office, which can conduct operations to provide funds to small businesses and households with repayment and provide cash services to corporate entities and households;
— specifies the procedure for expanding the range of activities of banks applying for the licence to take household funds on deposit. Specifically, the regulation stipulates that in addition to meeting general standards, a bank must comply with the requirements set by the Federal Deposit Insurance Law;
— simplifies the procedure allowing a branch of a credit institution to start working by reducing to a minimum the number of requirements, the procedure for opening an internal division in a credit institution or a branch of a credit institution instead of another internal division, and the procedure for notifying creditors of a change in the address of a credit institution or a branch of a credit institution, a change in the name of a credit institution, and the closure of a branch of a credit institution.

To improve the regulation of access to the management of credit institutions, the Bank of Russia issued Ordinance No. 1492-U, dated August 20, 2004, "On the Application of Russian Federation Legislation on the Securities Market to Chief Executive Officers and Members of the Boards of Directors of Credit Institutions which Are Professional Securities Market Players." Elaborated in pursuance of the Federal Securities Market Law, the document establishes additional requirements for persons who fulfil the functions of a one-man executive body, their deputies, members of the collegiate executive body of credit institutions, members of the boards of directors (supervisory boards) of credit institutions which are professional securities market players, and sets the procedure for monitoring compliance with these requirements.

To clarify some issues relating to the procedure for registering the issue of bonds secured by third party and to ensure that the issuing credit institutions disclose information at each stage of the issue, the Bank of Russia issued Operating Ordinance No. 39-T, dated April 9, 2004, "On the Application of Some Provisions of Bank of Russia Instruction No. 102-I, Dated July 22, 2002, 'On the Rules of Issue and Registration of Securities by Credit Institutions in the Russian Federation.'"

5. MEASURES TAKEN TO IMPROVE THE PROCEDURES FOR PREVENTING INSOLVENCY (BANKRUPTCY) OF CREDIT INSTITUTIONS, REVOKING BANKING LICENCES AND OVERSEEING LIQUIDATION PROCEEDINGS IN CREDIT INSTITUTIONS

In 2004, the Bank of Russia implemented measures to improve bank bankruptcy-prevention and licence-revocation procedures and the monitoring of the liquidation proceedings in credit institutions taking into account Federal Law No. 192-FZ, dated December 29, 2004, "On Making Amendments to Some Russian Federation Laws in Connection with the Coming into Force of the Federal Law 'On Mortgage Securities,'" Federal Law No. 121-FZ, dated August 20, 2004, "On Amending the Federal Law 'On the Insolvency (Bankruptcy) of Credit Institutions' and Invalidating Some Laws (Provisions of Laws) of the Russian Federation," and Federal Law No. 96-FZ, dated July 29, 2004, "On Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System" (the Bank of Russia participated in drafting all of these laws).

Bank of Russia Regulation No. 265-P, dated December 14, 2004, "On the Accreditation of Arbitration Managers with the Bank of Russia as Receivers of Bankrupt Credit Institutions," established the procedure for considering applications of arbitration managers, members of a self-regulating arbitration managers organisation, and the procedure for drafting and issuing certificates of accreditation, extending the term of accreditation, cancelling accreditation, redrafting and issuing duplicate certificates of accreditation, and terminating certificates of accreditation.

Bank of Russia Ordinance No. 1510-U, dated October 28, 2004, "On Amending Bank of Russia Ordinance No. 1260-U, Dated March 24, 2003, 'On the Procedure for Matching Authorised Capital of a Credit Institution with its Own Funds (Capital),'" stipulated that in the first two years after a banking licence is issued to a credit institution, it is not required to match its authorised capital with own funds (capital).

To standardise training programmes for arbitration managers as receivers of bankrupt credit institutions at educational establishments, the Bank of Russia issued Ordinance No. 1532-U, dated December 21, 2004, "On Approving the Training Programme of Arbitration Managers."

Bank of Russia Ordinance No. 1533-U, dated December 22, 2004, "On Determining the Value of Property (Assets) and Liabilities of a Credit Institution," established the procedure for calculating the value of the property (assets) and liabilities of a credit institution for the purpose of declaring it bankrupt.

Bank of Russia Ordinance No. 1517-U, dated November 17, 2004, "On Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System and on the Procedure for Co-operation between Agent Banks and the Bank of Russia," set the procedure for effecting Bank of Russia payments, calculating their amount and arranging co-operation between the Bank of Russia and agent banks through which depositors' applications are received and Bank of Russia payments are effected.

Bank of Russia Ordinance No. 1539-U, dated December 29, 2004, "On the Decision-Making Procedure Relating to Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System," established the procedure for taking the decision on effecting Bank of Russia payments and arranging co-operation between Bank of Russia divisions and regional branches in this field.

Bank of Russia Ordinance No. 1516-U, dated November 17, 2004, "On the Procedure for the Competitive Selection of Agent Banks to Effect Bank of Russia Payments on Household Deposits," set the requirements a bank should meet to acquire the right to participate in the competitive selection and established the procedure for conducting the competitive selection by the Bank of Russia and taking the decision on the selection of an agent bank.

In all, the Bank of Russia issued 52 regulatory documents in 2004 relating to the licensing and financial rehabilitation of credit institutions and household deposit insurance, including one instruction, four regulations, 23 ordinances and 24 operating ordinances.

6. MEASURES TO COUNTER THE LEGALISATION (LAUNDERING) OF CRIMINALLY OBTAINED INCOMES AND THE FINANCING OF TERRORISM

To make the banking system's efforts to counter the legalisation (laundering) of criminally obtained incomes and the financing of terrorism more effective, and to bring its own regulations into compliance with Federal Law No. 88-FZ, dated July 28, 2004, "On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism,"' the Bank of Russia issued the following regulatory documents in 2004.

Pursuant to point 2 of Article 7 of Federal Law No. 115-FZ, dated August 7, 2001, "On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism" (hereinafter referred to as Federal Law No. 115-FZ), the Bank of Russia issued:

— Ordinance No. 1485-U, dated August 9, 2004, "On the Requirements for the Training and Instruction of Personnel in Credit Institutions;"
— Ordinance No. 1486-U, dated August 9, 2004, "On the Qualification Requirements for the Special Executives Responsible for the Observance of Internal Control Rules for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism and the Implementation of Internal Controls in Credit Institutions;"
— Regulation No. 262-P, dated August 19, 2004, "On the Identification by Credit Institutions of Customers and Beneficiaries for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism."

As the number of operations subject to mandatory control, which credit institutions are required to report to the corresponding authority, were expanded, the Bank of Russia issued Ordinance No. 1490-U, dated August 17, 2004, "On Amending Bank of Russia Regulation No. 207-P, Dated December 20, 2002, 'On the Procedure for Passing Information by Credit Institutions to the Authorised Agency Stipulated by the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism.'"

Pursuant to point 13 of Article 7 of Federal Law No. 115-FZ, the Bank of Russia issued by agreement with the Russian Government Ordinance No. 1519-U, dated November 26, 2004, "On the Procedure for Passing Information by Credit Institutions to the Authorised Agency in the Event of the Refusal to Conclude a Bank Account (Deposit) Agreement with an Individual or Legal Entity and Conduct Operations with Money or Other Property."

To improve the supervisory procedures used by the Bank of Russia, it issued the following regulations:

— Operating Ordinance No. 103-T, dated August 19, 2004, "On the Exercise of Control by the Bank of Russia over the Observance by Credit Institutions (and their Branches) of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism,'" which contained methodological recommendations on how to conduct inspections of credit institutions;
— Operating Ordinance No. 104-T, dated September 8, 2004, establishing the procedure for using Operating Ordinance No. 137-T, dated November 28, 2001, "On Bank of Russia Recommendations on the Elaboration by Credit Institutions of Internal Control Rules for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism."

To provide methodological assistance to credit institutions in carrying out measures designed to counter money laundering and terrorist financing, the Bank of Russia issued Operating Ordinance No. 100-T, dated August 17, 2004, "On the FATF Report on Money Laundering Typologies for 2003—2004" with the FATF Report attached to it.

STATISTICAL TABLES

List of tables

Table 1

DYNAMICS OF KEY MACROECONOMIC INDICATORS (as % of previous year)

	2002	2003	2004
Gross domestic product	104.7	107.3	107.1
of which:			
Output of goods	103.6	108.2	106.3
of which:			
industry	104.0	107.5	106.1
agriculture	102.9	105.7	102.9
construction	102.8	114.3	110.2
Output of services	105.6	106.9	107.9
Market services	106.2	107.4	108.7
of which:			
transport	103.4	105.6	105.0
communications	116.6	120.7	124.7
trade, public catering and procurements	108.2	110.9	110.1
Non-market services	102.2	104.0	102.3
GDP deflator index, times	1.155	1.137	1.186
Consumer price index (December on December), times	1.151	1.120	1.117
Fixed capital investment	102.8	112.5	110.9
Retail trade turnover	109.3	108.8	112.5
Unemployment rate by ILO methodology, as % of economically active population, annualised average	8.1	8.6	8.2

Table 2

CONSUMER PRICE DYNAMICS BY GROUP OF GOODS AND SERVICES (% growth, December on December)

	2002	2003	2004
Consumer prices, total	**15.1**	**12.0**	**11.7**
of which:			
goods and services included in calculation of base consumer price index (BCPI)	10.2	11.2	10.5
food	11.0	10.2	12.3
of which:			
food excluding vegetables and fruit	8.5	11.8	13.1
vegetables and fruit	33.3	—4.2	3.3
non-food products	10.9	9.2	7.4
paid services provided to the public	36.2	22.3	17.7

Note. Tables 1 and 2 are based on Rosstat data (as of May 5, 2005).

Table 3

CONSUMER PRICE INFLATION STRUCTURE

	2003		2004	
	Growth in percentage points	% contribution to growth	Growth in percentage points	% contribution to growth
General rate of inflation (December on December)	12.0	100.0	11.7	100.0
Inflation growth due to:				
change in prices of goods and services included in BCPI calculation	9.1	75.9	8.5	72.0
change in prices of goods and services not included in BCPI calculation	2.9	24.1	3.3	28.0
of which:				
change in vegetable and fruit prices	–0.2	–1.8	0.2	1.5
change in regulated service and fuel prices	3.1	25.9	3.1	26.5

Table 4

GDP PRODUCTION STRUCTURE IN BASIC PRICES (%)*

	2002	2003	2004
Gross domestic product	100.0	100.0	100.0
of which:			
Output of goods	40.6	40.2	41.0
of which:			
industry	27.1	26.7	28.0
agriculture	5.7	5.4	5.0
construction	6.9	7.2	7.2
Output of services	59.4	59.8	59.0
Market services	48.4	48.8	48.6
of which:			
transport	7.2	7.0	6.6
communications	1.8	1.9	2.0
trade, public catering and procurements	22.1	22.1	22.0
Non-market services	11.0	11.0	10.4

** Unlike GDP in market prices, GDP in basic prices does not include food taxes but includes food subsidies. Data in basic prices are shown without excluding indirectly measured financial intermediation services.*

Note. Table 3 is based on Bank of Russia calculations and Tables 4—11 are based on Rosstat data (as of May 5, 2005).

Table 5

STRUCTURE OF GDP CALCULATED BY INCOME USE METHOD IN CURRENT MARKET PRICES (%)

	2002	2003	2004
GDP calculated by income use method	100.0	100.0	100.0
Expenditure on final consumption	68.9	68.0	65.7
of which:			
household sector	50.1	49.7	48.5
government sector and non-profit organisations providing services to households	18.8	18.3	17.2
Gross capital formation	20.2	20.6	21.6
of which:			
gross fixed capital formation (including net acquisition of valuables)	18.0	18.3	18.3
change in inventories	2.2	2.3	3.3
Net exports of goods and services	10.9	11.4	12.7

Table 6

DYNAMICS OF GDP CONSUMPTION ELEMENTS IN COMPARABLE PRICES (as % of previous year)

	2002	2003	2004
GDP	104.7	107.3	107.1
of which:			
Expenditure on final consumption	107.0	106.2	109.2
by household sector	108.5	107.5	111.3
by government sector	102.6	102.2	102.3
by non-profit organisations providing services to households	100.8	101.1	99.4
Gross capital formation (including net acquisition of valuables)	97.4	113.2	113.9
Net exports of goods and services	103.2	103.0	90.7

Table 7

GDP FORMATION STRUCTURE BY SOURCE OF INCOME (%)

	2002	2003	2004
Gross domestic product	100.0	100.0	100.0
of which:			
remuneration of labour of hired workers (including unreported earnings)	46.7	46.9	45.9
net taxes on production and imports	14.1	13.5	13.9
gross profit and gross mixed incomes	39.2	39.6	40.2

Table 8

BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENSES IN RUSSIA (million rubles)

	2003	2004	2004 as % of 2003
Money income	**8,901,629.4**	**10,850,815.6**	**121.9**
Wages and salaries	5,685,505.0	6,859,554.5	120.6
% share	63.9	63.2	
Social transfers	1,254,440.0	1,493,258.0	119.0
% share	14.1	13.8	
Income from entrepreneurial activities	1,068,109.0	1,268,558.5	118.8
% share	12.0	11.7	
Income from property	696,728.0	988,339.5	141.9
% share	7.8	9.1	
Other income	196,847.4	241,105.1	122.5
% share	2.2	2.2	
Money expenses	**6,885,819.2**	**8,652,876.6**	**125.7**
consumer expenses	6,148,357.5	7,601,150.6	123.6
compulsory payments and contributions	737,461.7	1,051,726.0	142.6
Growth in savings and cash on hand, purchase of foreign currency	**2,015,810.2**	**2,197,939.0**	**109.0**
savings*	1,130,907.8	1,103,693.4	97.6
of which:			
deposits and securities	489,524.8	469,620.9	95.9
foreign exchange purchase	643,684.9	905,548.3	140.7
cash on hand	241,217.5	188,697.3	78.2
For the record:			
% share of money income			
consumer expenses	69.1	70.1	
compulsory payments and contributions	8.3	9.7	
savings	12.7	10.2	
of which:			
deposits and securities	5.5	4.3	
foreign exchange purchase	7.2	8.3	
cash on hand	2.7	1.7	
Disposable money income	**8,168,127.0**	**9,814,242.4**	**120.2**
% share of			
consumer expenses	75.3	77.5	
savings	13.9	11.3	
of which:			
deposits and securities	6.0	4.8	
foreign exchange purchase	7.8	9.2	
cash on hand	3.0	2.0	

** Savings include increase (decrease) in deposits, purchase of securities, change in accounts of self-employed entrepreneurs, change in debt on loans and purchase of real estate.*

Table 9

INCOME DIFFERENTIATION OF POPULATION

	2002	2003	2004
Funds ratio, times*	14.0	14.5	14.8
Gini coefficient, units**	0.398	0.402	0.406

** The funds ratio is the ratio between average income of 10% highest-income population and 10% lowest-income population.*

*** The Gini coefficient (income concentration index) shows the extent to which the actual distribution of household income deviates from the even distribution line. In the case of an even distribution of income, the Gini coefficient tends towards zero; the greater the income differentiation of the population, the closer the Gini coefficient to 1.*

Table 10

DYNAMICS OF KEY FINANCIAL PERFORMANCE INDICATORS OF LARGE AND MEDIUM-SIZED ENTERPRISES IN 2004 (as % of 2003)

	Net financial result	Working assets			Payables		Receivables	
		total	of which: short-term financial investments	of which: cash	total	of which overdue	total	of which overdue
Total	**152.4**	**134.6**	**181.4**	**129.9**	**112.5**	**85.9**	**125.0**	**95.7**
Industry	177.2	134.8	181.8	139.1	109.9	91.0	127.3	95.9
of which:								
— electric-power industry	140.3	115.9	77.9	118.3	102.3	76.5	135.8	96.4
— fuel sector	204.9	161.6	311.5	162.2	111.5	110.5	135.8	97.9
— ferrous metallurgy sector	259.7	172.2	172.3	206.0	118.1	76.3	176.2	110.3
— non-ferrous metallurgy sector	145.0	121.2	160.9	94.6	103.4	50.8	113.3	57.7
— chemical and petrochemical industry	190.5	124.0	116.9	214.5	99.5	70.6	110.9	86.6
— machine-building and metalworking	107.9	121.3	133.1	108.7	109.9	97.6	108.1	100.1
— timber, woodworking and pulp-and-paper industry	124.2	117.1	93.0	118.6	116.5	93.2	127.1	118.2
— building materials industry	147.7	141.0	183.7	122.1	115.0	96.4	142.8	103.0
— light industry	…*	118.8	116.0	93.7	97.4	85.8	106.9	91.9
— food industry	103.8	130.9	139.5	110.6	114.0	89.5	130.3	114.8
Agriculture	236.8	118.1	153.0	103.2	87.3	71.0	113.4	95.5
Transport	139.8	141.4	109.7	136.9	112.8	75.2	110.2	70.0
Communications	113.2	136.8	107.8	113.4	112.6	87.5	123.6	117.2
Construction	89.8	125.8	133.3	101.4	133.0	94.7	140.0	111.6
Trade and public catering	131.6	124.2	97.6	131.6	115.8	109.8	128.0	112.3
Housing and utilities	117.3**	113.1	126.1	111.4	100.5	95.5	104.5	99.8

** The industry's net financial result was a loss in 2004 and a profit in 2003.*
*** Rate of change in losses.*

Table 11

PAYMENTS FOR PRODUCTS SHIPPED (WORK PERFORMED AND SERVICES PROVIDED) BY MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES

	2004		As % of 2003
	billion rubles	structure of payments, %	
Value of products shipped	8,931.5		125.7
of which:			
paid-for products	8,173.7	100.0	125.2
of which products paid for with:			
money	7,264.7	88.9	129.6
promissory notes	271.0	3.3	90.3
securities	0.1	0.0	62.0
transfer of right of claim on pecuniary obligations	9.8	0.1	66.9
netting of claims	422.1	5.2	98.2
barter arrangements	34.9	0.4	84.1
other kinds of settlements	171.1	2.1	127.9

Table 12

RUSSIA'S FOREIGN MERCHANDISE TRADE
(according to balance of payments methodology)

	Billion US dollars							As % of previous year						
	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004
all countries														
Turnover	132.5	115.1	149.9	155.6	168.3	212.0	279.8	83.4	86.9	130.2	103.8	108.1	126.0	132.0
Exports	74.4	75.6	105.0	101.9	107.3	135.9	183.5	85.7	101.5	139.0	97.0	105.3	126.7	135.0
Imports	58.0	39.5	44.9	53.8	61.0	76.1	96.3	80.6	68.1	113.5	119.8	113.4	124.8	126.6
Balance	16.4	36.0	60.2	48.1	46.3	59.9	87.1	110.2	219.2	167.1	80.0	96.3	129.2	145.6
non-CIS countries														
Turnover	102.4	92.7	122.2	127.3	139.7	175.6	229.6	84.4	90.6	131.8	104.2	109.7	125.6	130.8
Exports	58.7	63.6	90.8	86.6	90.9	114.6	153.2	86.5	108.4	142.8	95.4	105.0	126.0	133.8
Imports	43.7	29.2	31.4	40.7	48.8	61.0	76.4	81.9	66.7	107.8	129.6	119.9	124.9	125.3
Balance	14.9	34.4	59.3	45.9	42.1	53.6	76.9	103.6	230.3	172.5	77.3	91.8	127.2	143.4
CIS countries														
Turnover	30.1	22.4	27.7	28.3	28.5	36.4	50.1	79.9	74.3	123.7	102.3	100.8	127.7	137.6
Exports	15.8	12.0	14.2	15.3	16.4	21.4	30.2	82.8	76.0	118.8	107.2	107.2	130.4	141.4
Imports	14.3	10.4	13.4	13.0	12.2	15.1	19.9	76.9	72.6	129.4	97.1	93.2	124.1	132.1
Balance	1.5	1.6	0.8	2.2	4.2	6.3	10.3	305.9	108.3	50.9	271.1	189.5	148.7	163.8

Note. Total exports for 2003 in Tables 12, 13, 15 and 25 include the value of crude oil which was exported in 2003 and customs cleared in January 2004.

Table 13

COMMODITY STRUCTURE OF RUSSIAN EXPORTS

	Structure, %							Growth rates as % of previous year						
	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004
Total	100	100	100	100	100	100	100	84	102	141	97	107	126	135
Minerals,	42.8	44.8	53.8	54.7	55.2	57.6	57.7	74	107	170	98	108	132	135
of which:														
fuels and energy	41.6	44.0	53.1	54.1	54.6	57.0	57.0	74	108	171	99	108	132	135
of which:														
oil	14.4	19.4	24.5	25.0	27.3	29.5	32.6	69	138	179	99	116	136	149
natural gas	18.8	15.6	16.1	17.8	14.9	14.9	12.0	82	85	147	107	89	126	109
Metals, metal products	21.6	20.1	16.9	14.7	14.1	13.8	16.8	89	95	119	84	103	123	165
Machinery, equipment, transport vehicles	11.5	10.8	8.8	10.4	9.4	8.9	7.7	92	96	115	115	96	119	118
Chemicals, rubber	8.6	8.5	7.2	7.5	6.9	6.8	6.6	85	101	120	101	99	124	131
Timber and pulp-and-paper products	5.0	5.1	4.3	4.4	4.6	4.2	3.9	100	103	120	99	111	114	126
Gemstones, precious metals and articles made of them	5.9	6.0	4.8	4.1	4.5	3.9	3.5	131	104	113	83	116	109	123
Foodstuffs, agricultural raw materials (except textiles)	2.0	1.3	1.6	1.9	2.6	2.5	1.8	88	70	164	117	148	122	96
Textiles, textile products, footwear	1.1	1.1	0.8	0.8	0.8	0.7	0.6	89	101	101	98	111	107	110
Leather, furs and articles made of them	0.6	0.3	0.3	0.2	0.3	0.2	0.2	100	52	130	85	117	124	106
Other goods	0.9	2.0	1.5	1.3	1.6	1.4	1.2	88	184	116	87	129	117	114
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	71.3	72.9	103.1	100.0	106.7	134.5	181.6							

Table 14

COMMODITY STRUCTURE OF RUSSIAN IMPORTS

	Structure, %							Growth rates as % of previous year						
	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	82	70	112	124	110	124	132
Machinery, equipment, transport vehicles	35.8	33.1	31.4	34.0	36.3	37.4	41.2	84	64	106	134	118	128	145
Food products, agricultural raw materials (except textiles)	24.6	26.6	21.8	22.0	22.5	21.0	18.3	80	75	91	125	113	116	115
Chemicals, rubber	15.1	16.1	17.9	18.2	16.7	16.8	15.8	87	74	125	126	101	124	124
Metals, metal products	6.9	7.2	8.1	7.2	6.3	7.2	7.7	81	73	126	110	97	141	141
Textiles, textile products, footwear	4.1	5.2	5.9	5.5	5.3	4.8	4.3	75	88	126	115	106	114	117
Minerals	5.5	4.0	6.3	4.1	3.7	3.8	4.0	77	50	177	80	101	125	141
of which:														
fuels and energy	4.1	2.6	4.3	2.5	2.2	2.3	2.2	78	43	188	71	100	129	126
Timber and pulp-and-paper products	3.9	3.6	3.8	4.0	4.2	4.2	3.8	89	63	120	130	114	125	119
Leather, furs and articles made of them	0.2	0.3	0.4	0.5	0.4	0.4	0.3	50	87	146	175	94	110	109
Gemstones, precious metals and articles made of them	0.1	0.2	0.2	0.1	0.1	0.1	0.2	34	129	161	35	143	173	251
Other goods	3.8	3.7	4.2	4.4	4.5	4.3	4.4	81	70	118	134	111	122	129
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	43.6	30.3	33.9	41.9	46.2	57.3	75.6							

RUSSIA'S EXPORTS TO MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year						
	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**84**	**102**	**141**	**97**	**107**	**126**	**135**
of which:														
CIS countries	19.2	14.7	13.4	14.6	14.7	15.3	16.2	82	78	129	106	107	131	143
Non-CIS countries	80.8	85.3	86.6	85.4	85.3	84.7	83.8	84	108	144	96	106	125	133
of which:														
EU countries	32.5	34.1	35.8	36.7	35.4	35.3	46.0	83	107	148	100	103	126	176
North America	7.5	6.7	4.7	4.4	3.9	3.4	4.0	113	92	99	90	96	110	159
Other countries	40.8	44.5	46.1	44.3	46.0	46.0	33.8	81	112	147	93	111	127	99
For the record:														
15 EU member countries	32.5	34.1	35.8	36.7	35.4	35.3	36.4	83	107	148	100	103	126	139
Baltic states	3.2	3.9	4.8	3.8	3.8	3.4	3.2	72	126	174	78	107	113	125
OECD countries	58.2	59.4	59.3	58.7	57.6	56.6	58.1	86	104	141	96	105	124	138
APEC countries	17.0	17.5	15.1	15.1	15.3	14.4	14.8	89	105	122	97	108	119	139
The Netherlands	5.5	5.0	4.2	4.7	7.0	6.6	8.4	87	93	118	108	158	119	173
Germany	8.0	8.5	9.0	9.2	7.6	7.8	7.3	88	108	149	100	88	130	127
Italy	4.5	5.2	7.0	7.4	7.0	6.5	6.7	90	117	193	102	101	117	139
Belarus	6.5	5.2	5.4	5.3	5.5	5.6	6.1	100	81	148	96	110	129	147
Ukraine	7.8	6.6	4.9	5.3	5.5	5.7	5.9	77	86	105	105	111	130	141
China	4.4	4.8	5.1	5.6	6.4	6.2	5.6	80	111	149	107	122	122	121
Switzerland	4.4	4.6	3.7	2.3	5.0	4.3	4.3	88	107	115	60	232	109	133
Turkey	2.7	2.2	3.0	3.2	3.2	3.6	4.1	98	84	190	105	103	145	153
USA	7.2	6.5	4.5	4.2	3.7	3.1	3.6	114	92	99	90	95	106	156
Finland	2.9	3.3	3.0	3.1	2.8	3.2	3.2	75	117	129	100	94	148	134
Poland	3.1	3.6	4.3	4.2	3.5	3.4	3.1	87	120	171	94	89	124	123
UK	4.2	4.0	4.5	4.3	3.6	3.7	3.1	104	98	162	92	89	130	114
Kazakhstan	2.7	1.7	2.2	2.8	2.3	2.4	2.6	77	65	183	124	86	137	145
France	2.0	1.7	1.8	2.3	2.5	2.6	2.4	90	83	157	118	118	132	126
Japan	3.1	2.9	2.7	2.4	1.7	1.8	1.9	74	98	130	88	74	135	141
Other	31.0	34.2	34.7	33.7	32.7	33.5	31.7	76	113	143	94	104	128	128
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	71.3	72.9	103.1	100.0	106.7	134.5	181.6							

Note. In Tables 15—17 and 30 EU is represented from May 2004 by 25 member states.

Table 16

RUSSIA'S IMPORTS FROM MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year						
	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**82**	**70**	**112**	**124**	**110**	**124**	**132**
of which:														
CIS countries	26.0	27.5	34.3	26.7	22.0	22.9	23.5	79	74	139	97	91	129	135
Non-CIS countries	74.0	72.5	65.7	73.3	78.0	77.1	76.5	83	68	101	138	117	123	131
of which:														
EU countries	36.1	36.9	32.9	36.9	39.7	38.7	43.0	80	71	100	138	119	121	146
North America	10.1	8.5	13.0	8.5	7.0	5.8	4.8	99	59	170	81	92	102	108
Other countries	27.8	27.1	19.8	27.9	31.3	32.6	28.7	82	68	82	174	123	130	117
For the record:														
15 EU member countries	36.1	36.9	32.9	36.9	39.7	38.7	37.6	80	71	100	138	119	121	128
Baltic states	1.6	1.0	1.0	1.0	1.2	1.2	1.1	67	44	112	130	130	126	117
OECD countries	58.7	55.2	51.6	56.7	59.5	58.7	58.8	83	65	105	136	116	123	132
APEC countries	18.9	15.9	16.1	18.5	19.1	19.8	21.5	96	58	113	142	113	129	144
Germany	12.6	13.9	11.5	13.9	14.3	14.1	14.0	83	77	93	149	114	123	130
Belarus	10.6	10.6	11.0	9.5	8.6	8.5	8.6	96	70	115	107	101	122	132
Ukraine	7.5	8.3	10.8	9.2	7.0	7.7	8.1	82	77	144	105	84	137	137
China	2.7	3.0	2.8	3.9	5.2	5.8	6.3	92	77	106	174	146	138	143
Japan	1.9	1.5	1.7	2.1	2.1	3.3	5.2	83	56	125	152	113	192	209
Kazakhstan	4.3	4.6	6.5	4.8	4.2	4.3	4.6	69	74	157	92	96	127	141
Italy	4.2	3.8	3.6	4.1	4.8	4.2	4.2	69	64	105	141	130	108	133
USA	9.4	7.9	8.0	7.8	6.5	5.2	4.2	101	58	113	121	92	99	108
France	3.7	4.1	3.5	3.7	4.1	4.1	4.1	100	77	96	130	123	124	131
Finland	3.3	3.1	2.8	3.1	3.3	3.2	3.1	77	66	101	134	118	122	126
Poland	2.4	2.0	2.1	2.3	2.8	3.0	3.1	77	58	119	134	135	132	135
UK	2.8	2.2	2.5	2.4	2.4	2.5	2.7	82	55	127	117	112	129	143
The Netherlands	2.1	2.3	2.2	2.0	2.3	2.2	1.8	76	75	107	114	125	119	109
Turkey	1.2	1.0	1.0	1.2	1.6	1.6	1.6	65	61	112	149	140	127	132
Switzerland	1.0	1.0	0.8	0.9	0.9	0.9	0.9	81	73	88	144	107	127	122
Other	30.3	30.7	29.2	29.1	29.9	29.4	27.5	78	70	107	123	112	123	124
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	43.6	30.3	33.9	41.9	46.2	57.3	75.6							

Table 17

RUSSIA'S FOREIGN TRADE IN SERVICES BY GROUP OF COUNTRIES IN 2003—2004 (million US dollars)

	Turnover			Exports			Imports			Balance		
	2003	2004	Rate of growth %	2003	2004	Rate of growth %	2003	2004	Rate of growth %	2003	2004	Rate of growth %
Total	**43,352**	**53,989**	**125**	**16,229**	**20,290**	**125**	**27,122**	**33,700**	**124**	**—10,894**	**—13,410**	**123**
of which:												
CIS countries	7,038	8,116	115	3,071	3,566	116	3,967	4,550	115	—897	—984	110
Non-CIS countries	36,313	45,874	126	13,158	16,724	127	23,155	29,150	126	—9,997	—12,426	124
of which:												
EU countries	13,352	20,753	155	5,071	7,904	156	8,281	12,849	155	—3,210	—4,945	154
North America	3,770	4,197	111	1,323	1,855	140	2,447	2,343	96	—1,124	—488	43
Other countries	14,758	15,951	108	5,869	5,648	96	8,889	10,304	116	—3,020	—4,656	154
Services not broken down by country	4,432	4,971	112	895	1,317	147	3,537	3,654	103	—2,643	—2,337	88
For the record:												
15 EU member countries	13,352	17,409	130	5,071	6,535	129	8,281	10,875	131	—3,210	—4,340	135
OECD countries	23,250	32,204	139	8,424	12,234	145	14,826	19,970	135	—6,402	—7,736	121
APEC countries	6,570	7,487	114	2,544	3,431	135	4,027	4,056	101	—1,483	—625	42

Table 18

STRUCTURE OF BANK OF RUSSIA CUSTOMERS OTHER THAN CREDIT INSTITUTIONS AND NUMBER OF ACCOUNTS OPENED FOR THEM (thousand)

	Number of customers			Number of accounts		
	As of 1.01.2004	As of 1.01.2005	Change over 2004	As of 1.01.2004	As of 1.01.2005	Change over 2004
Total	62.7	53.5	—9.2	118.9	93.3	—25.6
Federal treasury	1.3	1.2	—0.1	5.5	6.0	0.5
Regional and local budget managing bodies	5.3	4.0	—1.3	13.9	9.5	—4.4
Organisations financed from budgets of all levels	43.4	39.6	—3.8	80.3	64.5	—15.8
Government extrabudgetary funds	2.9	2.4	—0.5	5.4	4.6	—0.8
Other organisations	9.8	6.3	—3.5	13.8	8.7	—5.1

Table 19

RUSSIA'S DOMESTIC GOVERNMENT DEBT STRUCTURE AS OF JANUARY 1, 2005 (billion rubles, at par)

Debt instruments	Total in domestic government debt	Of these, traded on organised securities market
Debt depreciation federal loan bonds (OFZ-AD)	542.2	378.5
Fixed coupon-income federal loan bonds (OFZ-FD)	171.2	135.8
Permanent coupon-income federal loan bonds (OFZ-PD)	43.3	43.3
Other debt accounted for as part of domestic government debt	21.8	—
Total	**778.5**	**557.6**

Table 20

FINANCE MINISTRY DEBT TO BANK OF RUSSIA AS OF JANUARY 1, 2005 (million rubles)

	At book value of debt obligations
Total debt	**477,872**
Of which:	
1. Russian government debt obligations	324,902
of which:	
OFZ-PD, OFZ-AD and OFZ-FD bonds received as a result of restructuring Bank of Russia-owned OFZ-PK, OFZ-PD and OFZ-AD bonds and acquired by Bank of Russia in 2004	223,610
Finance Ministry promissory notes	3,330
other debt obligations	97,962
2. Bank of Russia funds transferred to Vneshekonombank to extend loans to Finance Ministry to repay and service Russian government foreign debt	152,618
3. Debt on technical loans	352

Table 21

VOLUMES OF RESIDENT OPERATIONS WITH NON-RESIDENTS TO BUY AND SELL RUSSIAN GOVERNMENT FOREIGN CURRENCY DEBT OBLIGATIONS TRADED ON SECONDARY MARKET IN 2004 (at market prices, billion US dollars)

	Q1	Q2	Q3	Q4	2004
Eurobonds floated by open subscription	3.81	9.00	2.96	2.22	17.99
Eurobonds issued as a result of GKO restructuring	1.83	0.72	0.48	0.39	3.42
Eurobonds issued during second restructuring of debt to London Club of commercial bank creditors	15.07	9.25	12.92	13.84	51.08
OVGVZ and OGVZ bonds of 1999 issue	3.67	1.73	1.64	3.82	10.86

Table 22

GKO—OFZ MARKET STRUCTURE BY GROUP OF BONDHOLDERS
(at par, as of end of year, %)

	2003	2004
Dealers	73.93	49.39
Resident investors	16.40	25.06
Non-resident investors	1.17	0.23
Bank of Russia	8.50	25.32

Table 23

INSTITUTIONS OF FINANCIAL INTERMEDIATION

	As of 1.01.2005	For the record: as of 1.01.2004
Credit institutions		
Operating credit institutions, total	1,299	1,329
of which:		
— banks	1,249	1,277
— non-bank credit institutions	50	52
Operating credit institutions with foreign interest	131	128
Branches of credit institutions operating in Russia	3,238	3,219
Representative offices of operating Russian credit institutions	350	219
Insurance companies*		
Operating insurance companies	1,280	1,397
Unit investment funds**		
Operating unit investment funds, total	241	136
of which:		
— open-end	149	87
— interval	49	35
— close-end	43	14
Non-governmental pension funds***		
Operating non-governmental pension funds	295	283

** Source: Federal Insurance Supervision Service.*
*** Source: National Managers' League, which has the Federal Securities Commission's permission to conduct operations as a self-regulating managers' organisation.*
**** Source: Federal Financial Market Service.*

Table 24

OUTSTANDING RUSSIAN GOVERNMENT FOREIGN CURRENCY BONDS AS OF JANUARY 1, 2005

Date of issue	Maturity	Currency	Volume in circulation at par in original currency, million units of currency	Coupon interest rate, % p.a.
Eurobonds placed by open subscription (3 issues)				
26.06.1997	26.06.2007	US dollar (USD)	2,400	10
31.03.1998	31.03.2005	Deutsche mark (DEM)	1,250	9.375
24.06.1998	26.06.2028	US dollar (USD)	2,500	12.75
Eurobonds issued in restructuring of GKO bonds (2 issues)				
24.07.1998	25.07.2005	US dollar (USD)	2,969	8.75
24.07.1998	24.07.2018	US dollar (USD)	3,466	11
Eurobonds issued in second restructuring of debt to London Club of commercial bank creditors (2 issues)				
31.03.2000	31.03.2010	US dollar (USD)	2,826	8.25
31.03.2000	29.03.2030	US dollar (USD)	20,310	5
Domestic government foreign currency loan bonds (Series 5, 6, 7 OVGVZ bonds) and government foreign currency loan bonds issued in 1999 (OGVZ)				
14.05.1993	14.05.2008	US dollar (USD)	2,837	3
14.05.1996	14.05.2006	US dollar (USD)	1,750	3
14.05.1996	14.05.2011	US dollar (USD)	1,750	3
1.02.2000	14.11.2007	US dollar (USD)	887	3

Table 25

RUSSIA'S BALANCE OF PAYMENTS FOR 2004 (analytical presentation, million US dollars)

	Q1	Q2	Q3	Q4	2004	For the record: 2003
Current account	**12,782**	**13,526**	**15,365**	**18,436**	**60,109**	**35,410**
Balance of trade	17,656	20,463	23,792	25,234	87,145	59,860
Exports	*37,289*	*43,188*	*48,469*	*54,506*	*183,452*	*135,929*
crude oil	11,702	13,663	16,739	17,187	59,289	39,679
petroleum products	3,856	4,507	5,291	5,615	19,269	14,060
natural gas	5,680	5,010	5,130	6,033	21,853	19,981
other	16,051	20,009	21,310	25,671	83,040	62,209
Imports	*–19,632*	*–22,725*	*–24,678*	*–29,272*	*–96,307*	*–76,070*
Balance of services	–2,521	–3,192	–4,408	–3,289	–13,410	–10,894
Exports	*3,909*	*4,984*	*5,918*	*5,478*	*20,290*	*16,229*
transport services	1,571	1,954	2,090	2,177	7,792	6,119
travel	866	1,351	2,031	978	5,225	4,502
other services	1,472	1,679	1,797	2,324	7,272	5,608
Imports	*–6,430*	*–8,177*	*–10,326*	*–8,767*	*–33,700*	*–27,122*
transport services	–759	–886	–1,076	–1,165	–3,886	–3,103
travel	–2,823	–3,771	–5,711	–3,425	–15,730	–12,880
other services	–2,848	–3,520	–3,539	–4,177	–14,084	–11,139
Wage balance	–83	–133	–217	–171	–603	–144
Balance of investment incomes	–2,271	–3,425	–3,342	–3,185	–12,224	–13,027
Income receivable	4,737	–857	1,947	2,602	8,429	10,243
Income payable	–7,009	–2,568	–5,289	–5,787	–20,652	–23,270
Federal government	*–711*	*–442*	*–1,618*	*–635*	*–3,406*	*–3,421*
Income receivable	1,204	289	71	96	1,660	1,829
Income payable	–1,915	–731	–1,689	–731	–5,066	–5,250
Regional and local governments (income payable)	*–11*	*–64*	*–12*	*–58*	*–146*	*–116*
Monetary authorities	*294*	*255*	*417*	*423*	*1,388*	*886*
Income receivable	330	287	458	466	1,542	1,047
Income payable	–36	–33	–41	–44	–154	–160

	Q1	Q2	Q3	Q4	2004	For the record: 2003
Banks	*—141*	*—135*	*—134*	*—73*	*—483*	*—238*
Income receivable	153	196	221	301	871	738
Income payable	—294	—332	—356	—373	—1,354	—976
Non-financial enterprises	*—1,703*	*—3,038*	*—1,994*	*—2,842*	*—9,577*	*—10,138*
Income receivable	3,050	—1,629	1,196	1,739	4,356	6,630
Income payable	—4,754	—1,408	—3,190	—4,581	—13,933	—16,769
Balance of current transfers	0	—187	—459	—153	—799	—385
Capital and financial accounts	**—2,615**	**—9,237**	**—9,731**	**13,109**	**—8,474**	**—822**
Capital account (capital transfers)	**—745**	**—191**	**—180**	**—508**	**—1,624**	**—993**
Financial account (except reserve assets)	**—1,870**	**—9,047**	**—9,551**	**13,617**	**—6,850**	**171**
Liabilities (+ signifies increase, — signifies decrease)	**9,745**	**2,327**	**33**	**18,824**	**30,929**	**27,896**
Federal government	*—668*	*—1,341*	*—1,114*	*495*	*—2,628*	*—5,197*
Portfolio investments (debt securities)	2,239	—736	422	921	2,846	—1,617
issue	900	0	0	0	900	28
redemption (schedule)	—2,192	—324	—636	—194	—3,346	—4,889
principal	—1,310	0	—1	0	—1,311	—3,058
coupons	—882	—324	—635	—194	—2,035	—1,831
reinvestment of income	637	522	533	544	2,237	2,200
secondary market	2,893	—934	525	571	3,055	1,044
Loans	76	802	—1,592	—493	—1,207	—3,595
drawings	189	162	89	264	704	785
redemption (schedule)	—1,821	—652	—1,681	—757	—4,912	—4,881
restructuring	1,708	1,292	0	0	3,000	501
Overdue debt	—3,004	21	50	62	—2,871	—30
accumulation	52	52	52	64	219	308
repayment/restructuring	—3,056	—31	—2	—2	—3,090	—338
Other liabilities	22	—1,427	5	5	—1,396	45
Regional and local governments	*150*	*41*	*—94*	*138*	*235*	*9*
Monetary authorities	*642*	*172*	*—1,533*	*762*	*43*	*—265*
IMF loans	—450	—479	—446	—275	—1,651	—1,902
Other liabilities	1,092	651	—1,087	1,037	1,694	1,636

End

	Q1	Q2	Q3	Q4	2004	For the record: 2003
Banks	*433*	*—994*	*1,378*	*6,556*	*7,373*	*11,248*
Direct investments	99	64	270	251	685	503
Loans and deposits	81	—819	1,104	6,467	6,833	11,249
Other liabilities	253	—238	4	—163	—144	—504
Non-financial enterprises	*9,188*	*4,449*	*1,395*	*10,874*	*25,906*	*22,101*
Direct investments	4,818	—380	227	6,322	10,988	7,455
Portfolio investments	1,357	593	—551	—630	770	—425
Loans	3,009	4,232	1,714	5,177	14,132	15,128
Other liabilities	3	3	5	5	16	—58
Assets, except reserve assets (+ signifies decrease, — signifies increase)	**—11,615**	**—11,373**	**—9,584**	**—5,207**	**—37,779**	**—27,724**
Federal government	*—131*	*—184*	*69*	*132*	*—114*	*—299*
Loans	269	530	208	235	1,241	2,306
Overdue debt	34	—653	—148	—180	—947	—2,621
Other assets	—435	—61	10	77	—408	16
Monetary authorities	*—1,066*	*—869*	*1,358*	*—699*	*—1,276*	*—556*
Banks	*—3,643*	*—2,258*	*—505*	*2,845*	*—3,562*	*—952*
Direct investments	—18	14	—23	—209	—237	51
Loans and deposits	—3,747	—1,746	—926	3,986	—2,432	433
Other assets	122	—526	444	—933	—894	—1,436
Non-financial enterprises and households	*—6,774*	*—8,062*	*—10,506*	*—7,485*	*—32,827*	*—25,917*
Direct and portfolio investments	—4,228	953	—2,705	—3,356	—9,336	—10,115
Foreign currency cash	3,145	—381	—1,438	2,098	3,425	6,580
Commercial loans and advance payments	296	—582	—908	—811	—2,005	—4,012
Debt on commodity deliveries under intergovernmental agreements	—47	20	—174	91	—110	165
Non-repatriated export proceeds, undelivered goods and services in return for money transferred under import contracts, transfers on fictitious operations with securities	—5,850	—7,538	—6,709	—5,753	—25,850	—15,435
Other assets	—91	—534	1,428	246	1,048	—3,101
Net errors and omissions	**—3,409**	**755**	**889**	**—4,634**	**—6,400**	**—8,223**
Change in foreign exchange reserves (+ signifies decrease, — signifies increase)	**—6,758**	**—5,043**	**—6,523**	**—26,911**	**—45,235**	**—26,365**

Table 26

PERSON-TO-PERSON REMITTANCES MADE TO AND FROM RUSSIA THROUGH MONEY TRANSFER SYSTEMS AND RUSSIAN POSTAL SERVICE IN 2004 (million US dollars)

	Q1	Q2	Q3	Q4	2004	Remittance characteristics*		For the record: 2003
						Average remittance, US dollars	US dollar remittances as % of total remittances	
Remittances from Russia	**320**	**435**	**612**	**683**	**2,050**	**407**	**98**	**1,306**
to non-CIS countries	...	35	46	54	...	837	100	...
to CIS countries	...	399	566	629	...	391	98	...
Remittances to Russia	**162**	**183**	**201**	**230**	**777**	**389**	**98**	**588**
from non-CIS countries	...	129	138	154	...	481	100	...
from CIS countries	...	54	63	77	...	279	94	...
Balance	**—158**	**—252**	**—410**	**—453**	**—1,273**			**—719**
non-CIS countries	...	94	92	100	...			...
CIS countries	...	—345	—503	—552	...			...

* *Remittance characteristics have been calculated for April—December 2004.*

Table 27

STRUCTURE OF FOREIGN INVESTMENTS IN RUSSIA IN 2004
(billion US dollars)*

Type of investment	Q1	Q2	Q3	Q4	2004	For the record**	
						2004	2003
Direct	4.9	—0.3	0.5	6.6	11.7	11.7	8.0
Portfolio	4.0	0.0	—0.3	0.9	4.7	3.8	—2.3
Financial derivatives	—0.2	—0.3	—0.1	—0.2	—0.9	—0.9	—0.4
Other	1.1	2.9	—0.1	11.5	15.4	17.0	22.9
Total	**9.8**	**2.3**	**0.0**	**18.8**	**30.9**	**31.6**	**28.2**

** Net growth in debt obligations to non-residents according to balance of payments data.*
*** These data do not take into account operations relating to debt restructuring and forgiveness.*
Note. "—" signifies decrease in residents' foreign liabilities. Minor discrepancies between total and sum of items are due to rounding of data.

Table 28

STRUCTURE OF RESIDENT INVESTMENTS IN FOREIGN ASSETS (NET OF RESERVE ASSETS) IN 2004
(billion US dollars)*

Type of investment	Q1	Q2	Q3	Q4	2004	For the record**	
						2004	2003
Direct	4.2	—0.9	2.7	3.5	9.6	9.6	9.7
Portfolio	1.7	1.6	—1.0	1.8	4.1	3.6	2.5
Financial derivatives	—0.2	—0.1	—0.1	—0.3	—0.8	—0.8	—1.0
Other	5.9	10.8	8.0	0.2	24.8	26.9	17.1
Total	**11.6**	**11.4**	**9.6**	**5.2**	**37.8**	**39.4**	**28.4**

** Net growth in residents' assets according to balance of payments data.*
*** These data do not take into account operations relating to debt restructuring and forgiveness.*
Note. "—" signifies decrease in residents' foreign assets. Minor discrepancies between total and sum of items are due to rounding of data.

Table 29

RUSSIAN BANKING SECTOR'S INTERNATIONAL INVESTMENT POSITION
(as of January 1, 2004, and January 1, 2005, million US dollars)

	Balance as of 1.01.2004	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2005
Assets	21,491	3,562	1,090	—155	4,498	25,989
Direct investments abroad	**670**	**237**	**—65**	**—24**	**148**	**818**
Equity interest and reinvested income	452	111	—68	—3	40	492
Other capital	218	126	3	—20	108	326
Portfolio investments	**1,806**	**2,109**	**—194**	**—7**	**1,908**	**3,714**
Equity interest	24	5	5	0	9	33
Debt securities	1,782	2,104	—199	—7	1,899	3,680
long-term	1,531	1,791	—199	—108	1,484	3,015
short-term	251	313	1	101	415	665
Financial derivatives	**55**	**—758**	**856**	**0**	**98**	**153**
Other investments	**18,961**	**1,974**	**493**	**—124**	**2,344**	**21,304**
Foreign currency and deposits	12,343	1,265	328	—120	1,473	13,816
Till foreign currency	1,898	102	28	—16	115	2,013
Current accounts and deposits	10,445	1,163	299	—104	1,358	11,803
long-term	164	512	2	0	514	677
short-term	10,282	651	297	—104	844	11,126
Loans	5,269	1,269	129	—6	1,392	6,660
long-term	2,339	—756	17	—13	—752	1,587
short-term	2,930	2,025	112	7	2,144	5,073
Overdue debt	177	—115	1	—24	—138	39
Other assets	1,172	—445	36	26	—383	789
long-term	14	61	1	0	62	76
short-term	1,158	—506	35	26	—445	713

End

	Balance as of 1.01.2004	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2005
Liabilities	**27,514**	**7,373**	**2,414**	**—169**	**9,618**	**37,132**
Direct investments in Russia	**1,839**	**685**	**488**	**9**	**1,181**	**3,020**
Equity interest and reinvested income	1,744	618	488	32	1,137	2,881
Other capital	96	67	0	—23	44	139
Portfolio investments	**2,119**	**836**	**617**	**—21**	**1,432**	**3,551**
Equity interest	901	207	620	—7	821	1,722
Debt securities	1,218	629	—3	—14	611	1,829
long-term	440	364	4	—10	358	798
short-term	778	265	—8	—4	254	1,032
Financial derivatives	**31**	**—857**	**1,015**	**0**	**158**	**189**
Other investments	**23,525**	**6,709**	**294**	**—157**	**6,847**	**30,372**
Current accounts and deposits	9,635	—158	240	—40	41	9,676
long-term	1,352	203	26	—3	226	1,578
short-term	8,283	—361	213	—37	—185	8,098
Loans	12,946	6,991	6	—133	6,864	19,810
long-term	6,381	5,262	95	—84	5,273	11,653
short-term	6,566	1,729	—89	—49	1,591	8,157
Overdue debt	5	—1	0	0	—1	4
Other liabilities	938	—122	49	16	—57	881
long-term	67	36	7	15	59	125
short-term	871	—159	42	1	—116	756
Net international investment position	**—6,023**	**—3,811**	**—1,323**	**14**	**—5,120**	**—11,143**

Notes.
1. "+" denotes net growth in assets and liabilities, " –" denotes their net decrease. This use of the sign differs from its use in balance of payments statistics.
2. This Table presents data on credit institutions, including Vneshekonombank. They do not comprise data on operations with government foreign debt and government foreign assets conducted by Vneshekonombank as the Russian Government's agent.
3. "Other changes" include assets and liabilities of credit institutions which had their banking licences revoked in the period under review.

Table 30

RUSSIAN BANKING SECTOR FOREIGN ASSETS AND LIABILITIES ON INTERBANK OPERATIONS BY GROUP OF COUNTRIES AS OF JANUARY 1, 2005
(million US dollars)

	Foreign assets			Foreign liabilities			Balance of foreign assets and liabilities
	short-term	long-term	total	short-term	long-term	total	
Total	**14,699.5**	**1,238.1**	**15,937.6**	**8,426.5**	**11,415.5**	**19,842.0**	**—3,904.4**
of which:							
CIS countries	**417.6**	**69.4**	**487.0**	**466.8**	**40.3**	**507.1**	**—20.1**
Non-CIS countries	**14,281.9**	**1,168.7**	**15,450.6**	**7,959.7**	**11,375.2**	**19,334.9**	**—3,884.3**
of which:							
EU countries	7,986.4	1,155.9	9,142.3	6,787.3	9,908.2	16,695.5	—7,553.2
North America	4,371.0	3.9	4,374.9	214.0	747.9	961.9	3,413.0
Other countries	1,924.5	8.9	1,933.4	958.4	719.1	1,677.5	255.9
International financial organisations	6.7	0.0	6.7	25.8	1.5	27.3	—20.6
For the record:							
15 EU member countries	6,890.4	545.6	7,435.9	6,147.5	9,429.4	15,576.9	—8,140.9
OECD countries	12,997.6	1,159.8	14,157.4	7,378.1	10,857.2	18,235.3	—4,078.0
APEC countries	4,589.9	8.9	4,598.8	324.9	811.9	1,136.8	3,462.0

Note. Data in the above Table only include balances on interbank operations in the form of loans and deposits, correspondent accounts and foreign currency in credit institutions' tills.

Table 31

DYNAMICS OF RUSSIA'S DEBT TO INTERNATIONAL FINANCIAL ORGANISATIONS IN 2004 (billion US dollars)

Financing facility	Debt as of 1.01.2004	Drawn	Repaid	Growth due to exchange rate revaluation	Debt as of 1.01.2005
IMF loans:	**5.1**	**0.0**	**1.7**	**0.1**	**3.6**
Systemic Transformation Facility	0.1	0.0	0.1	0.0	0.0
Extended Fund Facility	4.7	0.0	1.3	0.2	3.6
Stand-by Loan	0.3	0.0	0.3	0.0	0.0
IBRD loans	**6.3**	**0.2**	**0.8**	**0.1**	**5.7**
EBRD loans	**0.3**	**0.2**	**0.0**	**0.0**	**0.4**

Table 32

DYNAMICS OF RUSSIA'S INTERNATIONAL RESERVES IN 2004 (million US dollars)

Indicator	Balance as of												
	2004												2005
	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.01
Reserve assets (including Finance Ministry assets)	76,938	83,990	86,318	83,398	82,664	85,612	88,226	88,610	88,702	95,082	107,338	117,434	124,541
Foreign exchange	73,175	80,227	82,558	79,639	78,904	81,849	84,463	84,857	84,949	91,328	103,607	113,703	120,809
Monetary gold*	3,763	3,763	3,760	3,760	3,760	3,763	3,763	3,753	3,754	3,754	3,730	3,731	3,732

** Monetary gold is accounted for at US$300 per troy oz.*

Table 33

BANK OF RUSSIA FOREIGN EXCHANGE RESERVE PORTFOLIO YIELDS IN 2004 (% p.a.)

		US dollar-denominated assets	Euro-denominated assets	Pound sterling-denominated assets
Operating portfolio	actual portfolio	1.4	2.1	4.45
	standard portfolio	1.25	2.07	4.29
Investment portfolio*	actual portfolio	1.47	4.29	—
	standard portfolio	1.39	4.37	—

** Assets in the Bank of Russia foreign exchange reserve investment portfolio were denominated in US dollars and euros and in 2004 it contained no assets denominated in pounds sterling.*

Table 34

KEY RUBLE EXCHANGE RATE DYNAMICS INDICATORS IN 2004

	January	February	March	April	May	June	July	August	September	October	November	December
US dollar/ruble nominal rate as of end of period, rubles per dollar	28.49	28.52	28.49	28.88	28.99	29.03	29.10	29.24	29.22	28.77	28.24	27.75
Euro/ruble nominal rate as of end of period, rubles per euro	35.36	35.51	34.80	34.14	35.61	35.29	35.05	35.15	35.99	36.65	37.42	37.81
US dollar/ruble average nominal rate for period, rubles per dollar	28.92	28.52	28.53	28.68	28.99	29.03	29.08	29.21	29.22	29.08	28.58	27.92
Euro/ruble average nominal rate for period, rubles per euro	36.52	36.04	35.01	34.49	34.82	35.23	35.69	35.59	35.67	36.30	37.08	37.34
Growth as % of December 2003*												
Ruble/US dollar nominal rate index	1.8	3.2	3.2	2.6	1.5	1.4	1.2	0.8	0.7	1.2	3.0	5.4
Ruble/euro nominal rate index	—1.1	0.2	3.1	4.7	3.7	2.5	1.2	1.4	1.2	—0.5	—2.6	—3.3
Ruble/US dollar real rate index	3.1	5.0	5.1	5.3	4.3	4.7	5.6	5.5	5.6	6.8	9.7	14.0
Ruble/euro real rate index	0.6	2.6	6.1	8.5	7.9	7.6	7.1	7.6	7.6	6.7	5.9	6.0
Real effective ruble rate index	1.0	2.8	4.8	6.1	5.7	5.0	5.1	5.4	5.3	4.6	4.2	4.7
Growth as % of previous period*												
Ruble/US dollar nominal rate index	1.8	1.4	—0.1	—0.5	—1.1	—0.2	—0.2	—0.4	0.0	0.5	1.7	2.4
Ruble/euro nominal rate index	—1.1	1.3	3.0	1.5	—0.9	—1.2	—1.3	0.3	—0.2	—1.7	—2.1	—0.7
Ruble/US dollar real rate index	3.1	1.9	0.1	0.2	—1.0	0.3	0.9	—0.1	0.2	1.1	2.8	3.9
Ruble/euro real rate index	0.6	2.0	3.4	2.2	—0.5	—0.3	—0.4	0.4	0.0	—0.8	—0.8	0.1
Real effective ruble rate index	1.0	1.8	1.9	1.3	—0.3	—0.6	0.0	0.3	—0.1	—0.6	—0.4	0.4

* *"+" signifies appreciation of the Russian ruble against foreign currencies, "—" signifies depreciation of the Russian ruble against foreign currencies.*

Table 35

RUSSIA'S FOREIGN DEBT IN 2004 (owed to non-residents, billion US dollars)

	1.01.2004	1.04.2004	1.07.2004	1.10.2004	1.01.2005
Total	**185.7**	**190.0**	**193.5**	**193.1**	**211.4**
General government	**97.9**	**95.6**	**93.8**	**93.0**	**97.1**
Federal government	**96.7**	**94.2**	**92.4**	**91.6**	**95.5**
New Russian debt	***38.6***	***40.3***	***39.0***	***39.1***	***39.6***
loans from international financial organisations*	6.6	6.4	6.3	6.1	6.2
IBRD	*6.3*	*6.1*	*6.0*	*5.8*	*5.7*
other	*0.3*	*0.3*	*0.4*	*0.3*	*0.4*
other loans (including loans from members of Paris Club of creditor nations)	4.9	4.8	4.4	4.3	4.2
foreign currency-denominated securities	26.8	28.7	28.0	28.4	28.9
eurobonds placed by open subscription and issued in restructuring GKO	*7.7*	*7.6*	*7.0*	*7.2*	*7.3*
eurobonds issued in 2nd restructuring of debt to London Club of commercial bank creditors	*16.8*	*18.2*	*18.0*	*18.4*	*18.6*
6th and 7th tranches of OVGVZ bonds and OGVZ bonds issued in 1999	*2.4*	*2.9*	*2.9*	*2.8*	*3.0*
ruble-denominated securities (GKO and OFZ bonds)	0.1	0.2	0.1	0.0	0.0
other debt	0.2	0.2	0.2	0.2	0.2
Soviet-era debt	***58.1***	***53.9***	***53.5***	***52.6***	***55.9***
loans from members of Paris Club of creditor nations	42.7	41.0	40.9	40.2	43.3
debt to former Soviet-bloc countries	3.6	3.3	3.0	2.8	2.7
3rd, 4th and 5th tranches of OVGVZ bonds	1.4	1.7	1.7	1.6	1.9
other debt	10.4	7.9	7.9	7.9	8.0
Regional and local governments	**1.2**	**1.4**	**1.4**	**1.3**	**1.6**
loans	1.0	0.9	0.9	0.9	1.1
foreign currency-denominated securities	0.1	0.1	0.0	0.0	0.0
eurobonds	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*
ruble-denominated securities	0.2	0.3	0.4	0.4	0.5

End

	1.01.2004	1.04.2004	1.07.2004	1.10.2004	1.01.2005
Monetary authorities**	**7.8**	**8.4**	**8.6**	**7.0**	**8.0**
loans	7.5	8.1	8.1	6.6	7.5
IMF	5.1	4.6	4.1	3.6	3.6
other	2.4	3.5	4.0	2.9	3.9
cash rubles and deposits	0.3	0.4	0.5	0.5	0.5
Banks (without equity interest)***	**24.9**	**25.1**	**24.3**	**25.5**	**32.5**
debt obligations to direct investors	0.1	0.1	0.1	0.1	0.1
loans	12.9	13.1	14.4	15.2	19.8
current accounts and deposits	9.6	9.4	7.2	7.4	9.7
debt securities	1.2	1.2	1.4	1.4	1.8
other debt	1.0	1.3	1.2	1.3	1.1
Non-financial enterprises (without equity interest)	**55.1**	**60.9**	**66.8**	**67.6**	**73.7**
debt obligations to direct investors****	9.3	10.4	12.0	10.8	11.5
loans	40.5	43.5	47.7	49.4	55.1
debt securities	4.0	5.8	5.1	5.4	5.8
debt on finance leasing	1.3	1.3	1.2	1.2	1.2
other debt****	0.0	0.0	0.8	0.8	0.1

** IMF loans are accounted for as part of the monetary authorities' obligations.*
*** Monetary authorities' debt comprises debt owed by the Bank of Russia and general government debt on IMF loans.*
**** These include debt obligations of credit institutions, including Vneshekonombank. Foreign debt accounted for by Vneshekonombank as the Russian Government's agent is shown as part of general government debt.*
***** From January 1, 2004, non-financial enterprise sector foreign debt includes declared but unpaid dividends on ordinary and preference shares.*

Note. These include foreign debt denominated in national and foreign currency. Government securities are accounted for as part of the debt owed to non-residents at their face value.

Table 36

KEY ECONOMIC DEVELOPMENT INDICATORS ON FOREIGN COUNTRIES IN 2002—2004*

	Real GDP, % growth on previous year			Consumer prices, average annual growth as % of previous year**			Current account balance, as % of GDP***			International reserves, billion US dollars****		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
USA	1.9	3.0	4.4	1.6	2.3	2.7	—4.5	—4.8	—5.7	68.0	74.9	75.9
Canada	3.4	2.0	2.8	2.2	2.8	1.9	2.0	2.0	2.6	37.0	36.2	34.4
Japan	—0.3	1.4	2.7	—0.9	—0.3	0.0	2.8	3.2	3.7	461.2	663.3	833.9
25-nation European Union (EU-25)*****	1.1	0.8	2.3	2.1	1.9	2.1	0.1	0.0	—0.3	379.5	386.9	394.9
United Kingdom	1.8	2.2	3.1	1.3	1.4	1.3	—1.7	—1.7	—2.2	39.4	41.9	45.3
Economic and Monetary Union******	0.9	0.5	2.1	2.3	2.1	2.1	0.8	0.3	0.6	247.0	222.7	211.3
Germany	0.1	—0.1	1.6	1.3	1.0	1.8	2.2	2.2	3.6	51.2	50.7	48.8
France	1.2	0.5	2.4	1.9	2.2	2.3	1.0	0.3	—0.3	28.4	30.2	35.3
Italy	0.4	0.3	1.2	2.6	2.8	2.3	—0.6	—1.5	—1.5	28.6	30.4	27.9
Hungary	3.5	3.0	4.0	5.3	4.7	6.8	—7.2	—9.0	—9.0	10.3	12.7	15.9
Poland	1.4	3.8	5.3	1.9	0.8	3.5	—2.6	—1.9	—1.5	28.6	32.6	35.8
Czech Republic	1.5	3.7	4.0	1.8	0.1	2.8	—5.6	—6.2	—5.2	23.6	26.8	27.9
Hong Kong	1.9	3.2	8.1	—3.0	—2.6	—0.4	7.9	10.3	9.6	111.9	118.4	121.4
Singapore	3.2	1.4	8.4	—0.4	0.5	1.7	17.8	29.2	26.1	82.0	95.7	109.2
Taiwan	3.9	3.3	5.7	—0.2	—0.3	1.6	9.1	10.2	6.2	161.7	206.6	241.7
South Korea	7.0	3.1	4.6	2.8	3.5	3.6	1.0	2.0	3.9	121.3	155.3	199.0
China	8.3	9.3	9.5	—0.8	1.2	3.9	2.8	3.2	4.2	291.1	408.2	609.9
Indonesia	4.4	4.9	5.1	11.8	6.8	6.1	3.9	3.0	2.8	31.0	35.0	35.0
Malaysia	4.1	5.3	7.1	1.8	1.1	1.4	8.4	12.9	13.3	34.2	44.5	66.4
Thailand	5.3	6.9	6.1	0.6	1.8	2.7	5.5	5.6	4.5	38.0	41.1	48.7
Philippines	4.3	4.7	6.1	2.9	3.0	5.5	5.8	4.3	4.6	13.1	13.5	12.6
Australia	4.0	3.4	3.2	3.0	2.8	2.3	—4.1	—5.9	—6.4	20.7	32.2	35.8
South Africa	3.6	2.8	3.7	9.2	5.8	1.4	0.6	—0.9	—2.5	5.9	6.5	12.6
Israel	—0.7	1.3	4.3	5.7	0.7	—0.4	—1.8	0.1	0.1	24.1	26.3	27.1

	Real GDP, % growth on previous year			Consumer prices, average annual growth as % of previous year**			Current account balance, as % of GDP***			International reserves, billion US dollars****		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Argentina	—10.9	8.8	9.0	25.9	13.4	4.4	8.5	5.8	2.0	10.5	14.2	18.9
Brazil	1.9	0.5	5.2	8.4	14.8	6.6	—1.7	0.8	1.9	37.7	49.1	52.7
Mexico	0.8	1.4	4.4	5.0	4.5	4.7	—2.1	—1.3	—1.3	50.6	59.0	64.1
Chile	2.2	3.7	6.1	2.5	2.8	1.1	—0.9	—1.6	1.5	15.3	15.8	16.0
Turkey	7.9	5.8	8.9	45.0	25.3	10.6	—0.8	—3.4	—5.2	27.1	34.0	35.7
Belarus	5.0	7.0	11.0	42.6	28.4	18.1	—2.6	—2.9	—3.0	0.6	0.6	0.6
Ukraine	5.2	9.6	12.1	0.8	5.2	9.0	7.5	5.8	11.0	4.2	6.7	9.3
Moldova	9.8	9.3	9.4	5.9	6.4	6.9	—3.5	—0.2	2.3	2.6	4.2	8.5
Kazakhstan	7.8	6.3	7.0	5.3	11.7	12.3	—3.1	—7.3	—7.1	0.3	0.3	0.5
Armenia	13.2	13.9	10.1	1.1	4.7	7.0	—6.2	—6.8	—5.8	0.4	0.5	0.6
Georgia	5.5	11.1	8.5	5.6	4.8	5.7	—5.8	—7.2	—7.5	0.2	0.2	0.4
Azerbaijan	9.7	10.8	10.1	2.8	2.2	8.1	—12.3	—28.3	—27.3	0.7	0.8	1.1
Kyrgyzstan	0.0	6.9	6.0	2.1	3.1	4.1	—2.6	—2.8	—3.0	0.3	0.4	0.5
Tajikistan	9.1	10.2	10.6	12.2	16.4	7.1	—2.7	—1.3	—3.9	0.1	0.1	0.2
Uzbekistan	3.1	1.5	7.1	44.3	14.8	8.8	1.2	8.9	0.8	n/a	n/a	n/a

** According to official sources of statistical information of corresponding countries, EUROSTAT and IMF as of May 5, 2005.*

*** For EU, UK, EMU, Germany, France and Italy: harmonised consumer price indices calculated in accordance with EU Commission general recommendations with regard to composition of consumer goods basket, method of determining weights of goods and services in consumer goods basket and method of calculating averages.*

**** "+" denotes a surplus, "—" denotes a deficit.*

***** As of end of year; including monetary authorities' foreign currency assets and SDRs and reserve position in the IMF (each country's reserve share and credit position in the IMF). For EU: estimates based on IMF data (sum total of international reserves of EU member states).*

****** Austria, Belgium, UK, Germany, Greece, Denmark, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland, France and Sweden; from May 1, 2004, Hungary, Cyprus, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Czech Republic and Estonia.*

******* Austria, Belgium, Germany, Greece, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland and France.*

Table 37

CIS COUNTRIES' KEY MONETARY INDICATORS IN 2004*

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kyrgyzstan	Moldova	Russia	Tajikistan	Turkmenia	Ukraine
Official central (national) bank rate (refinancing rate), as of end of year, %:											
2003	7	7	28	18.7**	7	3.97	—	16	15	10	7
2004	7	3.75	17	8.8**	7	4.0	—	13	10	5	9
Official central (national) bank exchange rate as of end of year, units of national currency											
against US dollar:											
2003	4,923	566.00	2,156	2.075	144.22	44.1902	13.2200	29.4545	2.9565	5,200	5.3315
2004	4,903	485.84	2,170	1.825	130.00	41.6246	12.4600	27.7487	3.0370	5,200	5.3054
against Russian ruble:											
2003	167.14	19.22	73.19	0.0704	4.93	1.5110	0.4520	—	0.10109	176.54	0.181
2004	176.69	17.51	77.91	0.0658	4.67	1.4955	0.4487	—	0.10911	187.22	0.191
Money supply in national currency (rate of growth by beginning of year, %)	31.9	9.2	58.1	60.4	67.9	22.4	44.7	35.8	3.2	—	32.3
Number of registered commercial banks:											
2003	46	21	34	24	36	21	16	1,612	15	12	179
2004	44	20	35	21	36	19	16	1,464	12	11	182

** According to data compiled by CIS national (central) banks.*
*** Auction rate on loans with terms of up to 29 days.*

Table 38

MONEY SUPPLY (national definition, billion rubles)

	1.01.2004	1.04.2004	1.07.2004	1.10.2004	1.01.2005
Money supply (M2), total	**3,212.7**	**3,421.2**	**3,687.2**	**3,727.5**	**4,363.3**
cash in circulation (M0)*	1,147.0	1,165.5	1,276.1	1,293.7	1,534.8
non-cash funds	2,065.6	2,255.7	2,411.1	2,433.8	2,828.5

* *Cash in circulation outside banking system.*

Table 39

AVERAGE MONTHLY MONEY SUPPLY GROWTH RATES IN 2004 (%)

	Q1	Q2	Q3	Q4	Full-year
Money supply (M2), total	**2.1**	**2.5**	**0.4**	**5.4**	**2.6**
cash in circulation (M0)*	0.5	3.1	0.5	5.9	2.5
non-cash funds	3.0	2.2	0.3	5.1	2.7

* *Cash in circulation outside banking system.*

Table 40

M2 STRUCTURE

	As of 1.01.2004		As of 1.01.2005		Growth index for 2004
	billion rubles	%	billion rubles	%	
Money supply (M2), total	**3,212.7**	**100.0**	**4,363.3**	**100.0**	**1.36**
of which:					
cash in circulation*	1,147.0	35.7	1,534.8	35.2	1.34
non-cash funds	2,065.6	64.3	2,828.5	64.8	1.37
of which:					
non-financial enterprise sector funds	978.0	30.4	1,329.5	30.5	1.36
household deposits	1,087.6	33.9	1,499.0	34.4	1.38

* *Cash in circulation outside banking system.*

Table 41

MONETARY BASE AND ITS STRUCTURE

	As of 1.01.2004		As of 1.01.2005		Growth index for 2004
	billion rubles	%	billion rubles	%	
Monetary base (broad definition)	1,914.3	100.0	2,386.3	100.0	1.25
of which:					
cash in circulation, including balances in credit institutions' tills*	1,224.7	64.0	1,669.9	70.0	1.36
credit institutions' correspondent accounts in the Bank of Russia**	304.9	15.9	486.4	20.4	1.60
required reserves***	267.4	14.0	121.7	5.1	0.46
credit institutions' deposits in the Bank of Russia	87.3	4.6	91.4	3.8	1.05
Bank of Russia commitments of reverse repurchase of securities	30.1	1.6	2.5	0.1	0.08
Bank of Russia bonds held by credit institutions	—	—	9.7	0.4	
foreign exchange operation reserves deposited with the Bank of Russia	—	—	4.7	0.2	

** Excluding cash in Bank of Russia establishments' tills.*
*** Ruble-denominated accounts, including cash balances on organised securities market and in ARCO correspondent account.*
**** For ruble and foreign currency funds attracted to accounts.*

Table 42

MONETARY SURVEY (million rubles)

	1.01.2004	1.01.2005	Change over 2004
Net foreign assets of monetary authorities and credit institutions	2,096,852.4	3,215,968.7	1,119,116.3
Domestic credit	3,662,240.7	4,355,631.1	693,390.4
Net credit to general government	688,931.1	—5,928.0	—694,859.1
Claims on non-financial pubic-sector enterprises	143,023.9	166,589.5	23,565.6
Claims on non-financial private-sector enterprises and households	2,774,724.7	4,121,222.8	1,346,498.1
Claims on other financial institutions	55,560.9	73,746.8	18,185.9
Money supply (according to monetary survey methodology)	3,962,084.3	5,298,699.9	1,336,615.6
Money	2,181,933.5	2,848,345.2	666,411.7
Quasi-money	1,780,150.8	2,450,354.6	670,203.8
Temporarily inaccessible deposits	30,360.2	36,111.9	5,751.7
Money market instruments	545,463.6	543,638.3	—1,825.3
Capital accounts	984,880.2	1,086,356.4	101,476.2
Other (balance)	236,304.8	606,793.4	370,488.6

Table 43

CREDIT INSTITUTIONS' ANALYTICAL ACCOUNTS (million rubles)

	1.01.2004	1.01.2005	Change over 2004
Reserves	768,915.1	847,418.3	78,503.2
Foreign assets	608,528.5	707,051.7	98,523.2
Claims on general government	742,776.3	757,189.7	14,413.4
of which:			
claims on regional and local governments	98,844.2	133,748.1	34,903.9
Claims on non-financial public-sector enterprises	142,968.6	166,550.4	23,581.8
Claims on non-financial private-sector enterprises and households	2,772,460.9	4,118,941.1	1,346,480.2
Claims on other financial institutions	55,560.9	73,746.8	18,185.9
Demand deposits	1,003,197.7	1,277,488.2	274,290.5
Time, savings and foreign currency deposits	1,780,146.2	2,450,337.6	670,191.4
of which:			
foreign currency deposits	748,239.9	935,077.1	186,837.2
Temporarily inaccessible deposits	30,360.2	36,111.9	5,751.7
Money market instruments	545,463.6	543,638.3	–1,825.3
Foreign liabilities	682,134.1	892,645.1	210,511.0
General government deposits	85,483.6	141,760.5	56,276.9
of which:			
regional and local government deposits	56,057.1	112,464.4	56,407.3
Debt obligations to monetary authorities	200,868.3	179,826.0	–21,042.3
Capital accounts	686,646.5	898,313.1	211,666.6
Other (balance)	76,910.0	250,777.2	173,867.2

Table 44

SANCTIONS USED AGAINST CREDIT INSTITUTIONS IN 2004

No.	Description of sanctions	Number of banks
	Preventive measures	
1	Notifying in writing the management and/or board of directors (supervisory board) of a credit institution about shortcomings in its work and recommending taking remedial action	1,175
2	Calling a meeting	373
3	Other (recommendations to draw up a plan of remedial action, increase control over reporting, make realistic assessment of credit risk, avoid misstatements in reports, etc.)	174
	Enforcement measures	
4	Fines*	460
	of which:	
4.1	for non-compliance with reserve requirements	224
4.2	for breaches of other prudential standards	300
5	Imposing restrictions on individual banking operations conducted by credit institutions, such as:	81
5.1	taking household savings on deposit	59
5.2	effecting settlements on behalf of corporate entities involved in transfer of funds to budgets of all levels and government extrabudgetary funds	32
6	Prohibiting credit institutions from conducting individual banking operations,* such as:	57
6.1	taking household savings on deposit	34
6.2	other	52
7	Prescriptions*	764
	of which:	
7.1	prescription to comply with Bank of Russia required ratios	71
7.2	prescription to replace management	6
7.3	other	753
8	Prohibiting credit institutions from opening branches	50
9	Appointing provisional administrations to credit institutions	2
10	Revoking banking licence	33

** The number of credit institutions in points 4, 6 and 7 differs from the number of credit institutions in the respective subpoints because several sanctions may be used against one bank.*

Note. As of January 1, 2005, the restriction on settlements on behalf of legal entities, such as the transfer of funds to budgets of all levels and government extrabudgetary funds was in effect with regard to four credit institutions.

As of January 1, 2005, of all operating credit institutions, only one bank had a backlog of non-executed settlement documents on payments to budgets of all levels.

Table 45

RUSSIA'S KEY PAYMENT SYSTEM INDICATORS

	2003	2004
Number of payment system participants	5,689	5,481
of which:		
— Bank of Russia establishments	1,139	941
— credit institutions	1,331	1,302
of which:		
— settlement non-bank credit institutions	46	47
— branches of credit institutions	3,219	3,238
Number of additional offices of credit institutions and branches of credit institutions	7,408	9,068
Total number of ruble accounts opened by payment system participants for (resident and non-resident) customers, million	283.7	315.2
of which:		
— household accounts, million	279.1	310.3
— corporate accounts, million	4.6	4.9
Number of payments, thousand	855,339.1	992,028.6
of which:		
— payments effected through Bank of Russia payment system	411,737.8	472,041.2
— payments effected between divisions of one credit institution	135,991.5	153,187.6
— payments effected through credit institutions' correspondent accounts opened in other credit institutions	24,940.8	31,417.8
— payments effected through settlement non-bank credit institutions	3,301.8	4,208.5
— payments effected within one division of a credit institution or branch of a credit institution	279,367.2	331,173.5
Value of payments, billion rubles	182,156.9	223,923.9
of which:		
— payments effected through Bank of Russia payment system	108,164.5	135,356.5
— payments effected between divisions of one credit institution	15,975.3	20,638.2
— payments effected through credit institutions' correspondent accounts opened in other credit institutions	12,887.7	11,007.5
— payments effected through settlement non-bank credit institutions	2,039.5	3,085.2
— payments effected within one division of a credit institution or branch of a credit institution	43,089.9	53,836.5
Number of payments effected using various instruments of payment (including transit payments effected through private payment systems), thousand	1,019,256.0	1,125,234.5
of which:		
— payment orders	793,385.6	871,355.5
— payment requests and collection orders	18,269.0	19,664.3
— letters of credit	388.3	367.1
— cheques	927.9	697.9
— other instruments of payment	206,285.2	233,149.7
Value of payments effected using various instruments of payment (including transit payments effected through private payment systems), thousand	210,515.7	248,557.7
of which:		
— payment orders	190,622.9	232,139.0
— payment requests and collection orders	2,907.1	2,114.8
— letters of credit	46.7	33.7
— cheques	33.0	26.7
— other instruments of payment	16,906.0	14,243.5

Cont.

	2003	2004
Number of electronic payments, thousand	662,693.1	798,081.0
Value of electronic payments, billion rubles	158,165.4	200,550.2
Number of paper-based payments, thousand	192,646.0	193,947.6
Value of paper-based payments, billion rubles	23,991.5	23,373.7
Number of intraregional payments, thousand	769,803.9	880,535.7
Value of intraregional payments, billion rubles	154,327.8	187,481.9
Number of interregional payments, thousand	85,535.2	111,492.9
Value of interregional payments, billion rubles	27,829.1	36,442.0
Number of bank cards issued in Russia as of end of year, million	24.0	35.2
Total number of bank card operations conducted in Russia, million	410.5	609.6
Total value of bank card operations conducted in Russia, billion rubles	1,235.6	2,079.9
Bank of Russia Payment System		
Number of customers	65,838	56,662
of which:		
— credit institutions	1,331	1,302
— branches of credit institutions	1,805	1,848
— customers other than credit institutions	62,702	53,512
of which:		
— Federal Treasury bodies	1,340	1,162
Number of payments, thousand	411,737.8	472,041.2
of which:		
— payments conducted through accounts of credit institutions and their branches	342,122.5	397,643.1
— payments conducted through accounts of customers other than credit institutions	65,058.5	73,070.6
of which:		
— payments conducted through Federal Treasury accounts	32,733.8	39,484.9
— payments conducted through accounts connected with Bank of Russia establishments' financial and business activities	4,556.8	1,327.5
Value of payments, billion rubles	108,164.5	135,356.5
of which:		
— payments conducted through accounts of credit institutions and their branches	89,558.5	116,572.2
— payments conducted through accounts of customers other than credit institutions	17,743.9	18,725.0
of which:		
— payments conducted through Federal Treasury accounts	12,656.1	13,092.3
— payments conducted through accounts connected with Bank of Russia establishments' financial and business activities	862.1	59.3
Number of electronic payments, thousand	396,892.8	464,421.8
Value of electronic payments, billion rubles	102,408.9	132,304.5
Number of Bank of Russia establishments participating in intraregional electronic settlements	1,111	916
Number of Bank of Russia establishments participating in interregional electronic settlements	1,088	912
Total number of customers exchanging electronic documents	3,659	3,830
of which:		
— credit institutions and their branches	2,897	2,950
— customers other than credit institutions	762	880
of which:		
— Federal Treasury bodies	498	521

End

	2003	2004
Number of payments effected by communication channels, thousand	367,013.9	439,304.7
Number of paper-based payments, thousand	14,845.0	7,619.4
Value of paper-based payments, billion rubles	5,755.6	3,052.0
Number of intraregional payments, thousand	361,463.0	405,159.7
Value of intraregional payments, billion rubles	90,302.5	110,356.1
Number of interregional payments, thousand	50,274.8	66,881.5
Value of interregional payments, billion rubles	17,862.0	25,000.4
Sum total of settlement documents unpaid due to lack of funds in correspondent accounts (subaccounts) of credit institutions and their branches, million rubles	3,345	1,905
of which:		
— credit institutions whose licences were revoked	3,256	1,768
— operating credit institutions	89	137

Table 46

NOTE STRUCTURE OF 1997 BANK OF RUSSIA BANKNOTES IN CIRCULATION

Denomination, rubles	Total in circulation, million rubles		As % of 1.01.2004	% share	
	1.01.2004	1.01.2005		as of 1.01.2004	as of 1.01.2005
1,000	531,216.3	943,288.3	177.6	43.6	56.7
500	533,811.9	573,196.0	107.4	43.8	34.5
100	116,987.9	110,665.5	95.0	9.6	6.7
50	29,755.9	27,090.9	91.0	2.4	1.6
10	7,172.6	7,949.9	110.8	0.6	0.5
5	37.2	56.1	151.1	0.0	0.0
Total number of banknotes of 1997 issue according to currency issue balance sheet	1,218,981.8	1,662,246.7	136.4	100.0	100.0

Table 47

STRUCTURE OF 1997 BANK OF RUSSIA COINS IN CIRCULATION*

Denomination	Total in circulation, million rubles		As % of 1.01.2004	% share	
	1.01.2004	1.01.2005		as of 1.01.2004	as of 1.01.2005
1 kopeck	40.8	47.1	115.4	0.5	0.4
5 kopecks	137.7	163.9	119.0	1.6	1.5
10 kopecks	655.5	811.7	123.8	7.4	7.3
50 kopecks	770.3	935.7	121.5	8.7	8.5
1 ruble	1,971.5	2,357.9	119.6	22.4	21.4
2 rubles	1,403.2	1,706.7	121.6	15.9	15.5
5 rubles	2,905.3	3,931.5	135.3	32.9	35.7
10 rubles	937.2	1,068.5	114.0	10.6	9.7
Total number of coins of 1997 issue according to currency issue balance sheet	8,821.5	11,023.0	125.0	100.0	100.0

* *Excluding coins made of precious metals.*

Table 48

BANK OF RUSSIA STAKEHOLDINGS IN RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

Name of organisation, place of registration	Currency	Nominal value of Bank of Russia-owned shares		Bank of Russia % share as of 1.01.2005	
		as of 1.01.2004	as of 1.01.2005	in authorised capital	in voting capital
Moscow Narodny Bank, London*	British pound	128,242,622	128,242,622	88.89	88.89
Eurobank, Paris*	euro	161,297,826	161,325,775	87.04	87.04
Ost-West Handelsbank, Frankfurt am Main**	—	671 single shares	671 single shares	51.62	51.62
Donau-Bank, Vienna	euro	10,900,500	10,900,500	15.00	15.00
East-West United Bank, Luxembourg	euro	4,589,749	4,589,749	15.00	15.00
Bank for International Settlements, Basel	SDR	15,000,000	15,000,000	0.55	0.55
Intelsat Ltd., Bermudas	US dollar	2,544,345	2,544,345	0.53	0.53
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	euro	125	125	0.001	—
Interstate Bank, Moscow	thousand rubles	10,000	10,000	50.00	50.00
Sberbank, Moscow	thousand rubles	605,693	605,693	60.57	63.76
Moscow Interbank Currency Exchange	thousand rubles	99,582	99,582	28.76	28.76
St Petersburg Currency Exchange	thousand rubles	302	302	8.90	8.90
National Depository Centre, Moscow	thousand rubles	24,500	24,500	49.00	45.57

** Excluding shares of "nominal" shareholders accounted for in Bank of Russia balance sheet.*
*** Since 2000, the Bank of Russia stakeholding in Ost-West Handelsbank has been represented by registered single shares without a nominal value.*

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