

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



A N N U A L 2 0 0 1 R E P O R T



Approved by the Bank of Russia Board of Directors on May 14, 2002

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INTRODUCTION

The Bank of Russia Report for 2001, drafted in pursuance of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), reflects the efforts made by the Bank of Russia to increase the stability of the ruble, strengthen the banking sector and improve the payment system. The Report contains data on the development of the Bank of Russia system, its organisational structure, personnel management and internal control, the activities aimed at enhancing the efficiency of the Bank of Russia measures to fulfil the functions assigned to it by legislation. Certified by auditors, Bank of Russia financial statements serve as a major and reliable source of information for all economic agents, ensuring the necessary level of openness and transparency of Bank of Russia activities.

The main result of 2001 was the continued slowing of inflation amid rapid rates of economic growth. A major characteristic of the period under review was the predominant role of domestic demand in the creation of gross domestic product (GDP). The monetary policy pursued by the Bank of Russia, its exchange rate policy and measures taken in banking regulation and supervision helped reduce macroeconomic and financial risks, backed up the financing of economic growth in the long term and cushioned the effect of external shocks on the Russian economy.

When implementing its monetary policy, the Bank of Russia sought to make the slowing of inflation and dynamics of the exchange rate of the ruble a smooth and gradual process, taking

into account the structural reforms carried out in Russia and changes in the foreign trade situation.

A major result of the 2001 monetary policy was the reduction of the inflation and devaluation expectations of the public, growth in Russia's international reserves in anticipation of major foreign debt payments and early repayment by the Bank of Russia of its debt to the International Monetary Fund, a decline in private capital outflow, the expansion of the sources of financing economic growth and a rise in investment activity.

In the period under review, the Bank of Russia continued to take steps to harmonise the existing methods of regulating banks with international practices, thereby increasing the stability of the banking sector. The state of the banking sector improved in 2001. Bank assets, capital and loans to the non-financial sector of the economy exceeded pre-crisis levels in real terms. The post-crisis recovery of the principal functional parameters of the banking sector has been completed and banks have entered a stage of intensive development. Credit to the real sector and households in 2001 grew faster than the value of all other active operations conducted by banks. For the first time since the financial crisis of 1998, household deposits have become a major source of resources for the banking sector.

Adopted in December 2001 in a joint statement by the Government and Bank of Russia, the Strategy of Russian Banking Sector Development

set as the main objectives of banking sector development strengthening banking sector stability, improving the quality of banking sector operations to accumulate funds and turn them into loans and investment, enhancing banks' credibility in the eyes of depositors and other bank creditors, improving the protection of their interests and preventing the use of credit institutions in dishonest commercial practices. Success of this medium-term strategy depends, to a great extent, on the macroeconomic, legal and taxation environment of banking sector activities and calls for co-ordi-

nation of the efforts of the executive and legislative branches of power, the Bank of Russia, credit institutions and enterprises.

The Bank of Russia last year carried out measures to strengthen the payment system, making it more expeditious, reliable and efficient.

In the future it will continue to pursue a policy aimed at gradually slowing inflation and improving banking supervision, bearing in mind that macroeconomic stability and banking sector reliability are the major factors of sustainable long-term economic growth.

**ECONOMIC AND
FINANCIAL SITUATION
IN RUSSIA IN 2001**



I.1. ECONOMIC SITUATION IN RUSSIA

Despite the changes in the development of the world economy and global market situation, the Russian economy in 2001 retained favourable dynamics of major macroeconomic indicators: economic growth continued amid persistently slowing inflation. Inflationary pressure was reduced owing to a balanced monetary policy, stable exchange rate dynamics of the ruble and the implementation of a sensible fiscal policy. It was also the result of an increase in labour productivity in the economy, while most Russian export commodities and locally manufactured goods in demand in the domestic market retained their competitiveness.

Production growth in 2001 was accompanied by the creation of new jobs, an increase in the number of people employed in the economy and a rise in household real income. A major factor of economic development in 2001 was a rise in labour productivity, which showed that the intensive factors of growth had a predominant effect on the results of economic development.

However, the high economic growth rates registered since the middle of 1999 had slowed down by the beginning of 2001. It was partly the result of a world economic slowdown, the ongoing changes in the foreign trade situation and the yet insufficient effect of structural reforms on the general economic process. In this situation, domestic demand, which rests upon the household sector's increased expenditure on final consumption and the expansion of gross accumulation,

becomes a major factor of economic growth. Stimulating the economy, growth in real income simultaneously changed the consumer preferences of the household sector, expanding the demand for durable goods. Sales of non-food products in 2001 rose considerably faster than food sales.

Growth in fixed capital investment in 2001 helped modernise production capacity to some extent and thus maintain the competitiveness of Russian-made products in the domestic and foreign markets. On the whole, investment activity reflected entrepreneurs' optimism about demand for their goods, but the volume of investment was nowhere near enough for the implementation of an effective structural policy and modernisation of fixed production assets necessary for raising the competitiveness of Russian manufacturers. A negative factor in this situation was a tendency towards the slowing of investment growth, which appeared in late 2001 and showed that there were some factors that restricted enterprises' investment activity. These factors were largely attributed to the continued existence of high risks in the economy, inadequate protection of owners' rights, flaws in the legal environment and the judiciary and an ineffective mechanism for transforming savings into investment owing to a low level of banking sector capitalisation, narrow financial markets and small foreign capital inflow.

In the last two years, the Russian economy has developed in the conditions of a strong balance of payments. An inflow of foreign exchange

created objective conditions for a sharp rise of the ruble. The exchange rate policy pursued by the Bank of Russia, which only permitted a moderate real rise of the ruble against the US dollar, took into consideration the economic fundamentals and helped maintain the competitiveness of Russian-made products in the domestic market and curb prices of imports, which in the final analysis had a favourable effect on overall consumer price dynamics.

Consumer price growth rates in 2001 were higher than predicted in the official forecast, owing, above all, to more significant growth in domestic demand and high growth rate in the prices of paid services provided to the population and volatile prices of some consumer goods. In 2001, inflation was 18.6% against 20.2% in 2000 (December to December). The continuous slowing of inflation in the last three years against the background of economic growth has been an important result of the monetary policy pursued by the authorities.

To evaluate the general inflation trend, which does not take into account short-term significant changes in relative prices not caused by monetary policy, many countries use an indicator known as **core inflation**. In Russian conditions, it is an overall growth in consumer prices, excluding changes in the prices of paid services provided to the population and extremely volatile vegetable and fruit prices, that serves as such an indicator.

According to a Bank of Russia estimate, in 2001, core inflation was 12.1% against 15.9% in 2000. During 2001, core inflation slowed considerably faster than overall consumer price growth, a trend showing that in its monetary policy the Bank of Russia was moving in the right direction.

The following factors influenced the dynamics of core inflation.

Consumer demand in 2001 was at a fairly high level. Over the year consumer spending increased 7.9%.

A favourable contribution towards curbing core inflation was made by the exchange rate policy pursued by the Bank of Russia. The moderate exchange rate dynamics of the ruble in 2001 helped check growth in the prices of imported consumer goods and that had a restraining effect on growth in the prices of similar domestic goods.

PRICE GROWTH RATES IN THE ECONOMY (December 2001 as % of December 2000)

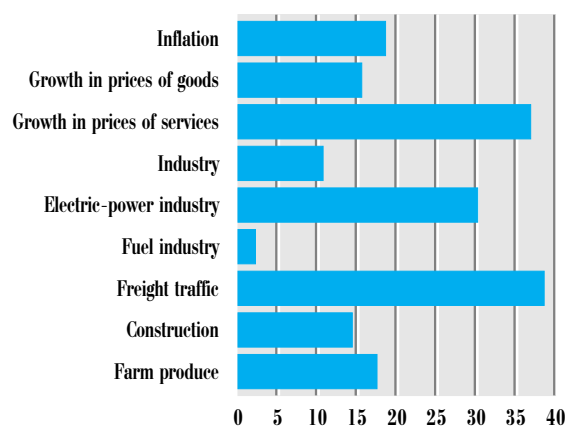


Chart 1

Food prices, excluding vegetable and fruit prices, rose 16.1% in 2001 against 20.3% in 2000. Non-food prices in 2001 increased 12.7% against 18.5% a year earlier. The rate of growth in prices of practically all major non-food consumer goods in 2001 was considerably slower than in the previous year. As a result, in 2001, overall growth in prices of goods included in the consumer goods basket to calculate the consumer price index (vegetables and fruit excluded) is estimated at 14.8% against 19.7% in 2000.

Macroeconomic stability, a balanced monetary policy and smooth ruble/dollar exchange rate dynamics in 2001 contributed to the lessening of inflationary expectations. Polls conducted by the Russian Government's Centre for Economic Studies show that entrepreneurs' inflationary expectations declined throughout the past year.

The good state of government finances and federal budget surplus also contributed to lower inflation.

In 2001, the inflation rate in the economy was formed under the influence of **structural factors**.

The implementation of structural reforms in the housing and communal services sector, designed to create a market price-setting mechanism in this sector, in 2001 was accompanied by a 56.8% rise in rent and communal services charges (a growth of 42.6% was registered in 2000). Rapid rates of growth were also registered last year in regulated passenger transport tariffs (their full-year growth amounted to 25.3%) and prices of communications services for individual clients,

CONSUMER PRICE AND CORE INFLATION DYNAMICS IN 2000—2001
(as % of previous month)

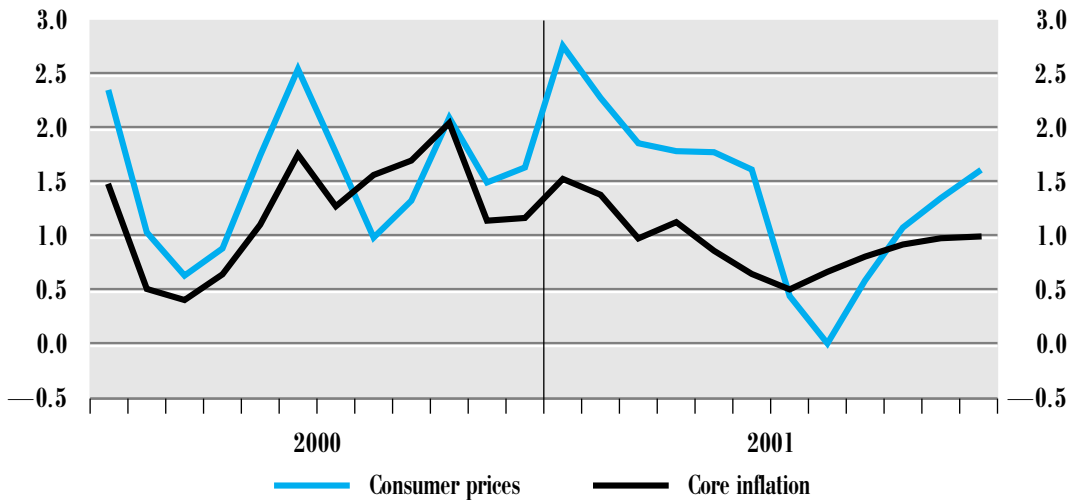


Chart 2

which rose 23.3%. Growth in the prices of other services provided to the population (health, cultural, everyday and other services) was in the range of 18.7—32.7% in 2001. Full-year growth in the prices of paid services last year amounted to 36.9% against an increase of 33.7% in 2000.

A Bank of Russia estimate shows that owing to rapid growth in service prices, consumer prices went up 5.1% in 2001 against 4.5% in 2000. As a result, the contribution of service price growth to the overall increase in consumer prices rose from an estimated 22.2% in 2000 to 27.6% in 2001.

The vegetable and fruit price dynamics increased their negative impact on inflation in the consumer goods market in 2001. Vegetable and fruit prices rose 27.6%, whereas in 2000 they fell 3%. As a result, growth in vegetable and fruit prices caused a 1.4% rise in consumer prices (a fall of 0.2% was registered in 2000).

Industrial producer prices in 2001 rose 10.7%, whereas in 2000 they increased 31.6%.

Producer price growth in the light (10.9%) and food (15%) industries exceeded overall producer price growth in industry and had a direct effect on the consumer price dynamics. High producer prices in the agricultural sector stimulated growth in producer prices in the food industry.

Producer prices in the sectors controlled by the so-called natural monopolies grew at rapid rates last year, exceeding producer price growth

in industrial goods. Prices in all sectors were influenced by rapid growth in producer prices in the electric-power industry (30.2%) and cargo transportation (38.6%), which caused enterprises' costs to rise, albeit to a lesser extent than in 2000. By and large, growth in costs worsened the financial standing of industrial enterprises and increased pressure on the setting of prices in the consumer market.

The **labour market** in 2001 continued to demonstrate the favourable trends that emerged in late 1999 under the influence of an economic upturn in the country. The number of workers in 2001 rose 0.3% year on year, while the total number of unemployed fell 14.8%; in the meantime, the number of jobless registered with the government employment service declined 1.9%. Towards the end of 2001, Russia had an economically active population of 70.8 million, of whom 64.5 million (91.0%) were employed in the economy, while 6.3 million (9.0%) were classified as unemployed in accordance with ILO methodology (9.9% in December 2000).

Year on year, forced underemployment, caused by compulsory leave and shorter working weeks, decreased by 1.3 times in 2001.

Growth in the number of jobs in the economy was slower than the expansion of production, a process indicating that labour productivity continued to grow. The full-year rise in labour productivity in 2001 amounted to an estimated 4.7%.

PRICE INDICES FOR PRODUCE AND SERVICES OF NATURAL MONOPOLIES
(December 1998 = 100%)

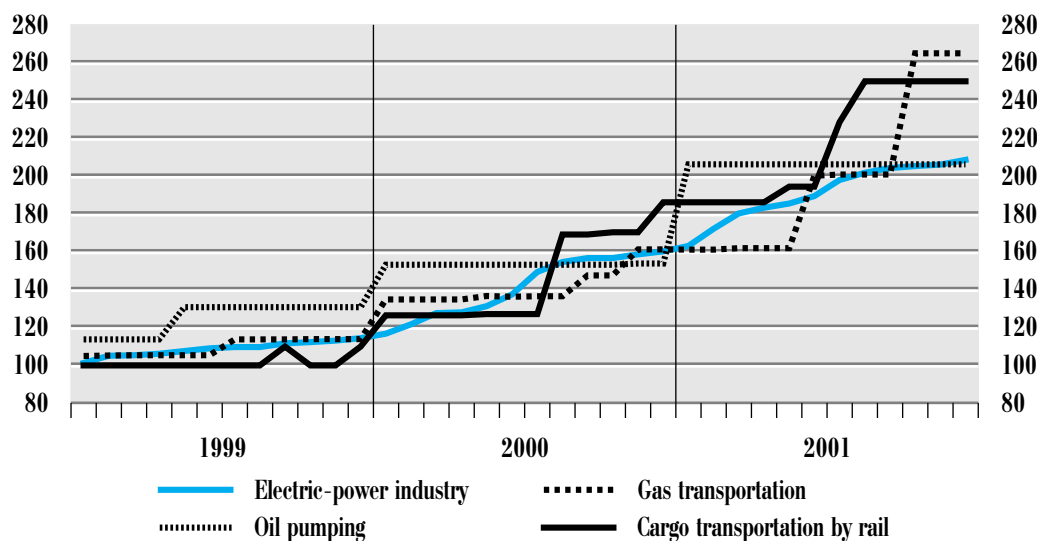


Chart 3

There was a considerable rise in the number of vacancies reported by enterprises to employment services. Most of the applications for workers came from private sector enterprises. Production expanded in 2001 not only as a result of the utilisation of the existing production capacity, but also due to the creation of new jobs. In 2001, the number of new jobs rose 4.3% year on year.

Gross Domestic Product grew 5% in 2001. GDP growth rates surpassed the official forecast of 4% that was laid at the basis of budget projections and exceeded the IMF forecast (also 4%). The year-on-year slowing of economic growth was caused by a smaller rise in domestic demand and steeper decline in net exports. The added value rose 6.5% in the manufacturing sector and 3.7% in the services sector.

GDP growth rates in Russia exceeded the IMF-forecast rates of growth in the world economy as a whole (2.5%), economic growth in the industrialised nations (1.2%) and the expansion of the production of goods and services in developing countries (4%). The closest economic growth rates were only registered by some CIS countries and developing countries in Asia and the Middle East.

In Russia industrial production in 2001 grew 4.9% year on year.

A major factor of growth in industrial production was, as before, the favourable world market situation, which allowed Russia to build up production in its export-oriented branches such as the fuel sector, chemical industry and the non-ferrous metallurgy sector. An important result of the year was a rise in production in industries primarily oriented to the domestic market. The machine-building and food industries accounted for nearly half of total industrial production growth in 2001. The fuel sector also greatly increased its contribution to industrial production growth (nearly 25%).

The analysis of the rates of seasonally unadjusted growth in industrial production in 2001 testifies by and large to the improvement of the intrayear output dynamics. The latter half of the year saw a downturn in production activity, but it was less significant than in 2000.

Production growth in the electric-power industry amounted to 1.6% against 2.3% in 2000 and the fuel sector 6.1% against 4.9%. The oil-extracting industry expanded production by 7.7% year on year, the oil-refining industry 2.7% and coal industry 5.4%. Production in the gas industry slightly exceeded the 2000 level.

Production in the industries making up the investment sector exceeded last year's level by 7.2% in the machine-building industry and 5.5%

UNEMPLOYMENT RATE BY ILO METHODOLOGY
(as % of economically active population)

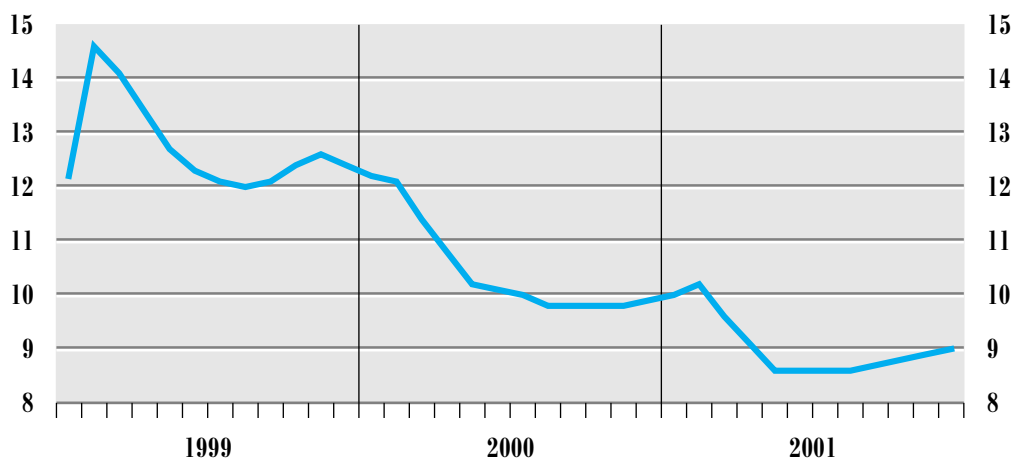


Chart 4

in the building materials industry. The most rapid rates of growth were registered in the production of hoisting and lifting equipment, railway engineering products and cement.

Chemical and petrochemical industry expanded production by 6.5%. The most significant growth was registered in the output of main organic synthesis products, tyres and plastics.

Production growth in the wood and paper industry amounted to 2.6% (year-on-year growth in 2000 was 13.4%). The light industry increased output 5% and the food industry 8.4%.

Production in the ferrous metallurgy sector declined 0.2% year on year, although some segments of the sector registered growth.

Transport companies in 2001 expanded freight turnover 3% year on year. The biggest growth in cargo turnover was registered in inland water and railway transport.

Agricultural production continued to expand at a rapid rate last year: growth in the output of farm produce amounted to 6.8%. Grain production increased 29.7% year on year, potatoes 2.6% and vegetables 5.5%.

The financial standing of enterprises remained stable in 2001.

The full-year net financial result of large and medium-sized enterprises (excluding small businesses, banks, insurance companies and budget-financed organisations) aggregated 1,144.7 billion rubles (12.7% of GDP). In 2000, the net financial result was 15.5% of GDP.

Practically all key branches of the economy registered a drop in the number of loss-making enterprises in 2001.

The only loss-making key branch in 2001 was the housing and communal services branch, although its losses declined 11.1% year on year.

The financial result in the economy was affected by a sharp fall in profits in industry and a rise in profits in trade, public catering, construction, communications and transport. In 2001, industry accounted for 52.6% of the economy's total profit, or 602.2 billion rubles, which represents a 14.2% fall from 2000.

At the same time, some industries such as the coal, food, building materials, machine-building and metal-working industries posted better financial results than in the previous year.

The financial result in industry was formed under the effect of more rapid growth in costs than growth in production. A rise in wages and salaries and an increase in electricity and fuel prices led to the expansion of the share of these elements in the cost structure.

Last year saw changes for the better in the management of the financial activities of enterprises as the resource formation structure improved and the use of resources became more efficient. As a result, the role of enterprises' own resources in the formation of working assets rose, enterprises' monetary funds increased and the volume of paid-for produce expanded, while the share of non-monetary settlements declined.

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

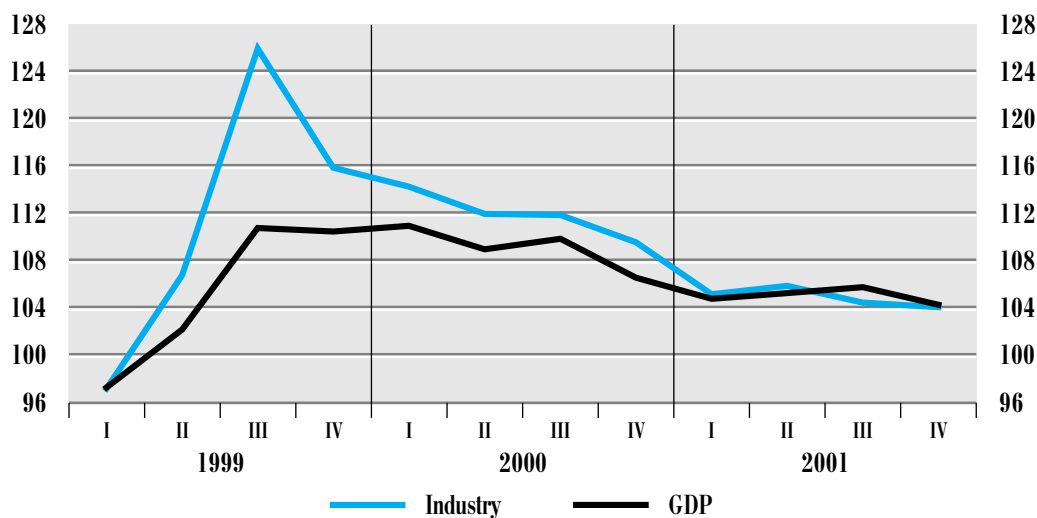


Chart 5

The nominal value of paid-for products (works and services) of the biggest taxpayers and industrial monopolies in 2001 increased 25.9% year on year, of which the value of produce paid for in cash rose 40.8%. The share of cash settlements in the structure of payments for products (works and services) amounted to 77.4% and exceeded the 2000 level by 8.2 percentage points.

As of January 1, 2002, the working assets of large and medium-sized enterprises and organisations aggregated 6,499.3 billion rubles, an increase of 22.8% year on year. The structure of working assets improved in 2001. The diversion of assets to the accounts receivable decreased. Monetary funds increased 15.5% over the year to 5.2% of working assets. Practically all key branches of the economy registered growth in them. The money component accounted for the largest part of working assets at communications, trade and public catering enterprises, i.e. the sectors that provide services directly to final consumers. Monetary funds accounted for the smallest part of working assets in agriculture.

In 2001, short-term (current) liabilities of enterprises were better covered by working (current) assets than in 2000. The cover ratio for large and medium-sized enterprises was 126% as of January 1, 2002 (122% as of January 1, 2001); in industry the cover ratio was 125.3% (123.7% as of January 1, 2001).

The overdue accounts receivable in 2001 increased 9.9% and as of January 1, 2002, amounted to 1,007.3 billion rubles, or 31.4% of the total (37.4% as of January 1, 2001). Growth in the overdue accounts receivable was caused by a rise in overdue debt in trade and public catering.

Overdue accounts payable amounted to 1,560.1 billion rubles as of January 1, 2002, or 36.9% of the total (44.7% as of January 1, 2001), which represents a decrease of 0.7% over the year. Its contraction in Russia as a whole was caused by repayment of large amounts of overdue debt in most industries.

In 2001, the trend of overdue debt growing much slower than overall debt, both accounts receivable and accounts payable, which emerged in late 1998 and early 1999, continued, a process indicating that the non-payments problem has become a little less acute.

Production growth practically in all branches of the economy and wage and pension increases brought about a rise in **personal money income**.

The nominal household money income in 2001 increased by 1,155.3 billion rubles year on year, or 30.1%, and aggregated 4,998.8 billion rubles. The ratio of personal money income to GDP in 2001 was 55.3%, an increase of 2.7 percentage points on 2000.

Household real disposable money income rose 5.8%, real imputed average monthly wage in-

SEASONALLY UNADJUSTED INDUSTRIAL PRODUCTION DYNAMICS IN 1999—2001
(as % of previous month)

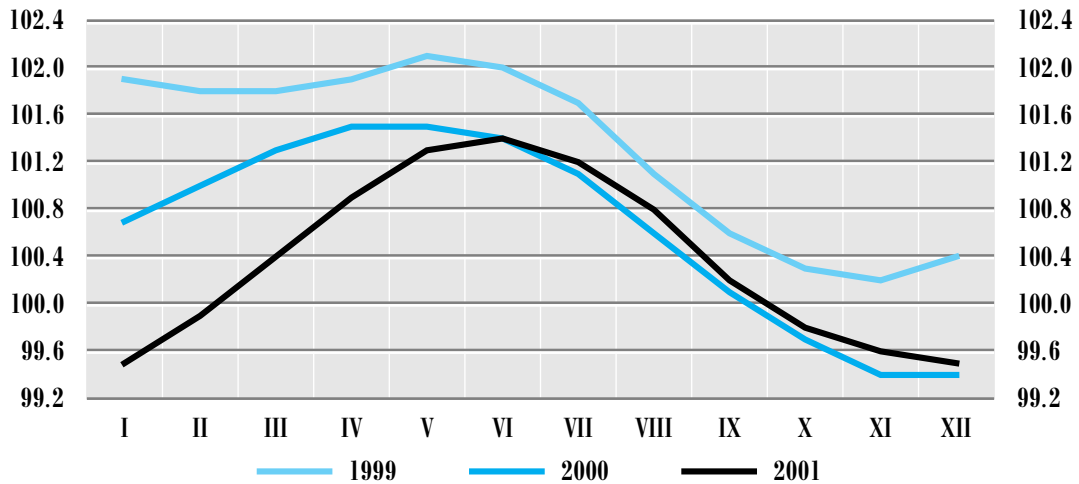


Chart 6

creased 20.6% and real imputed monthly pension went up 21.4%.

The share of wage and social transfers expanded in the structure of household money income, while the share of incomes from entrepreneurial activities and from property declined. The share of wage expanded from 61.4% to 64.5%, social transfers from 14.4% to 14.9% and other incomes from 1.2% to 1.9%, whereas the share of incomes from entrepreneurial activities contracted from 15.9% to 13.2% and the share of incomes from property decreased from 7.1% to 5.5%.

The income differentiation of the population remained high despite a rise in real income. The highest-income 10% of the population received 31.6% of the total amount of money income (32.5% in 2000), while the lowest-income 10% of the population received 2.3% (2.4% in 2000).

At the same time, some improvements were registered in 2001 in the ratio between household money income and the subsistence minimum. In 2001 Q1, the ratio of the average monthly imputed per capita wage to the subsistence minimum set for the able-bodied population was 183.8%, in Q2 188.5%, in Q3 204.6% and in Q4 226.3%.

Last year, 39.9 million people, or 27.6% of the total population, had an average per capita money income lower than the subsistence minimum (42.3 million, or 29.1%, in 2000).

The total amount of expenditures and savings (consumer expenditures, compulsory payments and fees, the purchase of foreign exchange, growth in deposits, the purchase of securities, change in the debt on loans and the purchase of real estate) increased 31.1% in the period under review and amounted to 4,894.8 billion rubles.

The share of spending on goods and services as a proportion of money income expanded from 78% to 78.6%. This growth in consumer spending was largely caused by an increase in expenditures on services, whose prices in 2001 rose faster than in 2000.

In real terms, consumer spending grew 7.9%. A rise in solvent consumer demand for goods stimulated growth in retail trade turnover, which expanded 10.7% year on year in comparable prices. The share of consumer spending on foodstuffs continued to contract, while the share of expenditures on durable goods continued to expand. The share of foodstuffs in the structure of retail trade turnover was 46.1% and non-food products 53.9% (in 2000, the respective percentages were 46.5% and 53.5%).

The value of paid services provided to the population grew 0.8%. Services accounted for 19.8% of consumer spending (19.4% in 2000).

Savings in the form of deposits and securities accounted for 3.9% of money income (3.7% in 2000).

PRODUCTION GROWTH RATES IN INDIVIDUAL INDUSTRIES IN 2001
(as % of 2000)

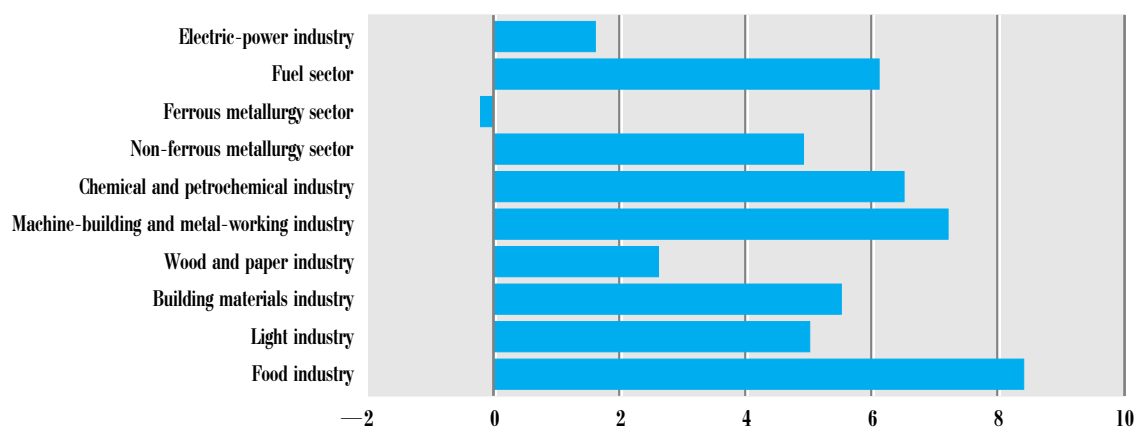


Chart 7

The share of growth in cash in hand as a proportion of money income contracted year on year by 0.8 percentage points to 2.1%.

The relatively stable exchange rate dynamics of the ruble brought about a contraction in the share of income spent on foreign exchange from 6.6% in 2000 to 6% in 2001.

As a result of growth in real money income the **household sector's real spending on final consumption** increased 8.7% over the year.

The tight fiscal policy pursued in 2001 caused a year-on-year fall of 1% in **government expenditures on final consumption**.

Expenditures on final consumption in the economy as a whole rose 6.2% in 2001. Expenditures on final consumption as a proportion of GDP expanded from 61.3% in 2000 to 65.1% in 2001, mainly as a result of the expansion of the share of household spending on final consumption.

Gross accumulation in 2001 increased 17.6%. Its dynamics were determined by changes in the gross accumulation of fixed capital and current inventories.

The favourable general economic situation, the slowing of price growth, the lessening of inflationary expectations and the measures taken by the Government to improve the investment climate stimulated the investment activity of Russian companies.

A rise in the demand for domestic products and, as a consequence, the expansion of production, the financial standing of enterprises and growth in household money income had a

favourable effect on the investment situation in 2001.

These favourable factors predetermined a sharp rise in fixed capital investment, which grew 8.7% in real terms year on year. As was the case in 2000, in 2001 growth in fixed capital investment exceeded the expansion of the production of goods and services.

The value of fixed capital investment in 2001 amounted to 1,599.5 billion rubles (17.7% of GDP) against 1,165.2 billion rubles in 2000 (16% of GDP).

The investment activity observed in 2001 reflected the need for enterprises to retool and modernise production capacities in order to turn out competitive products and create positive expectations for favourable conditions to further expand production. The increased fixed capital investment showed that economic growth resulted not only from the utilisation of hitherto unused production capacities, but also the commissioning of new ones.

As was the case in the previous years, the largest amounts of fixed capital were invested in transport, the fuel industry and housing and communal services sector. In 2001, these sectors accounted for 23.1%, 22.1% and 13.3% of total fixed capital investment in large and medium-sized enterprises. The investment made by large and medium-sized enterprises in the fixed capital of Russian industry in 2001 increased by 165.7 billion rubles (in current prices) year on year. The fuel sector accounted

DYNAMICS OF HOUSEHOLD REAL DISPOSABLE MONEY INCOME
(as % of corresponding quarter of previous year)

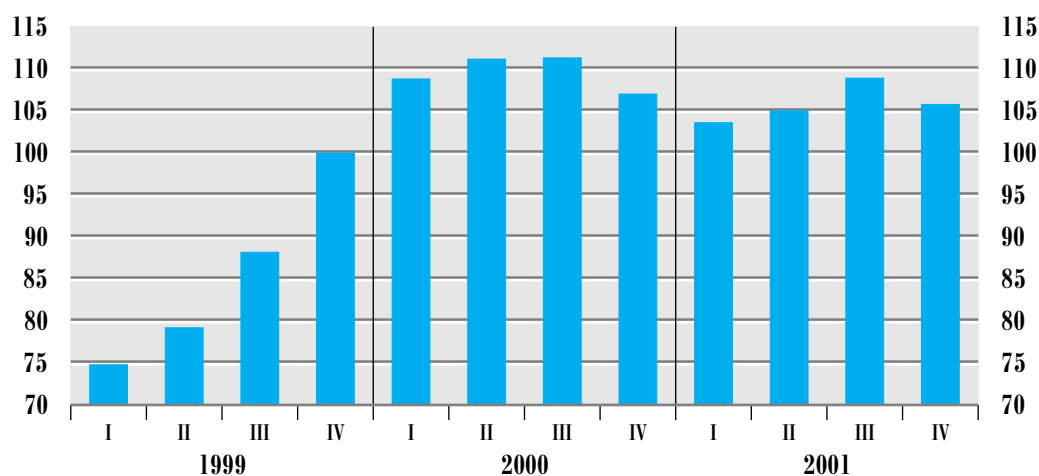


Chart 8

for 56% of the growth in industrial investment.

Enterprises' own funds remained the principal source of their investments in 2001 and their share in fixed capital investments of large and medium-sized enterprises expanded from 46.1% in 2000 to 50.3% in 2001.

Budget funds played a significant role as a source of fixed capital investment in 2001. Their share was 19.8%. As in previous years, most government financial support for investment projects was provided at the regional level.

The level of bank lending to enterprises for financing their investment activity during the entire year 2001 depended on persistent high risks related to flaws in legislation, especially as far as the protection of creditors' rights was concerned. The share of bank loans in the financing of fixed capital investment in 2001 slightly expanded to 3.5% from 2.9% in 2000.

The share of foreign investment as a proportion of total fixed capital investment in 2001 was 4.2% (in 2000 it was 4.6%).

Favourable fixed capital investment dynamics were accompanied by a rise in business activity in the construction sector, where the volume of contractual work in 2001 expanded 9.9% year on year.

GDP growth in 2001 was favourably affected by an increase in current inventories. Owing to its growth (by 48.9%), including changes in manufacturing, inventories, uncompleted works,

finished products and goods for resale, GDP grew 1.4% against 2.8% in 2000. Nevertheless, despite the favourable effect of growth in current inventories, in the subsequent years this growth may become a brake on economic activity.

Growth in the gross accumulation of fixed capital (by 11.6%) in 2001 ensured 1.8% GDP expansion against 1.9% in 2000.

There was a 9.3% decline in **net exports** in 2001. During the year the situation in the world's commodity markets making up the bulk of Russian exports was favourable on the whole in terms of prices, although compared to 2000 it slightly changed for the worse. At the same time, there was an expansion in export volumes. However, owing to economic growth, imports grew considerably faster than exports which was attributed to a rise in demand for capital goods, especially investment products, and raw materials, as well as to an increase in consumer demand due to growth in household income. The share of net exports in the structure of GDP use contracted from 20.1% in 2000 to 12.9% in 2001.

Last year's changes in the **foreign economic environment** affected both Russia's foreign trade and the country's participation in the international flow of capital. A fall in the prices of major Russian exports in world markets, caused by a global economic and trade slowdown, practically had no effect on the foreign exchange flow into the country. Relatively low rates of growth in domestic prices, a fall in the producer prices of

RUSSIA'S FOREIGN TRADE
(according to balance of payments data, billion US dollars)

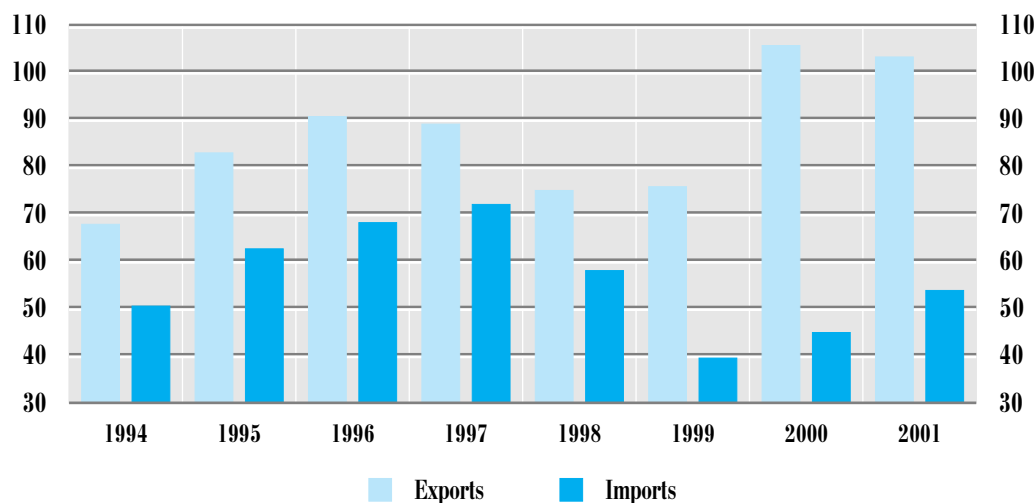


Chart 9

some export commodities, timely measures taken in the tariff regulation of exports and a balanced exchange rate policy pursued by the Bank of Russia ensured the competitiveness of Russian goods in foreign markets. As a result, in 2001, the export of goods and services declined by just 1.3% year on year.

Importers' needs in foreign exchange increased. In 2001, the import of goods and services expanded 19.8% year on year and the size of the favourable balance of goods and services and current account surplus reflected that growth. In 2001, Russia's current account surplus contracted almost by one-quarter year on year and yet it was 1.4 times bigger than in 1999. Overall, the 2001 balance of payments was quite stable.

The prices of major Russian export commodities mostly declined in world markets in 2001, but they were considerably higher than in 1999. The price of Urals oil fell 13.7% on average to \$23 per barrel (a year earlier it was \$26.6 per barrel and in 1999 \$17.2 per barrel). Although the price of natural gas in Europe fell throughout 2001, it was higher than in 2000. Despite the deterioration of the general price situation, the rate of decline in the value of commodity exports was slower than the price downturn in world commodity markets.

A major contribution to export growth in 2001 was made by an increase in the value of exported

machinery, equipment, transport vehicles, natural gas and untrimmed timber. The price downturn in 2001 was largely offset by the expansion of export volumes of most products. A rise in the value of natural gas exports amid a contraction in natural gas export volumes was exclusively the result of a high level of prices. A decline in metal exports was caused by a fall in contract prices as well as a contraction in export volumes connected with the dwindling of world demand for metal products. Numerous anti-dumping procedures used against Russian commodity producers had an adverse effect on export dynamics in 2001.

The changes in the structure of exports in 2001 can be seen in the expansion of the share of fuel and energy products and the share of machinery, equipment and transport vehicles. The value of machinery, equipment and transport vehicles exports was the highest during the entire period of observations since 1994. The export of services rose in 2001, but its share in the total export volume of goods and services remained low at less than 10%.

Growth in the value of imported machinery, equipment and transport vehicles made the most substantial contribution to the expansion of goods imports in 2001. Imports mainly grew owing to the expansion of import volumes. At the same time, there was a rise in the contract prices of some goods and, in addition, importers tended to buy more expensive goods of better quality in non-

URALS OIL PRICE DYNAMICS
(\$/barrel)

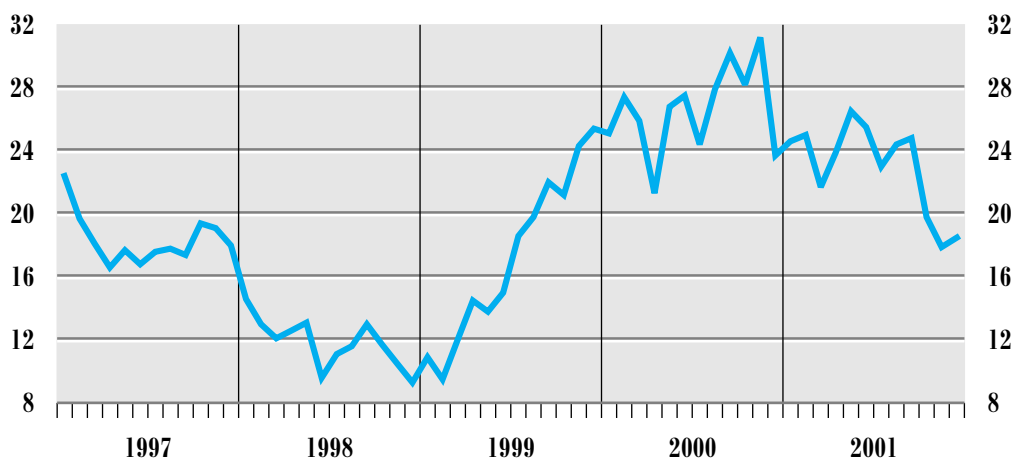


Chart 10

CIS countries. The growth in imports was also the result of the foreign trade regulation aimed at standardising and lowering import duties, especially on engineering products. Growth in the import of services in 2001 was considerably slower than in 2000 and that was reflected in the rate of growth in the deficit of the balance of services, which increased by one-third in 2001, whereas in 2000 it grew 1.8 times over.

In 2001, there was a rise in the flow of foreign investment into the country, as Russia became more attractive for foreign investors. Russia's foreign debt contracted as the Russian government serviced and paid its debts on time. The Bank of Russia repaid ahead of schedule its debt to the International Monetary Fund. Private capital flow from Russia ebbed a little, while revenues received by the private sector of the Russian economy from investments abroad increased.

In 2001, Russia serviced its foreign debt in full. In November, it redeemed the first tranche of its eurobonds issued in 1996. Last year Russia's debt to some member countries of the former Council for Mutual Economic Assistance, or Comecon, was restructured. In December, the terms and conditions of the restructuring of commercial debt of the former USSR were approved: the debt is partly to be exchanged for eurobonds and partly written down. In 2001, Russia did not take any budget-substituting loans from international financial organisations.

The investment climate continued to improve in Russia in 2001, and the repeated ratings upgrades given to Russia by top international rating agencies confirm this. Late in 2001, Moody's Investors Service boosted Russia's rating on eurobonds to Ba3, on currency deposits, the 6th and 7th series of OVVZ bonds and OFZ bonds to B1 and the 4th and 5th series of OVVZ bonds to B3 with a "stable" credit rating forecast. Standard & Poor's upgraded Russia's long-term ratings in the national and foreign currencies from B to B+ with a "stable" forecast and confirmed the country's short-term B ratings. The ratings revision reflected the conditions in Russia conducive to the implementation of structural and institutional reforms and a more flexible economic policy, making Russia's economic prospects more predictable.

The excess of the supply of foreign exchange over demand created conditions for further growth in Russia's foreign exchange reserves, but the rate of their growth slowed down significantly due to both external and internal developments.

Foreign economic activity remained a major source of federal budget revenues last year. Customs and excise duties on imports and exports and tax and non-tax revenues from foreign economic activity constituted a large part of federal budget revenues.

Throughout 2001, the Russian government actively implemented the tariff and non-tariff regulation of foreign trade operations. Export

duties on oil and natural gas were revised during the year in pace with price dynamics. Duties on petroleum products were changed depending on the world market situation and with a view to meeting the demand of the domestic market.

To protect domestic commodity producers the tariff and non-tariff regulation of imports was implemented. Measures were taken to stimulate the import of goods that were not produced in Russia but were essential to meet the needs of the growing economy. Throughout 2001, import duties were repeatedly lowered and towards the end of the year the average weighted import tariff rate had decreased by several percentage points.

The international practice of taxing foreign trade operations was extended to trade with the CIS countries. Under the amendments to the Tax Code, which came into force on July 1, 2001, indirect taxes in trade with CIS countries (except trade in oil, gas and petroleum products) are now collected according to the country of destination principle.

In 2001, Russia made active preparations for accession to the World Trade Organisation (WTO). Specifically, it took steps to make sweeping changes in national legislation. In 2001, Russia had almost completed the drafting of a new version of the Customs Code, amendments to the Tax Code and rewrites of the Law on the State Regulation of Foreign Trade Operations, Law on Special Protective, Anti-dumping and Compensatory Measures in the Import of Goods, Law on

Standardisation and Certification, Law on the Licensing of the Export and Import of Goods and other laws necessary for harmonising the national foreign trade regulation system with WTO requirements. The terms and conditions of Russia's participation in that organisation were discussed throughout 2001.

So, among the **main positive results of 2001** are the continuing economic growth and investment activity and slower inflation. The rates of economic growth last year were slower than in 2000 because of change in the economic environment. The increased importance of the internal factors of growth testifies to the gradual emergence of a tendency towards sustainable growth, creating stable conditions for further economic development.

At the same time, a decline in the efficiency of production, high risks in the economy and underdevelopment of the financial sector were an impediment to growth in investment activity.

Overall, the results of 2001 indicate that there is domestic potential for economic development in Russia, but to use it to the fullest extent, this country must accelerate the implementation of structural reforms in the economy and co-ordinate its monetary and fiscal policies. The results of economic reforms in Russia also depend on the country's international image, which means that Russia should not only be consistent in carrying out its internal reforms, but also honour its international commitments.

I.2. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

The budget policy was implemented in 2001 with a view to meeting the targets set in the President's Budget Message to the Federal Assembly, "On the Budget Policy for 2001 and the Medium Term," and the 2001 Federal Budget Law, which provided for upgrading tax legislation, ensuring that federal budget funds are spent effectively, completing the creation of a federal treasury system and accelerating this process at other levels of the budget system.

The continuation of favourable trends in the Russian economy, such as sustained economic growth, the implementation of structural reforms, the improvement of the financial standing of a large number of economic agents and favourable foreign trade developments contributed to stabilisation of the government finance in 2001 and made it possible to increase federal budget revenues and ensure an excess of revenues over expenditures.

According to the Finance Ministry's preliminary data, federal budget revenues in 2001 amounted to 1,590.7 billion rubles, or 110.3% of the approved federal budget revenue figure, taking into account the Government-approved additional assignments, and 17.6% of GDP (estimated), while in 2000 federal budget revenues were 15.5% of GDP. At the same time, the share of tax payments in the total amount of federal budget revenues continued to expand: from 85.2% to 91.8% and from 13.2% of GDP to 16.2% of GDP.

However, despite a high level of federal budget revenues, there is still a big tax payments debt to the Russian budget system. According to the Ministry of Taxes and Duties, the debt on tax payments amounted to 475.0 billion rubles as of January 1, 2002, which represents a growth of 2.4%. Of this, a shortfall on tax payments amounted to 237.6 billion rubles, of which a shortfall on federal taxes and duties amounted to 197.3 billion rubles, regional taxes and duties 24.8 billion rubles and local taxes and duties 15.5 billion rubles. The full-year shortfall decreased 34.8%, while the amount of deferred payments, payments allowed to be made by instalments and suspended payments increased 2.4 times over.

Federal budget expenditures amounted to 1,325.7 billion rubles, or 111.1% of the approved total, and 14.7% of GDP, while in 2000 federal budget expenditures were 14.1% of GDP.

In 2001, the structure of federal budget expenditures changed for the better. Non-interest expenditures amounted to 1,094.6 billion rubles (82.6% of total expenditures, while the share approved by the 2001 Federal Budget Law was 79.9%); interest expenditures equalled 231.1 billion rubles (17.4% and 20.1% respectively). The federal budget surplus amounted to 265.0 billion rubles, or 2.9% of GDP.

Government foreign debt-service expenditures accounted for 79.9% of total interest expenditures

(government debt service expenditures), while the share approved by the 2001 Federal Budget Law was 76.4%; government domestic debt service expenditures accounted for 20.1%, while the share approved by the 2001 Federal Budget Law was 23.6%.

In 2001, there was an expansion in the share of expenditures on financial aid to lower-level budgets and the financing of the social sphere, foreign affairs, law enforcement, agriculture and transport.

Last year the Government failed to put an end to the practice of unevenly spending federal budget funds and using balances of these funds in the accounts of budget funds recipients. More than 14% of the full-year volume and about 50% of the volume of fourth-quarter federal budget expenditures were made in December.

According to the Finance Ministry, consolidated federal budget revenues in 2001 amounted to 2,674.0 billion rubles, or 29.6% of GDP, while expenditures amounted to 2,407.5 billion rubles, or 26.6% of GDP, of which consolidated regional budget revenues amounted to 1,316.0 billion rubles and expenditures 1,314.5 billion rubles.

According to preliminary data, revenues of the Federal Pension Fund in 2001 amounted to 630.0 billion rubles and expenditures 514.4 billion rubles; revenues of the Federal Social Insurance Fund amounted to 118.0 billion rubles and expenditures 93.7 billion rubles; revenues of the Federal Compulsory Medical Insurance Fund amounted to 4.03 billion rubles and expenditures 4.01 billion rubles.

Balances in the regional and local budget accounts opened with Bank of Russia branches in 2001 declined by 4.6 billion rubles, or 17.3%, and as of January 1, 2002, they amounted to 22.0 billion rubles. At the same time, the period from January to November saw an increase of 18.3 billion rubles in the balances of these accounts (from 26.6 billion rubles as of January 1, 2001, to 44.9 billion rubles as of December 1, 2001) and in December they fell sharply, by 22.9 billion rubles, or 51.0% (from 44.9 billion rubles as of December 1, 2001, to 22.0 billion rubles as of January 1, 2002). The balances in the accounts of the government social extra-budgetary funds opened with the Bank of Russia and its branches increased over the period under review by

FEDERAL BUDGET EXPENDITURES IN 2001 (%)

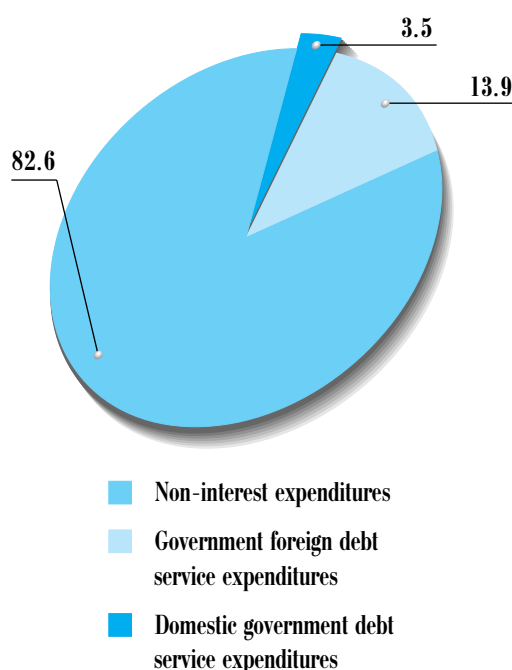


Chart 11

11.2 billion rubles, or 9.1%, to 134.3 billion rubles.

According to the Finance Ministry, Russia's government domestic debt amounted to 533.5 billion rubles as of January 1, 2002, which is 77.2 billion rubles less than the upper limit set by the 2001 Federal Budget Law and 23.9 billion rubles less than Russia's government domestic debt as of January 1, 2001.

Russia's government domestic debt contracted as the Finance Ministry in 2001 fulfilled the payment schedule, redeeming permanent coupon-income federal loan bonds, government savings loan bonds and other treasuries, and reduced borrowings in domestic financial markets.

The largest part of Russia's government domestic debt, calculated using the methodology prescribed by the applicable Russian legislation, is the Finance Ministry's ruble-denominated debt to the Bank of Russia, which as of January 1, 2002, amounted to 350.9 billion rubles, or 65.8% of the total government domestic debt. This represents an increase of 1.7 billion rubles, resulting from the restructuring by the Bank of Russia and Finance Ministry under Article 87 of the 2001 Federal Budget Law of interest due on Finance

**FEDERAL BUDGET EXPENDITURES AND FEDERAL BUDGET BALANCES IN RUBLES
IN ACCOUNTS OPENED WITH BANK OF RUSSIA IN 2001
(billion rubles)**

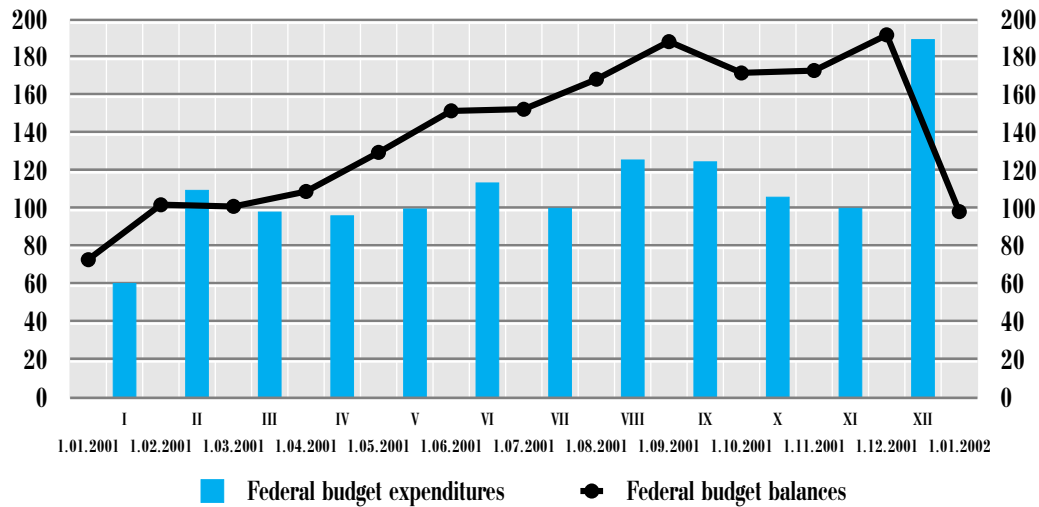


Chart 12

Ministry notes owned by the Bank of Russia as of January 1, 2001, into permanent coupon-income federal loan bonds.

Of the total volume of Russian government domestic debt, only 30% of government securities are traded in the organised securities market.

Nearly 70% of Russian government domestic debt is represented by non-marketable government securities, practically all of which are kept in the Bank of Russia in the form of long-term government securities (with maturities up to

2029) and bearing a coupon income from 0 to 2% p.a.

In addition, there is a debt owed by the Finance Ministry to the Bank of Russia in foreign currency, which includes the debt on funds provided by the Bank of Russia to the Finance Ministry through Vneshekonombank for repayment and service of the Russian government's foreign debt. According to the methodology established by the applicable Russian legislation, this debt is classified as part of Russia's foreign debt.

1.3. THE RUSSIAN FINANCIAL MARKET

The situation in the Russian financial market in 2001 depended on the financial standing and increased mutual confidence of the principal market counterparties. Most sectors of the market registered an increase in transaction volumes and reduced price volatility amid growth in the prices of major instruments. The broadening of the range of instruments met the interests of various categories of market participants and guaranteed a more balanced correlation between market operations to regulate liquidity and hedge risks.

Closer ties with the non-financial sector changed the instrument structure of the securities market in favour of corporate papers: for the first time they became leaders in capitalisation, volume and turnover. An indirect result of the financial sector's more pronounced orientation to the state of the real economy was its decreased dependence on the situation in the international financial market.

INTERBANK LENDING MARKET. The main result of the development of the interbank lending market in the year under review was the expansion of trading volumes and the further strengthening of its ties with other segments of the money market. This was the result of the consolidation of the banking system, the reduction of risk in interbank operations and the policy pursued by the Bank of Russia in regulating the level of banking sector liquidity.

In 2001, the volumes of interbank lending operations in rubles and foreign currency continued to grow as market participants regained confidence in one another. The average monthly interbank market lending turnovers expanded 49% year on year in nominal terms.

The average weighted term of interbank lending operations in 2001 decreased to 3.8 days from 4.9 days in 2000 as the share of interbank loans with terms over 1 month dwindled. Overnight loans continued to dominate the market, accounting for nearly 70% of turnovers.

Since interbank loans were just one of the principal means of managing banking sector liquidity, the interbank lending market situation depended, above all, on the volume of banks' free funds. The biggest interbank lending rate fluctuations were registered in the periods of instability of banking sector liquidity, especially in the brief periods when demand for foreign exchange soared. A major factor in the price situation in the interbank loan market was also the change of interest rates on Bank of Russia lending and deposit operations.

Interbank lending rates were on the whole lower than interest rates in other sectors of the financial market. The rates were the highest at the end of the year (in December, the average monthly rate on overnight loans was 25%) owing to seasonal factors. For most of the year the interbank lending market demonstrated a horizontal price trend with a wide range of rate fluctuation.

tuations: average monthly rates on overnight ruble loans fluctuated between 5% and 13%.

The domestic market in 2001 saw a significant decline in debt on foreign currency interbank loans, which led to the contraction of the share of such loans in total resident debt on interbank loans. Interest rates on foreign currency interbank loans extended to residents did not differ from the rates on similar transactions of Russian banks with non-resident banks.

FOREIGN EXCHANGE MARKET. In 2001, just as in the previous years, the foreign exchange market played the role of the main segment of the Russian financial market. The turnover of conversion operations far surpassed the GKO—OFZ and interbank lending market turnovers.

The structure of the interbank foreign exchange market continued to change in the period under review as conversion operations continued to concentrate on its over-the-counter segment. Additional impetus was given to this process by the lowering of the compulsory export earnings sale requirement last August, which led to reduced compulsory sales of export currency earnings on the exchange and increased foreign exchange sales by exporters in the over-the-counter segment. As a result, the share of direct transactions between banks in the total interbank market turnover in December 2001 expanded to 94% from 85% in December 2000. Overall, in 2001, the structure of the spot segment of the foreign exchange market was practically entirely restored to its pre-crisis state when relatively small-sum operations were conducted on clients' instructions on the exchange floor, while large-sum customer transactions and arbitrage transactions between credit institutions were conducted over the counter.

The recovery of the interbank market, based on growing trust between banks, the availability of free ruble funds amid a shortage of liquid and profitable instruments in the domestic financial market and the development of the domestic foreign exchange market infrastructure contributed

to the further expansion of the aggregate turnover of conversion transactions. In December 2001, the average daily ruble/dollar spot turnover in the interbank (exchange and over-the-counter) market rose more than 123% year on year, to \$3.6 billion. The main contribution to growth in the aggregate conversion turnover was made by the over-the-counter segment of the market, where the average daily turnover grew over that period from \$1.3 billion to \$3.4 billion, while exchange trading volumes contracted in both relative and absolute terms. The volume of ruble/dollar arbitrage deals in the over-the-counter foreign exchange market expanded as banks became more active in conducting conversion operations with their clients. At the same time, as interbank transactions grew at a faster rate, the share of customer conversion operations in the aggregate turnover of resident operations with US dollar for rubles contracted from 22% in December 2000 to 13% in December 2001.

The aggregate volume of ruble/dollar operations in the exchange segment of the foreign exchange market amounted to nearly \$66 billion, or almost half the previous year's \$124 billion¹. The main reasons for such significant decline in the exchange trade turnover were the lowering of the compulsory export earnings sale requirement and an increase in the mutual credit limits of authorised banks amid more flexible conditions and lower transaction costs in the interbank over-the-counter market.

Most of the exchange ruble/dollar spot transactions² were conducted at the afternoon trading session in the Electronic Lot Trading System, or SELT, on the Moscow Interbank Currency Exchange (MICEX). The share of these transactions in the total amount of ruble/dollar spot operations on the exchange was about 60%, and it expanded when arbitrage deals became more attractive and when the Bank of Russia stepped up its interventions. There was a year-on-year rise in the volume of ruble/dollar opera-

¹ Hereinafter the aggregate volume of ruble/dollar operations at the Single Trading Session (STS) and in afternoon trading in the Electronic Lot Trading System (SELT) on the Moscow Interbank Currency Exchange (MICEX) is used as an indicator of the aggregate volume of ruble/dollar operations in the exchange segment of the foreign exchange market.

² Exchange spot transactions include MICEX trades for "today" and "tomorrow" settlements and trades for T+2 and T+3 settlements.

**AVERAGE DAILY TURNOVER STRUCTURE OF DOMESTIC FOREIGN EXCHANGE MARKET IN 2001
(\$ billion)**

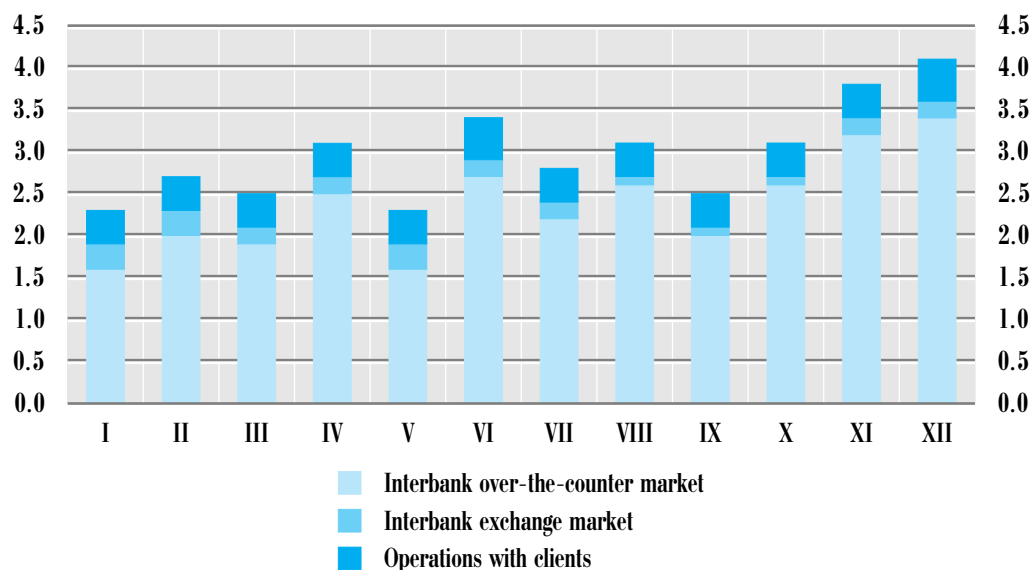


Chart 13

tions in trade for “tomorrow” settlements and the term structure of the exchange operations became more balanced as a result (on average trades for “today” settlements accounted for a half of the ruble/dollar turnover at the afternoon session and trades for settlements with other terms accounted for the other half).

The Single Trading Session (STS) of the interbank foreign exchanges in 2001 retained its role as a segment of the domestic foreign exchange market where rates corresponded more than anywhere else to the changing foreign trade situation and ensured transparency of the mechanism used in setting benchmark rates, including the setting of the ruble’s official exchange rate against foreign currencies by the Bank of Russia.

The foreign currency structure of the interbank over-the-counter market was dominated by dollar/ruble trades, which accounted for two-thirds of its aggregate turnover in 2001, and that corresponded to the leading role of the US dollar in the international and Russian foreign currency markets. At the same time, as the member countries of the Economic and Monetary Union (EMU) approached the introduction of a single European currency and the euro demonstrated

positive dynamics in international markets for the better part of the year, both banks and individual clients began to show more interest in operations with the euro. In December 2001, the average daily dollar/euro trade turnover rose almost 50% year on year to an equivalent of more than \$800 million. There was also a rise in interest in ruble/euro trade whose average daily turnover almost quadrupled, and in December amounted to an equivalent of \$80 million. It should be noted that the expansion of over-the-counter interbank trade ensured almost entire growth in ruble/euro turnover, while euro trade for rubles on the exchange floor remained unchanged from the year-end average of 110 million euros a month¹. The turnovers of operations with other foreign currencies remained small.

The currency structure of exchange trade was dominated by ruble/dollar transactions, while the volumes of operations with other foreign currencies were small.

The current account surplus stability and effective regulatory actions by the Bank of Russia helped keep intramonth dollar/ruble exchange rate fluctuations at a low level. With the exception of December, when pressure increased on the

¹ The volume of exchange trade in the euro for rubles signifies the aggregate turnover of euro/ruble transactions at the STS and in afternoon trade in the SELT on MICEX.

ruble in the domestic foreign exchange market, as it always does in that month, the ruble/dollar rate fluctuated within a narrow range of 8 kopecks to 36 kopecks. In the period under review, the dollar rose at the average monthly rate of 0.6% against the ruble.

Turnovers in the forward segment of the foreign exchange market remained small although in December 2001 operators' activity on MICEX and the St. Petersburg Currency Exchange, the two main trading floors for forward contracts, increased significantly year on year. The size of traders' average daily open currency positions bears this out. In December 2001, it rose to \$4.8 million from \$1.6 million in December 2000. The average daily turnover of the forward segment of the interbank foreign exchange market ranged in the second half of last year from \$5 million to \$10 million. Overall, the futures segment of the foreign exchange market was incomparably less liquid than the spot market, mainly because there were no objective conditions for its recovery.

GKO—OFZ MARKET. The situation in the GKO—OFZ market in 2001 was characterised by the narrowing of the gap between yields to redemption on government bonds and the inflation rate and a slight fall in market participants' activity.

Year on year, the average monthly trade turnovers in the secondary market declined from 15 billion rubles to 11 billion rubles, while price growth slowed down. In 2001, yields on government securities fell from 23% to 16% p.a. and the significant fact that the decline was even confirmed the preservation of market stability.

As GKO—OFZ market activity declined, government securities were less frequently used as a means of making profit. Short-term papers were used as an instrument of managing liquidity, but as they had no obvious potential for price growth, they increasingly became attractive as a means for the risk-free preservation of assets value only in the periods of a relative slowing of inflation. At the same time, investors who held medium- and long-term bonds were not interested in selling them because keeping OFZ bonds in the investment portfolio still yielded good returns owing to the fixed level of coupon income and the steady rise in prices.

Bond prices stopped rising only in late February and early March when the absence of a debt restructuring agreement with the Paris Club of creditor nations forced the Russian government to seriously revise the projected volumes of its borrowings in the domestic market. Uncertainty about the budget performance in that period caused yields on government securities to return to where they were at the beginning of the year. However, after changes were made in the budget law, which clarified the Government's debt-service policy, the situation in the market stabilised and the downward price dynamics were compensated by rapid growth in bond prices.

It should be emphasised that in the period under review the Finance Ministry intensified its operations as the domestic debt market acquired greater importance owing to the decision passed by the Government early last year to replace the external sources of financing the budget deficit with internal ones. As a result, the limit on the volume of borrowings in the GKO—OFZ market in 2001 was raised from 62 billion rubles to 92 billion rubles.

Consequently, 2001 saw an increase in the volume of the issuer's operations and attempts to manage government debt more actively. The Finance Ministry, therefore, made additional placements and redeemed its bonds in the secondary market. To reduce the large volume of bullet redemption of Series 25030 OFZ bonds due in December 2001, the Finance Ministry jointly with the Bank of Russia organised voluntary exchange of bonds of this issue for new securities.

However, the Finance Ministry's operations could not entirely prevent the narrowing of the market as a result of significant bond redemptions. Last year market volumes contracted from 184 billion rubles to 160 billion rubles at par. The tenor of outstanding bonds shortened at the same time.

The decreased diversity of government bond maturities along with a general contraction in market volumes was one of the reasons for a slight fall in investor interest in GKO and OFZ bonds. Another major factor of turnover contraction in the GKO—OFZ secondary market was the expansion of the corporate securities market. Higher interest rates on corporate bonds stimulated the flow of funds from the government debt market to the corporate securities market.

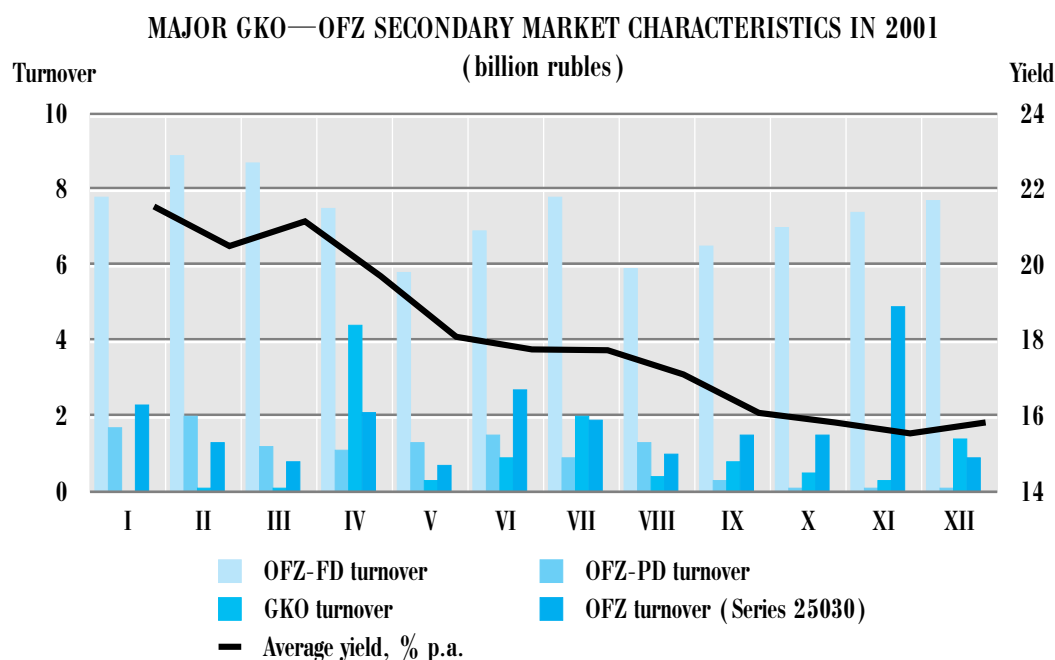


Chart 14

The change in the situation in the government domestic debt market altered the structure of its participants. Real yields to redemption close to nil and the existence of investment alternatives made government bonds less attractive as an investment. As a result, the market experienced a concentration of investments in the portfolios of individual participants: over the year the portfolio of dealer banks increased from 105 billion rubles to 117 billion rubles, while the top 10 dealers accounted for more than 70% of the entire market volume.

The volume of GKO—OFZ bonds held by non-residents continued to shrink fast, but unlike the situation in the previous year when the reduction of non-resident investments was caused by their active selling of government bonds with the aim of buying corporate instruments, in 2001, the contraction of foreign investors' portfolio was a natural process caused by the redemption of a large amount of Finance Ministry bonds.

The decline in the volume of bonds sold to non-residents was chiefly connected with the continuation by the Bank of Russia of its policy of gradually reducing the amount of funds blocked in non-residents' C-type accounts since August 1998. For this purpose the Bank of Russia held nine special foreign currency auctions worth a total amount of \$500 million, placed and redeemed a repatria-

tion GKO issue at the instruction of the Finance Ministry and made some changes in the C-type account regime, allowing non-residents to conduct a broader range of operations.

OGSZ MARKET. There were three outstanding 1-year issues of state savings loan bonds (OGSZ), with two six-month coupons each, in the market at the beginning of 2001. Having a total nominal value of 1 billion rubles, these bonds were redeemed when due on July 20 (Series 30), September 28 (Series 31) and December 20 (Series 32). Coupon interest was calculated taking into account the inflation rate during the entire six month period that preceded the coupon income announcement date and increased by 1.5 percentage points. Thus, as of the beginning of the year coupon income on outstanding OGSZ bonds amounted to between 9.2% and 11.0% for the coupon period.

OGSZ secondary market participants demonstrated low activity although OGSZ yield was a little higher than the yield on bank deposits with comparable maturity. Moreover, OGSZ bonds had an additional advantage of being accepted by some banks as collateral on a loan.

The Russian Government's Directive No. 94-r, dated January 24, 2001, allowed the Finance Ministry to issue 4 billion rubles of state savings

loan bonds during 2001. Later, however, the Government revised its plans for borrowing in the government domestic debt market and decided not to issue OGSZ bonds.

REGIONAL BOND MARKET. The regional bond market in 2001 developed in pace with the general trend of the stock market. This segment of the financial market demonstrated an expansion in the volumes of bonded loan placements and a significant decline in yields on financial instruments. In terms of maturity and purpose, investors gave preference to medium-term instruments of the capital market.

Last year, 15 regions and municipalities registered the terms and conditions of their bond issues and marketability in the Finance Ministry.

The St. Petersburg government bond market last year retained its leadership in the municipal and regional loan market. More than 2.2 billion rubles of bonds at par were placed at primary auctions at yields ranging between 17.7% and 36.6% p.a. The St. Petersburg secondary bond market turnover in 2001 amounted to nearly 8.4 billion rubles. Effective bond yields in the secondary market had a tendency to fall.

The Moscow government in 2001 floated on MICEX 1.75 billion rubles of bonds with auction yield of up to 24% p.a. The aggregate volume of secondary trade in all types of Moscow bonds in 2001 exceeded 6.6 billion rubles. During 2001 the Moscow government repaid all its foreign bonded loans.

Towards the end of the year secondary trading in bonds of the Republic of Bashkortostan, the Leningrad Region and the Komi Republic was conducted on MICEX.

Overall, the regional loan market saw an increase in the number of issuers, the range of financial instruments broadened and their liquidity increased. As the financial standing of issuers improved, international rating agencies upgraded the long-term credit ratings of St. Petersburg, Moscow and some other regional issuers.

RUSSIA'S FOREIGN CURRENCY DEBT MARKET. In 2001, Russia's outstanding foreign currency debt obligations were represented by the following instruments:

- foreign bonded loans of the Finance Ministry, such as:
 - eurobonds placed in 1996—1998 by open subscription, due for redemption in 2001—2028;
 - eurobonds issued in 2000 in the course of the restructuring of debt to the London Club of commercial bank creditors, due for redemption in 2010 and 2030;
 - bonds issued in 1998 in the course of the restructuring of GKO bonds, due for redemption in 2005 and 2018;
- Series IV—VII of government domestic foreign currency loan bonds (OVGVZ) issued in 1993 and 1996 and due for redemption in 2003—2011 and government foreign currency loan bonds (OGVZ) issued in 1999 when Series III OVGZ bonds were restructured and set for redemption in 2007.

As of the beginning of 2001 these bonds had a total nominal value of \$47 billion.

In 2001, Russia did not issue new debt obligations denominated in foreign currency.

Coupon income payments on all currency bond issues were effected strictly on schedule. A total of \$2.8 billion was paid out.

In addition, last year Russia redeemed \$1 billion of first-issue eurobonds placed in 1996. As a result, the nominal value of Russia's foreign debt obligations decreased as of January 1, 2002, to \$46 billion.

In the period under review, despite the deterioration of the world market situation, the Russian sovereign foreign currency debt market demonstrated a significant increase in prices, which was accompanied by a corresponding decline in yields. Eurobond prices rose by 21 points on average (from 9 to 26 points, depending on the issue) and OVGZ were up 25 points on average. The most significant growth was registered in Series IV OVGZ bonds, due for redemption in 2003, whose prices rose by 34 points over the year. As interest rates in world financial markets steeply fell while coupon interest rates on Russian eurobonds were high, the market price of eurobonds placed by open subscription at the end of the year exceeded par value (by 3 points on average).

Yields on foreign currency debt obligations in 2001 fell to 7—16% p.a. Eurobonds due for re-

demption in 2003 and 2004 had the lowest yields. Investment in long-term papers guaranteed high returns. Average yield on internal foreign currency loan bonds fell by half to 12% p.a.

The situation in the foreign currency bond market was affected by the continuing growth of the Russian economy, high world oil prices, considerable international reserves, the foreign debt management policy, especially major payments to the Paris Club, the redemption of the first issue of Russian eurobonds and the conclusion of an agreement on the restructuring of Soviet-era commercial debt to foreign commercial creditors. Against this background, international rating agencies repeatedly upgraded Russia's long-term sovereign rating. Demand for Russian securities from foreign investors was also stimulated by the situation in the Argentine securities market and an unprecedented reduction of interest rates by the US Federal Reserve System and the European Central Bank.

High yields on eurobonds stimulated the activity of Russian commercial banks in this segment of the market. The annual gross value of operations conducted in the secondary market between residents and non-residents with Russia's outstanding foreign currency debt instruments in 2001 amounted to \$26.8 billion at market prices.

According to the Emerging Markets Traders Association (EMTA), in 2001, trade in Russian debt instruments in international markets reached its highest level since 1998, increasing 143% compared to 1999 and by a quarter compared to 2000. It should be noted that the eurobonds issued in the course of the restructuring of debt to the London Club, due for redemption in 2030 Q4, were the most frequently traded instrument in the emerging markets.

SECURITIES OF CREDIT INSTITUTIONS. In 2001, banks continued to increase the issue of their own **promissory notes**. As of January 1, 2002, the bank notes and acceptances portfolio amounted to 239 billion rubles, i.e. an increase of more than one-third year on year. Most of the new notes issued were ruble-denominated instruments. Banks used their own notes to raise short- and medium-term funds.

Bank promissory notes are attractive as an instrument used in active and passive operations

**VOLUMES OF RESIDENT OPERATIONS
WITH NON-RESIDENTS TO BUY AND SELL
RUSSIAN GOVERNMENT OUTSTANDING
CURRENCY DEBT OBLIGATIONS
IN SECONDARY MARKET IN 2001
(at market price, billion US Dollars)**

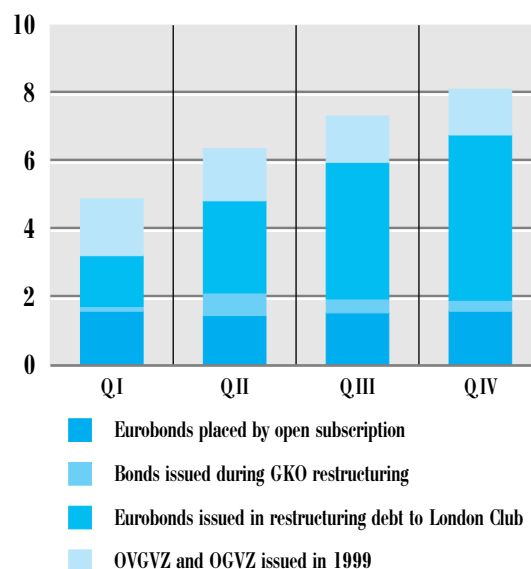


Chart 15

because their issue does not require registration and is low-cost. The expansion of note operations was also facilitated by the reduction of the speculative attractiveness of the alternative sectors of the financial market and the widening of yield spreads.

In 2001, yield differentials between notes with different terms decreased as yields on short-term papers rose. The tenor of bank notes stabilised in 2001 and the market was dominated by notes with terms of up to 6 months.

It should be noted that compared to 2000, in 2001 credit institutions significantly increased the issue of **shares**, especially in the process of reorganising limited liability companies into joint-stock companies.

Last year, 413 credit institutions issued 105.1 billion rubles of shares against 62.1 billion rubles in 2000; of these, 67 credit institutions registered share issues in the course of reorganisation into joint-stock companies to the amount of 63.9 billion rubles against 8.0 billion rubles in 2000. Large banks took an active part in this process during the year under review. The

methodology of calculating own funds (capital), which was used in 2001 and which did not require including the authorised capital of limited liability companies in the calculation of fixed capital, continued to encourage reorganisations.

Last year, 329 credit institutions registered share issues connected with an increase in authorised capital, issuing a total of 39.5 billion rubles of shares against 51.2 billion rubles in 2000.

As in previous years, the biggest share issues connected with authorised capital increases were implemented by credit institutions in Moscow and the Moscow Region, the Republic of Tatarstan, the Republic of Bashkortostan and the Tyumen and Nizhni Novgorod regions. Additional share issues were launched in Moscow and the Moscow Region by 117 joint-stock banks to the amount of 28.7 billion rubles, in the Republic of Tatarstan by 11 credit institutions to the amount of 800 million rubles, in the Republic of Bashkortostan by four credit institutions to the amount of 800 million rubles, in the Tyumen Region by 11 credit institutions to the amount of 2.2 billion rubles and in the Nizhni Novgorod Region by six credit institutions to the amount of 800 million rubles.

The Russian Federal Property Fund invested considerable sums in authorised capital on behalf of the Government. In line with the 2001 Federal Budget Law the authorised capital of the Russian Development Bank (OAO Rossiiski Bank Razvitiya) was increased by 4.0 billion rubles and the authorised capital of the Russian Agricultural Bank (Rossiiski Selskokhozyaistvenny Bank) by 1.43 billion rubles.

At the same time, the value of shares placed by banks with foreign interest in 2001 declined 30% year on year, because by the end of 2000 the problem of recapitalising these banks after the 1998 crisis had been by and large resolved.

Four share issues to the amount of 600 million rubles were registered in connection with bank takeovers and 14 share issues to the amount of 1.2 billion rubles were registered in the process of consolidation and conversion of bank shares.

The value of the **bond issues** registered in 2001, just as in 2000, was low from the viewpoint of their role in creating the resource base of banks. One of the reasons was a legislative re-

striction on the issue of bonds unsecured by the size of authorised capital. The strategy of Russian banking sector development provides for amending the applicable legislation and lifting this restriction.

Fifteen bond issues to the amount of 4.6 billion rubles were registered in 2001; 11 credit institutions placed 2.3 billion rubles of bonds, whereas in 2000, eight credit institutions issued 5.4 billion rubles of bonds and placed 2.2 billion rubles of bonds. As in previous years, most of the bonds were issued by Moscow-based credit institutions in the open market (the MICEX stock trading floor) and had maturity from 6 months to 10 years.

The secondary bank securities market developed dynamically in 2001. Bank bonds were in high demand in the secondary market. Bonds issued by credit and financial institutions accounted for nearly 40% of the corporate bonds traded on MICEX in 2001. Bank share prices in the secondary market had a tendency to rise in 2001 on small trading volumes (up to 2% of the total volume of secondary trade in shares on MICEX and in the Russian Trading System, or RTS).

CORPORATE SECURITIES MARKET OF THE NON-FINANCIAL SECTOR. The corporate shares and bonds market developed dynamically in 2001 as the situation in the non-financial sector continued to change for the better and conditions in world commodity markets remain favourable. An additional factor that made Russian corporate papers more attractive at the end of last year was the decision by several international rating agencies to upgrade Russia's rating on bonds and foreign currency deposits.

In 2001, the importance of the Russian corporate bond market increased as a source of financing the real economy. Specifically, 24.7 billion rubles of corporate bonds at par were placed in 2001 through MICEX, the country's principal trading floor for corporate securities. The corporate bond secondary market expanded at rapid rates in the year under review. The average daily volume of trade in corporate bonds on MICEX (excluding over-the-counter transactions concluded at the trading session) rose from 38 million rubles in January to 95 million rubles in December.

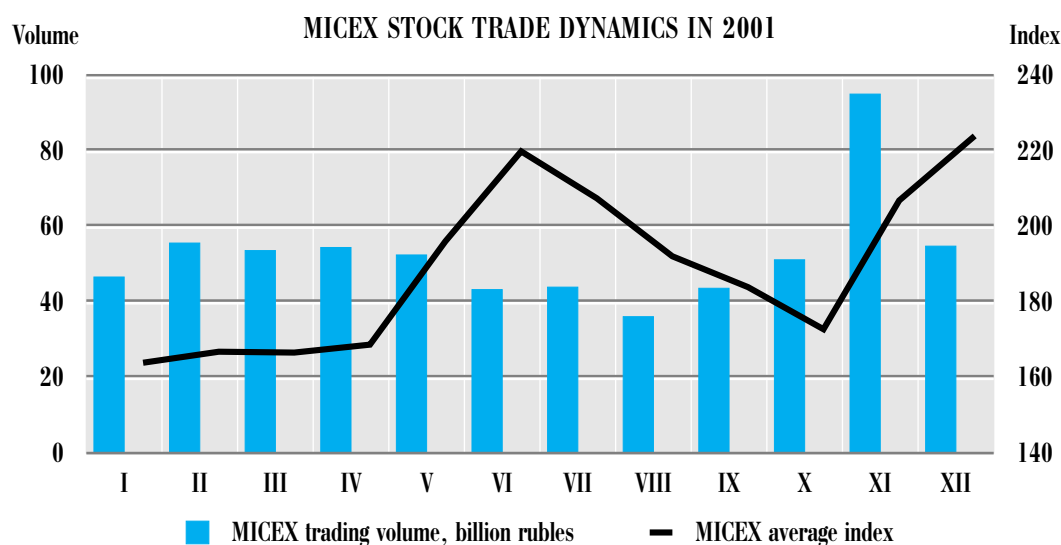


Chart 16

In December, the effective yield of the leading industrial issuers' bonds with maturity up to 4 years was 16—17% p.a., which represents a slight increase on the yield of the government debt instruments with the same maturity. However, it was lower than the interest charged by banks for loans extended to corporate borrowers for the corresponding term.

Bonds issued by enterprises in the oil industry were the most liquid industrial bonds and their share in the corporate bonds traded on MICEX in 2001 exceeded 30%.

Last year, the development of the stock market was seriously influenced by mostly positive market and structural changes in the key branches of the economy and at individual large bond-issuing enterprises.

The Russian stock market remained relatively stable last year despite the deterioration of the situation in major foreign stock markets. The principal stock market indicators (trade turnovers and stock indices) on MICEX and in the RTS maintained upward dynamics during the year. The MICEX index rose 65% in 2001 and the RTS index 81%. The capitalisation of the stock market in the RTS doubled in 2001, and reached \$69 billion.

The biggest volume of operations on MICEX and in the RTS was conducted with the shares of the power industry, especially the Unified Energy System. This issuer's share of MICEX stock trade turnover in 2001 was about 78% and in the RTS

34%. Two or three issuers also dominated the share trade of the fuel sector. As the market turnover structure was poorly diversified in terms of issuers, investment risks remained high in the Russian stock market.

The non-financial sector secondary note market in 2001 was dominated, as before, by Gazprom promissory notes, although activity in this sphere has decreased a little in recent months.

Promissory notes of manufacturing enterprises were mainly used as a settlement instrument and a means of managing their short-term liquidity. Some issuers used notes to take mid-term loans, but the activity of operations with notes with terms over 1 year was low.

DERIVATIVES MARKET. Economic growth in Russia, a rise of activity in the markets trading in basic assets and improvements in legislation in 2001 contributed to the further development of the financial derivatives market, especially growth in market turnovers. At the same time, the technical infrastructure of the market rapidly expanded, including electronic trade systems and Internet-trading.

In September, the forward section of the St. Petersburg Stock Exchange was transformed into the forward section of the RTS (FORTS) and that attracted new operators to participate in trading and boosted trade in forward contracts for shares and stock indices. The share of the stock instruments in market turnovers expanded as a

**STRUCTURE OF TRADE IN FORWARD
CONTRACTS FOR BASIC ASSETS IN 2001**
(billion rubles)

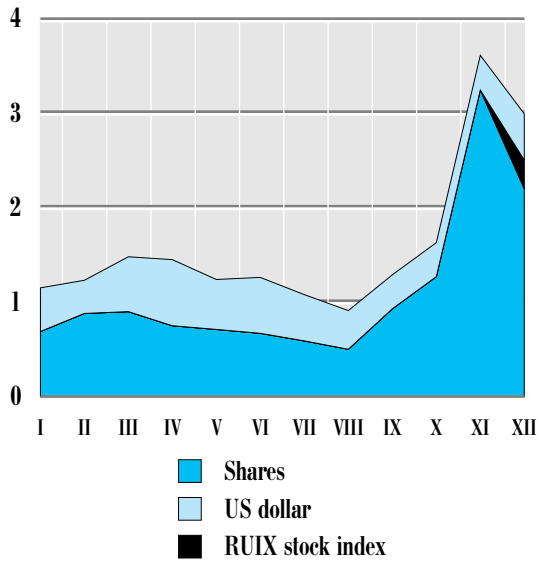


Chart 17

result. The most significant growth was registered in forward contracts on shares of the Unified Energy Systems.

Growth in turnovers was accompanied by the expansion of the range of market instruments. Forward contracts for stock indices appeared for the first time in the Russian derivatives market in 2001, and the range of currency and stock forward contracts widened in terms and basic assets. There was also a rise in operations with share options.

Operations with forward contracts with terms over 1 month expanded, reflecting the increased role in the market of investors hedging exchange rate risks in operations with shares and foreign currency. At the same time, imbalances remained in the derivatives market, connected with the absence of medium- and long-term contracts, and interest, commodity and credit derivatives on the market.

I.4. BALANCE OF PAYMENTS AND FOREIGN DEBT

I. BALANCE OF PAYMENTS

The balance of payments remained stable despite the deterioration of the world economic situation. It was favourably affected by a decreased outflow of private capital, which occurred amid general macroeconomic stability in the country.

There were enough foreign assets for the full and timely service of the government's foreign debts and for the further accumulation of foreign exchange reserves.

CURRENT ACCOUNT

The current-account surplus amounted to \$35.1 billion, which represents a decrease of \$11.3 billion, or 24%, from 2000 (\$46.4 billion). The surplus in trade with non-CIS countries amounted to \$34.1 billion and the surplus in trade with CIS countries was \$900 million.

Foreign trade conditions for Russia in 2001 were worse than in 2000: the export price index was 0.938 and the import price index was 0.943. Foreign trade turnover expanded 4% to \$157.0 billion; exports fell 2%, while imports rose 20%. Accordingly, the trade surplus contracted 19%.

The export of goods amounted to \$103.2 billion, of which exports to non-CIS countries amounted to \$88.1 billion (a fall of 4%) and exports to CIS countries \$15.1 billion (an increase of 6%).

As before, fuel and energy products accounted for nearly half the value of exports, although their export declined by \$500 million. The export of other goods contracted by \$1.9 billion. In both cases the price factor was responsible.

The price of oil exports fell 13% year on year, the price of petroleum product exports declined 17%, ferrous and non-ferrous metal exports decreased 10%, engineering products 10% and chemicals 6%.

Unlike the situation in 2000, when the soaring contract prices of major Russian exports led to significant growth in deliveries and the physical index of exports rose to 1.09, in 2001, a fall in contract prices caused the index to fall to 1.04.

The leading consumers of Russian goods were Germany (9% of Russian exports), Italy (7%), China (6%) and Ukraine, Belarus and the Netherlands (5% each).

The import of goods amounted to \$53.8 billion, of which imports from non-CIS countries amounted to \$40.7 billion and imports from CIS countries \$13.1 billion. Non-CIS imports grew 30%, while CIS imports fell 3%.

The decisive factor was, just as in the 2000 base year, the expansion of import volumes, which amounted to 28%. It resulted from a rise in domestic demand owing to income growth in the economy (GDP growth amounted to 5% and household real disposable money income was up 5.8%); in addition, imports became relatively

cheaper owing to the ruble's real rally. Growth in imports was also facilitated by a 6% decline of the average level of contract prices and an overall reduction in import duties as a result of their harmonisation in the year under review.

The share of machinery, equipment and transport vehicles expanded in the goods structure of imports from 31% to 34%. The share of two other major components remained at the level of the base period: foodstuffs, including raw materials for their production, accounted for 22%, and chemicals 18%.

The share of imports from non-CIS countries expanded from 70% to 76%, while the share of imports from CIS countries contracted from 30% to 24%.

The leading suppliers of goods to Russia were Germany (14%), Belarus (10%), Ukraine (9%), the United States (8%) and Kazakhstan (5%).

There was a deficit of \$10.2 billion in the **balance of services**, which grew 33% in absolute terms. Exports rose 9% and imports expanded 20%.

Of decisive importance for this kind of international operations were balance of payments components such as transport and travel.

The export of transport services increased 31%, while the cost of transportation rose in all kinds of transport. The share of transport services in the total value of exports expanded from 36% to 43%.

The services provided to foreigners who travel to Russia as tourists and on private or business trips were valued at \$3.7 billion, a decrease of 2% from the base period. The decline is attributable to the changes in the make-up of travellers: the share of travellers from non-CIS countries, who spend the most money on travel to Russia, contracted by 4 percentage points. In addition, there was a fall in the number of long private trips and tourist visits.

The import of services expanded 20%, mainly owing to the expansion of domestic solvent demand.

Residents' spending on foreign travel rose 15% year on year to \$11.8 billion. The most significant factor was a 20% increase in the number of business trips to non-CIS countries and an 11% rise in the number of private visits.

The import of transport services increased 28%; the import of transport services from non-

CIS countries grew 38%, while the import of transport services from CIS countries fell 2%.

There was a surplus of \$100 million in the **wage balance** against a surplus \$300 million in 2000.

Wages and salaries paid to foreign workers were estimated at \$500 million, or twice the sum paid in 2000. The number of non-residents employed in the Russian economy rose by 70% and their average wage increased 25%.

The income of Russians employed abroad totalled \$600 million, which represents an increase of 25%. This growth is the result of a rise in the number of Russians working in other countries and increases in their average wage.

The deficit of the **balance of investment incomes** contracted to —4.0 billion dollars (—7.0 billion dollars in the comparable period last year) as a result of growth in incomes from international operations conducted by various sectors of the economy.

The income expected from investment was estimated at \$6.2 billion, a rise of 45% on 2000. The amount of interest due for payment totalled \$10.2 billion, a fall of 9%.

The brunt of the current foreign debt service was borne by the government sector. Actual interest payments on the federal foreign debt amounted to \$5.9 billion.

Income due for payment on banking sector debt obligations contracted 11%, while income due for payment on debt obligations of the non-financial enterprise sector rose 4%, reflecting an acceleration of foreign capital inflow.

A deficit of —0.3 billion dollars was registered in **current transfers**. In the comparable period, there was a surplus of \$100 million. The amount of funds received increased 11%, while the amount of funds paid grew almost 58%.

CAPITAL AND FINANCIAL ACCOUNTS

CAPITAL ACCOUNT. The deficit of capital transfers amounted to —9.4 billion dollars as a result of operations connected with the settlement of debt on assets and liabilities of the former Soviet Union. As a member of the Paris Club, Russia remitted \$10.6 billion of debt it was owed by poorest nations and one of the consequences of the restructuring of its debt to the Czech Republic and

Slovakia was a write-down (remission) of that debt to the amount of \$1.7 billion.

The deficit of migrants' transfers rose year on year from -0.1 billion dollars to -0.5 billion dollars, mainly as a result of a change in the number of migrants: the number of foreigners entering Russia to live permanently fell sharply (by 46%), while the number of emigrants declined by 17%. As a result, the value of property and financial assets (\$900 million) taken out of the country by emigrants exceeded more than twice the value of property and financial assets brought into Russia by immigrants (\$400 million).

FINANCIAL ACCOUNT. The deficit of the financial account amounted to -17.3^1 billion dollars against -21.0 billion dollars in 2000.

Foreign liabilities declined by \$1.7 billion¹ (in the base period they contracted by \$400 million¹).

Federal government liabilities declined by \$6.6 billion¹.

Total payments on the principal debt were \$6.3 billion, of which payments on the new Russian debt, which was serviced fully and on time, amounted to \$4.5 billion, including \$1.5 billion paid on loans to international financial institutions. The last payment was effected on the IMF stand-by credit taken by the Russian government in 1995—1996.

In addition, the Bank of Russia repaid its entire debt to the IMF within the framework of the Compensatory and Contingency Financing Facility. It should be emphasised that most of the payments (\$2.4 billion out of \$2.8 billion) were made ahead of schedule in order to reduce the peak amount of payments due in 2003.

Russian regions also fulfilled their obligations to non-residents on time, paying \$800 million on securities and foreign loans.

The actual load of government foreign debt service and payment load on the economy increased: the debt-service ratio (the ratio of the value of debt payments to the export of goods and services) rose from 9.5% to 11.5%. At the same time, the debt load on the budget decreased owing to the stable dynamics of budget revenues: the ratio of actual

payments to non-residents to consolidated budget revenues declined from 14.8% to 14.3%.

The value of the federal government's new foreign borrowings was small: funds were borrowed mainly within the framework of the existing credit lines of international financial organisations (\$600 million).

The foreign liabilities of the *banking sector* rose by \$4.6 billion, exceeding the 2000 level more than three times (\$1.5 billion). The inflow of foreign capital in its most liquid form — balances in accounts and short-term deposits — increased a little (from \$1.2 billion to \$1.3 billion). Most of the increment in liabilities resulted from taking loans from non-residents (\$2.4 billion) and portfolio investment (\$800 million), which reflected how the international financial market was gradually regaining confidence in the Russian banking system.

As of January 1, 2002, the foreign liabilities of the banking system were valued at \$14.6 billion, of which \$11.2 billion, or 77%, were short-term liabilities. US dollar-denominated liabilities prevailed in the currency structure of foreign debt.

There was also a noticeable rise in foreign capital flow to the *non-financial enterprise sector*, which increased to \$3.3 billion from \$1.8 billion in 2000. The growth was the result of Russian enterprises' greater financial stability and the their increased attractiveness for investors.

The net inflow of foreign direct investment remained unchanged from last year's \$2.5 billion. The biggest amounts of foreign direct investment came from the United States (24%), the Netherlands (18%), Britain (10%), and Cyprus and Germany (9% each). The principal areas of investment were pipeline transport, trade and the fuel industry.

Growth in **residents' foreign assets** (net of the official foreign currency reserves) amounted to \$15.7 billion¹, which represents a significant fall from 2000 (\$20.6 billion).

Foreign assets of the *public sector* increased by \$2.0 billion¹, mainly as a result of growth in overdue debt on loans extended to foreign countries by the former USSR.

¹ Here and in Section I.4.I data are given without taking into account operations connected with remission and netting of debts in order to ensure comparability of figures on the movement of foreign assets and liabilities in the year under review and base year.

The *banking sector's* foreign assets grew less intensive (by \$1.6 billion against \$3.5 billion in 2000) as the banking sector had more opportunities to invest in the domestic economy, while interest rates fell in international financial markets as a result of the global economic slowdown.

As of January 1, 2002, banking sector foreign assets (net of the official reserves) amounted to \$20.4 billion, although short-term financial instruments accounted for 83% of their value.

The value of the banking sector's net international investment position (the difference between foreign assets net of the reserves and foreign liabilities net of IMF loans) fell from \$8.9 billion to \$5.8 billion, mainly as a result of a significant growth (by more than 40%) in the foreign liabilities of banks.

Operations conducted by the *non-financial enterprise sector* accounted for most of the overall increase in the economy's foreign assets. The sector's investments abroad rose by \$12.1 billion¹, but they were still below the previous year's level of \$15.5 billion.

Resident operations with foreign exchange led to its outflow from the non-banking sector (\$300 million). At the same time, household spending on foreign exchange as a share in total household spending contracted from 6.6% to 6.0%.

CHANGE IN FOREIGN EXCHANGE RESERVES. The general balance of payments situation allowed the Bank of Russia to continue to increase foreign exchange reserves within the framework of its exchange rate policy: in 2001, the reserves expanded by \$8.2 billion and as of January 1, 2002, they amounted to \$32.5 billion or, monetary gold included, \$36.6 billion.

The sufficiency indicators on the country's international reserves improved: the accumulated reserves were enough to finance the import of goods and services for 5.9 months (5.4 months as of January 1, 2001). The ratio of cover of the broad monetary base by international reserves also grew: from 1.09 to 1.19.

II. FOREIGN DEBT

In 2001, residents' foreign debt contracted from \$161.4 billion to \$150.9 billion, a decrease of

\$10.5 billion, of which \$3.1 billion resulted from the exchange rate revaluation.

The *government sector* liabilities as of the end of the year under review remained the main part of Russia's foreign debt (\$113.8 billion, or 75% of the entire debt), of which the federal government's debt amounted to \$112.8 billion and regional governments' debt equalled \$1.0 billion.

The largest portion of the federal government's foreign liabilities was the debt assumed by Russia as the legal successor of the former USSR. As of January 1, 2002, this debt accounted for 55% of the federal government's total foreign debt. It included the debt to the Paris Club (\$36.3 billion, or 59% of the former USSR's debt), the debt to former socialist-bloc countries (\$11.3 billion, or 18%), obligations on the 3rd, 4th and 5th tranches of OVGZ bonds (\$1.7 billion, or 3%) and other foreign liabilities (\$12.5 billion, or 20%), comprising the debts to countries that are not members of the Paris Club, the International Investment Bank (IIB) and the International Bank for Economic Co-operation (IBEC) and commercial debt.

The new Russian debt was valued at \$51.0 billion. Most of this debt was in the form of foreign currency securities (\$27.0 billion, or 53% of the new Russian debt) and loans from international financial organisations (\$14.4 billion, or 28%). The debt on inter-governmental loans amounted to \$6.4 billion (13%) and the debt to non-residents on ruble-denominated securities in the form of GKO—OFZ bonds equalled \$600 million (1%).

The foreign debt of regional governments as of the reporting date was represented by eurobonds (\$200 million) and loans from foreign banks (\$800 million).

The Bank of Russia, as it was noted above, has repaid its entire \$2.8-billion debt to the IMF, of which \$2.4 billion were paid ahead of schedule.

The *banking sector's* foreign debt rose by \$4.3 billion and was valued at \$13.6 billion.

Foreign debt obligations of *non-financial enterprises* increased during the year in all their categories (by \$1.7 billion) and as of the end of the period under review amounted to \$23.5 billion.

At the end of last year the aggregate foreign debt of Russian residents accounted for 49% of GDP, of which the government sector's debt accounted for 37% of GDP.

I.5. WORLD ECONOMY AND INTERNATIONAL FINANCIAL MARKETS

In 2001, economic growth rates slowed down in all regions of the world and in all groups of countries — the industrialised nations, developing countries and countries with transitional economies. The global economic slowdown last year had fundamental causes connected with the ending of a cyclic boom in the United States and a simultaneous fall in business activity in the leading industrialised nations. The main factor of the world-wide spread of the unfavourable trends that appeared in the leading industrialised economies in 2001 was a slowdown in international trade.

According to the US National Bureau of Economic Research, the longest period of cyclic growth in US history, which began in March 1991, ended in March 2001, and a recession characterised by continuous decline in production and employment began. A fall in US imports (the United States accounts for almost one-fifth of the world import of goods) had a negative effect on business activity in other countries, especially in the high-tech sectors of their economies. The worst affected in this sense was Japan, the new industrial countries of Asia and other South-East Asian countries, and also the United States' leading trading partners in North America.

ECONOMIC GROWTH. According to an IMF estimate, growth in the world's real GDP in 2001 slowed to 2.5% from 4.7% in 2000. Economic growth rates slowed particularly in the

industrialised nations, whose aggregate real GDP growth is estimated at 1.2% compared with 3.9% in 2000.

US real GDP growth rates slowed to 1.2% in 2001 from 4.1% in 2000. The main reason for the slowdown was a fall in investment activity. In 2000, when the percentage of production capacity used in the United States increased, growth in the supply of goods began to outstrip growth in demand. That led to the deterioration of enterprises' profit indicators, a decline in production and the number of jobs and the cancellation of a large number of investment projects, except those that paid off quickly. The September 11 events caused serious economic damage to the United States as work schedules of enterprises and institutions in the largest business and public centres were disrupted; airlines, insurance companies and tourist businesses incurred losses and financial markets were destabilised. At the end of the year, however, the US economy began to show signs of recovery, which was stimulated by a reduction in excess finished products inventories, a rise in consumer demand brought about by the lowering of taxes and interest rates and an increase in government expenditures.

As commercial ties with the United States have always played a great role in Canada's foreign trade, the US recession caused economic growth in Canada to slow to 1.5% in 2001 from 4.4% in 2000. However, household sector demand con-

REAL GDP GROWTH IN LEADING INDUSTRIALISED NATIONS IN 2001
(as % of 2000)

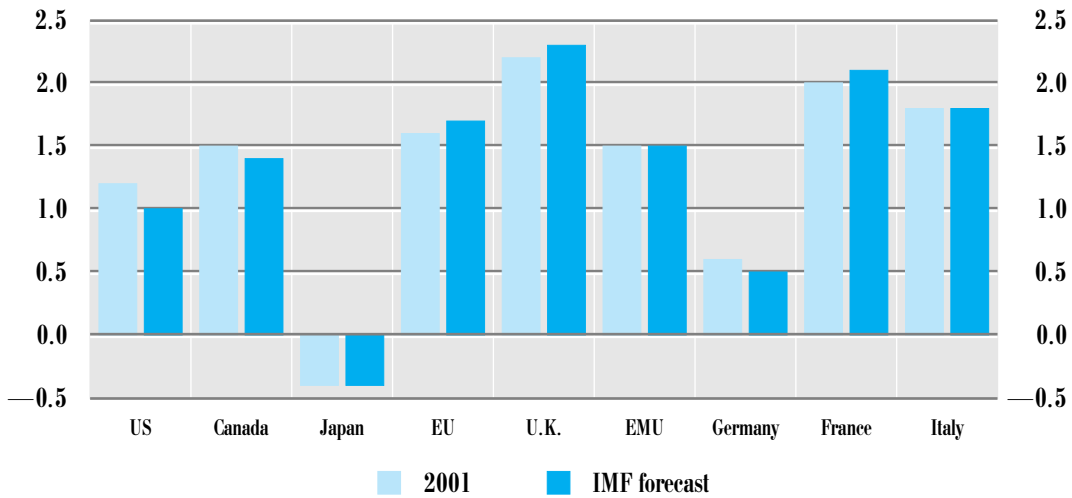


Chart 18

tinued to demonstrate dynamic growth amid lower taxes and a high level of employment.

Economic growth rates in the European Economic and Monetary Union in 2001 slowed to 1.5% from 3.3% in 2000. A slowdown was registered in the three largest EMU economies — Germany, whose real GDP contracted quarter on quarter in Q3 and Q4 of the year, France and Italy. The main reasons for the slowing of the EMU's real GDP were a fall in consumer activity and a reduction in gross capital formation, which were caused by the negative effect of higher inflation on household real income dynamics and the deterioration of companies' business climate forecasts. A stabilising factor in that situation was a fall in the value of imports, which was steeper than a fall in the value of exports.

Britain demonstrated the most dynamic economic growth among the leading industrialised nations. Owing to it, real GDP growth in the European Union (1.6% in 2001) was bigger than in the EMU, which is a part of the EU. Nevertheless, Britain's economic growth slowed to 2.2% in 2001 from 3% in 2000.

The deterioration of the situation in the stock markets and the difficulties experienced by European companies with branches in the United States contributed to the economic slowdown in Europe.

Japan's real GDP in 2001 contracted 0.4% year on year, whereas in 2000 it expanded 2.2%.

Beginning from 2001 Q2, the Japanese economy has been in recession, caused by a fall in exports and the slowing of growth in gross capital formation. The decline in the export and production of goods in Japan in 2001 was the consequence of a global fall in demand for information and communication technology products, competition from other Asian countries in world commodity markets and persistent problems with the fulfilment by non-financial borrowers of original loan agreements with financial institutions.

The economies of the new industrial nations of Asia practically stopped growing as world trade growth slowed considerably compared to 2000, while the economies of these countries were heavily dependent on exports dynamics. These, in turn, were increasingly affected by a markedly worse situation in the information and communication technology sectors. Singapore's real GDP contracted 0.2% in 2001, whereas in 2000 it grew 10.3%. Taiwan's real GDP declined 1.9% after 5.9% growth in 2000. The rate of GDP growth in Hong Kong slowed to 0.1% compared with 10.5% in 2000. South Korea registered a rise in domestic demand brought about by a stimulating budget policy pursued by the government, the measures it took to facilitate enterprises' access to the financial markets and a fairly high level of consumer activity. Nevertheless, South Korea's economic growth rates in 2001 slowed to 3% compared to 9.3% in 2000.

Economic growth in developing countries and emerging markets also slowed down, but it remained faster than in the industrialised nations. According to an IMF estimate, real GDP growth in the developing countries in 2001 was 4% compared to 5.7% in 2000. Growth rates in the transitional economies in 2001 slowed to 5% from 6.6% in 2000.

Economic growth in China in 2001 slowed to 7.3% from 8% in 2000. This minor slowdown was the result of the slowing of growth in Chinese exports. Domestic demand expanded, however, under the effect of government measures to increase pay for civil servants and promote the development of credit mechanisms in the car and housing markets. Growth in gross capital formation reflected an increase in government capital investment and inflow of direct foreign investment.

The economic slowdown in South-East Asian countries was caused by a fall in regional exports, which negatively influenced consumer demand and investment dynamics, because the export sectors of the economies of these countries account for a large part of personal money income and capital investment. Real GDP growth in the Philippines in 2001 was 3.4% compared with 4% in 2000. Thailand's growth rate slowed to 1.8% from 4.6% in 2000. Malaysia's GDP growth slowed to 0.4% from 8.3% in 2000, while Indonesia's GDP expanded 3.3% against 4.8% in 2000.

Economic growth rates slowed down in Latin America as a result of a fall in demand for goods and raw materials exported from there. This factor was particularly important for Mexico and Chile. As for other problems of the region, mention should be made of the deteriorating of the financial crisis in Argentina and the energy crisis in Brazil, caused by natural and technogenic disasters. Mexico's real GDP contracted 0.3% in 2001 after 6.6% growth in 2000. Chile's real GDP grew 2.8% against 4.4% in 2000. Argentina's real GDP shrank 4.5% after a 0.8% contraction in 2000. Economic growth rates in Brazil slowed to 1.5% from 4.4% in 2000.

As a result of the slowing of economic growth in the European Union and the financial crisis in Turkey, business activity in Central and Eastern Europe and the Mediterranean in 2001 was at a lower level than in 2000. Turkey's real GDP contracted 7.4% in 2001 after 7.2% growth in 2000.

Economic growth rates in Hungary slowed to 3.8% from 5.2% in 2000 and Poland's growth fell to 1.1% from the previous year's 4%. Economic growth rates in the Czech Republic accelerated to 3.6% in 2001 from 2.9% in 2000.

DOMESTIC DEMAND. Owing to a rise in household sector spending on individual consumption in the United States, economic growth continued in the first half of 2001. First-quarter growth rates were low, however, despite an uncharacteristic positive contribution of net exports to US GDP dynamics in that period, while in Q2, growth rates decreased to a minimum as a result of a contraction in fixed capital investment. In Q3, when growth in household sector spending on individual consumption and government expenditure on consumption and investment slowed down considerably, the decline in gross capital formation volumes and the export of goods and services led to a quarter-on-quarter contraction of US real GDP. In Q4, however, when growth in household and government sector expenditures accelerated, US real GDP regained positive dynamics in spite of the continued decline in gross capital formation and exports.

A fall in fixed capital investment and a reduction in marketable product inventories in the EMU amid the slowing of growth in household sector spending on consumption in 2001 led to a significant deterioration in domestic demand dynamics compared with the previous year. In the second half of 2001, domestic demand contracted compared with the first half of the year.

In Japan, the rate of growth in domestic demand in 2001 slowed down significantly year on year as a result of a fall in private investment in the fixed assets of the housing sector and a considerably smaller growth than in 2000 in production fixed assets. Spending on individual consumption in the household sector grew at the same rate as in 2000. The rate of growth in consumption in the government sector slowed year on year, but the decline in government investment also slowed down, producing a stabilising effect on the demand dynamics in this sector.

INFLATION. In 2001, a tendency towards the slowing of inflation appeared as economic growth slowed down and energy prices fell. The rate of

growth in US consumer prices in 2001 slowed to 2.8% from 3.4% in 2000 as a result of a sharp drop in growth of energy prices, which in the second half of 2001 demonstrated an obvious tendency towards decline. However, the rate of growth in the base indicator of inflation in the United States, which does not take into account the energy and food price dynamics, in 2001 accelerated to 2.7% from 2.4% in 2000. The level of consumer prices in Japan in 2001 fell 0.7% (the same price downturn was registered in 2000). The price fall reflected a recession in the Japanese economy and was partly the consequence of structural reforms, which simplified the procedures for selling merchandise.

Consumer price growth in the EMU countries in 2001 accelerated to 2.5% from 2.3% in 2000 as energy prices in the first half of 2001 remained higher than in 2000 and the euro lost ground against the dollar, making imports more and more expensive. However, the price growth calculated on a year-on-year basis in December 2001 slowed to 2% from 2.6% in December 2000 after accelerating to 3.4% in May 2001. The slowdown reflected a decline in energy prices and a stabilisation of the euro in the latter half of 2001. The inflation rate in the developing countries changed little in 2001. In some Asian countries, consumer price growth accelerated, while in Latin American countries inflation slowed down. In the transitional economies of Central and Eastern Europe, consumer price growth slowed down in 2001 as inflation rates declined significantly in Bulgaria, Romania and Slovakia.

EMPLOYMENT. A fall in employment in 2001 came as a typical symptom of cyclic economic recession in some countries. In the United States, a reduction in the number of manufacturing jobs, accompanied by a steep decline in the rates of growth in the number of jobs in the services sector, confirmed the cyclic nature of the accelerated unemployment rate, which in 2001 amounted to 4.8% of the economically active population compared with 4% in 2000. A sharp rise in the number of jobless in the United States was registered in the period from September to November 2001. In Japan, a fall in the number of jobs in the manufacturing sector and some major service sectors raised the unemploy-

ment rate in 2001 to 5% of the economically active population compared with 4.7% in 2000. Jobless rates rose significantly in Argentina, Poland and Turkey in 2001.

In the EMU, including its leading member countries, Germany and France, the unemployment rate continued to slow down in 2001 amid the slowing of growth in wages and salaries. The unemployment rate declined in Britain. However, because of industrial recession, growth in employment in EU countries was slower than in 2000 and in 2001 Q4 the jobless rate began to rise.

GOVERNMENT FINANCE. The state of government finance in the industrialised nations as a whole in 2001 deteriorated compared with 2000. The US federal budget surplus last year contracted to \$92.3 billion (0.9% of GDP) from \$254.9 billion (2.6% of GDP) in 2000. The budget surplus drop was the result of a cut in individual income tax, the return of overpaid taxes to taxpayers, the slowing of growth in personal income and the reduction of corporate income tax revenues, caused by a fall in business activity and the deterioration of the employment situation. In 2001, the US consolidated federal budget surplus shrank to 0.1% of GDP from 1.5% in 2000.

The aggregate deficit of the consolidated budgets of the EMU member countries in 2001 amounted to an estimated 1.3% of GDP (a surplus of 0.2% of GDP was registered in 2000). The aggregate deficit of the consolidated budgets of the EU member countries in 2001 is estimated at 0.6% of GDP (in 2000, there was a surplus of 1.1%). It was the result of a cut in individual income tax and corporate taxes in practically all EU countries, a reduction in some other taxes and social insurance premiums in several member countries and the contraction of the taxable base, caused by the economic slowdown.

INTERNATIONAL TRADE AND BALANCES OF PAYMENTS. The volume of world trade in goods and services in 2001 contracted 0.2% after a 12.4% growth in 2000. The value of foreign trade operations of the industrialised nations declined on the whole, while exports and imports of the developing countries and emerging markets continued to grow, although considerably more slowly than in 2000. The foreign trade dynamics of the

developed countries changed as the US foreign trade deficit and Japan's foreign trade surplus decreased.

US trade in goods and services in 2001 declined to \$2.4 trillion from \$2.5 trillion in 2000. As a result of a contraction in import volumes along with a far less significant fall in exports, the US trade deficit decreased from \$375.7 billion to \$347.5 billion. The current account deficit contracted to 4.1% of GDP from 4.5% in 2000. The capital and financial account surplus remained unchanged from 2000 at 4.5% of GDP. At the same time, on the one hand, the rates of growth in the foreign assets of US banks and non-bank companies slowed down and net outflow from the United States of portfolio investments in the form of securities declined. On the other hand, there was a slowdown in the rates of growth in US debt obligations to foreign governments, obligations on attracted foreign direct investment and obligations of US non-bank companies to foreign counterparties.

Foreign trade turnover of the 12-nation EMU in 2001 aggregated 2.6 trillion euros against 2.5 trillion euros in 2000 when the EMU comprised 11 countries. As a result of growth in exports, accompanied by a slight fall in imports, the EMU trade surplus expanded from 19.4 billion euros to 75.6 billion euros. The current account deficit contracted to 0.1% of GDP compared with 0.9% in 2000. As a result of a fall in direct foreign investment and commercial loans and a rise in capital outflow in the form of financial loans, deposits and foreign exchange in cash, the deficit of the capital and financial account in 2001 amounted to 1% of GDP, whereas in 2000 there was a surplus of 1.6% of GDP. The EMU's official international reserves were valued at the end of 2001 at \$234.3 billion compared with \$242.6 billion at the end of 2000.

Japan's trade in goods and services declined to 105.6 trillion yen in 2001 from 106.5 trillion yen in 2000. As a result of a fall in exports and a rise in imports the country's trade surplus contracted from 7.4 trillion yen to 3.2 trillion yen. The current account surplus did not contract so dramatically as the net inflow of revenues from investment rose to 2.1% of GDP against 2.5% in 2000. The deficit of the capital and financial account fell to 1.2% of GDP compared with 1.8%

in 2000 as commercial loans and funds taken out of the country earlier in the form of foreign exchange in cash and deposits returned to Japan. However, the net outflow of capital from Japan in the form of direct and portfolio investments and financial loans increased significantly. The country's official international reserves amounted to \$395.2 billion as of the end of 2001 against \$354.9 billion as of the end of 2000.

Britain's trade in goods and services in 2001 rose to 557.9 billion pounds sterling from 547.4 billion pounds sterling in 2000. As imports expanded more than exports, the trade deficit increased from 16.2 billion pounds sterling to 21.3 billion pounds sterling. However, as a result of a rise in the net inflow of investment revenues and a fall in the net outflow of current transfers, the current account deficit in 2001 remained practically unchanged from 2000 at 1.8% of GDP. As the outflow of direct investment and other non-portfolio investments from Britain decreased, the surplus of the capital and financial account rose to 2.2% of GDP from 2.1% in 2000. Britain's official international reserves amounted to \$37.3 billion as of the end of 2001 compared with \$43.9 billion as of the end of 2000.

As demand sagged and prices fell in the world markets, the export of goods from the developing countries decreased year on year. Imports by the developing countries also declined but not as much as exports, because developing countries continued to experience economic growth, which along with a rise in domestic prices in these countries kept demand for imported goods relatively stable. As a result, many developing countries in 2001 registered a contraction in their surplus or a rise in deficit of their trade balance and external current account. The notable exceptions were Argentina, whose current account deficit declined, and Turkey, which registered a current account surplus. In both cases, the changes took place amid an economic recession and monetary and financial crises. A number of large CIS countries experienced a contraction in their current account surpluses in 2001. Some emerging markets in Central and Eastern Europe registered a rise in their current account deficits, but most of the region's countries saw their deficits shrink under the effect of dynamic growth in the export of services and the

improvement of trade conditions, caused by a downturn in fuel and energy prices.

According to an IMF estimate, the value of net external financing of developing countries in 2001 rose by \$16.8 billion, while the value of net external financing of the emerging markets increased by \$8.5 billion after a decline of \$102.5 billion and \$50.2 billion respectively in the preceding three years. Foreign direct investment accounted for more than 90% of net external financing of the developing countries and about 75% of net external financing of the countries with transitional economies. However, the main factor of growth in the net external financing of the developing countries in 2001 was not foreign direct investment but growth in the value of loans taken by developing countries, especially Turkey, Argentina and Brazil, from the official sources. According to the UN Conference on Trade and Development, the inflow of foreign direct investment to the emerging markets in 2001 slightly declined year on year owing to a fall in their inflow to Asia. According to this estimate, the aggregate international capital flow in the form of direct investments in the world in 2001 fell sharply compared with 2000 when it reached a record high. The main reason was a decline in the flow of direct investments between the industrialised nations, which reflected the lessening of companies' interest in mergers and acquisitions, connected with a fall in business activity.

COMMODITY MARKETS. Slow rates of economic growth in the world and a slowdown in international trade in 2001 led to the deterioration of the situation in world commodity markets. After the extremely high level of prices of energy, metals and many other products registered in 2000, prices gradually declined in world commodity markets during 2001. Prices of oil, for example, fell by 14.0% on average, while non-energy prices declined 5.4%. According to the IMF, trade conditions for oil-exporting countries in 2001 deteriorated by 10.5% and for non-oil-exporting countries by 0.8%.

Oil prices, which in 2000 soared to a 15-year high, fell in 2001 but were nevertheless much higher than in 1999. The price of Brent crude declined to \$24.4 per barrel in 2001 from \$28.3

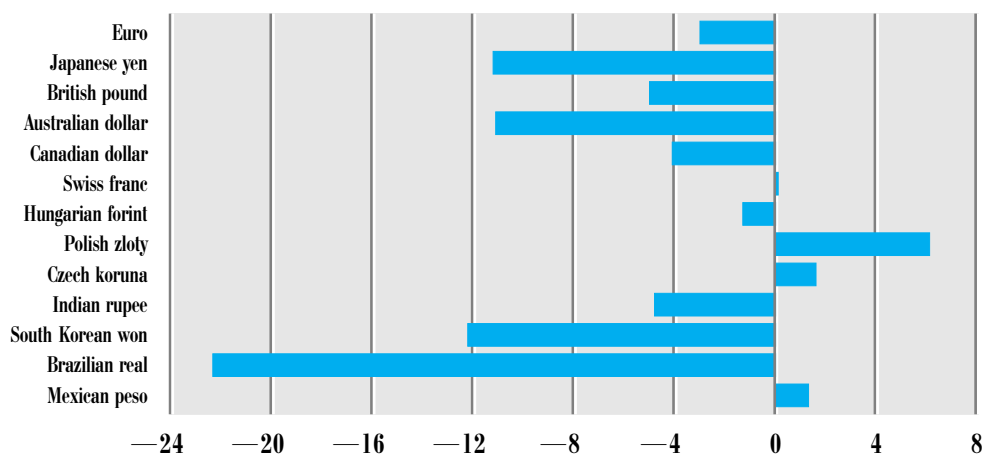
per barrel in 2000 (in 1999 it cost \$17.7 per barrel). From January to September 2001, the slowing of growth in world demand for oil was offset by repeated reductions in oil production quotas by the OPEC countries, which allowed oil prices to be maintained within the \$22—\$28 range set at the start of last year for OPEC oil. A fall in business activity world-wide led to a steep decline in oil prices in 2001 Q4, which was aggravated by reported growth in US stockpiles of oil and petroleum products, the temporary refusal of OPEC countries to stick to the price band, violations by some cartel members of the oil production quotas and the refusal of leading non-OPEC exporters to cut oil production and exports. It was only at the end of December 2001 that the oil-producing countries agreed to cut production.

The price dynamics of petroleum products in 2001 was affected by a fall in oil prices and a decline in the demand for oil by major importers, especially the United States and Western European countries. Throughout last year the price of natural gas had a tendency to fall in the European and US markets. However, in 2001 the price of natural gas remained high as some consumers switched from oil to gas. In 2001, the price of natural gas in Europe was 5.2% higher than a year earlier; in the US market the price of natural gas fell 8.1%.

The main reasons for a fall in metal prices were the slowing of growth in consumers' demand, high energy prices and growth in the supply of metals by their major producers. The most significant decline was posted in the price of nickel, which fell 30.8% to \$5,970 per tonne; the price of copper decreased 12.9% to \$1,580 per tonne and the price of aluminium was down 6.8% to \$1,447 per tonne.

The average price of gold in 2001 fell 2.8% year on year, to \$271.1 per troy oz. The main factor behind low gold prices was the continued excess of supply over demand. The gold market was also seriously affected by central bank sales of reserve gold, a rise in gold exports by major producers and low demand from the jewelry industry. Silver price dynamics closely followed the changes in gold prices: in 2001, the price of silver fell 12.3% year on year, to \$4.386 per troy oz. A sharp fall in the price of palladium was caused by a decline in the demand for it by car-makers, who had switched to cheaper platinum.

RATES OF GROWTH IN EXCHANGE RATES OF FOREIGN CURRENCIES AGAINST US DOLLAR IN 2001 (as % of 2000)



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

Chart 19

There was a price downturn in the world timber and pulp-and-paper market in 2001. Fertiliser prices continued to decline for the third year in a row. Prices of raw materials for food production in 2001 decreased on the whole year on year. A considerable excess of supply over demand led to extremely rapid rates of decline in the beverages market (tea, coffee and cocoa). At the same time, there was a rise in the prices of some foodstuffs and raw materials for their production.

FOREIGN EXCHANGE MARKET. In 2001, the dollar gained strength against other major world currencies on a year-on-year basis. Lower interest rates in the United States contained growth in the dollar's exchange rate, but had no decisive effect on its dynamics, which were influenced by other macroeconomic fundamentals. Although the EMU's real GDP in 2001 expanded faster than the US real GDP, the relative weakness of domestic demand in the eurozone caused doubts about its ability to maintain existing economic growth dynamics amid the worsening world market environment. The economic situation in Japan remained considerably worse than in the United States, and as foreign trade conditions deteriorated, Japan saw its current account surplus contract and industrial recession deepen. The Bank of Japan in 2001 conducted a series of massive currency interventions

to keep the yen low against the dollar and the euro.

These developments caused the dollar to rise against the euro by 3% in 2001, while against the yen the dollar rose 11.2% year on year. In the second half of 2001, economic recession and interest rate cuts in the United States began to cause the dollar to lose strength, while the September 11 events sent the dollar plummeting against all major world currencies. Nevertheless, in the subsequent period up to the end of the year the dollar picked up again on forecasts of an early end to the recession in the US economy. A contraction in the US current account deficit contributed to the dollar's rally.

The dollar rose 5% against sterling in 2001. The rates of growth in Britain's real GDP amid relatively low inflation exceeded those of the EMU, but the exchange rate of sterling was seriously affected by the possibility of an interest rate cut in the UK, which would be inevitable if the country joined the EMU. The Swiss franc posted gains against all other major currencies, except the US dollar, as the economic situation in Switzerland was relatively good and its currency became increasingly attractive at the time of growing political and economic uncertainty in the world.

MONEY MARKET. Interest rates in the money markets of the leading industrialised nations in

2001 declined year on year as their central banks eased their monetary policy. The deepest cuts in interest rates were registered in Japan in September, Britain in November and the United States and EMU in December.

The US Federal Reserve System (FRS) in 2001 cut the benchmark federal funds rate from 6.5% to 1.75%, the lowest level since this benchmark began to be used in implementing monetary policy. The European Central Bank lowered the base refinancing rate from 4.75% to 3.25%, while the Bank of England cut the repo rate from 6% to 4%. The Bank of Japan, having exhausted the possibilities of reducing interest rates, undertook an unprecedented monetary policy easing measure, setting a direct quantitative banking sector liquidity benchmark, which in the period from March to December 2001 was raised from 5 trillion yen to 10—15 trillion yen.

STOCK MARKET. Share prices in the stock markets of the industrialised nations and most of other countries in 2001 fell year on year as a result of a decline in business activity in the world and the deterioration of corporate profit indicators. The Dow Jones, the stock price index of the traditional sectors of the US economy, in 2001 fell 4.9% year on year, which was a moderate decline compared with the share price dynamics in other countries. The Dow's relative stability is attributable to a fall in interest rates and market participants' confidence that in its monetary policy, the FRS would attach paramount importance to the state of US companies and consumers' well-being. A steeper decline of the NASDAQ index by 51.5% reflected the end of excessive investor optimism about prospects for the hi-tech sectors of the US economy.

The reasons for a deeper fall in stock prices in the EMU (18.3%) and Britain (12.8%) than in the United States was that the monetary policy easing aimed at meeting the inflation targets was not as radically implemented by EMU and UK monetary authorities as by the Federal Reserve System. NASDAQ's fall led to a significant decline in share prices in the stock markets of Asian countries, including Japan (by 29.5%), whose industry is closely linked with the information and communications sectors of the US economy. The situation in the Japanese stock market was also adversely impacted by the problems of the Japa-

nese banking sector, overburdened with Japanese companies' bad debts.

CAPITAL MARKET. Yields on high-grade dollar-, euro- and yen-denominated securities declined in 2001 year on year. Under the influence of unprecedented monetary policy easing, a change in inflationary expectations and a review of economic prospects for the United States, the US government securities yield curve in 2001 transformed from a concave curve with a minimum yield on 2-year bonds into an ascending curve with a minimum yield on 3-month papers.

The yield on US treasuries with maturities from 3 months to 2 years in 2001 was on average lower than the yield on similar bonds denominated in the euro, which corresponded to the deterioration of US short-term economic indicators as compared with the eurozone. The yield curve of European governments' euro-denominated securities changed very much in the same way as the US T-bond yield curve, reflecting the interdependence of US and European economic prospects. A sharp fall in the yield on Japanese government securities with maturities from 3 months to 5 years, compared with the yield on long-term bonds, was the result of a lack of confidence in early recovery of the Japanese economy. The widening of the gap between yields on short- and long-term bonds denominated in major world currencies also reflected the expectations of growth in government borrowings, which appeared amid the deterioration of federal budget indicators in the United States, eurozone and Japan.

In the first half of 2001, international capital market participants began to show increased interest in investing in medium- and long-term debt instruments of corporate borrowers in industrialised countries. Spreads narrowed between yields on corporate bonds and high-grade government securities, encouraging borrowers to use medium- and long-term securities issues for refinancing the debt on short-term debt instruments and bank loans. Investors' attitude to the emerging markets in the first half of 2001 remained cautious owing in large measure to problems in Turkey and Argentina, but on the whole it did not change for the worse, although mistrust grew with regard to some countries. In Q3, the international capital market situation sharply

AVERAGE ANNUAL GROWTH IN STOCK PRICE INDICES IN 2001
(as % of 2000)

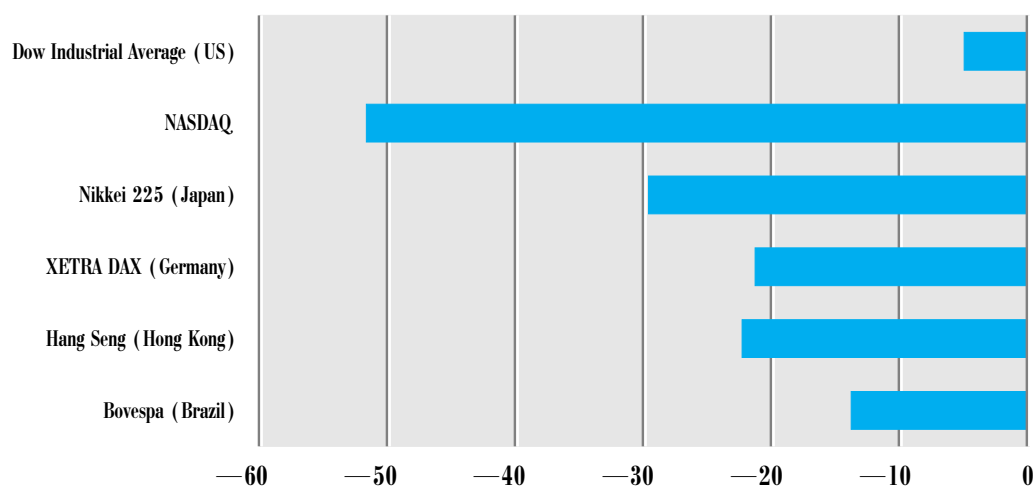


Chart 20

Source: Reuters Agency.

deteriorated in the wake of the September 11 events and the deepened economic recession in the world. As credit risk increased, corporate bond yields grew relative to the yield on high-grade government securities. Tension escalated with regard to the emerging markets. In Q4, however, corporate borrowers in the industrialised nations and emerging markets began to regain investor confidence and the latter began more actively to borrow in the international capital market.

The net issue of securities in the international capital market in 2001 decreased by \$172.5 billion year on year, as the value of redemptions of short-term debt instruments, except commercial papers, substantially exceeded the value of securities put into circulation. At the same time, net issue of medium- and long-term bonds increased after a decline in 2000. Amid the reduction of interest rates in 2001, the net issue of securities with floating interest rates decreased. There was an increase in the net issue of bonds with fixed interest rates and debt instruments that entitle their holders to the purchase of shares (bonds which the investor may convert into shares of the

same issuer and bonds with a warrant giving its holder the right to buy shares of the same issuer at a fixed price). The role of two major currencies, the US dollar and the euro, increased in the issue of debt instruments in the international capital market and their aggregate share exceeded 80%. In the structure of borrowers, the share of financial institutions contracted, while that of government and corporations expanded.

In 2001, the net issue of debt instruments by the industrialised nations in the international capital market contracted, largely as a result of a decline in net borrowings by EMU countries, while US net borrowings increased. The net issue of international debt instruments by the emerging markets decreased by \$3.7 billion in 2001. At the same time, the payments effected by the emerging markets on debts to foreign banks exceeded the value of bank loans they took and some of these countries (mostly the oil-exporting ones) continued to put considerable sums in accounts with foreign banks. The decline in the net issue of securities in 2001 was accompanied by a fall in the value of international syndicated loans.



**BANK OF RUSSIA
ACTIVITIES**

II

II.1. MONETARY POLICY

II.1.1. OBJECTIVES AND RESULTS OF MONETARY POLICY

An inalienable part of the national economic policy, the monetary policy was implemented in 2001 with the purpose of creating conditions for slowing inflation and maintaining economic growth. The Guidelines for the Single State Monetary Policy for 2001 set as its ultimate objective the reduction of the inflation rate to 12—14% a year, which corresponded to the projected GDP growth of 4—5%.

In the conditions of a floating exchange rate and the lessening of the connection between the money supply dynamics and inflation, registered in Russia in the last few years, the monetary policy decisions taken with the aim of keeping inflation within the pre-set limits were based on an analysis of a broad range of economic indicators. At the same time, the Bank of Russia kept the money supply dynamics under control, because the analysis of the changes in the M2 monetary aggregate in the conditions of underdeveloped financial markets is useful for evaluating current monetary factors and inflationary expectations. The extent to which the money supply corresponded to the demand for money was an important criterion for the Bank of Russia in assessing the efficiency of its monetary policy.

When determining the demand for money in 2001, the Bank of Russia took into consideration the expectations of lower year-on-year rates of growth in GDP, projected inflation dynamics and an objective decline in the rate of growth in the monetisation of settlements. Instability of the velocity of money, observed in recent years, introduced a significant element of uncertainty in the forecasting of the demand for money.

Taking into account the forecast combination of macroeconomic parameters and factors that could affect trends in the velocity of money, the Bank of Russia predicted growth in the demand for the ruble money supply in 2001 at the level of 27—34%. At the same time, it realised that the management of money supply is not a mechanistic process and that changes in the demand for the national currency should be evaluated in the context of the slowing of inflation and inflationary expectations.

The floating exchange rate regime used by the Bank of Russia corresponded to the economic situation and contributed to the further development of the Russian economy. At the same time, the Bank of Russia sought to ensure that the exchange rate of the ruble conformed to the fullest possible extent to the economic fundamentals and took steps to guarantee its long-term equilibrium.

The actual rate of inflation in 2001 was 18.6% (December to December), which represents a fall from 20.2% in 2000. The fact that inflation exceeded the target for it did not signify an easing of the monetary policy and reflected the increased influence of structural factors on price dynamics in 2001.

The exchange rate of the ruble in 2001 changed from 28.16 rubles to 30.14 rubles to the dollar. At the same time, the average monthly real rate of the ruble against the dollar rose 8.6% over the year (December to December) against 11.4% in 2000, while on an average annualised basis the ruble gained 13.9% in real terms against 2.3% in the previous year. The real rate dynamics of the ruble were affected by the sup-

M2 MONEY SUPPLY AND CONSUMER PRICE GROWTH RATES (%)

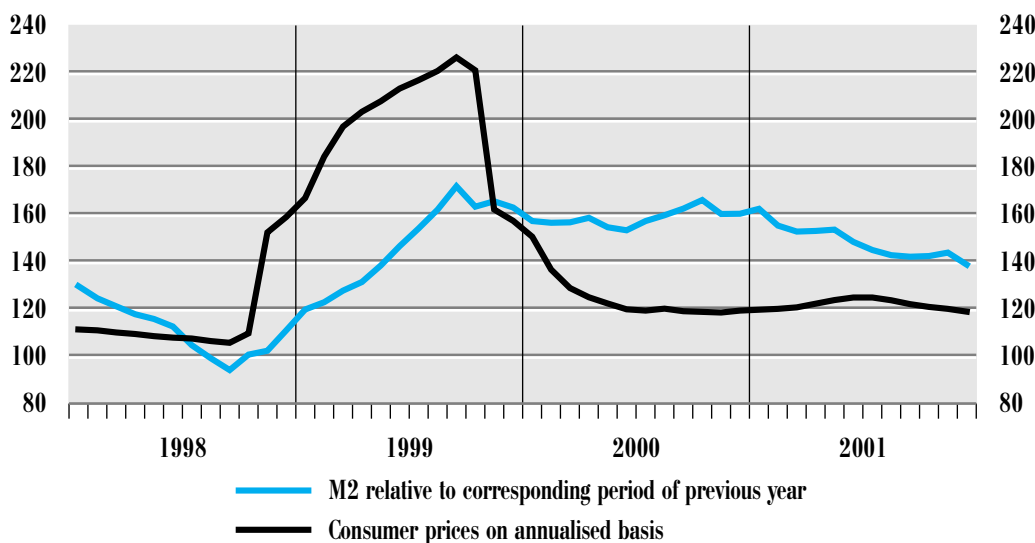


Chart 2.1

ply of foreign exchange and the demand for it, foreign trade conditions, growth in labour productivity, the differences between the Russian and US inflation rates and the differences between the intrayear rates of inflation in Russia in 2000 and 2001.

As international market conditions for basic Russian exports remained good on the whole, Bank of Russia purchases of foreign exchange in the domestic foreign exchange market continued to be an important source of growth in the money supply for the best part of last year. Although Russia had to service its foreign debt and the Bank of Russia had repaid its debt to the International Monetary Fund ahead of schedule, Russia's international reserves in 2001 increased more than 30% to \$36.6 billion.

The dynamics of international reserves were uneven during the year. A minor economic slowdown in some countries and the changed situation in world commodity markets led to a decline in the supply of foreign currency in the domestic foreign exchange market in the second half of the year. Accordingly, Bank of Russia purchases of foreign exchange for international reserves slowed down. In some periods the Bank of Russia had to conduct currency interventions to prevent sharp fluctuations of the ruble exchange rate. As a result, the role of net international reserves in the money supply in the year under review was far less significant than in 2000.

The analysis of the monetary situation in 2001 shows that despite a flimsy quantitative connection between money supply growth and inflation in the Russian economy, the actual expansion of the M2 aggregate over the year (by 40.1%) surpassed only slightly the upper limit of the projected band. Specifically, the monetary sphere was characterised by lower rates of growth in the money supply almost during the entire year than in the same period of 2000. In 11 months of 2000, the M2 aggregate expanded 47.1%, while in January—November 2001, it grew 25.8% and the money supply dynamics were within the projected band. The M2 aggregate far surpassed projected growth because in December 2001 there was a sharp rise in the rate of money supply growth. The main reason was a significant increase in federal budget expenditures at the end of the year. Such unevenness in the financing of budget expenditures, occurring every year, has a negative effect on stability of the domestic financial market and devaluation and inflation expectations.

The rates of money supply growth in 2001 were largely determined by faster-than-expected growth in the production of goods and services: real GDP surpassed the officially forecast level. As expected, the extent of the monetisation of settlements rose. According to the State Statistics Committee (Goskomstat), 77.7% of products shipped, works done and services provided by the

M2 MONEY SUPPLY GROWTH RATES IN 2000 AND 2001 (%)

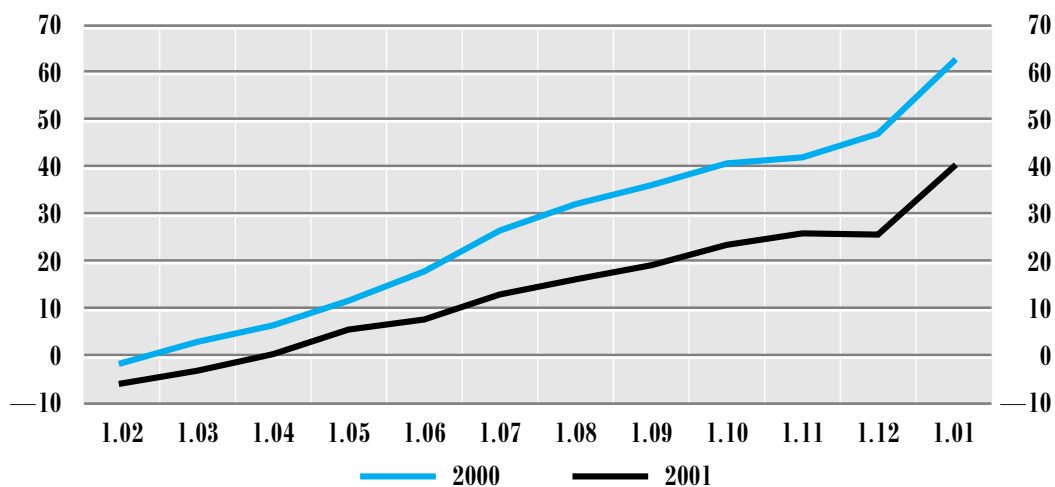


Chart 22

biggest Russian taxpayers and industrial monopolies in December 2001 were paid for with cash, while in December 2000, the share of cash payments was 71.7%.

The velocity of money, calculated by the M2 aggregate on an average annualised basis, slowed from 8.3 in 2000 to 7.0 in 2001.

The expansion of money supply, commensurate with economic growth, made it possible to raise the level of monetisation of the economy (by the M2 aggregate) from 12% to 14.3%. At the same time, low personal income and mistrust of the banking system amid the absence of deposit guarantees and relatively low interest rates on deposits prevented any considerable increase in organised savings. Despite further growth in cash settlements in 2001, these factors stood in the way of a more significant rise in the level of the economy's monetisation.

Yet, more rapid growth in ruble-denominated time deposits compared with 2000 can be regarded as a favourable trend of the past year, which led to a more significant increase in the share of less liquid components of the money supply.

A stable exchange rate dynamics, economic growth, slower inflation, greater stability of the banking system and the increased household income created the necessary preconditions for a gradual decline in the role of the US dollar in the economy. A contraction in the share of currency deposits in the total value of banking sector deposits, caused by an abrupt slowdown of growth in currency deposits in 2001 and a three-year

trend of ruble deposits to grow faster than currency deposits, may serve as a sign of growing confidence in the national currency by economic agents. Similar processes took place in the dynamics of household demand for foreign exchange. While in the past foreign exchange purchases by the household sector far surpassed foreign exchange sales, the gap between foreign exchange purchases and sales has narrowed considerably in recent years. This may be an indication that foreign exchange is gradually losing its importance as the prevailing form of savings, and that confidence in the banking system has increased. At the same time, the process may reflect a declining role of the dollar in the Russian economy.

In the year under review, credit institutions increased lending to enterprises and households. Growth in claims on non-financial enterprises and households in 2001 was almost 1.5 times higher than in 2000. As before, most of the loans were extended to corporate borrowers: loans to industrial enterprises accounted for more than 41% of the borrowers' total debt on loans (39.9% in 2000) and loans to trading establishments and public catering businesses accounted for nearly 20% (17.6% in 2000). Private individuals accounted for over 7% of the total debt on bank loans (5.5% in 2000).

Such growth in these claims over the year corresponded to the year-on-year increase in the money multiplier. In 2001, the money multiplier (calculated as the ratio of the M2 aggregate to the broad monetary base) rose by almost 9%,

VELOCITY OF M2 MONEY
(on an average annualised basis)

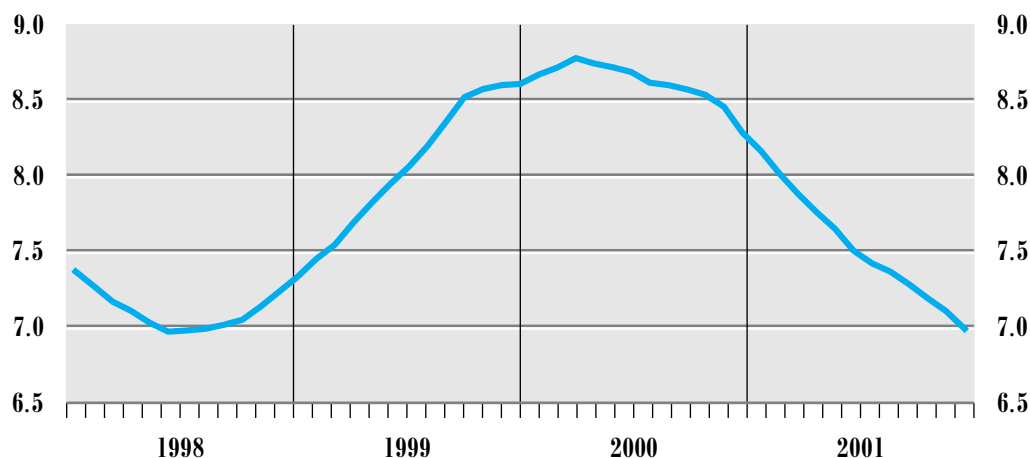


Chart 23

while the monetary base expanded far more slowly than in 2000. Owing to economic growth, the banking sector expanded lending to the real economy, thus increasing the extent of multiplication. The multiplier's intrayear variations were chiefly connected with seasonal changes in the level of current banking sector liquidity and had no significant effect on the general trend of the year. The role of the money multiplier in the formation of the money supply rose markedly in 2001.

Although intermediate targets came to play a lesser role in the attainment of the principal objective of the monetary policy in 2001, the Bank of Russia continued to attach great importance to control over the money supply by regulating the level of banking sector liquidity.

The problem of sterilising free liquidity, caused by growth in international reserves, in 2001 was not as acute as in the preceding years. The average annual value of credit institutions' funds in correspondent accounts last year rose 6.4% year on year in nominal terms, but in real terms it fell 10.3%. At the same time, growth in the deposits placed by credit institutions with the Bank of Russia slowed down. Specifically, the average annual rate of growth in bank deposits with the Bank of Russia in 2001 slowed 2.7 times compared with 2000.

Surplus federal budget revenues in 2001 led to the accumulation during almost the entire year of considerable funds in all budget accounts and government extra-budgetary funds with the Bank

of Russia. A sharp rise in budget funds in accounts with the Bank of Russia in 2001 became a major influence on the intrayear dynamics of the money supply. On the one hand, the accumulation of vast budget funds in accounts opened with the Bank of Russia reduced in the short term the acuteness of the problem of tying up free banking sector liquidity. On the other hand, the acceleration of inflation in the early months of the year owing to considerable year-end budget expenditures showed how important it was for the Government to conduct fiscal operations evenly during the year from the viewpoint of enhancing the efficiency of monetary regulation.

By and large, for most of the year the banking sector liquidity situation was relatively calm. The ratio of bank reserves in the form of the balances in banks' correspondent accounts with the Bank of Russia to non-financial sector deposits contracted from an average of 14.4% in 2000 to 11.7% in 2001. During the largest part of the year this ratio fluctuated in the range of 9.4% to 12.5%, reflecting the emergence in 2001 of a new, lower level of bank demand for free funds, the upgrading of the payment system, the acceleration of settlements and the effectiveness of the measures taken by the Bank of Russia to regulate banking sector liquidity within the framework of the monetary policy pursued.

Bank of Russia operations in 2001 indirectly affected the level of money market interest rates, ensuring the necessary level of banking sector liquidity. The level of liquidity and lower credit risk

DYNAMICS OF BALANCES IN CREDIT INSTITUTIONS' CORRESPONDENT ACCOUNTS
IN 2000 AND 2001 (billion rubles)

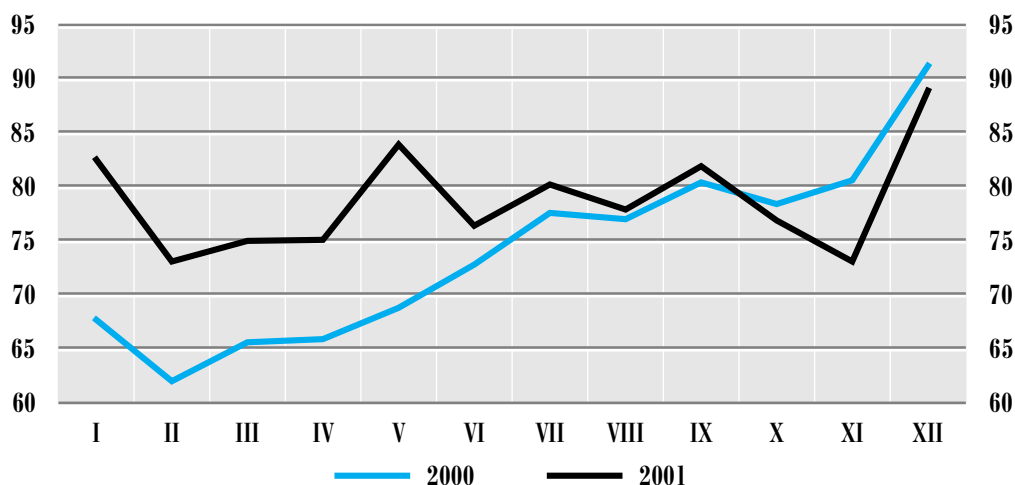


Chart 24

DYNAMICS OF RATIO BETWEEN FUNDS IN CREDIT INSTITUTIONS' CORRESPONDENT ACCOUNTS AND NON-FINANCIAL SECTOR DEPOSITS

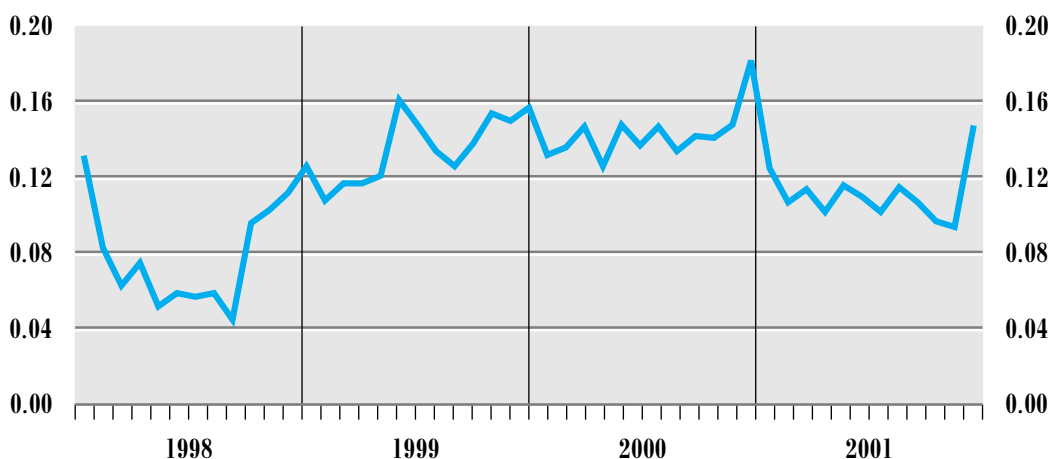


Chart 25

and inflationary expectations in 2001 caused interest rates on bank loans to corporate borrowers to fall year on year. The average weighted interest rate on ruble loans extended to corporate borrowers by banks, including the Savings Bank (Sberbank), for terms up to 1 year was 16.5% in December 2001 against 18.2% in December 2000.

There was a slight rise in interest rates on ruble household deposits in 2001. The average weighted interest rate on ruble household deposits with terms up to 1 year in credit institutions, including Sberbank, rose from 4.2% to 5.2%.

The interest rate margin on bank deposit and lending operations continued to narrow in 2001.

It fell from 14.5 percentage points in January to 11.3 percentage points in December, but the intensity of the process declined compared with the previous year. At the same time, the difference between the price of loans and the price of deposits remains large, as lending in general continues to involve considerable risks and creditors' rights are not yet effectively protected by law.

When taking decisions in the field of monetary regulation in 2001, the Bank of Russia built upon the analysis of a wide range of indicators and their effect on the attainment of the ultimate objective of the monetary policy. Practically, all major macroeconomic indicators dem-

onstrated favourable trends during the year. The inflationary expectations, for example, which are assessed by the dynamics and level of interest rates, changes in yield curves and the results of polls conducted by leading research centres, were not high in 2001; the exchange rate dynamics corresponded to potential economic growth projections; there remained a surplus in the current account and federal budget; consumer spending grew at a moderate rate. Since these indicators

on the whole did not portend the threat of inflation, the Bank of Russia refrained from taking any drastic restrictive measures.

The analysis of the results of the year 2001 shows that the main economic assumptions laid at the basis of the monetary policy projections for last year proved to be fairly accurate, while the monetary situation indicates that the monetary policy pursued corresponded to the targets and tasks set for that period.

II.1.2. DYNAMICS OF MONETARY AND CREDIT INDICATORS

The objective of the monetary policy pursued by the Bank of Russia in 2001 was to gradually reduce the inflation rate and create favourable conditions for sustainable economic growth by ensuring that the money supply dynamics corresponded to the demand for the national currency. When implementing this policy, the Bank of Russia took into consideration the fact that a relatively strong balance of payments, which determined to a great extent the rates of growth in the money supply from the monetary authorities, was accompanied by continued instability in the dynamics of the demand for money. Aware of these factors, the Bank of Russia last year took steps to regulate the level of banking sector liquidity and control the formation of the monetary base.

The broad monetary base, which comprises cash in circulation and in bank vaults, required reserves, funds in credit institutions' correspondent accounts and bank deposits with the Bank of Russia, amounted to 928.3 billion rubles as of January 1, 2002, which represents an increase of 28.6% on the previous year. The slowing of economic growth in 2001 year on year and decline in the foreign exchange flow to the country as the resulting indicator of the balance of payments had a significant effect on the slowing of the money supply dynamics: in 2000, real-term money supply growth, calculated on the basis of the consumer price index, was 41%, whereas in the year under review it decreased to 8.5%.

The principal source of growth in the monetary base throughout 2001 (excluding December) was an increase in net international reserves of the monetary authorities (by \$10.7 billion over the year), which resulted from the purchases of foreign exchange by the Bank of Russia in the domestic market and the reduction of Russia's debt to the IMF. At the same time, the value of net domestic assets of the monetary authorities declined 1.6 times over the year as balances in general government accounts, especially budget accounts of all levels and government extra-budgetary funds with the Bank of Russia, grew. Although the accumulation of ever growing amounts

in these accounts during the year partly sterilised the money supply, connected with foreign currency inflow, it also made the monetary sphere more dependent on the financial flows linked with the centralised reallocation of budget and government extra-budgetary funds and this was reflected in the dynamics of the reviewed indicators in December 2001.

In December, it was the growth in net credit to the general government, caused by a sharp fall in the balances in government accounts with the Bank of Russia (especially in the last few days of the month) that became the main factor of expansion in the money supply. That month growth in net credit to the general government accounted for nearly 59% of the year's growth in the monetary base. As a result of such uneven use of government finance and owing to seasonal factors, cash in circulation outside the Bank of Russia expanded by 65.5 billion rubles in December 2001 and balances in credit institutions' correspondent accounts with the Bank of Russia rose by 58.0 billion rubles. These factors were responsible to a great extent for increased pressure in the domestic foreign exchange market and a surge of inflation in January 2002.

The changes in the monetary base structure were characterised on the whole by the expansion of the share of cash in circulation (from 61.9% at the beginning of the year to 67.2% at the end), by keeping the share of the required reserves almost unchanged (17.2% and 16.9%), while other components of the monetary base contracted in relative terms: the balances in credit institutions' correspondent accounts with the Bank of Russia decreased from 18.0% to 15.6% and in bank deposit accounts from 2.9% to 0.4%. At the same time, in some periods last year, when the money supply exceeded demand, the Bank of Russia conducted operations to sterilise free banking sector liquidity and the share of bank deposits changed within the range of 0.4% to 9.3% of the monetary base. Intra-year variations of the share of funds in credit institutions' correspondent accounts with the Bank of Russia ranged from 8.0% to 18.0% in 2001.

MAJOR SOURCES OF MONETARY BASE GROWTH IN 2001
(quarterly increment as % of monetary base as of start of quarter)

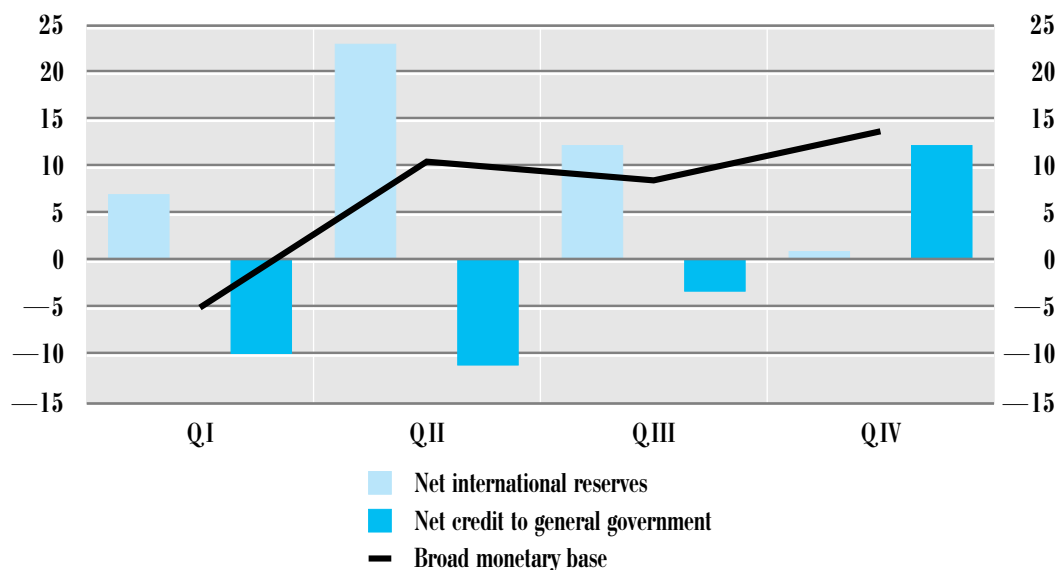


Chart 26

Aggregate reserves of credit institutions (cash in the vaults of credit institutions, required reserves and funds in credit institutions' correspondent accounts and bank deposits with the Bank of Russia) amounted to 344.0 billion rubles as of January 1, 2002. This represents a year-on-year increase of 41.6 billion rubles, or 13.8%.

The money multiplier, which began to grow in the second half of 2000, continued to expand in 2001 as the ratio of the aggregate bank reserves deposited with the Bank of Russia to the value of non-financial enterprise and household sector deposits declined. This trend testifies to the gradual expansion of the transmission possibilities of the banking sector, despite the fact that lending to the real sector remains risky, the creation of the corresponding legal framework has not been completed and the domestic capital market remains underdeveloped. The aforementioned favourable trend, which is occurring at a time when the investment climate in the country is changing for the better and a Russian economic development model based on the internal sources of growth is evolving, suggests that the banking sector has become more efficient in performing its transmission functions when shaping the money supply.

As of January 1, 2002, the money supply (M2 aggregate) totalled 1,602.6 billion rubles,

an increase of 40.1% over the year. In real terms, and taking into account the consumer price index, it expanded 18.1% during that period. Like the monetary base, the M2 aggregate in 2001 expanded at a slower rate than in 2000 when it grew 35.1% in real terms. The slowing of growth in the demand for money was caused by the gradual lessening of the effect of short-term factors (unprecedented GDP growth rates in 2000 after many years of production decline, a sharp rise in the share of cash settlements in the first two post-crisis years, etc.) and reflected to some extent the instability of economic agents' expectations.

Overall, the money supply structure in 2001 changed less than in 2000.

Growth in cash in circulation outside the banking system, which in 2001 amounted to 39.4%, was a little slower than the expansion of the M2 aggregate as a whole. Therefore, the share of cash in circulation outside the banking sector as a proportion of the money supply remained virtually unchanged (36.6% as of the beginning of 2001 and 36.5% as of the end). The dynamics of cash in circulation were largely connected with the household sector's tendency to restore the consumption level after the 1998 crisis amid the continued growth in real money income. Goskomstat's preliminary figures show

that the share of household spending on goods and services expanded to 78.6% of household money income from 78% in 2000. In some months of the second half of the year, however, the share of savings as a proportion of household money income expanded, reflecting a gradual saturation of consumer demand and the emergence of a tendency towards growth in accumulation.

While in 2000 bank deposits of the non-financial enterprise sector were the fastest growing element of the money supply, in 2001, the most dynamic component of the money supply was household deposits, which grew 46.6% year on year (23.6% in real terms). In 2001, the share of household deposits in the structure of money supply expanded from 26.6% to 27.9%. The source of growth in household deposits was a rise in real disposable money income, which amounted to 5.8%, according to Goskomstat's preliminary data. Among the major factors behind the favourable dynamics of household deposits, which grew despite low interest rates, were the real strengthening of the ruble and the related contraction of the share of household income spent on foreign exchange purchase and the aforementioned reduction of the share of consumer spending in some months of the second half of the year. Growth in household deposits in 2001 became a major source of expansion of the banking sector's resource base.

Although the Savings Bank (Sberbank) retained its leading position in terms of household deposits, counted as part of the M2 aggregate, its share in the value of these deposits contracted from 86.4% in 2000 to 82.4% in 2001. As was the case in the previous year, household deposits in Sberbank grew more slowly than in other credit institutions and the gap between them widened: in 2000, the respective percentages were 46.5% against 76.5%, whereas in 2001, they were 39.8% against 89.3%.

Time deposits rose faster than other household deposits, increasing 62.4% over the year and the salient feature of 2001 was that deposits with terms over 1 year became increasingly popular: they accounted for 65% of the year's increment in household deposits.

These trends testify to the gradual restoration of public confidence in the banking system.

Growth in non-financial enterprise sector deposits in 2001 amounted to 36.0%, while the share of these deposits in the structure of money supply contracted from 36.7% at the start of the year to 35.7% at the end. The main reason for these dynamics was the deterioration of the financial standing of enterprises and organisations as a result of a year-on-year fall in production profitability and a drop in export earnings, caused by the deterioration of the foreign trade situation for Russian exporters. While in 2000 the financial result (profit net of loss) of companies (excluding small businesses, banks, insurance firms and budget-financed organisations) increased 75.2%, according to Goskomstat data, in 2001, it grew just 1.3%.

The share of foreign currency deposits of the non-financial enterprise sector and household sector in the total value of deposits continued to narrow during the year under review. It is clear that in the relatively long term, growth in the real exchange rate of the ruble contributes to such favourable changes in the dynamics of bank deposits of corporate and individual depositors. However, it was not a stable trend and it manifested itself only in the results of the whole year as the devaluation expectations persisted and money market participants changed their tactics whenever the relative profitability of investments in various assets denominated in rubles and foreign currency changed.

The changed situation in world commodity and financial markets and the change of investment priorities by credit institutions during the year under review were reflected in the change of the structure of the sources of money supply, including foreign currency deposits. In 2000, the main source of money supply growth was an increase in net foreign assets of the monetary authorities and credit institutions, whereas in 2001, the expansion of banking sector domestic credit played the key role.

The direct effect of the first factor on money supply growth (foreign currency deposits included) decreased mainly because for the first time in many years there was an absolute contraction by 3.3 billion rubles in the value of net foreign assets of credit institutions. Such dynamics were the result of accelerated growth in the foreign liabilities of credit institutions (by

MAJOR CONTRIBUTIONS TO GROWTH IN AGGREGATE ASSETS OF CREDIT INSTITUTIONS (%)

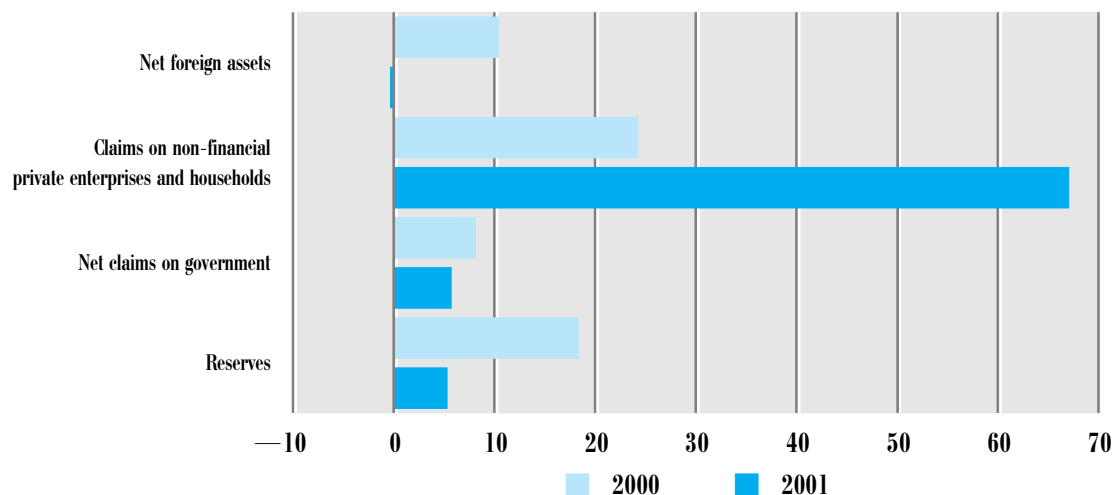


Chart 27

66.1 billion rubles, or 27%) compared with the increase in their foreign assets (by 62.8 billion rubles, or 13%). These changes were connected with the strengthening of the real exchange rate of the ruble and the increased attractiveness of the non-financial enterprise sector for investors, which led to the reduction of the net outflow of private capital from the country. This decline was partly the result of the return to the Russian economy of some of resident assets that had been taken out of the country earlier.

Consequently, the reduction of the net foreign assets of credit institutions became a source of growth in resources for an increase in domestic credit, thus exerting an indirect favourable influence on the dynamics of the money supply, including foreign currency deposits.

Net foreign assets of the monetary authorities and credit institutions in 2001 increased by 361.8 billion rubles, or 49%, while Russia's international reserves expanded by \$8.8 billion, or 31.5%.

Banking sector domestic credit in 2001 expanded 30%, or by 508.2 billion rubles, which is almost comparable with growth in the money supply, including foreign currency deposits. At the same time, the entire growth in domestic credit resulted from an increase in the value of claims on non-financial enterprises and households, which grew by 527.0 billion rubles (56%). The stabilisation of production and the establishment of more durable relations between

credit institutions and enterprises, which had proved themselves as reliable borrowers, encouraged growth in the value of bank loans to the non-financial sector of the economy. On the other hand, a relatively rapid rate of growth in funds taken by banks on deposit and the reduction of the net foreign assets of credit institutions made it possible to create sufficient sources for such loans. The increase in the value of banking sector claims on other financial institutions, which grew by 8 billion rubles, or 55%, may be regarded as another favourable trend for the Russian economy in general and the domestic financial market in particular.

Growth in the value of loans extended to the economy contributed to some extent to a decline in interest rates on loans. This trend resulted from the narrowing of a gap between yields and risk levels of corporate and government securities and the reduction in the volume of government borrowing in the domestic financial market. The average weighted interest rate on bank loans to corporate borrowers (including Sberbank loans) with terms up to 1 year fell from 18.6% in January 2001 to 16.5% in December 2001. However, despite some improvements in interest-rate dynamics, interest rates remain high relative to the average level of profitability in Russian industry. In this situation, the main source of financing investment in 2001 was, as before, enterprises' own funds and budget money.

As favourable budget trends continued in 2001 (the federal budget surplus, calculated by international methodology, amounted to 2.9% of GDP, according to preliminary data), growth in government deposits with banks exceeded the increase in banking sector claims. The annual rate

of growth in bank claims on government continued to slow down: in 2001, it declined 11% (there was a slowdown of 20% in 2000 and 69% in 1999). In this situation, banking sector net credit to the government contracted by 26.8 billion rubles, or 4%.

II.1.3. MONETARY POLICY INSTRUMENTS

To achieve the objectives of the monetary policy, the Bank of Russia used all instruments at its disposal. Taking into account the economic conditions of 2001, it attached particular importance to the monetary policy instruments designed to absorb free banking sector liquidity.

DEPOSIT OPERATIONS. One of the principal instruments of the monetary policy, used by the Bank of Russia in 2001 to absorb free banking sector liquidity and contain pressure on the foreign exchange market, was deposit operations. The Bank of Russia conducted deposit operations with resident banks in the Moscow Region and regional banks with Moscow branches, using the Reuters dealing system or holding deposit auctions for regional banks.

In the period under review, 174 banks from 43 regions participated in Bank of Russia deposit operations and the Reuters dealing system was used in operations with 109 banks from nine regions, serviced in the Bank of Russia Moscow branch, Bank of Russia regional branches in St. Petersburg, the Vologda, Ryazan, Tyumen and Chelyabinsk regions, and Krasnodar and Primorsky Territories, and in the National Bank of the Republic of Bashkortostan. The number of banks participating in deposit operations using the Reuters dealing system increased in 2001. Specifically, the Bank of Russia concluded additional general agreements on such deposit operations with 21 banks (19 of them are based in the Moscow Region and two are regional banks with branches in Moscow). As of January 1, 2002, the Bank of Russia had general agreements on conducting deposit operations using the Reuters dealing system with 159 banks from nine regions.

To accelerate settlements in deposit operations, regional banks with branches in the Moscow Region transferred funds to deposits from correspondent accounts of their Moscow branches, opened in one of the units of the Bank of Russia settlement network.

To regulate short-term bank liquidity, the Bank of Russia conducted deposit operations

with standard terms, such as overnight, tomorrow, spot-next, 1 week, spot-1 week, 2 weeks and spot-2 weeks, and to regulate medium-term liquidity, it conducted 1-month and 3-month deposit operations. The value of 1-month and 3-month deposit operations in 2001 accounted for 13% of the value of all deposit operations conducted by the Bank of Russia. Last year the Bank of Russia continued to upgrade the methods of conducting deposit operations. In addition to the existing kinds of deposit operations with fixed terms, on August 30, 2001, it introduced demand deposit operations using the Reuters dealing system.

To absorb free banking sector liquidity and determine the level of interest rates at which banks would be prepared to deposit their free ruble funds, the Bank of Russia conducted American auctions of 1-week, 2-week and 1-month deposits five times in the year, in which 65 banks from 41 regions that had no technical facilities for conducting deposit operations using the Reuters dealing system took part. Compared with 2000, the number of banks that participated in the auctions increased by 23, or 55%, and the number of regions rose by 16, or 64%.

Interest rates on Bank of Russia deposit operations ranged from 0.3% to 14.5% p.a. The minimum amount taken on deposit remained unchanged during the year: 20 million rubles for deposit operations conducted using the Reuters dealing system, 10 million rubles for deposit auctions for banks based in the Moscow Region and 3 million rubles for banks located in other regions. The average annual balance of funds taken on deposit with the Bank of Russia in 2001 amounted to 36.7 billion rubles.

REQUIRED RESERVES. In 2001, the Bank of Russia made no changes in the required reserve standards and did not resort to their extraordinary regulation because the state of banking sector liquidity did not require this and other monetary policy instruments could be used, whenever necessary. At the same time, the Bank of Russia con-

tinued to upgrade the required reserve mechanism.

Specifically, beginning from the regulation of the required reserves of credit institutions as of February 1, 2001, the same deadlines were set for all credit institutions to present their required reserve calculations. In addition, the Bank of Russia stipulated that the regulation of the required reserves for December of the accounting year (as of January 1 of the year following the accounting year) should be effected twice, i.e., within the time-limits set for the monthly regulation of reserves and the second time by the deadline set by the Bank of Russia for credit institutions to present their annual reports.

The Bank of Russia upgraded the procedure to check the required reserve calculations by credit institutions. Specifically, it stipulated that if a credit institution has transferred more funds to the required reserves than it should according to the calculation it presented or committed some other violation, the Bank of Russia regional branch (cash settlement centre) may conduct a prompt on-site examination of the calculation (during the required reserve regulation period). In addition, amendments were made in 2001 to the procedure for verifying compliance with the reserve requirements by credit institutions with branch networks.

As the balances of funds drawn by credit institutions from corporate entities and private individuals increased in 2001, the required reserves deposited with the Bank of Russia rose over the year by 32.4 billion rubles, or 1.26 times; of these, the required reserves deposited for ruble accounts increased by 20.8 billion rubles, or 1.29 times, and the required reserves deposited for foreign currency accounts rose by 11.6 billion rubles, or 1.23 times. The share of provisions from ruble liabilities of credit institutions expanded from 58.7% as of the beginning of the year under review to 59.8% as of its end, while the share of provisions from credit institutions' liabilities in foreign currency contracted from 41.3% to 40.2%.

In 2001, Bank of Russia regional branches conducted inspections to make sure that credit institutions were creating the required reserves fully and in good time. They verified credit institutions' required reserve calculations and the ve-

racity of the submitted data. In credit institutions that had branches, Bank of Russia regional divisions conducted inspections to make sure that the branches showed correctly their share of liabilities in their balance sheets.

Most of the credit institutions deposited the required reserves with the Bank of Russia fully and in good time. The share of credit institutions which failed to create the required reserves in full in the year under review declined almost by half to 0.99% of all operating credit institutions.

REFINANCING OF BANKS. The Bank of Russia in 2001 refinanced banks by extending to them intraday loans, overnight loans, Lombard loans and loans collateralised by promissory notes and secured claims for loan agreements and warranties.

Lombard loans were extended by conducting American auctions of Lombard loans with terms up to 7 calendar days, while loans collateralised by rights of claim for loans and warranties were extended for terms up to 180 calendar days.

During the year under review, the Bank of Russia extended 8.1 billion rubles worth of loans to 41 banks, of which 8.0 billion rubles were extended to 34 banks as overnight loans and 100 million rubles were extended to five banks as Lombard loans and to two banks as loans collateralised by loan claims and warranties. In addition, to maintain liquidity and ensure that the Bank of Russia settlement system ran smoothly, 209.4 billion rubles were extended as intraday loans to 40 banks in the Moscow Region and St. Petersburg.

The overall debt on Bank of Russia loans as of January 1, 2002, amounted to 10.7 billion rubles, which represents a decrease of 1.9 billion rubles against the same date in 2001 owing to the termination of banks' debt obligations to the Bank of Russia. Most of the debt (9.7 billion rubles) was the debt on loans extended to banks by the decision of the Bank of Russia Board of Directors in 1998—1999 with the aim of overcoming the consequences of the financial and economic crisis.

Forty-three banks that concluded general loan agreements with the Bank of Russia, whereby the latter was to extend collateralised loans to them, in 2001 kept up more than 7 billion rubles in bal-

ances of government securities in a deposit account blocked by the Bank of Russia in the National Depository Centre and that guaranteed them the timely receipt of intraday and overnight loans.

To spread the practice of extending intraday and overnight loans to banks, the Bank of Russia in 2001 continued to establish a single procedure for interaction between the authorised units of its central apparatus and regional branches. At the same time, it continued to draft an act regulating the procedure for interaction between Bank of Russia units in recovering funds not only from correspondent accounts, but also correspondent sub-accounts of banks owing a debt on loans to the Bank of Russia or having other unfulfilled pecuniary obligations to it.

As GKO and OFZ market participants stepped up their operations in 2001 and the Bank of Russia resumed issuing its bonds, it extended from June 17, 2001, the list of securities accepted as collateral for Bank of Russia loans by including Bank of Russia bonds in it. In addition, the Bank of Russia changed the adjustment ratio used in adjusting the market value of federal loan bonds accepted as collateral for Bank of Russia loans, increasing it from 0.3 to 0.6 for Lombard and overnight loans and from 0.27 to 0.57 for intraday loans. The adjustment ratio for Bank of Russia bonds accepted as collateral for Bank of Russia loans (except intraday loans) was set at 0.9 and for intraday loans at 0.87.

Having approved the results of a pilot project to extend loans collateralised by loan claims and warranties, implemented in the Bank of Russia St. Petersburg branch, the Bank of Russia Board of Directors in 2001 decided to extend this refinancing procedure to banks serviced in the Bank of Russia regional branches in the Vologda, Leningrad, Rostov, Samara and Sverdlovsk regions and Primorsky Territory. This procedure also applies to bank branches serviced in the Bank of Russia Moscow branch and having correspondent sub-accounts in the settlement centres of the aforementioned Bank of Russia regional branches.

In 2001, the Bank of Russia continued to participate in the implementation of the housing mortgage loan programme and approved the draft

Federal Law “On the Issue of Mortgage Securities,” drawn up by the Federal Securities Commission.

The debt on loans extended to enterprises in some sectors of the economy in 1992—1994 in line with the decision of the Government Financial and Monetary Policy Commission and interest on them as of January 1, 2002, amounted to 1.0 billion rubles. It decreased over the year mainly as a result of the decision taken by the Bank of Russia Board of Directors to write off the debts of those banks that had wound up their activity and had been struck off the State Register of Credit Institutions.

The debt on bank promissory notes acquired by the Bank of Russia in the course of transferring household deposits from failed banks to the Savings Bank (Sberbank) after the 1998 crisis and on notes received by the Bank of Russia in 2001 under amicable agreements with banks amounted to 5.6 billion rubles as of January 1, 2002. Over the year, it decreased by 100 million rubles as banks retired a part of the notes.

INTEREST RATE POLICY. As the transmission mechanism developed, interest rates on Bank of Russia operations played an increasingly important role as an instrument of the monetary policy in the year under review.

Using interest rates on its loan and deposit operations along with other monetary policy instruments, the Bank of Russia regulated the level of banking sector liquidity in accordance with the current economic situation. Setting interest rates on Bank of Russia lending and deposit operations (or leaving some of them unchanged) affected the level and structure of interest rates in the money market.

Taking into consideration the inflation dynamics in the period under review, the Bank of Russia in 2001 kept its nominal refinancing rates and overnight loan rates at a low positive level in real terms (25% and 22% p.a. respectively), and therefore there was no need to change them.

In the year under review, the Bank of Russia set the auction cut-off price of Lombard loans at 20—25% p.a. Loans collateralised by loan claims and warranties were extended by the decision of

SHORT-TERM INTEREST RATES IN 2001 (%)

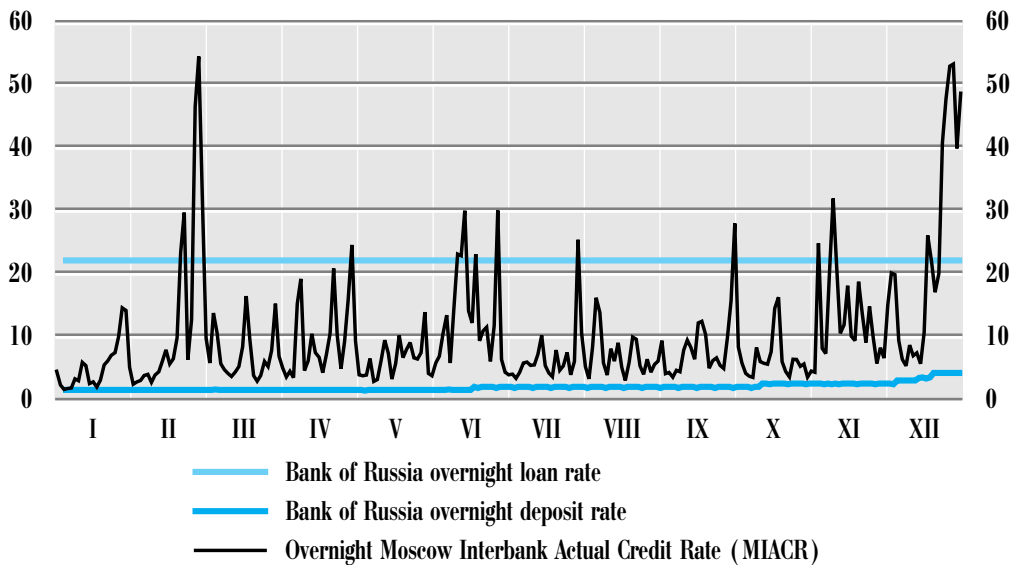


Chart 28

the Bank of Russia Board of Directors at half the refinancing rate.

The banking sector liquidity level in 2001 had to be regulated by changing interest rates on deposits taken by the Bank of Russia. As the value of free funds in banks' correspondent accounts fluctuated in 2001, the Bank of Russia repeatedly had to change interest rates on all kinds of deposit operations, which varied from 0.3% to 14.5% p.a. Interest rates set on the results of deposit auctions ranged from 7% to 12% p.a.

SECURITIES MARKET POLICY. In 2001, just as in the previous two years, the Bank of Russia could not conduct direct operations with government securities as it had no bonds in its portfolio with parameters acceptable for the market.

Therefore, the use of market instruments of the monetary policy was limited for the Bank of Russia in 2001 to short-term operations: the Bank of Russia issued its own bonds and conducted reverse repurchase operations with government bonds.

In 2001, the Bank of Russia established a procedure for conducting a modified version of repo operations with federal loan bonds from its portfolio, which would allow it to use for the purpose of its monetary policy federal loan bonds (OFZ) that could not be used in direct operations owing

to their excessively long tenor and unmarketable interest rate. Conducting such operations on a regular basis will equip the Bank of Russia with an instrument to regulate banking sector liquidity and allow it to meet the needs of credit institutions in reliable short-term instruments, caused by long intervals between GKO and OFZ bond redemptions.

The right of the Bank of Russia to issue its own bonds under the 2001 Federal Budget Law was extended until January 1, 2002, but tax problems did not allow the Bank of Russia to issue its bonds, known as OBR, before the adoption of Federal Law No. 69-FZ, dated May 30, 2001, "On Amending the Russian Federation Law on the Taxation of Operations with Securities." When this law came into force, the Bank of Russia resumed OBR operations. Two OBR issues with a total value of 850 million rubles were placed in the money market in September 2001 at yields that were considerably lower than the yields on GKO and OFZ bonds with comparable maturity and just a little higher than the yield on Bank of Russia deposits.

Early in December 2001 the Finance Ministry registered four OBR bond issues with terms ranging from 1 month to 4 months and a total value of 10 billion rubles, but as there was no demand for them from credit institu-

tions, the Bank of Russia cancelled OBR auctions.

In addition to using short-term instruments to regulate the level of liquidity, the Bank of Russia deemed it expedient to consider the prospects of using some other instruments to sterilise excess liquidity on a permanent basis. It decided to extend the list of securities from its portfolio that could be traded in the open market, including in it some issues of federal loan bonds with terms and conditions approximating market ones.

Thus, in the year under review, the Bank of Russia continued to resume using market instruments in implementing the monetary policy. This has brought to the fore the problem of increasing the liquidity of government bonds to a level that will enable the Bank of Russia to conduct interventions, because a developed market for the instruments used is the necessary condition of effectiveness of market operations.

GKO—OFZ MARKET STRUCTURE IN 2001
(billion rubles)

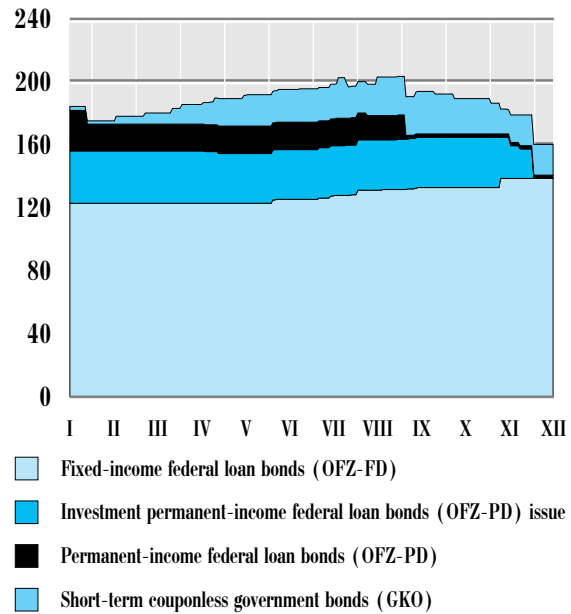


Chart 29

II.2. FOREIGN EXCHANGE POLICY IMPLEMENTATION

II.2.1. EXCHANGE RATE POLICY AND RESERVE MANAGEMENT

EXCHANGE RATE POLICY. In 2001, the exchange rate policy, implemented in accordance with Guidelines for the Single State Monetary Policy for 2001, was pursued in the conditions of a floating exchange rate.

The international market situation for major Russian exports in 2001 remained favourable on the whole, ensuring stability of the inflow of export currency earnings to the country. At the same time, as a result of a gradual expansion in import volumes in the period under review, the current account surplus contracted year on year and that affected the conditions in which the exchange rate policy was implemented. The principal objectives of this policy were to calm economically unjustified exchange rate fluctuations, increase international reserves and slow the ruble's growth in real terms.

The principal instrument of the exchange rate policy implemented by the Bank of Russia in 2001 was, as before, its interventions in the exchange and over-the-counter segments of the domestic foreign exchange market, which were conducted along with the use of other monetary policy instruments. To conduct currency interventions, the Bank of Russia in the period under review used conversion operations with settlements on the second working day. In addition, to regulate current liquidity of the financial market participants, the Bank of Russia conducted overnight currency swap operations. In 2001, the Bank of Russia bought foreign currency sold by exporters on a mandatory basis

directly from the authorised banks servicing the exporters.

Owing to the implementation of its exchange rate policy, which took into account the changes in the balance of currency flows in different periods of the year under review and included measures to counter occasional short-term surges in demand for foreign exchange, the Bank of Russia in 2001 managed to ensure more even exchange rate dynamics than last year. Even in January, when foreign currency quotations soared, as they usually do at the start of the year, the exchange rate growth was stabilised without spending foreign exchange reserves. However, that month the nominal rate of the dollar rose about 0.9% against the ruble.

In February the Bank of Russia resumed replenishing foreign exchange reserves by buying foreign currency in the domestic market (more than \$900 million) and in March, when export earnings usually grow, net purchases of foreign exchange by the Bank of Russia reached a 12-month high. The next two quarters were characterised by significant net purchases of foreign exchange by the Bank of Russia. The main factors of predictable exchange rate dynamics and growth in international reserves in that period were stable export receipts, the absence of sharp price fluctuations in world financial and commodity markets and rising demand for money from economic agents. The short-term acceleration of the ruble's nominal depreciation by 1.1% in May, which was primarily caused by an increase in banks' free

OFFICIAL US DOLLAR/RUBLE AND EURO/RUBLE EXCHANGE RATE DYNAMICS IN 2001
(rubles per unit of corresponding currency)

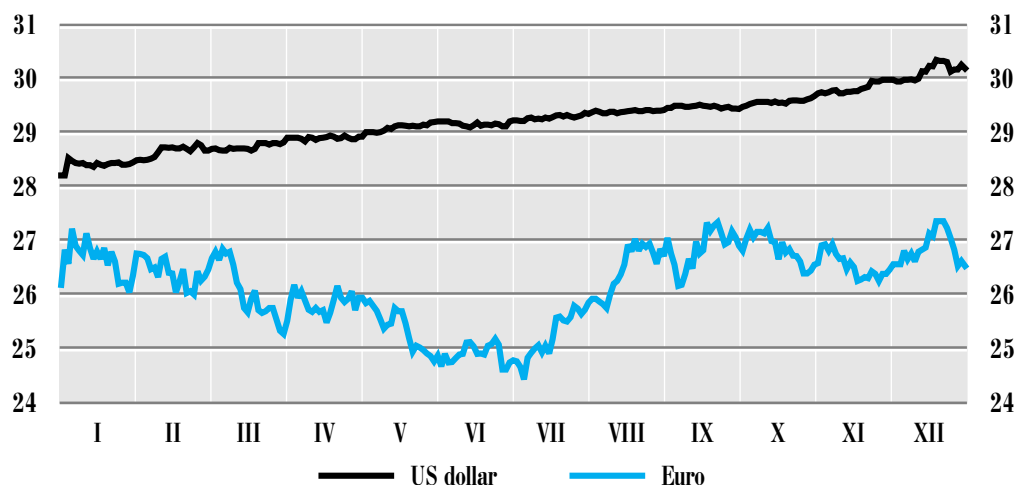


Chart 30

funds, was offset by the ruble’s nominal appreciation by 0.2% in June. Another factor contributing to foreign exchange market stability was the sterilisation of free liquidity as a result of the accumulation of budget revenues in accounts with the Bank of Russia, which was typical of the first three quarters of the year under review.

2001 Q4 was characterised by the deterioration of the economic conditions in which the exchange rate policy was implemented. A sharp fall in the world oil prices in the last 10 days of September led to a decrease in export earnings in October. In addition to the seasonal factor, the devaluation expectations were enhanced by signs of the deterioration of the macroeconomic situation and the government’s increased needs in foreign exchange for making foreign debt payments. At the same time, capital outflow from the country intensified and one of the reasons for this was the lowering of the level of compulsory sales of export earnings from 75% to 50%. However, until the second half of November, the overall situation in the foreign exchange market remained stable and did not require the Bank of Russia to conduct massive interventions. The Bank of Russia continued to increase foreign exchange reserves by buying foreign currency in the domestic market, although in October, the rate of the nominal depreciation of the ruble slightly accelerated compared with the previous months.

Speculative pressure on the ruble built up sharply in the last 10 days of November, compel-

ling the Bank of Russia to increase foreign exchange sales. At the same time, the Bank of Russia made a slight correction of the ruble’s nominal rate by letting it slip and that correction reflected the changes that had taken place in the macroeconomic situation, especially the deterioration of trade conditions. From the 3rd ten-day period of November to the 3rd ten-day period of December, net sales of foreign exchange by the Bank of Russia totalled about \$1 billion. In the remaining period of the year, the Bank of Russia managed to restore foreign exchange reserves spent on the November and December interventions and even increase them. Over those months, net purchases of foreign exchange amounted to about \$200 million net of foreign exchange sales to the Finance Ministry.

A major factor behind the increased demand for foreign exchange in December was the extremely uneven schedule of federal budget expenditures. For the best part of the year, the federal budget surplus performed the sterilising function, whereas the accelerated spending of budget funds from accounts with the Bank of Russia at the end of the year became the main reason for the increased effect of the monetary factors on the demand for foreign exchange.

The amount of foreign exchange offered for sale in the market and currency earnings from export sold directly to the Bank of Russia in the period of instability in November and December was affected to some extent by the lowering of

NET PURCHASE OF FOREIGN EXCHANGE BY BANK OF RUSSIA IN 2001
(billion US dollars)

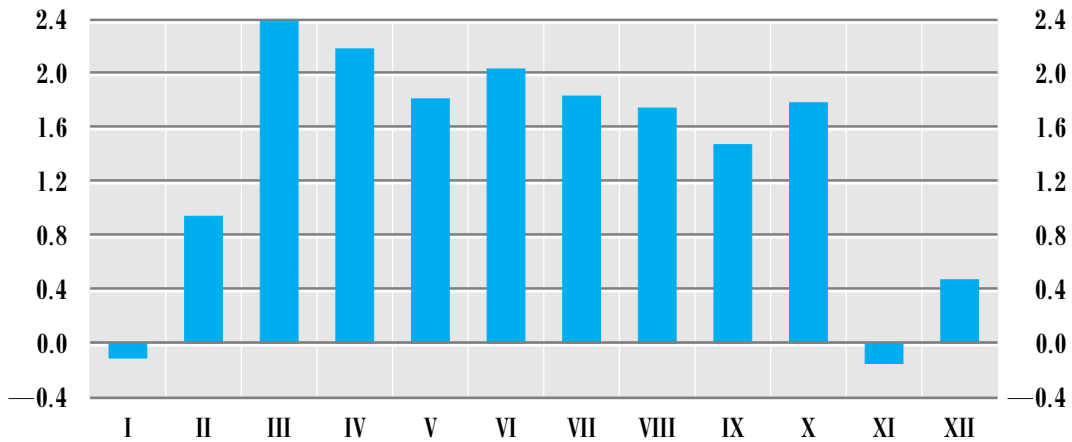


Chart 31

AVERAGE MONTHLY REAL RATE DYNAMICS OF THE RUBLE (%)*

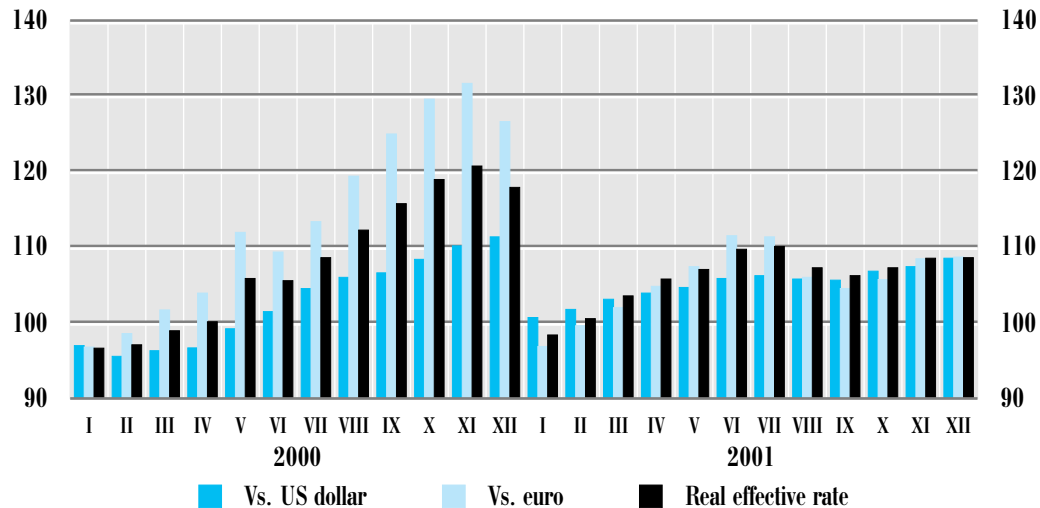


Chart 32

* For figures for 2000: December 1999 = 100%; for figures for 2001: December 2000 = 100%.

the level of compulsory sale of export earnings in August. When the economic situation inside the country and in international markets was stable, that measure had no noticeable effect on the overall balance of supply and demand in the domestic foreign exchange market, but when these conditions deteriorated, it turned into a factor that stimulated speculative pressure on the ruble's exchange rate and on foreign exchange reserves.

In 2001, the nominal rate of the US dollar against the ruble rose 7.0% against 4.3% in 2000, from 28.16 rubles to 30.14 rubles. The rates of growth in the exchange rate ranged from -0.2% to 1.1% a month, reaching the highest level in

May and the lowest in June. The average monthly rate in the year under review was 0.6% against 0.4% in 2000.

The official euro/ruble rate in 2001 changed a little — over the year, it rose 1.8% (in 2000, it fell 3.9%). At the same time, during the year the euro rate against the ruble demonstrated higher volatility than that of the US dollar, and its fluctuation range reflecting the euro/dollar rate dynamics in the world foreign exchange market, reached almost 3 rubles.

The dynamics of the ruble's real-term growth in 2001 was fundamentally different from the previous year. While throughout 2000 the real

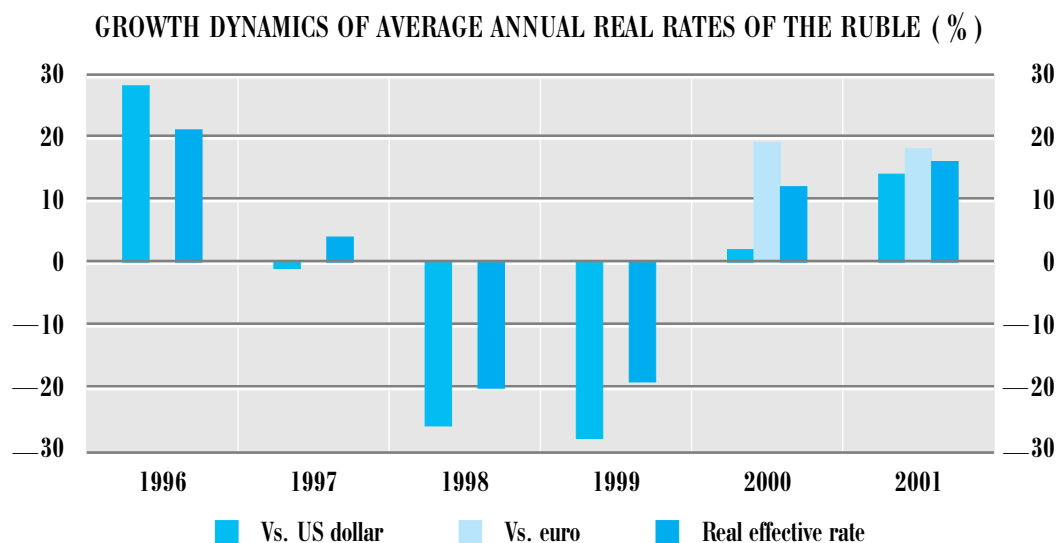


Chart 33

rate of the ruble had a steady tendency towards growth, in the year under review there was no definite trend in the ruble's dynamics. The highest rates of growth in the real rate of the ruble were registered in the period from February to June when the acceleration of inflation in the Russian economy was accompanied by relatively stable rates of the nominal depreciation of the ruble. In August, however, the real rate of the ruble started to fall against a background of slower inflation rates and the contraction of the current account surplus, while in the subsequent months it rallied slowly.

Overall, in 2001 (December 2001 to December 2000) the average monthly real effective rate of the ruble rose 8.6% against 18% in 2000 and the average monthly rate of the ruble against the US dollar increased 8.6% (11.4% in 2000) and against the euro 8.7% (26.7%).

However, owing to a relatively slower rate of decline in the average annual nominal rate of the ruble compared with the previous year, on average the ruble gained more in real terms in 2001 than in 2000. The average annual real rate of the ruble against the US dollar in 2001 rose 13.9% against 2.3% in 2000, while the real effective rate increased 15.8% against 12.4% in 2000. It is only against the euro that the average annual real rate of the ruble in 2001 increased less than in 2000 (18% against 19%).

As a result, at the end of 2001 the index of the real effective rate of the ruble was about 80% of its pre-crisis value in 1998. At the same time, in

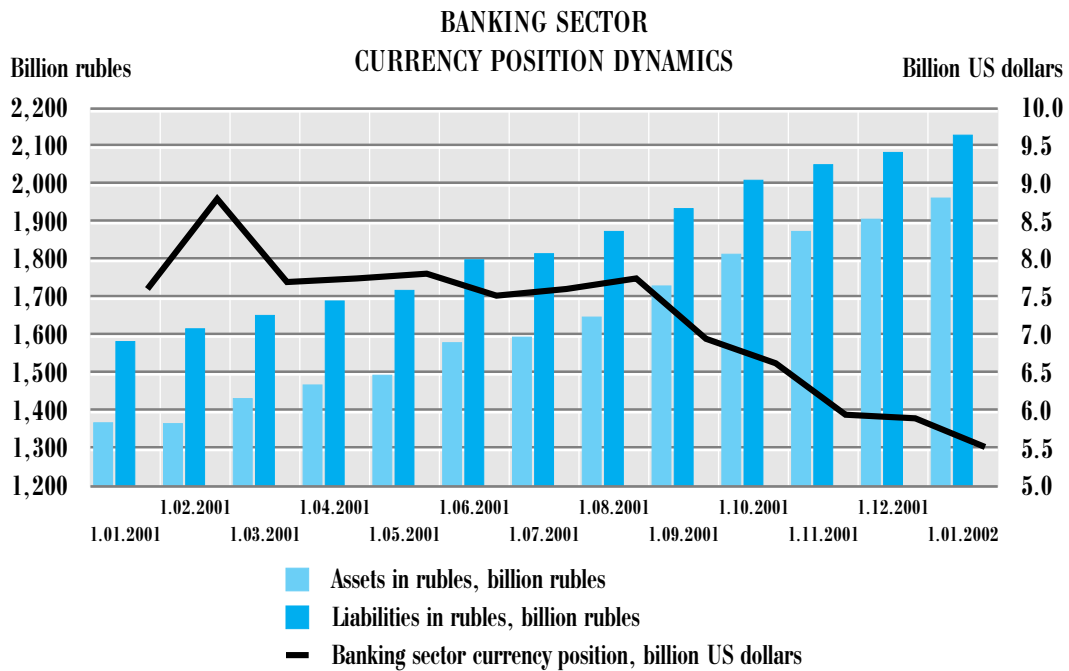
2001, just as in 2000, although the ruble continued to gain strength in real terms, foreign trade operations remained highly profitable on the whole, and the export of some commodities, such as oil and petroleum products, expanded in volume as the effect of the favourable price situation was stronger than the effect of the ruble's real-term growth. At the same time, the ruble's higher real-term increase than in the previous year told on the dynamics of the value of imports.

However, while a stronger ruble made imports more competitive, growth in their value was caused by the Russian economy's rising demand for imported raw materials and engineering products that had no national analogues and also a rise in household real disposable income.

One of the consequences of the ruble's rally in real terms in 2001 was the increased attractiveness of the ruble-denominated assets. As demand for banks' loans rose, stimulated by rapid GDP growth and a rise in investment activity in the real sector, the foreign currency position of the banking sector began to decline in the second half of the year.

The exchange rate policy pursued by the Bank of Russia proved effective in the current economic situation. The floating exchange rate regime allowed the monetary authorities to react flexibly to changes in the economic situation and the state of the country's balance of payments and to tackle such different problems as increasing international reserves and preventing sharp exchange rate fluctuations. As a result, the exchange rate

Chart 3.4



dynamics in 2001 were smoother than in 2000, providing economic agents with reliable guidelines for business solutions and stimulating demand for the ruble-denominated assets, and the real exchange rate of the ruble stabilised.

As macroeconomic indicators deteriorated and world market conditions for Russian exports changed for the worse in 2001 Q4, the Bank of Russia allowed the ruble to depreciate a little in nominal terms and its net purchases of foreign exchange in the market amounted to \$15.9 billion in 2001.

FOREIGN EXCHANGE RESERVE MANAGEMENT.

The Bank of Russia managed foreign exchange reserves in 2001 in line with the Basic Principles of Managing Bank of Russia Foreign Exchange Reserves, a document approved by the Bank of Russia Board of Directors.

The principal objective in managing reserves was to find the best way of preserving them, while, at the same time, maintaining their liquidity and profitability. The Bank of Russia tackled this task by actively diversifying investment and hedging risks through operations in international foreign exchange and financial markets. In addition, credit risk was restricted by credit risk limits imposed on Bank of Russia counterparties.

Among the factors that prompted the Bank of Russia to make one or another decision in managing reserves in 2001 were a large foreign trade surplus, which guaranteed a stable inflow of foreign exchange to the country, payments on the government's foreign debt and Bank of Russia debt to the IMF and a fall in interest rates on all instruments traded in the international financial market.

The portfolio principle was laid at the basis of reserves management, in accordance with which all assets were divided between the operating and investment portfolios. The operating portfolio comprises the most liquid instruments of the money market and some of the instruments of the capital market. Funds in the investment portfolio are put into longer-term and, consequently, higher-yielding instruments of the international capital market.

The value of the operating portfolio of currency reserves, i.e., the amount of the Bank of Russia's most liquid funds that could be used for currency interventions and in emergencies, rose 10% in 2001. The main factor of growth in the operating portfolio was net purchases of US dollars by the Bank of Russia in the domestic foreign exchange market. However, as some of the liquid funds were transferred to the investment portfolio, last year's expansion

of the operating portfolio was smaller than in 2000.

The value of the investment portfolio almost doubled in 2001 as some of the operating portfolio funds were transferred to it, and US and eurozone bond prices grew. At the same time, in Q4 the investment portfolio shrank owing to Bank of Russia debt payments to the IMF and the early redemption of the remainder of the principal debt on the IMF loan.

The dynamics of the currency structure of the investment portfolio in 2001 were characterised by the expansion of the euro's share from 25% to 39%. The US dollar's share (hereinafter figures take into account forward transactions) changed from 50% to 60%, while the share of sterling contracted from 10% to 1% and that of the Japanese yen from 14% to 2%. The contraction in the share of sterling and the yen was the result of a fall in the value of claims on sterling and yen forward deals that hedged Bank of Russia obligations on the IMF loan redeemed in the second half of the year.

A sensible monetary and exchange rate policy pursued by the Bank of Russia led to a rise in the country's international reserves, which amounted to \$36.6 billion, an increase of one-third as compared with the end of 2000. At the same time, last year's growth in international reserves was smaller than in 2000 (\$8.6 billion against \$15.5 billion). The main reasons of the decline were the worsening of international market conditions for Russian exports and a substantial year-on-year increase in the value of foreign debt payments by the Russian government and the Bank of Russia, which peaked in November—December 2001.

The share of the currency component in international reserves slightly expanded in 2001 (from 86.8% to 88.8%), while that of monetary gold contracted (from 13.2% to 11.2%). The value of gold in Bank of Russia reserves (calculated at the price of \$300 per troy oz) in the year under review rose from \$3.4 billion to \$3.5 billion owing to gold purchases in the domestic precious metals market and operations in foreign markets.

II.2.2. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

Being the principal body of foreign exchange regulation and one of the bodies of foreign exchange control in Russia, the Bank of Russia continued to upgrade the foreign exchange regulation and foreign exchange control system. The main objectives of the development of this system in 2001 were to liberalise foreign exchange legislation and enhance the efficiency of the means and methods of controlling foreign exchange operations conducted by residents and non-residents in order to reduce capital outflow. To liberalise foreign exchange legislation, amendments were made to the Russian Federation Law on Foreign Exchange Regulation and Foreign Exchange Control, while the Bank of Russia issued regulatory documents within the ambit of its powers, regulating resident and non-resident foreign exchange transactions and setting the procedure for residents to open accounts abroad.

One of the most significant decisions taken in foreign exchange regulation and foreign exchange control was amending the Russian Federation Law on Foreign Exchange Regulation and Foreign Exchange Control by passing Federal Law No. 130-FZ, dated August 8, 2001, which reduced from August 10 the foreign currency sale requirement for exporters from 75% to 50%.

Exporters' compulsory currency sales in the domestic foreign exchange market in 2001 totalled \$56.9 billion, which represents a decrease of \$2.4 billion from 2000. Owing to high world market prices of major Russian exports, in January—July exporters' compulsory sales of foreign currency amounted on average to \$5.6 billion a month. From August compulsory currency sales in the domestic foreign exchange market began to fall sharply, mainly as a result of the lowering of the compulsory currency sale requirement.

The easing of the compulsory currency sale requirement almost coincided with the deterioration of the foreign trade situation in the second half of September, especially a sharp fall in the world prices of oil and petroleum products, which

also caused a reduction in compulsory currency sales in the domestic foreign exchange market. In addition, compulsory currency sales were affected by amendments made to the Russian Federation Law on Foreign Exchange Regulation and Foreign Exchange Control by Federal Law No. 72-FZ, dated May 31, 2001, which granted exporters of engineering items the right to complete settlements for the shipped products within a period of up to three years from the export date.

As a result, average monthly sales of exporters' currency earnings in the domestic foreign exchange market in August—December amounted to \$3.6 billion, a decrease of 36% on the amount sold in the first seven months of 2001.

At the same time, the lowering of the compulsory currency sale requirement did not reduce demand for foreign currency in the domestic foreign exchange market. Over the year, this demand rose by \$10.6 billion year on year, or over 30%, to \$45 billion. The structure of the non-financial sector's demand, analysed from the viewpoint of the purposes of foreign exchange purchases, remained practically unchanged in 2001. As was the case a year earlier, 43% of foreign exchange was purchased to pay for imported goods and services and 50% for repaying the real sector's debts on financial loans.

At the same time, last year saw sustained growth in the balances in resident individuals' currency accounts (deposits). As of the end of December 2001, their value amounted to an equivalent of \$7.9 billion against \$5 billion a year earlier.

As the member countries of the Economic and Monetary Union (EMU) completed their transition to a single currency, the euro, and on January 1, 2002, euro notes and coins came into circulation, the Bank of Russia implemented a series of measures designed to help the domestic foreign exchange market make a gradual switch to operations with the euro. Specifically, it established the procedure for authorised banks to bring euro notes and coins to Russia before they

were put into circulation as legal tender and a procedure for such banks to conduct currency exchange operations for the period when the euro would be in circulation alongside national currencies. In co-operation with the State Customs Committee, the Bank of Russia organised in the period from the middle of December 2001 to the middle of January 2002 the daily registration of the amounts of cash euros brought to Russia by authorised banks.

As a result of these measures, by the beginning of January 2002, authorised banks had enough euro notes to meet the projected household sector demand.

Economic growth, a large foreign trade surplus and the increased international reserves allowed the Bank of Russia to carry out a set of measures to liberalise some foreign exchange operations in order to improve the investment climate in the country.

In July 2001, resident legal entities making direct investments in CIS countries to the amount equivalent to up to \$10 million were granted the right to notify the authorities about foreign exchange operations they conducted in connection with such investments rather than ask their permission for them. To encourage an inflow of long-term foreign capital to the country, in October 2001, the notification procedure was also extended to foreign exchange operations in which residents (other than credit institutions) took financial loans from non-residents for more than 180 days and subsequently meeting obligations to repay such loans.

In October 2001, the Bank of Russia also widened the range of foreign exchange operations connected with capital flow and conducted without prior permission or notification. Specifically, this applies to the following operations: the purchase or lease of real estate by non-residents from resident legal entities, the transfer by residents of foreign exchange to resident or non-resident creditors under warranty contracts, concluded to secure the fulfilment by resident debtors of their obligations under loan agreements, the sale or purchase of securities denominated in foreign currency and transferred to authorised banks as collateral for claims on loan agreements and the purchase and alienation of securities issued by residents and denominated in foreign

currency by residents through authorised banks for foreign currency in the organised securities market.

When implementing the provisions of the Russian President's annual message to the Federal Assembly, the Bank of Russia in October 2001 granted resident individuals the right, with subsequent notification of the tax authorities, to open accounts for purposes unrelated to entrepreneurial activities in banks situated in 34 member countries of the Organisation for Economic Co-operation and Development (OECD) and the Financial Action Task Force (FATF).

At the same time, to counter capital outflow, especially to offshore zones, the Bank of Russia in 2001 continued to use the foreign exchange regulation and foreign exchange control measures that had been adopted earlier. As a result, the share of foreign exchange bought in the domestic foreign exchange market and transferred to offshore zones in the total amount of funds transferred by the non-financial sector in 2001 contracted to 9% from 11% a year earlier.

To ensure effective control over resident currency operations in foreign trade, especially the complete and timely repatriation of currency earnings from exports and the delivery of goods under import contracts providing for advance payments, the Bank of Russia jointly with the State Customs Committee in 2001 expanded the sphere of action of the customs and banking foreign exchange control system.

As a result, in 2001, this system covered 85% of the Russian exports registered by customs bodies (against 84% in 2000). As for export operations, from January 1, 2002, this system was extended to settlements effected in customs regimes such as re-export, temporary export and the processing of goods outside the customs premises.

In imports this system was extended from January 1, 2001, to operations using bills and promissory notes in ruble payments and practically to all import customs regimes. As a result, it covered up to 77% of the Russian imports registered by customs bodies (against 57% in 2000).

Owing to these measures, illegal capital outflow from the country through foreign trade operations (export currency earnings and ruble proceeds that have not been returned in time and unpaid advances on imports) in 2001 declined

36% year on year and its share in foreign trade turnover contracted to 2% from 3.5% in 2000.

Controlling the inflow and outflow of capital, the Bank of Russia and its regional branches in 2001 issued more than 2,000 permits to residents to conduct foreign exchange operations involving the movement of capital. The total value of licensed operations amounted to \$10.7 billion, of which the value of operations to draw foreign capital to the non-financial sector amounted to \$5.5 billion and the value of operations to take capital out of the country amounted to \$4.6 billion.

As favourable trends continued in the Russian economy in 2001 and the investment climate in this country improved, the value of Bank of Russia-licensed operations to bring capital to the country increased almost 20%, or \$900 million, year on year. The growth was mainly the result of a rise in non-resident activity in extending long-term loans to the real sector of the Russian economy.

At the same time, the value of licensed operations to take capital out of the country declined 25%, or \$1.5 billion, year on year. In the structure of these operations, the value of operations related to direct and portfolio investments abroad decreased by half, or \$500 million, while the value of operations to extend commercial loans to non-residents under foreign trade contracts increased by almost one-third, or \$400 million.

In addition, the number of permits issued by the Bank of Russia for resident legal entities to open office accounts abroad almost doubled compared with the previous year.

To speed up the processing of residents' applications for permission to conduct foreign exchange operations connected with the movement of capital, the Bank of Russia on March 1, 2001, allowed its regional branches to issue permits for operations with an equivalent value of up to \$100 million. Overall, in 2001, Bank of Russia regional branches issued more than 1,600 permits, or 80% of the total number of permits issued by the Bank of Russia for conducting foreign exchange operations connected with the movement of capital (against just over 60% in 2000). Regional branches took 10 days on average to consider an application and issue a permit, whereas the mandatory time-limit was 30 days.

Timely and effective foreign exchange regulation measures depend to a great extent on the existence of a fully-fledged system of preliminary off-site control and reporting on foreign exchange operations, which acquired special significance in 2001 in connection with the liberalisation of the foreign exchange regulation system.

While easing the procedure for the real sector to take financial loans from non-residents for terms longer than 180 days, the Bank of Russia elaborated and introduced in October 2001 a reporting and accounting system for foreign exchange operations conducted by residents (other than credit institutions) under loan agreements with non-residents, regardless of the tenor of loans. This measure aims to create a system of monitoring the state of the accounts payable and receivable between non-residents and non-financial sectors of the economy and ensure fuller control over demand and supply in the domestic foreign exchange market.

To enhance the effectiveness of control over the nature of ruble operations between residents and non-residents and the appropriateness of conversion operations conducted by non-residents, the Bank of Russia in 2001 changed the procedure for opening ruble accounts by non-residents in authorised banks and established a procedure for conducting operations with such accounts and reporting operations conducted with foreign exchange.

Exercising its powers as a body of foreign exchange control, the Bank of Russia and its regional branches made sure that the authorised banks complied with the applicable foreign exchange legislation and fulfilled their functions as agents of foreign exchange control. In October 2001, the Bank of Russia changed the procedure for compiling and submitting reports by its regional branches on their work to control the compliance with foreign exchange legislation by authorised banks. This change was made in order to build a single database on detected violations of foreign exchange legislation and analyse the results of examinations of foreign exchange operations.

Realising the immense tasks facing the banking system in connection with the coming into force on February 1, 2002, of the Federal Law on Countering the Legalisation (Laundering) of

Criminal Incomes and seeking to prepare credit institutions for compliance with the provisions of this law, the Bank of Russia quickly elaborated the necessary regulations, recommending credit institutions to draw up special internal anti-laundering control programmes (such programmes should take into account the specific aims and areas of activity of credit institutions, their cus-

tomers base and the level of risk related to their clients and operations).

The Bank of Russia established the procedure, formats and methods of transferring data by credit institutions to the Financial Monitoring Committee on operations with money or property subject to mandatory control and other operations connected with money laundering.

II.3. RUSSIA'S PAYMENT SYSTEM

II.3.1. STATE OF RUSSIA'S PAYMENT SYSTEM. DEVELOPMENT AND UPGRADING OF BANK OF RUSSIA SETTLEMENT SYSTEM

The payment system of Russia developed dynamically in 2001 and on the whole met the needs of legal entities and private individuals in settlement services.

Non-cash settlements were effected through the Bank of Russia payment system, intrabank payment systems set up to effectuate settlements between various units within a single credit institution, payment systems of credit institutions created for settlements on correspondent accounts opened in other credit institutions, payment systems of clearing non-bank credit institutions and settlement systems between clients of one unit of a credit institution or branch of a credit institution.

As of January 1, 2002, the participants in Russia's payment system numbered 1,175 Bank of Russia institutions, 1,319 operating credit institutions, which, according to the Russian Bank Identification Codes (BIC) Directory, had correspondent accounts opened with the Bank of Russia, and 3,433 branches of credit institutions.

Compared with January 1, 2001, there were six fewer Bank of Russia institutions as a result of the measures implemented by the Bank of Russia to optimise its settlement system.

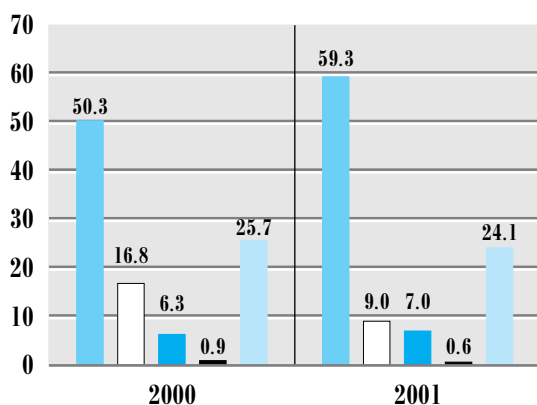
The number of credit institutions which had correspondent accounts opened with the Bank of Russia slightly increased (by 12 compared with data as of January 1, 2001), as the number of new credit institutions exceeded the number of credit institutions which had their licences revoked.

As a result of the re-organisation of the branch networks of several large credit institutions, the number of branches declined by 360. The quality of settlement services provided by the banking system did not deteriorate, though, as credit institutions opened additional offices. Over the year, the number of such offices rose to 6,131, an increase of 24.7%.

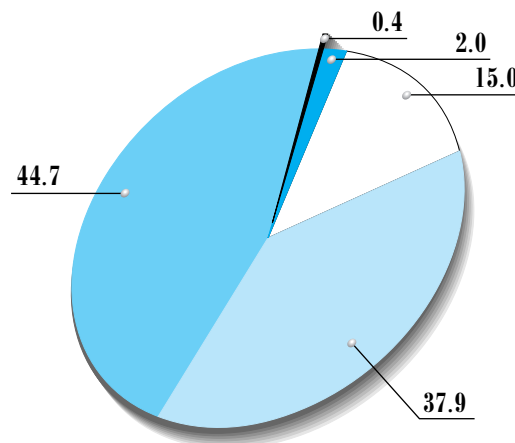
As of January 1, 2002, participants in Russia's payment system opened for their clients, resident and non-resident individuals and legal entities, other than credit institutions or branches of credit institutions, 254.1 million accounts in rubles, of which 3.9 million accounts (1.5%) were opened for legal entities and 250.2 million accounts (98.5%) for individual clients; most of these accounts (91.6%) were opened in the branches of the Savings Bank (Sberbank). Over the year, the number of accounts per resident of Russia increased on average from 1.7 to 1.8, a rise that contributed to growth in non-cash payments.

As of January 1, 2002, Russia had on average one participant in the payment system per 24,400 residents (one per 23,200 residents as of January 1, 2001) and per 606 legal entities (532 as of January 1, 2001). At the same time, taking into account additional offices opened by credit institutions and their branches, there was one participant in the payment system per 12,000 residents (13,000 as of January 1, 2001) and per 298 legal entities (299 as of January 1, 2001). These changes in numbers

**STRUCTURE OF NON-CASH PAYMENTS
EFFECTED BY RUSSIA'S
PAYMENT SYSTEM
(by value, %)**



**STRUCTURE OF NON-CASH PAYMENTS
EFFECTED BY RUSSIA'S
PAYMENT SYSTEM IN 2001
(by number, %)**



Charts 35, 36

- Payments effected by Bank of Russia payment system
- Payments effected through intrabank payment systems intended for settlements between units of a credit institution
- Payments effected through payment systems created for settlements on correspondent accounts opened by credit institutions in other credit institutions
- Payments effected through payment systems of non-bank clearing credit institutions
- Payments effected through settlement systems between clients of one unit of a credit institution or branch of a credit institution

testify on the whole to positive dynamics in the provision of settlement services by the banking system.

The value of non-cash payments effected through Russia's payment system in rubles in 2001 amounted to 106.6 trillion rubles, an increase of 24.6% over the year.

The increase in non-cash payments resulted from the favourable macroeconomic situation in the country, the continuing stabilisation of the economic situation, production growth, the increased receipts by budgets of all levels and the expansion of budget financing volumes.

In 2001, as in previous years, the structure of non-cash payments effected through Russia's payment system was dominated by payments effected through the Bank of Russia payment system (59.3% of the total value). A large part of payments was effected through settlement systems between clients of one unit of a credit institution

or its branch (24.1%). Payments effected through the payment systems intended for settlements on correspondent accounts of credit institutions opened in other credit institutions and through the payment systems of non-bank clearing credit institutions accounted for 7.0% and 0.6% respectively. The share of payments made through intrabank payment systems designed for settlements between units of a credit institution in 2001 contracted from 16.8% to 9.0%, mainly because of the re-organisation of branches into additional offices.

An analysis of payment data for 2001 shows that the principal instrument of payment used in effecting non-cash settlements was, as before, a payment order: last year, payment orders accounted for 74.3% of the total number of payments and 86.7% of the total value of payments.

Payment orders are the predominant form of settlements because they can be used in settle-

ments for business transactions and non-commodity operations, and also in electronic payments, which help reduce settlement periods to a minimum.

The use in non-cash settlements of such payment instruments as payment requests and collection orders remained unchanged: they accounted for 1.6% of the total number and 0.5% of the total value of payments. Settlements through cheques issued by credit institutions amounted to 0.2% of the total number and 0.1% of the total value. Payments using letters of credit were rarely used.

Most of other instruments of payments (23.9% of the total number and 12.7% of the total value of payments) were so-called payment warrants. They are used for the partial payment of settlement documents, when a client lacks the necessary funds in his account, and in a number of special cases, when a bank or its clients have changed their details.

Last year, 62.3% of the total number of payments and 75.4% of the total value of payments were effected through Russia's payment system electronically, while payments effected using paper carriers accounted for 37.7% and 24.6% respectively. Paper documents still account for a large part of payments because they are widely used in settlements between clients of one unit of a credit institution, whereas electronic payments prevailed in interbank settlements.

Most of the payments effectuated through Russia's payment system were intraregional payments. In 2001, they accounted for 92.6% of the total number and 85.8% of the total value of payments. Interregional payments accounted for 7.4% and 14.2% respectively.

The overall amount of cash that flowed through the cash departments of banks in 2001 rose 38.4% as a result of growth in household nominal money income and a rise in consumer prices.

At the same time, the average daily cash turnover increased by 6.7 billion rubles to 24.2 billion rubles.

In 2001, banks supplied 95.2% of their clients' needs in cash with their own cash resources against 94.1% in 2000.

The Bank of Russia payment system functioned smoothly in the year under review.

As of January 1, 2002, the participants in the Bank of Russia payment system were 1,175 Bank of Russia institutions and 1,319 credit institutions, and 1,817 branches of credit institutions, which, according to the BIC Directory, had correspondent accounts (sub-accounts) opened for them in the Bank of Russia.

The number of branches of credit institutions, which had correspondent sub-accounts opened for them in the Bank of Russia, declined over the year by 438, or 19.4%. On the one hand, the decrease was caused by the Bank of Russia requirement that a credit institution and its branches should have a single correspondent account or sub-account in the Bank of Russia branch that serviced them at their domicile. On the other hand, it was the result of the continued re-organisation of credit institutions, including the re-organisation of branches into additional offices.

In addition, the Bank of Russia, as is required by law, provided services to budget-financed organisations, government bodies and other customers in regions where there are no credit institutions.

The number of Bank of Russia clients, the bodies of the Finance Ministry's Federal Treasury, rose from 1,387 as of January 1, 2001, to 1,402 as of January 1, 2002, which represents an increase of 1.1%. This growth resulted from the creation of Federal Treasury bodies in some Russian regions.

The number of payments effected through the Bank of Russia payment system in 2001 amounted to 283.2 million and their value totalled 63.3 trillion rubles, an increase of 46.9%. Nearly 1.1 million payments on average were effectuated through the Bank of Russia payment system daily.

Most of the payments effected through the Bank of Russia payment system were payments by credit institutions and their branches and clients, which accounted for 81.6% of the total number and 75.2% of the total value of payments (against 79.5% and 72.3% respectively in 2000).

The turnover of average balances of credit institutions and their branches in correspondent accounts and sub-accounts with the Bank of Russia in 2001 was 0.42 days, or 2.4 turnovers a day, against 0.68 days, or 1.5 turnovers a day, in 2000.

The acceleration of turnovers of the average balances of credit institutions and their branches in correspondent accounts and sub-accounts opened with the Bank of Russia resulted from a rise in the activity of credit institutions and their clients, the consolidation of credit institutions' accounts and more efficient management of liquidity, facilitated by Bank of Russia efforts to spread the use of electronic settlements and reduce settlement times.

Payments effected by Bank of Russia clients, other than credit institutions, and payments effected by Bank of Russia institutions on their own settlement operations in 2001 accounted for 18.4% of the total number and 24.8% of the total value of payments made through the Bank of Russia payment system. Year on year, the number of such payments fell 1.2%, while their value rose 30.6%. The highest level of growth was registered in Federal Treasury payments as the continued transfer of budget-financed organisations to the Federal Treasury service system led to a 29.2% increase in the number of payments effected on the accounts opened for the Federal Treasury bodies and 9.6% growth in their value.

Most of the payments effected through the Bank of Russia payment system, just as through Russia's payment system as a whole, were intraregional payments. In 2001, they accounted for 90.3% of the total number of payments and 84.5% of their total value.

In 2001, the Bank of Russia continued to take steps to enhance the efficiency of its payment system, especially by making persistent efforts to spread the use of electronic settlements, which made it possible to effect payments on the same day at the regional level and no later than next day at the interregional level.

As of January 1, 2002, intraregional and interregional electronic payments were used in 76 out of 78 Bank of Russia regional branches. The participants in intraregional electronic settlements included 1,135 Bank of Russia institutions (out of 1,175), or 96.6% of the total (1,137 out of 1,181 Bank of Russia institutions, or 96.2% of the total, as of January 1, 2001); the participants in interregional electronic settlements included 1,031 out of 1,175 Bank of Russia institutions, or 87.7% of the total (913 out of 1,181 Bank of

Russia institutions, or 77.3% of the total, as of January 1, 2001).

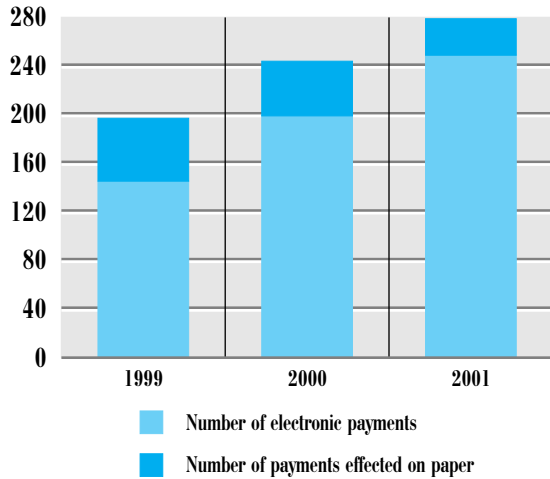
At the same time, the Bank of Russia took steps to draw its clients into the exchange of electronic documents. At the end of last year, 76 Bank of Russia regional institutions exchanged electronic documents with 2,502 credit institutions and their branches, or 79.7% of the total number of credit institutions (3,140) and their branches, which, according to the BIC Directory, had correspondent accounts (sub-accounts) opened for them in the Bank of Russia (70.7% as of January 1, 2001). The share of Federal Treasury bodies exchanging electronic documents with the Bank of Russia as of the end of 2001 amounted to 19.0% of their total number (1,402), while the share of other Bank of Russia clients exchanging electronic documents with it was 0.8% of their total number (74,410).

As a result of the Bank of Russia's efforts to spread the use of electronic technologies, the number of electronic payments grew faster than the number of payments effected on paper. Electronic payments effected by credit institutions and their branches and other Bank of Russia clients in 2001 accounted for 89.2% of all payments and 82.9% of the value of all payments (the respective percentages for 2000 were 81.6% and 79.0%). Accordingly, the share of payments effected on paper carriers contracted from 18.4% to 10.8% in number and from 21.0% to 17.1% in value.

The improvements made in the overall structure of payments effected through the Bank of Russia payment system, notably the contraction of the share of postal and telegraphic payments, resulted from the fact that settlement operations using letters of advice were mainly conducted with regions where this settlement procedure was used, because these regions had no dependable communications systems for exchanging electronic documents and because the use of instruments of payment was limited in electronic settlements.

In 2001, the Bank of Russia continued to upgrade its policy of charging fees for the provision of settlement services to clients. An increase in settlement service charges, which had not changed since 1998, was yet another step taken by the Bank of Russia as part of its announced plan to gradually raise prices in order to compen-

**DYNAMICS OF PAYMENTS
OF CREDIT INSTITUTIONS (BRANCHES)
AND OTHER BANK OF RUSSIA CLIENTS,
EFFECTED BY BANK OF RUSSIA
ELECTRONICALLY AND ON PAPER
(million payments)**



Charts 37, 38

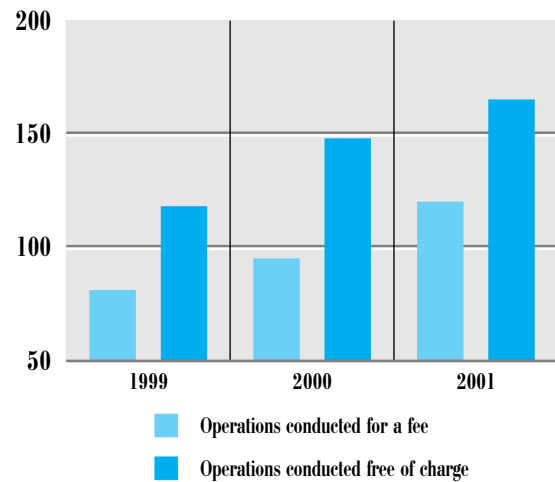
sate to the fullest possible extent for the cost of providing settlement services to clients.

While charging fees for the settlement services it provides to its clients, the Bank of Russia, in accordance with the applicable legislation, conducts some operations free of charge. These are mainly operations with federal, regional and local budget funds and government extra-budgetary funds, including tax transfers and payments effected by the Federal Treasury bodies. Although the number of client payments processed by the Bank of Russia grew, the ratio between payments effected for a fee and free of charge remained practically unchanged. Therefore, the share of settlement services provided for a fee and the share of free settlement services has not changed much: in 2001, the Bank of Russia conducted 42.1% of operations for a fee and 57.9% of operations free of charge.

Thus, the Bank of Russia is reimbursed for less than a half of all its expenses on the effectuation of client payments through its payment system.

As of January 1, 2002, the amount of settlement documents unpaid owing to a shortage of funds in the correspondent accounts or sub-accounts of credit institutions (their branches) totalled 10.2 billion rubles, a fall of 2.2 times on the

**NUMBER OF OPERATIONS CONDUCTED
BY BANK OF RUSSIA PAYMENT SYSTEM
(million)**



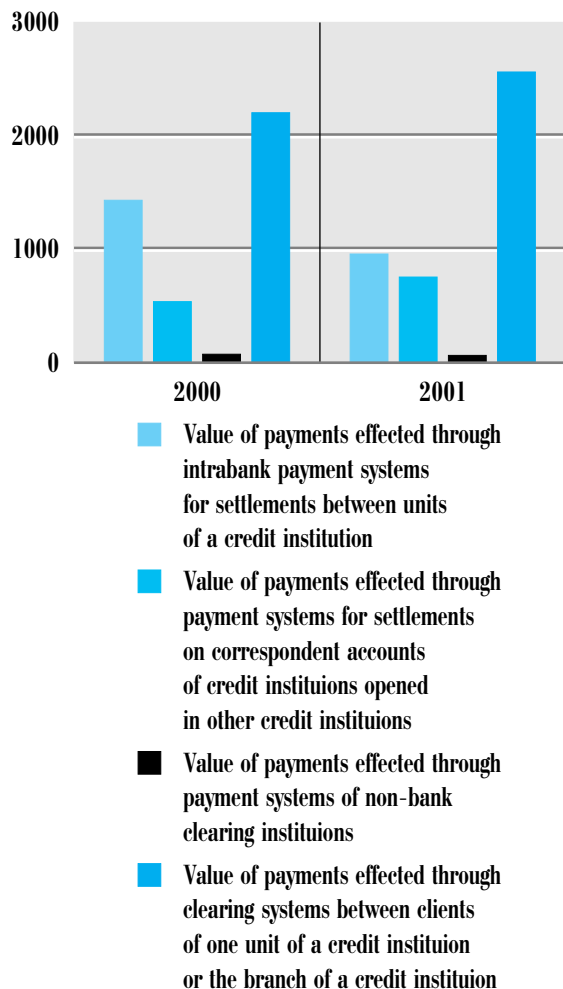
amount registered as of January 1, 2001 (22 billion rubles).

The decrease in the amount of unpaid settlement documents took place amid a general fall by 1.9 times in the number of credit institutions whose branches had unpaid settlement documents: from 184 at the beginning of the review year to 95 as of January 1, 2002. Of these, 81 were credit institutions which had their licences revoked (this represents 70.4% of the total number of credit institutions with revoked licences against 160 credit institutions, or 89.4% as of January 1, 2001) and 14 were operating credit institutions (1.1% of their total number against 24 credit institutions, or 1.8% of the total, as of January 1, 2001).

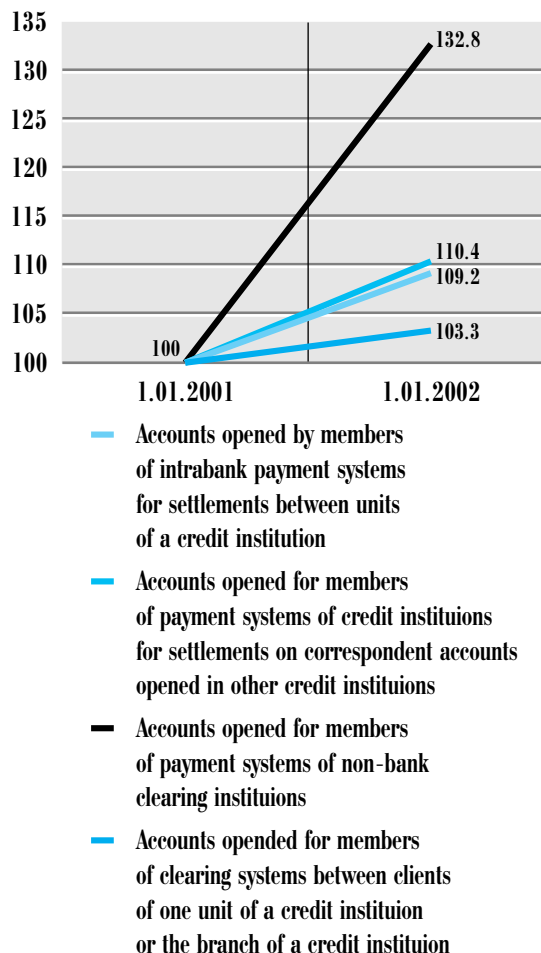
As of January 1, 2002, the amount of settlement documents unpaid by credit institutions whose licences had been revoked amounted to 6.3 billion rubles, or 62.0%, and the amount of settlement documents unpaid by operating credit institutions reached 3.9 billion rubles, or 38.0%. It should be noted that 97.4% of the amount of settlement documents unpaid by operating credit institutions pertained to four credit institutions controlled by the Agency for the Restructuring of Credit Organisations (ARCO).

Private payment systems also demonstrated growth in the year under review, which became

**VALUE DYNAMICS OF NON-CASH PAYMENTS
EFFECTED THROUGH PRIVATE
PAYMENT SYSTEMS
(billion rubles)**



**GROWTH DYNAMICS OF ACCOUNTS
OPENED FOR MEMBERS OF PRIVATE
PAYMENT SYSTEMS
(%)**



Charts 39, 40

manifest in a rise in the number of accounts opened for their members and an increase in the total value of payments effected by them.

The main factors behind the dynamic growth of private payment systems were the stabilisation of the activities of credit institutions, the restoration of their mutual trust, the upgrading by credit institutions of their own settlement systems and a rise in business activity of economic agents.

At the same time, cash turnover in 2001 grew faster than non-cash payments: year on year, cash turnover rose 38.4%, while non-cash payments increased 24.6%.

The trend of cash withdrawal operations prevailing over non-cash operations continued in the trade and service sector. Non-cash payments accounted for 8.0% of the total value of transactions conducted in Russia with the aid of payment cards, including bank ones, while cash withdrawal operations accounted for 92.0%. This situation is largely the result of the underdevelopment of the trade and service network accepting bank cards and the long-time popular preference for cash. The share of non-cash operations conducted with the aid of cards in trading and service establishments was 0.9% of the total value of paid services and retail trade turnover in 2001.

At the same time, the number of credit institutions issuing and/or acquiring payment cards, including bank cards, continued to grow (last year, their number increased 26%), while the number of cards issued in Russia and representing both international and Russian payment systems has risen to more than 10.5 million.

In the year under review, card-holding clients of resident and non-resident credit institutions conducted 191 million operations to the amount of 440 billion rubles.

In 2001, the Bank of Russia paid special attention to the development and upgrading of the legislative base for the uninterrupted functioning of Russia's payment system. Specifically, it passed a new version of Bank of

Russia Provision No. 2-P, dated April 12, 2001, "On Non-cash Settlements in the Russian Federation."

To accomplish the task of upgrading Russia's payment system, set in the Banking Sector Development Strategy adopted by the Russian government and Bank of Russia in 2001, the Bank of Russia continued to work on building and operating a real-time gross settlement system and implement measures to increase the transparency of its own payment system and of private payment systems. For this purpose, it organised a regular analysis of the required reports and began to issue the statistical bulletin *Obzor platezhnoi systemy Rossiiskoi Federatsii* (Review of Russia's Payment System).

II.3.2. DEVELOPMENT OF TECHNICAL INFRASTRUCTURE OF BANK OF RUSSIA PAYMENT SYSTEM

The technical infrastructure of the payment system is maintained and developed as part of the Bank of Russia operating information and telecommunications system with the aid of the specialised accounting systems, created according to the territorial (regional) division of the Russian Federation. These systems operate using applied software systems for the processing of accounting and operational data, computer workstations, telecommunications designed for delivering messages and information protection facilities.

The main principle of upgrading the technical infrastructure is to centralise, unify, standardise and typify its elements, and the main objective of its development is to allocate the necessary resources and provide the corresponding services for the effective and uninterrupted functioning of the payment system.

One of the main activities in the year under review was a further switchover by regions to the centralised and automated processing of payment data through the introduction of two standard software systems, RABIS-2 and RABIS-NP. This work has been completed in four Bank of Russia regional branches: the national banks of the Republic of Khakassia and the Republic of Tyva and the Tomsk and Pskov regional branches. Preparations have begun for 11 regions to switch to the centralised regional system RABIS-NP. Different models for centralising settlements at the federal level have been analysed, taking into account the experience gained in the work of the Interregional Computerisation Centre.

The Bank of Russia upgraded and provided technical support for the software systems on the basis of the existing legal framework of the payment system and improved the methods of collecting and processing reported banking data.

To enhance the reliability of the payment system, the Bank of Russia continued to install inte-

grated systems for the centralised management of regional telecommunications and information resources. These systems were used in collecting up-to-date information on the state of the computer and telecommunications systems and engineering support facilities, analysing the causes of emergency situations and working out recommendations how to deal with them.

In the year under review, the Bank of Russia continued to equip its units and branches with advanced software systems and personal computers, modernise its software and hardware facilities and replace obsolete equipment.

The construction of an infrastructure to transmit payment data continued. By the end of the year under review, 61 Bank of Russia branches and units of the central office could exchange information through the Unified Telecommunications Banking System (UTBS).

The Bank of Russia continued to build link-up lines between the regional units of the UTBS, installed in Bank of Russia regional branches, and communication services of the regional and lower-level communication centres to develop channels of the communications networks in general use, cable pairs and direct wires.

In 2001, the Bank of Russia continued to build an information security sub-system for the regional segments of the UTBS, designed to guarantee the integrity of information passed, deliver it by the required time and prevent unsanctioned access to UTBS facilities and automated systems.

The consistent efforts made by the Bank of Russia to develop the technical infrastructure of the Russian settlement system helped expand and upgrade the system of electronic settlements. In the period under review, 120 Bank of Russia institutions became new members of the interregional electronic settlement system.

II.4. BANKING REGULATION AND SUPERVISION

II.4.1. GENERAL CONDITION AND TRENDS OF RUSSIA'S BANKING SYSTEM¹

The development of Russia's banking sector in 2001 was characterised by positive dynamics, which reflected the overall favourable state of the Russian economy. At the same time, banking sector growth was considerably faster than economic growth in general: over the year, banking sector assets increased three times more than GDP.

As a result, the post-crisis recovery of the major banking sector parameters was completed in 2001. Banking sector assets, capital and loans to the non-financial sector surpassed pre-crisis levels in real terms²; household deposits accounted for 13.7% of money income against 11.9% before the crisis. The role of the banking sector in the country's economy continued to rise: as of January 1, 2002, banking sector assets relative to GDP expanded to almost 35% from 32.4% as of January 1, 2001, loans to the economy rose to 13.5% from 10.9% and funds drawn from enterprises and organisations and private individuals increased to 17.5% from 16.0%.

Banking sector assets in 2001 grew 33.7%. Almost 80% of credit institutions that were in operation as of the end of 2001 posted sustained growth in assets. In real terms, banking sector

assets increased 17.4% in 2001, surpassing the pre-crisis level by 6.4%.

Real growth in banking sector assets, though more moderate than in 2000, testifies to the normalisation of the dynamics of banking sector development after a period of rapid recovery in 1999—2000.

The banking sector's ruble assets rose almost 43% and currency assets increased 13%³. As a result, the share of ruble assets in banking sector assets as of January 1, 2002, expanded to 62% from 58% as of January 1, 2001. It should be noted that as of January 1, 2000, ruble assets accounted for 51.1% of total banking sector assets. These figures serve to show that the role of the US dollar in the Russian economy is gradually declining.

As for the provision of banking services in the Russian regions, the overall situation there did not change much. Differences remained between regions in this sphere owing above all to the differences in their economic development. As of January 1, 2002, the North-Western, Volga and Ural Federal Districts were better provided with banking services than the rest of Russia⁴ on average. The least provided with banking services was the Siberian Federal District.

¹ All indicators have been calculated for operating credit institutions.

² Hereinafter figures are given taking into account changes in exchange rate of the ruble and consumer price index.

³ Hereinafter assets and liabilities in foreign currencies have been re-calculated into their dollar equivalent in order to determine rates of growth.

⁴ The national average provision with banking services for this calculation was determined without taking into account credit institutions based in Moscow and Moscow Region.

DYNAMICS OF BANKING SECTOR MACROINDICATORS
(July 1, 1998 = 100%)

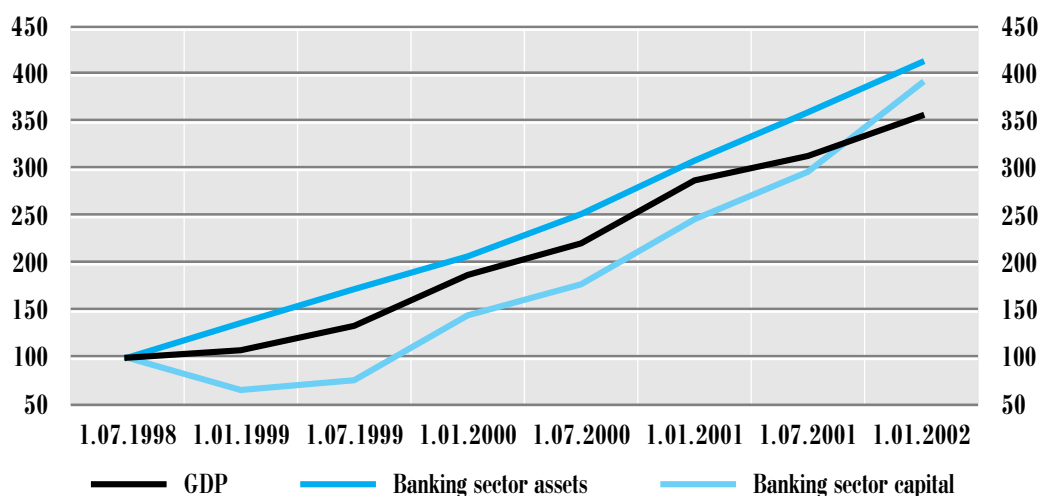


Chart 4.1

STRUCTURE OF BANKING SECTOR LIABILITIES.

There were several factors in the real economy and household sector that facilitated growth in banks' borrowed funds in 2001, especially the relatively stable financial standing of enterprises, a rise in household real money income and the trend of public confidence in banks being restored.

The most rapidly growing liabilities were household deposits. In 2001, growth in the balances of household accounts exceeded the 2000 growth figure. Over the year, the total value of household deposits¹ in banks increased 52.1%, of which the value of ruble deposits rose 46.0% and that of foreign currency deposits 53.6%. Growth in household deposits was registered by 73% of operating credit institutions. The value of household deposits in the Savings Bank (Sberbank) rose 43.5% from January 1, 2001, to January 1, 2002, while Sberbank's share in the total value of household deposits contracted from 76.5% to 72.1%.

Overall, the role of household deposits as one of the major sources of banking sector resources, undermined by the 1998 crisis, was practically restored. As of January 1, 2002, the banking sector's household deposits in rubles and foreign currency totalled 677.9 billion rubles, while their share in banking sector liabilities expanded to 21.5% from 18.9% as of

January 1, 2001. As of January 1, 2002, the value of funds drawn by banks from enterprises and organisations amounted to 902.8 billion rubles, an increase of 25.0% over the year (against 54.1% in 2000), while the share of these sources in banking sector liabilities as of January 1, 2002, contracted to about 29% (from 30.6% as of January 1, 2001). In real terms, the value of funds drawn by banks from enterprises and organisations exceeded the pre-crisis level by nearly 60%.

The share of interbank loans and deposits contracted from 7.6% to 6.4% in banking sector liabilities in 2001.

Non-resident banks accounted for more than 60% of the Russian banking sector's interbank loans and deposits in 2001.

The second half of 2001 saw a rise in banking sector activity in issuing debt instruments, especially bank promissory notes. In 2001, the value of these notes rose almost 38% and their share in banking sector liabilities expanded to 7.6% as of January 1, 2002.

Funds raised by issuing other securities (bonds, certificates of deposit and savings certificates) continued to play a small role in building up banking sector resources. The overall share of these securities in banking sector liabilities remained less than 1%.

¹Excluding funds in accounts of individual entrepreneurs.

STRUCTURE OF BANKING SECTOR LIABILITIES (%)

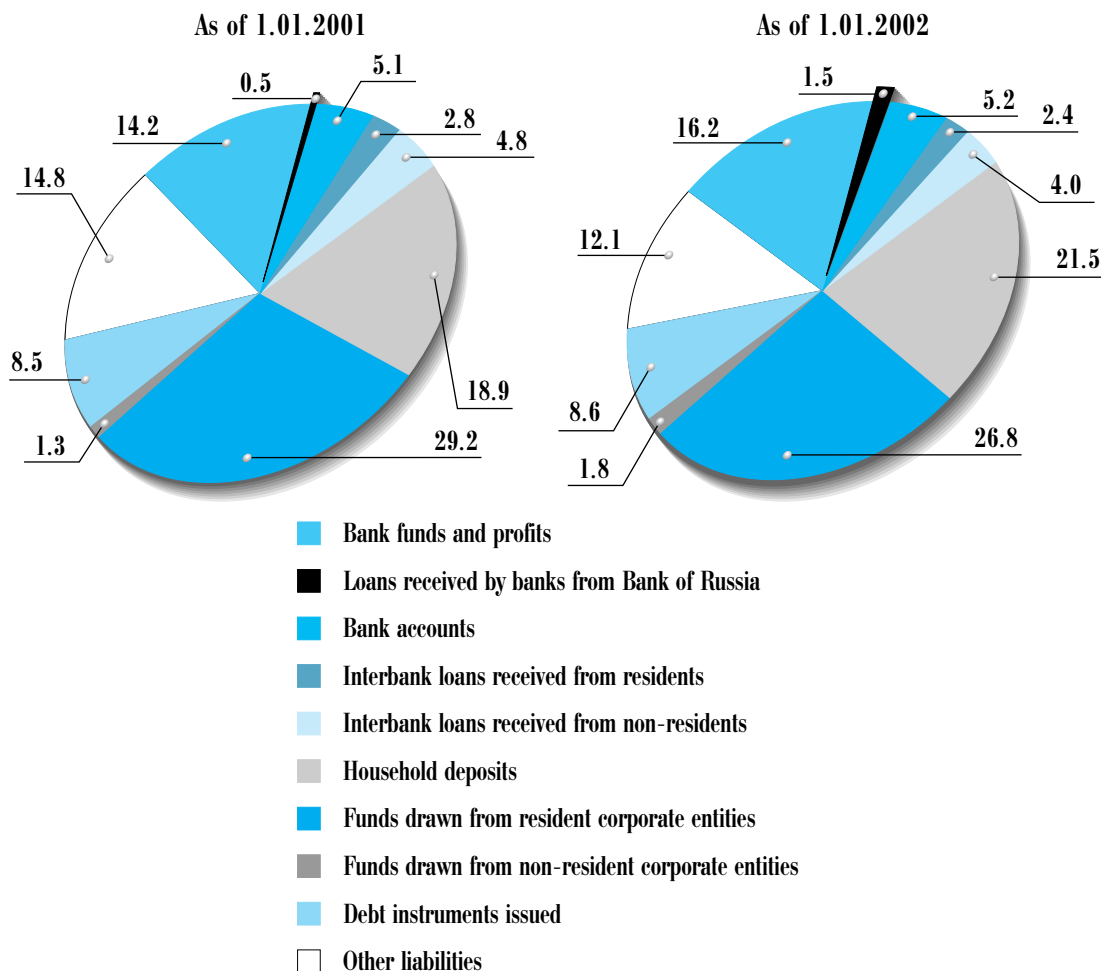


Chart 42

For years, short-term liabilities dominated the resource base of credit institutions and there was an obvious shortage of medium- and long-term resources. Although things were beginning to change for the better a little, bank liabilities with terms over 1 year accounted for about 9% of the total value of banking sector liabilities as of January 1, 2002 (against a little over 7% as of January 1, 2001).

STRUCTURE OF BANKING SECTOR ASSETS. The most rapid rates of growth in active operations of banks were registered in lending to the real economy and the household sector.

Bank loans to the real sector in 2001 rose 54% to 1,223.0 billion rubles as of January 1, 2002. The share of loans to the real economy as a proportion of banking sector assets expanded from

33.7% as of January 1, 2001, to 38.7% as of January 1, 2002. Growth in lending to the real sector was registered by 74% of operating credit institutions. In real terms, the value of these loans exceeded the pre-crisis level almost 1.5 times.

Lending to the household sector grew rapidly. The value of consumer loans extended in 2001 more than doubled: it increased from 43.8 billion rubles to 93.3 billion rubles. At the same time, the share of these loans in banking sector assets was a lowly 3.0% as of January 1, 2002, although this represents a growth against 1.9% registered a year earlier.

Last year saw a rise in activity in the domestic interbank market: the value of ruble loans, deposits and other funds placed by credit institutions in the interbank market rose more than 40%. In the meantime, the value of foreign cur-

STRUCTURE OF BANKING SECTOR ASSETS (%)

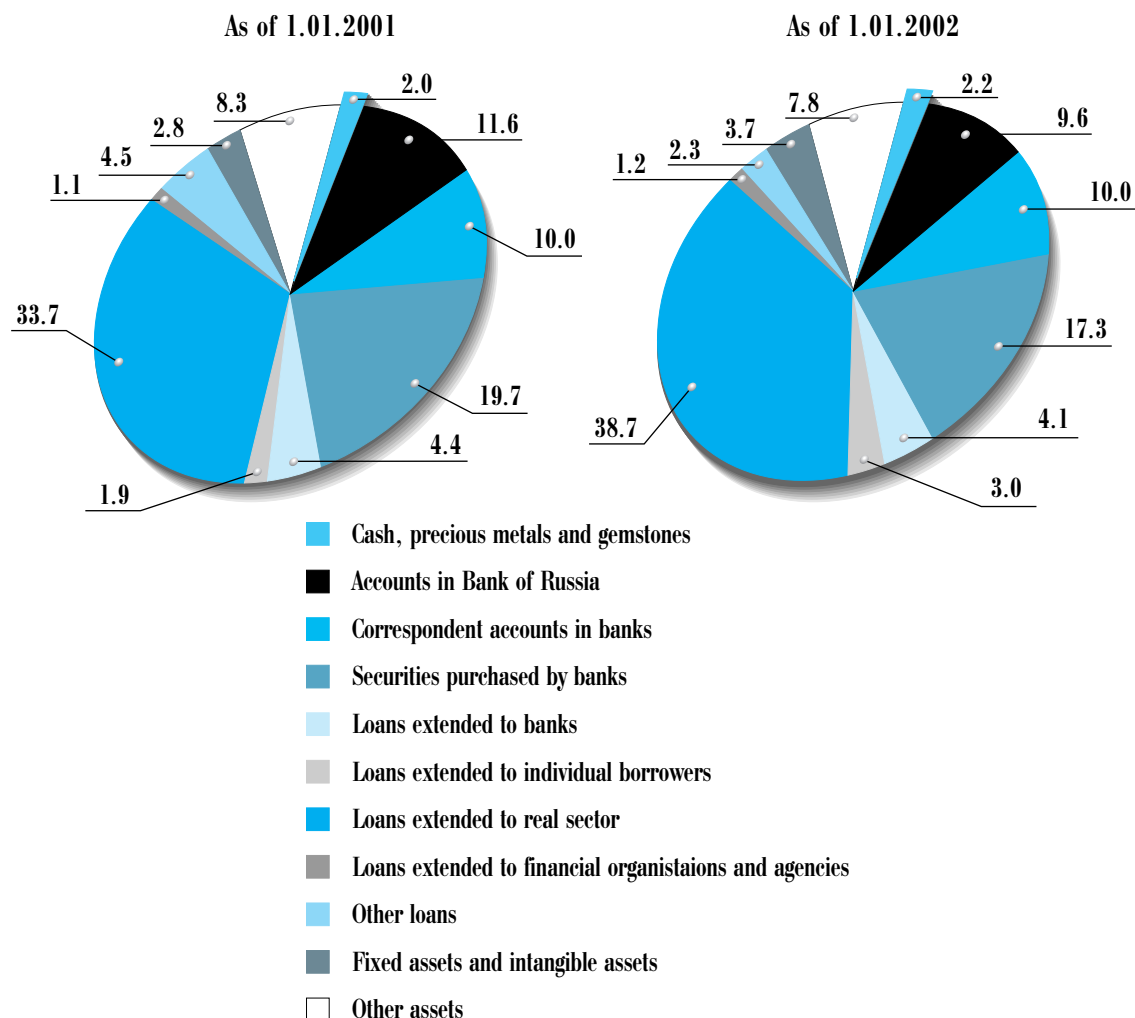


Chart 43

rency funds placed with non-resident credit institutions declined 22.7%. Overall, as the value of loans, deposits and other funds placed by credit institutions in the interbank market rose, their share in banking sector assets slightly contracted (from 8.6% as of January 1, 2001, to 6.2% as of January 1, 2002).

According to data contained in bank reports, the share of standard loans in the banking sector's loan portfolio expanded to 89.4% as of January 1, 2002, from 87.2% as of the beginning of 2001, while the share of overdue debt in loans contracted to 2.7% from 3.0%.

Banking sector investments in government debt instruments depended on their issue vol-

umes, and terms and conditions. In 2001, investments in these financial instruments rose just 9% and their share in banking sector assets contracted from 13.1% as of January 1, 2001, to 10.7% as of January 1, 2002.

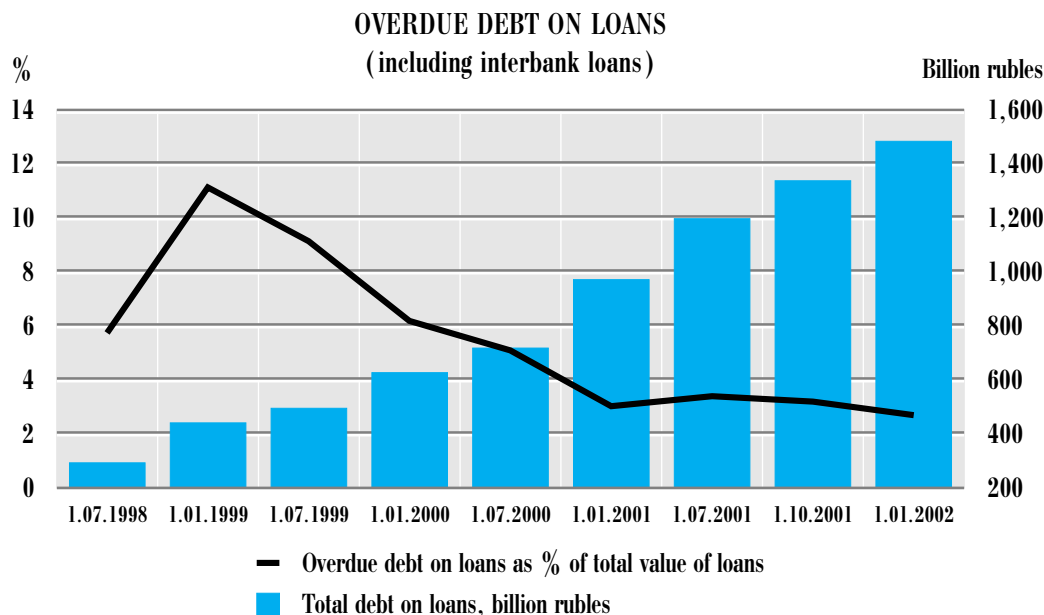
Promissory notes issued by leading Russian enterprises were a slightly more attractive investment for credit institutions. While the value of bank investments in notes increased 35% in 2001, their share in banking sector assets remained virtually unchanged at about 5%.

FINANCIAL STANDING OF CREDIT INSTITUTIONS.

In 2001, operating credit institutions recorded a profit¹ of 67.6 billion rubles against 17.2 billion

¹ Net financial result.

Chart 44



rubles in 2000. This growth in profits resulted, to a great extent, from a sharp fall in banks' losses, which decreased from 31.4 billion rubles as of January 1, 2001, to 3.1 billion rubles as of January 1, 2002¹, and a slight expansion in the share of profit-making credit institutions. A total of 1,257 credit institutions reported a profit at the end of the financial year and their share in the total number of operating credit institutions expanded from 93.5% as of January 1, 2001, to 95.3% as of January 1, 2002. The share of profit-making credit institutions in banking sector assets in 2001 expanded from 91.2% to 97.2%. At the same time, the return on capital² in 2001 remained unchanged from 2000 at 18.3%. The return on assets³ changed little: 2.8% in 2001 against 2.7% in 2000⁴.

A rise in banks' lending activity, a contraction in transaction volumes in the domestic debt market and less advantageous conditions for profit-making in the domestic foreign exchange market predetermined substantial changes in the

structure of credit institutions' incomes. The share of net interest income in the financial result⁵ expanded from 38.2% in 2000 to 61.9% in 2001, while the share of net income from operations with foreign exchange and currency valuables, calculated taking into account the exchange rate differences, increased from 9.2% to 11.2%. At the same time, the share of net income from operations with securities shrank almost by half from 22.2% to 11.9%. The share of net commission income was stable during the year, and in 2001 it amounted to 19.9% against 20.3% in 2000. A loss was registered on "other net income" in 2001.

The dynamics of major parameters characterising the financial standing of credit institutions in the period under review show that the general state of the banking sector was stable. The share of financially sound credit institutions expanded from 89.9% of the total number of operating credit institutions as of January 1, 2001, to 93.1% as of January 1, 2002, while the share of assets

¹ These data apply to credit institutions which ended 2001 with losses.

² Return on capital is calculated as the ratio of profit received during the year to average annual (average chronological) value of capital of credit institutions that posted a profit for the year.

³ Return on assets is calculated as the ratio of profit received during the year to average annual (average chronological) value of assets of credit institutions that posted a profit for the year.

⁴ In 2001, the assets of profit-making banks increased 50.5% (on an average annualised basis) and their profit grew 45.7%.

⁵ Financial result before the creation (restoration) of reserves and without taking into account operating and administrative costs.

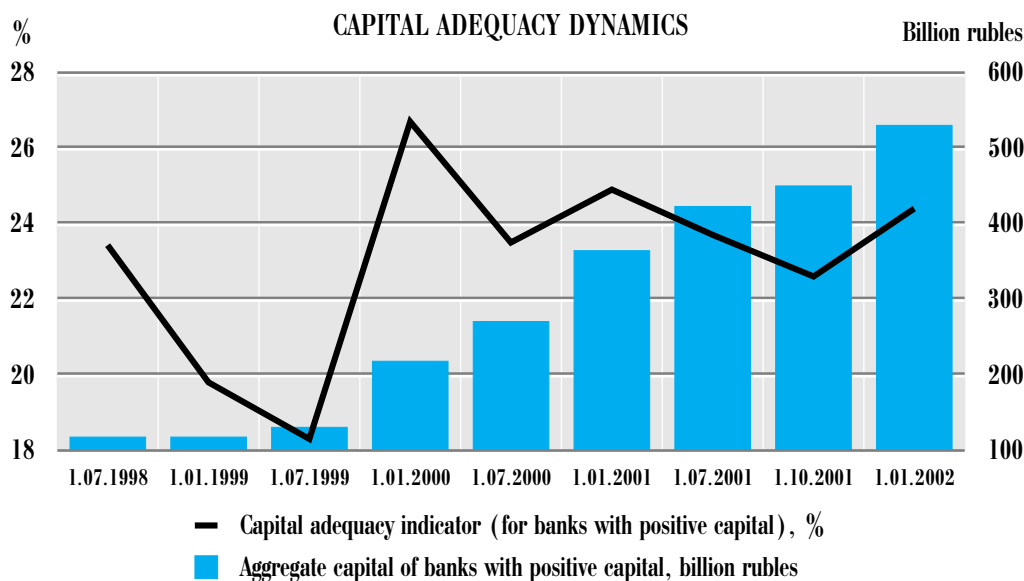


Chart 45

of these credit institutions in aggregate banking sector assets rose to 95.1% from 88.6%.

As of January 1, 2002, operating credit institutions' own funds (capital) amounted to 453.9 billion rubles, a growth of 58.5% since the start of the year and an increase of 33.6% in real terms. In 2001, the ratio of banking sector capital to GDP grew from 3.9% to 5.0% and the ratio of banking sector capital to assets expanded from 12.1% to 14.4%.

In 2001, banking sector capital exceeded the pre-crisis level in real terms and as of January 1, 2002, it amounted to 112.9% of the value of capital registered as of July 1, 1998. As of January 1, 2002, banking sector capital, excluding credit institutions under the control of the ARCO, amounted to 529.9 billion rubles, or 131.7% of the pre-crisis level.

Growth in the banking sector's own funds (capital) in 2001 resulted above all from growth in the paid-up authorised capital of operating credit institutions, included in the calculation of their own funds, the increased value of property of operating credit institutions after revaluation, profit received, income from share placements and subordinated loans. These factors accounted for 98.5% of the total value of capital growth in 2001.

Rapid rates of growth in lending operations, as the experience of other countries shows, are often accompanied by the accumulation of credit risks in the banking sector. The danger of such

risks increases when the general economic situation deteriorates or when some sectors of the economy are hit by a recession, which may eventually undermine the financial standing of borrowers and their ability to service their debts to banks. This threat, alongside the liquidity problem, is one of the realistic factors of systemic risk in the banking sector.

There are still some unresolved problems creating obstacles to banking sector development. These include an economic structure not conducive to risk diversification, flaws in legislation (there is no adequate protection of creditors' rights, the mortgage legislation has too many gaps and the current tax regime is unfavourable for credit institutions), serious lapses in law enforcement, inadequate transparency and a low level of market discipline.

In the name of economic progress it is necessary to raise considerably the level of development of the banking sector and increase its functional role. On December 30, 2001, the Russian government and the Bank of Russia adopted the mid-term Strategy of Russian Banking Sector Development, projected for five years.

The principal objectives of banking sector development are increasing banking sector stability, upgrading the methods of accumulating funds and turning them into loans and investments, raising the level of banking sector credibility in the eyes of depositors and creditors of banks,

**BANKING SECTOR ASSETS DISTRIBUTED AMONG CREDIT INSTITUTIONS
GROUPED IN TERMS OF FINANCIAL STABILITY (billion rubles)**

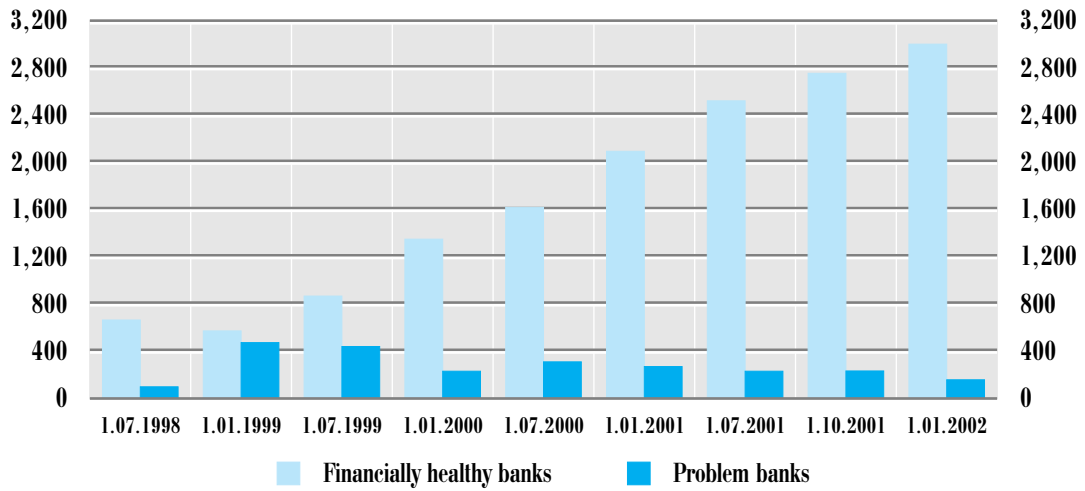


Chart 46

strengthening the protection of their interests and preventing the use of credit institutions for dishonest commercial purposes. A major means of attaining these objectives is introducing interna-

tional accounting standards in the practice of Russian enterprises and credit institutions. The Russian economy, including the banking sector, is to adopt these standards in 2004.

II.4.2. REGULATION OF CREDIT INSTITUTIONS

II.4.2.1. UPGRADING BANKING LAWS AND REGULATIONS

The amendments made to the applicable banking legislation in June 2001 made a significant contribution to the regulation of credit institutions. They created a basis for the solution of the most controversial problems of bankruptcy and liquidation of credit institutions, their access to the banking services market, the licensing of banking activities and prudential banking supervision. These amendments created more favourable conditions for

- strengthening the system of licensing credit institutions by tightening the demands on the managers and shareholders (members) of credit institutions;
- refusing to grant a credit institution its state registration and banking licence, explaining to it the reasons for this refusal, and revoking the licences of financially unstable credit institutions;
- increasing the transparency of credit institutions;
- developing supervision on a consolidated basis, requiring credit institutions to compile consolidated reports comprising data on both banks and non-bank institutions;
- initiating by the Bank of Russia of the compulsory liquidation of credit institutions, making this procedure more effective;
- functioning of the provisional administrations and receivers (liquidators) of credit institutions.

The adoption of the aforementioned amendments to banking legislation required the Bank of Russia to make the following amendments to its regulations:

- the Bank of Russia raised the minimum authorised capital requirement to a ruble equivalent of 5 million euros for new banks and 500,000 euros for new non-bank credit institutions;
- the changes made in the methodology of calculating a credit institution's own funds (capital) require a credit institution to show in its accounting or other reports the amount of its

own funds (capital), determined by the Bank of Russia in accordance with its valuation of the credit institution's assets and liabilities, using the valuation methodologies established by Bank of Russia regulatory documents;

- the Bank of Russia specified the notions “banking/consolidated group,” “parent credit institution/members of a group,” “substantial influence,” expanding the perimeter of consolidation by including in the consolidated reports of banking/consolidated groups reported data on non-credit institutions, and establishing the procedure for compiling consolidated reports by credit institutions;
- the Bank of Russia introduced a requirement that bank holding companies present consolidated reports beginning from their reports for 2002;
- the Bank of Russia introduced a requirement on publishing annual reports of credit institutions and banking groups, capital adequacy data, provisions for doubtful loans and other assets, calculated on an individual and consolidated basis, and quarterly reports of credit institutions and data on their compliance with major requirements established by Bank of Russia regulatory documents.

In 2001, the Bank of Russia continued to take steps to harmonise the effective banking regulation system with international practices, especially those contained in the documents of the Basle Committee on Banking Regulation and Supervisory Practices.

One of the most significant moves made in this direction was the adoption of the Bank of Russia Provision on the Procedure for Creating Reserves for Possible Losses by Credit Institutions, which required making a quantitative valuation of reserves created for risks connected with balance sheet assets (except the assets for which reserves were created in compliance with the Bank of Russia's earlier regulations) and off-balance sheet instruments, including forward transactions, using international reserve allocating practices

based on the principle of a reasoned judgement made by a credit institution on the extent of the risk assumed by it.

The Bank of Russia changed the methodology of calculating credit institutions' own funds (capital), which required credit institutions to correct (reduce) the amount of their own funds (capital) by the amount of a shortage in the reserve created for possible losses in accordance with the aforementioned provision.

In 2001, the Bank of Russia worked out and introduced a criterion that expanded the range of credit institutions required to calculate market risks, whose amount is included in the capital adequacy calculation. The corresponding requirements now apply to credit institutions whose trade portfolio has an overall balance sheet value of more than 5% of the balance sheet total. As of January 1, 2002, market risk profiles were calculated by 808 credit institutions against 703 credit institutions as of January 1, 2001.

The Bank of Russia specified the procedure for determining the financial result of a credit institution, which is included in the own funds (capital) calculation. From 2001, the financial result is reduced by the amount of claims on credit institutions which had their licences revoked (net of reserves).

The Bank of Russia established a procedure for the prudential regulation of non-bank credit

institutions conducting deposit and lending operations, which broadened the institutional possibilities of financial intermediation, especially with regard to investment activities.

In November 2001, the Bank of Russia adopted a number of documents that were elaborated taking into account FATF recommendations, international banking practices and the experience of Russia's leading credit institutions.

Taking into consideration the importance of the task of countering the financing of terrorism, including international terrorism, the Bank of Russia distributed among credit institutions a list of individuals and organisations suspected of complicity in terrorist activities and financing terrorism. Credit institutions should use this information in compliance with the applicable Russian legislation.

In 2001, the Bank of Russia continued to deal with issues relating to the improvement of corporate governance and internal control in credit institutions. To disseminate advanced foreign expertise in this area, it published in the Bank of Russia Bulletin two major documents of the Basle Committee on Banking Regulation and Supervisory Practices, "Enhancing Corporate Governance in Banking Organisations" and "Framework for the Evaluation of Internal Control Systems."

II.4.2.2. OFF-SITE SUPERVISION AND INSPECTION OF CREDIT INSTITUTIONS

The principal objective of banking supervision in 2001 was ensuring banking sector stability in order to protect the interests of creditors and depositors. The efforts made by the Bank of Russia in the field of banking supervision (off-site and on-site) were focused on assessing the nature and level of the risks assumed by credit institutions, the quality of risk management and the level of the management of credit institutions, including the organisation and efficiency of their internal control systems, and making sure that banks honestly reported the risks they assumed.

In 2001, the Bank of Russia took steps to enhance further the efficiency of supervision. To this

end, it implemented measures to develop the methods of analysing the financial standing of credit institutions, adopting in its supervisory practice a comprehensive analysis of the financial standing of banks. This method of banking supervision allows the Bank of Russia to detect banks' problems at early stages.

In the year under review, just as in previous years, the on-site inspection of credit institutions was a major element of banking supervision. In 2001, the Bank of Russia conducted 2,577 inspections, including 1,020 blanket inspections. Conducting comprehensive inspections of banks with many branches, the Bank of Russia in 2001

inspected simultaneously the head offices of such banks and their branches in different regions of the country. Inspectors from several regional branches of the Bank of Russia were involved in such operations simultaneously.

The choice of a form of supervision, including supervisory actions with regard to a particular bank, was also made taking into consideration the results of a comprehensive analysis of inspection data and depended on the level of risks assumed by a bank, on the efficiency of its internal control system and on whether its activities posed a threat to the interests of its creditors and depositors. Such an approach to organising supervision allowed the Bank of Russia to regulate supervisors' efforts more efficiently, concentrating them on

weaker banks that called for more attention and closer scrutiny. Data on the sanctions applied against the erring banks are given in the statistical addendum.

In the year under review, the Bank of Russia took steps to promote the practice of consolidated supervision. The reports of 33 banking groups at its disposal allowed the Bank of Russia to analyse the structure and standing of these banking groups and identify their risk exposure. If amendments are made in banking legislation, giving the Bank of Russia the right to establish prudential standards for banking groups and use supervisory sanctions against them, the Bank of Russia will be able to organise a system of consolidated supervision.

II.4.2.3. REGISTRATION AND LICENSING OF BANKING ACTIVITIES

The observance by credit institutions and their founders (members) of the state registration and banking licence requirements established by legislation and Bank of Russia enactments with due regard to international practices is a major aspect of banking regulation. Fulfilling the functions accorded to it by legislation with regard to access to the banking services market, the Bank of Russia implements measures that serve the following purposes:

- preventing the creation and expansion of credit institutions unable to guarantee the observance of the interests of creditors and depositors;
- exercising effective control over the formation of authorised capital in order to prevent financially inviable and dishonest investors from participating in credit institutions;
- ensuring that the managers of credit institutions meet the qualification requirements established by legislation.

Thirty credit institutions were registered in 2001 (17 were registered in 2000 and seven in 1999). The total number of operating credit institutions rose to 1,319. The founders of the registered new credit institutions are Russian nationals.

In the year under review, 66 credit institutions were transformed from limited liability companies

into joint-stock companies (34 credit institutions in 2000). As a result, the share of joint-stock companies in the Russian banking sector expanded from 56.9% to 60.3% as of January 1, 2002. Four banks merged with other banks (there were 11 bank mergers in 2000), of which two banks became branches of the banks with which they merged. These processes make the banking sector more transparent, as the applicable Russian legislation requires joint-stock companies to disclose much more information than limited liability companies.

As of January 1, 2002, of the total number of operating credit institutions:

- 61.4% (against 58.3% in 2001) have the right to conduct operations in rubles and foreign currency;
- 19.9% (against 18.6%) have a general licence;
- 13.0% (against 12.4%) have the right to conduct operations with precious metals;
- 92.7% (against 94.5% as of January 1, 2001) have the right to take household savings on deposit (the contraction is due to the fact that newly-created banks have to wait two years before obtaining a licence to conduct such operations).

These figures indicate that the trend of Russian credit institutions to universalise their activities continued.

NUMBER OF CREDIT INSTITUTIONS BY DISTRICTS

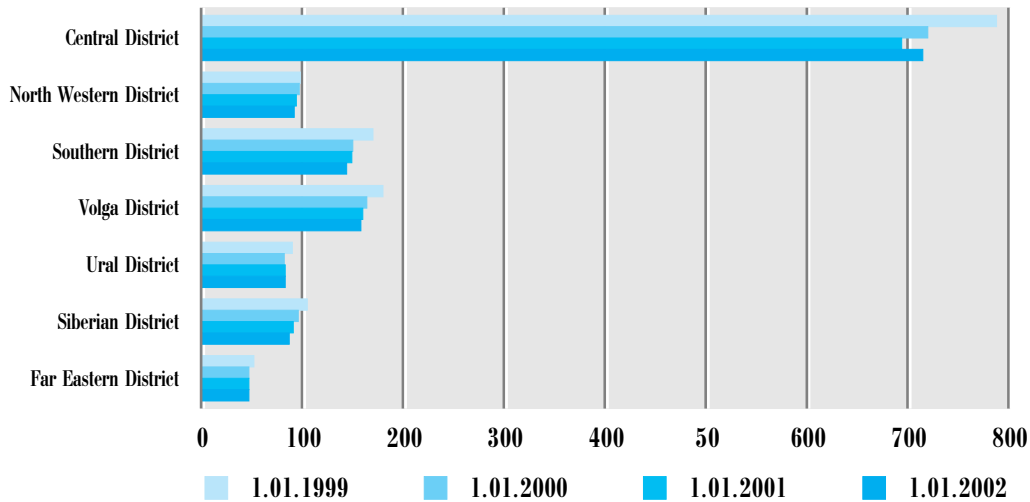


Chart 47

In 2001, the aggregate registered authorised capital of credit institutions increased from 207.4 billion rubles to 261.0 billion rubles, a rise of 53.6 billion rubles, or 25.8%. Most of the growth in authorised capital resulted from the payment of shares (stakes) with resident funds. At the same time, the rate of growth in registered authorised capital slowed in 2001 compared with 2000, when growth was 70%, as the process of recapitalisation connected with the recovery from the financial and economic crisis of 1998 was by and large completed in 2000.

As of January 1, 2002, there were 126 credit institutions with foreign capital operating in Russia. Non-resident investment in the authorised capital of these credit institutions amounted to 13.8 billion rubles, a decrease of 1.7 billion rubles, or 11.1%, over the year. The decline is the result of one bank reducing its authorised capital (by 2.5 billion rubles) to the level of its own funds. The non-resident share in the Russian banking sector contracted from 7.5% to 5.3%. The number of wholly-owned foreign banks remained unchanged at 23, while the number of banks with a foreign stake of less than 100%, but more than 50%, rose by two to total 12 (as of January 1, 2002).

The changes in the structure of authorised capital of operating credit institutions testify to the continuing concentration of capital. In 2001, the number of credit institutions with an authorised capital of more than 300 million

rubles increased 1.4 times to 133, or 10.1% of the total number of operating credit institutions. The number of credit institutions with an authorised capital from 60 million rubles to 300 million rubles also rose 1.4 times to 268, or 20.4% of the total. At the same time, the number of credit institutions with an authorised capital of under 10 million rubles declined by 110, or 24.1%, over the year. Owing to the fact that before 1994, i.e., in the period when 65% of the operating credit institutions were registered, the minimum authorised capital requirement for a new bank was smaller than the ruble equivalent of 1 million euros, their share in the total number of operating credit institutions in the period under review amounted to 26.4%.

The dynamics of change in the number of bank branches and intrabank structures reflect the need to enhance the efficiency of cost management. Over the year, the number of bank branches declined by 360, or 9.5%, to 3,433, while the number of intrabank structures (additional offices and cash departments) rose by 546, or 2.4%, to 23,330. In 2001, credit institutions opened 206 branches, 1,768 additional offices and 2,426 cash departments (in 2000, credit institutions opened 286 branches, 1,263 additional offices and 2,279 cash departments). Last year, 808 bank branches were struck off the State Register of Credit Institutions and 791 additional offices and 2,890 cash departments were closed (in the previous year,

**CHANGE IN BANKING SECTOR STRUCTURE
IN TERMS OF ORGANISATIONAL AND LEGAL STATUS OF CREDIT INSTITUTIONS
(as % of total number of operating credit institutions)**

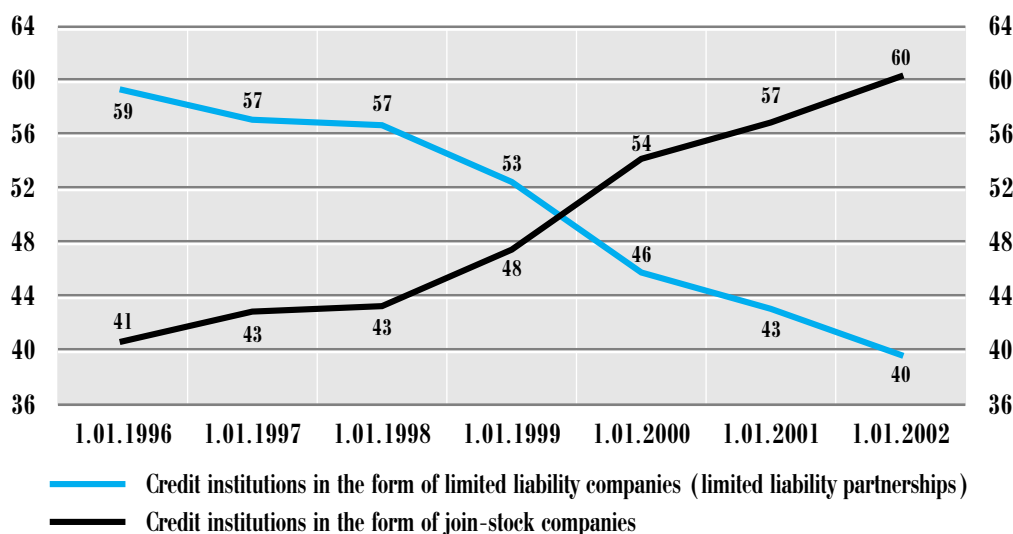


Chart 48

NUMBER OF OPERATING CREDIT INSTITUTIONS AND BANKING LICENCES GRANTED TO THEM

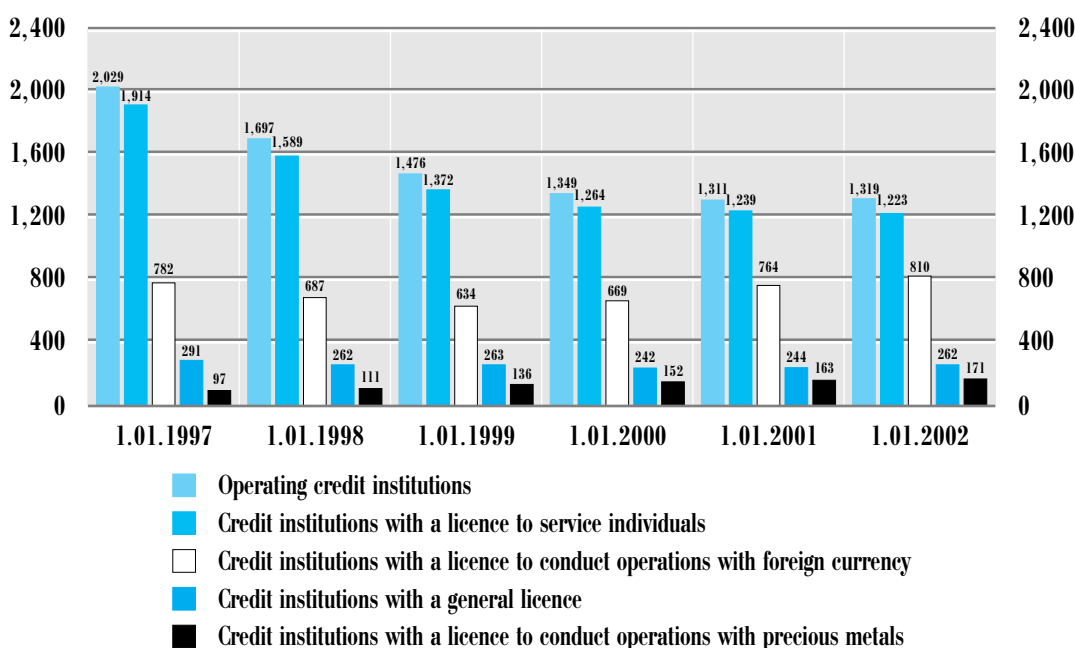


Chart 49

950 bank branches were struck off the State Register and 1,426 additional offices and 4,349 cash departments were closed).

The Bank of Russia constantly sees to it that the candidates nominated for the appointment as managers, deputy managers, chief accountants and deputy chief accountants of banks and bank

branches meet the qualification requirements established by federal laws and Bank of Russia enactments issued in accordance with these laws. In the year under review, 285 board chairmen and 322 chief accountants of credit institutions were appointed after the Bank of Russia approved their nominations.

II.4.2.4. UPGRADING BANK LIQUIDATION, FINANCIAL REHABILITATION AND RE-ORGANISATION PROCEDURES AND PROCEDURES FOR MATCHING AUTHORISED CAPITAL WITH OWN FUNDS

The Bank of Russia in 2001 implemented measures to financially rehabilitate and withdraw credit institutions from the banking services market and to control liquidation procedures in credit institutions that had their banking licences revoked taking into account the coming into force of a series of amendments to the Federal Law on Banks and Banking Activities, the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia.)

An important means of improving the financial standing of problem banks is the elaboration and implementation by them of financial rehabilitation measures under the control of Bank of Russia regional branches. The total number of credit institutions whose financial standing required bankruptcy prevention measures to be taken under Article 4 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions was 85 as of January 1, 2002. These credit institutions were situated in 20 Russian regions.

Seventy-five credit institutions in 2001 submitted financial rehabilitation plans to Bank of Russia regional branches. Of these, 11 banks (15%) drew up such plans on their own, in compliance with paragraph 1 of Article 11 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions. Fifty financial rehabilitation (re-organisation) plans, or 67% of the total number presented by credit institutions, were judged feasible by Bank of Russia regional branches.

During 2001, the Bank of Russia lifted control over the implementation of bankruptcy prevention measures by 51 credit institutions, of which 48 credit institutions (94% of the total) had improved their financial standing owing to the implementation of financial rehabilitation measures, one credit institution (2%) underwent re-organisation in the form of a merger and two credit institutions (4%) had their banking licences revoked as they had not fulfilled their financial rehabilitation plans.

As Federal Law No. 86-FZ, dated June 19, 2001, "On Amending the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions," came into force, Bank of Russia regional branches stepped up their activity in detecting and penalising credit institutions whose own funds (capital) at the end of the reporting month became smaller than the authorised capital established by their founding documents. The number of such credit institutions fell from 65 as of July 1, 2001, to 20 as of January 1, 2002. In the year under review, 58 credit institutions were ordered by Bank of Russia regional branches to match their authorised capital with the own funds (capital) and two credit institutions, which had failed to fulfil this requirement, had their banking licences revoked.

A major element of the Bank of Russia banking sector rehabilitation programme is the timely revocation of banking licences from inviable credit institutions that fail to comply with the requirements of federal legislation and Bank of Russia regulations and are unable to meet the claims of creditors and depositors.

In all cases stipulated by Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Article 20 of the Federal Law on Banks and Banking Activities, the Bank of Russia revoked banking licences from credit institutions. In 2001, it revoked licences from 20 credit institutions, of which nine credit institutions had their licences recalled in compliance with part 2 of Article 20 of the Federal Law on Banks and Banking Activities.

To protect the legitimate interests of creditors (depositors) of credit institutions the Bank of Russia, fulfilling the requirements of applicable legislation, appointed provisional administrations to manage credit institutions and controlled their activities. In 2001, provisional administrations were appointed to 15 credit institutions, of which 10 credit institutions had provisional administrations appointed to them after their banking licences had been revoked.

Liquidation procedures were initiated against all credit institutions which had their banking licences revoked in 2001. The Bank of Russia demanded that 12 credit institutions be declared bankrupt and eight be forcibly liquidated.

One of the major means of protecting the rights and legitimate interests of creditors and depositors by the Bank of Russia is enhancing the efficiency of liquidation procedures, especially reducing the time between the revocation of banking licence from a credit institution and the beginning of liquidation procedures against it. As of January 1, 2002, liquidation decisions were taken in regard to 653 credit institutions, or 96.4% of the total number of credit institutions subject to liquidation. Liquidation commissions, receivers or liquidators were appointed to 559 credit institutions; 233 interim liquidation balance sheets and 130 liquidation balance sheets were submitted in accordance with the established procedure.

To enhance the efficiency of liquidation procedures, the Bank of Russia, guided by the Federal Law on the Insolvency (Bankruptcy) of

Credit Institutions, conducted qualification examinations of receivers (liquidators) and provided training for candidates in its education centres, using its own teaching programmes. In 2001, the Bank of Russia issued 155 and extended 379 certificates of receivers (liquidators) of credit institutions.

In the year under review, 148 credit institutions were struck off the State Register of Credit Institutions, of which 133 were removed after arbitration courts declared the bankruptcy proceedings against them completed, five credit institutions were struck off the State Register after their founders decided to close down voluntarily, seven after their members and creditors decided to close down voluntarily in accordance with bankruptcy procedures and three after being forced to wind up without signs of bankruptcy.

In 2001, the Bank of Russia, acting in accordance with the Federal Law on the Restructuring of Credit Institutions, actively co-operated with the government Agency for the Restructuring of Credit Organisations (ARCO).

II.4.2.5. BANKING AUDIT

As Federal Law No. 119-FZ, dated August 7, 2001, "On Auditing Activities," did not give the Bank of Russia licensing or certifying powers in the field of banking audit, the Bank of Russia performed these functions until September 10, 2001.

Before this Law came into effect, the Bank of Russia issued 53 bank audit licences and 160 bank audit qualification certificates, and extended the term of 141 auditor qualification certificates.

The efforts made by the Bank of Russia in organising bank audits were aimed at ensuring the appropriate quality of financial reports compiled by credit institutions and banking groups in compliance with the requirements established by law.

Bank of Russia regional branches controlled the mandatory annual audits of credit institutions and banking groups and made sure that the audit reports were complete and proper and published in the general press. As the Federal Law on Banks

and Banking Activities requires conducting annual audits of credit institutions, such audits for 2000 were conducted in 1,299 credit institutions, or 99.1% of the total number of credit institutions which had banking licences as of January 1, 2001, against 96.8% in the previous period. Twelve credit institutions were not audited, mainly because their banking licences were had been revoked.

Audit firms (individual auditors) certified the accuracy of accounting statements of all audited credit institutions; 124, or 9.5% of them, had their accounting statements certified after making the required changes in them.

Having audited the consolidated statements of nine banking groups, audit firms confirmed that these reports were compiled in conformity with the Bank of Russia documents regulating the compiling of such statements.

In the year under review, the Bank of Russia participated in the elaboration of laws and

regulations relating to auditing activities in Russia. It continued to make efforts to improve auditing procedures and raise the standard of the mandatory audits of credit institutions, banking groups and bank holding companies,

and the results of this work were reflected in Federal Law No. 82-FZ, dated June 19, 2001, "On Amending the Federal Law on Banks and Banking Activities," and the corresponding Bank of Russia enactments.

II.5. BANK OF RUSSIA ACTIVITIES RELATING TO GOVERNMENT FINANCE

An encouraging general economic situation, a sensible monetary policy and favourable foreign trade conditions allowed the Russian government to stabilise its finances despite considerable foreign debt payments.

In the year under review, the Russian government and the Bank of Russia continued their interaction in pursuing the budget and monetary policy at all levels and forecasting and monitoring federal budget expenditures.

In 2001, the Finance Ministry and Bank of Russia completed the restructuring of government securities in the Bank of Russia portfolio, started in 1999, into permanent coupon-income federal loan bonds with a total nominal value of 5.83 billion rubles and falling due in 2005—2023.

As of January 1, 2002, the Bank of Russia had in its investment portfolio 305.7 billion rubles of permanent coupon-income federal loan bonds falling due in 2005—2029 and bearing an interest of 0 to 2% p.a., and 24.1 billion rubles of variable coupon-income federal loan bonds falling due in 2014—2018 and bearing an interest depending on the rate of inflation written into the federal budget law for the corresponding year. Pursuant to Article 87 of the 2001 Federal Budget Law, the Bank of Russia and Finance Ministry in 2001 signed an agreement on the restructuring of 1.0 billion rubles of Finance Ministry Series IV-APK notes into permanent-income federal loan bonds

(OFZ-PD). After their expert analysis, the notes are to be restructured into bonds falling due in 2019—2023 and bearing an income of 1% p.a.

Pursuant to Federal Law No. 145-FZ, dated December 25, 2000, “On Amending the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues,” the Finance Ministry’s 2.3-billion-ruble debt to the Bank of Russia on the funds provided by the Bank of Russia in Deutsche marks through Vneshekonombank for the implementation of urgent foreign debt-service payments was restructured in 2001 into a euro-denominated debt due on January 30, 2002. The term of the Finance Ministry’s dollar-denominated debt to the Bank of Russia, worth 189.9 billion rubles as of January 1, 2002, was extended till December 1, 2007.

To implement the Concept of a Single Federal Treasury Account and provisions of the Budget Code of the Russian Federation, the Bank of Russia in 2001 took steps to continue the upgrading of the legal framework for the transition to a Single Federal Treasury Account, centralise operations to record federal budget revenues in a single account and at the level of the Federal Treasury divisions and transfer the servicing of the customs bodies, budget-financed institutions, including the servicing of accounts to record revenues from entrepreneurial and other profit-making activities, and regional and local financial bodies (with the latter’s consent) to Federal Treasury bodies.

As of January 1, 2002, the Bank of Russia opened in its institutions 114,350 accounts to record budget revenues and funds (these do not include the accounts opened to record revenues from entrepreneurial and other profit-making activities). Of these, 6,372 accounts were opened for Federal Treasury bodies. In 2001, the number of such accounts decreased 16.5% and 11.0% respectively, as the Bank of Russia concentrated federal budget revenues and funds in the accounts of Federal Treasury branches in many regions, closed transit federal budget revenue accounts and transferred the recipients of budget funds to personal accounts opened with Federal Treasury bodies.

In 2001, the Bank of Russia introduced a new procedure for transferring federal budget revenues by the Federal Treasury Main Division and Federal Treasury regional branches for the financing of federal budget expenditures, which accelerated this process and made it possible to transfer an unused balance daily to the account of the Federal Treasury Main Division for further re-allocation.

To accelerate payments, the Federal Treasury bodies are currently switching to the exchange of information using the electronic exchange of documents system between the various units of the Bank of Russia settlement network and Federal Treasury bodies. As of January 1, 2002, just 19%

of the Federal Treasury bodies with accounts in Bank of Russia institutions had the technical facilities for using the electronic exchange of documents system with the Bank of Russia.

The measures taken by the Bank of Russia to improve the prudential supervision of credit institutions, the sanctions applied against credit institutions for violating federal laws and Bank of Russia enactments and instructions, including the revocation of banking licences, and the improvement of the liquidity in credit institutions in 2001 led to a reduction in the debt accumulated by them as a result of their failure to effect client payments and their own payments to budgets of all levels and government extra-budgetary funds because of the lack of funds in their correspondent accounts.

Compared to January 1, 2001, this debt contracted by 5.5 billion rubles and as of January 1, 2002, it amounted to 3.4 billion rubles, of which 2.8 billion rubles were owed by operating credit institutions. More than 99% of this debt is owed by credit institutions placed under the control of ARCO. As for the four operating credit institutions that had this debt as of January 1, 2002, and were not under the control of ARCO, in 2002 Q1 the Bank of Russia revoked banking licences from two of them, agreed to revoke the banking licence from another one and ordered the financial rehabilitation of the fourth one.

II.6. CASH ISSUE MANAGEMENT

The efforts made by the Bank of Russia in the sphere of cash issue management in 2001 were aimed at organising efficient currency circulation in Russia, which is assigned to it by law.

According to the cash issue balance sheet, as of January 1, 2002, there were 624,402.5 million rubles of Bank of Russia notes and coins of the 1997 issue in circulation, which represents an increase of 177,422.4 million rubles year on year. There were 618,926.4 million rubles in notes and 5,476.1 million rubles in coins, including coins made of precious metals. Notes accounted for 99.1% and coins 0.9% of the cash in circulation.

There were objective reasons for growth in the amount of cash in circulation, such as a rise in household nominal income and savings and the expansion of the consumer goods segment of the economy amid an increase in prices (tariffs) of goods and services. According to preliminary data released by the State Statistics Committee, or Goskomstat, money income in 2001 rose 30.1%, while consumer prices (tariffs) increased 18.6%. The increased amount of cash in circulation met the cash needs of the economy and population, as the market of goods and services traded for cash was expanding, while the velocity of circulation was slowing down.

Consumer price growth and the increased money income in 2001 caused some changes in the note structure of the cash in circulation: the share of 10-ruble, 50-ruble and 100-ruble notes con-

tracted by 14.5 percentage points, while that of 500-ruble notes amounted to 56.8% of the total value of cash in circulation as of January 1, 2002.

Taking into consideration the fact that nominal costs in the northern and eastern regions grew faster than on average in the country and seeking to make it easier for individual consumers to buy expensive goods with cash, reduce the cost of transporting and processing cash by economic agents and optimise the infusion of cash turnover with large-denomination notes, the Bank of Russia on January 1, 2001 put into circulation 1,000-ruble notes, which as of January 1, 2002, accounted for 14.9% of cash turnover.

When monitoring the note structure of cash turnover, the Bank of Russia constantly analysed its adequacy, forecast and organised the production of banknotes and coins, made sure that they were regularly brought to the regions in sufficient amounts and the required denominations and kept the reserves of notes and coins at a level that allowed it to supply fully and in time the cash needs of the economy and population. Bank of Russia institutions paid out cash without delays in 2001, and if there were any, the Bank of Russia was not responsible for them.

In 2001, authorised banks brought rubles to and took rubles out of Ukraine, Belarus, Moldova, Armenia, Kirghizia and Georgia. These banks brought to Russia 540 million Russian rubles and took out of Russia 238 million Russian rubles (against 210 million rubles and 132 million rubles in 2000).

CHANGE IN AMOUNT OF CASH OF 1997 ISSUE IN CIRCULATION IN 2001
(billion rubles)

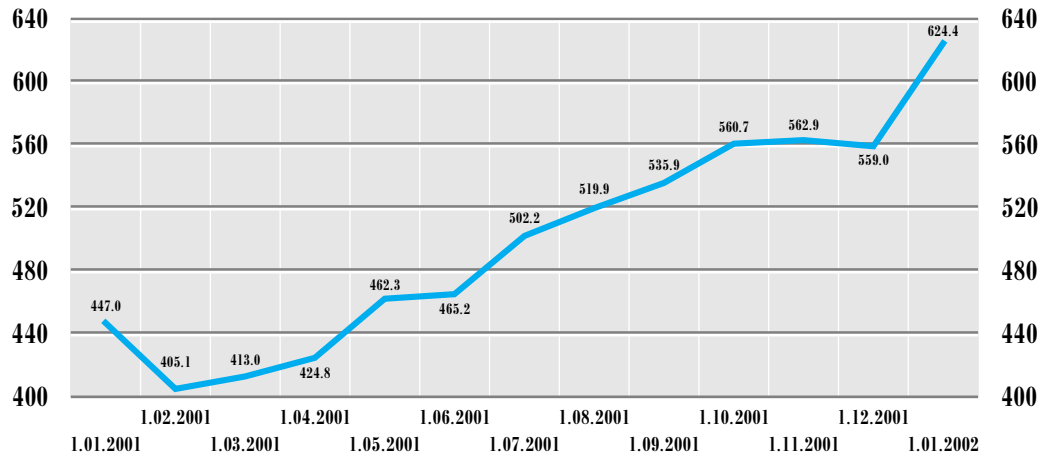


Chart 50

MONEY SUPPLY GROWTH IN 2000—2001
(as % of January 1)

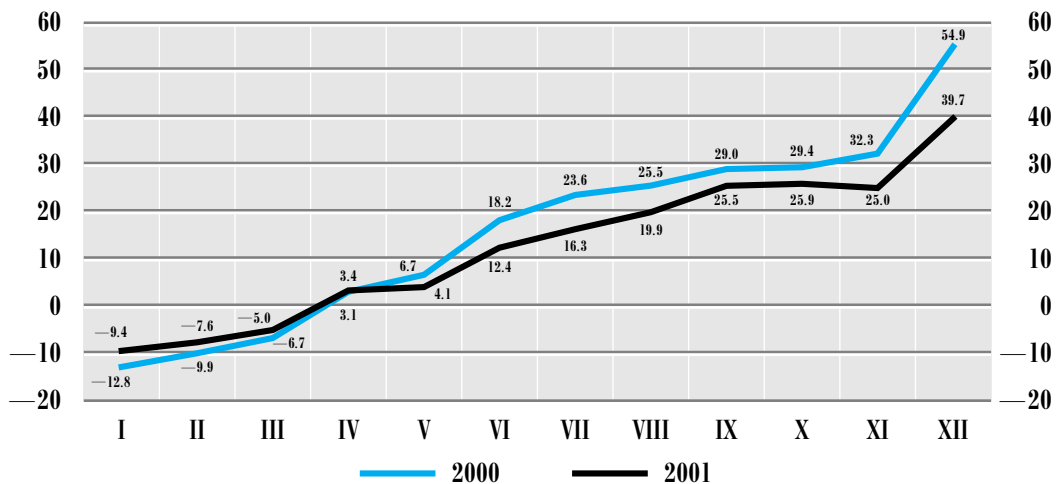


Chart 51

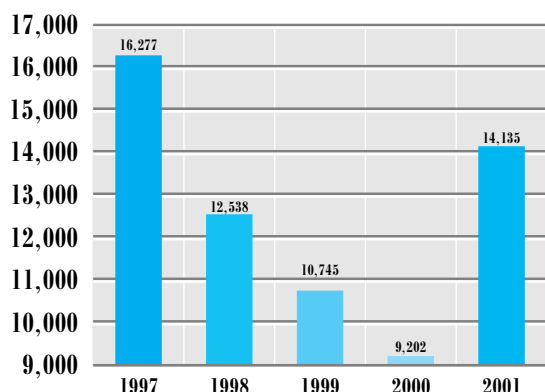
In 2001, Russian citizens continued to exchange without any restrictions on the amount or otherwise Bank of Russia notes and coins of the 1993 and 1995 issues, USSR and Bank of Russia coins of the 1961—1996 issues and USSR 1-kopeck, 2-kopeck and 3-kopeck coins minted before 1961 for 1997 currency. In the year under review, old notes and coins with a total nominal value of 45,161.4 million non-re-denominated rubles were presented for exchange. The amount of old notes and coins that were not presented for exchange as of January 1, 2002, totalled 1,092.6 million rubles, or 0.8% of the amount of cash in circulation as of January 1, 1998 (by the beginning of the re-denomination of the ruble).

Taking into consideration the steady flow of old money presented for exchange during 2001 and the fact that a certain amount of old currency had not yet been presented for exchange, the Russian President, complying with a request from the Bank of Russia, issued Decree No. 1387, dated December 3, 2001, extending the period for exchanging of old money for individuals until January 1, 2003.

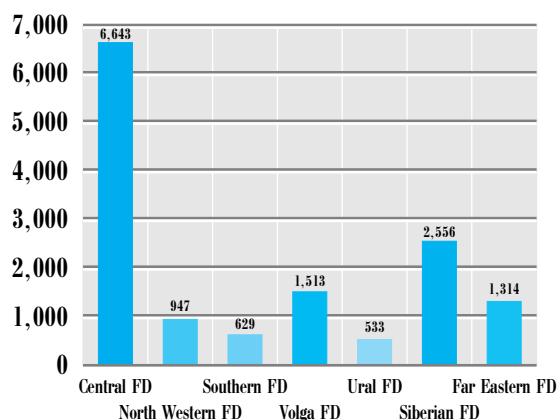
Bank of Russia institutions provided cash services in compliance with federal laws and Bank of Russia enactments under agreements signed with their clients.

In the year under review, the Bank of Russia sought to enhance the efficiency of cash opera-

DYNAMICS OF DETECTION OF COUNTERFEIT BANK OF RUSSIA BANKNOTES (number of notes)



DYNAMICS OF DETECTION OF COUNTERFEIT BANK OF RUSSIA BANKNOTES IN FEDERAL DISTRICTS (number of notes)



Charts 52, 53

tions conducted by its branches and credit institutions. It implemented methodological and organisational measures to improve cash operations conducted by its branches, credit institutions, and enterprises and organisations.

To modernise the production facilities and equipment of its regional branches, the Bank of Russia in 2001 continued to supply cash departments with advanced technical facilities designed to mechanise and automate cash operations. It controlled the operation and maintenance of the counting and sorting equipment installed in its branches. Some alterations were made in this equipment to adapt it to handling 1,000-ruble notes. As of January 1, 2002, the Bank of Russia completed the provision of its institutions with counting and sorting machines for processing the banknote part of the money supply.

In the year under review, the Bank of Russia continued to take steps to increase the technical strength of the cash centres of its branches and credit institutions. It made sure that credit institutions met the Bank of Russia requirements for the technical strength of their cash centres.

In 2001, the number of expert examinations of banknotes and coins, conducted by Bank of Russia institutions, was almost the same as in 2000 (nearly 1.5 million). Most of the examinations were conducted to determine whether damaged Bank of Russia notes and coins were valid and could be exchanged for good ones.

In addition, Bank of Russia institutions in 2001 inspected 24,000 foreign banknotes sub-

DYNAMICS OF DETECTION OF COUNTERFEIT FOREIGN BANKNOTES (number of notes)

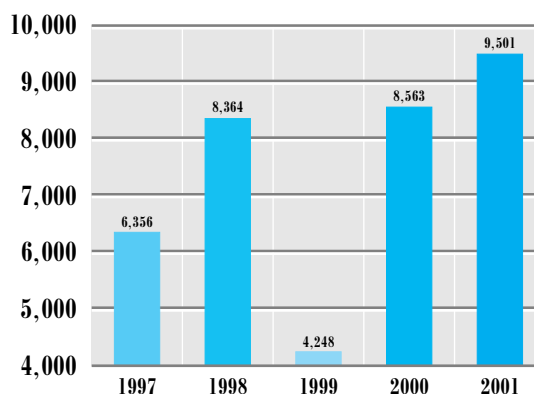


Chart 54

mitted for examination by credit institutions and nearly 11,000 foreign banknotes were examined at the request of the law enforcement agencies.

The number of counterfeit Bank of Russia notes and coins detected in the Russian banking system and passed to Interior Ministry bodies in 2001 rose 53.6% year on year. The increase is the result of growth in the number of counterfeit 100-ruble and 500-ruble notes. Most of the forgeries were 100-ruble notes and 5-ruble coins and the biggest number of counterfeit notes and coins was discovered in the Central Federal District (47% of the total).

In 2001, the number of counterfeit notes and coins sent to Bank of Russia institutions

by credit institutions began to decline, a trend testifying to the effectiveness of the measures taken by the Bank of Russia to help credit institutions raise the qualification levels of their cash operators.

During the year under review, Bank of Russia branches and credit institutions detected and passed to Interior Ministry bodies 9,501 counterfeit foreign banknotes. Year on year, the number of such banknotes rose 11%, mainly as a result of growth in the number of detected counterfeit US dollar bills, which account for 97.6% of all detected counterfeit foreign banknotes. Most of the counterfeit dollars are \$100 bills (90.8% of the total number of counterfeit dollar bills).

In connection with the introduction of the euro in the member countries of the Economic and Monetary Union (EMU) on January 1, 2002, the Bank of Russia in 2001 carried out a number of measures to prevent forgery and other fraudulent actions with euro notes and coins. Specifically, it prepared and disseminated a memo containing the description and technical details of euro notes and coins and explaining the procedure for withdrawing EMU national currencies from circulation and converting them into euros, and held seminars for

bank employees, using special teaching aides and specimen euro notes.

In 2001, the Bank of Russia continued to issue commemorative coins. In all, it issued 28 commemorative coins, of which 18 were made of silver, seven were made of gold and three were made of a copper-nickel alloy. Forty-two credit institutions distribute these coins in Russia. The Savings Bank (Sberbank) conducted operations with commemorative and investment coins in all the federal districts.

Under the provisions of Part Two of the Tax Code of the Russian Federation, which came into force on January 1, 2001, operations with non-numismatic coins made of precious metals, such as the gold *tchervonetz* of the 1975—1982 issue and the *Sobol* coin issued in 1995, were exempted from VAT. As a result, sales of these coins rose from 1.6 million rubles in 2000 to 171.9 million rubles in 2001.

In December 2001, the Bank of Russia resumed the export of coins made of precious metals, which was suspended by the State Customs Committee in April 2000 for the drafting period of new regulations establishing the procedure for bringing precious metals and gemstones to Russia and taking them out of the country.

II.7. INTERNATIONAL CO-OPERATION

II.7.1. CO-OPERATION BETWEEN THE BANK OF RUSSIA AND INTERNATIONAL FINANCIAL AND ECONOMIC ORGANISATIONS

In 2001, the Bank of Russia continued to interact and co-operate with international financial institutions, such as the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), Bank for International Settlements (BIS) and others.

It participated in the Washington meetings of the International Monetary and Financial Committee and Development Committee in April 2001 and in the annual meeting of the International Monetary Fund and World Bank, held in Ottawa in November 2001, which discussed the problem of preventing financial crises, strengthening the architecture of the international financial system, implementing proposals for reducing the debt of the poorest developing nations and fighting money laundering and the financing of terrorism.

In November and December 2001, the Bank of Russia held consultations with the IMF on Article IV of the IMF Articles of Agreement. The sides also discussed within the framework of the post-crisis monitoring programme such issues as the exchange rate, the upgrading of foreign exchange regulation, introduction of international accounting standards (IAS), the assessment of the state of the Russia's financial sector, ways to improve banking supervision and reporting practices, the restructuring of the banking sector, the problem of making banking activities more transparent and open market operations conducted by the Bank of Russia.

One of the priorities in co-operation with international organisations is the participation by the Bank of Russia in the drafting of a report on Russia's observance of international standards and codes. During 2001, the Finance Ministry, Bank of Russia, Federal Securities Commission and State Statistics Committee collaborated in preparing for publication three sections of this report on Russia's observance of international standards and practices in disclosing information on the monetary and financial policy, data dissemination standards and openness of information in the fiscal sphere.

To meet the requirements of the IMF Special Data Dissemination Standard (SDDS), in November 2001 the Bank of Russia began to publish data on its foreign debt, using international methodology. It also took steps to promote the use of SDDS data dissemination formats. Last year, the SDDS page on the Bank of Russia site on the Internet was complemented by a description of metadata.

The Bank of Russia and the IMF Institute jointly organised for employees of Russian financial and economic agencies a seminar on finance programming and financial policy and a seminar at which the Russian-language version of the IMF guidebook on monetary and financial statistics was presented for the first time.

In 2001, the Bank of Russia continued the practice of regularly presenting the data published in its periodicals for publication in the IMF's International Financial Statistics.

The Bank of Russia Chairman regularly participated in the meetings of central bankers in the **Bank for International Settlements (BIS)**, which dealt with the most important issues of monetary policy, banking supervision and the prevention of financial crises.

The Bank of Russia took part in consultations with the Committee on Payment and Settlement Systems and the Basle Committee on Banking Regulation and Supervisory Practices, set up under the aegis of the BIS, on issues such as capital adequacy requirements, the assessment of compliance with the basic principles of banking supervision and key principles of payment systems.

In seeking to broaden ties with international organisations in the exchange of information, the Bank of Russia took steps to organise information co-operation with the BIS database. In the year under review, it reached agreement with the BIS on regularly supplying selected data published by the Bank of Russia to the BIS database and on the Bank of Russia's use of some information from the BIS database.

The Bank of Russia participated in drawing up programmes for co-operation between Russia and the World Bank and **European Bank for Reconstruction and Development (EBRD)** in 2002—2004, establishing the procedure for implementing projects financed with the participation of international development banks and analysing the World Bank Group Strategy for Russia in 2002—2004.

In 2001 Q4 (after Russia officially agreed in September 2001 to participate in the joint IMF and World Bank programme to assess the performance of the Russian banking sector) the Bank of Russia and some other relevant government agencies began to analyse and assess the contents of current information on the financial sector and its various segments, published in Russia.

The Bank of Russia and the EBRD continued to co-operate in compiling a guidebook on "Russia's Payment Systems" and Bank of Russia specialists participated in seminars organised by the BIS Financial Stability Institute.

The Bank of Russia took part in the work of the Boards of Directors of the **International Investment Bank (IIB)** and **International Bank for Economic Co-operation (IBEC)** and in the

discussion of the activities of these banks in Russia and long-term prospects for their development.

Co-operation between the Bank of Russia and **Black Sea Trade and Development Bank (BSTDB)** in 2001 was aimed at expanding the bank's operations with Russian borrowers.

In January 2001, the Bank of Russia took part in consultations with the **Inter-American Development Bank (IADB)** on prospects for Russia's joining the Bank and on co-operation between the IADB and Russian commercial banks.

The Bank of Russia participated in drafting a framework agreement between Russia and the **European Investment Bank (EIB)** on the latter's activities in Russia.

The Bank of Russia Chairman took part in the meetings between Group of Eight finance ministers and central bankers, held in Palermo, Italy, in February 2001, and in Washington, D.C., in October. The Bank of Russia participated in drafting concept proposals for the **Group of Eight** summit in Genoa, Italy, and implementing the decisions of that meeting.

Group of 20 finance ministers and central bankers met in Istanbul (Turkey) in February, in Toronto (Canada) in October and in Ottawa (Canada) in November to discuss vulnerability to financial crises and measures to prevent such crises and also the importance of the exchange rate regime for financial stability. A plan of action to combat the financing of terrorism was adopted in Ottawa.

The Russia—EU summits held in Moscow in May 2001 and in Brussels in October and the introduction of the euro in the EMU member countries gave an impetus to co-operation between the Bank of Russia and the **European Union**. Specifically, the Bank of Russia implemented its plan of action connected with the completion of the EMU countries' transition to the euro and issued regulatory documents on operations with EMU national currencies and euro notes and coins.

The Bank of Russia continued to participate in implementing the agreement on partnership and co-operation between Russia and the EU reached on the basis of the government plan of action. Specifically, the TACIS project "Micro-prudential System Design: Central Bank of Russia" was carried out.

The Bank of Russia continued to co-operate with representatives of international financial organisations and a number of foreign governments within the framework of the **Inter-Agency Co-ordinating Committee for Russian Banking Sector Development (ICC)**. In June 2001, the ICC held its fifth meeting.

The Bank of Russia continued to promote ties with the **Organisation for Economic Co-operation and Development (OECD)** and its bodies. In March 2001, Bank of Russia representatives participated in the Paris meeting of the OECD Financial Markets Committee, urging its members to grant Russia observer status on the Committee.

In 2001, the Bank of Russia hosted a series of meetings with members of the OECD mission to discuss the drafting of the fourth survey of the Russian economy. It also took part in drafting a long-term programme for co-operation between Russia and the OECD and continued to pass information on a regular basis for the OECD publi-

cation Main Economic Indicators for Economies in Transition.

As part of the Russian efforts to join the **World Trade Organisation (WTO)**, the Bank of Russia in 2001 continued to participate in bilateral and multilateral negotiations with WTO member countries, discussing with them the second and third version of the Russian proposals on financial services. Acting under the aegis of the Russian Government Commission for the WTO, the Bank of Russia worked out proposals for possible changes in the list of Russian commitments with regard to the banking services sector in order to prepare for full-scale talks on the issue in 2002.

It also took part in parliamentary hearings and met representatives of the banking community, explaining its position at the negotiations with the WTO. This position takes into account the main principles of the Banking Sector Development Strategy, adopted by the Russian government and Bank of Russia in late 2001.

II.7.2. CO-OPERATION BETWEEN THE BANK OF RUSSIA AND FOREIGN COUNTRIES AND THEIR CENTRAL (NATIONAL) BANKS

When co-operating with foreign countries and their central (national) banks, the Bank of Russia sought to promote Russia's trade and economic ties with these countries and strengthen the national banking system.

In the year under review, Russia and Belarus continued to implement their **Union State Treaty** of December 8, 1999. In pursuance of the agreement between the two countries on a common currency and single issuing centre and the bilateral agreement between the Russian and Belorussian governments and central banks, signed on November 30, 2000, the Bank of Russia closely co-operated with the National Bank of the Republic of Belarus in harmonising the monetary and foreign exchange policies, foreign exchange regulation and foreign exchange control practices, regulatory framework and the principles of operation of the central banks and banking systems of the two countries.

The implementation of these agreements is co-ordinated by the Interbank Monetary Council of the National Bank of the Republic of Belarus and the Bank of Russia, which met three times in 2001. At these meetings the participants discussed, among other things, the results of the implementation of the main guidelines of the monetary policy in Russia and Belarus in 2000, progress in their implementation in 2001 and major targets for 2002, issues relating to the harmonisation of documents regulating the activities of the commercial banks in the two countries and measures to improve foreign exchange legislation of the two countries.

The sides drew up a plan of co-operative action to be undertaken by the governments and central banks of Russia and Belarus in creating a common economic environment and introducing a common currency, which specified the duties of the sides and set deadlines for the implementation of specific measures in various sectors of the economy, aimed at creating conditions for the introduction of a common currency.

In pursuance of the Russia—Belarus agreement on a common currency and single issuing centre, the central banks of the two countries on December 15, 2000, signed an agreement opening a 4.5-billion-ruble credit line for the National Bank of the Republic of Belarus. In July 2001, Belarus received under this agreement the first, 1.5-billion-ruble tranche of the loan for stabilising the Belorussian ruble against the Russian ruble.

On February 15, 2001, the member countries of the **Eurasian Economic Community (EAEC)** set up a board of governors of their central (national) banks to co-ordinate the activities of the central banks of Belarus, Kazakhstan, Kirghizia, Russia and Tajikistan in regulating the monetary, financial and banking systems and promoting mutual settlement relations. Three meetings of the board took place in the year under review, which agreed a programme for co-operation in the years to come. On November 15, 2001, the central (national) banks of the EAEC member countries signed an agreement on co-operation in exchanging information and analysis results and holding consultations.

The Bank of Russia continued to direct the work of the **CIS Interstate Monetary Committee**, which on December 7, 2001, adopted a concept of a common banking services market of the CIS member countries. Preparations are underway for a gradual harmonisation of the principles of access to national financial services markets.

The Bank of Russia took action to step up the activity of the **Interstate Bank**, founded by 10 CIS countries, which improved its finances and expanded its customer base in 2001. The Board of the Interstate Bank decided to intensify its investment activity and eventually make investment its prime function. The member countries are currently drafting a new version of the articles of agreement of the Interstate Bank, which will formalise the changes in the Bank's objectives and policies.

The Bank of Russia co-operates **with non-CIS countries** mainly through the participation

of Bank of Russia representatives in the work of bilateral intergovernmental commissions on trade, economic, scientific and technological co-operation.

One of the priorities in this area is the development of co-operation with India. In 2001, the banking and financial sub-group of the Russian—Indian intergovernmental commission on trade, economic, scientific, technical and cultural co-operation held two meetings, which focused on upgrading the settlement and payment systems and promoting interbank relations between the two countries. The sides continued to take steps towards further liberalising for the Russian side the procedure for using funds in “debt” rupees, and in US dollars as monetary units of account.

In March 2001, the Bank of Russia held a seminar in the Reserve Bank of India on the Russian banking and foreign exchange legislation.

In June 2001, the Russian—Chinese sub-commission on interbank co-operation held its second meeting in Moscow. The sub-commission was set up to prepare a gradual transition to settlements in freely convertible currencies in full, create equal conditions for Russian and Chinese commer-

cial banks in servicing bilateral trade and economic relations, upgrade the mechanism for settlements in cross-border trade and promote co-operation in fighting illegal currency transactions.

The working group on banking co-operation between the Bank of Russia and the State Bank of Vietnam held its first meeting in Hanoi on February 16 to 23, 2001, which worked out guidelines for this co-operation in the near future.

As the Russian banking system prepared for the introduction of the euro, the Bank of Russia maintained close ties with the European Central Bank, the member banks of the European System of Central Banks and the European Commission.

During the period under review, Central Bank management met with representatives of the central banks of Germany, Egypt, Iran, Syria, Slovakia, Finland and some other countries. At such meetings the sides discussed questions of mutual concern, such as the activities of the central banks in pursuing monetary policy, functioning of payment systems, organising banking supervision, accounting and reporting, internal control systems, exchange of information and raising the qualification level of bank employees.

II.8. DEVELOPING AND ENHANCING THE EFFICIENCY OF BANK OF RUSSIA SYSTEM

II.8.1. UPGRADING THE BANK OF RUSSIA ORGANISATIONAL STRUCTURE

In 2001, the Bank of Russia attached great importance to upgrading its organisational structure and enhancing the efficiency of its various divisions.

The objective of its efforts in this area was, above all, to ensure that its regional branch system and settlement network met the needs of the financial and real sectors of the economy.

As of January 1, 2002, the Bank of Russia system comprised the central office, 78 regional branches, five divisions of the Moscow branch, 1,169 cash settlement centres, the Central Depository and a network of regional depositories, five computer centres and several logistical support organisations.

In 2001, the number of Bank of Russia employees increased by 881 as new field outlets were opened in Russian troops' places of deployment and measures were implemented to increase the security of Central Depository facilities. The staff of the central office grew by 78 employees, as it was necessary to increase its co-ordinating role in tackling urgent problems that faced the Bank of Russia and enhance the efficiency of performing the functions assigned to it by law.

The supervisory departments were assigned the task of making a comprehensive assessment of the financial standing of credit institutions and creating a single database on them, developing inspection methodologies, enhancing the accuracy of bank reporting and co-ordinating the

work of regional branches in banking supervision. To ensure that these problems were tackled in the best possible way, the Bank of Russia re-organised these departments. Specifically, the Prudential Banking Supervision Department and the Inspection Department were disbanded and their functions were transferred to the newly-created Department for Banking Regulation and Supervision. The Licensing Department and the Bank Rehabilitation Department were re-organised into the Department for Licensing Credit Institutions and Their Financial Rehabilitation.

As a result of the measures taken to eliminate the overlapping of functions, raise the qualification of employees and increase labour productivity, the managerial staff of the regional branches (national banks) and settlement network was reduced by 534.

In 2001, the Bank of Russia completed the re-organisation of its branches for Moscow and the Moscow Region, started a year earlier, and created on their basis the Moscow branch. In the first stage of the re-organisation it created Department No. 5 of the Moscow branch, which began to provide cash settlement services to all credit institutions that were previously serviced by the Main Cash Settlement Centre of the Bank of Russia branch for the Moscow Region. The Moscow branch took over from the Bank of Russia branch for the Moscow Region functions of banking su-

pervision and foreign exchange control over credit institutions. In the second stage, the cash settlement centres of the branch for the Moscow Region were placed under the control of the Moscow branch and the Main Cash Settlement Centre of the Bank of Russia branch for the Moscow Region was disbanded. The merger of the two branches was an objective process, prompted by the fact that the Moscow Region is a single vast economic environment with active business ties between enterprises and a big flow of payments. In addition, many Moscow-based banks have branches in the Moscow Region, and concentrating supervisory functions within one branch of the Bank of Russia facilitated control over their activities.

Upgrading the Russian payment system, the Bank of Russia in 2001 continued to overhaul its settlement network. It closed six cash settlement centres, which processed small amounts of pay-

ment documents, and transferred their functions to the nearest cash settlement centres.

In line with the decision of its Board of Directors, the Bank of Russia opened a representative office in the Chechen Republic, assigning to it the task of analysing the state of the economy and cash turnover in the republic, evaluating prospects for the development of the banking system there and arranging co-operation with local government bodies. When the situation in the Chechen republic stabilises and a network of credit institutions appears there, the Bank of Russia representative office will be replaced by a fully-fledged regional branch.

The changes made in the personnel structure and in number of employees in the Bank of Russia system in 2001 allowed the Bank of Russia to enhance its efficiency while doing its best to meet the current needs of the economy and banking sector.



II.8.2. CO-ORDINATING ACTIVITIES OF BANK OF RUSSIA REGIONAL BRANCHES

The Bank of Russia co-ordinated the activities of its regional branches in the year under review with the aim of enhancing the efficiency of the payment system, banking regulation and supervision over credit institutions, foreign exchange control, the analysis of the regional economies, the conduct of the single state monetary policy and upgrading and strengthening the Russian banking system.

The Bank of Russia co-ordinated the activities of its regional branches by issuing enactments and recommendations on various aspects of banking, holding seminars and conferences on the functioning of payment systems, implementing foreign exchange regulation and control and economic analysis, monitoring the state of enterprises and organising inspection trips by specialists from the Bank of Russia central office to check regional branches and help them fulfil their tasks and functions.

To co-ordinate the activities of its regional branches in implementing the Federal Law on Amending the Federal Law on Banks and Banking Activities, Federal Law on Amending Article 73 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Federal Law on Amending the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions, the Bank of Russia held seminars and conferences with specialists from its regional branches and implemented other measures.

In the year under review, it drew up an extended list of indicators characterising the state of the banking system in the regions and organised the regular publication of the regional Supplement to the Bank of Russia Bulletin of Banking Statistics.

The activities of the Bank of Russia regional branches were co-ordinated in 2001 in the course of testing the mechanism for refinancing banks by the Bank of Russia against the collateral of production companies' obligations in pursuance of Bank of Russia Provision No. 122-P, dated October 3, 2000, "On the Procedure for Extending

Bank of Russia Loans to Banks against Collateral and Warranties." After the approval in 2001 of a package of Bank of Russia documents regulating this mechanism, specialists from the Bank of Russia central office and St. Petersburg branch jointly tested the main elements of the new mechanism.

In 2001 Q4, the Bank of Russia Board of Directors approved the results of the testing of the procedure for extending Bank of Russia loans to banks against collateral and warranties and took the decision to spread it to banks in the Vologda, Leningrad, Rostov, Samara and Sverdlovsk regions and the Primorski Territory. In line with that decision specialists from the Bank of Russia branches in the aforementioned regions were invited to a conference, where the main elements of the new mechanism were explained to them, and work began to introduce it in the respective regions. This work has continued in 2002.

One of the major objectives of co-ordinating the activities of the Bank of Russia regional branches is to organise and conduct the analysis of regional economies and monitor the state of enterprises.

The monitoring of enterprises, conducted with the aim of collecting data and material for analysis necessary for the implementation of the functions assigned to the Bank of Russia by law, is based on monthly polls of enterprise managers, who are asked to comment on the latest changes in the economic situation, and quarterly polls on the investment activity and financial standing of enterprises.

In the year under review, the Bank of Russia continued to upgrade the main principles and tactics in optimising the structure of its branch network. In the course of this work, which began in 2000, the Bank of Russia studied the experience of a number of foreign central banks in building and optimising their branch networks at various levels, the relations between the central office and regional branches and the methods of organising, co-ordinating, regulating and exercising control over their activities.

II.8.3. STAFFING AND PERSONNEL TRAINING

Work motivation, career evaluation and management were the main principles of the Bank of Russia staffing and personnel training policy in the year under review. The implementation of these principles further raised the quality level of Bank of Russia personnel.

As of January 1, 2002, the staffing level in the Bank of Russia was 98%. The number of senior executives and specialists with a vocational higher education rose 0.9% to 63.3% of the total number of Bank of Russia employees. The number of senior executives and specialists who had worked in the banking system for more than three years grew 2.8%; 1.1% of these had worked in the banking system for more than 15 years.

To improve the managerial skills of its executives and specialists, the Bank of Russia provided interactive training to nearly 3,700 employees on a centralised or regional basis in the form of in-ternship studies, seminars and business games.

The practice of evaluating employee performance became far more widespread. Seventy-one Bank of Russia regional branches conducted employee performance evaluations in 2001, which involved 55.3% of the total number of their executives and specialists. Procedures for evaluating professional and managerial competence, growth potential and job performance were used in recruiting and employing personnel, appointing specialists to executive positions, creating a reserve for promotion, determining the size of bonuses and planning the advanced training of employees.

The vocational training of employees was organised in 2001 in compliance with the requirements made by the Bank of Russia for the professional level of its specialists.

The number of Bank of Russia specialists who completed a course at university without discontinuing their work (1,475) increased almost 1.5 times over in the year under review.

In accordance with the Bank of Russia catalogue of vocational training programmes, 251 banking training sessions were conducted in Bank of Russia training centres and in the train-

ing centres of Bank of Russia regional branches, in which 5,200 specialists and executives participated, and more than 3,600 Bank of Russia employees received computer training and improved their knowledge of foreign languages.

More than 12,000 executives and specialists from Bank of Russia regional branches received training in the local banking schools and Bank of Russia instruction centres; of these, 6,600 persons, or 55% of the total number of trainees, were employees at cash settlement centres.

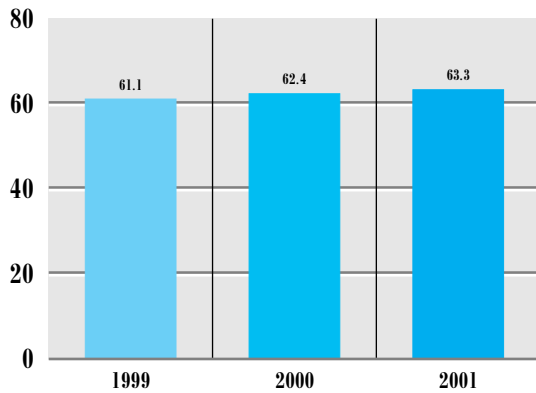
A major event in Bank of Russia international co-operation was the annual meeting of coordinators of technical assistance in personnel training, who represented the Group of 10 central banks, Austria, the International Monetary Fund, Bank for International Settlements, European Central Bank and CIS central (national) banks. Organised by the Bank of Russia in collaboration with the Bank for International Settlements, it was held in Moscow in June 2001.

The Bank of Russia maintained partnership relations with the German Federal Bank, Bank of France, Bank of England, Bank of Finland, Bank of Italy, Bank for International Settlements, International Monetary Fund, Luxembourg-based Financial Technology Transfer Agency, Financial Services Volunteer Corps, central banks of the United States, Argentina, Switzerland, South Korea, Poland and the Czech Republic and commercial banks of Germany and the Netherlands.

Last year, 106 international training sessions were held, in which 524 Bank of Russia specialists took part. The topics studied reflected practically the entire range of contemporary banking problems related to monetary policy, banking sector regulation and stability, economic analysis and forecasting, payment and settlement systems.

Twenty-five training sessions took place in 2001 under the programme for co-operation in personnel training with the CIS central (national) banks, in which representatives of 10 CIS central (national) banks participated. In all, 206 representatives of CIS central (national) banks took part in such sessions last year.

**NUMBER OF EXECUTIVES AND SPECIALISTS
WITH HIGHER VOCATIONAL EDUCATION
(as % of actual number)**

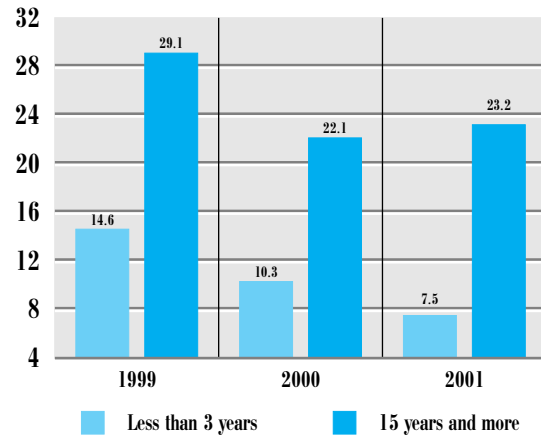


Charts 55, 56

Instruction was provided in 2001 in the form of consultations and internships in various Bank of Russia divisions. Consultations and training in Bank of Russia divisions dealt with subjects such as economic analysis, enterprise monitoring, banking supervision, inspection of credit institutions and urgent problems of banking activity.

Two seminars were organised for representatives of CIS central (national) banks: the first one,

**DYNAMICS OF CHANGE IN STRUCTURE
OF PERSONNEL IN TERMS OF LENGTH
OF SERVICE IN BANKING SYSTEM
(as % of actual number)**



organised jointly with the International Monetary Fund, was devoted to monetary and financial statistics, and the second one, organised jointly with the Bank for International Settlements, was concerned with central banks' representation (web sites) on the Internet.

II.8.4. BANK OF RUSSIA ACTIVITIES AIMED AT IMPROVING BANKING LEGISLATION. HANDLING SUITS AND CLAIMS IN BANK OF RUSSIA INSTITUTIONS

The efforts made by the Bank of Russia in 2001 to upgrade the Russian banking legislation aimed at creating a legislative base for the further development and strengthening of the banking system.

In June 2001, a number of important amendments were made to the banking legislation, designed to increase the responsibility of credit institutions and enhance the supervisory powers of the Bank of Russia.

The Federal Law on Banks and Banking Activities was amended to include the definitions of a banking group and banking holding company and establish the procedure for their annual reporting on a consolidated basis.

In addition, the amendments specified the grounds for denying a credit institution its state registration and banking licence and the grounds for revoking a credit institution's banking licence.

The Law also included provisions stipulating the general principles of forced liquidation of a credit institution on the initiative of the Bank of Russia.

Article 73 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) was amended to grant the Bank of Russia the right to evaluate the assets and liabilities of a credit institution in order to determine the value of its own funds (capital) by using the methodologies it elaborated and order a credit institution to match its own funds with its authorised capital.

The Federal Law on the Insolvency (Bankruptcy) of Credit Institutions was amended to increase the responsibility of the founders, board members (supervisory board members) and other managers of credit institutions for making a credit institution bankrupt. Other amendments to this Law extended the grounds for implementing bankruptcy-prevention measures in a credit institution, established the

general procedure for matching the authorised capital of a credit institution with its own funds (capital) and enabled the provisional administration or creditor of a credit institution to ask a court to declare invalid a transaction concluded or conducted by a credit institution within a three-year period preceding the appointment of the provisional administration. Special articles were included in the Law to specify the powers of the provisional administration appointed to a credit institution after its licence had been revoked and the duties of the receiver in bankruptcy proceedings.

In addition, in August 2001, **the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions** was amended to include new provisions establishing in the minutest detail the procedure for making preliminary payments to creditors of first ranking by the receiver of a credit institution. The Law stipulates that 70% of the funds in the correspondent account of the bankrupt credit institution should be used for making such payments.

The Federal Law on the Ratification of the Convention on Money Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, which came into force in May 2001, complemented Russian legislation with a fundamental international act, providing a basis for Russia's participation in the pan-European fight against crime, which is becoming increasingly internationalised.

To protect the rights and legitimate interests of citizens, society and the state by means of creating a legal anti-laundering mechanism on the basis of the Convention on Money Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, Russia in 2001 passed the **Federal Law on Countering the Legalisation (Laundering) of Incomes Obtained by Criminal Means**. The Bank of Russia actively participated in the

work on this Law when it was discussed in the Federal Assembly.

In pursuance of the Federal Law on Countering the Legalisation (Laundering) of Incomes Obtained by Criminal Means, the Bank of Russia issued a number of enactments designed to ensure the practical implementation of this Law.

After the Federal Law on Countering the Legalisation (Laundering) of Incomes Obtained by Criminal Means was adopted, the Russian parliament passed the **Federal Law on Amending Federal Laws in Connection with the Adoption of the Federal Law on Countering the Legalisation (Laundering) of Incomes Obtained by Criminal Means**, which, among other things, amended Article 20 of the Federal Law on Banks and Banking Activities, giving the Bank of Russia the right to revoke banking licence from a credit institution for repeated violations during one year of the provisions of the Federal Law on Countering the Legalisation (Laundering) of Incomes Obtained by Criminal Means.

The Law also amended Article 26 of the Federal Law on Banks and Banking Activities, including in the list of organisations with the right of access to banking secrets the body implementing measures to counter the legalisation (laundering) of illegally obtained incomes.

In 2001, the State Duma passed the **Federal Law on Amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control**, which eased up some foreign exchange regulations and lifted a number of restrictions in this area.

This Law extended the list of current foreign exchange operations and lifted restrictions from some of them, such as the transfer to and from Russia of up to \$75,000 by a resident individual within one calendar year with the purpose of buying or selling securities denominated in foreign currency.

In addition, the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control was amended to include a special article regulating the procedure for issuing permits to residents, as is required by the foreign exchange legislation.

Passed owing to vigorous support by the Bank of Russia, the **Federal Law on Amending the**

Federal Law on Taxing Operations with Securities stipulated that the tax on operations with securities should not be imposed on the nominal value of bonds issued by the Bank of Russia with the purpose of implementing the monetary policy, and in compliance with the applicable legislation.

In 2001, the Bank of Russia continued to participate in preparations for a second reading by the State Duma of the **Draft Federal Law on Amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)**.

The Bank of Russia has pursued a consistent policy of maintaining constructive co-operation with the State Duma and other bodies with the right to initiate legislation in order to improve the provisions of this Law in compliance with the Russian Constitution and other federal laws.

When discussing the status of the National Banking Council the Bank of Russia sticks to the sensible position of reasonable sufficiency with regard to its accountability to the State Duma and insists that the Bank of Russia should remain independent in implementing the monetary and foreign exchange policies.

In addition, throughout 2001, the Bank of Russia persistently worked on the **Draft Federal Law on Individual Bank Deposit Guarantees**, which is needed to build a system of the guaranteed return of funds placed by individuals in bank accounts and deposits. The aim of a deposit guarantee system is to create a mechanism for protecting individuals who keep their savings in Russian credit institutions. Such a system would also meet the vital needs of the banking sector.

The benefits of a deposit guarantee system will be as follows:

- it will help increase public confidence in the banking sector;
- it will help use household savings in financing economic development;
- it will strengthen the long-term resource base of the banks, diversify it owing to growth in the value of individual deposits and, as a consequence, lead to a fall in interest rates on loans;
- it will stimulate competition and increase stability of the banking system as a whole.

Work is underway to draft a **new version of the Federal Law on Accounting**, which should provide a legislative base for the conversion of all economic agents to international accounting standards (IAS) and help accomplish the strategic task of introducing international accounting standards in the banking sector in particular.

In addition, the Bank of Russia participated in drafting amendments to the **Federal Law on Insolvency (Bankruptcy)** and **Civil Code of the Russian Federation**, designed to improve the procedure for protecting creditors whose claims are secured by collateral in the event of the debtor's bankruptcy (including the bankruptcy of credit institutions), and took part in drafting other federal laws designed to facilitate the development of the Russian banking system.

In 2001, the Bank of Russia issued more than 60 enactments and made over 80 amendments to existing regulations. It consistently reviewed its regulations to eliminate discrepancies in them and issued five directives to this effect.

In 2001, the Bank of Russia made 15 official clarifications on various aspects of banking regulation.

Most of the regulations and instructions issued by the Bank of Russia were concerned with banking regulation and supervision, financial rehabilitation, reporting and accounting practices of credit institutions, the effectuation of settlements and foreign exchange regulation and control.

HANDLING SUITS AND CLAIMS

IN BANK OF RUSSIA INSTITUTIONS IN 2001

In 2001, the value of the claims on property and other claims made to the Bank of Russia regional branches amounted to more than 1 billion rubles and \$103,300, of which claims to the value of 9.65 million rubles were met.

These figures show that most of the claims and suits against the Bank of Russia, relating to the servicing of credit institutions' correspondent accounts and the recovery of funds at the request of bank depositors, were turned down as unwarranted.

Courts of law in 2001 heard 132 labour dispute cases initiated against the Bank of Russia.

In some cases credit institutions disputed the sanctions the Bank of Russia had taken against them, but of the total of 29 suits made only seven suits were won.

The Bank of Russia institutions, for their part, made claims and initiated lawsuits as they performed their supervisory functions. A total of 427 claims to the amount of 183 million rubles were made and 107 lawsuits to the amount of 829,500 rubles were initiated, of which 488 claims and suits to the amount of 182.6 million rubles were met. Most of the claims and suits were connected with the use of sanctions and the initiation of bankruptcy and liquidation proceedings against credit institutions.

II.8.5. BANK OF RUSSIA INTERNAL AUDIT

Guided by the general plan for 2001, the Bank of Russia internal audit services conducted comprehensive audits and thematic inspections of Bank of Russia institutions and organisations, and management structures.

In 2001, comprehensive audits were conducted in 663 Bank of Russia institutions and organisations, or 45.7% of the total. Thematic audits were conducted in 757 Bank of Russia institutions and organisations, or 52.3% of the total. Three centralised audits were conducted to check expenditures on capital investments and Bank of Russia uncompleted construction projects, the effectuation of interbank settlements and the reliability and security of data processing and some aspects of the relationship between Bank of Russia regional branches and credit institutions. As these audits were conducted under a single programme and simultaneously in all Bank of Russia regional branches, they produced a picture of the situation in the inspected segments of the Bank of Russia as a whole.

The Internal Audit and Inspections Department in 2001 inspected some departments of the Bank of Russia central office to make sure that they properly performed the functions assigned to them.

The analysis of audit results and internal audit reports in 2001 suggests that on the whole Bank of Russia institutions complied with transaction, accounting and reporting rules. At the same time, audits laid bare various shortcomings, which were discussed with higher management and on which remedial actions were taken. Internal audit officers monitored the process of eliminating the shortcomings discovered by audits and inspections.

Measures were taken in 2001 to upgrade the organisational and methodological support of the Chief Auditor's Service. Recommendations were sent to the managers of Bank of Russia regional branches on compiling general plans of the audit units (departments and sectors), memos on the performance of the internal audit services and methodological material. A form of periodical statistical reports was elaborated and introduced to improve the provision of information on the work of the various units of the Chief Auditor's Service. The Internal Audit and Inspections Department paid special attention to preparing methodological materials on the inspection of different areas of Bank of Russia activity, using Russian and international audit standards for this purpose.

II.8.6. BANK OF RUSSIA PARTICIPATION IN CAPITAL OF RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

In pursuance of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia has a stake in the capital of the Savings Bank (Sberbank) and Bank for Foreign Trade (Vneshtorgbank), two banks of strategic importance for the government's economic policy. The Bank of Russia participates in the management of Sberbank and Vneshtorgbank and controls their activities through its representatives on their supervisory boards and auditing commissions, whose number corresponds to the Bank of Russia stake in the capital of these banks.

As of the end of 2001, the Bank of Russia stake in Sberbank was 60.57% and in Vneshtorgbank 99.95%. Compared to 2000, the Bank of Russia stake in Sberbank's capital increased by 2.91 percentage points as a result of the purchase of a part of the block of Sberbank shares of the 10th issue. The Bank of Russia share in Vneshtorgbank's capital remained unchanged in 2001.

In the year under review, **Sberbank** conducted its activities in line with its Development Concept projected till 2005 and approved by its Supervisory Board. With its extended branch network, Sberbank not only increased lending to the household sector and the economy, but also performed important social functions connected with the fulfilment by the state of its financial obligations to the population (payment of pensions, benefits and allowances and the transfer of taxes and duties). Realising the importance of long-term lending to the real sector for the country's economy, Sberbank provided considerable investment support for enterprises in the fuel and energy, and metallurgy sectors, chemical industry, ship-building and the communications. This support facilitated the implementation of government investment programmes.

The value of household deposits in Sberbank grew throughout the year under review, ensuring the stability of the bank's resource base. As of the end of 2001, Sberbank accounted for nearly 72% of all household deposits, of which nearly

two-thirds were pension deposits. The increased financial stability of Sberbank was also the result of growth in its own funds, caused by the expansion of authorised capital and revaluation of fixed assets.

As a result, in 2001, Sberbank's balance sheet profit rose 30% year on year to 21.7 billion rubles.

Vneshtorgbank conducted its activities in 2001 with the aim of fulfilling the main tasks set by its Supervisory Board in the Guidelines for the Activities of Vneshtorgbank in 2000—2001. Vneshtorgbank focused on operations to provide services to major corporate customers and private individuals. In the year under review, the balances on individual accounts in Vneshtorgbank trebled, while the debt on loans extended to the real economy more than doubled. Most of Vneshtorgbank's borrowers were enterprises in key branches, such as the fuel and energy sector, machine-building, defence industry, aircraft-making and gold-mining industry. Vneshtorgbank's own funds rose steadily in the year under review owing to profits and the accumulation of funds. The bank's balance sheet profits in 2001 increased 40% year on year to 5.2 billion rubles.

In 2001, Vneshtorgbank drafted jointly with the Bank of Russia the Vneshtorgbank Group Strategy for the Period from 2002 to 2004, which provided for the consolidation of the positions of the bank as a competitive, hi-tech and financially sound credit institution, making a substantial contribution to the solution of the country's social and economic problems.

In pursuance of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia has a stake in other organisations that play a role in its activities, such as the **Moscow Interbank Currency Exchange (MICEX)** and **National Depository Centre (NDC)**, a non-profit partnership.

MICEX is a major organisation in the Russian financial market. The official rate of the ruble is set on the results of currency trading on MICEX.

The exchange has an electronic system of trade in government securities, covering Russia's main financial centres.

As of the end of 2001, the Bank of Russia stake in MICEX was 18.3%. This represents a year-on-year increase of 2.6 percentage points, resulting from the purchase of shares from banks which had their banking licence revoked and were in the process of liquidation.

In the year under review, the Bank of Russia participated through its representatives in the Exchange Council in working out measures to stimulate the development of the financial market, make trade at the afternoon session more attractive, provide new services to market participants, organise internal control and risk management systems as part of the effort to raise the standard of corporate governance, and to elaborate and put into practice a concept of an integrated CIS currency market.

MICEX profit received in 2001 was put towards modernising technical facilities and creating an advanced technological infrastructure of the exchange in order to introduce new financial instruments and services in all segments of the financial market.

As of the end of 2001, the Bank of Russia had a 49% stake in the NDC capital. The only clearing depository in Russia, the NDC services the entire range of the traded securities. It plays the role of the national agency that numbers securities and other financial instruments in Russia, provides registration and custody of government securities; it used to service the Russian government savings loan bonds.

The NDC's profit for 2001 went to finance the development of its regional infrastructure and upgrade the electronic document turnover by converting it to international standards, which made it possible to create conditions for establishing inter-depository correspondent relations with international organisations.

The Bank of Russia has the following **subsidiaries abroad (known as the Russian overseas banks)**: Moscow Narodny Bank (London), Ost-West Handelsbank (Frankfurt-am-Main), Eurobank (Banque Commerciale pour l'Europe

du Nord) (Paris), Donau-bank (Vienna) and East-West United Bank (Luxembourg). The Russian overseas banks were founded and operate in compliance with the laws of the host countries and they are under the oversight of local supervisors.

Owing to the Bank of Russia's participation in the capital of the Russian overseas banks and its financial assistance, the latter managed to successfully overcome the negative consequences of the latest financial crises and retained their ability to secure Russian interests in international banking services markets.

The overall financial standing of the Russian overseas banks is quite stable. In 2001, three of them, the London-based Moscow Narodny Bank, the Frankfurt-based Ost-West Handelsbank and the Vienna-based Donau-bank, paid dividends for 2000.

In 2001, the Bank of Russia took steps to implement the decision requiring it to phase out from the capital of the Russian overseas banks and sell its shares of Vneshtorgbank in compliance with the applicable Russian legislation and taking into account the position of the local supervisory authorities. It is the view of the Bank of Russia that it would be in the interest of the state if it sold its shares gradually.

As a result, the Bank of Russia stake in the Vienna-based Donau-bank contracted from 49% to 15% and in the Luxembourg-based East-West United Bank from 49.01% to 15%. The Bank of Russia retained small blocks of shares in these banks at the recommendation of the host-country supervisors, who insist that the Bank of Russia participation is a major factor of financial stability of these banks.

In 2001, the Bank of Russia reduced its stake in the Frankfurt-based Ost-West Handelsbank, from 82% to 51.6%.

The Bank of Russia continued to formalise its rights to the shares of the Russian overseas banks which are historically down in the name of some Soviet and Russian legal entities known as the "nominee shareholders." As a result, its stake in the Paris-based Eurobank increased from 77.81% to 87.03%.

**BANK OF RUSSIA
FINANCIAL STATEMENTS
AS OF JANUARY 1, 2002**



INTRODUCTION

Financial statements reflect the operations conducted by the Bank of Russia in implementing its principal objectives and functions, stipulated by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

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

- to protect the ruble and ensure its stability, including its purchasing power and exchange rate against foreign currencies;
- to upgrade and strengthen the Russian banking system;
- to ensure the effective and uninterrupted functioning of the settlement system.

The Consolidated Balance Sheet and Profit and Loss Account presented below illustrate

the financial standing of the Bank of Russia as of January 1, 2002, and its performance in 2001.

A sensible monetary and exchange rate policy pursued by the Bank of Russia in 2001 helped maintain a stable ruble and slow the inflation rate, facilitated the continued growth of the Russian economy and made it possible to increase Russia's international reserves despite foreign debt payments. During the year under review, the Bank of Russia ensured the reliable, uninterrupted and safe functioning of the payment system. The effect of economic environment on Bank of Russia financial statements is described in greater detail in Supplement 2 to the Bank of Russia financial statements as of January 1, 2002.

CONSOLIDATED BALANCE SHEET

AS OF JANUARY 1, 2002

(million rubles)

	Note	2001	2000
ASSETS			
1. Precious metals		58,288	54,806
2. Foreign currency funds and securities deposited with non-residents	3	1,003,315	697,802
3. Loans and deposits, of which:	4	248,758	201,460
3.1. loans extended to resident organisations		10,712	12,609
3.2. loans intended for foreign debt service		192,224	179,719
4. Securities, of which:	5	328,782	318,956
4.1. Russian government securities		263,708	256,464
5. Other assets, of which:	6	74,097	73,072
5.1. fixed assets		50,711	45,415
Total assets		1,713,240	1,346,096
LIABILITIES			
1. Cash in circulation		625,495	448,118
2. Funds in accounts with Bank of Russia, of which:	7	690,900	535,314
2.1. Russian government funds		121,746	81,602
2.2. funds of resident credit institutions		316,840	282,087
3. Float	8	4,211	10,086
4. Other liabilities, of which:	9	150,322	186,530
4.1. IMF loan		—	79,232
5. Capital, of which:		242,312	166,048
5.1. authorised capital		3	3
5.2. reserves and funds		263,752	192,532
5.3. losses for 1998		(21,443)	(26,487)
Total liabilities		1,713,240	1,346,096

Bank of Russia Chairman

S.M. Ignatyev

Bank of Russia Chief Accountant

L.I. Gudenko

PROFIT AND LOSS ACCOUNT

		<i>(million rubles)</i>	
	Note	2001	2000
INCOME			
Interest income	11	36,549	27,848
Yields from operations with securities	12	20,358	22,029
Income from operations with precious metals		35,396	22,749
Dividend from stakes and shares		1,028	369
Other income	13	3,407	2,769
Total income		96,738	75,764
EXPENSES			
Interest expenses	14	8,124	10,337
Expenses involved in managing cash circulation	15	2,597	2,207
Expenses on operations with precious metals		284	1,408
Net expenses on provisions	16	26,367	31,497
Other operating expenses	17	20,228	12,409
Personnel costs	18	21,055	13,727
Total expenses		78,655	71,585
Financial result: profit		18,083	4,179

CAPITAL, FUNDS AND PROFIT ALLOCATION

(million rubles)

	Authorised capital	Reserves	Accrued exchange rate differences	Social fund	Depreciation of fixed assets	Other funds	Losses for 1998	Allocation of profit for 2001	Total
Balance as of January 1, 2001	3	16,795	165,444	1,659	8,469	165	(26,487)	—	166,048
Profit for the year								18,083	18,083
Allocation of profit for 2001:									
To be transferred to federal budget								(9,042)	(9,042)
Allocated to funds		2,997		1,000				(3,997)	—
Transferred to cover losses for 1998							5,044	(5,044)	—
Accrued exchange rate differences			67,567						67,567
Allocated to funds				2	98	3			103
Used at the expense of funds		(23)		(160)	(232)	(32)			(447)
Balance as of January 1, 2002	3	19,769	233,011	2,501	8,335	136	(21,443)	—	242,312



NOTES TO FINANCIAL STATEMENTS AS OF JANUARY 1, 2002

I. ACCOUNTING AND REPORTING PRINCIPLES

Accounting and the compiling of financial statements by the Bank of Russia is conducted in compliance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Federal Law on Accounting, Bank of Russia Accounting Rules No. 66, dated September 18, 1997 (with subsequent amendments) and other Bank of Russia regulatory documents, issued in pursuance of the aforementioned federal laws.

(a) Principles of accounting policy

Accounting is made in accordance with the principle of making the accounting of balance sheet items at the original cost at the time when the assets were acquired or liabilities arose. The principles of revaluation of individual assets and liabilities are described below.

(b) Principles of compiling financial statements

Financial statements are compiled on the basis of balance sheet data of the Bank of Russia, including its regional branches and institutions that make up the single Bank of Russia system.

Financial statements are compiled without including in them data on the credit and other institutions located in Russia and abroad, in whose authorised capital the Bank of Russia has a stake (see Note 5).

These financial statements are compiled in millions of Russian rubles, abbreviated as Rbs m. Figures in brackets designate negative values.

(c) Precious metals

Precious metals are shown at their acquisition cost. Precious metals in deposits and unallocated accounts with non-resident credit institutions are recorded at their acquisition cost and included in the category "Foreign currency funds and securities deposited with non-residents."

(d) Foreign currency assets and liabilities

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

Unrealised exchange rate differences arising in the course of revaluation of assets and liabilities are recorded in the balance-sheet account "Accrued Exchange Rate Differences" and are not included in the Profit and Loss Account. Realised exchange rate differences are included in Bank of Russia income or expenses.

In December 2001, the Bank of Russia recalculated assets and liabilities recorded in national currencies of EMU member countries into euros at the rate fixed as of January 1, 1999.

The official exchange rates used in recalculating assets and liabilities in foreign currency on the last working day, December 29, 2001, were as follows: 30.14 rubles to the US dollar (2000: 28.16 rubles to the US dollar) and 26.49 rubles to the euro (2000: 26.15 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 in the open market government securities issued by the

Ministry of Finance. The accounting of government securities was made according to the following principles:

- government securities are recorded at their acquisition (restructuring) price;
- Finance Ministry promissory notes are recorded at their acquisition price.

In addition, the following accounting principles are used to record securities in the Bank of Russia portfolio:

- foreign government securities are recorded at their acquisition price;
- bank promissory notes are recorded at their acquisition price.

(f) Investment

Bank of Russia investments in the authorised capital of credit and other institutions in Russia and abroad are recorded at their acquisition price.

(g) Loans to banks

Loans extended to banks are shown as part of the principal debt, while credit risk provisions are counted as part of other liabilities.

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

To protect its assets against depreciation risk, the Bank of Russia, using generally accepted banking practices, creates provisions for possible losses on loans extended to banks and for other active operations it conducts in rubles and foreign currency. Bank of Russia provisions are created from allocations included in Bank of Russia expenses. When loans and deposits are repaid and the quality of assets improves or asset risk decreases, the provisions created for them earlier are restored to Bank of Russia income.

(i) Fixed assets

Fixed assets are shown at their residual value (the acquisition price adjusted to revaluation minus accumulated depreciation amounts).

Bank of Russia fixed assets were revalued in compliance with Russian government resolutions.

Depreciation is charged at the official rates of depreciation. Below are the basic annual rates of depreciation used pursuant to 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":

	%
Buildings	1.2—3
Equipment (including computers, furniture, transport, etc.)	5—20

(j) Cash in circulation

The Bank of Russia is the sole issuer of cash and organiser of its circulation. The banknotes and coins put into circulation are shown in the balance sheet at their face value.

(k) Capital, funds and profit allocation

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia has an authorised capital of 3 million rubles (taking into account the re-denomination of the ruble).

Article 26 of the Law requires the Bank of Russia to transfer to the federal budget 50 percent of its actual balance sheet profit for the year after the approval of the Bank of Russia Annual Report by the Board of Directors. The remaining profit of the Bank of Russia is used by the decision of the Bank of

Russia Board of Directors to cover the loss incurred by the Bank of Russia in 1998 and replenish the Reserve and Social Funds.

Formed in accordance with the Bank of Russia Provision on the Creation and Use of the Bank of Russia Reserve Fund, the Bank of Russia Reserve Fund is designed to cover possible losses from Bank of Russia operations.

Set up in accordance with the Provision on the Creation and Use of the Social Fund of the Central Bank of the Russian Federation, the Bank of Russia Social Fund is designed to meet social needs.

(1) Recognition of Bank of Russia income and expenses

Income and expenses are presented in the profit and loss account on a cash basis, that is, after income has been actually received and expenses have been actually made.

2. EFFECT OF ECONOMIC ENVIRONMENT ON BANK OF RUSSIA FINANCIAL STATEMENTS

The efforts made by the Bank of Russia to further reduce inflation, support economic growth, ensure monetary stability despite the changing external and internal economic conditions during the year and upgrade the payment and settlement system are reflected in Bank of Russia balance sheet data and its financial standing.

To keep the domestic financial market stable and balanced in the next few years when Russia will have to effect considerable foreign debt payments, the Bank of Russia used a favourable foreign trade situation for increasing Russia's international reserves and repaying ahead of schedule its debt on the IMF loan it received in the crisis year 1998. Overall, during the year under review, the share of foreign currency funds in the asset structure of the Bank of Russia consolidated balance sheet expanded considerably. While international reserves grew significantly, the amount of cash issued during the year did not increase much, which means that the overall structure of the Bank of Russia balance sheet has improved.

A favourable federal budget situation in 2001 led to growth in the balances of federal budget accounts with the Bank of Russia from 81,602 million rubles to 121,746 million rubles. At the same time, a strong balance of payments enabled the Bank of Russia to continue to sterilise excess liquidity and spend considerable sums on such operations.

The extent to which the Bank of Russia can use government securities in its portfolio as a means of monetary regulation largely depends on the liquidity of these papers. Most of the securities in the Bank of Russia portfolio are still federal loan bonds, which are not traded in the securities market owing to their low yields and long maturities. The ability of the Bank of Russia to continue to enhance the efficiency of its policy depends on the settlement of its debt relations with the Government, that is, the latter's readiness to restructure the aforementioned papers into securities with a market interest rate.

The continued economic growth in 2001, which led to an increase in the amount of payments, and the expansion of the share of cash payments called for the upgrading of the payment system.

Economic stability in Russia in 2001 and a restrained monetary policy pursued during that year allowed the Bank of Russia to make profit in 2001.

3. FOREIGN CURRENCY FUNDS AND SECURITIES DEPOSITED WITH NON-RESIDENTS

	<i>(million rubles)</i>	
	2001	2000
Foreign government securities	593,954	435,176
Loans extended to and deposits placed with Bank of Russia subsidiaries abroad	38,711	34,554
Balances in correspondent accounts, loans extended to and deposits placed with non-resident banks	370,650	228,072
Total	1,003,315	697,802

Foreign government securities are mainly represented by US treasuries and German, French, Belgian and Dutch government debt instruments. These securities are highly liquid assets of the Bank of Russia. In 2001, the Bank of Russia increased investments in US T-bonds by \$2,425 million, German securities by 1,385 million euros and French securities by 575 million euros. It bought 70.2 million euros worth of Belgian debt instruments and 70.5 million euros worth of Dutch securities.

The Bank of Russia extended loans to and deposited funds with its subsidiaries abroad in order to maintain their financial stability.

Growth under the item "Balances in correspondent accounts, loans extended to and deposits placed with non-resident banks" results from the expansion of foreign exchange reserves.

4. LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	2001	2000
Funds provided to government for foreign debt service	192,224	179,719
Loans and deposits in resident banks (in foreign currency)	44,140	8,854
Loans extended to resident banks (in rubles)	10,712	12,609
Sundry	1,682	278
Total	248,758	201,460

In pursuance of 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" (Article 102), the Bank of Russia in 1998 and 1999 extended to the Finance Ministry through the Vneshekonombank foreign currency funds for foreign debt repayment and service. Increment under this item is largely the result of the revaluation of the foreign currency against the Russian ruble.

The Finance Ministry's 2,319-million-ruble debt to the Bank of Russia on the funds provided by the Bank of Russia to the Finance Ministry in Deutsche marks for urgent foreign debt repayment and service through Vneshekonombank was converted into a euro-denominated debt due on January 30, 2002. In pursuance of Federal Law No. 145-FZ, dated December 25, 2000, "On Amending the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues," the redemption date of the Finance Ministry's debt to the Bank of Russia on funds provided through the Vneshekonombank in US dollars for urgent foreign debt repayment and service was extended to December 1, 2007.

Foreign currency deposits were placed with some resident banks to boost their liquidity. Increment under this item is mainly the result of the placement of deposits in the Vneshtorgbank and the revaluation of foreign currencies against the Russian ruble.

The principal amount of the debt on ruble loans to resident banks is represented by the funds extended to banks by the Bank of Russia in 1998—1999 in line with the corresponding decisions taken by the Bank of Russia Board of Directors with the aim of stabilising and rehabilitating these banks. The reduction of the debt on ruble loans extended to resident banks is the result of the termination of these banks' debt obligations to the Bank of Russia.

Growth under the item "Sundry" resulted from the extension of a loan to the National Bank of the Republic of Belarus.

5. SECURITIES

	<i>(million rubles)</i>	
	2001	2000
Russian government securities		
Unlisted government securities (OFZ)	232,079	228,220
Finance Ministry promissory notes	15,457	19,306
Sundry	16,172	8,938
Subtotal	263,708	256,464
Bank promissory notes acquired by Bank of Russia	5,623	5,730
	5,623	5,730
Shares of banks and other organisations (Bank of Russia participation)	59,451	56,762
Total	328,782	318,956

The restructuring of government securities owned by the Bank of Russia and other Finance Ministry debt obligations into federal loan bonds in pursuance of the 2000 and 2001 Federal Budget Laws continued during 2001. The securities received from the Finance Ministry as a result of the restructuring were recorded at the balance sheet value of the restructured papers.

As of January 1, 2002, the Bank of Russia had unlisted OFZ bonds in its portfolio. The parameters of these securities were established in compliance with the applicable legislation, which set interest rates and maturities for each bond issue:

Federal loan bonds (OFZ)	Balance sheet value <i>(million rubles)</i>
0% permanent coupon-income OFZ	
due in 2007—2008	458
due in 2015—2016	4,000
due in 2020—2021	4,508
Subtotal	8,966
1% permanent coupon-income OFZ	
due in 2005	10
due in 2019—2023	3,216
Subtotal	3,226
2% permanent coupon-income OFZ	
due in 2005—2009	284
due in 2013—2019	39,643
due in 2020—2029	155,861
Subtotal	195,788
Variable coupon-income OFZ (coupon income is linked to inflation rate written down in federal budget projections for corresponding year)	
due in 2014—2018	24,099
Total	232,079

For terms and conditions of the restructuring of Russian government securities see Note 10.

In accordance with the decisions of the Bank of Russia Board of Directors, made pursuant to Article 79 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia, seeking to protect the interests of depositors, in 1998—2000 bought banks' notes from Sberbank, which repaid household deposits it had taken over from other banks. The reduction of the debt on banks' notes bought by the Bank of Russia resulted from the termination of banks' obligations to the Bank of Russia.

Bank of Russia investments in the shares of Russian and foreign banks are shown below:

(million rubles)

Name of bank	Sum of investment (at acquisition price)	% share in authorised capital (at par)
Vneshtorgbank	42,321	99.95
Sberbank	4,563	60.57
Moscow Narodny Bank, London	6,278	88.89
Eurobank, Paris	3,375	87.03
Ost-West Handelsbank, Frankfurt-am-Main	944	51.62
Donau-bank, Vienna	289	15.00
East-West United Bank, Luxembourg	122	15.00
Total	57,892	—

Letters of comfort were signed with regard to some overseas banks, pledging the Bank of Russia to assume responsibility for maintaining stability and liquidity of these banks.

The Bank of Russia share in the authorised capital of Sberbank was increased in the year under review by 3,464 million rubles as the Bank of Russia Board of Directors made the decision to buy additionally issued Sberbank's shares.

In line with the decisions of its Board of Directors, the Bank of Russia sold Vneshtorgbank, in accordance with the procedure established by legislation, 34% of shares in Donau-bank, 30.4% of shares in Ost-West Handelsbank and 34.01% of shares in East-West United Bank.

6. OTHER ASSETS

	<i>(million rubles)</i>	
	2001	2000
Fixed assets		
Buildings	27,662	25,154
Equipment (including computers, information and data processing systems, furniture, transport, etc.)	23,049	20,261
	50,711	45,415
Uncompleted construction projects	2,260	3,403
Bank of Russia correspondent accounts	11	3,955
Bank of Russia interest claims	4,649	8,074
Settlements with suppliers, contractors and buyers	1,319	1,106
Settlements with CIS and Baltic countries' banks	1,623	1,623
Cash in vaults	2,483	2,022
Sundry settlements with Finance Ministry	352	352
Other	10,689	7,122
	23,386	27,657
Total	74,097	73,072

The decrease in the balance of uncompleted construction resulted from the commissioning of projects relating to the management of cash circulation, and information, telecommunications and security systems created in support of the payment system.

The decrease under the item "Bank of Russia correspondent accounts" resulted from the closing of accounts in national currencies of EMU member countries and a decrease in balances, including a decrease in balances resulting from the transfer of funds to Bank of Russia correspondent accounts, opened in non-resident banks.

The decrease under the item "Bank of Russia interest claims" is principally the result of repayment of interest on foreign currency funds provided by the Bank of Russia to the Finance Ministry through the Vneshekonombank for the timely repayment and service of the Russia's government foreign debt.

Settlements with CIS and Baltic countries' banks reflect the net balance of mutual claims on CIS and Baltic countries' interstate settlements for 1992—1993.

FIXED ASSETS

Fixed assets structure

	Balance sheet value (million rubles)	
	2001	2000
Buildings and other structures	29,813	27,010
Transport facilities	1,471	1,386
Computers, office equipment and furniture	10,361	7,843
Information and data processing systems	6,497	5,087
Equipment	9,655	8,465
Intangible assets	2,125	1,663
Sundry	1,623	1,797
Total	61,545	53,251

The item "Transport facilities" includes the cost of special transport for carrying cash and bank documents.

The increase under the item "Computers, office equipment and furniture" results from the purchase of computer and other systems and devices designed for the automatic storage, search and processing of data in the Bank of Russia payment, operation, information and analysis systems, and facilities to protect banking information.

The item "Equipment" includes the cost of cash-processing, security and similar equipment.

The item "Intangible assets" includes the cost of software products used in settlements, accounting and reporting.

*Fixed capital movement**(million rubles)*

Fixed capital value	
Balance as of January 1, 2001	53,251
Receipts	12,152
Retirement	(3,858)
Balance as of January 1, 2002	61,545
Accrued depreciation	
Balance as of January 1, 2001	7,836
Depreciation deductions	3,782
Depreciation deductions for retired fixed assets	(784)
Balance as of January 1, 2002	10,834
Residual value as of January 1, 2002	50,711

7. FUNDS IN ACCOUNTS WITH BANK OF RUSSIA

	<i>(million rubles)</i>	
	2001	2000
Federal government funds	121,746	81,602
Credit institutions' funds in correspondent accounts	156,507	137,067
Required reserves deposited with Bank of Russia	156,608	124,301
Banks' deposits in Bank of Russia	3,725	20,719
Sundry	252,314	171,625
Total	690,900	535,314

Under 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 and government extra-budgetary funds and regional and local budget funds without charging commission.

The item "Banks' deposits in the Bank of Russia" includes the balances of funds drawn from resident banks that have signed with the Bank of Russia a general agreement on ruble-denominated deposit operations, conducted with the aid of the Reuters-Dealing System, and funds drawn from resident banks at deposit auctions. The decrease in the balance of deposits results from the return of funds to the banks upon the expiry of the terms of the deposit agreements with them.

The item "Sundry" includes the balances of accounts of regional and local budgets, government extra-budgetary funds and other customers of the Bank of Russia. The increase in the value of funds shown in this item chiefly results from growth in the balances of accounts in the Pension Fund and an increase in non-resident banks' funds involved in the transactions to sell securities on the basis of reverse repurchase.

8. FLOAT

	<i>(million rubles)</i>	
	2001	2000
Float	4,211	10,086

Float as of the end of the year includes in the main the funds the Bank of Russia is to transfer to credit institutions and its customers. These funds are accumulated as a result of the time lags in settlements completed by the Bank of Russia in January 2002.

9. OTHER LIABILITIES

	<i>(million rubles)</i>	
	2001	2000
IMF loan	—	79,232
Bank of Russia provisions (see Note 1(h))	89,816	63,483
Deferred revenues from lending operations	18,992	23,992
Deferred yields from government securities	7,014	7,064
Additional pension funds for Bank of Russia employees	10,508	6,223
Sundry	23,992	6,536
Total	150,322	186,530

In 1998, the Bank of Russia received from the International Monetary Fund a loan of SDR3,600 million. A part of this loan (SDR768.49 million) was transferred to the Finance Ministry. In 1999, the Bank of Russia repaid an SDR675.02-million loan due in 1999—2000 and in 2001 an SDR2,156.55-million loan due in 2001—2003. The decrease under this item in the year under review resulted from the repayment of the principal debt to the IMF.

Bank of Russia provisions include 10,706 million rubles set aside in 1998—2001 for loans to banks, 59,322 million rubles for foreign exchange operations, 5,722 million rubles for notes acquired from banks, 1,772 million rubles for debt owed by CIS and Baltic states, 9,454 million rubles for operations with OFZ and other debts and 2,840 million rubles for other active operations (see Note 16).

A provision of 16,034 million rubles was dissolved and included in Bank of Russia income in 2002 after the funds deposited by the Bank of Russia in Vneshtorgbank were returned.

Deferred revenues from lending operations is mainly represented by the debt on interest charged on the loans extended in 1992—1994 by the decision of the Government Commission on Fiscal and Monetary Policy to enterprises in some branches of the economy. This debt was subsequently included in government domestic debt in compliance with Federal Law No. 46-FZ, dated April 24, 1995, “On the Restructuring of the Debt on Centralised Loans to Agribusiness Enterprises and Organisations Delivering (Storing and Selling) Products (Goods) to Regions of the Far North and Regions with the Same Status, and Interest Charged on Them,” Federal Law No. 39-FZ, dated March 31, 1995, “On the Federal Budget for 1995,” Federal Law No. 212-FZ, dated December 27, 1995, “On Amending the 1995 Federal Budget Law” and Federal Law No. 227-FZ, dated December 31, 1999, “On the Federal Budget for 2000.” Under the agreements signed with the Finance Ministry, the Bank of Russia received in 1995 Finance Ministry APK Series notes and in 2000 federal loan bonds.

The decrease in funds recorded under this item results from the repayment of interest on foreign currency funds extended by the Bank of Russia to the Finance Ministry through Vneshekonombank for the timely repayment and service of Russia’s government foreign debt under Federal Law No. 192-FZ, dated December 29, 1998, “On Budget and Tax Policy Priorities” and Federal Law dated February 22, 1999, “On the Federal Budget for 1999.”

Deferred yields from government securities mainly comprises 4,959 million rubles in accrued coupon income unpaid by the Finance Ministry and 1,452 million rubles in interest on Finance Ministry promissory notes and securities.

The Federal Law on the Central Bank of the Russian Federation (Bank of Russia) enables the Bank of Russia to create a pension fund for paying additional pensions to its employees. Implementing this pension scheme, the Bank of Russia complies with the applicable pension legislation. No assets

are allocated to meet obligations under this pension scheme. This pension scheme was organised, taking into consideration the fact that Bank of Russia employees are not civil servants and have no guarantees to which the latter are entitled. It was also taken into account that such schemes are practised by central banks in other countries. The increase in the funds recorded under this item resulted from the formation of pension funds for Bank of Russia employees in accordance with the indicative actuarial evaluation of Bank of Russia pension obligations, conducted by an external actuary.

Funds shown under the item “Sundry” include 5,236 million rubles received from Vneshekonombank in late 2001. In 2002, these funds were included in Bank of Russia income after the Bank of Russia, Ministry of Finance and Vneshekonombank had signed Agreement No. 01-01-06/26-370, dated April 29, 2002, “On Prolonging the Term of the Loans Extended by Vneshekonombank to the Finance Ministry of the Russian Federation from the US Dollar Funds Received from the Central Bank of the Russian Federation in 1998—1999 for the Implementation of Urgent Repayment and Service of Russia’s Government Foreign Debt.”

10. RELATIONS BETWEEN BANK OF RUSSIA AND MINISTRY OF FINANCE

The relations between the Bank of Russia and Ministry of Finance in 2001 were regulated by Federal Law No. 150-FZ, dated December 27, 2000, “On the Federal Budget for 2001,” Federal Law No. 145-FZ, dated December 25, 2000, “On Amending the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues,” Government Resolution No. 255, dated March 30, 2001 “On Measures to Implement the 2001 Federal Budget Law,” and Statement by the Government and Central Bank “On the Economic Policy for 2001 and Some Aspects of the Medium-Term Development Strategy,” approved by the Bank of Russia on April 6, 2001, and by the Russian Government on April 13, 2001. The aim of these relations was to co-ordinate the budget and monetary policies and complete the restructuring of the Finance Ministry’s debt to the Bank of Russia.

In pursuance of Articles 87 and 88 of the 2001 Federal Budget Law and Article 110 of the 2000 Federal Budget Law, the Ministry of Finance and Bank of Russia in 2001 restructured the Finance Ministry’s debt to the Bank of Russia to the amount of 3,859 million rubles. The following papers were restructured:

- Finance Ministry’s notes and interest due on them, including Finance Ministry’s Series III-APK notes owned by the Bank of Russia as of January 1, 2001, and due before December 31, 2001, were restructured into permanent coupon-income federal loan bonds with a total balance sheet value of 3,849 million rubles, falling due from 2019 to 2023 and bearing an interest of 1% to 2% p.a.;
- Bank of Russia-held RSFSR government domestic loan bonds issued in 1991 were restructured into permanent-income federal loan bonds (OFZ-PD) with a total balance sheet value of 10 million rubles, falling due in 2005 and bearing an interest of 1% p.a.

In addition, in pursuance of Article 87 of the 2001 Federal Budget Law, the Bank of Russia and Ministry of Finance in 2001 signed an agreement on the restructuring into OFZ-PD bonds of the Finance Ministry’s Series IV-APK notes with a balance sheet value of 627 million rubles. After their examination by experts, the notes are to be restructured into bonds falling due from 2019 to 2023 and bearing an interest of 1% p.a.

The restructuring of the Finance Ministry’s debt to the Bank of Russia in pursuance of the aforementioned articles of the 2000 Federal Budget Law and 2001 Federal Budget Law completed the restructuring of Bank of Russia-owned government securities, which began in 1999, into permanent coupon-income federal loan bonds.

The Finance Ministry’s ruble-denominated debt to the Bank of Russia, with its balance sheet value of 250,689 million rubles as of January 1, 2002, did not change in 2001.

The balance-sheet value of the Finance Ministry's foreign currency debt to the Bank of Russia amounted to 208,396 million rubles as of January 1, 2002, which represents an increase of 19,749 million rubles over the year. This increase is the result of the changes in the exchange rates of foreign currencies against the Russian ruble and also operations conducted by the Bank of Russia in 2001 to buy Russian government securities denominated in foreign currency.

The structure of the debt is shown below:

	<i>(million rubles)</i>	
	2001	2000
Russian government debt obligations	263,708	256,464
Bank of Russia funds transferred to Vneshekonombank for extending loans to Finance Ministry for foreign debt repayment and service (see Note 4)	192,224	179,719
CIS and Baltic states' debt on interest on overdrafts and interstate settlements	2,801	2,801
Debt on overdrafts	352	352
Total	459,085	439,336

Russian government debt obligations

The Russian government debt obligations comprise:

- permanent and variable coupon-income federal loan bonds received by the Bank of Russia as a result of the restructuring, which began in 1999 in compliance with federal law, of government securities and other debts owed by the Finance Ministry to the Bank of Russia, and permanent coupon-income federal loan bonds acquired by the Bank of Russia in 1999 under Article 3 of the 1999 Federal Budget Law, with a total balance sheet value of 232,079 million rubles. Compared to January 1, 2001, the balance sheet value of the federal loan bonds rose by 3,859 million rubles;
- Finance Ministry promissory notes with a balance sheet value of 15,457 million rubles. Compared to January 1, 2001, the balance sheet value of Finance Ministry's notes declined by 3,849 million rubles as a result of the restructuring of Finance Ministry's notes into OFZ-PD bonds, in pursuance of Article 87 of the 2001 Federal Budget Law and Article 110 of the 2000 Federal Budget Law. The total amount of the Finance Ministry's notes in the Bank of Russia portfolio as of January 1, 2002, comprises:
 1. Finance Ministry's notes received by the Bank of Russia as a result of the restructuring into Russian government debt in 1994—1996 in pursuance of Russian Federation legislation of the debt on centralised loans and accrued interest on them due in 2002—2006;
 2. Finance Ministry's APK Series notes due in 2001—2005;
- other debt obligations with a balance sheet value of 16,172 million rubles include government domestic foreign currency loan bonds and Russia's external foreign currency loan bonds.

CIS and Baltic states' debt on interest on overdrafts and interstate settlements

As of January 1, 2002, the debt owed by CIS and Baltic states on interest on overdrafts amounted to 2,475 million rubles and on interstate settlements 326 million rubles.

Finance Ministry's debt on overdrafts

The Finance Ministry's debt to the Bank of Russia on overdrafts, valued at 352 million rubles, resulted from the transfer by Ukraine, Moldova and Armenia in 1996—1998 of funds in repayment of debt owed by these countries to the Bank of Russia, to the Finance Ministry's federal budget accounts. It is shown under the item "Other assets."

11. INTEREST INCOME

	<i>(million rubles)</i>	
	2001	2000
Interest revenues from foreign currency loans and deposits	19,241	27,044
Interest revenues from ruble loans extended to banks	337	792
Interest yields from securities*	16,958	—
Sundry	13	12
Total	36,549	27,848

* This item includes interest (coupon) yields from operations with securities. The Bank of Russia financial statements for 2000 included yields from these operations, valued at 10,552 million rubles, in the item “Yields from operations with securities,” of which “Yields from operations with securities denominated in foreign currency” amounted to 8,332 million rubles and “Yields from operations with ruble-denominated debt instruments” amounted to 2,220 million rubles.

12. YIELDS FROM OPERATIONS WITH SECURITIES

	<i>(million rubles)</i>	
	2001	2000
Yields from operations with securities denominated in foreign currency	20,294	19,713
Yields from operations with ruble-denominated Russian government debt instruments	—	2,268
Sundry	64	48
Total	20,358	22,029

This item includes yields from re-sale and redemption of foreign currency-denominated securities and yields from operations with banks' notes. The increase in the item “Yields from operations with securities denominated in foreign currency” resulted from yields received from investment of foreign exchange reserves in highly liquid foreign government securities.

13. OTHER INCOME

	<i>(million rubles)</i>	
	2001	2000
Realised difference in rates of exchange	1,492	1,463
Income from hedging currency risk on upcoming interest payments	—	10
Payment for settlement services provided by Bank of Russia	442	204
Fines and penalties received	40	82
Compensation by customers of telegraph and other expenses	24	45
Incomes of previous years discovered in reporting year	217	209
Sundry	1,192	756
Total	3,407	2,769

14. INTEREST EXPENSES

	<i>(million rubles)</i>	
	2001	2000
Interest expenses on IMF loan	3,604	4,223
Interest expenses on bank deposits	3,624	5,960
Interest expenses on repo operations*	890	—
Sundry	6	154
Total	8,124	10,337

* This item includes interest expenses in foreign currency on repo operations. In the Bank of Russia financial statements for 2000 interest expenses on repo operations to the amount of 147 million rubles were included in other operating expenses.

15. EXPENSES INVOLVED IN MANAGING CASH CIRCULATION

	<i>(million rubles)</i>	
	2001	2000
Expenses involved in managing cash circulation	2,597	2,207
Total	2,597	2,207

This item includes the expenses involved in manufacturing and destroying banknotes and coins, protecting them against counterfeiting, and buying and delivery of packing and expendable materials necessary for the technical processing of cash.

16. NET EXPENSES ON PROVISIONS

	<i>(million rubles)</i>	
	2001	2000
Provisions for loans extended to banks	(1,895)	(2,911)
Provisions for operations in foreign currency	18,951	33,466
Provisions for notes acquired from banks	(143)	31
Provisions for debts owed by CIS and Baltic states	—	911
Provisions for operations with OFZ and other debts	9,454	—
Total	26,367	31,497

In line with the decisions taken by the Bank of Russia Board of Directors, the Bank of Russia in the year under review made provisions for possible losses from operations with permanent coupon-income federal loan bonds it received in 2000 under an agreement with the Finance Ministry, and for the debt that arose as a result of the transfer by Ukraine, Moldova and Armenia of funds to the Finance Ministry's federal budget accounts as payment for the debt on overdrafts these countries owed to the Bank of Russia. The negative value of net expenses on provisions for loans and notes acquired from banks reflects a decrease in the provisions made earlier and their restoration to Bank of Russia's income in connection with the termination of banks' obligations to the Bank of Russia.

17. OTHER OPERATING EXPENSES

	<i>(million rubles)</i>	
	2001	2000
Expenses on operations with securities	858	1,684
Depreciation expenses	3,490	2,771
Expenses on operations with foreign currency*	4,397	869
Repairs of fixed assets, and low-cost and quick-wearing articles	1,500	1,139
Postal, telegraphic and telephone expenses and expenses on lease of communication lines and channels	1,051	1,083
Security expenses	949	795
Expenses on maintenance of computer hardware and software systems and information and computer services	1,193	775
Expenses on delivery of bank documents and valuables	799	642
Expenses on maintenance of buildings and other structures	842	584
Expenses on legal services (stamp duty and legal costs)	8	200
Sundry	5,141	1,867
Total	20,228	12,409

Increment under the item "Sundry" resulted from Bank of Russia expenses involved in hedging operations with foreign currency and creating a pension fund for Bank of Russia employees in accordance with an indicative actuarial evaluation of Bank of Russia pension obligations, made by an external actuary.

* See Note 14.

18. PERSONNEL COSTS

	<i>(million rubles)</i>	
	2001	2000
Compensation of employees	16,678	9,844
Deductions to extra-budgetary funds	4,258	3,883
Sundry	119	—
Total	21,055	13,727

Expenses under the item “Sundry” include the expenses involved in personnel training and other expenses connected with the raising of qualification levels of Bank of Russia employees. In the financial statements for 2000 these expenses to the amount of 86 million rubles were included in “Wages and salaries.”

The listed average number of Bank of Russia employees in 2001 was 81,841. The average monthly compensation of Bank of Russia employees in 2001 was 16,982 rubles.



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AUDITOR'S REPORT
BY AUDIT FIRM UNICON / MS CONSULTANCY GROUP
ON ACCURACY OF FINANCIAL STATEMENTS
BY CENTRAL BANK OF RUSSIAN FEDERATION (BANK OF RUSSIA)
FOR THE YEAR ENDED DECEMBER 31, 2001

CONCLUSION

We have audited the enclosed financial statements by the Central Bank of the Russian Federation, comprised of the Consolidated Balance Sheet as of January 1, 2002, Profit and Loss Account and Report on Capital, Funds and Profit Allocation for the year ended December 31, 2001, and the accompanying Notes, included in Section III of the Annual Report (hereinafter referred to as the financial statements), in compliance with Resolution No. 2277-III GD of the State Duma of the Federal Assembly of the Russian Federation, dated December 21, 2001, "On the Auditor of the Annual Report of the Central Bank of the Russian Federation for 2001."

The Bank of Russia financial statements are compiled in compliance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Federal Law on Accounting and Bank of Russia Accounting Rules No. 66, dated September 18, 1997. In conformity with applicable legislation, the Bank of Russia is independent in its choice of an accounting policy to record operations in balance sheet accounts and compile financial statements. The main principles of the Bank of Russia accounting policy are to make the accounting at original cost (except revaluation of foreign currency funds, investment in government securities and revaluation of fixed assets) and record income and expenses in the process of their receipt or payment.

Responsibility for proper accounting and the compiling and accuracy of the financial statements and data on the basis of which we have formed our judgement and for the safe keeping of assets and prevention of abuse and infractions of law rests with Bank of Russia management. We are responsible for drawing an independent certificate, expressing our opinion on accuracy of all material aspects of the aforesaid financial statements, based on the results of the audit we have conducted.

We have conducted our audit in compliance with the Federal Law on Auditing Activities and Federal Law on the Central Bank of the Russian Federation (Bank of Russia), auditing rules (standards)

approved by the Russian President's Commission on Auditing Activities (Russian Government Resolution No. 80, dated February 6, 2002, "On Questions Relating to the State Regulation of Auditing Activities in the Russian Federation") and intracompany auditing standards.

We planned and conducted our audit so that we could be sufficiently certain that the financial statements presented contained no significant distortions.

Our audit included an evaluation of the management system, carried out with the purpose of ascertaining that it corresponded to the objectives and tasks of the Bank of Russia, and an assessment of the Bank of Russia internal control system, conducted with the purpose of ascertaining that the extent of its organisation and formalisation corresponded to the nature and amount of operations conducted by the Bank of Russia. We have checked on a random basis the documents confirming numerical data and explanatory notes to the Bank of Russia financial statements for 2001. We have not participated in the stock-taking of Bank of Russia assets, but we have implemented controlling procedures to verify its results.

We believe that the work we have done gives us sufficient reason to express our opinion about the accuracy of the Bank of Russia financial statements and draw our conclusion.

A major restriction on the amount of our work and on this auditor's report was that our access to some operations and items of the Bank of Russia financial statements was limited by the Russian Federation State Secrecy Law. These operations and items involve considerable sums that cannot be verified by external auditors. Taking this circumstance into consideration, we are unable to express our opinion about the accuracy of some items of the Consolidated Balance Sheet and Profit and Loss Account, which contain data on the reserves of gold and other precious metals, a part of loans, budget funds and float, foreign currency funds and securities partly placed with non-residents, income and expenses, operations conducted by the Field Operations Department and some other operations. The corresponding items and operations were audited by the Audit Chamber of the Russian Federation in compliance with Resolution No. 2277-III GD of the State Duma of the Federal Assembly of the Russian Federation, dated December 21, 2001, "On the Auditor of the Annual Report of the Central Bank of the Russian Federation for 2001." Therefore, in this respect, we trust to the opinion of the Audit Chamber of the Russian Federation. The aforementioned operations and items involve 76,949 million rubles worth of assets and 14,402 million rubles worth of liabilities and an income worth 34,354 million rubles and expenses worth 3,642 million rubles.

In addition, we had no full access to the minutes of the Bank of Russia Board meetings held after January 1, 2002, before the signing of this report, but we trust to the assurances of Bank of Russia management that the decisions taken by the Board of Directors after January 1, 2002, had no effect on the audited financial statements for 2001.

In the course of our audit, we have ascertained the corrections related to the reduction of previously made provisions for possible losses and provisions for deposits worth a total of 1,841 million rubles, which the Bank of Russia entered in accounting records in compliance with the decisions of the Bank of Russia Board of Directors of May 8, 2002 (minutes No. 11) and May 14, 2002 (minutes No. 12) and included in Bank of Russia income for 2001.

In the course of our audit, we have ascertained corrections which the Bank of Russia has not shown in its accounting records and financial statements for 2001, such as the dissolution in the Consolidated Balance Sheet of previously made provisions and the corresponding reduction under the item of "Net Expenses on Provisions" in the Profit and Loss Account to the amount of 11,453 million rubles

on a deposit placed with a commercial bank. In the opinion of the Bank of Russia, the provisioning in that case required a special approach to the evaluation of the risk of non-payment on that deposit.

It is our view, which is based on the calculations we have made, the economic substance of the operations conducted and the formal criteria established by the Bank of Russia and regulating the procedure for calculating risk on assets, that the Bank of Russia has overrated the risk of non-payment on the deposit, which fact is confirmed by developments that occurred after the date of compiling the financial statements.

The correction proposed by the Auditor was rejected by the Bank of Russia Board of Directors (minutes No. 12, dated May 14, 2002).

Taking into consideration that this case is not regulated by applicable legislation, that international practices differ in this respect and that we have received proof of the fact that in 2002 the aforementioned provision was dissolved by the Bank of Russia and included in its income for 2002, we do not believe that our differences with the Bank of Russia, however significant, require us to declare the Bank of Russia financial statements untrustworthy.

Setting aside any changes that should have been made in the absence of the aforementioned restrictions on the amount of our work and taking into consideration the reservations made above, we believe that the enclosed financial statements are accurate, that is, compiled so that they reflect in all their material aspects Bank of Russia assets and liabilities as of January 1, 2002, and the financial results of Bank of Russia activities for 2001 in compliance with the requirements of the applicable legislation pertaining to Bank of Russia activities.

Director-General

A.Yu. Dubinsky

Director for Banking Audit and Partner

V.M. Volkov



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AUDITOR'S REPORT

**BY AUDIT FIRM UNICON / MS CONSULTANCY GROUP ON SECTIONS OF ANNUAL REPORT
BY CENTRAL BANK OF RUSSIAN FEDERATION (BANK OF RUSSIA) FOR 2001,
INCLUDING ANALYSIS OF ECONOMIC AND FINANCIAL SITUATION IN RUSSIA IN 2001
AND BANK OF RUSSIA ACTIVITIES TO IMPLEMENT MONETARY AND EXCHANGE RATE POLICY**

CONCLUSION

Pursuant to Resolution No. 2277-III of the State Duma of the Federal Assembly of the Russian Federation, dated December 21, 2001, "On the Auditor of the Annual Report of the Central Bank of the Russian Federation for 2001," we have conducted an audit of the Annual Report of the Central Bank of the Russian Federation for 2001, which comprised, pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the analysis of the state of the Russian economy, including the analysis of currency circulation and credit, the banking system, Russia's foreign currency position and balance of payments and the list of measures taken by the Bank of Russia in pursuit of the single state monetary policy.

We have conducted our audit in compliance with the Federal Law on Auditing Activities and Federal Law on the Central Bank of the Russian Federation (Bank of Russia), audit rules (standards) approved by the Russian President's Commission on Auditing Activities (Russian Government Resolution No. 80, dated February 6, 2002, "On Questions Relating to the State Regulation of Auditing Activities in the Russian Federation") and intracompany audit standards.

Bank of Russia management is responsible for compiling and presenting the Annual Report and other documents, on the basis of which the Auditor's opinion is formed. We are responsible for drawing an independent certificate on the Bank of Russia Annual Report, based on audit results.

The analysis procedures used in examining data included in the Bank of Russia Annual Report (sub-sections I.1—I.4, II.1 and II.2) included a verification of internal documents and a random check-up of the correctness of calculation of indicators relating to the corresponding sub-sections of the Annual Report.

We believe that we have done enough work to be able to express an opinion and draw a certificate on Bank of Russia activities in 2001 relating to the analysis of Russia's economic and financial situation, the elaboration and implementation of the monetary and foreign exchange policies, the compiling of balance of payments statistics and calculation of indicators included in the Bank of Russia Annual Report for 2001.

We consider it necessary to make the following statement on the legislation regulating Bank of Russia activities, data presented in the Bank of Russia Annual Report for 2001 and the specific organisational aspects of Bank of Russia activities.

The co-operative efforts made by the Bank of Russia and the Russian government in jointly elaborating and implementing the monetary policy are legislatively regulated by the Russian Constitution (Article 114) and Federal Law on the Central Bank of the Russian Federation (Articles 4 and 5). While elaborating and implementing the single state monetary policy in collaboration with the Russian government (Article 4), the Bank of Russia is independent within the ambit of the powers granted to it by the Russian Constitution and federal laws (Article 5). The Bank of Russia is free to determine the requirements for the content and volume of information it discloses in the Guidelines for the Single State Monetary Policy and its Annual Report. Additional analytical materials on the current economic situation and the effect of the measures taken by the Bank of Russia in attaining the objectives and meeting the targets of the monetary and foreign exchange policies are submitted by the Bank of Russia directly to the Russian President, the Government and the State Duma of the Federal Assembly of the Russian Federation.

The activities of the Bank of Russia and interaction of its departments in fulfilling the tasks assigned to the Bank of Russia are regulated in the main by the provisions on its structural units, the functional duties of employees, instructions and orders of the corresponding executives, and by the established practice. The Bank of Russia has evolved a system based on the use of expert judgments at all levels of management and the collegium principles.

Verifying analytical calculations made by the Bank of Russia, the Auditor had to rely on oral explanations of Bank of Russia employees. The documents requested by the Auditor were provided on a limited basis as a rule for reasons of confidentiality. Therefore, we formed our opinion with respect to veracity of data included in the Bank of Russia Annual Report for 2001, taking this circumstance into consideration.

Building upon the results of the audit we have conducted, we express the following opinion on the audited sections of the Bank of Russia Annual Report.

The activities conducted by the Bank of Russia in 2001 in analysing the economic and financial situation in Russia, elaborating and implementing the monetary and foreign exchange policies, compiling balance of payments statistics and calculating indicators presented in its Annual Report for 2001 were in conformity with applicable Russian legislation and Bank of Russia internal rules and regulations. The organisational and functional support and the volume of information used in calculations were sufficient and allowed the Bank of Russia to accomplish the tasks described above. The practices and methodologies used in the Bank of Russia in elaborating the monetary and foreign exchange policies were adequate, allowing the Bank of Russia to fulfil the functions assigned to it by legislation, and matched international practices and standards.

The Bank of Russia Annual Report for 2001 reflects fully enough the results of the implementation by the Bank of Russia of the monetary and foreign exchange policies in 2001, balance of payments statistics and Russia's foreign debt. Bank of Russia conclusions on the results of Russia's economic development in 2001 are substantiated on the whole and thorough enough. Indicators presented in the Annual Report are calculated without palpable errors.

By and large, the results of Russia's economic development in 2001 and the implementation of the monetary and foreign exchange policies matched the projections made in the Guidelines for the Single State Monetary Policy for 2001, except the inflation rate and money supply growth.

The information provided by the Bank of Russia on the economic and financial situation in Russia, the implementation of the monetary and foreign exchange policies, the compiling of balance of payments statistics and the dynamics of indicators included in the Bank of Russia Annual Report for 2001 is transparent enough. At the same time, the Bank of Russia sets some limits on transparency in the interest of stability of the financial markets and national security.

Examining other data presented in the Bank of Russia Annual Report, which are not a part of the financial statements, we have not discovered any facts indicating to the existence of any discrepancies in any material aspects with other data presented in the Bank of Russia Annual Report and financial statements.

Director-General

A.Yu. Dubinsky

Director for Banking Audit and Partner

V.M. Volkov



THE AUDIT CHAMBER
OF THE RUSSIAN FEDERATION

AUDITOR

121901 Moscow, GSP-2, 2 Zubovskaya St.

May 7, 2002

No. 06-82/06-3

To **S.M. Ignatyev**

**Chairman
of the Central Bank
of the Russian Federation**

STATEMENT
on the Results of the Audit of the Accounts and Operations
of the Central Bank of the Russian Federation
Covered by the Russian Federation State Secrecy Law
for the Period from January 1 to December 31, 2001

Pursuant to Resolution No. 2277-III GD of the State Duma of the Federal Assembly of the Russian Federation, dated December 21, 2001, the Audit Chamber of the Russian Federation has audited Bank of Russia accounts and operations covered by the Russian Federation State Secrecy Law for the period from January 1 to December 31, 2001. These accounts and operations are included in the Consolidated Balance Sheet and Profit and Loss Account as of January 1, 2002.

This Statement on the results of the audit of Bank of Russia accounts and operations covered by the Russian Federation State Secrecy Law for the period from January 1 to December 31, 2001 was endorsed by the decision of the Audit Chamber Collegium, dated May 7, 2002 (Minutes No. 16 (299)).

The compiling and presentation of the aforementioned Balance Sheet, Profit and Loss Account and documents on the basis of which the Audit Chamber forms its opinion are the responsibility of Bank of Russia management. The Audit Chamber is responsible for compiling on the basis of audit results a statement with regard to Bank of Russia operations covered by the Russian Federation State Secrecy Law.

The audit was conducted in collaboration with Unicon/MS Consultancy Group, auditor of the Bank of Russia Annual Report, on the basis of and strictly in compliance with:

- the Federal Law on the Audit Chamber of the Russian Federation;
- the Federal Law on the Central Bank of the Russian Federation (Bank of Russia);
- the Russian Federation State Secrecy Law.

The Federal Law on the Central Bank of the Russian Federation (Bank of Russia) stipulates that the Bank of Russia is independent in elaborating its accounting policy and establishing operating, accounting and reporting rules for the banking system. The main principles of the Bank of Russia accounting policy are to make the accounting at original cost (taking into consideration the specifics of the revaluation of foreign currency assets and investments in government securities and

the accounting of fixed assets) and to show income and expenses in the Profit and Loss Account on the cash basis, that is, after income has been actually received and expenses have been actually made.

In the course of the audit the Bank of Russia internal control system was tested to make sure that its standard of management corresponded to the nature and volume of operations conducted by the Bank of Russia.

In the opinion of the Audit Chamber, the Balance Sheet and Profit and Loss Account as of January 1, 2002, are compiled in all their material aspects in compliance with applicable legislation relating to Bank of Russia's activities and fairly present Bank of Russia's assets, liabilities, income and expenses covered by the Russian Federation State Secrecy Law and pertained to the competence of the Audit Chamber of the Russian Federation.

The Audit Chamber of the Russian Federation certifies the data contained in Bank of Russia Consolidated Balance Sheet as of January 1, 2002.

Assets	(million rubles)
1. Precious metals	58,288
2. Foreign exchange and foreign currency-denominated securities deposited with non-residents	5,195
3. Loans and deposits, of which:	2,761
3.1. loans extended to resident organisations	13
4. Securities, of which:	4,255
4.1. Russian government securities	4,255
5. Other assets, of which:	6,450
5.1. fixed assets	261
TOTAL	76,949

Liabilities	(million rubles)
2. Funds in accounts with Bank of Russia, of which:	10,065
2.1. Russian government funds	0
2.2. funds of resident credit institutions	420
3. Float	—1,729
4. Other liabilities, of which:	6,059
5. Capital, including:	7
5.2. reserves and funds	7
TOTAL	14,402

The Audit Chamber certifies the Profit and Loss Account with respect to income and expense operations covered by the Russian Federation State Secrecy Law.

Income	(million rubles)
Interest income	938
Yields from operations with securities	0
Income from operations with precious metals	33,011
Dividend received from stakes and shares	0
Other income	405
TOTAL INCOME	34,354

Expenses	(million rubles)
Interest expenses	6
Expenses involved in managing currency circulation	2,548
Expenses on operations with precious metals	284
Other operating expenses	134
Personnel costs	670
TOTAL EXPENSES	3,642

In the period from January 1, 2001, up to December 31, 2001, 177,377.3 million rubles were put into circulation.

The Audit Chamber of the Russian Federation certifies that this amount corresponds to the amount deduced on the basis of the accounting data contained in off-balance sheet account No. 904 "Banknotes and Coins in Bank of Russia Institutions Throughout Russia."

S.O. Shokhin

ADDENDA

IV

MAJOR STEPS TAKEN BY THE BANK OF RUSSIA IN 2001 TO IMPLEMENT THE SINGLE STATE MONETARY POLICY

I. REQUIRED RESERVES, REFINANCING OF BANKS AND BANK OF RUSSIA DEPOSIT OPERATIONS

REQUIRED RESERVES. To improve the procedure for the creation of required reserves, the Bank of Russia issued the following regulations in 2001:

- Directive No. 956-U, dated April 23, 2001, “On Amending Bank of Russia Provision No. 37, dated March 30, 1996, ‘On the Required Reserves Deposited by Credit Institutions with the Central Bank of the Russian Federation;’”
- Directive No. 957-U, dated April 23, 2001, “On Amending Bank of Russia Provision No. 51, dated November 4, 1996, ‘On the Required Reserves Deposited by the Savings Bank of the Russian Federation with the Central Bank of the Russian Federation;’”
- Directive No. 1059-U, dated December 3, 2001, “On Amending Bank of Russia Provision No. 37, dated March 30, 1996, ‘On the Required Reserves Deposited by Credit Institutions with the Central Bank of the Russian Federation;’”
- Directive No. 919-U, dated February 16, 2001, “On the Procedure for Supervising the Observance of Reserve Requirements by the Savings Bank (Sberbank).”

The aforementioned directives changed the list of balance sheet accounts involved in the calculation of the required reserves; introduced a standard requiring the inclusion in calculation of the balances of the borrowings (liabilities) made by credit institutions in foreign currency on non-working days (holidays) at the official exchange

rate set by the Bank of Russia on the last working day, which remains effective on all the subsequent days up to the day inclusive on which the Bank of Russia sets a new exchange rate; specified the procedure for presenting supplements (interpretations) to the required reserve calculations; specified the procedure for making required reserves by credit institutions no longer controlled by the government-run Agency for Restructuring of Credit Organisations (ARCO).

DEPOSIT OPERATIONS. To upgrade the procedure for conducting deposit operations by the Bank of Russia, the latter issued the following regulations in 2001:

- Directive No. 899-U, dated January 11, 2001, “On Amending Bank of Russia Provision No. 67-P, dated January 13, 1999, ‘On the Procedure for Conducting Deposit Operations with Resident Banks by the Central Bank of the Russian Federation in the Russian Federation Currency;’”
- Directive No. 931-U, dated March 7, 2001, “On Amending Bank of Russia Provision No. 67-P, dated January 13, 1999, ‘On the Procedure for Conducting Deposit Operations with Resident Banks by the Central Bank of the Russian Federation in the Russian Federation Currency;’”
- Directive No. 1022-U, dated August 23, 2001, “On Amending Bank of Russia Provision No. 67-P, dated January 13, 1999, ‘On the Procedure for Conducting Deposit

Operations with Resident Banks by the Central Bank of the Russian Federation in the Russian Federation Currency;”

- Directive No. 1080-U, dated December 28, 2001, “On Amending Bank of Russia Provision No. 67-P, dated January 13, 1999, ‘On the Procedure for Conducting Deposit Operations with Resident Banks by the Central Bank of the Russian Federation in the Russian Federation Currency.’”

The aforementioned Bank of Russia directives formulated more precisely the criteria for giving access to banks to deposit operations conducted by the Bank of Russia and the procedure for charging penalties for non-fulfilment of obligations on deposit operations conducted by banks and the Bank of Russia; established the procedure for conducting deposit operations by the Bank of Russia, using the Reuters Dealing System on the standard “demand” condition and the procedure for making the accounting of Bank of Russia deposit operations according to the accrual basis.

In line with the decision by the Bank of Russia Monetary Policy Committee to conduct deposit auctions for resident banks in the Russian currency, the Bank of Russia issued operating directives No. 71-T, dated June 15, 2001, No. 82-T, dated July 6, 2001, No. 121-T, dated October 3, 2001, and No. 138-T, dated November 28, 2001, describing the terms and conditions of holding deposit auctions.

REFINANCING OF BANKS. To harmonise rules and standards regulating the procedure for refinanc-

ing banks by the Bank of Russia, the latter drafted and enacted as of January 5, 2001, Directive No. 896-U “On Invalid Bank of Russia Regulatory Documents.”

The Bank of Russia issued Directive No. 1000-U, dated July 17, 2001, “On the List of Securities Accepted as Collateral for Bank of Russia Loans” and Directive No. 1001-U, dated July 17, 2001, “On Bank of Russia Correction Factors Used to Adjust the Market Value of Securities Accepted as Collateral for Bank of Russia Loans.”

To upgrade the procedure for extending Bank of Russia loans against collateral and warranties, the Bank of Russia issued the following regulations:

- Directive No. 936-U, dated March 23, 2001, “On Amending Bank of Russia Provision No. 122-P, dated October 3, 2000, ‘On the Procedure for Extending Bank of Russia Loans to Banks Against Collateral and Warranties;’”
- Directive No. 1082-U, dated December 28, 2001, “On Amending Bank of Russia Provision No. 122-P, dated October 3, 2000, ‘On the Procedure for Extending Bank of Russia Loans to Banks Against Collateral and Warranties;’”
- Directive No. 1081-U, dated December 28, 2001, “On Amending Bank of Russia Instruction No. 842-U, dated October 3, 2000, ‘On the Enacting of Bank of Russia Rules and Standards Regulating the Granting of Loans to Banks Against Collateral and Warranties.’”

2. RELATIONS WITH THE FEDERAL BUDGET

In 2001, the Finance Ministry and Bank of Russia completed the restructuring of government securities in the Bank of Russia portfolio, launched in 1999 in compliance with applicable legislation, into permanent coupon-income federal loan bonds worth a total of 5.83 billion rubles at par and falling due in 2005 to 2023.

To implement the Concept of a Single Federal Treasury Account and improve the regulatory framework for a transition to such an account,

the Bank of Russia drafted jointly with the Finance Ministry and Ministry of Taxes and Duties 14 regulatory documents, including:

- Ministry of Finance and Bank of Russia Provisions Nos. 101n and 162-P, dated November 29, 2001, “On the Procedure for Transferring by the Ministry of Finance Federal Treasury Regional Divisions of Federal Budget Revenues Collected in the Russian Regions for the Financing of Federal Budget Expendi-

tures,” and Nos. 102n and 166-P “On the Procedure for Transferring Federal Budget Revenues for the Financing of Federal Budget Expenditures on the Accounts Opened for the Ministry of Finance Main Federal Treasury Department in the Bank of Russia First Operations Department;”

- Ministry of Finance, Ministry of Taxes and Duties and Bank of Russia Provisions Nos. 98n, BG-6-10/893 and 163-P, dated November 29, 2001, “On the Procedure for Closing Accounts Opened in Credit Institutions (Branches) in Balance Account No. 40104 ‘Federal Budget Revenues Transferred to the Transit Account in Bank of Russia Branches’” and Nos. 99n, BG-6-10/892 and 164-P “On the Procedure for Closing Transit Accounts Opened in the Units of the Bank of Russia Settlement Network in Balance Account No. 40102 ‘Federal Budget Revenues.’”

In addition, to upgrade the regulatory framework for the servicing of budget accounts and the accounts of government extra-budgetary funds, the Bank of Russia in 2001 drafted 22 regulatory documents, some of them jointly with the Finance Ministry, Ministry of Taxes and Duties and government extra-budgetary funds.

As of January 1, 2002, the Bank of Russia had 114,350 budget revenue and other budget accounts opened in its branches, excluding the accounts opened to record revenues from entrepreneurial and other profit-making activities, of which 6,372 accounts were opened for Federal Treasury bodies. In 2001, the number of such accounts declined 16.5% and 11.0% respectively as federal budget revenues and other funds were centralised in the accounts of Federal Treasury divisions in many Russian regions, transit federal budget revenue accounts were closed and the recipients of budget funds were transferred to the financing through personal accounts opened for them in the Federal Treasury bodies.

3. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

To upgrade the system of foreign exchange regulation and foreign exchange control, the Bank of Russia implemented the following measures in the year under review:

- to simplify the procedure for conducting foreign exchange operations by legal entities and private individuals, the Bank of Russia:
 - introduced the notification procedure for conducting foreign exchange operations by resident legal entities connected with direct investment in CIS countries to the amount equivalent up to \$10 million (Bank of Russia Provision No. 142-P, dated July 5, 2001, “On the Procedure for Conducting Foreign Exchange Operations by Resident Legal Entities Connected with Direct Investment in the Member Countries of the Commonwealth of Independent States”);
 - introduced the notification procedure for conducting foreign exchange operations connected with the taking by residents

(other than credit institutions) of financial loans from non-residents for a term of more than 180 days and the fulfilment of obligations to repay such loans (Bank of Russia Directive No. 1030-U, dated September 10, 2001, “On the Procedure for Conducting Foreign Exchange Operations Connected with the Receipt and Repayment by Resident Legal Entities of Loans Extended by Non-residents in Foreign Currency and for Terms Exceeding 180 Days and on Rescinding and Amending Some Bank of Russia Regulations”);

- expanded the range of foreign exchange operations connected with the movement of capital and conducted without any restrictions (Bank of Russia Provision No. 152-P, dated September 17, 2001, “On Amending Bank of Russia Provision No. 39, dated April 24, 1996, ‘On Amending the Procedure for Conducting Some Foreign Exchange Operations in the Russian Federation’”);

- resident individuals have been granted the right to open accounts for purposes other than those connected with entrepreneurial activities in banks located in the member countries of the Organisation for Economic Co-operation and Development and Financial Action Task Force with the subsequent notification of the tax authorities about the opening of such accounts (Bank of Russia Directive No. 100-I, dated August 29, 2001, “On Resident Individual Accounts in Banks Outside the Russian Federation”);
- to create a system of monitoring foreign exchange operations connected with the taking of financial loans by residents from non-residents and their repayment and to forecast demand for foreign exchange in the domestic market for loan repayment, the Bank of Russia issued regulations for residents (other than credit institutions) on how they should make the accounting of foreign exchange operations (Bank of Russia Directive No. 101-I, dated September 10, 2001, “On the Procedure for Making the Accounting of Resident Foreign Exchange Operations by Authorised Banks, Connected with the Receipt of Foreign Currency Loans from Non-residents and the Extension of Foreign Currency Loans to Non-residents”);
- to counter capital outflow through foreign trade channels
 - on January 1, 2001, the customs and banking foreign exchange control technique was extended to cover import operations involving payments in rubles and using bills for settlements, and practically all customs regimes of import (joint Bank of Russia and State Customs Committee Directive No. 91-I and No. 01-11/28644, dated October 4, 2000, “On the Procedure for Exercising Foreign Exchange Control over the Appropriateness of Payment for Imported Goods by Residents”);
 - the improvements made in the regulatory framework of foreign exchange control over export operations allowed the customs and banking foreign exchange control system to be extended to cover transactions concluded in the customs regimes of “re-export,” “temporary export” and “the processing of goods outside the customs territory” (Bank of Russia and State Customs Committee Provision No. 156-P and No. 01-100/3, dated October 12, 2001, “On Amending Bank of Russia and State Customs Committee Provision No. 101-P and No. 01-23/32005, dated December 22, 1999”).

4. GKO—OFZ MARKET AND OPEN MARKET OPERATIONS

In seeking to diversify its monetary policy instruments, the Bank of Russia in September placed two OBR bond issues. It developed the procedure for conducting modified repo operations, which allowed the Bank of Russia to temporarily sterilise excess banking sector liquidity. The corresponding regulatory documents were issued in January 2002.

To improve the regulation of the procedure for non-resident participation in the GKO—OFZ market, the Bank of Russia issued the following regulatory documents, changing the C-type account regime:

- Provision No. 123-P, dated October 3, 2000, “On the Procedure for Making Foreign Invest-
- Instruction No. 96-I, dated December 28, 2000, “On the Special Non-resident C-type Account.” The document introduced the “project” section of the account, from which direct investment may be made;
- Provision No. 154-P, dated October 12, 2001, “On Amending Bank of Russia Provision

ments in the Russian Economy, Using Funds in Special Non-resident C-type Accounts.” The provision set the term of investment (more than 3 years) and established the form of investment (loans and participation in the authorised capital of Russian enterprises and organisations) and the procedure for making it;

No. 123-P, dated October 3, 2000, ‘On the Procedure for Making Foreign Investment in the Russian Economy, Using Funds in Special Non-resident C-type Accounts.’” The amendment lifted restrictions on the repatriation of income from investment;

- Directive No. 985-U, dated June 27, 2001, “On the Procedure for Entering Dividends and Interest to Special Non-resident (Conversion) C-type Accounts.” The document allowed non-residents to repatriate their dividends from shares and interest income from bonds bought earlier using C-type accounts;
- Directive No. 1043-U, dated November 5, 2001, “On Amending Bank of Russia Directive No. 985-U, dated June 27, 2001, ‘On the Procedure for Entering Dividends and Interest to Special Non-resident (Conversion) C-type Accounts.’” The directive allowed non-residents to repatriate their income from couponless bonds;
- Directive No. 987-U, dated June 27, 2001, “On the Transfer of Funds to and from Special Non-resident (Investment) C-type Accounts and the Duration of Keeping Non-resident Funds in Transit Accounts.” The document granted non-residents the right to transfer funds from their C-type (investment) accounts and, consequently, provided the possibility of entry/exit for foreign partners within the limits of the total amount of non-resident funds;
- Directive No. 991-U, dated July 2, 2001, “On the List of Securities with which Non-residents Conduct Operations Using Special Non-resident C-type Accounts.” The securities in this list, which can be bought using C-type accounts, included corporate bonds of Russian issuers, except credit institutions, local government bonds whose issuer rating is no more than two positions lower than the

sovereign rating and shares of Russian issuers, except credit institutions, included in the Trade Organisers’ first-tier list of quotations.

Bank of Russia Directive No. 1058-U, dated December 3, 2001, amended Bank of Russia Provision No. 53-P, dated August 28, 1998, enabling the Bank of Russia to place OBR bonds by auction as well as by striking deals in the Trade System at a fixed Bank of Russia offered price during the entire placement period.

At the request of the Finance Ministry, the Bank of Russia redeemed RAO VSM bonds in pursuance of Provision No. 19n/136-P, dated March 5, 2001, “On the Procedure for Fulfilling Government Guarantees on the Bonds Issued by the Russian Open Joint-Stock Company, Vysokoskorostnye Magistrali (High-Speed Railways), in 1994—1999.”

To increase GKO—OFZ market liquidity, the Bank of Russia extended the duration of the trading session, dividing it into two parts, while the overall duration of trading rose from 2.5 hours to 3.5 hours. Traders received the opportunity to bring in/take out funds within one day and thus manage more flexibly their money positions. For the same purpose of efficiently managing liquidity, the Bank of Russia permitted direct settlements (without transferring funds to correspondent accounts in the Bank of Russia) between members of the settlement centres of the organised securities market (Bank of Russia Directive No. 977-U, dated June 15, 2001, “On the Upgrading of Settlements between Members of the Settlement Centre of the Organised Securities Market”).

Pursuant to the 2001 Federal Budget Law, a part of Finance Ministry bills and domestic Russian government loan bonds issued in 1991 and owned by the Bank of Russia were restructured into federal loan bonds with a permanent coupon-income of 1% p.a.

MAJOR ACTIONS UNDERTAKEN TO UPGRADE THE BANKING SECTOR

Considerable work was continued in 2001 to draft the Development Strategy of Russia's Banking Sector (hereinafter referred to as the Development Strategy). Approved by a joint statement of the Russian Government and Bank of Russia on December 30, 2001, the Development Strategy has become a fundamental document setting guidelines for Russia's bank-

ing sector development in the next five years. It formulated the practical tasks and priority measures that need be implemented to put into effect the provisions of that document. The principal objective for Russia's banking sector development is to bring Russian banking practices and regulation into line with contemporary international standards.

MEASURES TAKEN TO IMPROVE OFF-SITE SUPERVISION AND INSPECTION OF CREDIT INSTITUTIONS

Efforts were made in 2001 to introduce international standards to Russian banking regulation practices.

The Bank of Russia issued Provision No. 137-P, dated April 12, 2001, "On the Procedure for Creating Reserves for Possible Losses by Credit Institutions," which required making a quantitative evaluation of reserves for risks connected with balance sheet assets (except the assets for which reserves are created in accordance with other Bank of Russia regulations) and off-balance sheet instruments, including forward transactions, using the international reserve creation practice of a reasoned judgement made by a credit institution on the extent of risk exposure.

To harmonise the reporting made by Russian credit institutions with international accounting standards, the Bank of Russia issued Directive No. 902-U, dated January 15, 2001, "On Amending Bank of Russia Instruction No. 17, dated October 1, 1997, 'On Compiling Financial State-

ments,'" which introduced the new report form No. 123 "Monies Flow Data."

To bring Bank of Russia regulatory documents into compliance with the provisions of Federal Law No. 82-FZ, dated June 19, 2001, "On Amending the Federal Law on Banks and Banking Activities," the Bank of Russia issued the following regulations:

- Directive No. 1048-U, dated November 14, 2001, "On Amending Bank of Russia Provision No. 29-P, dated May 12, 1998, 'On Consolidated Statements'" and Bank of Russia Directive No. 1049-U, dated November 14, 2001, "On Amending Bank of Russia Provision No. 47-P, dated July 30, 1998, 'On the Procedure for Using Data Reported by Credit Institutions in Compiling Consolidated Statements of a Banking Group'" which specified the definition of such notions as a banking/consolidated group, parent credit institution/members of a group and substantial influence, expanding the perimeter of consoli-

dation by including in the consolidated statements of banking/consolidated groups data reported by non-credit institutions and establishing the procedure for compiling consolidated statements by credit institutions;

- Directive No. 1027-U, dated August 31, 2001, “On Amending Bank of Russia Instruction No. 59, dated March 31, 1997, ‘On Penalising Credit Institutions for Violation of Prudential Standards,’” which provided for penalties for violation of the reserve requirements for possible losses;
- Directive No. 1032-U, dated September 10, 2001, “On the Deadlines for the Submission of Consolidated Statements by Bank Holding Companies,” which stipulated that bank holding companies should submit consolidated statements beginning from their reports for 2002;
- Directive No. 1051-U, dated November 15, 2001, “On Published Statements by Credit Institutions and Banking Groups,” which required each credit institution and banking group to publish its annual report, capital adequacy data, the amount of reserves for doubtful loans and other assets, calculated on an individual and consolidated basis, and quarterly reports by credit institutions and information on their observance of a number of key requirements established by Bank of Russia regulatory documents.

In 2001, the Bank of Russia worked on clarifying its Provision No. 31-P, dated June 1, 1998, “On the Methodology of Calculating the Own Funds (Capital) of Credit Institutions.” Specifically,

- it clarified the powers of Bank of Russia regional branches to verify the adequacy of some evaluations (revaluations) of property made by credit institutions with the aim of preventing them from overstating their own funds (capital) (Bank of Russia Official Clarification No. 12-OR, dated March 13, 2001) and explained why it was impossible to recognise as a subordinated loan a loan on which the borrower had provided collateral (Bank of Russia Official Clarification No. 15-OR, dated July 3, 2001);
- Directive No. 929-U, dated March 1, 2001, specified the procedure for calculating current-

year profit and loss in the context of observance of the requirements made for credit institutions which had their banking licences revoked (minus reserves and obligations on interest, coupons and discounts on own securities) and explained more precisely the notion “share premium.”

Taking into account the amendments made, the Bank of Russia drafted a new version of Provision No. 159-P, dated November 26, 2001, “On the Methodology of Calculating Own Funds (Capital) by Credit Institutions,” which came into effect as of January 1, 2002.

Bank of Russia Directive No. 930-U, dated March 1, 2001, “On Amending Bank of Russia Instruction No. 1, dated October 1, 1997, ‘On the Procedure for Regulating the Activities of Banks’” made the following changes in the procedure for calculating the required ratios:

- of instant and current liquidity in connection with the opening of balance accounts to record the funds placed and borrowed at call, and
- of maximum risk per borrower or group of related borrowers, including in its calculation claims on factoring operations and claims on forward transactions recorded in the balance sheet, and introduced coefficients for the issuer of securities accepted as collateral for bank loans.

In 2001, the Bank of Russia amended its Instruction No. 62a, dated June 30, 1997, “On the Procedure for Creating and Using Reserves for Possible Loan Losses:”

- it established the procedure (Bank of Russia Operating Directive No. 14-T, dated January 25, 2001) in accordance with which the loans extended by credit institutions from federal budget funds do not require loan loss provisioning if the credit institution performs exclusively the functions of an agent or commissioner;
- Bank of Russia Directive No. 928-U, dated March 1, 2001, “On Amending Bank of Russia Instruction No. 62a, dated June 30, 1997, ‘On the Procedure for Creating and Using Reserves for Possible Loan Losses’” specified the algorithm of indicators and names of the accounts used in this instruction in connection with the amendments made in the Account-

ing Rules for Russia-Based Credit Institutions, dated June 18, 1997.

To facilitate the early detection of banks' problems and use analysis results in determining the system of supervision (including the decision to conduct inspections of banks and determine the subject of such inspections and the nature of supervisory actions to be taken against banks), the Bank of Russia in the year under review continued to upgrade the recommendations worked out in 2000 on the analysis of the financial standing of credit institutions and introduce the Automated Financial Standing Analysis System (AFSAS). In 2001, the AFSAS had a test run in the central office and 22 regional branches of the Bank of Russia.

To thwart the attempts to use the banking system for criminal purposes and to implement the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes, the Bank of Russia in November 2001 drafted (taking into consideration FATF recommendations and international banking practices) and issued the following documents:

- Operating Directive No. 137-T, dated November 28, 2001, "On Recommendations for the Elaboration by Credit Institutions of Internal Control Rules Directed Against the Legalisation (Laundering) of Criminally Obtained Incomes;"
- Provision No. 160-P, dated November 28, 2001, "On the Procedure for Exercising Control by the Bank of Russia over the Observance by Credit Institutions of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes;"
- Provision No. 161-P, dated November 28, 2001, "On the Procedure for Presenting by Credit Institutions to the Authorised Body Information Required by the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes."

Operating Directive No.127-T, dated October 30, 2001, "On Measures Taken by the United States to Prevent the Financing of Terrorism" (with Supplements No. 136-T, dated November 28, 2001, and No. 166-T, dated December 27, 2001) provided credit institutions with lists of organisations and individuals involved in terrorist activities or financing terrorism. This information

should be used by credit institutions in compliance with the applicable Russian legislation.

The following documents were issued to clarify some aspects of the regulation of credit institutions:

- Bank of Russia Operating Directive No. 4-T, dated January 10, 2001, "On the Inclusion in the Calculation of Own Funds (Capital) of Credit Institutions of Growth in the Value of Property as a Result of a Revaluation Made in 2000 Q4 and Certified by an Audit Organisation (Individual Auditor) as Part of Credit Institutions' Statements;"
- Bank of Russia Official Clarification No. 8-OR, dated January 24, 2001, "On Applying Accounting Rules No. 61, dated June 18, 1997, in Credit Institutions Located in the Russian Federation to Extending Mortgage Loans and Conducting Mortgage Operations" explained the procedure for making the accounting of mortgage loans and mortgage operations;
- Bank of Russia Directive No. 909-U, dated January 25, 2001, "On Amending Bank of Russia Directive No. 606-U, dated July 13, 1999, on Creating a Reserve for Operations Conducted by Russian Credit Institutions with Offshore Residents" defined the notion "offshore resident" and introduced the requirement to create a reserve for forward operations conducted by Russian credit institutions with offshore residents;
- Bank of Russia Operating Directive No. 98-T, dated August 3, 2001, served to enhance control over the activities of Bank of Russia regional branches in analysing the performance of credit institutions and evaluating their financial standing.

Upgrading the procedure for registering credit institutions and licensing banking activities

With its Directives No. 1011-U, dated August 6, 2001, and No. 1076-U, dated December 24, 2001, the Bank of Russia spelled out the specifics of the registration of the change in form of the institutional presence of Savings Bank (Sberbank) branches in the banking services market.

Bank of Russia Directive No. 951-U, dated April 12, 2001, established the specifics of the reorganisation (in the form of merger, acquisition

and transformation) of credit institutions under the control of the ARCO.

Bank of Russia Operating Directive No. 75-T, dated June 25, 2001, cancelled the requirement that credit institutions, professional securi-

ties market participants, and their regional branches should present registration forms and statements on granted (suspended and revoked) licences as the Bank of Russia stopped licensing professional securities market participants.

ENHANCING THE EFFICIENCY OF BANKRUPTCY-PREVENTING MEASURES

To increase control over the financial rehabilitation of credit institutions, the Bank of Russia granted them the right to draw up their financial rehabilitation plans with the participation of an audit organisation (individual auditor); enlarged the powers of Bank of Russia regional branches to control the completeness and conformity of the financial rehabilitation plans (package of documents)

presented by credit institutions with Bank of Russia rules and regulations and conduct unscheduled inspections of credit institutions; simplified the procedure for drafting and presenting to the Bank of Russia statements on the implementation of the financial rehabilitation plans by credit institutions (Bank of Russia Directive No. 907-U, dated January 22, 2001).

ENHANCING THE EFFICACY OF LIQUIDATION PROCEDURES IN CREDIT INSTITUTIONS

Bank of Russia Provision No. 146-P, dated August 17, 2001, established the procedure for extending the term and re-registering Bank of Russia qualification certificates granted to the receivers (liquidators) of credit institutions and changed and amended the procedure for issuing, cancelling and invalidating Bank of Russia qualification certificates.

Bank of Russia Provision No. 132-P, dated January 17, 2001, established the grounds on which the Bank of Russia had the right to inspect the activities of receivers (liquidators), required the receivers (liquidators) to co-operate with the Bank of Russia in conducting such inspections and spelled out the powers of the Bank of Russia in applying sanctions against receivers (liquidators) upon the results of inspections.

Bank of Russia Directive No. 953-U, dated April 13, 2001, established the procedure for re-writing the correspondent account of a credit institution in the name of the liquidation commission (receiver, or liquidator), the procedure for keeping and closing such an account, and the procedure in accordance with which a Bank of Rus-

sia regional branch requests the Bank of Russia to start the procedure for recovering uncollectible debt from the liquidated credit institution.

Bank of Russia Directive No. 967-U, dated May 10, 2001, established the procedure for closing separate units of a credit institution after the revocation of its banking licence.

Bank of Russia Directive No. 994-U, dated July 2, 2001, established the procedure in accordance with which the Bank of Russia regional branches should demand the recovery of debt to the Bank of Russia from credit institutions whose banking licence has been revoked, and the procedure for controlling the making of such demands by Bank of Russia regional branches at the domicile of the parent credit institution and its branches.

Bank of Russia Operating Directive No. 44-T, dated March 12, 2001, provided explanations on the legitimacy of concluding by receivers (liquidation commissions or liquidators) contracts which assign the right (claim) under obligations before liquidated credit institutions to their creditors in the course of liquidation proceedings.

AMENDMENTS MADE IN BANK OF RUSSIA REGULATORY DOCUMENTS IN CONNECTION WITH AMENDMENTS AND CHANGES MADE IN BANKING LEGISLATION

Bank of Russia Directive No. 1024-U, dated August 27, 2001, established the procedure for calculating the own funds (capital) of a credit institution, taking into consideration the powers of the Bank of Russia to evaluate the assets and liabilities of a credit institution on the basis of its financial statements and inspection results, and the procedure for matching the authorised capital of a credit institution with its own funds (capital) in the event of the reduction of own funds (capital) in the month under review below the registered authorised capital in compliance with Article 9¹ and paragraph 3 of Article 12 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions.

Bank of Russia Directive No. 1025-U, dated August 27, 2001, established a differentiated approach to initiating the process of revoking banking licences from credit institutions. This approach is based on the division of the grounds established by part 1 and part 2 of Article 20 of the Federal Law on Banks and Banking Activities into two parts, in accordance with which the Bank of Russia may and must revoke a licence. The Directive also established the procedure for calculating the own funds (capital) of a credit institution with the purpose of identifying the circumstances under which the grounds appear for the compulsory revocation of banking licence (if a credit institution fails to comply within 45 days with the Bank of Russia demand to match its authorised capital with its own funds (capital)), or the credit institution must make the decision to wind up (if its capital becomes less than the minimum authorised capital estab-

lished as of the registration date). The Directive explained the specifics of the procedure for initiating the revocation of licence at the request of the provisional administration of a credit institution.

Bank of Russia Directive No. 1026-U, dated August 27, 2001, added to the list of the grounds for the implementation of bankruptcy-prevention measures the reduction of the own funds (capital) of a credit institution during the month under review below the level of its registered authorised capital; specified its requirement for the implementation of financial rehabilitation measures in connection with the amendments made in Articles 7 and 12 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions; and established sanctions for non-compliance with the requirements of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions and Bank of Russia Instruction No. 84-I, dated July 12, 1999, taking into consideration the amendments to Article 20 of the Federal Law on Banks and Banking Activities.

Bank of Russia Directive No. 1033-U, dated September 17, 2001, amended the procedure for appointing, organising, implementing, suspending and ending the activities of the provisional administration of a credit institution after the revocation of its banking licence and specified qualification requirements for the head and members of the provisional administration and the procedure in accordance with which the provisional administration may declare invalid the transactions concluded by a credit institution before its appointment.

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Table 1

DYNAMICS OF MAJOR MACROECONOMIC INDICATORS (as % of previous year)

	1999	2000	2001
Gross domestic product	105.4	109.0	105.0
of which:			
Production of goods	110.7	111.0	106.5
of which:			
industry	110.8	109.5	104.9
agriculture	117.1	112.7	110.8
construction	106.1	115.9	109.9
Production of services	101.8	107.5	103.7
Market services	101.9	108.8	104.6
of which:			
transport	105.9	104.9	102.6
communications	127.5	111.4	117.0
trade, public catering and procurements	97.6	113.0	105.9
Non-market services	101.4	101.3	99.2
GDP deflator index, times	1.650	1.405	1.179
Consumer price index (December to December of previous year), times	1.365	1.202	1.186
Labour productivity	108.0	107.4	104.7
Fixed capital investment	105.3	117.4	108.7
Retail trade turnover	93.9	108.8	110.7
Unemployment rate calculated using ILO methodology, as % of economically active population, annualised average	12.8	10.5	9.1

Note. Tables 1 to 9 are based on data compiled by State Statistics Committee (Goskomstat) and Bank of Russia calculations (as of May 7, 2002); Tables 10 to 15 are based on data reported by State Customs Committee (as of May 7, 2002) and are methodologically somewhat different from balance of payments statistics. Balance of payments statistics contain, in addition to foreign trade data based on customs declarations, information on individual and corporate foreign trade operations unregistered by State Customs Committee, export and import volumes of goods that have not crossed the Russian border and some other elements. State Customs Committee data are necessary for analysis of commodity and geographical structure of Russia's foreign trade.

Table 2

INFLATION STRUCTURE (%)

	December 2000		December 2001	
	Price growth on December 1999	Contribution to growth	Price growth on December 2000	Contribution to growth
Headline inflation	20.2	100.0	18.6	100.0
of which:				
core inflation*	15.9	78.7	12.1	65.0
inflation due to structural factors	4.5	22.2	5.1	27.6
inflation due to change in highly volatile prices	-0.2	-0.9	1.4	7.4

* Bank of Russia evaluates core inflation as growth in consumer prices unaffected by changes in service and fruit and vegetable prices.

Table 3

STRUCTURE OF GDP PRODUCTION IN BASIC PRICES* (%)

	1999	2000	2001
Gross domestic product	100	100	100
Of which:			
Production of goods	44.9	45.9	44.3
of which:			
industry	30.8	31.7	28.8
agriculture	7.4	6.4	6.7
construction	6.1	7.2	8.2
Production of services	55.1	54.1	55.7
Market services	46.1	45.5	47.0
of which:			
transport	7.9	7.5	8.4
communications	1.7	1.5	1.6
trade, public catering and procurements	23.2	23.5	23.0
Non-market services	9.0	8.6	8.7

* Unlike GDP in market prices, GDP in basic prices does not include taxes on products but includes subsidies for products.

Data in basic prices are given without excluding indirectly measured financial intermediation services.

Table 4

STRUCTURE OF GDP CALCULATED BY INCOME USE METHOD, IN CURRENT MARKET PRICES (%)

	1999	2000	2001
GDP calculated by income use method	100	100	100
Expenditure on final consumption	68.2	61.3	65.1
of which:			
households	52.4	45.5	49.6
government agencies and non-profit organisations providing services to households	15.8	15.8	15.5
Gross fixed capital formation (including net purchase of valuables)	14.3	15.6	17.7
Change in inventories	0.4	3.0	4.3
Net exports of goods and services	17.1	20.1	12.9

Table 5

STRUCTURE OF GDP FORMATION BY INCOME SOURCES (%)

	1999	2000	2001
Gross domestic product	100	100	100
of which:			
compensation of employees	40.6	40.2	45.0
net taxes on output and imports	16.1	17.1	15.5
gross profit and gross mixed income	43.3	42.7	39.5

Table 6

BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENDITURE IN RUSSIA (million rubles)

	2000	2001	2001 as % of 2000
Money income	3,843,529.9	4,998,756.7	130.1
Compensation of employees	2,359,927.0	3,224,198.0	136.6
% share	61.4	64.5	
Social transfers	553,468.0	746,649.5	134.9
% share	14.4	14.9	
Income from business activities	612,659.0	657,337.0	107.3
% share	15.9	13.2	
Income from property	272,890.5	276,436.2	101.3
% share	7.1	5.5	
Other income	44,585.4	94,136.0	211.1
% share	1.2	1.9	
Money expenditure	3,305,922.7	4,390,139.0	132.8
consumer expenditure	2,996,198.7	3,928,403.7	131.1
compulsory payments and contributions	309,724.0	461,735.3	149.1
Growth in savings at banks and cash in hand and purchase of foreign exchange	537,607.2	608,617.7	113.2
savings*	173,133.1	203,823.1	117.7
of which:			
deposits and securities	141,563.8	196,399.2	138.7
purchase of foreign exchange	253,604.4	300,825.6	118.6
cash in hand	110,869.7	103,969.0	93.8
For the record:			
% share of money income			
consumer expenditure	78.0	78.6	
compulsory payments and contributions	8.0	9.2	
savings	4.5	4.1	
of which:			
deposits and securities	3.7	3.9	
purchase of foreign exchange	6.6	6.0	
cash in hand	2.9	2.1	
Disposable money income	3,534,354.1	4,540,185.1	128.5
% share of			
consumer expenditure	84.8	86.5	
savings	4.9	4.5	
of which:			
deposits and securities	4.0	4.3	
purchase of foreign exchange	7.2	6.6	
cash in hand	3.1	2.3	

* Savings include increase (decrease) in deposits, purchase of securities, change in debt on loans and purchase of real estate.

Table 7

INCOME DIFFERENTIATION OF POPULATION

	1999	2000	2001
Funds ratio, times*	14.0	13.8	13.8
Gini coefficient, units**	0,399	0,399	0,396

* The funds ratio signifies the ratio between average incomes within compared population groups or between their shares in total income.

** The Gini coefficient (income concentration index) indicates the extent of deviation of the actual distribution of household income from even distribution. In even distribution of income the Gini coefficient tends towards zero; the greater society's polarisation, the closer the Gini coefficient to 1.

Table 8

DYNAMICS OF MAJOR INDICATORS OF ENTERPRISES' FINANCIAL STANDING IN 2001 (as % of 2000)

	Profit (loss)	Working assets		Payables		Receivables	
		total	of which: monetary funds	total	of which: overdue debt	total	of which: overdue debt
Total	101.3	122.8	115.5	120.4	99.3	131.0	109.9
Industry	85.8	121.1	132.3	107.8	92.1	104.9	91.6
of which:							
electric-power industry	104.9	99.3	99.4	87.1	76.5	88.9	83.9
fuel sector	81.9	120.6	123.5	126.8	92.6	99.1	96.0
ferrous metallurgy	53.1	115.6	113.4	99.8	94.8	114.6	110.2
non-ferrous metallurgy	72.8	130.1	283.5	96.9	97.0	94.8	76.9
chemical and petrochemical industry	64.6	120.0	90.7	102.1	85.1	110.7	87.6
machine-building and metal-working	143.4	124.9	132.2	111.4	99.5	112.4	99.4
timber, wood-working and pulp-and-paper industry	81.5	113.6	98.0	100.3	91.7	103.3	90.6
building materials	142.5	127.8	171.7	106.3	100.6	113.4	100.6
light industry	79.6	128.6	101.2	106.3	93.8	124.7	101.1
food industry	139.1	134.1	109.3	121.2	114.0	139.2	122.3
Agriculture	150.3	122.8	134.7	116.8	113.0	127.7	115.6
Transport	113.7	127.9	95.3	116.5	117.7	109.7	90.2
Communications	128.3	181.5	122.9	153.9	121.1	130.5	108.7
Construction	125.4	132.1	136.2	130.1	105.6	117.9	101.1
Trade and public catering	173.3	120.1	102.1	178.4	110.8	316.4	260.5
Housing and communal services	(88.9)*	108.0	134.6	105.4	102.3	100.3	94.7

* Losses.

Table 9

**STATE OF PAYMENTS FOR SHIPPED PRODUCTS (WORKS AND SERVICES)
BY MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES**

	2000		2001	
	billion rubles	structure of payments, %	billion rubles	structure of payments, %
Volume of shipped products	4,003.9		4,936.8	
including:				
paid-for products	3,548.4	100.0	4,467.4	100.0
of which paid for with:				
cash	2,455.7	69.2	3,457.7	77.4
promissory notes	293.8	8.3	345.8	7.7
securities	3.0	0.1	3.7	0.1
assignment of claim on pecuniary obligations	21.6	0.6	12.9	0.3
netting of claims	569.9	16.1	433.7	9.7
direct exchange of goods (barter)	107.8	3.0	105.8	2.4
other kinds of settlements	97.4	2.7	107.9	2.4

Table 10

RUSSIA'S FOREIGN TRADE

	Billion US dollars							As % of previous year						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
with all countries														
Turnover	124.9	131.6	138.2	114.9	103.2	136.9	141.9	122.5	105.4	105.0	83.1	89.8	132.7	103.6
Exports	78.2	85.2	85.1	71.3	72.9	103.0	100.7	123.6	108.9	99.9	83.8	102.2	141.3	97.7
Imports	46.7	46.5	53.1	43.6	30.3	33.9	41.2	120.8	99.5	114.3	82.0	69.5	112.0	121.6
with non-CIS countries														
Turnover	96.8	101.2	107.4	89.9	84.1	111.5	116.3	124.8	104.5	106.1	83.7	93.6	132.5	104.4
Exports	63.7	69.3	68.5	57.6	62.2	89.2	86.2	129.4	108.8	98.8	84.1	107.9	143.5	96.6
Imports	33.1	31.9	38.9	32.3	21.9	22.3	30.1	116.8	96.4	121.9	83.0	68.0	101.5	135.3
with CIS countries														
Turnover	28.1	30.4	30.9	25.0	19.0	25.4	25.6	115.3	108.3	101.4	81.1	76.2	133.5	100.5
Exports	14.5	15.9	16.6	13.7	10.7	13.8	14.4	103.2	109.4	104.6	82.4	78.2	128.8	104.7
Imports	13.6	14.5	14.2	11.3	8.3	11.6	11.1	131.7	107.0	97.8	79.5	73.7	139.6	95.4

Table 11

RUSSIA'S FOREIGN TRADE TURNOVER WITH MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	123	105	105	83	90	133	104
OECD	50.1	47.6	57.3	58.4	58.2	57.4	58.2	118	100	126	85	89	131	105
EU	35.4	32.8	34.4	33.9	34.9	35.1	36.9	117	98	110	82	93	133	109
CIS	22.5	23.1	22.3	21.8	18.5	18.6	18.0	115	108	101	81	76	134	100
CEE	12.7	12.6	13.5	12.4	12.8	14.8	13.7	138	105	113	76	92	154	96
Baltic countries	2.7	2.5	3.0	2.6	3.0	3.8	3.0	141	99	126	71	107	168	80
Germany	10.2	9.1	9.5	9.8	10.1	9.6	10.5	114	94	110	85	93	126	114
Belarus	4.0	5.0	6.8	8.1	6.8	6.8	6.5	97	130	144	98	75	133	99
Italy	4.2	3.9	4.5	4.4	4.8	6.2	6.4	120	99	120	81	98	172	108
Ukraine	11.0	10.5	8.1	7.7	7.1	6.3	6.4	124	101	81	79	83	118	105
USA	5.6	5.9	6.2	8.0	6.9	5.4	5.2	128	111	110	108	77	103	100
China	3.4	4.3	3.8	3.8	4.3	4.5	5.1	112	135	92	83	102	140	117
The Netherlands	3.9	3.3	4.2	4.2	4.2	3.7	4.2	122	90	133	85	90	116	117
U.K.	3.3	3.3	3.1	3.6	3.5	4.0	3.7	91	104	100	97	85	155	96
Poland	2.4	2.3	2.8	2.8	3.1	3.8	3.6	145	102	127	83	100	161	99
Kazakhstan	4.2	4.2	3.8	3.3	2.5	3.2	3.3	125	107	93	72	69	169	106
Finland	3.5	3.3	3.4	3.1	3.3	3.0	3.1	124	97	108	76	96	121	107
Turkey	1.7	1.7	2.0	2.1	1.9	2.5	2.7	156	104	123	88	79	177	109
France	2.1	2.2	2.3	2.7	2.4	2.3	2.6	116	111	112	95	80	126	120
Japan	3.2	3.0	2.8	2.6	2.5	2.4	2.6	117	99	101	76	86	129	109
Switzerland	3.4	3.2	2.9	3.1	3.5	3.0	2.0	99	100	97	87	103	113	67
Other	34.0	34.8	33.7	30.8	33.2	33.3	32.2	136	108	102	76	97	133	100

Table 12

RUSSIAN EXPORTS TO MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	124	109	100	84	102	141	98
OECD	50.3	48.1	56.9	58.2	59.4	59.4	58.9	119	104	118	86	104	141	97
EU	33.6	32.1	32.9	32.5	34.1	35.8	37.0	118	104	102	83	107	148	101
CEE	13.7	14.8	15.7	14.6	15.2	17.3	16.3	143	118	106	78	106	161	92
CIS	18.6	18.7	19.5	19.2	14.7	13.4	14.3	103	109	105	82	78	129	105
Baltic countries	2.9	3.1	3.7	3.2	3.9	4.8	3.8	136	116	117	72	126	174	77
Germany	7.9	7.9	7.7	8.0	8.5	9.0	9.2	115	108	97	88	108	149	100
Italy	4.3	3.3	4.2	4.5	5.2	7.0	7.4	122	84	126	90	117	193	102
China	4.3	5.5	4.7	4.4	4.8	5.1	5.6	119	140	84	80	111	148	108
Ukraine	9.1	8.9	8.5	7.8	6.6	4.9	5.2	107	106	96	77	86	105	105
Belarus	3.8	4.1	5.5	6.5	5.2	5.4	5.2	95	120	133	100	81	147	95
The Netherlands	4.1	3.9	5.4	5.5	5.0	4.2	5.1	136	104	137	87	93	118	118
U.K.	3.9	3.8	3.3	4.2	4.0	4.5	4.3	83	105	89	104	97	162	93
USA	5.5	5.7	5.3	7.2	6.5	4.5	4.2	128	112	93	114	92	99	90
Poland	2.2	2.5	3.0	3.1	3.6	4.3	4.1	149	126	118	87	120	171	93
Turkey	2.1	2.0	2.3	2.7	2.2	3.0	3.2	164	103	118	98	84	190	105
Finland	3.1	3.1	3.3	2.9	3.3	3.0	3.1	122	110	105	75	117	129	100
Japan	4.1	3.4	3.4	3.1	2.9	2.7	2.8	141	92	101	74	98	130	102
Kazakhstan	3.3	3.0	2.9	2.7	1.7	2.2	2.7	116	100	97	77	65	183	121
Switzerland	4.5	4.4	4.2	4.4	4.6	3.7	2.4	95	106	95	88	107	115	62
France	1.9	1.9	1.9	2.0	1.7	1.8	2.2	123	105	102	90	83	157	115
Other	35.9	36.7	34.5	31.0	34.3	34.6	33.4	144	111	94	75	113	143	94

Table 13

RUSSIAN IMPORTS FROM MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	121	99	114	82	69	112	122
OECD	49.7	46.6	57.9	58.7	55.2	51.5	56.6	115	93	142	83	65	104	134
EU	38.4	34.1	36.8	36.1	36.9	32.8	36.8	117	88	123	80	71	100	136
CIS	29.1	31.3	26.8	26.0	27.6	34.4	27.0	132	107	98	79	74	140	95
CEE	11.0	8.5	10.0	8.8	7.0	7.2	7.4	128	77	134	72	55	116	125
Baltic countries	2.2	1.4	1.9	1.6	1.0	1.0	1.0	155	61	162	67	44	112	127
Germany	13.9	11.2	12.5	12.6	13.9	11.5	13.8	114	80	128	83	77	93	146
Belarus	4.5	6.5	9.0	10.6	10.6	11.1	9.6	100	145	158	96	70	117	105
Ukraine	14.2	13.5	7.5	7.5	8.4	10.8	9.3	150	95	63	82	77	144	105
USA	5.7	6.2	7.6	9.4	7.9	7.9	7.6	128	110	140	101	58	113	117
Kazakhstan	5.7	6.5	5.2	4.3	4.6	6.5	4.8	134	114	90	69	74	157	90
Italy	4.0	5.0	5.0	4.2	3.8	3.6	4.1	116	126	113	69	64	104	139
China	1.9	2.2	2.4	2.7	3.0	2.8	3.9	91	116	126	92	77	106	170
France	2.3	2.7	3.0	3.7	4.1	3.5	3.7	107	118	126	100	77	96	128
Finland	4.4	3.6	3.5	3.3	3.1	2.8	3.1	125	82	112	77	66	101	132
U.K.	2.4	2.4	2.8	2.8	2.2	2.5	2.4	123	103	131	82	55	127	114
Poland	2.8	2.0	2.5	2.4	2.0	2.1	2.3	140	70	146	77	58	119	133
The Netherlands	3.5	2.2	2.3	2.1	2.3	2.2	2.0	102	61	119	76	75	107	113
Japan	1.6	2.1	1.9	1.9	1.5	1.7	2.0	68	128	101	83	56	125	142
South Korea	1.1	1.7	1.6	2.3	1.0	1.1	1.9	117	159	105	121	31	113	219
Sweden	1.2	1.2	1.6	1.6	1.6	1.4	1.7	176	102	156	80	68	98	151
Other	31.0	30.8	31.6	28.7	30.0	28.6	27.9	121	99	117	74	73	107	119

Table 14

COMMODITY STRUCTURE OF RUSSIAN EXPORTS*

	Structure, %							Growth rates as % of previous year						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	119	109	99	83	104	141	97
Mineral products,	41.7	47.8	48.3	42.7	45.1	54.2	55.4	112	124	100	73	110	170	99
Including:														
fuel and energy	40.4	46.8	47.4	41.5	44.3	53.5	54.7	111	126	100	73	111	170	99
of which:														
oil	16.5	18.4	17.0	14.2	19.4	24.3	24.0	109	121	91	69	142	176	96
natural gas	15.2	17.2	19.5	19.4	15.7	16.5	18.2	110	123	112	83	84	149	107
Metals and metal products	20.3	19.8	20.8	22.1	20.5	17.1	14.6	136	106	103	88	96	118	83
Machinery, equipment and transport facilities	10.1	9.7	10.2	11.0	10.5	8.6	10.1	137	103	104	89	99	116	114
Chemicals and rubber	9.9	8.6	8.2	8.4	8.2	7.0	7.2	136	94	94	85	102	120	101
Timber and pulp-and-paper products	5.7	4.3	4.4	5.1	5.2	4.4	4.8	165	81	100	97	106	119	106
Gemstones, precious metals and articles made of them	7.1	4.7	3.9	6.5	6.3	5.0	4.3	83	72	81	137	101	112	84
Foodstuffs and agricultural raw materials (except textiles)	1.8	2.1	1.8	1.8	1.1	1.3	1.5	97	124	83	84	64	170	112
Textiles, textile goods and footwear	1.5	1.1	1.0	1.1	1.0	0.7	0.6	85	81	92	88	96	94	90
Leather, furs and articles made of them	0.4	0.4	0.5	0.6	0.3	0.2	0.2	82	118	106	97	50	127	72
Other goods	1.3	1.5	1.0	0.8	1.8	1.4	1.1	113	124	63	72	227	109	76

* Excluding data on exports to Belarus.

Table 15

COMMODITY STRUCTURE OF RUSSIAN IMPORTS*

	Structure, %							Growth rates as % of previous year						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	117	95	112	81	69	111	123
Machinery, equipment and transport facilities	32.9	31.8	35.1	35.7	32.4	30.6	33.5	110	92	124	82	63	105	134
Foodstuffs and agricultural raw materials (except textiles)	30.2	26.0	26.3	26.3	28.4	23.1	22.9	128	82	114	81	75	91	122
Chemicals and rubber	10.7	14.7	14.5	15.2	16.4	18.6	18.9	126	130	111	85	75	126	125
Metals and metal products	7.5	8.7	6.9	6.8	7.2	8.3	7.2	134	110	88	80	73	127	107
Textile, textile products and footwear	5.2	4.6	4.0	3.3	4.3	4.8	4.6	77	84	98	65	91	126	117
Mineral products,	6.1	5.7	5.5	5.1	4.2	6.8	4.4	109	89	107	76	57	179	78
of which:														
fuel and energy products	3.8	4.0	3.9	3.6	2.7	4.6	2.6	124	100	109	76	51	191	70
Timber and pulp-and-paper products	2.4	3.4	3.6	3.9	3.5	3.8	4.0	188	136	120	88	62	119	131
Leather, furs and articles made of them	0.3	0.3	0.3	0.2	0.2	0.3	0.5	73	103	104	62	60	154	209
Gemstones, precious metals and articles made of them	0.9	1.3	0.2	0.1	0.1	0.2	0.1	492	135	18	30	118	149	50
Other goods	3.8	3.5	3.5	3.2	3.2	3.4	3.9	112	88	112	74	68	121	137

* Excluding data on imports from Belarus.

Table 16

STRUCTURE OF RUSSIAN GOVERNMENT DOMESTIC DEBT AS OF JANUARY 1, 2002 (at par, billion rubles)

Debt instruments	Total in domestic government debt	Of these, traded in organised securities market
Fixed coupon-income federal loan bonds	138.5	138.5
Permanent coupon-income federal loan bonds	307.8	2.1
Variable coupon-income federal loan bonds	24.1	—
Short-term government bonds	19.5	19.5
Other debt counted as part of domestic government debt	43.6	—
Total	533.5	160.1

Table 17

FINANCE MINISTRY'S DEBT TO BANK OF RUSSIA AS OF JANUARY 1, 2002 (million rubles)

	At balance sheet value of debt obligations
Total debt	459,085
Of which:	
1. Russian government debt instruments	263,708
of which:	
Russian government debt obligations that arose as a result of restructuring of government securities and other Finance Ministry's debts to Bank of Russia and acquired by Bank of Russia in 1999	232,079
Finance Ministry's promissory notes	15,457
other debt obligations	16,172
2. Bank of Russia funds transferred to Vneshekonombank to extend loans to Finance Ministry for repayment and service of Russian government foreign debt	192,224
3. Debt owed by CIS and Baltic states on interest on overdrafts and interstate settlements	2,801
4. Debt on overdrafts	352

Table 18

OUTSTANDING RUSSIAN GOVERNMENT CURRENCY BONDED LOANS AS OF JANUARY 1, 2002

Date of issue	Redemption date	Currency	Volume in circulation at par in original currency, million units of currency	Coupon interest rate, % p.a.
Eurobonds placed by public offering (6 issues)				
25.03.1997	25.03.2004	Deutsche mark (DEM)	2,000	9
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
6.05.1998	6.05.2003	Italian lira (ITL)	750,000	9
10.06.1998	10.06.2003	US dollar (USD)	1,250	11.75
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)	2,968.968	8.75
24.07.1998	24.07.2018	US dollar (USD)	3,466.671	11
Eurobonds issued in second restructuring of debt to London Club of commercial bank creditors (2 issues)				
31.03.2000	29.03.2030	US dollar (USD)	18,316.8	5
31.03.2000	31.03.2010	US dollar (USD)	2,550.7	8.25
Domestic government foreign currency loan bonds (Series 4, 5, 6 and 7 OGVZ bonds) and bonds of government foreign currency bonded loan issued in 1999 (OGVZ)				
14.05.1993	14.05.2003	US dollar (USD)	3,462	3
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)	878.335	3

Table 19

BUDGET REVENUES FROM FINANCE MINISTRY'S OPERATIONS IN GKO—OFZ MARKET IN 2001 (million rubles)

Reporting month	Proceeds		Coupon interest payments	Expenditures on principal debt			Transferred to budget revenues
	auctions	additional placements		redemption	early redemption	payments on restructuring	
January	1,999.5	—	(2,582.9)	(11,007.1)	—	—	(11,590.5)
February	4,835.7	—	(2,625.4)	—	—	—	2,210.3
March	4,816.8	—	(3,595.9)	(46.1)	—	(3.8)	1,171.1
April	670.7	4,282.8	(2,570.3)	—	(1,238.7)	(1.6)	1,143.0
May	1,838.7	204.0	(3,099.4)	(0.1)	—	(0.2)	(1,056.9)
June	4,914.1	1,241.6	(2,756.4)	(3,000.0)	—	(0.3)	399.0
July	3,686.2	3,180.3	(2,339.9)	(3,000.0)	—	(0.3)	1,526.3
August	6,645.1	745.3	(2,576.3)	(4,850.8)	—	(2.6)	(39.4)
September	1,816.8	965.6	(3,934.1)	(13,078.5)	—	(88.5)	(14,318.7)
October	1,204.5	338.6	(1,995.5)	(6,000.0)	—	(0.7)	(6,453.0)
November	11,045.7	—	(2,464.0)	(11,163.7)	(11,045.7)	(0.3)	(13,628.0)
December	1,884.9	89.8	(2,438.5)	(18,945.1)	(1,884.9)	(0.7)	(21,294.5)
Full-year total	45,358.721	11,048.019	(32,978.4)	(71,091.3)	(14,169.2)	(98.9)	(61,931.1)

Table 20

STRUCTURE OF GKO—OFZ MARKET PARTICIPANTS (at par, million rubles)

Reporting date	Instrument	Volume in circulation	Dealers' portfolio	Investors' portfolio			
				non-resident portfolio	resident bank investors' portfolio	corporate (non-bank) investors' portfolio	individual investors' portfolio
1.01.2001	OFZ-FD	122,767	73,241	24,979	10,242	13,609	696
	GKO	2,112	858	655	373	226	—
	Investment OFZ	33,185	17,392	11,837	1,770	2,103	82
	OFZ-PD	26,099	13,391	7,891	1,569	3,073	174
	Total	184,163	104,882	45,363	13,954	19,011	953
1.01.2002	OFZ-FD	138,534	99,941	17,181	7,586	13,166	659
	GKO	19,506	17,060	1,155	232	1,051	9
	OFZ-PD	2,093	419	321	683	550	120
	Total	160,133	117,421	18,657	8,501	14,766	788

Table 2.1

RUSSIA'S BALANCE OF PAYMENTS IN 2001 (analytic presentation, million US dollars)

	Q1	Q2	Q3	Q4	2001	For the record: 2000
Current account	11,448	9,431	7,800	6,412	35,092	46,405
Balance of trade	14,231	13,203	12,858	9,138	49,429	60,703
<i>Exports</i>	<i>25,522</i>	<i>26,818</i>	<i>26,096</i>	<i>24,757</i>	<i>103,192</i>	<i>105,565</i>
crude oil	5,850	6,757	6,777	4,904	24,288	25,272
petroleum products	2,562	2,738	2,895	2,120	10,314	10,919
natural gas	5,456	4,081	3,732	4,498	17,766	16,644
other	11,654	13,242	12,691	13,236	50,824	52,730
<i>Imports</i>	<i>-11,291</i>	<i>-13,615</i>	<i>-13,238</i>	<i>-15,619</i>	<i>-53,764</i>	<i>-44,862</i>
Balance of services	-2,104	-2,774	-2,992	-2,308	-10,177	-7,631
<i>Exports</i>	<i>2,112</i>	<i>2,704</i>	<i>3,310</i>	<i>2,772</i>	<i>10,898</i>	<i>9,975</i>
transport services	948	1,189	1,263	1,256	4,655	3,555
travel	618	927	1,385	819	3,750	3,839
other services	546	588	662	697	2,493	2,580
<i>Imports</i>	<i>-4,216</i>	<i>-5,478</i>	<i>-6,301</i>	<i>-5,080</i>	<i>-21,075</i>	<i>-17,606</i>
transport services	-587	-778	-803	-816	-2,984	-2,330
travel	-2,276	-3,025	-3,854	-2,614	-11,769	-10,224
other services	-1,353	-1,675	-1,643	-1,650	-6,321	-5,052
Wage balance	63	27	-27	67	130	268
Balance of investment income (interest and dividends)	-663	-1,030	-1,934	-391	-4,018	-7,004
Income receivable	2,714	1,054	1,026	1,382	6,176	4,253
Income payable	-3,377	-2,083	-2,960	-1,773	-10,194	-11,257
<i>Federal government</i>	<i>-773</i>	<i>-940</i>	<i>-2,105</i>	<i>-1,029</i>	<i>-4,847</i>	<i>-6,134</i>
Income receivable	1,887	281	308	140	2,617	2,281
Income payable	-2,660	-1,222	-2,413	-1,169	-7,464	-8,415
<i>Local governments (income payable)</i>	<i>-27</i>	<i>-17</i>	<i>-18</i>	<i>-14</i>	<i>-76</i>	<i>-199</i>
<i>Central Bank (interest payable on IMF loans)</i>	<i>-39</i>	<i>-33</i>	<i>-30</i>	<i>-22</i>	<i>-124</i>	<i>-150</i>

Cont.

	Q1	Q2	Q3	Q4	2001	For the record: 2000
<i>Banks</i>	556	467	451	305	1,780	1,242
Income receivable	644	563	534	450	2,190	1,702
Income payable	-87	-96	-83	-145	-411	-460
<i>Non-financial enterprises</i>	-381	-507	-232	369	-750	-1,763
Income receivable	183	209	185	793	1,369	270
Income payable	-564	-716	-416	-423	-2,120	-2,033
Balance of current transfers	-78	5	-105	-94	-272	69
Capital and financial accounts	-7,410	-2,572	-2,645	-5,203	-17,829	-21,040
Capital account (capital transfers)	-105	-153	-10,031	934	-9,356	10,955
Financial account (except reserve assets)	-7,305	-2,419	7,386	-6,136	-8,474	-31,995
Liabilities (+ up, - down)	-533	1,407	-1,293	-4,648	-5,067	-11,381
<i>Federal government</i>	-1,187	-538	-2,691	-5,583	-9,998	-13,937
Portfolio investment (debt securities)	144	105	-1,459	-712	-1,922	-10,334
issue	71	6	37	8	123	21,457
redemption (schedule)	-563	-537	-683	-1,404	-3,188	-32,921
principal amount	-23	0	-105	-1,029	-1,157	-30,294
coupons	-540	-537	-578	-375	-2,031	-2,627
re-investment of income	734	740	744	692	2,911	3,757
secondary market	-98	-103	-1,557	-9	-1,767	-2,626
Loans and borrowings	-1,754	-642	-1,446	-2,778	-6,621	-2,004
use	86	88	99	370	644	1,144
redemption (schedule)	-1,854	-731	-1,567	-3,548	-7,700	-6,528
restructuring	14	0	22	400	436	3,380
Overdue debt	421	-3	215	-341	293	-1,638
accumulation	472	157	310	188	1,127	1,900
repayment/restructuring	-51	-160	-94	-529	-834	-3,538
Other liabilities	2	1	-1	-1,751	-1,749	39
<i>Local governments</i>	-165	-465	-106	564	-172	-784
<i>Central Bank (operations with IMF loans)</i>	0	0	-698	-2,064	-2,762	0

End

	Q1	Q2	Q3	Q4	2001	For the record: 2000
<i>Banks</i>	638	1,739	1,227	976	4,580	1,492
Direct investment	62	—64	—5	82	75	239
Loans and deposits	851	1,720	455	850	3,876	330
Other liabilities	—275	83	777	44	629	923
<i>Non-financial enterprises</i>	180	672	976	1,459	3,286	1,848
Direct investment	485	705	838	437	2,465	2,475
Portfolio investment	—150	219	201	261	531	308
Loans and borrowings	—267	—230	324	942	769	—935
Other liabilities	112	—22	—387	—182	—479	0
Assets, except reserves (+ down, — up)	—6,772	—3,826	8,680	—1,488	—3,406	—20,614
<i>Federal government</i>	—1,866	120	9,943	1,834	10,030	—1,617
Loans and borrowings	892	860	—1,326	—193	234	5,806
Overdue debt	—2,709	—932	10,980	1,899	9,238	—7,537
Other assets	—49	191	289	127	559	115
<i>Banks</i>	—3,705	—1,920	1,510	2,479	—1,637	—3,530
Direct investment	1	8	4	56	70	—340
Loans and deposits	—3,653	—1,960	1,741	2,804	—1,069	—3,609
Other assets	—53	32	—236	—381	—638	419
<i>Non-financial enterprises and households</i>	—1,201	—2,026	—2,772	—5,801	—11,800	—15,468
Direct and portfolio investments	—842	—703	—912	—279	—2,736	—3,390
Foreign cash	—641	557	919	—542	293	—337
Trade credits and advances	1,400	—886	—58	—2,062	—1,606	—4,180
Debt on commodity deliveries under intergovernmental agreements	190	178	—160	—573	—365	—650
Non-receipt of proceeds from exports and import advances unrepaid on time*	—1,623	—832	—2,319	—1,614	—6,388	—5,293
Other assets	316	—340	—242	—731	—996	—1,619
Net errors and omissions	—2,209	—1,520	—2,705	—2,617	—9,050	—9,355
Change in foreign exchange reserves (+ down, — up)	—1,830	—5,340	—2,450	1,407	—8,212	—16,010

* Beginning from 2001 Q3, these data include estimates of non-delivery of services under import advance payment contracts, made on the basis of previously inaccessible information.

Table 22

STRUCTURE OF FOREIGN INVESTMENT IN RUSSIA IN 2001 (billion US dollars)*

Type of investment	Q1	Q2	Q3	Q4	2001	For the record: 2000
Direct	0.5	0.6	0.8	0.5	2.5	2.7
Portfolio	-0.1	0.0	-0.4	-0.5	-1.1	-9.9
Other	-1.0	0.8	-1.7	-4.6	-6.5	-4.2
Total	-0.5	1.4	-1.3	-4.6	-5.1	-11.4

* Net growth in debt obligations to non-residents according to balance of payments data.

Note.

— denotes decrease in residents' foreign debt obligations.

Minor differences between total and sum of items result from rounding off of data.

Table 23

**STRUCTURE OF RUSSIAN RESIDENTS' INVESTMENT IN FOREIGN ASSETS (NET OF RESERVE ASSETS) IN 2001
(billion US dollars)***

Type of investment	Q1	Q2	Q3	Q4	2001	For the record: 2000
Direct	0.8	0.7	0.9	0.2	2.6	3.2
Portfolio	-0.3	0.0	-0.1	0.2	-0.2	0.4
Other	6.3	3.1	-9.5	1.1	1.0	17.0
Total	6.8	3.8	-8.7	1.5	3.4	20.6

* Net growth in non-residents' assets according to balance of payments data.

Note.

— denotes decrease in residents' foreign assets.

Table 2.4

INTERNATIONAL INVESTMENT POSITION OF RUSSIA'S BANKING SYSTEM (as of January 1, 2001, and January 1, 2002, million US dollars)

	Balance as of 1.01.2001	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2002
Assets	47,044	9,849	-143	256	9,962	57,006
Direct investment abroad	1,368	-70	3	-3	-70	1,298
Equity capital and reinvested earnings	626	-7	-27	-1	-35	591
Other capital	742	-63	31	-2	-35	707
Portfolio investment	683	-210	-11	0	-221	462
Equity capital	15	-2	-2	0	-3	11
Debt securities	669	-209	-9	0	-218	451
long-term	354	-164	-7	0	-172	182
short-term	315	-45	-2	0	-46	269
Other investment	16,788	1,740	-184	-113	1,443	18,231
Foreign cash and deposits	13,874	703	-132	-48	523	14,398
Foreign cash in tills	635	308	-11	-8	289	924
Current accounts and deposits	13,239	395	-121	-40	234	13,474
long-term	388	-30	0	1	-29	358
short-term	12,852	426	-121	-41	264	13,115
Loans and borrowings	2,536	673	-59	-22	593	3,129
long-term	1,313	271	-7	0	264	1,577
short-term	1,223	402	-52	-21	329	1,552
Overdue debt	64	118	-1	-19	99	163
Other assets	314	245	8	-25	228	542
long-term	63	-13	-1	0	-14	49
short-term	251	259	9	-25	242	493

Cont.

	Balance as of 1.01.2001	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2002
Reserve assets	27,972	8,212	66	372	8,650	36,622
Monetary gold	3,708	0	0	372	372	4,080
Special Drawing Rights (SDR)	1	4	—2	0	2	3
Reserve position in IMF	1	0	0	0	0	1
Other foreign exchange assets	24,263	8,208	67	0	8,276	32,538
Adjustment to reserve assets	233	177	—17	0	160	393
Liabilities	12,989	1,818	—172	—34	1,612	14,601
Direct investment in Russia	1,007	75	—67	—9	—1	1,005
Equity capital and reinvested earnings	812	174	—61	11	123	935
Other capital	194	—99	—6	—20	—124	70
Portfolio investment	857	758	—15	—14	730	1,587
Equity capital	52	14	—2	—11	1	53
Debt securities	805	745	—13	—2	729	1,534
long-term	504	72	—15	—1	56	560
short-term	302	673	1	—1	673	975
Other investment	11,125	985	—89	—12	883	12,009
Cash rubles and deposits	4,328	1,530	—69	—73	1,388	5,716
Cash rubles	162	49	—13	0	36	198
Current accounts and deposits	4,166	1,481	—56	—73	1,351	5,517
long-term	312	225	—2	—7	216	528
short-term	3,854	1,256	—55	—66	1,135	4,989
Loans and borrowings	5,473	—367	—106	4	—469	5,004
IMF loans	2,810	—2,762	—48	0	—2,810	0
other long-term	801	353	—7	25	371	1,172
short-term	1,862	2,042	—51	—21	1,970	3,832

End

	Balance as of 1.01.2001	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2002
Overdue debt	723	5	—1	9	14	736
Other liabilities	602	—184	86	48	—49	553
long-term	157	—72	—3	0	—75	82
short-term	446	—112	89	48	26	471
Net international investment position	34,055	8,031	29	290	8,350	42,405

For the record: + denotes net increase in assets or liabilities, — signifies their net decrease. This use of the sign differs from its use in balance of payments statistics.

Notes.

1. This table presents data compiled by the Bank of Russia and other credit institutions, including Vneshekonombank. They do not comprise data on operations with government foreign debt and government foreign assets conducted by Vneshekonombank as an agent of the Russian Government.

2. “Reserve assets” include gold and foreign exchange reserves of the Finance Ministry as a monetary authority.

3. “Adjustment to reserve assets” is included in the table to match balance of payments data with Russia’s international investment position data, which are compiled in accordance with the IMF Balance of Payments Statistics Yearbook (Fifth Edition), on the one hand, and with the official international reserve statistics, which are calculated using national methodology, on the other hand. The differences between the national methodology of calculating international reserves and the methodology recommended in the IMF Yearbook are as follows:

— before 1999 Q3 international reserves included short-term foreign currency deposits with resident banks;

— beginning from 1999 Q3 an equivalent of the foreign currency balances in resident banks’ accounts with the Bank of Russia, except the balance kept by the Bank of Russia for foreign debt service, has been excluded from international reserves.

4. Gold is valued at \$300 per troy oz.

5. “IMF loans” show Bank of Russia’s debt to the IMF.

6. “Other changes” include assets and liabilities of credit institutions which had their banking licences revoked in the period under review.

Table 25

DYNAMICS OF RUSSIA'S DEBT TO INTERNATIONAL FINANCIAL ORGANISATIONS IN 2001 (billion US dollars)

Financing facility	Debt as of 1.01.2001	Used in period under review	Repaid in period under review	Exchange rate revaluation	Debt as of 1.01.2002
IMF loans:	11.6	0.0	3.8	—0.3	7.4
Systemic Transformation Facility, 1993—1994	1.5	0.0	0.5	0.0	1.0
Standby Credit, 1995—1996	0.1	0.0	0.1	0.0	0.0
Extended Fund Facility, 1996—1998	6.5	0.0	0.5	—0.2	5.8
Compensatory and Contingency Financing Facility*, 1998	2.8	0.0	2.8	0.0	0.0
Standby Credit, 1999	0.6	0.0	0.0	0.0	0.6
IBRD loans	6.8	0.4	0.4	—0.1	6.7
EBRD loans	0.2	0.1	0.0	0.0	0.2

* Bank of Russia debt.

Table 26

DYNAMICS OF RUSSIA'S INTERNATIONAL RESERVES IN 2001 (million US dollars)

Indicator	Balance as of												
	2001												2002
	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's assets)	27,972.2	29,637.8	28,344.8	29,708.8	31,650.4	33,550.0	35,052.6	36,501.6	37,493.2	37,956.8	38,002.4	37,287.8	36,622.2
Foreign exchange assets	24,264.4	25,888.5	24,590.7	25,942.0	27,868.2	29,748.5	31,251.1	32,694.5	33,685.8	34,043.9	34,016.4	33,276.9	32,542.4
Monetary gold*	3,707.8	3,749.3	3,754.1	3,766.7	3,782.2	3,801.4	3,801.4	3,807.1	3,807.4	3,912.9	3,986.0	4,010.9	4,079.8

* Gold is valued at \$300 per troy oz.

Table 27

RUSSIA'S FOREIGN DEBT IN 2001 (calculated according to international methodology, billion US dollars)

	1.01.2001	1.04.2001	1.07.2001	1.10.2001	1.01.2002
Total	161.4	157.1	156.8	156.4	150.9
General government	127.5	123.1	120.9	119.2	113.8
Federal government	126.3	122.1	120.3	118.8	112.8
<i>New Russian debt</i>	60.0	58.2	57.0	53.8	51.0
loans from international financial organisations	15.8	15.2	14.8	14.9	14.4
<i>IMF</i>	8.8	8.2	7.9	7.9	7.4
<i>IBRD</i>	6.8	6.8	6.7	6.8	6.7
<i>other</i>	0.2	0.2	0.2	0.2	0.2
other loans	8.6	7.7	7.2	6.9	6.4
foreign currency-denominated securities	30.7	30.8	30.8	28.0	27.0
<i>eurobonds (including eurobonds issued to restructure GKO and Russia's debt to London Club of commercial bank creditors)</i>	29.9	30.0	30.0	27.1	26.0
<i>6th and 7th tranches of OVGZ bonds and OGVZ bonds issued in 1999</i>	0.7	0.7	0.8	0.9	1.0
<i>other securities</i>	0.0	0.0	0.0	0.0	0.0
ruble-denominated securities (GKO and OFZ bonds)	1.6	1.4	1.1	0.8	0.6
other debt*	3.2	3.2	3.2	3.2	2.6
<i>Debt of former USSR</i>	66.3	63.9	63.3	64.9	61.7
Paris Club of creditor nations	38.8	36.9	35.9	37.1	36.3
3rd, 4th and 5th tranches of OVGZ bonds	1.2	1.2	1.3	1.4	1.7
debt to former socialist countries	14.3	14.1	14.1	14.2	11.3
other debt	12.0	11.7	12.1	12.3	12.5
Local governments	1.2	1.0	0.6	0.5	1.0
loans	0.6	0.4	0.4	0.3	0.8
eurobonds	0.6	0.6	0.2	0.2	0.2

End

	1.01.2001	1.04.2001	1.07.2001	1.10.2001	1.01.2002
Bank of Russia (as regards IMF loan)	2.8	2.7	2.7	2.1	0.0
Banking system (without equity capital)**	9.3	9.8	11.6	12.8	13.6
loans	2.9	3.4	3.9	4.3	5.1
current accounts and deposits	4.3	4.6	5.6	5.8	5.7
debt securities	0.8	0.7	0.8	1.6	1.5
other debt	1.3	1.1	1.2	1.1	1.3
Non-financial enterprises (without equity capital)	21.8	21.5	21.6	22.3	23.5
loans received by enterprises as direct investment	5.4	5.7	6.1	6.4	6.6
debt on financial leasing	1.5	1.4	1.4	1.4	1.3
other loans	14.9	14.4	14.1	14.5	15.5

* Debt prior to October 1, 2001, does not include Finance Ministry's overdue debt obligations on current operations conducted in 1992—1993 and partly in 1994—1998 to the total amount of \$1.1 billion, which were written off in 2001 Q4 under the October 8, 1998, Agreement between Russia and Kazakhstan.

** These include debt obligations of Bank of Russia (except debt obligations to IMF) and credit institutions, including Vneshekonombank, as part of commercial transactions. Foreign debt recorded by Vneshekonombank as an agent of the Russian government is presented as part of general government debt obligations.

Note.

Government securities are shown as part of debt to non-residents and evaluated at their face value.

Table 28

MAJOR ECONOMIC DEVELOPMENT INDICATORS OF CIS COUNTRIES IN 2001

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kirghizia	Moldova	Russia	Tajikistan	Turkmenia	Ukraine
Key macroeconomic indicators											
Gross domestic product (as % of previous year)	109.9	109.6	104.1	104.5	113.2	105.3	106.1	105.0	110.2	120.5	109.1
Industrial production (as % of previous year)	105.1	103.8	105.4	98.9	113.5	105.4	114.2	104.9	114.8	111.0	114.2
Retail trade turnover (as % of previous year)	109.9	115.5	121.2	105.6	—	105.9	105.3	110.7	101.2	132.0	112.6
Consumer price index (as % of December of previous year)	101.5	102.8	146.1	103.4	106.4	103.7	106.2	118.6	112.9	111.7	106.1
Official unemployment rate as % of economically active population (as of end of year)	1.28	9.9	2.3	—	2.8	3.2	—	1.6	—	—	3.68
Official central (national) bank rate (refinancing rate), as of end of year, %:											
2000	10	25	80	6.3	14	38.29	—	25	20.6	20	27.0
2001	10	15	48	—	9	7.95	—	25	20.0	12	13.2
Official exchange rate of national currency set by central (national) bank as of end of year (units of national currency)											
against US dollar:											
2000	4,565	552.18	1,180	1.9750	144.50	48.3041	12.3833	28.16	2.20	5,200	5.4345
2001	4,775	561.81	1,580	2.0600	150.20	47.7186	13.0909	30.14	2.55	5,200	5.2985
against Russian ruble:											
2000	162.11	19.55	41.97	0.0693	5.16	1.7153	0.4322	—	0.07813	185.91	0.193
2001	158.43	18.47	52.31	0.0683	4.97	1.5832	0.4340	—	0.08461	172.64	0.176
Money supply in national currency (rate of growth as of start of year, %)	7.8	10.9	100.2	5.7	18.6	17.1	37.8	40.1	41.7	—	43.3

End

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kirghizia	Moldova	Russia	Tajikistan	Turkmenia	Ukraine
Major financial market indicators (as of end of year)											
Interbank rate on loans in national currency	19.75	—	76.2	—	—	11.87	7.29	23.9	19.471	—	16.5
Yield on government debt instruments	15.84	—	48.0	22.29	14.96	12.36	8.84	14.92	18.03	—	13.78
Interest rate on loans denominated in national currency:											
short-term loans	19.74	27.36	68.7	26.07	15.9	26.15	26.21	17.0	18.447	—	30.3
long-term loans	20.70	23.84	22.8	15.0	13.6	5.00	25.56	18.4	21.078	—	21.9
Interest rate on household deposits in national currency:											
demand deposits	1.79	4.00	9	3	1.5	1.05	6.60	2	8	—	4.6
short-term deposits	9.13	15.51	63.6	8.21	12.1	15.37	17.91	4.8	16	—	22.5
long-term deposits	11.74	16.77	74.6	4	14.9	24.19	22.11	18.8	36	—	28.6
No. of registered commercial banks:											
2000	59	31	32	30	48	22	16	2,084	19	13	195
2001	53	30	29	27	44	20	16	1,953	17	13	189

Note.

Financial market indicators for Russia are calculated as weighted averages for December 2001. Interbank interest rate on loans in national currency is calculated for overnight loans. Yield on government securities is the auction yield on 6—12-month GKO bonds. Interest rates on long-term deposits and loans in national currency are calculated for terms from 1 year to 3 years (excluding the Savings Bank (Sberbank)). Interbank lending rates in CIS countries are calculated as follows: 90 days in Azerbaijan, up to 15 days in Armenia, overnight loans in Belarus and Ukraine, up to 30 days in Georgia and Kazakhstan, and all terms in Kirghizia, Moldova and Tajikistan. Yields on government securities in Azerbaijan are calculated for papers with a term of 90 days, Armenia and Kazakhstan 3—6 months, Belarus 6—12 months, Georgia 7 days, Kirghizia 3 months, Moldova and Ukraine all terms and Tajikistan 91 days.

This table was compiled on the basis of data provided by CIS central (national) banks.

Table 29

MAJOR ECONOMIC DEVELOPMENT INDICATORS OF NON-CIS COUNTRIES IN 1999—2001*

	Real GDP, % growth on previous year			Consumer prices, % growth on previous year			Unemployment rate, % of workforce			Current account balance, as % of GDP		
	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001
USA	4.1	4.1	1.2	2.2	3.4	2.8	4.2	4.0	4.8	-3.5	-4.5	-4.1
Canada	5.1	4.4	1.5	1.7	2.7	2.6	7.6	6.8	7.2	0.2	2.5	2.7
Japan	0.7	2.2	-0.4	-0.3	-0.7	-0.7	4.7	4.7	5.0	2.5	2.5	2.1
EU**	2.6	3.3	1.6	1.4	2.3	2.6	9.1	8.2	7.7	0.3	-0.4	0.4
U.K.***	2.1	3.0	2.2	2.3	2.1	2.1	6.0	5.5	5.1	-2.1	-1.8	-1.8
EMU****	2.6	3.3	1.5	1.1	2.3	2.5	9.9	8.8	8.3	-0.3	-0.9	-0.1
Germany	1.8	3.0	0.6	0.6	2.1	2.4	10.5	9.6	9.4	-0.9	-1.0	0.5
France	3.0	3.6	2.0	0.6	1.8	1.8	11.0	9.5	8.8	2.6	1.8	2.5
Italy	1.6	2.9	1.8	1.7	2.6	2.7	11.4	10.6	9.5	0.5	-0.5	0.4
Hong Kong	3.0	10.5	0.1	-4.0	-3.8	-1.6	6.2	4.9	5.1	7.3	5.5	7.4
Singapore	6.9	10.3	-2.0	0.0	1.3	1.0	3.5	3.1	3.3	20.0	17.0	23.3
Taiwan	5.4	5.9	-1.9	0.2	1.3	-0.1	2.9	3.0	4.6	2.9	2.9	6.7
South Korea	10.9	9.3	3.0	0.8	2.3	4.1	6.3	4.1	3.7	6.0	2.7	2.0
China	7.1	8.0	7.3	-1.4	0.4	0.7	3.1	3.1	n.a.	1.6	1.9	1.7
Indonesia	0.8	4.8	3.3	20.5	3.7	11.5	6.4	6.1	n.a.	4.1	5.3	4.5
Malaysia	6.1	8.3	0.4	2.8	1.5	1.4	3.4	3.1	3.7	15.9	9.4	8.2
Thailand	4.4	4.6	1.8	0.3	1.5	1.7	4.2	3.6	3.9	10.2	7.6	5.4
Philippines	3.4	4.0	3.4	6.7	4.4	6.1	9.8	11.2	11.1	10.0	12.1	5.6
Australia	4.8	3.2	2.4	1.5	4.5	4.4	7.0	6.3	6.7	-5.9	-4.0	-2.6

End

	Real GDP, % growth on previous year			Consumer prices, % growth on previous year			Unemployment rate, % of workforce			Current account balance, as % of GDP		
	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001
South Africa	2.1	3.4	2.2	5.2	5.4	5.7	23.3	26.3	28.0	-0.4	-0.3	-0.5
Israel	2.6	6.4	-0.6	5.2	1.1	1.1	8.9	8.8	9.3	-3.0	-1.2	-1.5
Argentina	-3.4	-0.8	-4.5	-1.2	-0.9	-1.1	14.3	15.1	17.4	-4.2	-3.1	-2.1
Brazil	0.8	4.4	1.5	4.9	7.0	6.8	7.6	7.1	6.3	-4.8	-4.1	-4.6
Mexico	3.7	6.6	-0.3	16.6	9.5	6.4	2.5	2.2	2.5	-2.9	-3.1	-2.8
Chile	-1.0	4.4	2.8	3.3	3.8	3.6	9.7	9.2	9.2	-0.1	-1.3	-1.4
Turkey	-5.1	7.2	-7.4	64.9	54.9	54.4	7.7	6.6	8.5	-0.7	-4.9	1.4
Hungary	4.2	5.2	3.8	10.0	9.8	9.2	7.0	6.4	5.7	-4.3	-2.9	-2.4
Poland	4.1	4.0	1.1	7.3	10.1	5.5	12.2	14.2	16.4	-7.5	-6.3	-4.0
Czech Republic	-0.4	2.9	3.6	2.1	3.9	4.7	8.7	8.8	8.1	-2.9	-5.6	-4.7

* Based on national statistics sources of corresponding countries, EUROSTAT and IMF as of April 29, 2002.

** Austria, Belgium, U.K., Germany, Greece, Denmark, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland, France and Sweden.

*** Consumer price growth rates do not include mortgage interest rates; unemployment rate is calculated according to ILO methodology.

**** Austria, Belgium, Germany, Greece, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland and France.

Table 30

MONEY SUPPLY (national definition, billion rubles)

Indicator	1.01.2001	1.04.2001	1.07.2001	1.10.2001	1.01.2002
Money supply (M2), total	1,144.3	1,149.5	1,294.3	1,414.4	1,602.6
cash in circulation (M0)*	419.3	399.4	474.7	531.0	584.3
non-cash funds	725.0	750.1	819.6	883.4	1,018.3

* Cash in circulation outside banking system.

Table 31

AVERAGE MONTHLY RATES OF MONEY SUPPLY GROWTH IN 2001 (%)

Indicator	Q1	Q2	Q3	Q4	Full year
Money supply (M2), total	0.2	4.0	3.0	4.3	2.8
cash in circulation (M0)*	-1.6	5.9	3.8	3.2	2.8
non-cash funds	1.1	3.0	2.5	4.8	2.9

* Cash in circulation outside banking system.

Table 32

STRUCTURE OF MONEY SUPPLY (M2)

	1.01.2001		1.01.2002		Growth index
	billion rubles	%	billion rubles	%	
Money supply (M2), total	1,144.3	100.0	1,602.6	100.0	1.40
of which:					
cash in circulation*	419.3	36.6	584.3	36.5	1.39
non-cash funds	725.0	63.4	1,018.3	63.5	1.40
of which:					
deposits of non-financial enterprises and organisations	420.1	36.7	571.4	35.7	1.36
household deposits	304.9	26.6	446.9	27.9	1.47

* Cash in circulation outside banking system.

Table 33

MONETARY BASE AND ITS STRUCTURE

	1.01.2001		1.01.2002		Growth index
	billion rubles	%	billion rubles	%	
Monetary base (in broad definition), total	721.6	100.0	928.3	100.0	1.29
of which:					
cash in circulation, including cash balances in tills of credit institutions*	446.5	61.9	623.5	67.2	1.40
credit institutions' correspondent accounts with Bank of Russia**	130.1	18.0	144.5	15.6	1.11
required reserves***	124.3	17.2	156.6	16.9	1.26
banks' deposits with Bank of Russia	20.7	2.9	3.7	0.4	0.18

* Excluding cash in tills of Bank of Russia institutions.

** Ruble-denominated accounts, including cash balances in organised securities market and in ARCO correspondent account.

*** For ruble and foreign currency borrowed funds.

Table 34

ANALYTICAL ACCOUNTS OF CREDIT INSTITUTIONS (million rubles)

	1.01.2001	1.01.2002	Change for 2001
Reserves	301,124.5	342,309.2	41,184.7
Foreign assets	476,581.8	539,393.2	62,811.4
Claims on general government	526,020.7	583,632.2	57,611.5
Of which:			
claims on regional and local governments	18,531.3	26,245.5	7,714.2
Claims on non-financial state enterprises	73,972.6	79,302.1	5,329.5
Claims on non-financial private enterprises and households	867,132.2	1,388,918.8	521,786.6
Claims on other financial institutions	14,525.0	22,487.1	7,962.1
Demand deposits	443,020.9	585,469.0	142,448.1
Time and savings deposits and foreign currency deposits	680,646.9	930,104.6	249,457.7
Of which:			
foreign currency deposits	420,090.5	520,006.1	99,915.6
Limited-access deposits	22,695.4	20,844.2	—1,851.2
Money market instruments	191,059.0	258,231.6	67,172.6
Foreign liabilities	248,920.7	314,998.6	66,077.9
General government deposits	54,547.2	67,939.4	13,392.2
Of which:			
regional and local government deposits	36,641.8	42,258.8	5,617.0
Obligations to monetary authorities	203,468.2	247,605.2	44,137.0
Capital account	437,265.2	611,808.1	174,542.9
Other (balance)	—22,266.8	—80,958.2	—58,691.4

Table 35

MONETARY SURVEY (million rubles)

	1.01.2001	1.01.2002	Change for 2001
Net foreign assets of monetary authorities and credit institutions	739,049.7	1,100,831.0	361,781.3
Domestic credit	1,691,683.9	2,199,837.0	508,153.1
Net credit to general government	735,687.3	708,880.6	—26,806.7
Claims on non-financial state enterprises	74,075.2	79,382.0	5,306.8
Claims on non-financial private enterprises and households	867,396.4	1,389,087.3	521,690.9
Claims on other financial institutions	14,525.0	22,487.1	7,962.1
Money	879,309.8	1,192,627.2	313,317.4
Quasi-money	680,654.4	930,106.3	249,451.9
Limited-access deposits	22,695.4	20,844.2	—1,851.2
Money market instruments	191,059.0	258,231.6	67,172.6
Capital accounts	603,312.7	854,120.0	250,807.3
Other (balance)	53,702.4	44,738.8	—8,963.6

Table 36

SANCTIONS APPLIED TO CREDIT INSTITUTIONS IN 2001

No.	Description of actions	No. of banks
Preventive actions		
1	Notifying in writing management and/or board of directors (supervisory board) of credit institution about shortcomings in its work and recommending remedial actions	1,144
2	Calling a meeting	268
3	Other (recommendations to draw up a plan of remedial actions, increase control over reporting, make realistic assessment of credit risk, avoid distortions in statements, etc.)	94
Coercive actions		
4	Fines	790
	Including:	
4.1	finances for non-compliance with reserve requirements	489
4.2	finances for violation of other prudential standards	556
5	Imposing restrictions on individual operations conducted by credit institutions	185
	Including:	
5.1	taking household funds on deposit	152
5.2	effecting settlements on behalf of legal entities involved in transfer of funds to budgets of all levels and government extra-budgetary funds	38
6	Prohibiting credit institutions from conducting individual banking operations	98
	Including:	
6.1	taking household funds on deposit	64
6.2	other	83
7	Demands	993
	Including:	
7.1	demands to comply with Bank of Russia's mandatory ratios and standards	250
7.2	demands to replace management	9
7.3	other	964
8	Prohibiting credit institutions from opening branches	131
9	Appointing provisional administrations to credit institutions	5
10	Revoking banking licence	20

Table 37

NOTE STRUCTURE OF 1997 BANK OF RUSSIA BANKNOTES IN CIRCULATION

Denomination, rubles	Total in circulation, million rubles		As % of 1.01.2001	% share	
	1.01.2001	1.01.2002		1.01.2001	1.01.2002
1,000	0	91,911.0	—	0	14.9
500	253,007.3	351,618.6	139.0	57.2	56.8
100	140,335.9	132,379.2	94.3	31.7	21.4
50	42,991.4	36,778.4	85.5	9.7	5.9
10	6,277.6	6,203.2	98.8	1.4	1.0
5	61.4	36.0	58.6	0	0
Total banknotes of 1997 issue	442,673.6	618,926.4	139.8	100	100

Table 38

STRUCTURE OF 1997 BANK OF RUSSIA COINS IN CIRCULATION*

Denomination	Total in circulation, million rubles		As % of 1.01.2001	% share	
	1.01.2001	1.01.2002		1.01.2001	1.01.2002
1 kopeck	21.7	27.9	128.6	0.5	0.5
5 kopecks	73.4	92.6	126.2	1.7	1.7
10 kopecks	285.7	390.9	136.8	6.7	7.1
50 kopecks	413.7	513.0	124.0	9.6	9.4
1 ruble	1,073.2	1,323.6	123.3	24.9	24.2
2 rubles	709.1	925.2	130.5	16.5	16.9
5 rubles	1,549.7	1,830.8	118.1	36.0	33.5
10 rubles	177.7	367.5	206.8	4.1	6.7
Total coins of 1997 issue	4,304.2	5,471.5	127.1	100	100

* Excluding coins made of precious metals.

Table 39

BANK OF RUSSIA STAKES IN CAPITAL OF OVERSEAS SUBSIDIARIES AND RESIDENT CREDIT AND OTHER ORGANISATIONS

Name of bank	Currency		Nominal value of Bank of Russia shares		Bank of Russia % share as of 1.01.2002	
	1.01.2001	1.01.2002	1.01.2001	1.01.2002	in authorised capital	in voting capital
Moscow Narodny Bank, London*	British pound sterling	British pound sterling	128,242,621.55	128,242,621.55	88.89	88.89
Eurobank, Paris*	French franc	euro	946,036,236.65	161,297,826.00	87.03	87.03
Ost-West Handelsbank, Frankfurt-am-Main**	Deutsche mark	euro	1,066 shares	671 shares	51.62	51.62
Donau-bank, Vienna	Austrian schilling	euro	490,000,000.00	10,900,500.00	15.00	15.00
East-West United Bank, Luxembourg	euro	euro	14,997,558.25	4,589,748.61	15.00	15.00
Sberbank, Moscow	thousand rubles	thousand rubles	432,500	605,693	60.57	63.76
Vneshtorgbank, Moscow	thousand rubles	thousand rubles	42,117,403	42,117,403	99.95	99.95
Moscow Interbank Currency Exchange	thousand rubles	thousand rubles	18,137	21,151	18.33	18.33
National Depository Centre, Moscow	thousand rubles	thousand rubles	12,750	24,500	49.00	44.55

* Excluding the shares of "nominal" shareholders, recorded in Bank of Russia balance sheet.

** Since 2000 Bank of Russia stake in Ost-West Handelsbank has been represented by registered single shares without nominal value.