

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



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



Approved by the Bank of Russia Board of Directors on May 14, 2001

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## INTRODUCTION

The Report by the Central Bank of the Russian Federation (Bank of Russia) for 2000, compiled pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), shows the role played by the Bank of Russia in the country's economy and finances, demonstrates the results of the monetary and exchange rate policies and describes the measures undertaken by the Bank of Russia to reform the banking sector and improve the payment system.

To enhance the credibility of its policy and make its activities more transparent, the Bank of Russia in the year under review took pains to explain to the public its vision of economic developments, the objectives and priorities of its monetary policy and the efforts it made to strengthen the banking system. Its report for 2000 is the principal source of information for all economic agents on how the Bank of Russia fulfilled its functions and it contains financial reports certified by auditors.

The year under review saw the Russian economy continue its rapid recovery from the financial and economic crisis of 1998. The monetary policy implemented by the Bank of Russia facilitated the attainment of rapid rates of economic growth amid lower inflation and relative stability of the real exchange rate of the ruble. It was a tangible contribution to macroeconomic progress. The reduction of macroeconomic risks made the situation more transparent for economic agents and helped lessen the inflationary expectations in society.

A sensible monetary policy made it possible to mobilise the internal potential of the Russian economy and use favourable foreign economic conditions for the benefit of the country. A combination of free production capacities and the availability of funds to finance production led to rapid economic growth.

A favourable foreign economic situation ensured that Russia had a strong balance of payments and a steady inflow of foreign exchange to

the domestic market. In this situation the Bank of Russia tackled different problems: while buying foreign exchange in the domestic market to increase international reserves and expanding the money supply, which stimulated economic growth, it took timely and purposeful steps to smooth sharp exchange rate fluctuations in the domestic foreign currency market, caused by transient factors, and prevented the ruble from getting too strong in real terms, ensuring the stability of the foreign exchange market and keeping the Russian economy competitive. In the year under review the Bank of Russia more than doubled the country's international reserves, guaranteeing the fulfilment by Russia of its foreign debt obligations in the years to come, creating conditions for propping up the domestic currency when necessary and making sure that Russia would not become too vulnerable if foreign economic conditions changed for the worse.

At the same time, to neutralise possible inflationary pressure, the Bank of Russia sterilised temporarily free liquidity. However, a considerable sum of the Finance Ministry's debt to the Bank of Russia in the form of non-marketable government securities did not allow the Bank of Russia to use to a full extent operations with securities for sterilisation purposes.

The availability of free funds amid a federal budget surplus caused Bank of Russia and money market interest rates to decline and created conditions stimulating investor and creditor interest in non-financial enterprises.

Money supply growth to meet the increased demand for domestic currency led to a contraction in the share of non-monetary forms of settlements, broadened the investment possibilities of enterprises whose own funds had grown and brought about a rise in federal budget revenues and in lending to the real economy.

Last year's rise in banks' lending activity outpaced GDP dynamics. The gradual narrowing of the gap between the level of profitability in production and interest rates in the money market,

the contraction of the volume of nonpayments and the expansion of investment and consumer demand were factors that encouraged a wider use of funds raised by credit institutions with the aim of supporting economic growth.

In 2000, the Bank of Russia continued to pay considerable attention to the development and consolidation of the banking sector. It participated in the restructuring of credit institutions within the purview of the law and completed the withdrawal from the banking services market of banks considered unsalvageable under the applicable Russian legislation. Under Bank of Russia supervision, credit institutions drew up and implemented financial rehabilitation plans aimed at restoring their capital and restructuring their assets and liabilities. The measures taken by the Bank of Russia to revoke banking licences and improve the control over liquidation procedures and the activities of receivers and liquidation commissions helped increase the funds used to meet creditors' and depositors' claims. As a result of the efforts exerted by the Russian government, the Bank of Russia and the banking community most of the key parameters of the national banking system in relation to GDP have exceeded or almost reached their pre-crisis level.

In 2000 the Bank of Russia began to put into practice a programme of switching the Russian banking system to international accounting standards, upgraded the methodology and practice of

banking supervision, refined the legislative and regulatory framework of the domestic banking system and improved the methods of managing and controlling banking risks.

It laid special emphasis on the key issues of the development of the national payment system, setting guidelines for upgrading it in order to build a new architecture of the payment system that would meet to a fuller extent contemporary international requirements.

The improvements that occurred in 2000 thanks to a pickup in the Russian economy, favourable foreign trade conditions for major Russian exports, deficit-free federal budget and increased economic and political stability had a beneficial effect on the main indicators and structure of the balance sheet and financial performance of the Bank of Russia.

Although Bank of Russia losses from the depreciation of its government securities portfolio as a result of the financial and economic crisis of 1998 have decreased a little, they still add up to a considerable amount. Guided by its Statement on the Economic Policy for 2001 and Some Aspects of the Medium-Term Strategy and seeking to enhance the efficiency of the monetary policy, the Russian government is set to settle its financial relations with the Bank of Russia by converting a large part of government debt to the Central Bank into instruments with a market interest rate.



**ECONOMIC AND  
FINANCIAL SITUATION  
IN RUSSIA  
IN 2000**



## I.1. ECONOMIC SITUATION IN RUSSIA

*In* 2000 Russia continued to register economic growth, reaching the highest level since the beginning of reforms. The economic recovery was accompanied by a significant slowdown in inflation and a strong balance of payments. The reduction of inflationary pressure was made possible by a balanced monetary policy, smooth ruble exchange rate dynamics, the continuing competitiveness of domestic production, growth in labour productivity and a deficit-free federal budget.

The monetary policy pursued by the Bank of Russia facilitated the use of the advantages of a favourable foreign economic situation for the fullest possible utilisation of the internal economic growth potential created in the Russian economy in the post-crisis period.

The exchange rate policy contributed to growth in exports, a considerable increase in revenues and the expansion of production in the export-oriented and related branches, growth in the demand for domestic products and the further expansion of import-substituting production capacities. As a result, the financial standing of enterprises improved, the share of settlements effected with money expanded, the state of government finance changed for the better and the monetisation of the Russian economy increased.

Last year saw a rise in investment activity and many enterprises began the technical retooling of production. Economic growth in 2000 resulted from both the utilisation of hitherto unused production capacities and putting into operation of new production facilities, which created poten-

tial for the output of competitive products in the future.

**Inflation** in 2000 was on the whole close to the target set for the year. Consumer prices rose by 20.2% in the year to December, which represents a decrease of 1.8 times compared with 1999. On an annualised basis inflation was 20.8%. At the same time, GDP expanded by 8.3% in 2000. The official forecast of Russia's social and economic development set the inflation rate in 2000 at 18% and GDP growth at 1.5%.

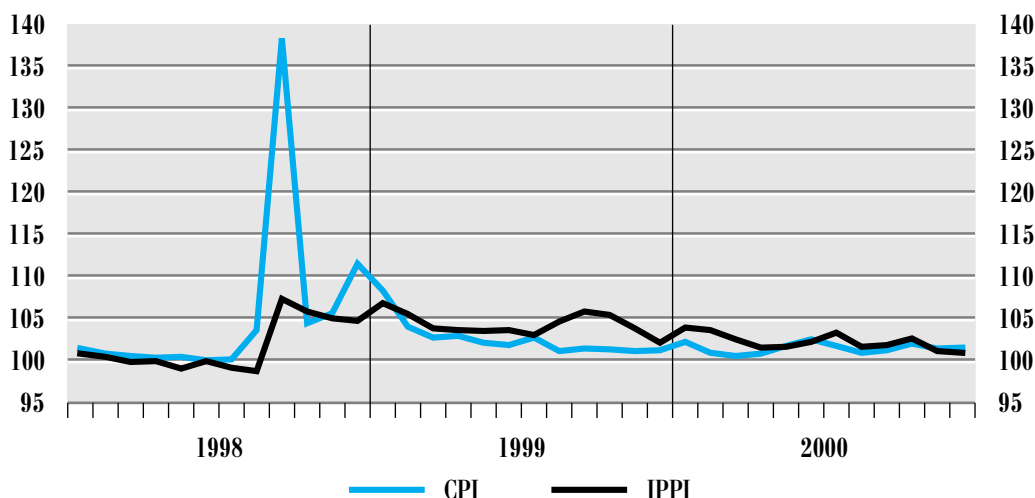
The factors behind the process of price setting in 2000 affected inflation in different ways.

On the one hand, a high level of economic and investment activity, the external conditions connected with growth in the world prices of major energy resources, which pushed up energy prices in the domestic market, the expansion of household demand for goods and services owing to growth in personal income and more rapid price growth in industry than in the consumer market increased the price pressure on the economy.

On the other hand, a balanced monetary policy, smooth ruble/dollar exchange rate dynamics, a favourable state of government finance, relatively low inflationary expectations and growth in labour productivity caused the inflationary pressure to decline.

Bank of Russia calculations show that 50% of consumer price growth in 2000 was caused by growth in food prices, 27% by higher non-food prices and 23% by increases in paid services prices. The respective percentages in 1999 were 59%, 29% and 12%. Consequently, the impact

CONSUMER AND INDUSTRIAL PRODUCER PRICE INDEX DYNAMICS  
(as % of previous month)



**PRICE GROWTH RATES IN THE ECONOMY**  
(December 2000 as % of December 1999)

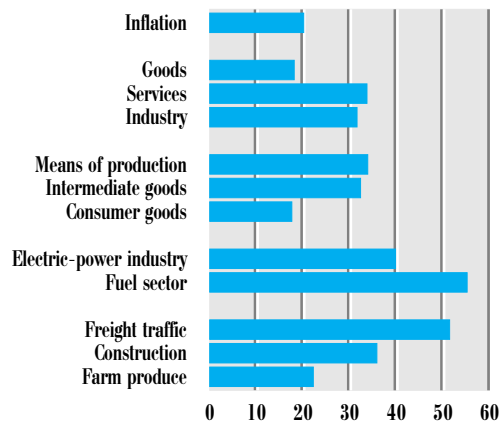


Chart 2

increased. Costs in the gas industry in 2000 increased by 63.1% against 22.1% in 1999, while the cost of gas transportation rose by 41.9% against 13.9% in 1999. Prices kept growing at rapid rates in other branches of the fuel sector: in the oil-extracting industry prices grew by 58.0% over the year and in the oil-refining industry by 47.5%. Price growth in the electric-power industry amounted to 39.9% against 14.4% in 1999. As a result, industrial producer prices increased faster than was expected at the beginning of the year.

Thanks to the gap that appeared in 1998 between consumer and industrial producer prices, the price pressure on the economy by industrial producer prices was relatively weak in the next two years. By the end of 2000 this gap had narrowed dramatically and industrial producer prices soared by 175.8% and consumer prices by 179.8% compared with August 1998. As a result, the impact of the industrial producer price dynamics on the consumer price dynamics increased.

Of the industrial producer prices (IPPI), the prices of capital goods in 2000 rose by 33.9%, intermediate goods by 32.4% and consumer goods by 17.6%.

High investment activity affected the dynamics of capital goods prices, which in 2000 grew faster than the prices of intermediate or consumer goods.

According to a Bank of Russia estimate, a rise in capital goods prices accounted for 18% of growth in the IPPI, higher prices of intermediate

goods were responsible for 77% of IPPI growth and an increase in consumer goods prices made up 5% of IPPI growth. In 1999 the respective percentages were 5%, 80% and 15%.

Producer prices of consumer goods in 2000 were also affected by a rise in demand in the household sector, caused by increased personal income. Consumer demand remained low, however, and did not exceed producers' capabilities to meet it. In this situation, the efforts by consumer goods producers to stop sales market volumes from shrinking contained price growth and therefore prices of consumer goods rose at slower rates than prices of capital or intermediate goods. In the light and food industries, for example, prices last year went up by 22.3% and 18.6%, respectively.

The **employment situation** in 2000 demonstrated the tendencies that had taken shape at the end of the previous year: the overall number of jobless constantly declined, while the number of jobs increased. The overall number of unemployed in December 2000 fell by 21.9% year on year, to 7.0 million, or 9.6% of the economically active population against 12.2% in December 1999, while the overall number of jobs over that period rose by 1.6% to 65.0 million. The number of officially registered unemployed in December 2000 stood at 1.0 million, which represents a decrease of 17.9% from December 1999.

The improvement of the situation in the labour market resulted, above all, from economic growth; consequently, enterprises needed more employees. In 2000 enterprises' workforce requirements, reported to the government employment service, were much higher than in the previous year. In late December enterprises reported 751,000 vacancies, which represents a 30% rise year on year. Large and medium-sized enterprises created 580,000 new jobs, 7.6% more than in the previous year. The most significant increase in vacancies was registered in the oil-refining and oil-extracting industries and ferrous and non-ferrous metallurgy branches, that is, the industries where production expanded at rapid rates. The number of jobs declined in agriculture, trade, public catering and transport.

Involuntary underemployment continued to decline in 2000. Year on year, overall underemployment decreased almost by half.

PRICE INDICES FOR PRODUCE AND SERVICES OF NATURAL MONOPOLIES  
(December 1997 = 100%)

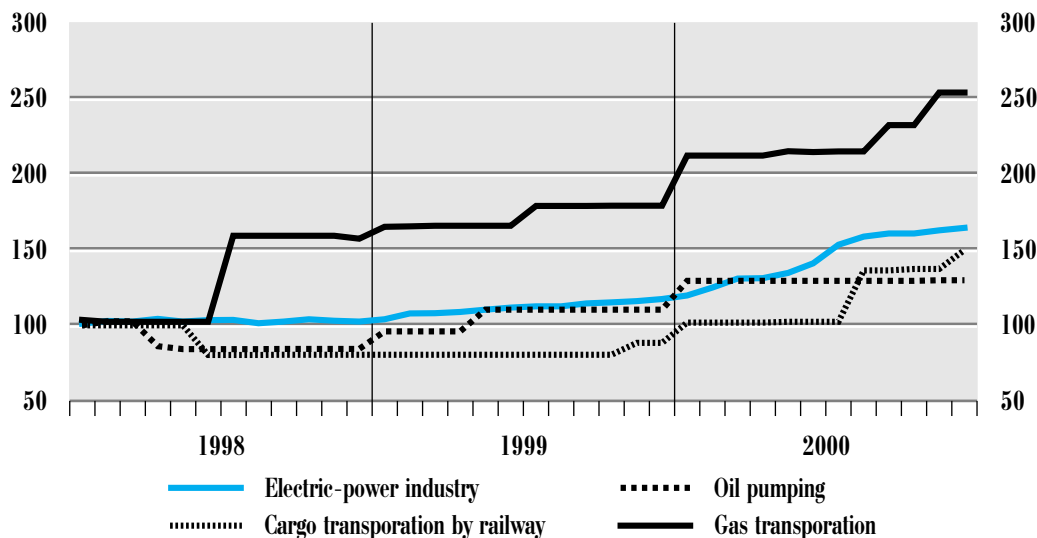


Chart 3

INDUSTRIAL PRODUCER PRICE DYNAMICS BY TYPE OF PRODUCT  
(December 1997 = 100%)

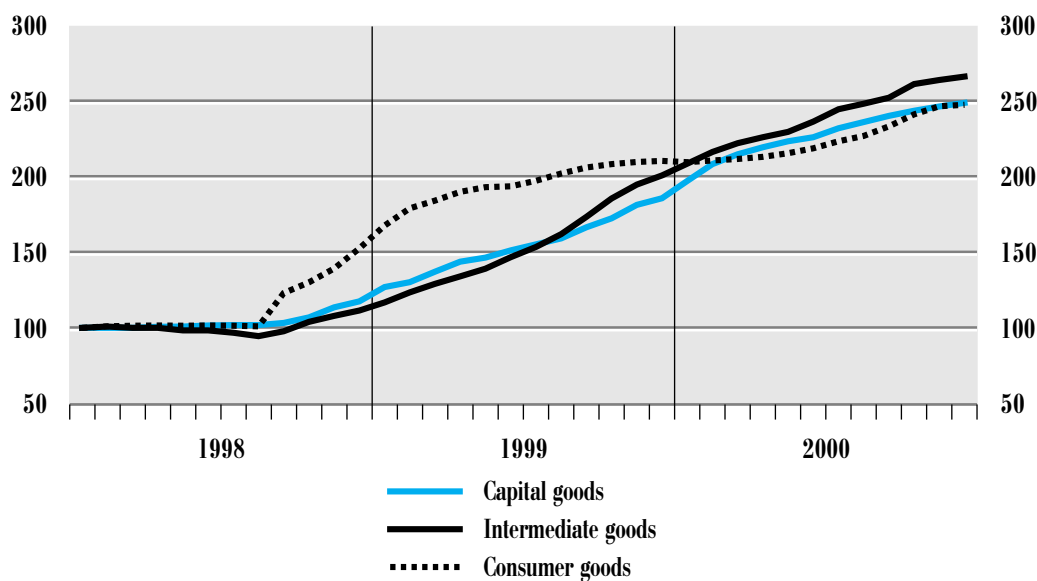


Chart 4

In 2000 Russia's **gross domestic product** expanded by 8.3% against 5.4% in 1999. Added value in the manufacturing sector increased by 10.7% and in the service sector by 6.2%.

Overall growth in industrial production in 2000 amounted to 9.0% year on year.

The major contributors to industrial output growth were the machine-building (32.8%), food (11.6%), fuel (9.3%), and ferrous and

non-ferrous industries (14.6% and 12.3%, respectively).

Industrial production in 2000 expanded at a fairly rapid rate, but as domestic producers failed to make vigorous efforts to cut production costs in order to keep their products competitive, the intensity of production growth began to subside in the second half of the year and in September output started to decline, seasonal factors excluded.

DYNAMICS OF CONSUMER AND INDUSTRIAL PRODUCER PRICE INDICES  
(August 1998 = 100%)

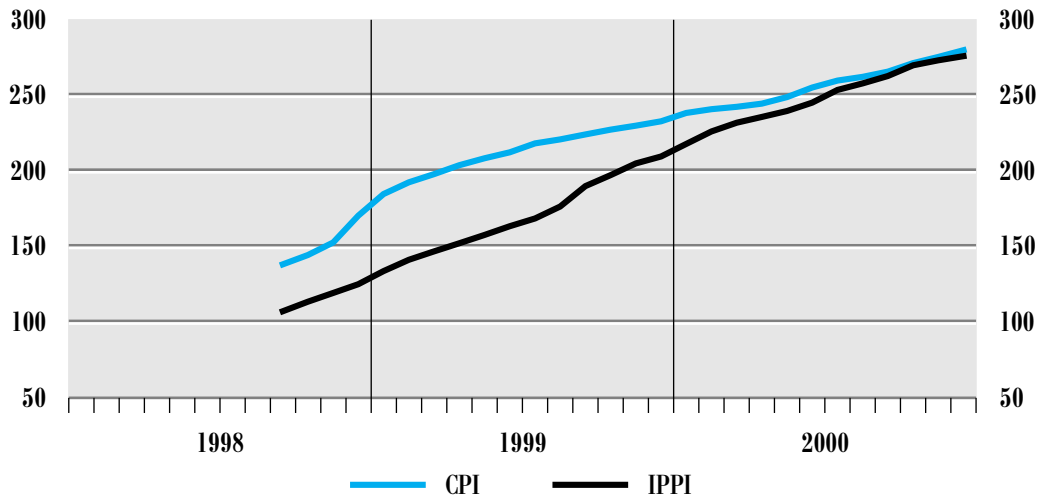


Chart 5

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

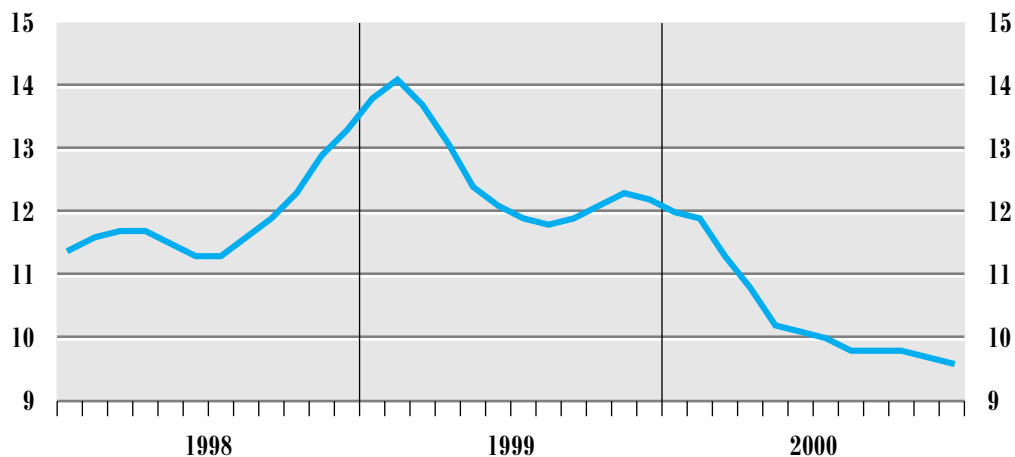


Chart 6

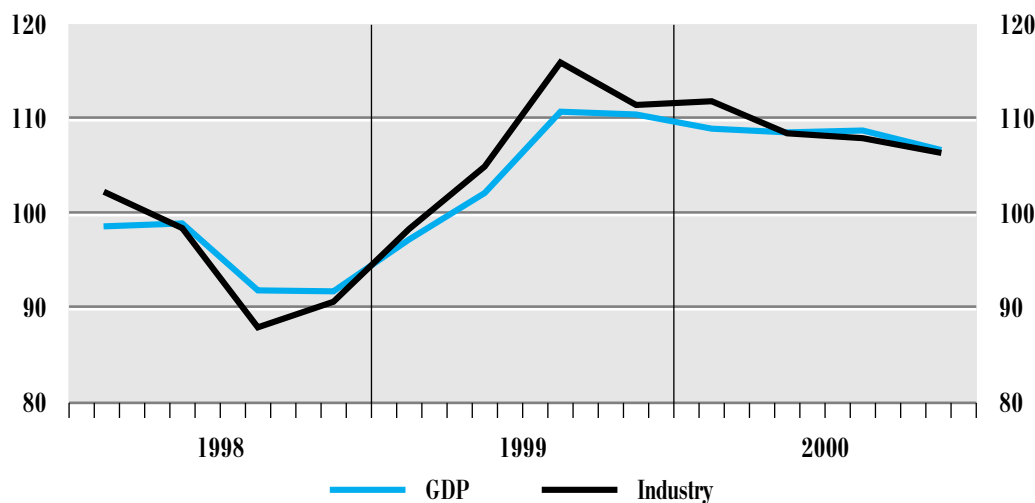
The most rapid rates of production growth (seasonal factors excluded) were registered in the ferrous metallurgy and machine-building branches, but in the latter half of the year these industries also registered a decline in the intensity of production, a process showing that it is necessary to use other factors of growth, especially higher investment activity of enterprises.

Export-oriented industries in 2000 demonstrated more rapid rates of growth than in 1999. Production in the fuel and energy industries, which account for nearly 30% of industrial output, rose by 3.8% against 1.6% in 1999. The elec-

tric-power industry expanded production by 1.8% against 0.3% in 1999 and the fuel industry by 5% against 2.4% in 1999. Production growth in the non-ferrous metallurgy industry amounted to 11.3% against 8.5% in 1999.

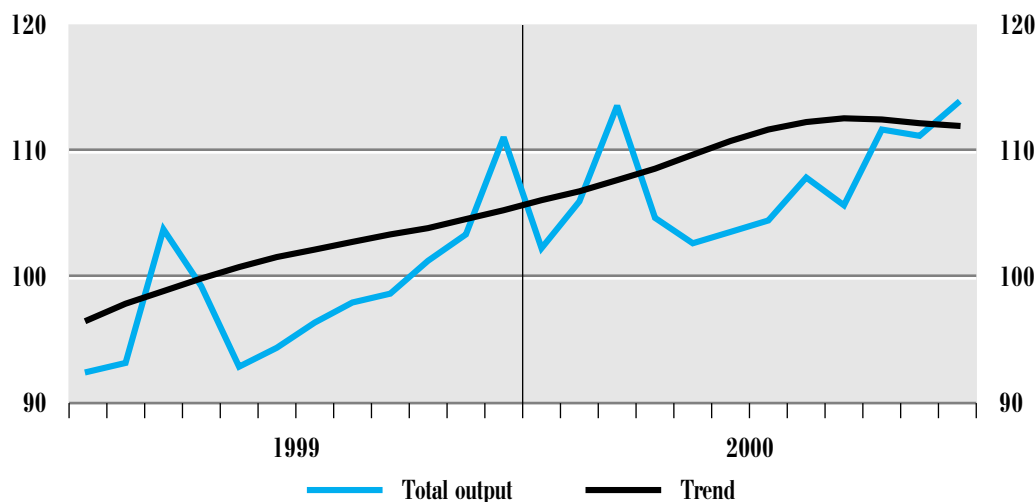
Industries oriented to the domestic consumer demonstrated dynamic growth in 2000. Production in the light industry increased by 22% and the food industry by 7.1%. It is highly significant that for the first time in recent years the meat and dairy industry posted a considerable growth in output (5.5%). High investment activity and the related expansion of the volume of contractual work in the construction sector stimulated

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



*Chart 7*

**INDUSTRIAL PRODUCTION DYNAMICS**  
(December 1998 = 100%)



*Chart 8*

demand for building materials and some types of machinery and equipment used in construction. The output of engineering production rose by 15.5% year on year and the building materials industry increased production by 7.6%.

Production growth in the ferrous metallurgy industry amounted to 15.6% year on year, chemical and petrochemical industry 14.3% and wood-and-paper industry 9.5%.

Agricultural production in 2000 expanded by 5%, which is the sector's best performance in recent years. Last year increased crop productivity led to bigger harvests in the plant-growing sec-

tor. Year on year, grain production rose by 19.6% and the production of potatoes increased by 7.5%. There was also growth in the output of all major livestock products.

Gross added value in the market services sector in 2000 increased by 7.2% year on year. There was significant expansion in the services provided by transport, communications, trading and public catering enterprises. Growth in the finance, credit and insurance sector amounted to 6.2%.

The expansion of added value in the sectors producing non-market services amounted to 1.8% over the year.



**PRODUCTION GROWTH RATES  
IN INDIVIDUAL INDUSTRIES IN 2000  
(as % of 1999)**

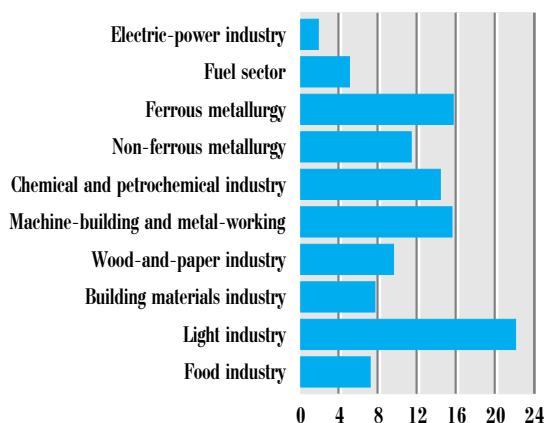


Chart 9

Production growth and relatively moderate inflation contributed to the improvement of **the financial standing of enterprises**.

In 2000 the net financial result of the activities of enterprises and organisations, not counting small businesses, banks, insurance companies and budget-financed organisations, was a profit of 1,055.5 billion rubles in current prices, which represents an increase of 75.2% over the profit made in 1999. Over the year the share of loss-making companies contracted by 2.8 percentage points to 41.6% of the total number of companies as of January 1, 2001.

Industry accounted for 68.8% of the net financial result received in the economy, posting a profit totalling 726.3 billion rubles against 423.5 billion rubles in 1999. Profit in the farming sector declined by 14% year on year, to 9 billion rubles.

The increase in profits of large and medium-sized industrial enterprises resulted from the expansion of production, price growth and changes in the structure of production costs. Bank of Russia calculations show that price growth accounted for more than 40% of the entire increment in profits for the year (this compares with over 50% in 1999). It is a positive factor for the financial result that costs grew more slowly than production owing to changes in the structure of output, which resulted in additional growth in profit by 48%

compared with 49% in 1999. Thanks to production growth and structural changes in production profit rose by about 12% compared with less than 1% in 1999.

A fairly high level of profitability was registered in the principal export-oriented branches (22.9%), which is mainly the result of the high efficiency of export operations. It should be noted that a gap remained in some industries between profitability levels in the domestic and foreign markets. The difference was particularly pronounced in the oil-extracting and non-ferrous metallurgy industries. In industries primarily oriented to the domestic market the profitability of production was as low as 7—8%<sup>1</sup>. In 2000 coal mining was the only loss-making industry.

Industrial production growth, the increment in the net financial result of the activities of enterprises and organisations, the expansion of working assets and the share of cash in their structure and the improvement of the structure of settlements for paid-for products of Russia's biggest taxpayers and monopolies slightly changed for the better the state of payments and settlements.

In 2000 non-monetary settlements accounted for less than 31% of the business turnover, whereas in 1999 such settlements were used as payment for more than 45% of the entire amount of shipped products.

The share of paid-for products shipped, work fulfilled and services provided by the largest taxpayers and industrial monopolies in 2000 expanded by 2.5 percentage points year on year, to 87.9%.

Last year saw growth in receivables slow down year on year, while the trend of debtors' non-payments to grow more slowly than the overall debt, which first appeared in 1999, continued and that led to a contraction in the overdue part of the debt in its overall amount.

Accounts receivable in 2000 rose by 22.6% and as of January 1, 2001, amounted to 2,450.8 billion rubles, while its overdue part expanded by 12.5% to 916.3 billion rubles.

Enterprises' solvency improved in 2000. As of January 1, 2001, the ratio of working assets to short-term liabilities, which is a measure of enterprises' solvency, amounted to 122%, which

<sup>1</sup> Profitability of production is calculated as the ratio of the financial result of the activities of enterprises to output.



represents an increase of 7.3 percentage points year on year.

The role of bank loans increased in the structure of borrowings made by enterprises in 2000. As the share of payables in short-term liabilities declined, the share of the debt on bank loans expanded from 9.1 to 12.4%, and the sum of the debt on bank loans increased 1.7 times over. The share of long-term liabilities on bank loans contracted a little and made up 10.5% of enterprises' borrowed funds.

Despite the improvement of the financial standing of enterprises in 2000, the slowing of production growth and decline in production efficiency in the last few months of the year had an adverse effect on enterprises' finances.

The rapid rates of economic growth registered in 2000 and the improvement of the financial condition of economic agents brought about a rise in **household money income**. Nominal money income in 2000 increased by 931.2 billion rubles, or 33.1% year on year, and amounted to 3,742.3 billion rubles.

Compared with 1999, real money income rose by 10.2%, of which real monthly average wages increased by 22% and real monthly pensions by 28%.

Wages and salaries accounted for the largest portion of household money income (65.6%); social transfers made up 13.4%, incomes from entrepreneurial activities 12.6% and proceeds from property 7.2%.

Although real income grew, the income differentiation of the population remained considerable in 2000. The highest-income 10% of the population received 32.3% of total money income, while the lowest-income 10% of the population received 2.4% of total money income.

However, the year 2000 saw some favourable changes in the ratio of money income to the subsistence minimum. In the 1<sup>st</sup> quarter of 2000, the ratio between average per capita monthly wage and the subsistence minimum per worker, calculated for the able-bodied population, was 154.1%, whereas in the 4<sup>th</sup> quarter it increased to 188.6%.

The share of the population with average per capita money income below the subsistence minimum set for Russia as a whole contracted from 41.2% in the 1<sup>st</sup> quarter of 2000 to 26.9% in the 4<sup>th</sup>.

The overall amount of household expenditures and savings (consumer spending, compulsory payments, purchase of foreign exchange, increment in deposits and purchase of bonds and other securities) in 2000 reached 3,640.3 billion rubles, an increase of 9.3% from 1999 in real terms.

Despite a slight contraction, the share of household income spent on goods and services remained large at 77.8% (in 1999 it was 78.9%), which is typical of a population with low incomes.

As a result of a rise in real money income, the population's solvent demand for goods in 2000 increased year on year and retail trade turnover expanded by 8.9% in comparable prices. This encouraged domestic producers to increase output.

The changes that have occurred in the structure of consumer spending the share of expenditures on foodstuffs has contracted while that on durables expanded-testify to a gradual rise in living standards. Foodstuffs in 2000 made up 46.4% of retail trade turnover, while non-food products accounted for 53.6% (the respective percentages in 1999 were 48.1% and 51.9%).

A relatively stable dynamics of the exchange rate of the national currency contributed to the reduction of the share of household income used for the purchase of foreign exchange from 8.1 to 6.8%. The share of household savings in the form of bank deposits and securities as a proportion of household income expanded from 3.5% in 1999 to 3.8% in 2000. The share of cash in hand as a proportion of household income rose from 1.9% in 1999 to 2.7% in 2000.

Growth in real money income caused expenditures on **final consumption in the household sector** to rise by 8.9%.

Spending on **final consumption in the government sector** increased by 1.6% over the year as a result of the improvement of government finance.

Growth in spending on final consumption in 2000 allowed the pre-crisis level of these expenditures to be surpassed. At the same time, their share in the structure of GDP utilisation contracted while the share of gross accumulation and net exports expanded. Spending on final consumption in 2000 amounted to 62.5% of GDP against 68.2% in 1999.

The change in the structure of GDP utilisation was affected by rapid rates of growth in **gross ac-**

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

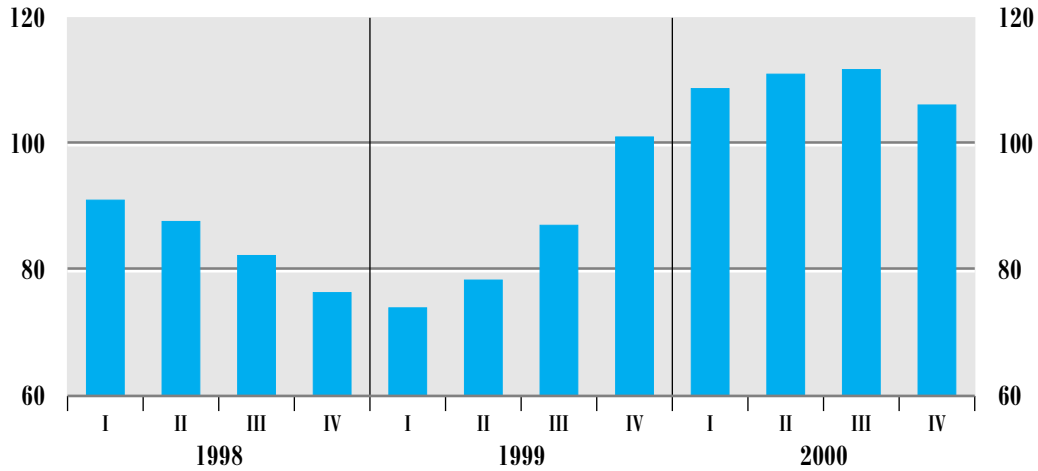


Chart 10

**emulation**, which expanded by 17.3% year on year. Its dynamics was largely determined by the investment situation.

Improvements in the general economic situation encouraged the investment activity of Russian enterprises and organisations. Fixed capital investment in 2000 expanded by 17.4% year on year and exceeded by 8.8% the 1997 level.

Production growth in 1999 became possible largely because of the availability of unused production capacities. At the same time, the expansion of demand for domestic products in 2000 required producers to increase production capacities, especially through the technical retooling and modernisation of badly worn-out fixed assets in all branches of the economy. The improvement of the financial standing of enterprises, especially their big profits, allowed them to allocate considerable sums as investment in fixed capital.

Nevertheless, the scale of fixed capital investment was too small to meet the needs of renovation and modernisation of the country's production capacities and the age structure of machinery and equipment used in production did not change much.

Growth in investment was stymied by the persistently high investment risk of the Russian economy, a high level of wear and tear of fixed assets in the investment sectors and continuing capital outflow abroad.

The most significant investments in fixed capital went to the development of transport, the fuel

industry and housing and communal services. Their share in total fixed capital investment in 2000 was 23.8%, 20.8% and 15.1%, respectively. At the same time, the share of the fuel industry and transport in the sectoral structure of investments expanded considerably compared with 1999.

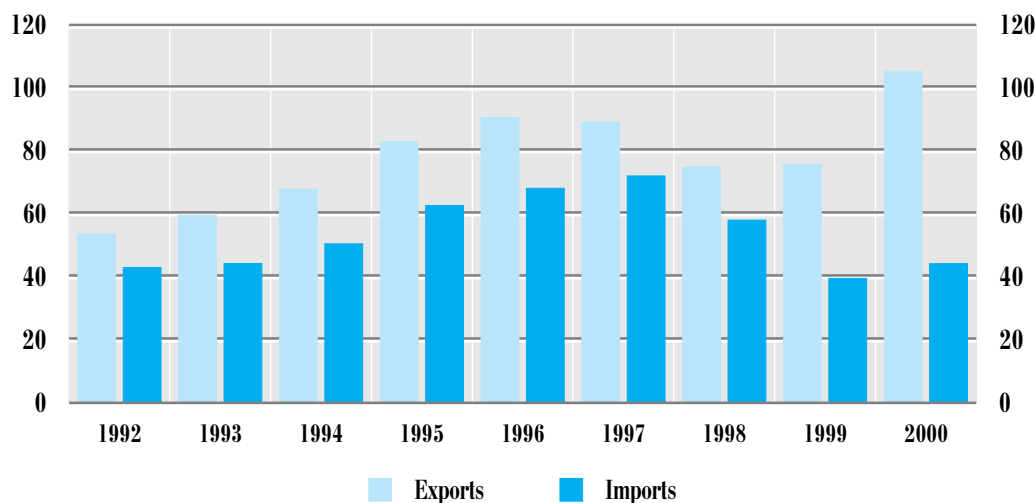
As in previous years, enterprises' own funds remained the most important source of financing investment activity. Their share in the sources of financing fixed capital investment by large and medium-sized enterprises in 2000 was 46.1% against 52.4% in 1999. The share of budget funds expanded by 4.2 percentage points year on year, to 21.2%. Regional budget funds made up the bulk of the budget funds.

The role of bank credit in financing investment continued to decline. Bank loans in 2000 were used to finance a meagre 2.9% of fixed capital investment, which is a three-year low. Banks were discouraged from expanding operations with non-financial enterprises because of high risks involved in lending to such enterprises, flaws in the applicable legislation and insurance system and the lack of transparency of information about the financial standing of borrowers.

A favourable dynamics of fixed capital investment was accompanied by a rise in business activity in the construction sector, where the volume of contractual work carried out in 2000 expanded by 11.5% year on year.

Despite progress, which became manifest in more rapid growth in domestic demand compared

**RUSSIA'S FOREIGN TRADE**  
(based on balance of payments data, billion US dollars)



*Chart 11*

with external demand, the Russian economy remained extremely dependent on the foreign economic situation.

**Net exports of goods and services** in 2000 grew amid favourable developments in world markets for raw materials that make up the largest part of Russian exports. As exports expanded faster than imports, the trade surplus increased. Net exports of goods and services as a proportion of GDP in 2000 rose from 16.8% in 1999 to 20.4% in 2000. Last year the value of net exports expanded by 2.4% in comparable prices, ensuring about 5% of GDP growth.

Changes in **foreign trade** in 2000 were the result of favourable external conditions enjoyed by Russia. Last year this country's conditions of trade with other countries (the ratio between export and import price indices) were the best since 1994.

A surge in world market prices of raw materials that are key Russian exports (energy and fuel, non-ferrous metals, etc.) and expanding external demand caused by the acceleration of world economic growth determined rapid rates of growth in Russian exports. This had a favourable effect on the volume of Russian trade with other countries. Year-on-year Russia's foreign trade turnover in 2000 expanded by 30% and the country's trade surplus rose by almost 70% to \$60.7 billion.

The acceleration of world economic growth and the ensuing expansion of the demand for en-

ergy and fuel at the time when OPEC member countries stuck to their agreements on oil production and exports were the principal causes of a price rise in world oil markets in 2000. Oil prices were also kept high by a significant reduction of fuel reserves in the leading energy-importing countries. A shortage of energy products in world markets stoked growth in the prices of petroleum products and natural gas. Prices of other raw materials exported by Russia were also considerably higher than a year earlier.

The average price of oil in 2000 rose by 58—60% year on year, depending on the brand, prices of petroleum products soared by more than 60% and the price of natural gas jumped by 80%. Bank of Russia estimates show that the average level of world market prices of commodities making up more than 60% of the value of Russian exports (adjusted to their structure) in 2000 was 50% higher than in 1999.

The expansion of external demand and the relatively low level of domestic prices allowed Russian producers to preserve the competitive power of their products in world markets and boost physical volumes of exports.

Russian export dynamics in 2000 were negatively affected by numerous anti-dumping procedures used against Russian commodity producers and a reduction in physical volumes of energy exports to CIS countries.

Rapid rates of production growth in Russia in 2000 were largely the cause of a rise in the de-

**BRENT OIL PRICE DYNAMICS**  
(US dollar/barrel)

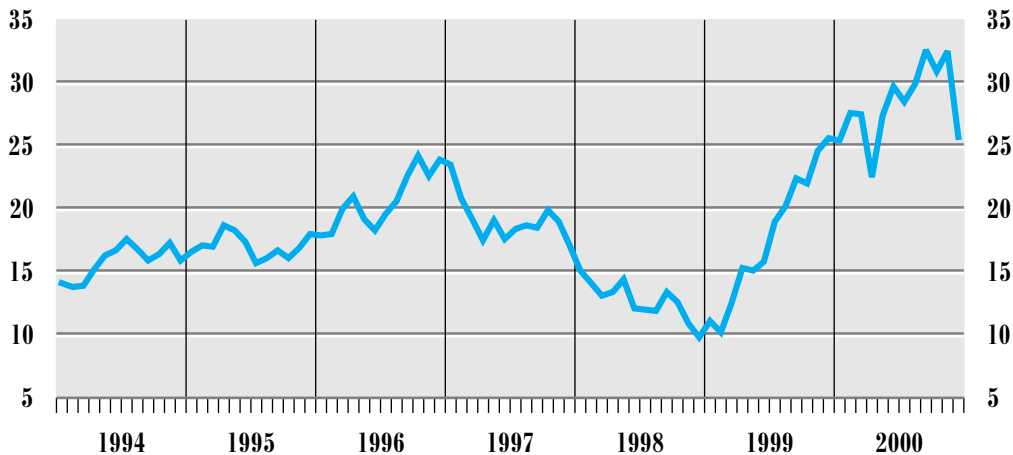


Chart 12

mand for imported raw materials and capital goods, while increased household incomes stimulated the expansion of imported consumer goods. At the same time, imports growth rates in 2000 were slow as many imported products were replaced by their domestic analogues, importers began to bring cheaper products to Russia, including imports from CIS countries, and the ruble stayed low against the dollar.

Foreign trade was a major source of federal budget revenues last year. Customs duties and excise taxes on imports and exports and tax and non-tax proceeds from foreign trade operations ensured a considerable part of the country's budget revenues. As world market prices of oil and petroleum products grew in 2000, import duties on these commodities were repeatedly raised. Even though Russian exporters saw a portion of their windfall profits go on customs duties, the situation in world commodity markets, especially energy markets, was so good in 2000 that the efficiency of export operations remained high. On average export efficiency (the ratio of exporters' receipts from exports to their costs) in 2000 exceeded 140%.

The favourable situation in world commodity markets allowed Russian exporters to bring in substantial amounts of foreign exchange to the country, stimulating economic growth in 2000.

As a result, judging by many parameters, **the results of Russia's economic development** in

2000 turned out to be better than predicted at the beginning of the year. Yet, despite a number of favourable trends, some problems remained unresolved.

Russia failed to overcome its low technological level of production and a high degree of wear and tear of production assets checked growth in industry.

Although household real money income increased, it has not yet reached the pre-crisis level, placing demand constraints on further production growth.

Although inflation tended to slow down in 2000, price growth in transport and some industries, such as the electric-power, gas and oil-extracting and oil-refining industries, accelerated or remained fast, increasing the price pressure put on the economy by production costs.

The results of 2000 have shown that modernisation is essential for further economic growth. This means that favourable conditions should be created for the development of free enterprise and investment activity and this requires the upgrading of the legislative and regulatory framework, the levelling of a competition environment and the continuation of structural reforms.

On the whole, the results of the year show that favourable conditions began to emerge for the further development of the economy, risk reduction and improvement of Russia's investment image.

## 1.2. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

The fiscal policy in 2000 was implemented pursuant to the 2000 Federal Budget Law, the Federal Law on Amending the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues and the Budget Code of the Russian Federation, which came into force on January 1, 2000, and aimed at ensuring a balanced federal budget, the efficient management of the budget funds, reducing Russian government debt, increasing tax collection, fulfilling budget obligations and improving inter-budget relations.

As a result of the favourable macroeconomic situation, which manifested itself in a positive dynamics of growth in the production of goods and services, lower inflation and a relatively stable exchange rate of the ruble, the state of government finance improved and federal budget revenues increased and exceeded expenditures.

According to the Finance Ministry, **federal budget revenues** in 2000 amounted to 1,127.6 billion rubles, or 102.2% of the amount approved, and made up 16.0% of GDP against 12.9% of GDP in 1999. Tax revenues made up 85.6% of total federal budget revenues and 13.7% of GDP against 82.8% and 10.7% in 1999, respectively.

Despite a year-on-year increase in federal budget revenues, in April the debt on federal budget taxes and duties began to grow. According to the Ministry of Taxes and Duties, this debt expanded by 45.4 billion rubles, or 18.4%, and as of January 1, 2001, amounted to 292.1 billion rubles.

The largest portion of the debt was a shortfall in VAT, which amounted to 171.2 billion rubles, or 76.2% of the total shortfall in payments to the federal budget.

**Federal budget expenditures** in 2000 amounted to 954.1 billion rubles, or 94.1% of the amount approved, and made up 13.5% of GDP.

The structure of federal budget expenditures, including non-interest expenditures, improved in 2000. Non-interest expenditures amounted to 781.9 billion rubles, or 94.7% of the sum approved, while their share in total actual expenditures expanded by 6.4 percentage points year on year, to 82.0%.

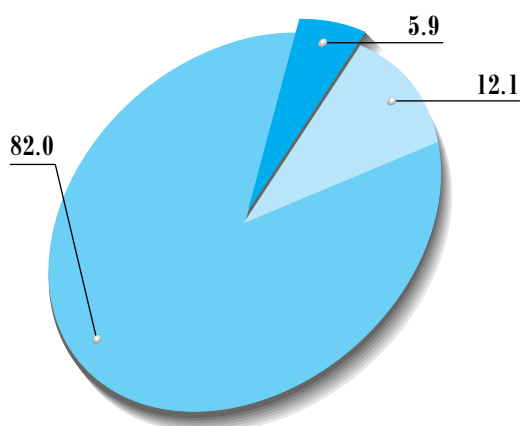
There was an increase in the share of federal budget expenditures on law enforcement, the judiciary, financing of the energy and construction sectors, education, health and financial aid to budgets of other levels.

Interest expenditures (expenditures on government debt service) in 2000 amounted to 172.2 billion rubles, or 91.3% of the amount approved, making up 18.0% of the total sum of actual federal budget expenditures, which represents a decrease of 6.4 percentage points from 1999.

Expenditures on government foreign debt service accounted for 67.2% of the total sum of interest expenditures and expenditures on government domestic debt service 32.8%.

According to the Finance Ministry's data for 2000, revenues of the consolidated budget of the

FEDERAL BUDGET EXPENDITURES  
IN 2000 (%)



- Non-interest expenditures
- Government foreign debt service expenditures
- Government domestic debt service expenditures

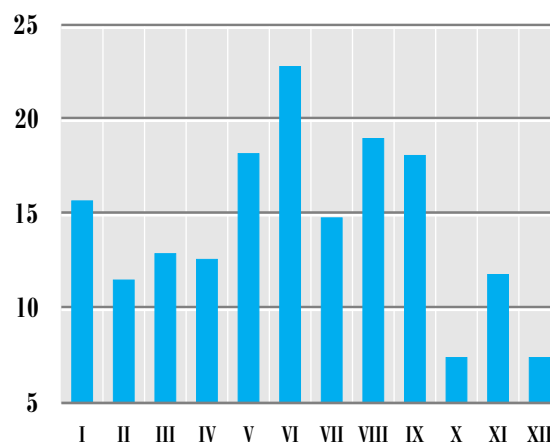
Charts 13, 14

Russian Federation amounted to 2,079.0 billion rubles, or 29.4% of GDP, and expenditures 1,871.6 billion rubles, or 26.5% of GDP. Of these, revenues of the consolidated budget of the constituent entities of the Russian Federation totalled 1,052.6 billion rubles and expenditures 1,018.7 billion rubles.

Preliminary data of the government social extra-budgetary funds indicate that revenues of the Pension Fund in 2000 amounted to 443.0 billion rubles and expenditures 340.9 billion rubles, revenues of the Social Insurance Fund aggregated 98.7 billion rubles and expenditures 70.0 billion rubles and revenues of the Federal Compulsory Medical Insurance Fund totalled 2.91 billion rubles and expenditures 2.87 billion rubles.

According to the Finance Ministry's preliminary data, Russia's government domestic debt as of January 1, 2001, amounted to 557.4 billion

RUSSIAN GOVERNMENT DEBT-SERVICE  
EXPENDITURE DYNAMICS IN 2000  
(billion rubles)



rubles, or 7.9% of GDP. This represents a decrease of 26.2 billion rubles, or 4.5%, over the year.

The largest part of the Russian government domestic debt, calculated using the methodology stipulated by the applicable legislation, is the Finance Ministry's ruble-denominated debt to the Bank of Russia, which at January 1, 2001, amounted to 349.2 billion rubles at par. This represents an increase of 10.2 billion rubles, or 3.0%, which resulted from the conversion of accrued coupon income and interest due on Finance Ministry notes into government securities in the course of the restructuring of the Finance Ministry's debt to the Bank of Russia conducted pursuant to the 2000 Federal Budget Law.

In addition, the Finance Ministry's foreign-currency debt to the Bank of Russia, which includes the debt on foreign exchange provided by the Bank of Russia to the Finance Ministry through Vneshekonombank for foreign debt repayment and service, is included in the Russian government foreign debt in accordance with the methodology established by the applicable legislation.

## I.3. RUSSIAN FINANCIAL MARKET

A major result of the development of the Russian preliminary market in 2000 was its continued stability and greater role in creating conditions conducive to economic growth. A greater diversity of the financial instruments used, the reduction of market yields and some other factors facilitated the development of financial intermediation and a more efficient allocation of resources in the economy. The financial market was characterised by the restored mutual confidence of participants and normalisation of the flow of resources between the various sectors of the market. All year long one could see a tendency towards the establishment of a single market price of money.

The financial market as a whole demonstrated growth in volumes, although its different segments expanded at vastly different rates: short-term operations dominated in the money market, while capital market instruments were used on a small scale.

**INTERBANK LOAN MARKET.** Favourable trends in the interbank loan market became manifest in the expansion of volumes and, consequently, the increased role played by this market in regulating banks' current liquidity and in the restoration of ties with other sectors of the money market. The existing level of banking liquidity and the consolidation of the banking system guaranteed a stable supply of resources in the interbank lending market. The cyclical nature of ruble-denominated interbank loan rates manifested itself more distinctly.

Interbank lending volumes in rubles and foreign currency had a tendency to grow: in nominal terms their average monthly level rose by 70% year on year. As of January 1, 2001, debt on ruble-denominated interbank loans, adjusted for inflation, increased by 8% year on year.

A positive result of 2000 was interbank market participants' increased mutual confidence, which was reinforced by a significant reduction in irretrievable interbank loans.

Interest-rate dynamics in the interbank loan market were affected by changes in interest rates on Bank of Russia operations and the dynamics of yields on government securities. The interest-rate policy pursued by the Bank of Russia, especially its rates on deposit operations, had a stabilising effect on the situation in the interbank lending market. The overall trend of interest rates and yields on money market instruments was formed as a result of the restoration of ties between the various sectors of the market and the impact of macroeconomic factors on interest-rate dynamics in all sectors.

Interbank lending rates changed on the whole in pace with interest rates in the adjacent sectors of the money market, especially the GKO—OFZ market. Yet, interbank lending rates in 2000, just as in 1999, were considerably lower than in other sectors of the financial market. Rates hit highs at the beginning of the year (monthly average rates on ruble-denominated overnight loans were 10—12% p.a.) and plunged to their lows (3—5%) in the middle of the year. As inflation accelerated in



the second half of the year, interest rates on overnight loans soared to 7—9% p.a. in the 4<sup>th</sup> quarter.

**FOREIGN EXCHANGE MARKET.** Thanks to a current-account surplus, foreign exchange market volumes expanded considerably in 2000. Ruble/dollar conversion turnovers exceeded by far GKO—OFZ and interbank ruble lending market turnovers. Compared with January, in December 2000 the average daily volume of ruble/dollar spot transactions in the interbank exchange and over-the-counter markets expanded by about 50%.

The change of the market structure in 2000 was manifest in the accelerated expansion of volumes of over-the-counter interbank operations with foreign exchange. Such operations are common world practice as they allow credit institutions to minimise their own expenses and those of their clients in conducting conversion operations.

Faster rates of growth in transactions in the over-the-counter interbank segment of the market caused the share of exchange interbank operations in the total volume of spot transactions to shrink from 34 to 17%. Trade turnovers in the exchange segment of the foreign exchange market peaked in February—August, while over the year the average monthly turnover on US dollar transactions for rubles in the SELT on MICEX (including the STS) did not change much from the previous year.

Spot operations accounted for a vast majority of deals in the over-the-counter interbank market and in the exchange currency market. Most of the exchange spot transactions were conducted at the afternoon session in the SELT on MICEX: they accounted for about two-thirds of the overall volume of ruble/dollar exchange operations and expanded when arbitrage deals became more attractive. “Today” transactions on average accounted for nearly 60% of the total volume of operations at the afternoon session in the SELT on MICEX, reflecting to some extent the continued existence of exchange-rate risks.

Monthly trading volumes at the STS were rather stable, ranging from \$2.8 billion to \$4.2 billion and soaring in periods when foreign trade conditions were especially good.

Despite extremely small volumes of operations in the forward segment of the foreign exchange market, signs had appeared that this segment was beginning gradually to recover. In 2000 this process primarily affected the exchange segment, while the forward segment of the over-the-counter interbank foreign exchange market was still characterised by high risks and only a few deals were struck on it from time to time.

The currency structure of the over-the-counter interbank segment of the market was dominated by dollar/ruble deals, which accounted for two-thirds of aggregate turnover in 2000. Conducting exchange operations with foreign currencies for rubles, market participants in 2000, just as in the previous year, preferred first to convert these currencies into US dollars and only then exchange their dollars for rubles. Russian banks conducted operations with conventional foreign exchange market instruments such as dollar/euro operations, which accounted for 20% of aggregate turnover, and also dollar/pound sterling and dollar/yen operations, which accounted for 5% and 2% of market turnover, respectively. At the same time, turnovers on ruble/pound sterling, ruble/yen and ruble/euro operations remained extremely small.

The currency structure of exchange trade was dominated by ruble/dollar operations, while trade in other instruments was at an extremely low level and was chiefly limited to compulsory sales of export earnings. At the same time, last year saw positive dynamics in the volume of euro/ruble operations, which expanded by a monthly average of 50% during the year and by the end of 2000 had exceeded 100 million euros a month. Although most of the euro/ruble operations were conducted as part of compulsory sale of a portion of exporters’ earnings at the STS, the expansion of aggregate turnovers reflects some growth in market participants’ interest in selling euros for rubles.

The smooth dynamics of the ruble rate in 2000 caused spreads between rates in trades with different terms of settlements to narrow little by little: the dollar/ruble rate in “tomorrow” trades exceeded the STS rate in “today” trades by a lowly 0.1%. This figure shows that the fragmentation of the foreign exchange market, which was



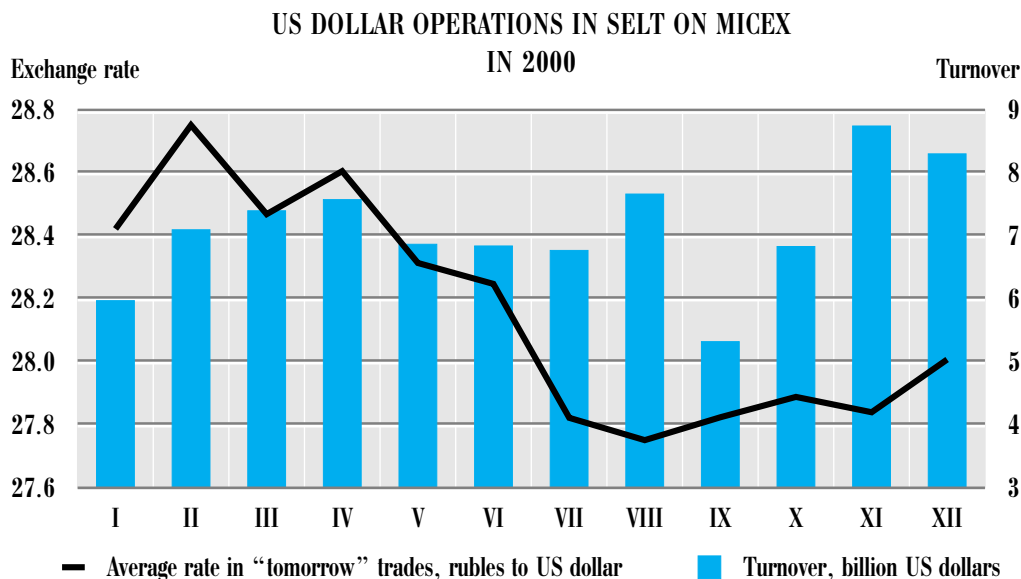


Chart 15

one of the consequences of the monetary and financial crisis, has been virtually overcome.

**GKO—OFZ MARKET.** The main factors of long-term trends in the GKO—OFZ market in 2000 were the stabilisation of the general economic situation and growth in banks' free funds. Against this background yields on government bonds (the effective indicator of the GKO—OFZ market portfolio) fell from 69% p.a. in late December 1999 to 24% p.a. in late December 2000.

In 2000 the Finance Ministry for the first time since the crisis resumed the redemption of domestic bonded debt. A total of 77.7 billion rubles of Finance Ministry marketable securities were redeemed and coupon payments made last year.

To stimulate the GKO—OFZ market and increase the number of short-term instruments, the Finance Ministry resumed making moderate borrowings in the government bond market. In the period under review it launched seven GKO issues valued at 19.5 billion rubles, of which two were repatriation issues. Demand at GKO auctions on average exceeded offer more than 1.6 times, while the auction price of borrowings was lower than market yield of the bonds with comparable maturities. In addition, the Finance Ministry resumed the practice of making additional bond placements for secondary trade, using for the purpose the repatriation GKO issues for non-residents.

From April 10 to July 1, 2000, the Finance Ministry implemented the third stage of the restructuring of GKO—OFZ bonds that were due before December 31, 1999. By the time the restructuring was completed, the portfolio of unstructured bonds amounted to 950 million rubles at par, or less than 0.5% of all bonds subject to the restructuring. On December 25, 2000, the Government signed an order extending till December 31, 2001, the restructuring of GKO—OFZ bonds for bondholders who had not yet had their papers restructured by earlier deadlines.

Last year 8.8 billion rubles of OFZ-FD bonds were issued as part of the restructuring of Series III OVGZVZ bonds.

Throughout 2000 the activity of GKO—OFZ market participants increased as the ruble's exchange rate remained relatively stable, the government pursued a balanced policy in the government domestic debt market and there was a shortage of alternative financial instruments. Investor interest in various bond issues was selective, but since the middle of the year it had become less dependent on terms to redemption/coupon payment: long-term issues came to dominate turnover.

By September average yield on government bonds had plunged to an absolute low since the resumption of secondary trading and reached a level comparable with the inflation rate. At the end of the year, when liquidity of the banking

## MAIN CHARACTERISTICS OF GKO—OFZ MARKET IN 2000

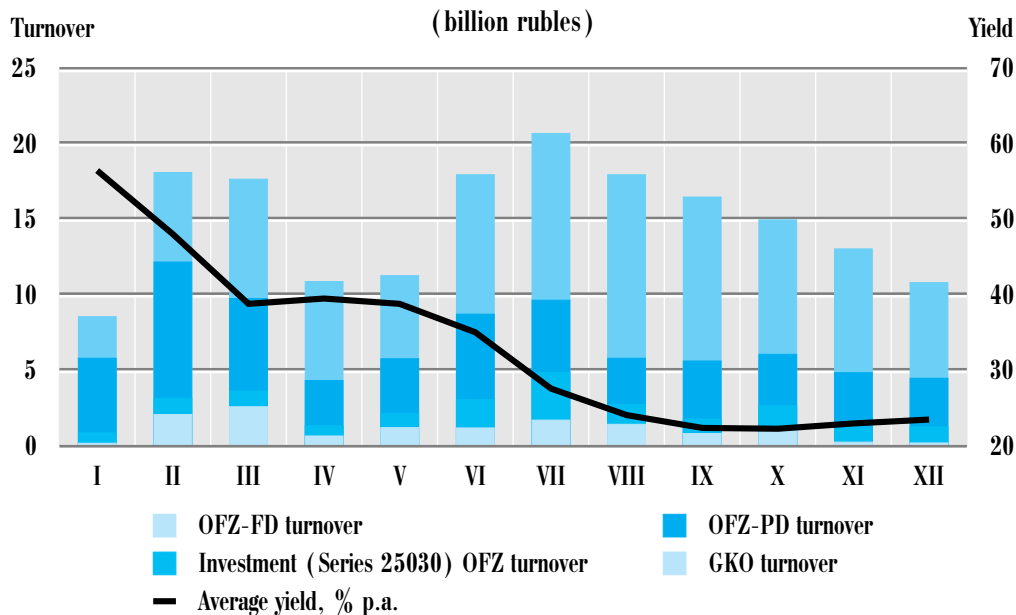


Chart 16

system had stabilised and expectations of a ruble depreciation increased, low interest rates caused the demand for government securities to dwindle. As a result, in October-December yield returned to 24% p.a.

In 2000 the Finance Ministry and Bank of Russia pursued a policy aimed at strengthening confidence in government securities and established the procedure for using non-residents' funds in C-type accounts. In addition to issuing GKO for non-residents, who were not restricted in repatriating their proceeds from redemption, auctions were held to sell foreign exchange to authorised banks acting on behalf of non-residents who were also allowed to repatriate their proceeds. In addition, funds from C-type accounts could be used to buy corporate securities included in a special list and also to buy zero-coupon federal loan bonds and use them as payment for stakes (shares) in credit institutions.

In the period under review, non-residents' share in the GKO—OFZ market contracted from 35 to 25%, while funds in C-type accounts increased a little. The contraction in the share of foreign investors resulted above all from active use of the possibility of buying corporate securities with funds in C-type accounts.

The structure of GKO—OFZ market participants remained virtually unchanged from the pre-

vious year. Most of the transactions were conducted between several big dealer banks and non-residents.

**OGSZ MARKET.** There were two periods in the development of the government savings loan bonds (OGSZ) market in 2000. From the beginning of the year to July 17 there were OGSZ bonds issued before the financial crisis of 1998 in the market. No new OGSZ bonds had been issued until July 17. As of the beginning of the year there were five outstanding OGSZ issues with a nominal value of 5 billion rubles. As the amount of outstanding bonds contracted, the OGSZ market remained stable.

The issue of OGSZ bonds resumed on July 20 after a two-year break. New OGSZ bonds were issued at the expense of OFZ bonds, whose issue was reduced accordingly, to diversify market instruments and improve the structure of government debt. The new OGSZ issues (three 1-year issues, each valued at 1 billion rubles, were issued in July, September and December) were the first ever indexed instrument in the Russian federal government securities market. Coupon income was fixed by the issuer for each coupon period and indexed to the inflation rate. Subscription to the new issues was a success. All bonds of all issues were placed in the primary market. The

cut-off prices of all issues exceeded the nominal value of the bonds. OGSZ trades were regularly conducted in the secondary over-the-counter market at prices that usually exceeded the nominal value of the bonds (not counting accrued coupon income).

#### REGIONAL GOVERNMENT SECURITIES MARKET.

Throughout 2000 the situation in the regional and municipal government securities market was quite stable. In the major segments of the market this was manifest in constant decline in bond yields, growth in trading volumes and the expansion of the range of financial instruments. International rating agencies eventually upgraded the ruble and currency borrowing ratings of St. Petersburg and Moscow. The number of regions issuing bonds in 2000 remained unchanged from 1999.

The St. Petersburg government bonds market in 2000 retained its leading role among the regional government markets. Secondary trading and auctions of new municipal government bond issues (GGKO), including issues with new terms of circulation, were conducted on a regular basis. Secondary-market yields on St. Petersburg bonds constantly declined last year. Yield on 1-year discount GGKO bonds slipped from 43% p.a. in January to 26.5% p.a. in December. Yield on new fixed-coupon income bonds with maturities from 1.5 years to 4.5 years fell from 45% p.a. in April to 32.1% p.a. in December. Overall, yield on St. Petersburg bonds changed in pace with GKO—OFZ yields with a spread of 3—7 percentage points.

In addition, regional and municipal governments continued to service eurobonds issued before the 1998 crisis. As of January 1, 2001, the overall debt owed by Moscow, St. Petersburg and Nizhni Novgorod Region on eurobonds amounted to \$652 million.

**RUSSIAN GOVERNMENT CURRENCY DEBT OBLIGATIONS MARKET.** The Russian government currency bonds market was represented by domestic government foreign currency loan bonds, or OGVZ.

In 2000 the Government restructured the Series III OGVZ that were not redeemed in 1999. Bondholders were given the choice of exchanging these bonds for the 1999 government

currency loan bonds (OGVZ), denominated in US dollars and maturing in 2007, or ruble-denominated OFZ-FD or both. By the restructuring deadline Series III OGVZ bonds making up 90.83% of the nominal value of the issue had been presented for exchange and most of the bonds that had not been presented for exchange were out of circulation. As a result of the restructuring nearly 72% of the value of Series III OGVZ bonds presented for the restructuring were exchanged for 1999 OGVZ bonds and 28% for OFZ-FD bonds.

In addition, the Russian government in 2000 continued to service its foreign debt in the form of eurobonds and to restructure PRIN and IAN bonds due in 2020 and 2015, which represent Vneshekonombank's debt to the London Club of commercial bank creditors.

PRINs and IANs were restructured as follows: interest charged for default of payment on PRINs and IANs and contract interest charged on them before March 31, 2000, were converted into new Russian eurobonds maturing in 2010. A total of 99.31% of PRINs and 98.62% of IANs were restructured. The exchange reduced the nominal value of Russia's debt to the London Club due to the write-down by 37.5% on PRINs and 33% on IANs.

Market quotations of Russian currency debt obligations fluctuated considerably in 2000. As a result, secondary-market prices of Russian eurobonds rose by 20—30% and OGVZ by more than 30%, while RPIN and IAN prices had more than doubled from the beginning of the year to the completion of their conversion into eurobonds in late August. Accordingly, Russian eurobond yields declined from 20—23% p.a. to 15—16% p.a.

The principal factors of growth in Russian currency bond prices were the considerable improvement of the macroeconomic situation in Russia, progress in reaching agreement on the settlement of debt to the London Club of commercial bank creditors, the announcement by the Finance Ministry of the final conditions of the restructuring of the Series III OGVZ bonds and the successful restructuring of the issue, and the boosting of Russia's sovereign rating and the rating of Russian eurobonds by leading international rating agencies.

QUOTATIONS OF SOME RUSSIAN FOREIGN CURRENCY DEBT OBLIGATIONS IN 2000  
(% of par)

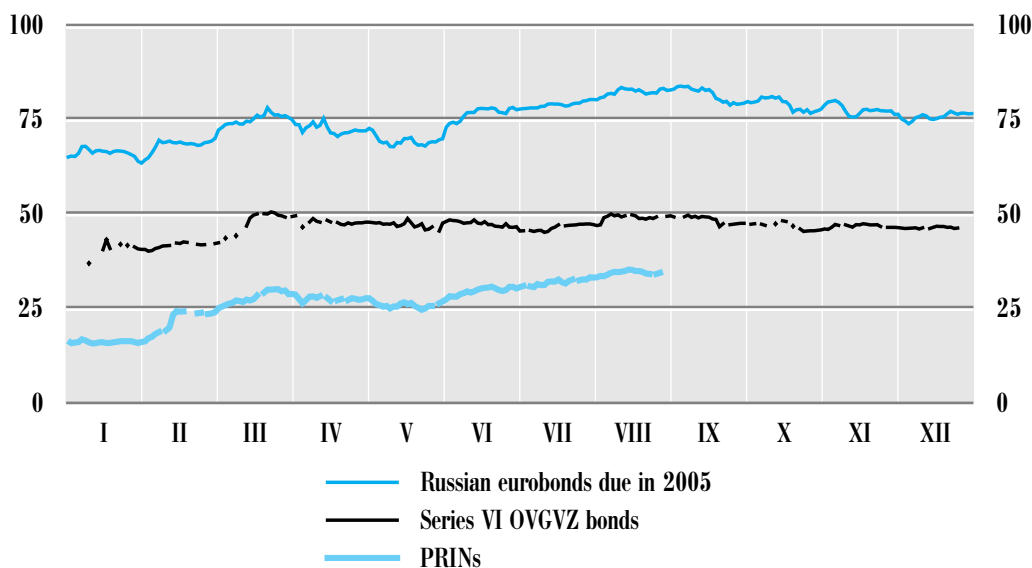


Chart 17

#### SECURITIES ISSUED BY CREDIT INSTITUTIONS.

One of the results of the reform of the banking system in 2000 was the continued growth of banking capital, including growth resulting from the increase of the authorised capital of credit institutions through the issue of additional shares.

Overall, 441 credit institutions had their share issues registered to the total amount of 62.1 billion rubles against 373 credit institutions which issued 55.7 billion rubles of shares in 1999. The value of the registered share issues related to the increment of authorised capital amounted to 51.2 billion rubles. Thirty-six credit institutions issued 8.0 billion rubles of shares as they became joint-stock companies. Four issues of 1.9 billion rubles of shares were registered in connection with bank mergers. A total of 1.0 billion rubles of shares were issued through consolidation and conversion.

As before, the highest level of share-issuing activity connected with the increase of authorised capital was registered in credit institutions based in Moscow and St. Petersburg and also in the Moscow, Tyumen and Samara Regions where vast investment resources are concentrated.

Payment was made in authorised capital mainly with rubles and foreign exchange and occasionally with government securities (OFZ-PD).

The secondary market for bank securities was also making progress: the MICEX A-level list of quotations included the ordinary and preferred shares issued by the Savings Bank (Sberbank). Shares of some other banks also began to be traded on MICEX.

In 2000 banks, especially those based in Moscow, increasingly used bonds as a means of raising funds. Bonds issues with a total value of 5.4 billion rubles were registered. Banks' corporate papers were placed in the open market on MICEX.

Last year 56 terms and conditions of the issue and circulation of savings certificates and certificates of deposit were registered. As before, most of the certificates were issued by credit institutions based in the Moscow Region, which sold 99.4 billion rubles of certificates.

#### NON-FINANCIAL-SECTOR CORPORATE SECURITIES MARKET.

On the one hand, the development of the corporate equity and bond market in 2000 was stimulated by a favourable macroeconomic situation, improvements in the non-financial sector of the economy and good prospects for export-oriented enterprises. On the other hand, this market was affected by developments in the world's financial and commodity markets.

The dynamics of major stock market indicators (trade turnovers and stock indices) were

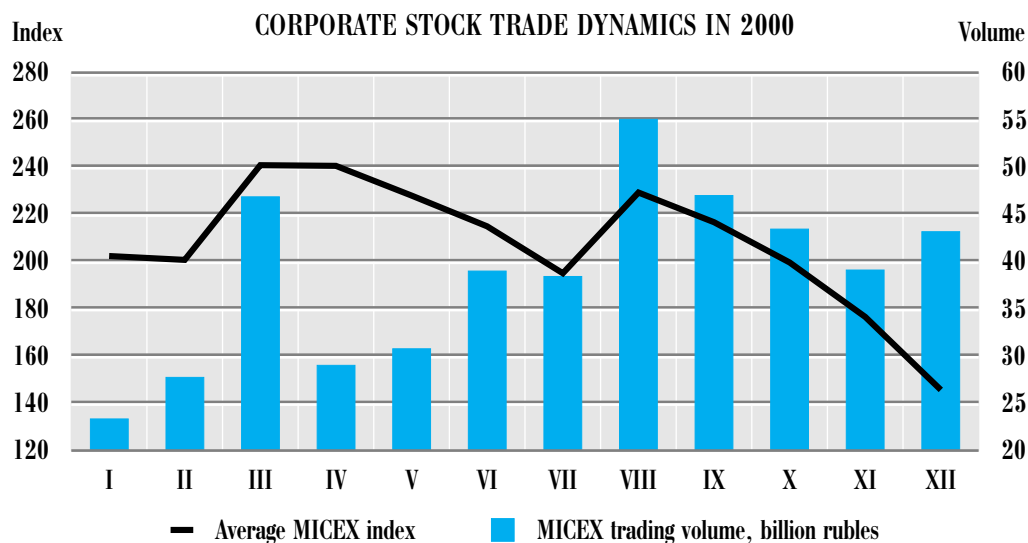


Chart 18

volatile. In 2000 as a whole the MICEX index slipped by 5% and the RTS index lost 19% despite substantial growth in turnovers. Such developments in the Russian stock market were typical of the emerging markets in general.

The best-selling Russian shares in the period under review were, as before, the shares of energy and oil companies. However, there was a significant rise in the demand for shares issued by metallurgy-sector enterprises.

In 2000 the situation in the corporate bonds market was affected by factors common for all sectors of the stock market, especially taking into consideration that the principal bond issuers were the biggest issuers of shares. In terms of exchange trade turnovers and the number of participants and instruments, the corporate bonds market lagged far behind the stock market.

Last year Russian corporate entities issued 20 billion rubles of bonds at par. Two segments appeared in the corporate bonds market: the segment of medium-term mainly coupon bonds with 3- to 4-year maturities and the segment of short-term discount bonds.

The primary placement of corporate bonds in 2000 was successful on the whole, whereas the secondary market was slow and it was only in the second half of the year that prices of these papers started to rise.

In 2000 MICEX consolidated its role as the leading trading floor in the corporate share and bond market.

**DERIVATIVES MARKET.** Last year saw a positive dynamics of the derivatives market, which was connected with the improvement of the situation in the markets for basic assets and a general upturn in the Russian economy. Growth in market turnovers was the most obvious manifestation of this process.

Another positive result of the development of the derivatives market was the diversification of market instruments. New futures contracts for shares were introduced on the leading exchanges and trading in US dollar futures resumed on the St. Petersburg Exchange, MICEX and the St. Petersburg Currency Exchange. The diversification of market instruments was accompanied by the expansion of the range of contract terms and their extension.

In November trading resumed in currency futures in the standard contracts section of MICEX. As of the end of 2000, MICEX traded in US dollar futures for rubles with terms of 1, 2 and 3 months. As a result, aggregate turnover of the derivatives market expanded and the share of currency instruments in it sharply increased (to more than 40% in December from 1—3% in January—October).

Despite the improvements described above, the derivatives market still had some serious flaws. The range of basic assets remained narrow, the level of market liquidity was low and instruments with terms of less than 1 month predominated. Inadequate legislation regulating this market was a major drag on its development.

## I.4. BALANCE OF PAYMENTS AND FOREIGN DEBT

### BALANCE OF PAYMENTS

The balance of payments in the year under review was characterised by a current-account surplus and considerable increment in foreign exchange reserves. The factors behind the favourable state of the balance of payments were as follows:

- the consolidation of the export potential of the Russian economy and the expansion of import-substituting production capacities;
- a favourable foreign trade situation and high prices of fuel and energy in world markets;
- sensible monetary and foreign exchange policies that allowed the Bank of Russia to keep the ruble's exchange rate at a level that equally met the interests of Russian exporters and importers and to increase Russia's official foreign exchange reserves.

### CURRENT ACCOUNT

The current-account surplus amounted to \$46.3 billion, almost doubling the previous year's level and representing an absolute maximum since 1992.

The main reason was an all-time record trade surplus (\$60.7 billion), which in 2000 expanded by almost 70% year on year. This trade surplus growth resulted from the improvement of trade conditions: contract prices of domestic goods went

up by 28%, while import prices slumped by 13% on average.

The current-account surplus in Russia's trade with non-CIS countries was estimated at \$45.8 billion against \$23.5 billion in 1999 and with CIS countries at \$500 million against \$1.2 billion a year earlier.

**Foreign trade turnover** expanded by almost one-third, to \$150 billion, while exports grew by 40% and imports by 13%.

Exports of goods amounted to \$105.6 billion, of which exports to non-CIS countries rose by 43% to \$90.8 billion and to CIS countries by 22% to \$14.8 billion.

The fuel and energy sector made a decisive contribution to exports growth, more than 70% (\$21.9 billion); \$21 billion of growth resulted from higher prices and \$900 million was the result of an increase in the physical volumes of exports.

Metals, timber and wood-working products and chemicals also demonstrated positive price dynamics, while contract prices of goods with a large share of added value, such as machinery, equipment, textiles and footwear, decreased.

Physical growth in exports affected the entire range of export commodities owing to external demand maintained by faster rates of GDP growth registered by Russia's trading partners in 2000 compared with the previous years.

Exports to CIS countries, which had declined in the previous two years, expanded considerably. In terms of physical growth exports to CIS coun-

BASIC CURRENT-ACCOUNT PARAMETERS IN RUSSIA'S BALANCE SHEETS  
FOR JANUARY—DECEMBER 1995—2000

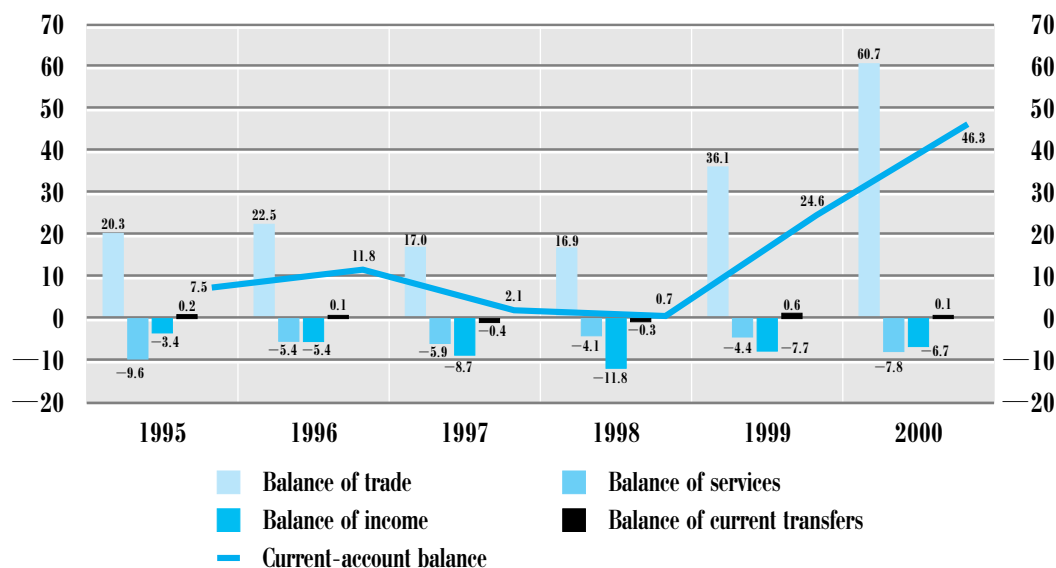


Chart 19

tries rose faster than to non-CIS countries, while contract price growth was much smaller. As a result, CIS share of Russian exports contracted from 16% in 1999 to 14% in 2000.

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

Imports amounted to \$44.9 billion, of which imports from non-CIS countries were valued at \$31.4 billion (8% growth) and from CIS countries at \$13.4 billion (29%).

Contract prices of imports from non-CIS countries fell by 21%, while contract prices of imports from CIS countries rose by 7%.

A favourable price dynamics and the strengthening of the real effective rate of the ruble (over the year by 11% on average) and also growth in domestic demand caused physical volumes of imports to expand considerably: imports from non-CIS countries grew by 29% and from CIS countries by 31%.

An expansion of imports was registered in all commodities, except foodstuffs and raw materials for their production. Russia became less dependent on imported food thanks to 5% growth in agricultural production and 7% growth in output of the food industry. As a result, the share of foodstuffs in the value of imports contracted by almost 5 percentage points.

The largest suppliers of imported goods to Russia were Germany (12%), Belarus and Ukraine (11% each), the United States (8%) and Kazakhstan (6%).

The balance of services had a deficit of \$7.8 billion; in absolute terms it increased by 79%. Exports amounted to \$9.6 billion (a growth of 6%) and imports \$17.4 billion (30% increment).

The major contributor to deficit growth was travel: imports of tourist services increased to \$10.2 billion, that is, the 1997 level.

Services provided to non-residents travelling as tourists or making private or business trips were valued at \$3.8 billion, which represents a 3% increase on the previous year. Meanwhile significant changes were registered in the structure of travel: the number of people travelling to Russia on business declined, while the number of brief visits connected with border trade increased.

Exports of transport services expanded by 8% as all modes of transport registered growth in traffic, while imports rose by 5%.

The participation of Russian companies in international projects contributed to a great extent to 58% growth in imports of insurance services, while the implementation of investment programmes aimed at shoring up the export potential contributed to 41% growth in imports of construction services.



**The balance of wages** surplus increased to \$300 million from \$200 million in 1999. Wages and salaries paid to foreign workers and employees in 2000 totalled \$200 million, an increase of 14% from 1999. Almost two-thirds of this amount was paid to workers and employees from CIS countries.

Incomes of Russians employed abroad totalled \$500 million, a rise of 18% over the year. The increase resulted from further growth in the number of emigrant workers.

The deficit of **the balance of income from investment** amounted to \$6.9 billion against \$7.9 billion in 1999.

Income payable to residents when due was estimated at \$4.3 billion, a 23% rise from the 1999 level.

Total income payable amounted to \$11.2 billion, a decrease of 2%.

The brunt of the current debt service was borne by the government sector. At the same time, income paid on portfolio investments decreased by 15%, while credit-service payments rose by 2%.

Income payable by the banking sector decreased by 8%, whereas the non-financial enterprise sector registered a growth of 25%.

The surplus of the balance of **current transfers** amounted to \$100 million, which represents a significant decline from the previous year's surplus of \$600 million. The change resulted from a \$500-million reduction in humanitarian aid and technical assistance.

## CAPITAL AND FINANCIAL ACCOUNTS

**CAPITAL ACCOUNT.** The balance of capital transfers, which do not include counter-flows of economic values between residents and non-residents, had a surplus of \$11.0 billion. It was the result of the write-down in the period under review of part of the government's foreign debt following the restructuring of Soviet-era debt to the London Club of commercial bank creditors.

As for the balance of migrants' transfers, which is normally the basis of the capital account of the Russian balance of payments, its deficit declined from \$300 million in 1999 to \$100 million. The decrease is the result of a sharp fall (by 30%) in the number of emigrants, brought about

by the improvement of the general economic situation and political stability in the country.

Just as in 1999, the largest part of migrants' transfers received (97%) were transfers from people who arrived in Russia from other CIS countries, while most of the transfers paid (66%) were Russian emigrants' transfers to non-CIS countries.

**FINANCIAL ACCOUNT.** The financial-account deficit amounted to \$20.9 billion (not counting the write-down of debt to the London Club of commercial bank creditors) against \$15.6 billion in 1999. The increase testifies to growth in net capital outflow.

Net capital outflow increased not only because the non-government sectors continued to take capital out of Russia, but also because there was a noticeable reduction in foreign capital inflow at the time when Russia had to effect considerable foreign debt payments.

For the first time Russia registered a slight decline in **foreign liabilities** of its economy, which decreased by \$500 million, not counting the write-down of debt to the London Club.

As the inflow of foreign investments continued to abate, direct investment remained their principal form, preserving for the Russian economy a favourable structure of external financing.

Foreign liabilities of the government sector, including federal and local governments, decreased by \$14.7 billion.

The Russian government took \$1.1 billion in loans (in 1999 it borrowed \$2.7 billion), almost half of which were tied loans. Since Russia refrained from borrowing from the International Monetary Fund, her principal creditors were the International Bank for Reconstruction and Development (\$500 million) and the Export-Import Bank of Japan (\$200 million).

A series of agreements were concluded on the settlement of Russia's Soviet-era debt. Specifically, Soviet debt to the London Club of commercial bank creditors was restructured by exchanging Vneshekonombank's earlier liabilities and accrued overdue interest on them for sovereign eurobonds due in 2010 and 2030. Under the conditions of the exchange, the overall sum of the debt was reduced by almost one-third (about



\$11 billion). In addition, under the 1999 framework agreement with the Paris Club of creditor nations, a number of bilateral agreements were signed to defer payments that were due in 1999 and 2000.

Although the situation with Soviet-era debt service improved, a large part of other liabilities remained unsettled: as a result, an overdue debt of \$600 million accumulated on this category of foreign debt in 2000.

All payments on the new Russian debt were made in time.

The federal government paid \$10 billion on all kinds of debt instruments (\$6.5 billion on the principal debt and \$3.5 billion as interest and coupon income).

Most of the foreign debt liabilities of local governments were settled in time: deferred payments totalled \$100 million, while actual payments amounted to \$900 million (\$700 million were paid on the principal debt and \$200 million as interest and coupon income).

The foreign debt-service load on the Russian economy and budget in 2000 was considerably lighter than in 1999: the ratio of actual debt payments to exports of goods and services decreased from 11.7% in 1999 to 9.5%, while the ratio of actual foreign debt payments to consolidated budget revenues contracted from 20 to 14.8%.

After a long period of foreign capital outflow from the banking sector, provoked by the financial crisis of 1998, in the second half of 2000 Russia registered a \$1.5 billion increase in foreign liabilities of banks. One of the reasons for the change was that in the period under review a number of leading Russian credit institutions began to restructure their debts to non-residents.

The actual value of the loans taken by non-financial enterprises in 2000 exceeded the previous year's level by \$300 million and amounted to \$1.9 billion; debt payments last year increased to \$2.9 billion from \$2.3 billion in 1999. Direct investment remained unchanged from the previous year's total of \$4.3 billion, although no purchases of privatised federal property by non-residents were registered in 2000. Direct investment withdrawal increased to \$1.8 billion from \$1.5 billion in 1999.

Investment was mainly oriented towards pipeline transport companies, the food industry, fuel

sector and trade. The biggest investors were residents of the United States and the Netherlands.

Growth in residents' **foreign assets** (net of the official foreign exchange reserves) amounted to \$20.4 billion, which represents an increase of \$3.3 billion from the previous year.

The structure of capital outflow remained virtually unchanged: more than half of all investments abroad were made by non-financial enterprises involved in foreign trade operations.

Growth in foreign assets of the government sector (\$1.6 billion) was, as in the previous years, the accumulation of claims on unpaid interest, mainly on loans extended to foreign governments by the former USSR. Of the \$8.3 billion due (the principal debt and interest), non-residents actually disbursed \$500 million and an additional \$200 million were paid on overdue debt.

The banking system continued to increase its foreign assets, which in 2000 grew by \$3.5 billion.

Claims on non-residents accumulated chiefly in the form of growth in balances in current accounts and short-term deposits.

As of January 1, 2001, foreign assets of the banking sector (net of the official foreign exchange reserves) were estimated at \$19.0 billion, of which \$15.5 billion were short-term assets, while its net international investment position (the difference between foreign assets and liabilities) increased from \$4.1 billion to \$6.0 billion.

Investments by non-financial enterprises and households in foreign assets rose in the year under review from \$12.4 billion to \$15.3 billion.

Commercial loans to foreign counterparties amounted to \$4.2 billion.

Compared with the pre-crisis period, the effect of residents' operations with foreign exchange on the Russian balance of payments diminished significantly, even though this factor remains a major indicator of investment preferences of the population.

According to a Bank of Russia estimate, foreign cash in the non-banking sector grew a little to nearly \$300 million, while in 1999 foreign cash accumulations decreased by about \$1 billion.

#### **CHANGE IN FOREIGN EXCHANGE RESERVES.**

Russia's foreign exchange reserves in 2000 rose by \$16 billion and as of January 1, 2001, the in-

ternational reserves amounted to \$28 billion (annual growth of 120%).

The accumulated amount of reserves would be enough to finance imports of goods and non-factoring services for 5.4 months (2.8 months in 1999), while the ratio of international reserves to the broad monetary base expanded over the year from 0.8 to 1.1.

## FOREIGN DEBT

Foreign debt of Russian residents in 2000 declined from \$180.0 billion to \$162.8 billion. Operations with debt instruments (new borrowings, actual repayment of principal, secondary-market operations and change of the debt on unpaid interest) reduced the debt by \$3 billion, a partial debt write-down in connection with the restructuring of Russia's Soviet-era debt to the London Club decreased the amount by \$11 billion and other changes, most of them connected with foreign currency revaluation, resulted in a \$3.2 billion reduction of the debt.

The main component of Russia's foreign debt (79%) was, as before, the obligations of the government sector. They were estimated at \$128.9 billion, of which \$127.7 billion was owed by the Russian government and \$1.2 billion by local governments.

The structure of the Government's foreign debt liabilities is dominated by the debt that Russia had assumed as successor to the former USSR (53%). Soviet debt liabilities as of January 1, 2001, comprised the debt to the Paris Club of creditor nations (\$40.2 billion, or 59% of Soviet debt), debt to the former Eastern-bloc countries (\$14.3 billion, or 21%), debt on OGVZ bonds (\$1.2 billion, or 2%) and other debts (\$12 billion, or 18%), mostly debts to countries that are not members of the Paris Club of creditor nations.

From October 1, 2000, the debt to the London Club has been counted as part of the new

Russian debt in connection with its restructuring into sovereign eurobonds in the 3<sup>rd</sup> quarter of 2000 (a part of this debt was written down). As of January 1, 2001, these debt obligations were estimated at \$20.5 billion, or 34.2% of the new official Russian debt.

In addition, being a sovereign borrower, Russia considered as major sources of external financing loans from international financial organisations, especially the IMF and the IBRD (as of January 1, 2001, \$15.8 billion, or 26.4% of the new official Russian debt), loans from foreign governments (\$8.6 billion, or 14.4% of the debt), foreign currency-denominated securities other than those issued for the restructuring of the debt to the London Club (\$10.1 billion, or 16.9% of the debt), GKO and OFZ bonds (\$1.6 billion, or 2.7% of the debt) and other debts, most of which are debt liabilities on clearing settlements (\$3.2 billion, or 5.4%).

Foreign debt of local governments is comprised of \$600 million of eurobonds and \$600 million of loans.

The Bank of Russia debt to the IMF as of January 1, 2001, amounted to \$2.8 billion. Its reduction by \$200 million over the year is entirely attributable to revaluation of the SDR exchange rate against the US dollar.

Foreign debt of the banking system rose by \$1.1 billion over the year and as of January 1, 2001, amounted to \$9.3 billion.

Foreign debt liabilities of non-financial enterprises increased by \$600 million over the year and as of the end of 2000 amounted to \$21.7 billion. The entire growth of this sector's foreign debt is the result of resident enterprises taking loans from their direct foreign investors.

Over the year aggregate foreign debt of Russian residents amounted to 66% of Russia's GDP, in which the government sector's debt amounted to 52% of GDP.

## I.5. WORLD ECONOMY AND INTERNATIONAL FINANCIAL MARKETS

Growth in world trade and stabilisation of the international monetary and financial system in 2000 accelerated world economic development. According to an IMF estimate, the rate of world GDP growth quickened to 4.8% from 3.5% in 1999, leading to a reduction in unemployment. A rise in the demand for fuel and energy along with considerable growth in their prices caused world inflation to accelerate. In the second half of the year signs of a world economic slowdown appeared as GDP growth rates slowed considerably in the United States in the 3<sup>rd</sup> and 4<sup>th</sup> quarters.

**ECONOMIC GROWTH.** The rate of growth in US real GDP in 2000 accelerated to 5% from 4.2% in 1999. One of the reasons for faster economic growth was a 5.3% rise in consumer demand in the household sector and an increase of 10.2% in gross domestic private investment. The expansion of trade with the United States in 2000 and increased domestic demand led to economic growth accelerating in Canada (4.7%).

Real GDP growth in the European Economic and Monetary Union (EMU) in 2000 amounted to 3.4%. It was largely the result of more rapid economic growth rates in Germany and Italy. Contrary to expectations, economic growth rates in France remained unchanged but were still faster than in any of the three leading member countries of the EMU. Accelerated economic growth in the EMU was the result of an expan-

sion of consumer demand and growth in gross fixed capital investment and net exports. Economic growth in the European Union (EU) accelerated to 3.3% from 2.5% in 1999. Great Britain's real GDP expanded by 3%.

Economic growth rates in Japan in 2000 accelerated to 1.7%. More rapid growth in real GDP was caused by a significant rise in gross private investment and the expansion of net exports. Japan's economic growth in the 1<sup>st</sup> quarter of 2000 was largely the result of increased consumer demand in the household sector. In the 2<sup>nd</sup> quarter real GDP growth rates sharply fell as consumer demand dwindled and private-sector fixed capital investment declined. The reduction of government investment in the 3<sup>rd</sup> quarter led to a contraction in GDP volumes. Growth in private capital investment in the Japanese economy in the 4<sup>th</sup> quarter revived positive tendencies and real GDP growth rates in 2000 proved higher than predicted by the IMF and OECD. Accelerated deflation, however, caused Japan's nominal GDP growth rate in 2000 to slow by 0.1% compared with 1999.

The new industrial countries of Asia continued to demonstrate rapid economic growth rates as they expanded the production of computers and communications and increased exports to the industrialised nations. A rise in business activity in the Asia-Pacific region encouraged growth in the services sector, especially trade, transport and communications.

REAL GDP GROWTH RATES IN LEADING INDUSTRIALISED NATIONS IN 2000  
(as % of 1999)

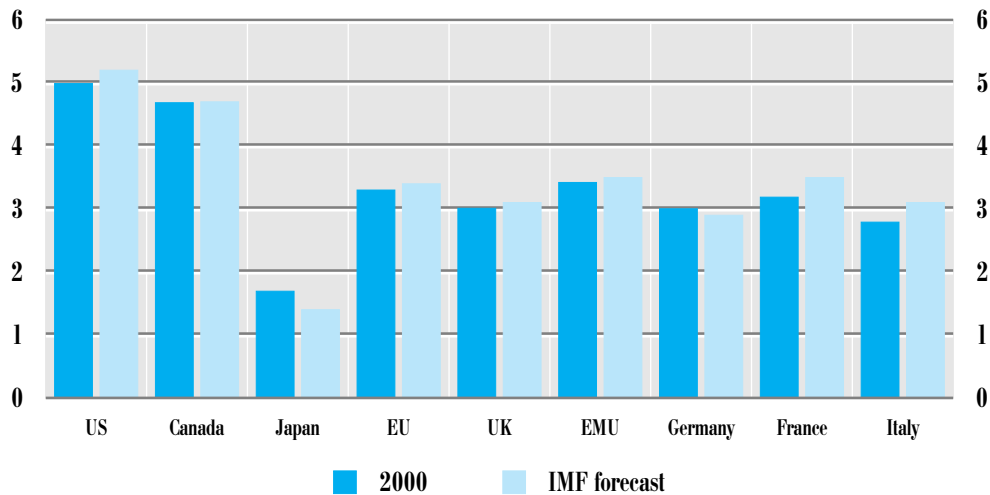


Chart 20

South Korea's real GDP growth rates in 2000 declined to 8.8% from 10.9% in 1999 as growth in gross fixed capital investment slowed as a result of a downturn in the housing construction and communal services sector, transport and power engineering and also a contraction in net exports owing to accelerated growth in imports of goods and services. Economic growth rates in other new industrial countries, except Taiwan, were faster than expected. Real GDP growth in Singapore amounted to 9.9%, Hong Kong 10.5% and Taiwan 6%.

The acceleration of economic growth in the industrialised nations and the expansion of world trade in 2000 led to an economic upswing in the countries classified by the IMF as developing. Differences in economic growth rates in the developing countries of Asia were caused by the different monetary and fiscal policies pursued by these countries. China, Malaysia and Indonesia registered better-than-expected economic development results. China's real GDP grew by 8%. The driving force of economic development of that country was government investment, which allowed China to maintain a stable level of aggregate gross fixed capital investments and boost industrial production. Economic growth rates in Malaysia in 2000 rose to 8.5% from 5.4% in 1999 owing to a stimulating economic policy pursued by the government of that country. India's real GDP growth in 2000 is estimated at 6.4%. Eco-

nomical growth rates in Indonesia in 2000 accelerated to 4.8% from 0.8% in 1999 as a result of the expansion of oil exports. Thailand's real GDP rose by 4.3% from 4.2% in 1999. Indonesia and Thailand demonstrated slower economic growth rates because they did not make enough progress in implementing structural reforms.

GDP growth rates accelerated in Latin American countries owing to the expansion of exports, especially within the framework of the North America Free Trade Agreement (NAFTA) and the South American Common Market (MERCOSUR). Mexico and Brazil demonstrated higher-than-expected rates of economic growth (6.9% and 4.2%, respectively). Chile's real GDP expanded by 5.4% after a 1.1% decline in 1999. Argentina's real GDP in 2000 contracted by 0.5% as a result of a decline in the competitiveness of Argentine goods following the pegging of the country's currency to the US dollar, the deterioration of trade conditions and growth in interest rates in the international capital market.

The acceleration of economic growth in the EU and Russia had a favourable effect on the countries of Central and Eastern Europe and the CIS and Baltic states. In 2000 for the first time in four years the Czech Republic registered a positive real GDP dynamics: GDP growth in that country was faster than predicted — 3.1%. Poland's economic growth in 2000 remained unchanged from 1999 at 4.1%. Hungary's real

GDP expanded by 5.2% from 4.4% in 1999. Turkey registered a 7.2% rise in its real GDP after a 4.7% contraction in 1999. Economic growth in Ukraine far surpassed predicted rates and amounted to 6% (in 1999 Ukraine's real GDP declined by 0.4%).

**DOMESTIC DEMAND.** High domestic demand in the United States in 2000 caused economic growth in that country and the world as a whole to accelerate. Last year domestic demand in the United States grew by 5.8% against 5.2% in 1999. US household spending on durables rose in real terms by 9.6%, spending on everyday goods increased by 5% and spending on services went up 4.5%. Growth in individual spending was faster than growth in household disposable income owing to a great extent to a drop in savings. In 2000 for the first time in the history of regular observations a reduction was registered in Americans' savings. The level of savings (the ratio of growth in personal savings to personal disposable income) was -0.1% against 2.2% in 1999. The increased propensity for consumption reflected a favourable employment situation and a high level of public confidence in prospects for prosperity.

Real gross private investment in fixed capital in the United States in 2000 increased by 9.3% against 9.2% in 1999. Investment in fixed production assets expanded by 12.6%, of which investment in production equipment, including computer software, rose by 13.7%. Investment in fixed assets in the housing sector declined by 0.5% in real terms year on year. Growth in US inventories in 2000 amounted to \$243 billion in real terms against \$181 billion in 1999. Growth in real spending on consumption and gross investment in the US government sector in 2000 slowed to 2.8% from 3.3% in 1999.

Real domestic demand in the EMU in 2000 rose by 2.8% against 3.1% in 1999. Household real consumer spending increased by 2.6% as a result of the expansion of domestic demand and GDP. Growth in gross fixed capital investment by all sectors amounted to 4.6% and consumption in the government sector expanded by 1.6% in real terms. A major factor of growth in the EMU's real GDP in 2000 was the expansion of external demand, which became manifest in growth in net exports after their decline in 1999.

Real growth in Japan's domestic demand in 2000 was 1.3% against 0.9% in 1999. The main reason for the rise was a 4.4% increase in private investment in fixed production assets, which followed a 4.3% reduction in such investment in 1999. As a result, aggregate private investment in fixed production and non-production assets in 2000 rose by 3.8% after a 3.3% decline in 1999. Growth in household real consumer spending in 2000 slowed to 0.5% against 1.2% in 1999, while growth in expenditure on consumption and gross investment in the government sector declined to 0.6% from 4.7% a year earlier. A major role in bringing about the expansion of Japan's real GDP in 2000 was played by a favourable external demand dynamics, which became manifest in the expansion of net exports after its reduction in 1999.

**INFLATION.** Inflation rates accelerated considerably in the industrialised nations in 2000 as energy prices soared, compelling the governments of these countries to tighten their monetary policy.

The average annual growth in US consumer prices in 2000 was 3.4% against 2.2% in 1999, exceeding the predicted rate of 3.2%. The internal causes of accelerated inflation in the United States were the reduction of unemployment and an increase in consumer spending. The EMU rate of inflation accelerated to 2.3% from 1.1% in 1999 and in the second half of 2000 it constantly exceeded the threshold 2% compared with the same period of the previous year, which is a monetary policy target for the European Central Bank. A major factor of accelerated inflation in the EMU was the euro's fall against the dollar.

Consumer prices continued to slip in Japan: in 2000 the deflation rate increased to 0.7% from 0.3% in 1999, reflecting a significant decline in prices in the period from March to May 2000. The significant slowing of consumer price growth in Indonesia was attributable to decline in devaluation expectations and in Mexico to the consistent implementation of a monetary policy aimed at curbing inflation.

**EMPLOYMENT.** An economic upswing in most of the industrialised nations in 2000 led to the further improvement of the employment situation. The US average annual unemployment level slid

to 4% of the economically active population from 4.2% in 1999, the lowest level since 1969. Unemployment in the UK fell to 5.5% of the economically active population, the lowest level since records began in accordance with the methodology of the International Labour Organisation (the unemployment rate in that country, calculated using the conventional British methodology, in 2000 was 3.7%, the lowest since 1975). The jobless rate slowed to 9% in the EMU as a whole and in most of its member countries, including Germany (9.6%), France (9.7%) and Italy (10.6%). However, unemployment in the EMU countries was a great deal higher than in the United States and Great Britain, reflecting differences in the methods of regulating labour and social relations. Japan's jobless rate remained unchanged at 4.7% as the number of jobs declined in industry and agriculture but rose in the services sector.

**GOVERNMENT FINANCE.** The United States and Great Britain in 2000 registered growth in their consolidated budget surpluses both in absolute terms and relative to GDP. The favourable fiscal situation created possibilities for cutting taxes. Both countries registered a reduction in government debt.

The EMU countries continued to pursue a policy designed to cut budget deficits and government debt as is required by the Maastricht Treaty and the Pact of Stability and Growth. Germany's federal budget deficit decreased significantly. The country adopted a budget reform plan aimed at balancing the federal budget by the year 2006 and at the same time easing the tax burden.

The government finance situation improved in South Korea and South-East Asian countries, which had overcome the aftermath of the crisis. Brazil's primary budget surplus far surpassed the target set for 2000. China continued to be plagued by government finance imbalances, which required vast government borrowings. Argentina's federal budget deficit went beyond the limits set in the IMF-agreed economic stabilisation programme.

**WORLD TRADE AND CAPITAL FLOW.** IMF estimates show that in 2000 world trade expanded by 12.4% against 5.3% in 1999. The growth re-

flected the physical expansion of export and import operations, stimulated by increased demand in the industrialised nations and a sharp rise in the world price of oil. The oil price surge and the expansion of imports in some cases increased budget deficits while in other reduced trade surpluses of the leading industrialised nations, China and some Asian countries, including South Korea, whose currencies were devalued in 1997. The trade surpluses of the oil-exporting countries in 2000 increased.

The US foreign trade deficit in 2000 reached an all-time high of \$369.7 billion (in 1999 it amounted to \$265 billion). The country's current-account deficit rose to 4.4% of GDP from 3.6% in 1999, while the financial and capital account surplus expanded from 3.4% of GDP in 1999 to 4% in 2000, a growth reflecting an increase in net inflow of foreign direct and portfolio investment to the United States.

The UK deficit of trade in goods and services in 2000 amounted to 28.8 billion pounds sterling against 26.2 billion pounds sterling in 1999 and the current-account deficit rose to 1.7% of GDP from 1.1% of GDP in 1999. Great Britain's capital and financial account surplus increased to 2.1% of GDP from 1.4% in 1999. The country's official foreign exchange reserves expanded to \$43.9 billion as of the end of 2000 from \$35.9 billion as of the end of 1999.

The EMU surplus of trade in goods and services in 2000 contracted to 46.3 billion euros from 71.6 billion euros a year earlier. The current-account deficit of the EMU, caused by a large deficit of the counter-flow of investment incomes and current transfers, rose from 0.1% of GDP in 1999 to 0.4% in 2000. At the same time, the EMU capital and financial account surplus in 2000 decreased to 0.2% of GDP from 0.5% in 1999 as a result of an outflow of portfolio investments amid the reduction of the credit and capital transfer inflow. The EMU's official foreign exchange reserves declined to \$242 billion as of the end of 2000 from \$257.1 billion as of the end of 1999.

Japan's surplus of trade in goods and services in 2000 declined to 7.4 trillion yen from 7.9 trillion yen a year earlier. However, as a result of the reduction of the deficit of the balance of services and the expansion of net inflow of invest-



ment incomes to the country, the current-account surplus increased to 2.5% of GDP from 2.4% in 1999. Japan's capital and financial account deficit soared from 1.1% of GDP in 1999 to 1.8% in 2000. The country's official foreign exchange reserves amounted to \$354.9 billion as of the end of 2000 against \$286.9 billion in the same period of the previous year.

According to IMF data, net foreign financing of developing countries in 2000 increased by \$19.6 billion after a two-year decline. Net foreign financing of the countries in transition continued to decline and in 2000 decreased by \$12 billion.

A major factor of growth in net foreign financing of the emerging markets in 2000 was the expansion of capital inflow in the form of foreign direct investment and the purchase of securities entitling their holders to a stake in a company's capital. This kind of investment has always dominated the structure of net capital inflow to these countries and since 1998 it has also prevailed in the structure of foreign financing of countries with transitional economies.

In 2000 the share of foreign direct investment and investment in securities entitling their holders to stakes in companies' capital increased to the highest ever level in the sources of net foreign financing of emerging markets — 92% against 56% in 1999. On the one hand, this increase reflected growth in the inflow of direct investments; on the other hand, it reflected a net outflow from these countries of funds they had received earlier as loans from the IMF and foreign non-bank private creditors.

The expansion of net foreign financing of developing countries in 2000 reflected not only growth in the inflow of direct investment, but also an increase in loans received by these countries from foreign banks. Commercial bank loans in 2000 were the third most important source of foreign financing for emerging markets, ceding priority to loans they received from their official creditors, except the IMF. However, according to data compiled by the Bank for International Settlements (BIS), the increment of commercial bank investment resources, caused by the inflow of funds from oil-exporting countries, in 2000 led mainly to growth in the financing of industrialised nations rather than emerging markets (this was

not the case when a similar situation developed in the seventies).

**WORLD COMMODITY MARKETS.** The acceleration of world economic growth in 2000 contributed to the rise in world prices of raw materials, especially fuel and energy. In 2000 world energy prices increased 1.6 times year on year, while prices of non-energy goods edged up by 3%.

The co-ordinated actions of OPEC countries, which cut oil production and exports in 2000, caused the price of oil to jump to a 15-year high. Such high prices were last seen during the second wave of the world energy crisis in 1979. The reduction of oil reserves in the industrialised nations, especially the United States, also played a role. According to the October report of the International Energy Agency (IEA), the world's daily oil consumption in 2000 rose by 1.3% year on year, while oil production increased by 1% and world oil reserves in mid-2000 declined to the 1977 level. The oil price dynamics was affected by the exacerbation of the situation in the Persian Gulf, occasional suspensions of Iraqi oil exports to the world market and numerous natural factors. As a result, year on year the price of Brent crude in the International Petroleum Exchange in London in 2000 rose by 60% to \$28.3 a barrel and the WTI price in New York soared by 58% to \$30.3 a barrel. Prices of petroleum products were rising at the same rates. A shortage of oil in the market and a low level of reserves of natural gas told on the latter's price. Year on year the price of natural gas in Europe rose more than 1.8 times and in the United States 1.9 times.

The acceleration of world economic development and rapid growth in demand from the industrialised nations, the major consumers of non-ferrous metals, especially Asian countries, a fall in the production of these metals due to its high power consumption and relatively small world reserves caused an upturn in the non-ferrous metals market in 2000. Aluminium and copper prices soared to three-year highs, while the average price of nickel hit a 10-year high and in May 2000 exceeded \$10,120 a tonne. Year on year the price of aluminium in 2000 rose by 14% to \$1,550 a tonne, copper by 15% to \$1,815 a tonne and nickel by 44% to \$8,630 a tonne.

Last year's fall in the price of gold was caused by a stronger dollar, growth in supply by producers and auction sales of gold reserves by several central banks. At the same time, rising demand from jewel-makers in Arab countries, India, the United States and other countries prevented further decline in the world price of gold. As a result, in 2000 the average price of gold, \$279 per troy oz, remained virtually unchanged from the previous year's \$278.8. A drop in demand in the silver market by major consumers, such as the chemical, photography and jewel-making industries, caused the price of silver to slump for two years in a row. Year on year the price of silver in 2000 slipped by 5% on average to \$5 per troy oz.

Platinum metal prices in 2000 continued to rise at an extremely rapid rate owing to increased demand from the machine-building and jewel-making industries. The leading producers, South Africa and Russia, could not meet the expanding demand and eliminate the shortage of these metals. Year on year the world price of platinum rose by 44%, hitting an 11-year high of \$542 per troy oz, while palladium prices increased 1.9 times over and reached an all-time record high of \$676 per troy oz. In the last three years the price of palladium has increased 3.8 times.

Average prices in world markets for ferrous metals, chemicals, timber and pulp and paper in 2000 were generally higher than in 1999, while many foodstuffs and grains continued to get cheaper.

**FOREIGN CURRENCY MARKET.** In 2000 the dollar gained 13.2% against the euro and as the euro lost weight, the dollar rose by 6.3% against the British pound.

The reasons for the dollar's rally were a more favourable macroeconomic situation in the United States than in the EMU zone and greater attractiveness of investment in the US real sector and financial markets. The most significant fall of the euro was registered in the 2<sup>nd</sup> quarter of 2000. The raising of interest rates in the EMU and currency interventions conducted simultaneously by the US, EMU and Japanese monetary authorities in late September slowed the dollar's climb against the euro in the 3<sup>rd</sup> quarter. The slowing of economic growth in the United States in the

second half of 2000, the narrowing of the gap between US and EMU interest rates and a downturn in US corporate stock prices allowed the euro to stabilise in November and rally significantly in December 2000.

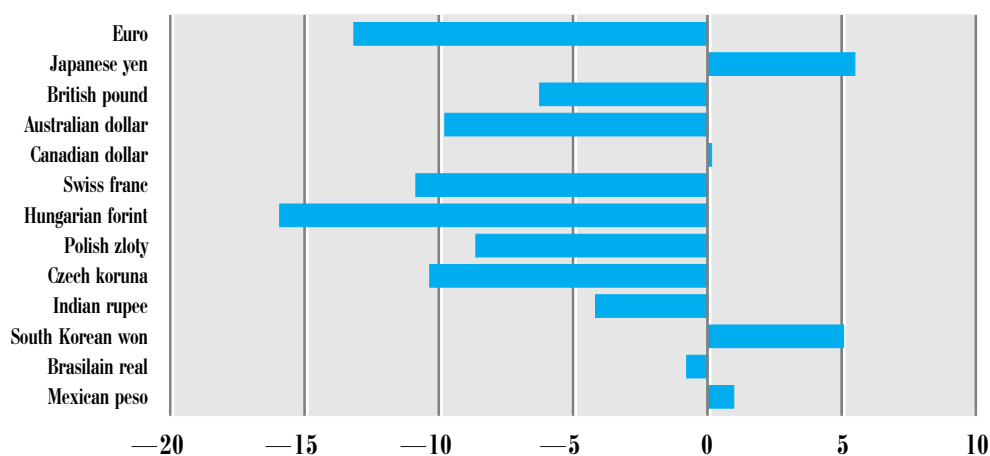
In 2000 the dollar was down 5.5% against the yen compared with the previous year, reflecting the Japanese currency's significant strengthening in the 3<sup>rd</sup> quarter of 1999. In April the yen began to lose ground and this tendency increased in the 4<sup>th</sup> quarter of 2000 as there were no improvements in the macroeconomic situation in Japan from April to September, while Japanese corporate stocks plunged.

**MONEY MARKET.** Interest rates in the money markets of the world's leading industrialised nations in 2000 were higher than in 1999. Growth in interest rates was caused by tighter monetary policies pursued by the central banks of these countries. The US Federal Reserve System in 2000 raised the benchmark federal funds rate from 5.5 to 6.5%, the European Central Bank hiked the basic refinancing rate from 3 to 4.75% and the Bank of England increased the repo rate from 5.5 to 6.0%. These countries were forced to tighten their monetary policy in the face of accelerating inflation. The Bank of Japan in August raised the benchmark interest rate on overnight inter-bank loans from 0 to 0.25%. The decision by the Japanese monetary authorities to increase interest rates, taken for the first time in 10 years, ended the 18-month period of zero interest rates that preceded that decision. It was aimed at encouraging corporations to implement structural reforms. In Great Britain interest rates peaked in April—May, in the United States in May—June, in the EMU in October and in Japan in December.

**STOCK MARKET.** The Federal Reserve's tough monetary policy in the second half of 1999 and the first half of 2000 prevented an overheating of the US stock market. An economic slowdown in the United States in the second half of 2000 led to more pessimistic forecasts of US corporate profits. The level of share prices of traditional US industries, represented by the Dow Jones Industrial Average, in 2000 was on average 2.4% higher than in 1999 owing to significant growth



**GROWTH OF US DOLLAR EXCHANGE RATES IN 2000\***  
(as % of 1999)



*Chart 21*

Source: Reuters Agency.

\* (—) — US dollar appreciation, (+) — US dollar depreciation.

in prices in the first half of 1999. In December 2000, however, the Dow Jones was down 8.7% on the same period of 1999.

Share prices in Western European countries, Australia, Canada, Japan and some other Asian countries (India, Hong Kong, Malaysia and Singapore), the largest Latin American countries and the countries of Central and Eastern Europe in 2000 were higher than in 1999 on average. It was the result of their rise in 1999 or the first half of 2000. However, during the entire year 2000 and particularly in its second half share prices in these countries began to slide. Decline in stock prices was registered in 2000 in Indonesia, South Korea, Thailand and the Philippines.

**CAPITAL MARKET.** Yields on gilt-edged dollar-, euro- and yen-denominated debt instruments in 2000 rose or remained unchanged from the previous year. At the end of 2000, however, yields on medium- and long-term securities in the US and EMU countries slipped below late 1999 levels as inflationary expectations decreased and US economic growth slowed. As forecasts for corporate profits deteriorated and stock prices fell in the latter half of 2000, credit spreads on corporate debt papers widened. Credit spreads also widened on debt instruments of some developing countries relative to yields on dollar-denominated

papers of comparable quality, which was the result of currency and financial problems in Argentina and Turkey and political instability in Indonesia and the Philippines.

As credit risk increased, credit spreads widened and some developing countries became less interested in borrowing in the international market, net issue of debt instruments in the capital market in 2000 declined by \$132.6 billion year on year. Net issue of fixed-interest long-term bonds and bonds entitling their holders to the purchase of shares decreased. Net issue of floating-rate bonds remained unchanged from 1999.

Net issue of debt instruments by developing countries and countries in transition contracted by \$6.9 billion. Latin American countries remained the biggest debtors and borrowers in the international capital market.

The share of euro-denominated securities in the structure of aggregate net issue of debt instruments of the international money and capital markets in 2000 contracted while that of the dollar-denominated papers expanded, a trend reflecting the euro's decline against the dollar. The share of yen-denominated instruments expanded as net borrowings in the Japanese currency made by European companies to finance mergers and acquisitions and buy new licences increased and the yen's exchange rate against the dollar remained higher than in 1999.

**AVERAGE ANNUAL STOCK PRICE INDEX GROWTH IN 2000**  
(as % of 1999)

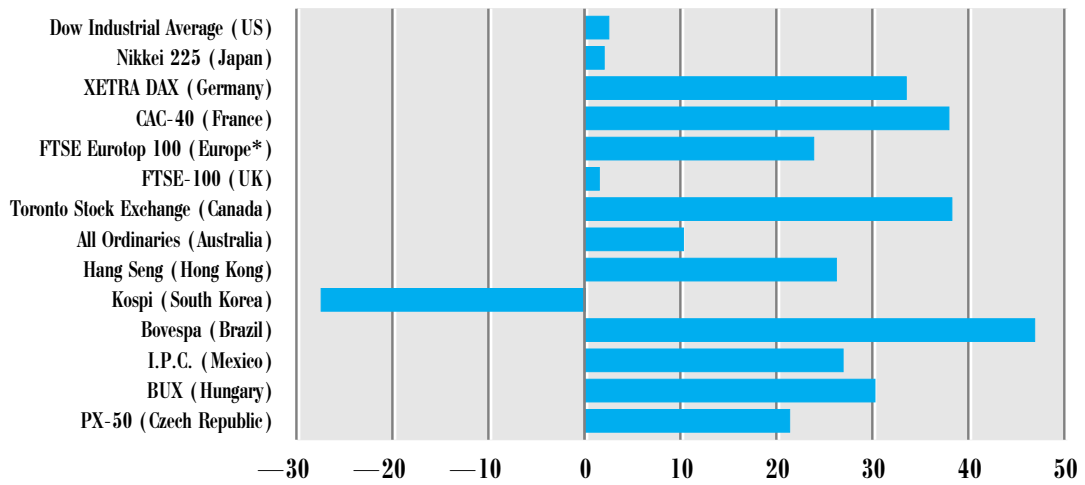


Chart 22

Source: Reuters Agency.

\* Shares of leading European companies listed on the London Stock Exchange.

As the issue of debt instruments declined in the capital market, the amount of international syndicated loans granted in 2000 increased by

\$42.4 billion. A part of this increment resulted from the expansion of lending to developing countries.

**BANK OF RUSSIA  
ACTIVITIES**

**II**

## II.1. MONETARY POLICY

### II.1.1. OBJECTIVES AND RESULTS OF MONETARY POLICY

The objectives of the monetary policy for the year under review were spelt out in the Guidelines for the Single State Monetary Policy for 2000. The ultimate objective of the monetary policy was to reduce inflation to 18% a year amid GDP growth of 1.5%.

The analysis of the past year shows that practically all the main economic assumptions laid at the basis of the monetary policy for 2000 were proved correct. Moreover, thanks to the monetary policy GDP growth exceeded basic projections and amounted to 8.3%.

Inflation in the year ended December 2000 was 20.2%, a substantial decrease from 1999 (36.5%), which accords with the strategic and tactical goals of slowing the inflation rate.

The monetary policy in 2000 was implemented under the conditions of a floating exchange rate regime. Sticking to the market method of setting the exchange rate of the national currency, the Bank of Russia merely smoothed considerable deviations of the ruble actual rate from the level corresponding to the macroeconomic fundamentals, taking into consideration factors such as the temporarily favourable foreign trade situation.

In 2000 the exchange rate changed from 27 rubles to 28.16 rubles to the dollar. In real terms the ruble gained 2.3% on average over the year, which is not much compared with the Russian currency's collapse in 1998.

The official exchange rate of the ruble in 2000 constantly exceeded the ratio of the broad monetary base to international reserves, which served as an additional factor of the reduction in devalu-

ation expectations, increased confidence in the domestic currency and was yet another confirmation of the success of the monetary policy pursued last year.

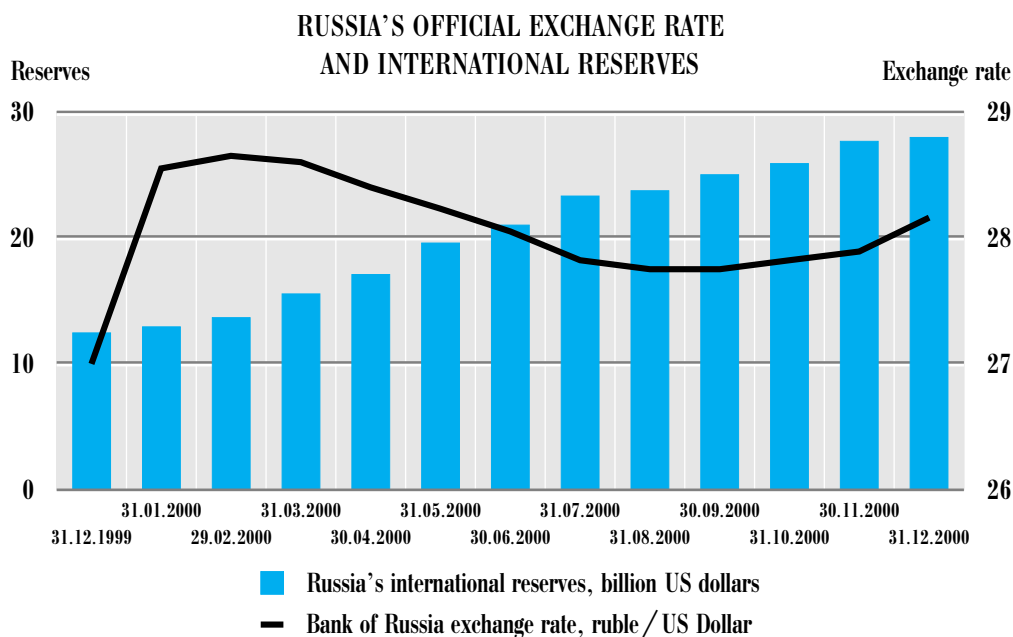
The exchange rate regime used predetermined control over the money supply as a major means of attaining the inflation target.

The actual expansion of money supply (M2) in 2000 amounted to 62.4% against 21—25% set in the Guidelines for the Single State Monetary Policy for 2000. The main reason was larger-than-expected demand for money from economic agents, stimulated by the expanding production of goods and services and increased credibility of the domestic currency.

A major factor of the demand for money in 2000 was the substantially increased monetisation of settlements, which resulted from production growth, the improvement of the financial condition of enterprises, stabilisation of the budget situation and measures taken by the Government to control tax payments of major taxpayers.

As foreign exchange became far less attractive as an investment, the share of household income spent on the purchase of foreign exchange contracted from 8.1% in 1999 to 6.8% in 2000. The same factor was behind growth in the demand for ruble funds.

Unlike 1999, when money velocity accelerated, 2000 saw it slow down by 8.8%, from 6.8 in late 1999 to 6.2 in late 2000. Money velocity dynamics last year were affected by a significant increase in the demand for money in the real sector, caused by economic growth, and the expan-



*Chart 23*

sion of the share of time deposits of non-financial enterprises and organisations in the structure of money supply, that is, its least liquid components.

The significant and continuous increase in the share of cash settlements for shipped products and the replacement of surrogate money by cash and non-cash funds required, other things being equal, more money to service the same GDP and that in turn caused money velocity to slow.

Data on the monetisation ratio dynamics relating to the M2 aggregate testify to the beginning of the remonetisation of the economy and the recovery from the aftermath of the 1998 financial crisis when the money supply shrank almost by one-third in real terms. Last year saw the money supply completely restored to the pre-crisis level and expand in real terms. The extent of monetisation of the economy in regard to the M2 aggregate in 2000 increased on average to 12.3% from 11.5% in 1999.

The increase in the demand for money, caused by objective processes in the real sector, made it possible to expand considerably the money supply without creating an immediate threat of inflation. Growth in international reserves, accompanied by a strong balance of payments, was balanced by growth in the demand for money and measures to sterilise free liquidity, which created a potential threat for the efforts to curb inflation.

The Bank of Russia, therefore, used all instruments of monetary regulation it had at its disposal, first and foremost deposit operations with banks.

The accumulation of additional federal budget revenues in accounts with the Bank of Russia and repayment of a part of the Finance Ministry's debt to the Bank of Russia facilitated to some extent the sterilisation of banking liquidity.

As a result, the situation with free liquidity of the banking system was stable throughout the year. The ratio of bank reserves in the form of balances in banks' correspondent accounts with the Bank of Russia to the funds attracted by banks from non-financial sector enterprises has been quite stable in the last 18 months (13—15%). This testifies to the existence of the required demand from banks for free reserves in the current payment system and the efficiency of sterilisation measures taken within the framework of the pursued monetary policy.

Last year saw commercial banks step up their activity in conducting operations with enterprises and households. Nominal rates of growth in bank loans to the real sector in rubles and in foreign currency in 2000 were 30 percentage points higher than in 1999. Moreover, while in 1999 there was a reduction in bank loans in real terms, taking into account the yearly rise in industrial producer prices, the value of such loans in 2000 increased by almost 29%.

## CONSUMER PRICE AND M2 MONEY SUPPLY GROWTH RATES

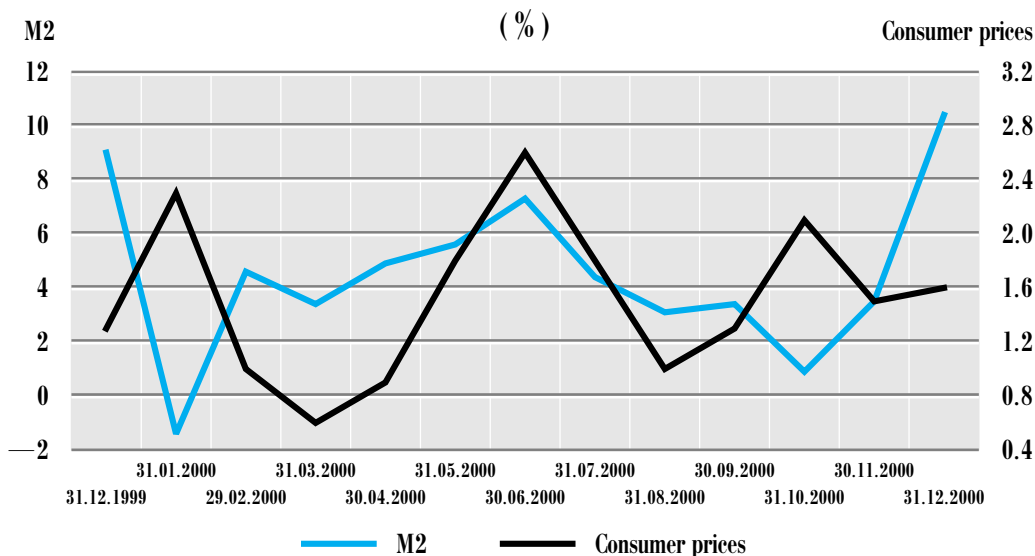


Chart 24

## DYNAMICS OF M2/GDP RATIO AND CONSUMER PRICE GROWTH RATES

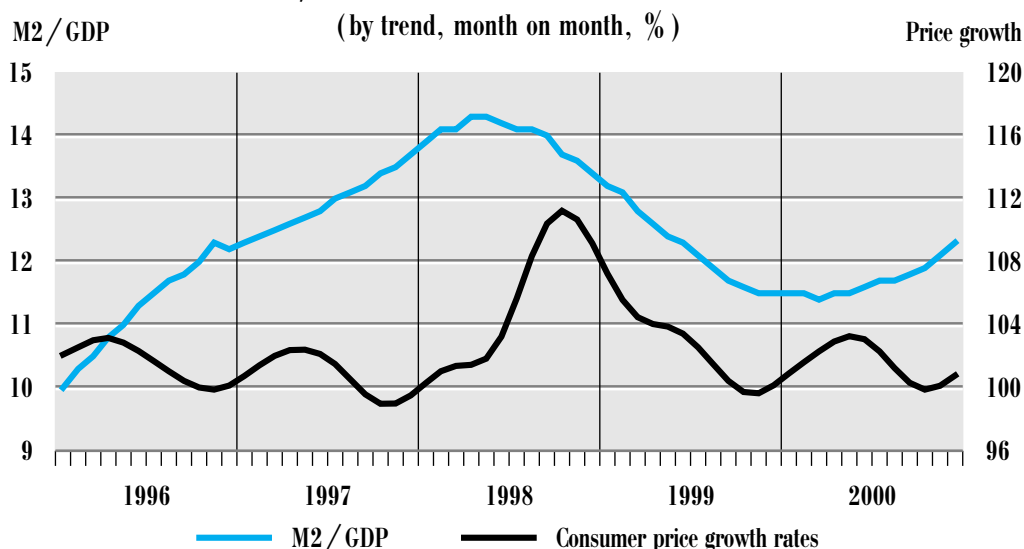


Chart 25

In 2000 Bank of Russia operations brought about a drop in money market interest rates and, as a result, borrowing costs declined to a level that stimulated demand for loans in the real sector.

The repeated reduction of the Bank of Russia refinancing rate in 2000, the availability of free resources in the banking sector and the overall improvement of the economic situation caused interest rates on commercial bank loans to legal entities to decline. Average weighted interest rates on loans to legal entities for all terms up to 1 year in 2000 fell from 34 to 18.2% p.a.

A typical feature of last year was the narrowing of the margin of interest rates on banks' deposit and credit operations from 20.6 percentage points in January to 14 percentage points in December. Yet, the margin is still too large, reflecting banks' awareness of high credit risk related mainly to the absence of structural reforms in the real economy, inadequate transparency of enterprises' financial reporting and the absence of laws to protect creditors whose claims are secured by collateral.

The reduction of the general level of interest rates and a high margin in 2000 affected house-

DYNAMICS OF RATIO OF BALANCES IN CORRESPONDENT ACCOUNTS  
TO NON-FINANCIAL SECTOR'S DEPOSITS

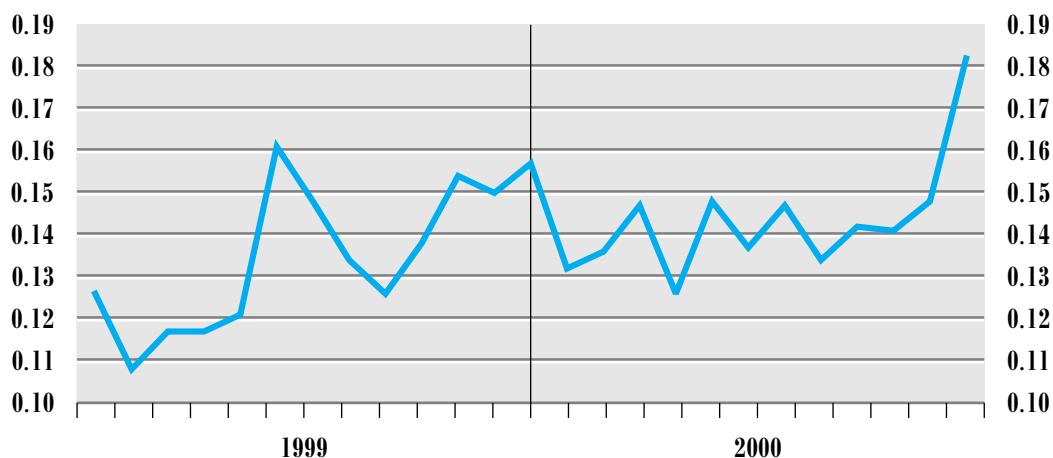


Chart 26

hold deposit rates. Average weighted deposit rates declined over the year more than three times, from 13.4 to 4.2%. In real terms (adjusted to consumer price inflation), these rates were negative throughout the year.

Thus, the monetary policy pursued by the Bank of Russia in 2000 demonstrated flexibility

in response to changes in the real demand for money. Supplying the economy with just as much money as it needed, it helped maintain its growing dynamics, cut interest rates, decrease inflationary expectations and inflation rates, slightly strengthen the real exchange rate of the ruble and stabilise the financial markets.

## II.1.2. DYNAMICS OF MONETARY AND CREDIT INDICATORS

The monetary policy of 2000 was aimed at maintaining financial stability and creating preconditions for sustainable economic growth. To achieve these objectives, the Bank of Russia exercised control over the money supply and regulated banking liquidity, taking into account the trends in the development of the demand for money.

The money supply (M2 aggregate) as of January 1, 2001, amounted to 1,144.3 billion rubles, an increase of more than 60% over the year. In real terms (taking into account the consumer price index) the money supply expanded by over 35% during that period. Money supply growth exceeded the intermediate monetary policy target set for 2000 largely because of the expansion of the demand for money.

The money supply grew unevenly during the year. As in the previous year, its most significant growth was registered in the 2<sup>nd</sup> and 4<sup>th</sup> quarters when the money supply increased at the rate of 19% and 15%, respectively (20% and 18% in 1999). The highest rates were registered in June and December. Such dynamics along with the seasonal factors were connected with the decisions to increase household money income, which included repayment of wage arrears. At the end of last year, a large part of additional federal budget revenues was used to finance government expenditures, including expenditures on social programmes.

These factors accelerated growth in cash in circulation in the periods indicated above, while the dynamics of other money supply components were more stable.

The structure of the money supply improved in 2000 as the share of cash in circulation contracted while growth in non-cash funds, a less liquid component of the M2 aggregate, accelerated, restraining growth in consumer prices. Cash in circulation (outside the banking system) in 2000 expanded by 57.3%, while the non-cash component of the money supply increased by 65.5%.

The demand for money from enterprises and organisations grew during the year as their finan-

cial standing improved and the share of cash settlements expanded. The value of deposits of non-financial enterprises and organisations increased 1.8 times over the year (1.5 times in real terms) and their share of the money supply expanded from 33.3 to 36.7%. Significant growth of balances in the accounts of non-financial enterprises and organisations was connected with an increase in export earnings and production growth caused by the expansion of domestic demand for consumer and investment goods. According to the State Statistics Committee, or Goskomstat, the financial result (profit minus loss) of enterprises and organisations in the key sectors of the economy in 2000 rose 1.8 times year on year. The improvement of the financial standing of enterprises and organisations led to an increase of funds in their bank accounts (including funds intended for the replenishment of working assets), growth in the volumes of paid-for products and the reduction of barter and netting of claims. Last year saw further growth in the use of cash settlements for paid products: according to Goskomstat, this share expanded from 54.2% in 1999 to 69.5% in 2000. At the same time, the share of settlements effected using promissory notes contracted from 10.8 to 8.2%, the share of netting of claims decreased from 24.2 to 15.6% and the share of barter arrangements declined from 5.7 to 3.3%. The improvement of the structure of settlements was one of the factors of growth in enterprises' working assets, including cash as part of these assets.

Household deposits in banks grew more slowly during the year than deposits of non-financial enterprises and organisations, although their value increased 1.5 times over the year. The share of household deposits as a proportion of the money supply decreased from 28.8 to 26.6%. A decisive influence on the household deposit dynamics was exerted by trends in the formation and use of personal money income. In 2000 household real disposable money income rose by 9.1% year on year, whereas in 1999 it declined by 14.2%. Despite persistent growth in real income and household spending on goods



**CHANGES IN STRUCTURE OF INTERNAL CREDIT IN BANKING SYSTEM  
(NET OF CLAIMS ON OTHER FINANCIAL INSTITUTIONS) IN 1999—2000 (%)**

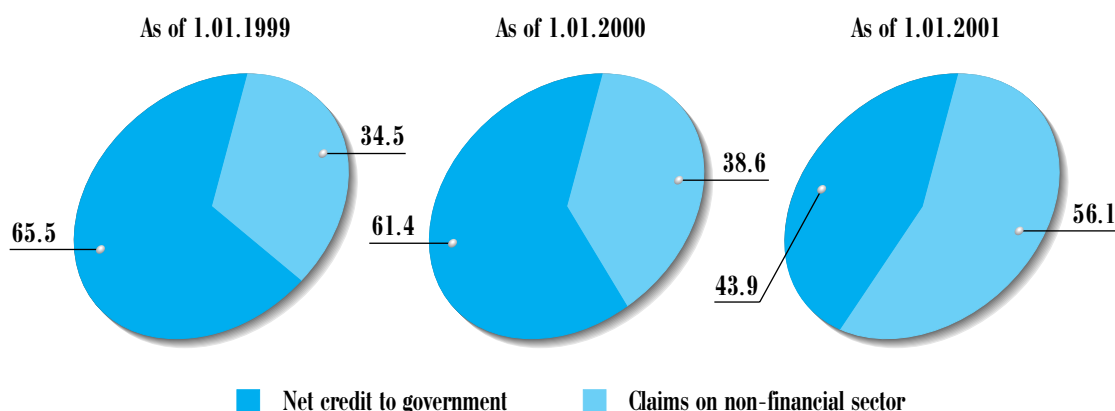


Chart 27

and services, the share of consumer spending in the structure of income use in 2000 remained unchanged from 1999 as it was necessary to restore the level of real consumption in the post-crisis period. The share of household money income used to increase deposits and buy securities expanded to 3.8% from 3.5% in 1999, while the share of household money income spent on foreign exchange contracted. This testifies to the increased tendency of households to stick to organised savings. Although most of the ruble-denominated household deposits were still kept in the Savings Bank (Sberbank), in 2000, unlike 1999, growth in these deposits was slower than growth in household deposits with other banks: over the year they increased by 46.5% and 76.5%, respectively, which may serve as a sign of a gradual return of public confidence in banks.

As the exchange rate of the ruble gained strength in real terms in 2000, the share of foreign-currency deposits in the total amount of deposits dwindled. Though this factor has no decisive effect yet on growth in the demand for money and the money supply in the national currency, it may be the beginning of positive change in the dynamics of household and corporate deposits.

Last year saw significant changes in the structure of the sources of the money supply, including foreign-currency deposits. While in the previous years growth in domestic credit of the banking system was a factor of decisive importance for

money supply growth, in 2000, when Russia had a strong balance of payments, it was the expansion of net foreign assets of the monetary authorities and credit institutions that became the main source of money supply growth. Last year these assets grew 6.9 times to 630 billion rubles. Most of the increment resulted from the increase in net foreign assets of monetary authorities.

Domestic credit of the banking system in 2000 rose by 204.5 billion rubles, or 13.7%, and the improvements in favour of the expansion of claims on the non-financial sector of the economy (these include the banking system's claims on non-financial government-owned enterprises, non-financial private enterprises and households), first registered in its structure in 1999, continued.

Government finance was so good (for the first time in many years Russia registered a federal budget surplus, which amounted to 2.5% of GDP in accordance with the international definition) that the federal budget required no monetary financing. Moreover, the value of net credit to the government from the banking system as a whole in 2000 decreased by 169.5 billion rubles.

In this situation growth in internal credit of the banking system almost entirely resulted from the expansion of claims on the non-financial sector of the economy. In 2000 the sum of these claims increased by 372.5 billion rubles, or 65.5% against less than 50% in 1999. While in 1999 the increase in bank claims on non-financial enter-

**DYNAMICS OF BANKING SYSTEM'S CREDIT TO ECONOMY  
IN NATIONAL AND FOREIGN CURRENCY IN 1999—2000**  
(December 31, 1998 = 1)

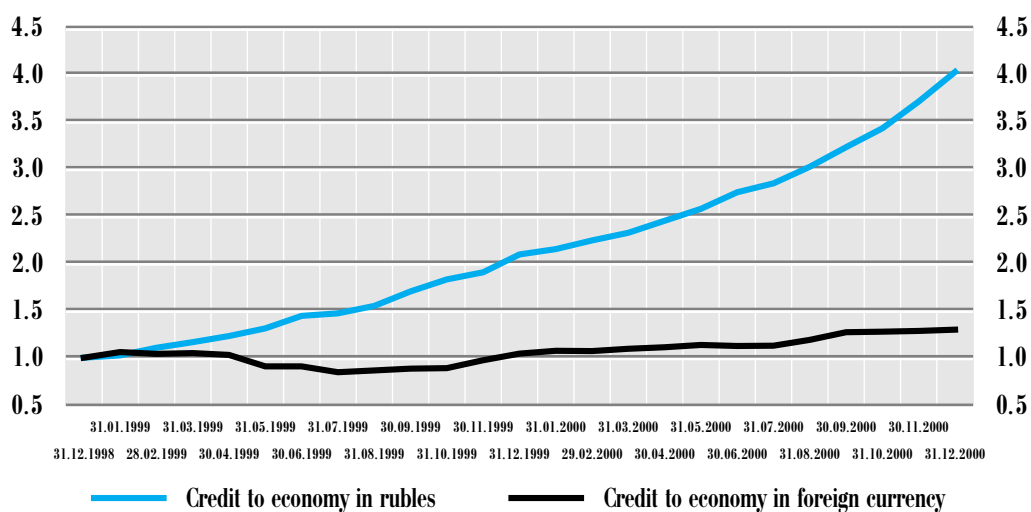


Chart 28

prises and households amounted to 53% of growth in the money supply, including foreign-currency deposits, in 2000 this ratio grew to 65%. As the ruble got stronger in real terms, the favourable trend of accelerated growth of bank credit denominated in the domestic currency continued: the share of ruble-denominated claims on the non-financial sector as of the beginning of 2001 expanded to more than 70% against 61% as of the beginning of 2000 and 43% as of the beginning of 1999.

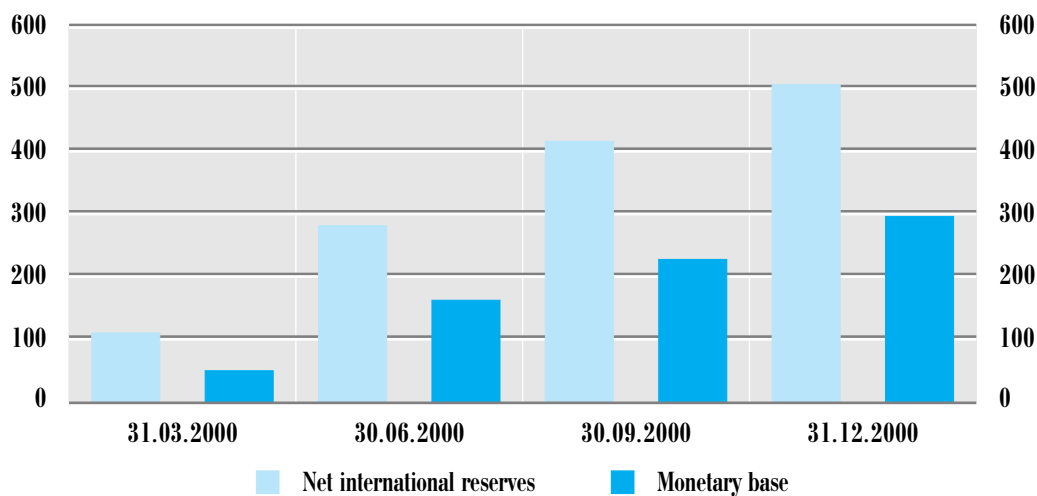
Although the share of bank credit in the financing of Russian enterprises and organisations remains small, the gradual narrowing of the gap between the level of profitability in production and interest rates in the money market, the reduction of nonpayments and growth in investment and consumer demand constitute positive factors of expansion in the use of funds attracted by credit institutions with the purpose of maintaining economic growth. In 2000 rates of growth in the banking system's claims on the non-financial sector approximated rates of growth in the non-cash component of the money supply, including deposits denominated in foreign currency. A rise in lending activity of banks in 2000 was higher than GDP growth. The ratio between the expansion of claims on non-financial enterprises and households and GDP growth in 2000 increased to 5.3% from 4.0% in 1999.

The broad monetary base, which includes cash in circulation and in the tills of credit institutions, required reserves and funds in credit institutions' correspondent accounts and also banks' deposits with the Bank of Russia, as of January 1, 2001, amounted to 721.6 billion rubles, an increase of 69.5% over the year. It grew faster than the money supply (M2 aggregate), a trend indicating a reduction of the money multiplier.

The expansion of the monetary base in 2000 entirely resulted from a \$18.7-billion increase in net international reserves of the monetary authorities, which was mainly caused by the purchase of foreign exchange by the Bank of Russia in the domestic market and the reduction of government debt to the IMF. In the meantime, the volume of net domestic assets declined 1.7 times over the year. The main factor of their decrease was a contraction by more than four times of net credit of the monetary authorities to the general government, which was caused by considerable growth in the balances of federal, regional and local budget accounts and extra-budgetary fund accounts in the Bank of Russia.

Bank deposits with the Bank of Russia, required reserves and balances in credit institutions' correspondent accounts with the Bank of Russia were the fastest growing components of the broad monetary base. At the same time, the share of cash in circulation, including balances in the tills of

**DYNAMICS OF NET INTERNATIONAL RESERVES AND MONETARY BASE IN 2000**  
 (increments on accrual basis since beginning of year, billion rubles)



*Chart 29*

credit institutions, contracted from 67.8 to 61.9%.

Aggregate reserves of credit institutions (cash in the tills of credit institutions, required reserves, balances in credit institutions' correspondent ac-

counts with the Bank of Russia, including balances in the organised securities market, and bank deposits with the Bank of Russia) increased 1.9 times over the year and as of January 1, 2001, amounted to 302.3 billion rubles.

### II.1.3. MONETARY POLICY TOOLS

The choice of monetary policy tools by the Bank of Russia depended in large measure on the economic conditions of 2000. A strong balance of payments, the expansion of international reserves and GDP growth, on the one hand, and the inadequacies of the transmission mechanism, largely connected with high risks involved in lending to the still unstructured real sector, on the other hand, compelled the Bank of Russia to use monetary policy tools to absorb free liquidity of the banking system.

As the law forbidding the Bank of Russia to issue bonds was still in force in 2000 and it was impossible to conduct operations with government securities as a result of their restructuring into long-term bonds with low unmarketable yields, the Bank of Russia used for this purpose the available instruments, such as deposit operations, changes in reserve requirements and occasionally operations in the foreign exchange market. In addition, the Bank of Russia continued to use some other monetary policy tools.

**REQUIRED RESERVES.** When implementing its monetary policy, the Bank of Russia realises that raising the standards of required reserves is a tough means of regulating liquidity of the banking system, so it resorts to it in exceptional cases. In the year under review it was used only once.

In January 2000, when pressure on the foreign exchange market built up, the Bank of Russia Board of Directors made the decision to raise reserve requirements: the required reserve ratios for ruble-denominated corporate deposits and corporate and household bank deposits in foreign currency were increased from 8.5 to 10% and for ruble-denominated household deposits from 5.5 to 7%. New required reserve regulations were enforced in accordance with the newly-set reserve ratios.

In 2000 the Bank of Russia continued to upgrade the required reserve mechanism and the regulatory documents on the creation of required reserves by credit institutions.

Specifically, it established the procedure for transferring funds by credit institutions to the

required reserves with collection by the Bank of Russia of the required reserve arrears and fines not only from correspondent accounts, but also from correspondent sub-accounts of credit institutions.

In addition, the Bank of Russia drafted changes (which came into effect in February 2001) setting similar deadlines for the regulation of required reserves of credit institutions and specified the procedure for monitoring by the Bank of Russia compliance with reserve requirements by credit institutions with a branch network and the Savings Bank (Sberbank).

Growth in the required reserves of credit institutions in 2000 was caused by an increase in the balances of borrowed funds in the accounts of credit institutions' clients amid the expansion of production and growth in household deposits in banks. Owing to these factors the sum of the required reserves deposited by credit institutions with the Bank of Russia grew over the year by 59.7 billion rubles, or 90%, of which the required reserves for ruble-denominated accounts increased by 37.3 billion rubles, or 110%, and for foreign currency accounts by 22.4 billion rubles, or 80%. The share of required reserves for funds borrowed in the national currency expanded from 55.2 to 58.7% over the year, while the share of required reserves for funds borrowed in foreign currency contracted from 44.8 to 41.3%.

The Bank of Russia and its regional branches in 2000 made sure that credit institutions deposited the required reserves fully and on time. Bank of Russia regional branches regularly verified credit institutions' calculations of the required reserves that had to be deposited with the Bank of Russia and the accuracy of the data these calculations contained.

The majority of credit institutions deposited the required reserves with the Bank of Russia fully and on time. The share of credit institutions that had a shortfall on required reserves declined by more than a half over the year to 1.6%.

Credit institutions that violated reserve requirements in 2000 were fined a total of 21.6 million rubles.

**DEPOSIT OPERATIONS.** The principal tool of regulating liquidity of the banking system in 2000 was deposit operations. The Bank of Russia conducted deposit operations with banks based in the Moscow Region and banks that were based in other regions but had branches in Moscow through the Reuters Dealing system. Banks based in nine regions and serviced in the Bank of Russia branches for Moscow and the Moscow Region (banks based in the Moscow Region) and the Bank of Russia branches for St. Petersburg, the Tyumen Region, Ryazan Region, Sverdlovsk Region, Vologda Region, Krasnodar Territory and the National Bank of the Republic of Bashkortostan were involved in these operations. As of January 1, 2001, general agreements on conducting deposit operations using the Reuters Dealing system were concluded with 150 banks.

To accelerate settlements on deposit operations, regional banks, excluding banks based in the Moscow Region, transferred funds to deposits opened with the Bank of Russia from their Moscow branches' correspondent sub-accounts opened in one of the divisions of the Bank of Russia settlement network.

Standard deposit operations such as overnight, tom-next, spot-next, 1-week, spot — 1 week, 2-week, spot — 2 week, 1-month and 3-month, allowed the Bank of Russia quickly to take on deposit temporarily free funds of banks, regulating in this way the overall volume of banking liquidity.

Year on year the value of bank deposits attracted by the Bank of Russia in 2000 rose 1.5 times as a result of growth in free ruble funds in banks' correspondent accounts. The average annual balance of funds taken on deposit with the Bank of Russia in 2000 increased 3.3 times year on year, to 60.6 billion rubles.

Deposits were attracted at the rates and in the amounts fixed by the Bank of Russia. Interest rates varied from 0.3 to 20% p.a. The minimum sum of the deposit was 20 million rubles throughout the year.

The share of 3-month deposits expanded year on year from 0.5 to 11.8% of the total amount of funds taken on deposit.

To absorb liquidity and determine the level of interest rates that would stimulate banks to deposit their free funds, the Bank of Russia contin-

ued the practice of holding deposit auctions in which both Moscow and regional banks took part. In 2000 two auctions of 1-week, 2-week and 1-month deposits were held, in which 53 banks from 31 regions participated. The results of these deposit auctions were instrumental in changing interest rates on deposits taken using the Reuters Dealing system.

\* \* \*

In 2000 legal restrictions preventing the Central Bank from resuming the issue of **Bank of Russia bonds** were still in force. Although the 2000 Federal Budget Law extended the right of the Bank of Russia to issue its own bonds till January 1, 2001, this monetary policy tool could not be used in the year under review due to other legal obstacles, such as the controversy about taxing Bank of Russia bond issues.

**REFINANCING OF BANKS.** The Bank of Russia refinanced banks in 2000 by extending intraday and overnight loans to them. Last year it continued to declare twice a week (Monday and Thursday) Lombard loan auctions for terms of up to 7 days. Such auctions were never held, however, because there was no demand from banks as the level of liquidity in the banking system was high.

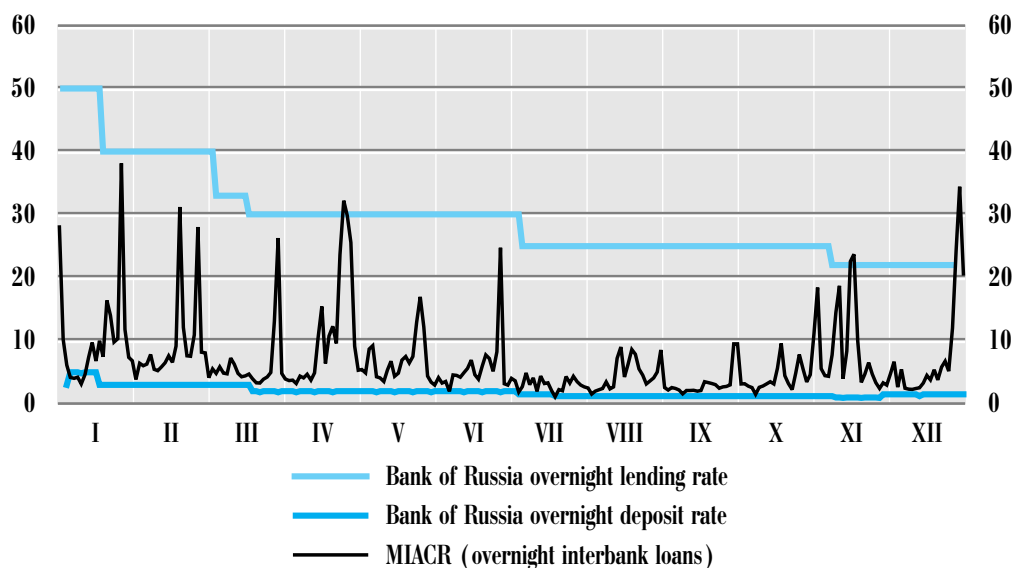
The overall sum of the debt on Bank of Russia loans as of January 1, 2001, amounted to 12.6 billion rubles, decreasing by 3.1 billion rubles over the year owing to the settlement by banks of their debt obligations to the Bank of Russia. The largest portion of the debt (11.5 billion rubles) was the debt on loans extended to banks by the Bank of Russia in 1998—1999 and prolonged by the Bank of Russia Board of Directors in 2000.

Throughout 2000 banks that had concluded general credit agreements on collateralised loans with the Bank of Russia retained about 6 billion rubles of government securities in a deposit account blocked by the Bank of Russia in the National Depository Centre, which allowed them timely to receive intraday and overnight loans whenever they needed them to effect settlements.

In the year under review, the Bank of Russia extended to banks 1.5 billion rubles in overnight loans. The average monthly sum of overnight loans extended by the Bank of Russia in 2000 varied from 4 million rubles to 41 million rubles. All loans were repaid on time.

## SHORT-TERM INTEREST RATES IN 2000 (%)

Chart 30



The Bank of Russia continued to make efforts to reduce the debt on loans extended to enterprises in some sectors of the economy in 1992—1994 by the decision of the Government Commission on the Fiscal and Monetary Policy. The debt on these loans, interest included, amounted to \$1.4 billion rubles as of January 1, 2001, decreasing over the year mainly as a result of the conversion of 300 million rubles into domestic government debt, as was required by federal law.

The debt on bank promissory notes acquired by the Bank of Russia after the 1998 crisis when banks' liabilities on household deposits were transferred to Sberbank amounted to 5.7 billion rubles as of January 1, 2001. This represents a decrease of 600 million rubles, which resulted from banks repaying a part of the notes and ceding the right of claim on some of these notes to other banks.

**INTEREST RATE POLICY.** A major monetary policy tool used by the Bank of Russia in 2000 was interest rates on its operations. The Bank of Russia regulated interest rates in credit and deposit operations taking into account the current state of the economy, inflation dynamics, the situation in the various segments of the money market and other economic indicators.

The refinancing rate plays a key role in the system of interest rates set by the Bank of Rus-

sia. Any change in this rate tells market participants how the Bank of Russia evaluates the general inflation trend, influencing in this way economic agents' expectations and interest rates in the economy. The Bank of Russia refinancing rate is a kind of upper limit of interest rates in the money market and this indirectly affects the interest rate dynamics. The Bank of Russia also regulates interest-rate levels and structure in the money market by setting interest rates on its own credit and deposit operations.

At the beginning of 2000 the refinancing rate, set in 1999, was 55% p.a. and the overnight rate was 50% p.a. In January 2000, the Bank of Russia Board of Directors cut the refinancing rate by 10 percentage points to 45%. The reduction was a response to the slowing of inflation and decline in interbank interest rates and, at the same time, a means of further mitigating inflationary expectations.

Later in the year the refinancing rate was reviewed four times and by the end of 2000 it had been reduced to 25% p.a. The interest rate on overnight loans extended by the Bank of Russia to other banks in 2000 was cut from 50 to 22% p.a.

The Bank of Russia in 2000 sought to exert greater influence on the banking system's liquidity by changing interest rates on its deposits. In January—October it took funds on deposit at in-

interest rates ranging from 0.4 to 20% p.a. and by the end of the year Bank of Russia deposit rates varied from 0.3 to 10% depending on the state of the interbank market and the kind of deposit operations. From the middle of January to the second half of November 2000 the situation in the foreign currency and money markets allowed the Bank of Russia gradually to cut interest rates on its deposit operations. In the latter half of November the Bank of Russia raised interest rates on deposit operations by 0.5—2 percentage points as free balances in correspondent accounts increased.

The average weighted interest rate on Bank of Russia deposits taken from January 1, 2000 to December 31, 2000, including deposit auctions, was 9.85% p.a.

**POLICY IN THE GOVERNMENT SECURITIES MARKET.** In 2000, just as in 1999, the Bank of Russia did not conduct any operations in the GKO—OFZ secondary market because it had no marketable government securities in its portfolio. Its activities in the domestic government debt market were aimed at assisting the Finance Ministry in completing the restructuring of government bonds, stimulating the activity of GKO—OFZ market participants and completing the restructuring of government securities owned by the Bank of Russia.

In the year under review, guided by the 2000 Federal Budget Law, the Finance Ministry restructured government securities owned by the Bank of Russia. A portion of these papers with a nominal value of 24.1 billion rubles was restructured into variable coupon-income federal loan bonds (OFZ) paying interest once a year at the rate equal to the official inflation rate projection laid down in the federal budget for the corresponding year. The remaining papers were restructured into federal loan bonds with a fixed income of 2% p.a. The resulting structure of the government securities portfolio of the Bank of Russia seriously restricted its possibilities for conducting open-market operations and using them as a monetary policy tool.

To stimulate operations in the GKO—OFZ market and restore foreign investors' confidence in government securities, undermined by the 1998

GKO—OFZ MARKET STRUCTURE IN 2000  
(billion rubles)

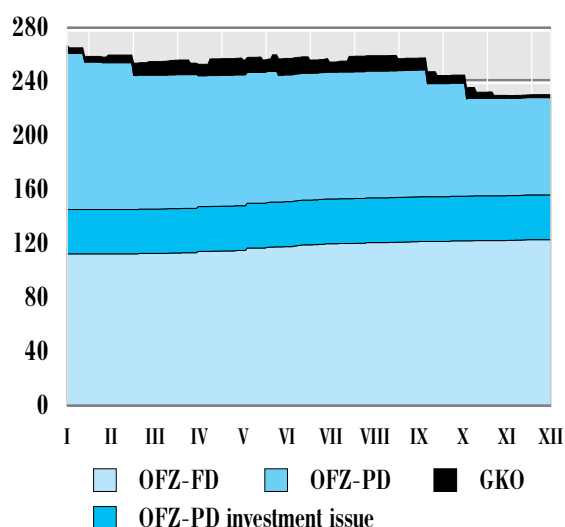


Chart 3.1

crisis, the Bank of Russia in the year under review continued to conduct operations with instruments allowing non-residents to repatriate their earnings from them. Specifically, it resumed selling foreign exchange at special auctions and took part in the floatation of the Finance Ministry's two conversion GKO issues that remained unsold after the auctions held on December 17—21, 1999.

A distinguishing feature of the repatriation GKO issues lay in the fact that bondholders could convert their proceeds from the redeemed bonds without transferring them to transit accounts. The overall sum received by non-residents from the conversion GKO bonds and used by them to buy foreign exchange in 2000 amounted to 11.5 billion rubles. Such auctions were held in February and April 2000 and foreign investors who had funds in C-type accounts participated in them. The fact that the aforementioned government securities were placed at negative or zero yields showed that non-residents were eager to have a legal opportunity to repatriate a part of their capital from the GKO—OFZ market.

Late in 2000 the Bank of Russia resumed currency auctions for non-residents. They were held on November 24 and December 8. A total of \$75 million of foreign exchange was sold at each auction. Unlike the auctions held in 1999, those

held in 2000 allowed non-residents to buy foreign exchange at a price established in the course of the auctions and indicated in auction bids rather than at a price announced in advance. This had no effect on the average buying price, which, as before, exceeded the official Bank of Russia price by about 10%.

Thanks to the issue of repatriation GKO bonds by the Finance Ministry and foreign currency auctions held by the Bank of Russia, non-residents bought foreign exchange to the tune of 16 billion rubles, a sum practically equal to the coupon income and dividend they received this year from assets bought from C-type accounts.



## II.2. FOREIGN EXCHANGE POLICY IMPLEMENTATION

### II.2.1. EXCHANGE RATE POLICY AND RESERVE MANAGEMENT

**EXCHANGE RATE POLICY.** In accordance with the Guidelines for the Single State Monetary Policy for 2000, the Bank of Russia last year pursued its monetary policy in the conditions of a floating exchange rate regime. The foreign trade situation that year predetermined a strong balance of payments and a steady inflow of foreign currency to the domestic market. In that situation the Bank of Russia tackled different tasks: it bought foreign exchange in the domestic market to replenish international reserves, took timely and purposeful steps to smooth sharp exchange rate fluctuations in the domestic foreign exchange market caused by transient factors, and prevented the ruble from getting too strong in real terms.

The principal foreign exchange policy tool in 2000 was operations conducted by the Bank of Russia in the domestic foreign exchange market, which it used along with some other monetary policy tools.

Net purchases of foreign exchange by the Bank of Russia increased gradually during 2000, with growth in international reserves peaking in May—July.

During the year the Bank of Russia managed to more than double international reserves in order to ensure that the country would be able to meet its foreign debt obligations in the subsequent years, have the ability to shore up the ruble if necessary and not become too vulnerable to change in foreign-trade conditions.

The intrayear dynamics of the exchange rate depended on various factors when the supply of foreign exchange constantly exceeded demand, making the ruble grow stronger in both nominal and real terms. The outbursts of demand for foreign exchange were mainly caused by short-term factors. At the same time, taking into consideration that the improvement of the foreign trade situation was temporary, the Bank of Russia made sure that the ruble did not grow too strong in real terms in order to preserve the competitiveness of the Russian economy.

The dollar's rise in the first half of January 2000 resulted from a drop in the inflow of export earnings to the country, a rise in speculative activity of market participants and budget financing of social programmes. Timely measures undertaken by the Bank of Russia, such as raising reserve requirements, and simultaneous growth in credit institutions' deposits with the Bank of Russia, as well as the necessary changes made in the procedure for selling export earnings, restored equilibrium in the domestic foreign exchange market in the 3<sup>rd</sup> week of January and net purchases of foreign exchange by the Bank of Russia resumed.

In February—March the ruble/dollar rate remained quite stable with a weak tendency to decrease. An upsurge in the demand for foreign exchange, registered in late March and early April was chiefly provoked by a temporary decline in the world prices of oil. The foreign currency mar-

US DOLLAR/RUBLE AND EURO/RUBLE OFFICIAL EXCHANGE RATE DYNAMICS  
IN 2000

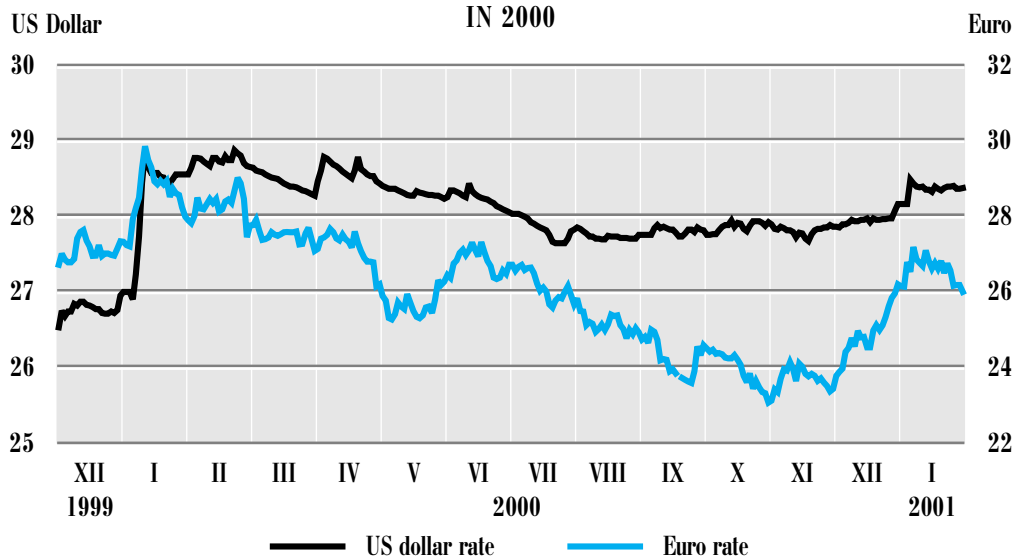


Chart 32

ket was moderately volatile in the middle of April when share prices plunged in US and some other stock markets. With the exception of these brief periods, the supply of foreign exchange in the foreign currency market invariably exceeded demand until early August, while the nominal exchange rate of the ruble tended to rise. In this situation the Bank of Russia made vast additions to international reserves and contained a sharp rise in the real rate of the ruble.

Growth in the nominal rate of the ruble started gradually to slow down at the end of the 3<sup>rd</sup> quarter and the beginning of the 4<sup>th</sup> when the effect of the increase in the world prices of major Russian exports began to wane. In this situation, the Bank of Russia made smaller additions to international reserves. It tried to reduce to a minimum its interference in the functioning of the market without paying less attention to the need to keep international reserves at an adequate level, allowing market participants to find on their own the equilibrium level of the exchange rate corresponding to the existing internal and external macroeconomic conditions.

The ruble's rate against the euro in 2000 fluctuated widely (from 23 rubles to 30 rubles to the

euro) and had a clear tendency to rise until the last few months of the year. The trend was the result of the euro's continuous decline against the US dollar in the international market. However, thanks to the euro's rally in November and December, the ruble's nominal rise in 2000 became considerably less impressive and amounted to 3.9%.

The Bank of Russia in 2000 took part in euro trading at the Single Trading Session (STS), creating conditions for maintaining euro market liquidity. As a result, Russian banks gradually began to show more interest in the euro and over the year euro trade turnover at the STS expanded from 70 million euros in January to 106 million euros in December, an increase of 50%. However, market participants' re-orientation to euro trading was severely limited by the euro's decline in international markets and a low liquidity level of the euro/ruble interbank market.

In the year under review, the ruble rose in real terms against the currencies of most of Russia's leading trading partners. The ruble's average annual real rate against the US dollar<sup>1</sup>, for example, increased by 2.3% year on year. As a result of the decline of the euro nominal rate against the US dollar, the extent of the ruble's rally

<sup>1</sup> Calculations of average annual real rates of the ruble against foreign currencies use average annual nominal rates of the ruble against the corresponding currencies and average annual inflation rates in Russia and the countries where these currencies are legal tender.

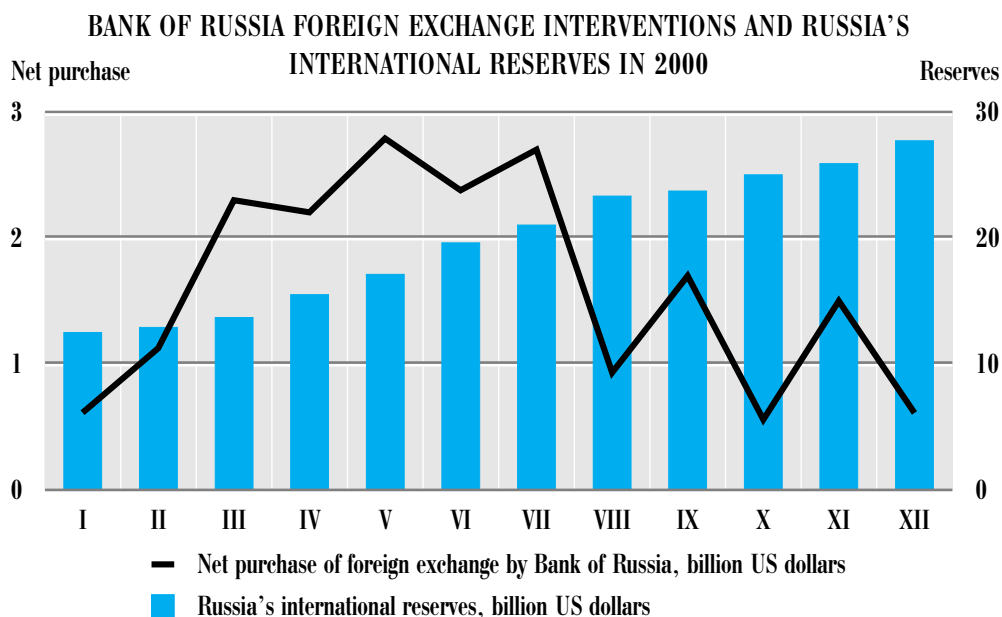


Chart 33

against the euro in real terms was far more significant than against the US dollar and amounted to 18.9%<sup>1</sup>.

The overall result of the year was an 11.3% rise of such an integral indicator as the average annual real effective rate of the ruble<sup>2</sup>. The intrayear dynamics of the real effective rate of the ruble was uneven. The ruble's rally in real terms in February—July, caused by a rise in world prices of major Russian exports, slowed in the autumn as foreign trade conditions deteriorated and in December the ruble demonstrated negative growth of its real effective rate.

The ruble's growth in real terms in 2000 only partly compensated its devaluation in 1998. At the same time, a wide range of economic indicators showed that the scale of the ruble's real-term growth had no significant negative effect on Russia's foreign trade positions. The trade surplus had little relation to the real ruble rate dynamics and was primarily affected by usual seasonal factors and world prices of major Russian export commodities. Gradual decline in the profitability of the export-oriented sectors was principally dampened by the rising world prices of Russian exports, while the efficiency of foreign

trade operations was at a level that guaranteed extended reproduction.

The effectiveness of the exchange-rate policy implemented by the Bank of Russia increased in 2000 mainly thanks to the development of the institutional structure of the foreign exchange market and Bank of Russia operations in the exchange and over-the-counter segments of that market. Net purchases of foreign exchange by the Bank of Russia in the domestic foreign exchange market in 2000 totalled \$19.4 billion.

The development of the institutional structure of the exchange segment of the market resulted from the introduction of new mechanisms or types of operations, such as US dollar “today” trades in the Electronic Lot Trading System (SELT) on the Moscow Interbank Currency Exchange (MICEX), and also the resumption of operations in the exchange segment of the forward market first on the St. Petersburg Currency Exchange and then on MICEX.

In 2000 the bulk of currency conversion operations continued to move to the over-the-counter interbank foreign exchange market. The share of exchange operations in the total volume of conversion spot operations contracted to 17%

<sup>2</sup> The harmonised euro-zone consumer price index is used for the calculation of inflation indicator.

<sup>3</sup> The index is calculated as a weighted average of the real ruble rate indices to the currencies of Russia's leading trading partners. The shares of the corresponding countries in Russia's foreign trade are used as scales.

GROWTH DYNAMICS OF AVERAGE ANNUAL REAL RUBLE RATES  
IN 1995—2000 (%)

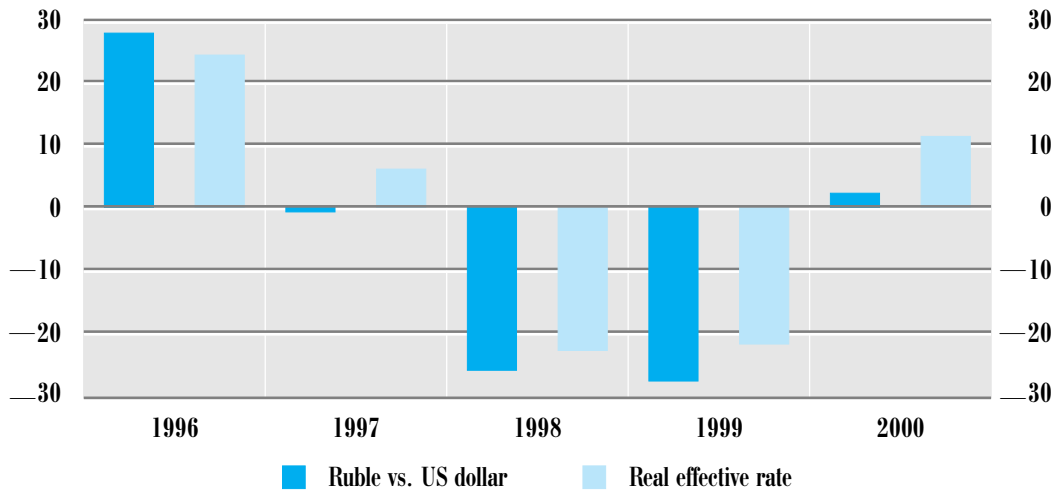


Chart 3A

over the year, reflecting a gradual restoration of the pre-crisis structure of the foreign exchange spot market and its increasing resemblance to world analogues.

The experience of implementing a floating exchange-rate policy in 2000 proved its effectiveness in present-day conditions. The ruble rate dynamics on the whole reflected the change of the economic situation in Russia and the state of its balance of payments. Sharp exchange-rate fluctuations in the domestic foreign exchange market had no fundamental economic causes and therefore the Bank of Russia managed to smooth them with its timely interference. As a result, a smooth exchange rate dynamics was achieved, giving economic agents sound direction for decision-making and stimulating demand for ruble-denominated assets.

#### MANAGEMENT OF FOREIGN EXCHANGE RESERVES.

In managing foreign exchange reserves, the Bank of Russia was guided by the Main Principles of Managing Bank of Russia Foreign Exchange Reserves, approved by the Bank of Russia Board of Directors.

The main objective pursued by the Bank of Russia in managing international reserves was to ensure an optimal level of safety, liquidity and profitability of reserve assets. The risk-to-profit ratio was determined in the process of managing reserves by investment directives of the Bank of

Russia, which provided for active diversification of investments and hedging risks with the aid of operations in international foreign exchange and financial markets. Credit risks were additionally restricted by limits set on Bank of Russia counterparties.

The main factors that prompted the specific tactic of managing reserves in 2000 were a large trade surplus, which ensured a steady inflow of foreign exchange to the country, and the government's payment of foreign debt without borrowing from the Bank of Russia.

Reserve management was based on the portfolio principle, which required dividing all funds between the operation and investment portfolios.

The operation portfolio includes the most liquid instruments of the money market and partly the capital market. Funds from the investment portfolio are put into longer-term and, consequently, higher-yield instruments of the international capital market.

The size of the operation portfolio of foreign exchange reserves, that is, the most liquid part thereof, increased more than six times over in 2000. That growth was largely the result of the purchases of US dollars by the Bank of Russia in the domestic foreign exchange market.

The currency structure of the investment portfolio was quite stable during the year under review. The share of the dollar-denominated financial instruments was around 50%,

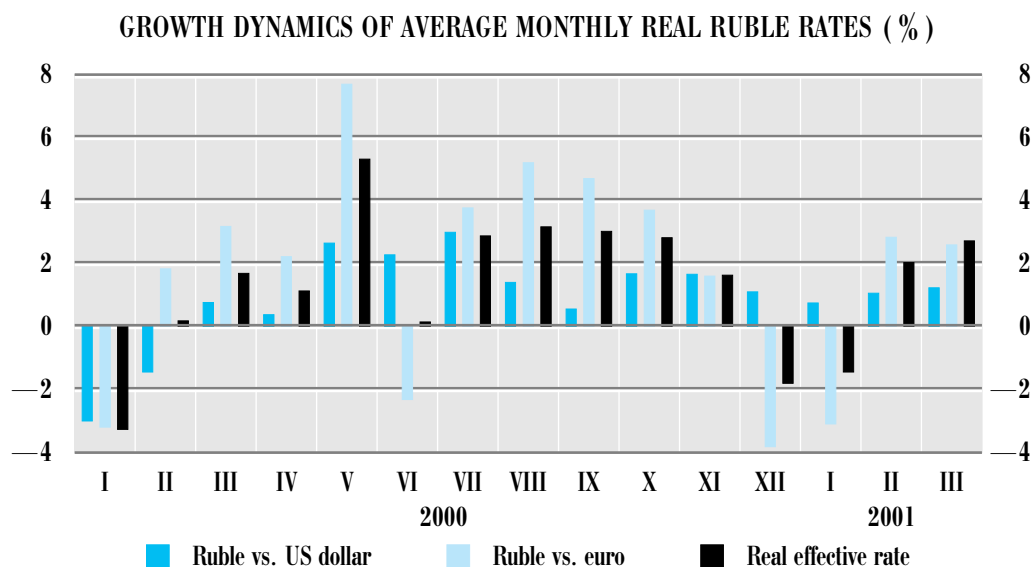


Chart 35

the euro's share contracted a little (to about 25%) as a result of the single European currency's fall against other major currencies, the share of the British pound remained at 10% and the Japanese yen accounted for about 15%. The share of the US dollar expanded in the currency structure of the aggregate reserve portfolio, while the share of other currencies declined. The main reason was that throughout the year the Bank of Russia purchased significant amounts of dollars in the domestic foreign exchange market, while other reserve currencies weakened against the US dollar.

Thanks to a balanced monetary and exchange-rate policies pursued by the Bank of Russia, Russia's international reserves rose to \$28 billion, an increase of 120% from the end of 1999. The currency component of international reserves in 2000 expanded from 67.9 to 86.8%, while the share of monetary gold contracted from 32.1 to 13.2%. The value of gold in Bank of Russia reserves (calculated at the constant price of \$300 per troy oz) varied in the range from \$3.3 billion to \$4.0 billion<sup>1</sup> during the year, depending on Bank of Russia operations in the domestic precious metal market and foreign markets.

<sup>1</sup> According to data as of the 1st day of each month.

## II.2.2. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

Defined by the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control as the principal body of foreign exchange regulation and one of the bodies of foreign exchange control in the Russian Federation, the Bank of Russia continued to refine the normative and legal framework of foreign exchange regulation and control and enhance the efficiency of control over foreign exchange operations conducted by residents and non-residents.

High world prices of major Russian exports throughout 2000 allowed Russian exporters to receive substantial amounts of foreign exchange. At the same time, a stable supply of foreign currency to the domestic foreign exchange market was ensured by the provisions of Federal Law No. 192-FZ, dated December 29, 1998, "On Urgent Measures in the Field of Budget and Tax Policy," which required exporters to sell 75% of their currency earnings from exports of goods, works, services and results of intellectual activity.

The inflow of currency proceeds from exports to the domestic foreign exchange market increased throughout last year as world prices of oil, petroleum products and natural gas grew at rapid rates.

Realising that non-repatriation of export earnings is one of the channels of illegal capital outflow, the Bank of Russia did everything to ensure that Russian exporters' proceeds from exports were brought back home in full and on time. In 2000 the sphere of action of the system of customs and banking control over export operations, based on matching the value of goods moved across the border against the payment received for them, taking into account the time-limits set by the law for current operations, expanded. While previously this system covered export operations in which residents and non-residents effected settlements in foreign currency only, from January 1, 2000, it was extended to cover export contracts with payments effected in rubles. This made it possible to cover with this control system 84% (\$86.5 billion, according to the State

Customs Committee) of the total value of Russian exports registered by customs (against 66% in 1999) and further reduce the share of non-repatriated proceeds from exports covered by this system.

In 2000 the Bank of Russia continued to use foreign exchange regulation and foreign exchange control measures introduced in 1999. As a result, the average monthly value of advance payments for imports and their share of the total value of the transfer of funds as payment for imports contracted significantly. This means that the number of import contracts on which goods were never delivered had decreased.

Since the situation in the domestic foreign exchange market was calm, the Bank of Russia refrained from taking additional foreign exchange regulation measures with regard to foreign exchange operations conducted by foreign trade organisations and credit institutions, focusing its efforts on the improvement of existing rules and regulations.

Last year the Bank of Russia and the government Committee on Foreign Exchange and Exports Control took additional measures to curb unjustified demand for foreign currency in the domestic foreign exchange market, connected with fake contracts on the import of the so-called "invisible" services (consulting, advertising, marketing, etc.) and the results of intellectual activities. In March they established a procedure for preliminary control over the appropriateness of the purchases of foreign exchange by authorised banks on the instructions of their clients for effecting payments under such contracts. As a result, the average monthly amount of foreign currency purchased for making payments under contracts on the import of services and the results of intellectual activities in 2000 decreased to \$160 million from \$550 million in the second half of 1999.

Realising the great importance attached by the international community to co-ordination of actions in countering money laundering through

offshore zones, the Bank of Russia in 2000 took steps that reduced by more than half compared with 1999 payments made by authorised banks' clients to offshore zones with foreign currency bought in the domestic foreign exchange market.

As Russia registered an all-time record current-account surplus in 2000, net growth in the private sector's foreign assets accelerated a little and amounted to \$24.4 billion. Its dynamics was affected, among other things, by big foreign debt payments made by residents and the extension of credit to finance foreign trade operations. Large Russian enterprises invested capital mainly in European countries, stimulating further expansion of the country's export capabilities. As a result of the measures taken by the Bank of Russia in conjunction with other foreign exchange control bodies (the State Customs Committee and the Committee on Foreign Exchange and Exports Control), the share of illegal capital outflow in the form of non-repatriation of a portion of export earnings and non-delivery of pre-paid imported goods in 2000 declined to 19% from the previous year's 22% of total growth in the private sector's foreign assets and from 4.4 to 3.5% of foreign trade turnover.

At the same time, last year saw a growth from \$6.9 billion to \$9.3 billion in the "net errors and omissions" item of the balance of payments, a part of which may be an indirect result of undetected capital flight. However, the value of "net errors and omissions" relative to exports of goods remained unchanged from the previous year (about 9%) and was smaller than the world average calculated on the basis of data for 1999 (11%).

To further enhance the efficiency of counteraction to capital outflow, it is necessary to combine subsequent and preliminary foreign exchange controls and develop the system of monitoring and analysis of foreign exchange operations. However, the implementation of this approach will depend to a great extent on the depth of the reform of the legislation on foreign exchange regulation and foreign exchange control. Aware of this, the Bank of Russia took an active part in refining the draft laws amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control, which were submitted by the Government to the State Duma in November 1999.

At the same time, the Bank of Russia, acting within the purview of the applicable legislation, took additional measures to improve the procedure for opening and keeping non-residents' ruble accounts (the convertible K- and F-type accounts and non-convertible N-type account) based on the separation of ruble payments made by residents to non-residents, depending on the nature of the foreign exchange operation on which the payment is effected, and the creation of a system of monitoring and control over such operations, using advanced information technologies.

To broaden non-residents' rights and improve the investment climate in the country, the Bank of Russia considerably simplified the procedure for opening and keeping non-residents' ruble accounts, allowing non-residents to open any number of convertible and non-convertible accounts in authorised banks.

Exercising its powers as a foreign exchange control body, the Bank of Russia and its regional branches monitored compliance with foreign exchange legislation by authorised banks and made sure that they properly performed their functions as agents of foreign exchange control over the currency operations conducted by their clients. More than 29,000 scheduled and unscheduled thematic inspections of credit institutions and other legal entities were conducted in 2000. Of these, 25,000 inspections were conducted to see how authorised banks organised the work of exchange offices and cash departments conducting foreign currency exchange operations.

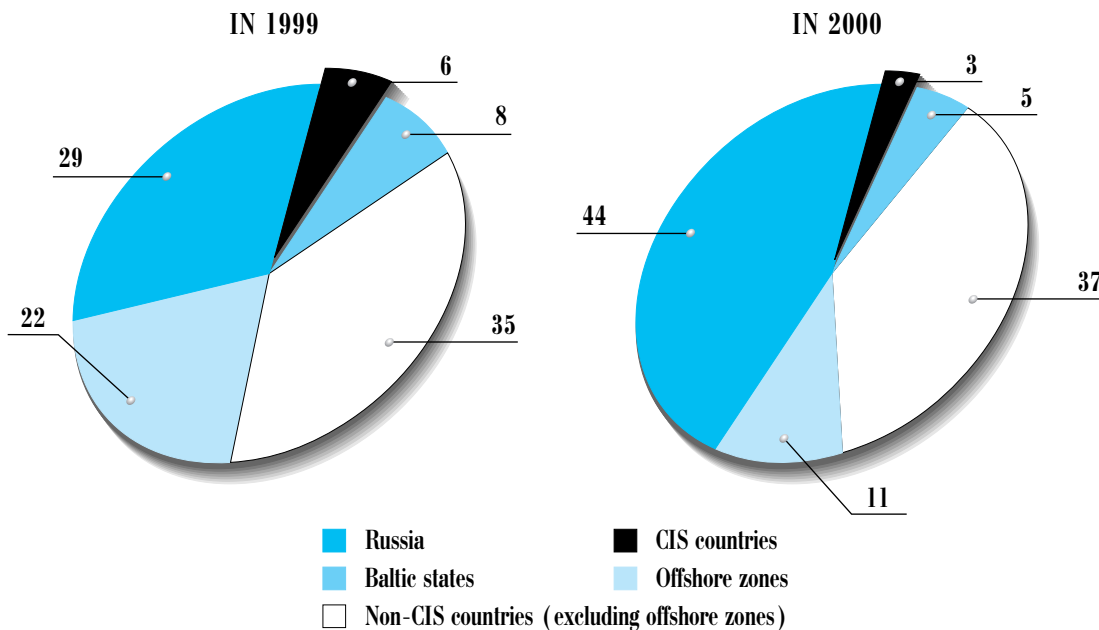
As a result of the inspections, the rights of 22 authorised banks to conduct foreign exchange buying and selling operations in the domestic foreign exchange market were temporarily restricted. In addition, the Bank of Russia issued 3,300 orders to rectify the faults discovered by inspectors.

Acting within the powers granted to it, the Bank of Russia and its regional branches in 2000 issued 1,500 permits to conduct foreign exchange operations connected with capital movement to and from the Russian Federation to the tune of \$10.7 billion (1,400 permits to the tune of \$6.5 billion were issued in 1999).

The improvement of the macroeconomic situation in 2000 brought about an increase in the



COUNTRY STRUCTURE OF TRANSFERS FROM RESIDENT LEGAL ENTITIES' SPECIAL TRANSIT CURRENCY ACCOUNTS OF FOREIGN EXCHANGE BOUGHT IN DOMESTIC MARKET



Charts 36, 37

volume of operations for which the corresponding permits were received. This was, to a great extent, the result of non-residents' activity in extending long-term loans to the real sector, especially the export-oriented enterprises of the fuel and power industry.

In 2000 the Bank of Russia continued to simplify and accelerate the procedure for granting permits to residents to conduct foreign exchange operations connected with the movement of capital. To this end, it transferred to its regional branches the right to issue such permits.

## 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 Bank of Russia in 2000 made efforts to tackle the urgent problems of the development of Russia's payment system and took steps to enhance the credibility and efficiency of its own payment system in order to ensure stability in the country's financial sector and economy.

It paid special attention to the improvement of the normative framework of the Russian payment system. The regulation "On Non-cash Settlements in the Russian Federation," enforced by the Bank of Russia, harmonised numerous regulatory documents concerning non-cash settlements.

To increase the transparency of the payment system, the Bank of Russia, taking into consideration international expertise, methodology and practice of surveillance over the payment systems, required credit institutions and its regional branches to compile reports on payments that provided sufficient information not only about the state of the Bank of Russia payment system, but also about the situation in other segments of the national payment system, such as private payment systems created by credit institutions.

Reported data show that on the whole the Russian payment system met the needs of financial market participants and economic agents in effecting payments.

As of January 1, 2001, interbank settlements in Russia involved 1,181 Bank of Russia institutions, 1,311 credit institutions with correspon-

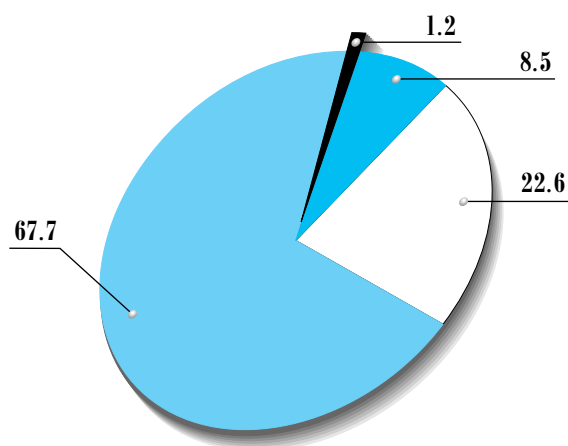
dent accounts in the Bank of Russia, including 32 settlement non-bank credit institutions, of which 11 had the right to effect settlements on a net basis and 9 performed the functions of clearing centres in the organised securities market, and 3,793 branches of credit institutions, of which 1,529 were branches of the Savings Bank (Sberbank). There were also additional offices of credit institutions, which provided services to clients.

As of January 1, 2001, credit institutions opened for their customers 244 million accounts, of which 3 million accounts, or 1.4% of the total, were opened for legal entities and 241 million accounts, or 98.6%, for individuals. There are 1.7 bank accounts per citizen of Russia; in the industrialised nations the number of bank accounts per citizen ranges from 1 to 2.5.

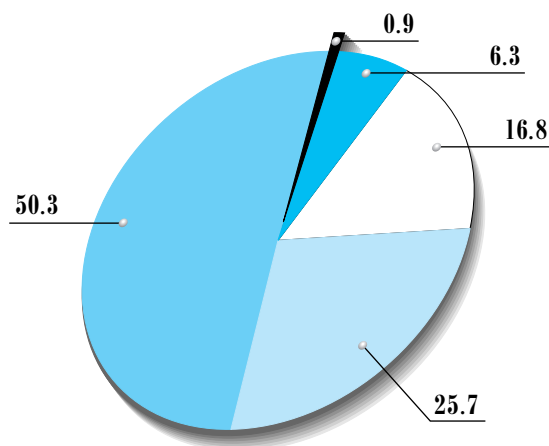
The volume of non-cash interbank payments effected by the Russian payment system continued to expand in the year under review. This trend is largely the result of economic stabilisation in the country, production growth, the expansion of budget flows caused by a rise of budget revenues at all levels, increase in budget financing, the re-opening of the financial markets and also continuing inflation. As a result, the volume of interbank payments effected by the payment system in 2000 increased 1.8 times.

Significant year-on-year growth (by almost 100%) in the volume of non-cash interbank pay-

STRUCTURE OF NON-CASH  
INTERBANK PAYMENTS EFFECTED  
BY RUSSIA'S PAYMENT SYSTEM  
IN 2000 (by volume, %)



STRUCTURE OF NON-CASH  
PAYMENTS EFFECTED  
BY RUSSIA'S PAYMENT SYSTEM  
IN 2000 (by volume, %)



Charts 38, 39

- Payments effected by Bank of Russia payment system
- Payments made to customers within one division of a credit institution
- Payments effected between divisions of one credit institution
- Payments effected by settlement non-bank credit institutions
- Payments effected via credit institution's correspondent accounts in other credit institutions

ments in 2000 was ensured by the Bank of Russia payment system, which effected 67.7% of all interbank settlements against 60.6% in 1999.

Private payment systems in 2000 effected 32.3% of interbank payments against 39.4% in 1999. The ratios between the various segments of these systems were as follows: the share of payments effected through intrabank interaffiliate systems contracted from 30.0% in 1999 to 22.6% of total payments, while the volume of such payments increased by 36.9% year on year. The growth in volumes was the result of consolidation of correspondent sub-accounts of branches and settlements via correspondent accounts of parent credit institutions or regional branches of large credit institutions such as Sberbank. The consolidation of accounts by credit institutions in the Bank of Russia institutions in the year under review led to the closure of 203 bank branches' correspondent sub-accounts, 170 of which were correspondent sub-accounts of Sberbank branches. As of the end of the year,

15,000 accounts had been opened to effect intrabank settlements.

The share of payments effected via credit institutions' correspondent accounts opened with other credit institutions increased to 8.5% of the total volume of payments against 7.3% in 1999. The volume of such payments expanded 2.1 times year on year, as credit institutions' confidence in one another increased as a result of the stabilisation of the banking sector after the 1998 crisis.

The share of payments effected by settlement non-bank credit institutions in 2000 amounted to 1.2% of the total volume of payments against 2.1% in 1999. The volume of payments effected by this segment of the payment system increased by 1.5% year on year.

The reporting introduced last year provided data not only on the volume of non-cash interbank payments, but also the total volume (and number) of non-cash payments effected by credit institutions, their structure, including operations

conducted within one division of a credit institution, and, consequently, the volume of settlement services provided by credit institutions to the real economy.

The share of payments between customers of one division of a credit institution (a parent credit institution and its branches) amounted to 25.7% of the total volume of non-cash payments, reflecting the diversity of business ties between customers. One should bear in mind that there is on average one division of a credit institution per 28,600 of the population and 657 legal entities in Russia and, taking into account additional offices, there is one division of a credit institution per 14,500 of the population (in the industrialised nations the ratio is one to 1,300—3,500 of the population) and 334 legal entities.

**The Bank of Russia payment system**, which is systemically important for Russia, developed dynamically in 2000. Despite a drop in the number of credit institutions (from 1,396 as of January 1, 2000, to 1,311 as of January 1, 2001) and their branches (from 2,412 to 2,255, respectively), which are members of the Bank of Russia payment system, the number of payments effected by this system increased by 22.6% to 244.1 million. It should be noted that in 2000 growth in the number of payments effected by the Bank of Russia payment system was by 6 percentage points faster than in 1999. The number of payments effected by the Bank of Russia payment system is constantly high mainly because this system is reliable and is increasingly using electronic settlements.

Payments by credit institutions and their branches and their customers continue to make up a large portion of all payments effected by the Bank of Russia payment system: in 2000 their share amounted to 79.5% of the total number and 72.3% of the total volume of payments against 78.1% and 71.2% in 1999.

The turnover rate of average cash balances in credit institutions' correspondent accounts and sub-accounts opened with the Bank of Russia institutions in 2000 accelerated to 0.68 days (or 1.5 turnovers a day) against 0.94 days (or 1.1 turnovers a day) in 1999.

The slight acceleration in the turnover of average balances in credit institutions' accounts and sub-accounts with the Bank of Russia institutions

STRUCTURE OF PAYMENT INSTRUMENTS USED IN RUSSIA'S PAYMENT SYSTEM IN 2000 (by volume, %)

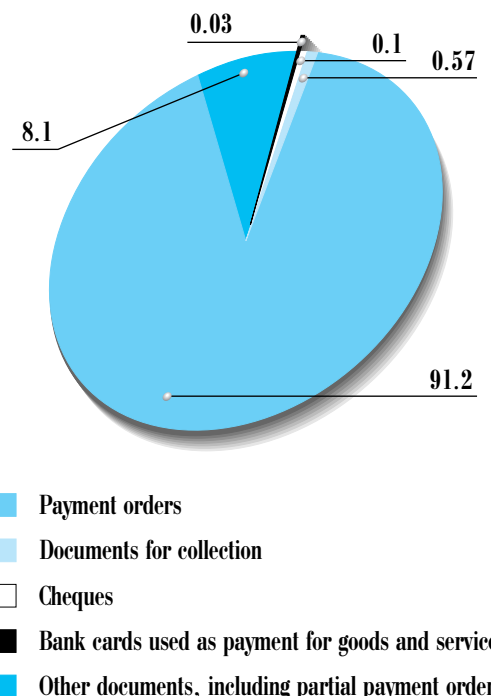


Chart 40

resulted from the receding of after-effects of the 1998 crisis, a rise in the activity of credit institutions and their customers, the consolidation of credit institutions' accounts and more efficient management of liquidity owing to the measures taken by the Bank of Russia to encourage credit institutions to make wider use of electronic settlements and the time-saving exchange of electronic documents.

As of January 1, 2001, the sum of settlement documents unpaid owing to a lack of funds in correspondent accounts and sub-accounts of credit institutions and their branches decreased by 31.1 billion rubles, or 2.4 times, to 22.0 billion rubles (from 53.1 billion rubles as of January 1, 2000). The decline took place against the background of a reduction by 1.5 times of the overall number of credit institutions whose branches had unpaid documents (their number fell from 278 to 184). As of January 1, 2001, 24 operating credit institutions (60 as of January 1, 2000) and 160 credit institutions which had their licence revoked (218 as of January 1, 2000) had unpaid

**DYNAMICS OF PAYMENTS EFFECTED  
BY BANK OF RUSSIA ELECTRONICALLY  
AND ON PAPER  
(million)**

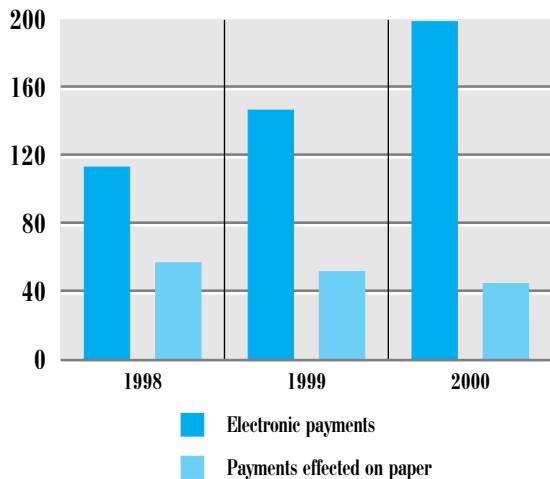


Chart 4.1

settlement documents. Operating credit institutions as of January 1, 2001, accounted for 24.3% of the total sum of unpaid settlement documents, while credit institutions whose licence had been revoked accounted for 75.7%. Almost one-third of operating credit institutions as of January 1, 2001, was under the control of the Agency for Restructuring Credit Organisations (ARCO) and they accounted for a large part of settlement documents unpaid owing to the lack of funds in correspondent accounts.

The number of customers of the Bank of Russia, various divisions of the Finance Ministry's Federal Treasury, increased over the year by 10.7%, from 1,253 to 1,387. In addition, the Bank of Russia provides services to budget-financed organisations, government structures and other clients who, in accordance with the applicable legislation, are serviced by the Bank of Russia in regions where there are no credit institutions. These customers accounted for 20.5% of the number of payments and 27.7% of the volume of payments effected through the Bank of Russia. Compared with the previous year, the number of these payments increased by 15% and their volume expanded by 95%.

The main component of the payment turnover effected through the Bank of Russia payment system was, as before, intraregional payments,

which accounted for 92.4% of the number of payments and 85.4% of the volume of payments against 93.9% and 87.2% in 1999.

In the year under review, the Bank of Russia took steps to enhance the efficiency of its payment system and reduce the risks involved in its work. These objectives were achieved, above all, by persistently expanding the use of electronic settlements, whose advantages were only too obvious: electronic settlements make it possible to effect intraregional payments on the same day and interregional settlements no later than the next day, depending on what settlement technique is used and taking into consideration Russia's 11 time zones.

The share of payments effected by the Bank of Russia electronically, including payments effected by using full-format electronic payment documents, regardless of the method of transmitting them to the Bank of Russia, and abridged-format electronic documents transmitted to the Bank of Russia by communications channels or on magnetic carriers, that is, without using paper, expanded from 73.8 to 81.6% of the total number and from 73.0% to 79.0% of the total volume.

Accordingly, the share of payments effected by the Bank of Russia on paper, which include payments transmitted by mail or by telegraph, using letters of advice, and also abridged-format electronic documents transmitted to the Bank of Russia on paper, contracted from 26.2% to 18.4% of the total number and from 27.0 to 21.0% of the total volume.

There were improvements in the year under review in the structure of payments effected by the Bank of Russia payment system: the share of payments made by mail declined by 1.0% in number and 0.5% in volume and the share of telegraphic payments decreased by 0.2% in number and 1.6% in volume. Thus, the share of postal payments in 2000 amounted to 1.2% of the total number and 0.4% of the total volume and telegraphic payments 0.2% and 1.5%, respectively.

Settlement operations using postal and telegraphic letters of advice were mainly conducted in the regions where settlements must only be effected by mail, in some regions where credit institutions cannot participate in the exchange of electronic documents because they have no tech-

nical means to do so and by Bank of Russia institutions that had no assured communication for organising electronic exchange of documents.

In the year under review Moscow and St. Petersburg credit institutions that had concluded general credit agreements with the Bank of Russia were granted the right to use intraday and overnight loans to complete settlements on time.

The Bank of Russia in 2000 improved its policy of setting prices for the settlement services it provided. This policy is based on setting fixed prices regardless of the sum of payment and charging different prices depending on the modes of payments and transmission of settlement documents and time of acceptance of settlement documents during the operation day from Bank of Russia customers. In the second half of 2000, the Bank of Russia introduced a charge for settlement services provided to clients that are not credit institutions, established a sum within which payments could be transferred free of charge and set a price for making a paper copy of an electronic payment document.

The share of payments effected for Bank of Russia customers for pay in 2000 slightly contracted year on year, from 41.0 to 39.3% of the total number, while the share of payments effected without charge expanded from 59.0 to 60.7% as more than 18.8 million free payments involved sums smaller than the minimum sum for which a price is charged. These accounted for 12.7% of the total number of free operations. At the same time, growth in the number of operations for which the Bank of Russia charged its customers amounted to 18.0%, while the number of free operations increased by 25.6%.

By the end of 2000, 77 regional branches (national banks) of the Bank of Russia (73 in 1999) exchanged electronic documents with 2,522 credit institutions and their branches. This represents 70.7% (63.2% in 1999) of the total number (3,566) of credit institutions and their branches serviced by the Bank of Russia institutions. During the year, the Bank of Russia continued to make efforts to include its other clients, including the Federal Treasury, in the exchange of electronic documents.

This allowed it in 2000 to continue to implement measures aimed at optimising the Bank of

NUMBER OF PAYMENTS EFFECTED  
BY BANK OF RUSSIA PAYMENT SYSTEM  
(million)

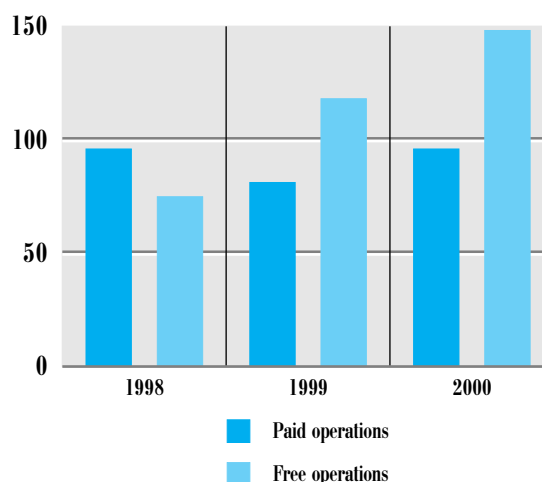


Chart 42

Russia network of institutions and these efforts resulted in a further reduction in the number of Bank of Russia cash settlement centres.

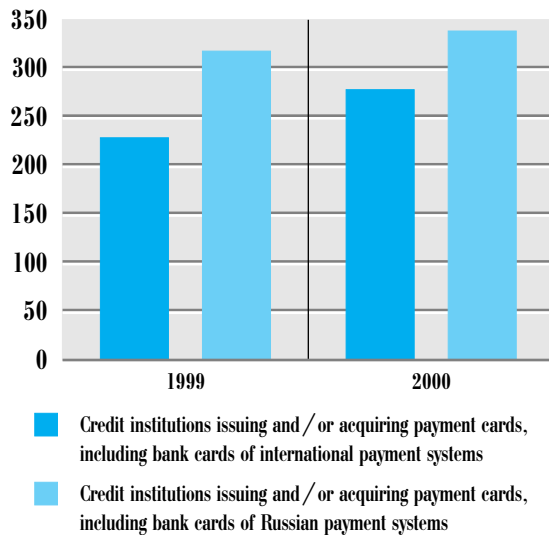
In 2000 cash turnover that passed through the tills of banks expanded by 42.1% year on year, to 5,308 billion rubles, mainly as a result of growth in household nominal money income. Average daily cash turnover increased by 5.3 billion rubles year on year, to 17.5 billion rubles. In 2000 banks supplied 94.1% of the needs in cash out of their own cash resources against 95.2% in 1999.

The Bank of Russia and its branches last year co-operated with credit institutions in monitoring cash turnover and compliance by enterprises, institutions and organisations with cash management rules.

In 2000, just as in the previous year, cash operations were far more widespread than non-cash operations involving the use of payment cards, including bank cards. The share of non-cash payments in the total number of transactions conducted using payment cards in Russia amounted to 9%, while 91% of transactions involved cash payments. The situation is the result of public preference for cash and the inadequate development of trading and service establishments accepting payment cards.

As of January 1, 2001, 422 credit institutions were registered in Russia that issued and/or ac-

**NUMBER OF CREDIT INSTITUTIONS  
ISSUING AND/OR ACQUIRING  
PAYMENT CARDS, INCLUDING BANK CARDS  
OF INTERNATIONAL AND RUSSIAN  
PAYMENT SYSTEMS**



quired Russian and international payment cards, including bank cards. Their number rose by 14% over the year, a growth reflecting the expansion of the sphere of activity of credit institutions in the retail banking services market.

Data on the number of credit institutions issuing and/or acquiring payment cards, including bank cards of international and Russian payments systems, indicate that in the year under review the number of credit institutions issuing and/or acquiring payment cards, including bank cards of

Russian payment systems, increased by a lowly 6.6% and the number of credit institutions issuing and/or acquiring payment cards, including bank cards of international payment systems rose by 21.4%. As of January 1, 2001, the number of credit institutions issuing and/or acquiring payment cards of the Russian payment systems exceeded the number of credit institutions issuing and/or acquiring international payment cards 1.2 times and as of January 1, 2000, 1.4 times. As of the end of the year under review, the number of cards issued in Russia exceeded 7 million, of which more than half were cards of the Russian payment systems.

In 2000 non-cash payment turnover grew faster than cash turnover: in Russia as a whole non-cash payment turnover expanded by 81.6% in volume, while cash turnover increased by 42.1%. This represents a favourable trend in the development of the settlement services of the banking system.

In the year under review, the Bank of Russia drew up plans for the reform of the Russian payment system and formulated the principles of building a new component of this system, which would effect gross settlements in real time, match modern international standards and minimise risks involved in effecting payments. To this end, it studied international expertise in building advanced payment systems and held seminars and consultations with experts from many countries, the Bank for International Settlements, International Monetary Fund, World Bank and other international financial organisations.



## II.3.2. DEVELOPMENT OF THE TECHNICAL INFRASTRUCTURE OF RUSSIA'S PAYMENT SYSTEM

The technical infrastructure of Russia's payment system develops in accordance with the following documents approved by the Bank of Russia Board of Directors: "The Development Strategy for the Russian Payment System" (1996), "The Concept of the Bank of Russia Real-Time Gross Settlement System" (1997 and 1999) and "The Concept of the Development of the Bank of Russia Settlement Network" (1997). These documents stipulate that a medium-term objective of the Bank of Russia is to transfer its regional branches to a centralised intraregional system of processing payment documents and building its telecommunications component that will later ensure the accomplishment of the strategic task of centralising electronic settlements at the federal level and effecting these settlements on a gross basis in real time.

To implement the decisions taken, the Bank of Russia last year continued to switch its branches to a centralised system of processing payment documents. The National Bank of the Republic of Karelia, the National Bank of the Republic of Kabardino-Balkaria and the Tambov regional branch were switched to the standard software system of processing operation accounting information, Rabis-2, while the National Bank of the Republic Kalmykia and the Bryansk regional branch were transferred to the standard software system Rabis-NP. Work is underway to switch several other regional branches to the standard software systems by the end of 2001.

The Bank of Russia paid serious attention to monitoring the work of the standard software systems and fine-tuning them to the latest changes in the laws regulating the payment system.

At the same time, the Bank of Russia tackled the problem of standardising the hardware and software systems used by its regional branches, modernising their hardware and software architecture and information interconnections. It analysed the efficiency of the workstations and applied software from the viewpoint of cost-ef-

fectiveness of various technical and organisational solutions.

The Bank of Russia continued the development of a Unified Telecommunications Banking System (UTBS) which is a key element of a centralised real-time gross settlement system.

By the end of 2000 it had completed the construction of regional segments of the UTBS in six regional branches. By now 39 regional segments have been completed (that is, in half of the Bank of Russia regional branches). When UTBS segments are built, serious attention is paid to the unification of satellite and ground networks. In most of the regional UTBS segments, satellite-based networks are used as the main means of transmitting payment information, while ground networks, based on commutated connections, are kept in reserve. This method of organising networks makes it possible to create reliable communications channels with the required back-up and cut Bank of Russia expenses on the lease of communication channels.

Allocated satellite communications networks are used mainly in the North-West, Ural and Volga Regions, Siberia and the Far East. More than 80% of the ground-satellite stations in these territories have been put into operation, while in other regions work continued to provide the Bank of Russia branches with satellite communications.

The consistent development of the technical infrastructure of the Russian payment system helped to improve and modernise electronic settlements and considerably increase the number of participants in interregional and intraregional electronic settlements. At present 76 Bank of Russia regional branches (928 cash settlement centres, of which 122 were included in 2000) participate in interregional electronic settlements, which cover all economic regions of Russia. Seventy-seven Bank of Russia regional branches effect intraregional electronic settlements.

To build a technical infrastructure for a centralised gross settlement system, the Bank of Russia continued to develop its integrated infor-

mation and telecommunications resource management system (ISU TIR). Eight regional segments of the ISU TIR system were put into operation within the framework of this project, providing an effective means of control over the work of the computer and communication elements of the payment system. The ISU TIR system cuts the time required to fix technical facilities after failures, optimises their interrelations and, as a consequence, reduces the risk of technical failures in the payment system even at the stage of using a decentralised system of processing payment documents.

ISU TIR is being introduced simultaneously with the Bank of Russia information and telecommunications management system. The latter required drafting and enforcing a package of regulatory and methodological documents aimed at ensuring the uninterrupted functioning of technical facilities.

In 2000 control over all technical systems under construction was transferred to the information and telecommunications system management

centre, which is a part of the central unit of the UTBS. It gathers current information on the state of the accounting, computer, telecommunications and engineering systems of the payment system and organises quick restoration of software systems. The first year of the centre's work with the informatization centres of Bank of Russia regional branches made it possible to provide round-the-clock consultative support for the staff of engineers and technicians, identify vulnerable spots in the technical facilities of the payment system in order to enhance their efficiency and reliability, reduce to several hours the time taken by service and repair services to respond to problems, and, as a consequence, accelerate the restoration of technical systems after failures and reduce the number of such snags.

The steps taken by the Bank of Russia in 2000 to upgrade the payment system increased the reliability of the software and telecommunications systems and helped to build a technical infrastructure for the transition to a centralised real-time gross settlement system.

## II.4. BANKING REGULATION AND SUPERVISION

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

*In* 2000 the overall number of Bank of Russia-registered credit institutions declined from 2,376 to 2,124, or by 10.6% against 4.2% in 1999. The number of operating credit institutions with licence to conduct banking operations decreased from 1,349 to 1,311, or by 2.8% against 8.6% in 1999. The fall was mainly the result of the completion of the restructuring of the banking system and withdrawal from the market of banks considered insolvent in accordance with the applicable Russian legislation regulating banking activities. As of January 1, 2001, the Russian banking sector comprised 130 credit institutions with foreign interest, of which 23 credit institutions were wholly foreign-owned.

Last year saw the completion of the first stage of the banking sector reform after the financial and economic crisis of 1998. The Bank of Russia revoked licences from banks which were considered insolvent from the viewpoint of the applicable legislation. The viable core of the banking sector was preserved and credit institutions resumed providing a basic set of services to their clients.

The results of 2000 showed that the main source of recapitalisation in the difficult economic situation following the 1998 crisis was not federal budget funds, as was the case in other countries, but the internal resources of credit institu-

tions and their owners. The principal contribution to recapitalisation was made by the shareholders (participants) of credit institutions. The 118.2-billion-ruble increase in the banking sector's aggregate own funds (capital) primarily resulted from the 82.5-billion-ruble growth in the paid-up authorised capital of credit institutions, included in the calculation of their own funds.

The dynamics of the basic parameters characterising the state of the banking sector confirmed the continuing and growing tendency towards the recovery of banking activities. Banking sector assets in 2000 expanded by 48.9% to 2,362.5 billion rubles as of January 1, 2001. It is highly significant that growth in assets was registered in 75% of operating credit institutions.

The banking sector increased its role in the country's economy. Banking sector assets in GDP rose from 30.4% as of July 1, 1998, to 34.0% as of January 1, 2001, loans to the economy expanded from 8.5 to 11.5%, respectively, and corporate deposits increased from 1.1 to 3.1%.

Despite positive dynamics of key banking indicators, assets and capital have not yet recovered to pre-crisis levels in real terms. There are many serious obstacles hampering the development of the banking sector, including general economic and legal problems. On the whole, the state

DYNAMICS OF BANKING SECTOR MACRO-INDICATORS IN 1998—2000  
(June 30, 1998 = 100%)

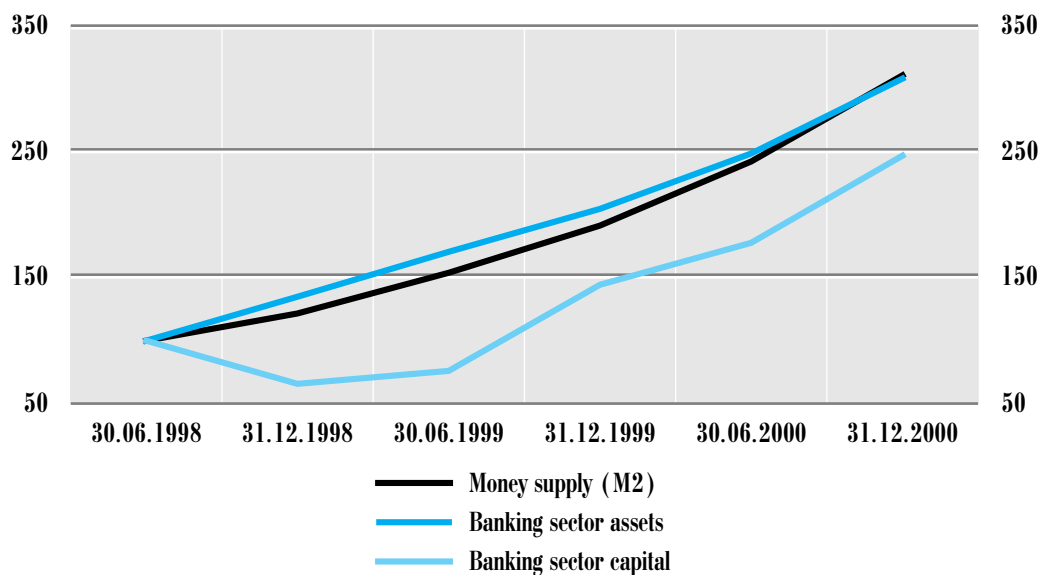


Chart 44

of the Russian banking sector reflects the general state of the Russian economy, finance and legislation.

In 2000 there was some improvement in the provision of Russian regions with banking services, and regional differences with regard to this indicator became less, although there are still vast differences in the levels of development of different regions and, consequently, in their provision with banking services.

The broadest range of banking services was registered as of January 1, 2001, besides Moscow and the Moscow Region, in the North-Western and Volga Economic Regions and Kaliningrad Region. The worst situation with the provision of banking services was, just as in 1999, in the Northern, East Siberian and Far Eastern Economic Regions.

**STRUCTURE OF CREDIT INSTITUTIONS' LIABILITIES.** As the standing of real-sector enterprises improved, household money income rose and the interbank lending market grew more active, the flow of funds to the banking sector increased. Ruble funds attracted by banks from resident enterprises and organisations expanded in 2000 by 76.4% in nominal terms and foreign-currency

funds increased by 32.8%. It should be noted that almost half of the credit institutions saw their borrowed funds more than double.

Household deposits with banks<sup>1</sup> in the year under review rose by 49.0% in rubles and 45.8% in foreign currency. The value of bank deposits in rubles increased by 73.1% and in foreign currency by 31.9% (excluding deposits with Sberbank). The increment reflected growth in public confidence in banks against a backdrop of the increased real income.

The share of loans and deposits drawn from banks (including loans and deposits drawn from non-resident banks) in the banking sector's aggregate liabilities contracted from 10.9% at the beginning of 2000 to 7.6% at January 1, 2001, mainly as a result of the reduction of debt to non-resident banks, which accounted for more than half of all interbank loans. In 2000 this debt decreased by 12.2% and its share of bank liabilities declined from 6.7 to 4.0%.

**STRUCTURE OF CREDIT INSTITUTIONS' ASSETS.** Favourable macroeconomic conditions and a balanced monetary and foreign exchange policy improved the structure of banking sector assets and contributed to the expansion of the share of loans

<sup>1</sup> Excluding funds in individual entrepreneurs' accounts.

STRUCTURE OF BANKING SECTOR LIABILITIES (%)

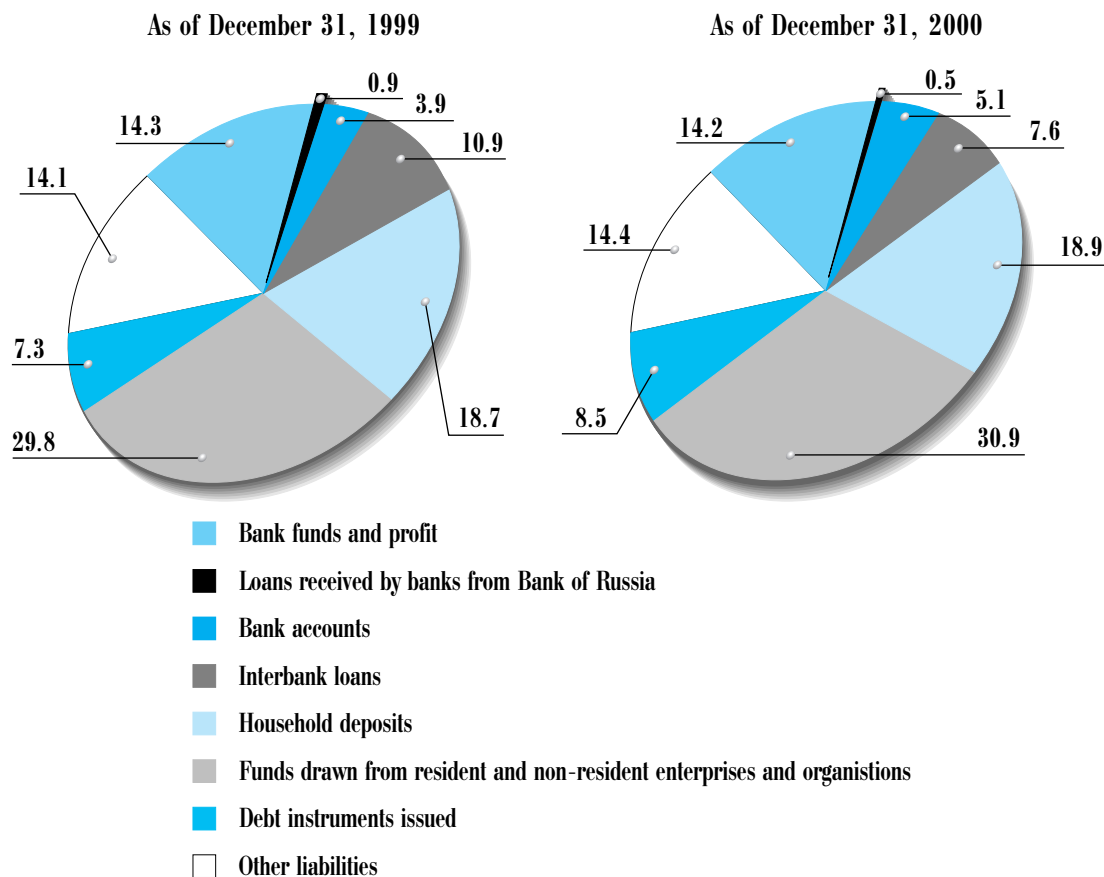


Chart 45

extended to the real economy and the contraction of the share of foreign assets. Last year saw a sharp rise in lending to non-financial enterprises, caused by the improvement of the macro-economic situation and the financial standing of the real sector and the expansion of the resource base of banks. Bank loans to corporate borrowers as of January 1, 2001, totalled 795.8 billion rubles, an increase of 69.5% over the year, of which the value of loans to the real economy rose by 108.5% in rubles (73.5% in real terms) and 23.6% in foreign currency. The share of loans extended to the real sector as a proportion of aggregate assets of operating credit institutions expanded over the year from 29.6 to 33.7%.

The expansion in lending was accompanied by the improvement of the structure and quality of the loan portfolio. Banks' reports indicate that at the beginning of 2001 standard loans made up 87.2% of the banking sector's loan portfolio against 78.8% a year earlier, while the share of

overdue debt in loans was 3.0% against 6.2%, respectively.

Consumer lending expanded almost as fast as lending to the real economy in 2000. The value of loans extended to private individuals increased over the year from 26.6 billion rubles to 43.8 billion rubles, or 64.5%. However, loans to households make up less than 2% of the banking sector's assets.

Despite this tendency towards growth in lending, banks continue to exercise caution in extending loans as credit risk remains high. The main risk factors restraining banks' lending activity are the slow pace of structural reforms in the economy, a low level of profitability of a large part of Russian enterprises, high taxes on production and financial activities, inadequate legislation on creditors' rights and a lack of transparency at most enterprises.

Yet another factor that does not allow banks to expand long-term operations is the term struc-

## STRUCTURE OF BANKING SECTOR ASSETS (%)

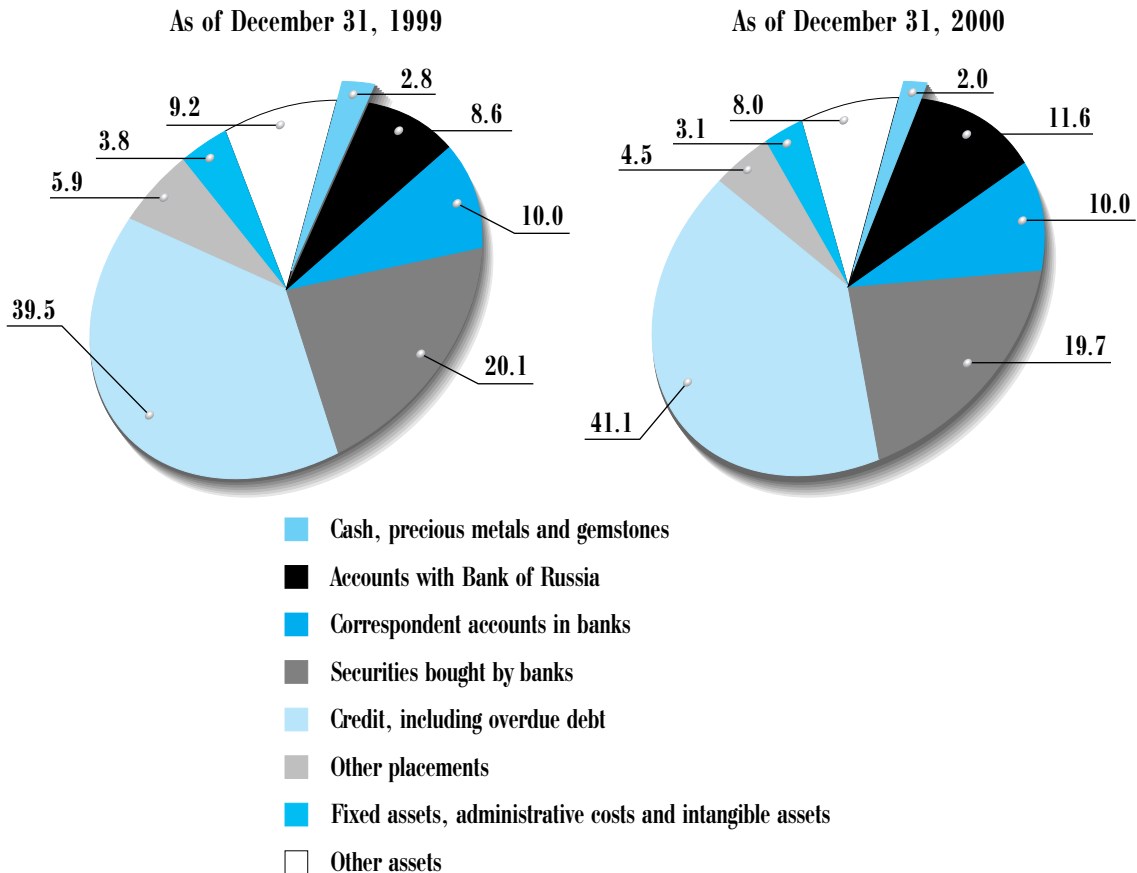


Chart 46

ture of their resources, which is dominated by short-term liabilities and has an obvious shortage of medium- and long-term resources. As of January 1, 2001, banks' liabilities with a term of more than 1 year made up 8% of total liabilities.

Throughout 2000 investments in securities continued to play a significant part in credit institutions' assets, making up nearly 20% thereof. Non-residents' securities accounted for about 1% of banking sector assets. Credit institutions were rather passive in the debt market. Growth in banks' investments in securities was limited by small volumes of papers placed and their relatively low yields. Banks also traded cautiously in the corporate securities market. Although the overall situation in that market was good, banks' investments in shares and bonds only marginally increased and their share in total assets was roughly 1%.

In the meantime, banks' activity in the promissory note market rose sharply in 2000 compared with 1999. From January 1, 2000 to January 1,

2001, the value of the banking sector's investments in notes increased from 65.8 billion rubles to 109.3 billion rubles, or 66.1% (the 1999 growth was 6.9%) and their share in banking sector assets expanded from 4.1 to 4.6%.

Economic growth and the increased monetisation of settlements stimulated credit institutions' demand for balances in correspondent accounts, which predetermined a high level of funds in these accounts. Over the year under review, balances in operating credit institutions' correspondent accounts with the Bank of Russia rose by 89.4%. A shortage of highly liquid financial instruments compelled banks to deposit a portion of their free funds in Bank of Russia accounts. Funds in credit institutions' correspondent accounts in resident banks increased by 64.6%, while the required reserves deposited by operating credit institutions with the Bank of Russia expanded by 95.0%. Funds in operating credit institutions' foreign-currency accounts in non-

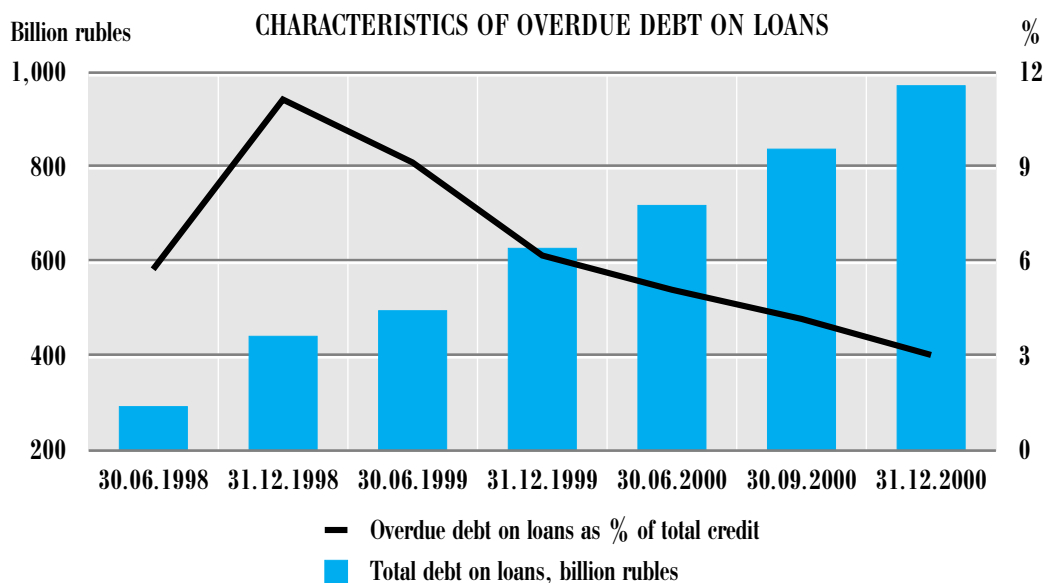


Chart 47

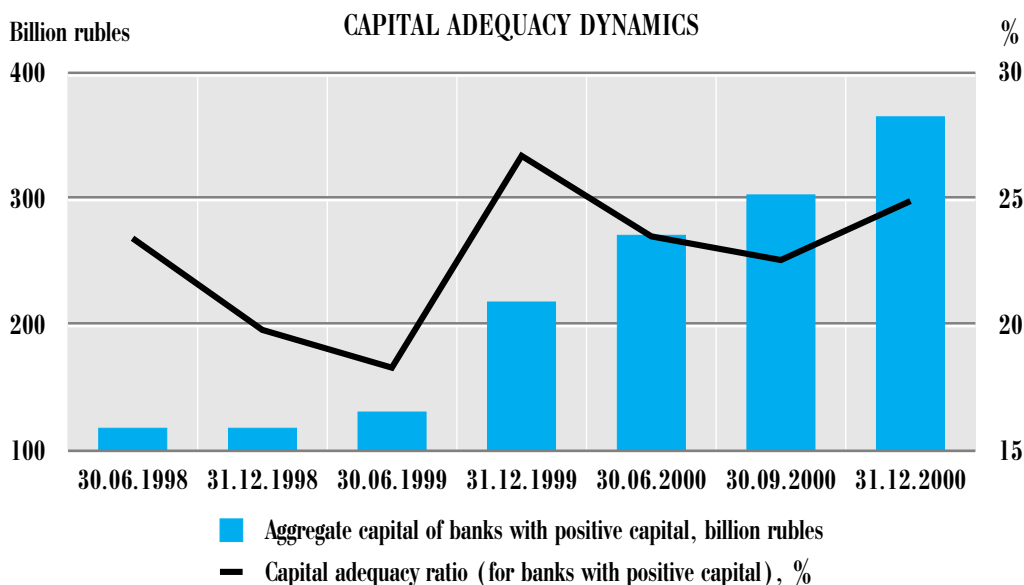


Chart 48

resident banks in 2000 increased by 43.3% (in 1999 they grew by 91.0%), while their share in banking sector assets remained almost unchanged at 7.9% as of January 1, 2001 (as of January 1, 2000, it was 7.8%).

Ruble assets in 2000 expanded by 69.4% (in real terms by 40.9%) and foreign-currency assets increased by 22.3%<sup>1</sup>. As a result, the share of foreign-currency assets in total banking sector assets contracted from 48.9% as of January 1, 2000, to 41.9% as of January 1, 2001.

**FINANCIAL STANDING OF CREDIT INSTITUTIONS.**

Balance profit of operating credit institutions in 2000 amounted to 17.2 billion rubles, whereas in 1999 they posted a loss of 3.8 billion rubles.

Last year 1,226 banks turned in a profit and the share of profit-making banks in the total number of operating credit institutions expanded from 90.1% as of January 1, 2000, to 93.5% as of January 1, 2001. The share of assets of profit-making banks in banking sector assets increased from 87.1 to 91.2%.

<sup>1</sup> Here and below adjusted to changes in ruble's exchange rate.



DISTRIBUTION OF BANKING SECTOR ASSETS AMONG CREDIT INSTITUTIONS  
CLASSIFIED IN TERMS OF FINANCIAL STABILITY (billion rubles)

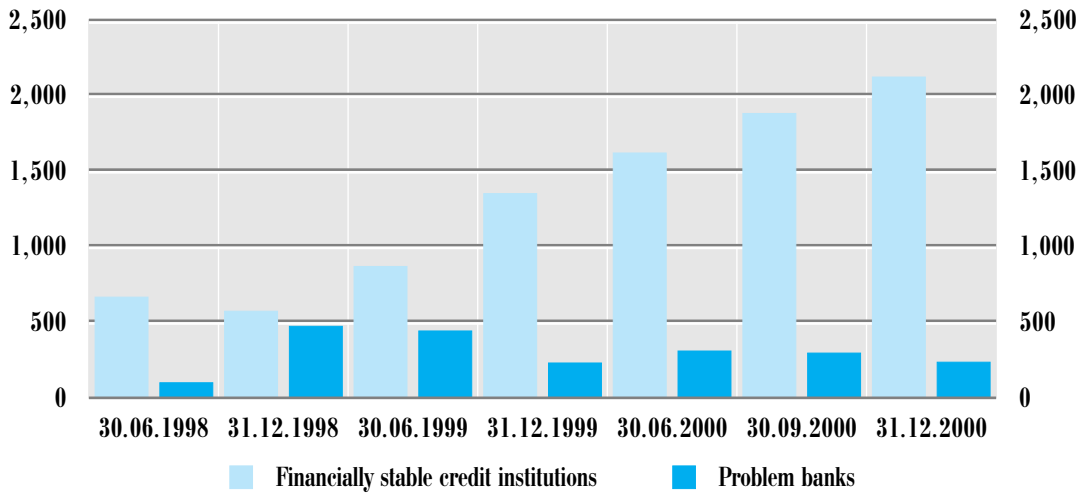


Chart 49

The financial state of the banking sector is seriously affected by losses incurred by banks under the control of the Agency for Restructuring Credit Organisations (ARCO), which amounted to 21.8 billion rubles as of January 1, 2001. Balance profit of operating credit institutions for 2000 without banks under control of ARCO amounted to 39.0 billion rubles.

The ratio of banks' profit to the average annual amount of capital of profit-making credit institutions in 2000 was 19.2% and to the average annual amount of assets 2.1% (28.5% and 3.6% in 1999). The reason was more rapid growth in the assets and capital of profit-making banks than growth in their current profit. Over the year these banks increased their capital by 68.6%, assets by 55.9% and current profit by 37.7%.

The improved conditions for growth in the lending activity of banks, the expansion of the securities market and fewer opportunities for making profit in the foreign exchange market changed the income structure of credit institutions. The share of interest income in total net income expanded from 19.4% in 1999 to 38.2% in 2000 and the share of net income from operations with securities increased from 12.7 to 22.2%. At the same time, there was a sharp contraction in the share of net income from operations with foreign exchange and currency values (including exchange rate differences) —

from 35.3 to 9.2%. The share of net commission income changed slightly from 20.0% in 1999 to 20.4% in 2000.

The dynamics of the main parameters of the financial standing of credit institutions in 2000 show that the overall trend of the banking sector is stability. According to estimates by Bank of Russia regional branches, the number of financially sound banks amounted to 1,178 as of January 1, 2001, and their share of the total number of operating banks expanded from 83.1% as of January 1, 2000, to 89.9% as of January 1, 2001.

The share of assets of the financially healthy banks made up 88.6% in total banking sector assets against 85.0% as of January 1, 2000. As of the beginning of 2001 these banks accounted for 86.2% of all funds borrowed from corporate clients, 96.4% of household deposits and 76.3% of interbank loans.

As of January 1, 2001, the aggregate capital of operating credit institutions amounted to 286.4 billion rubles, which represents an increase of 70% from the beginning of the year. In 2000 the ratio of banking capital to GDP rose from 3.7 to 4.1%, the ratio of banking sector capital to assets increased from 10.6 to 12.1%, while the ratio of capital to credit to the real (non-financial) sector remained stable on the whole (36.0% as of January 1, 2001, against

35.8% as of January 1, 2000). The actual reason for growth in the capital-to-assets ratio was high credit risk.

The banking sector's aggregate capital amounted in real terms to less than 85% of the

sum registered at July 1, 1998. At the same time, the aggregate capital of the banking sector, without banks controlled by ARCO, amounted to 352.3 billion rubles, which represents a 4.1% rise from the pre-crisis level.

## II.4.2. REGULATION OF CREDIT INSTITUTIONS

### II.4.2.1. UPGRADING THE LEGISLATIVE AND REGULATORY BASE OF ACTIVITIES OF CREDIT INSTITUTIONS

The main areas of upgrading the legislative and regulatory base of the activities of credit institutions were dictated by the need to create conditions that would facilitate further reforms in the banking sector and bring the requirements made on Russian credit institutions closer to universally recognised standards.

In 2000 the Bank of Russia continued to bring its system of bank regulation into conformity with international standards, including the documents of the Basle Committee on Banking Regulation and Supervisory Practices. One of the important areas of this work was upgrading the practice of assessing bank risks and creating loan loss reserves.

As part of this work, the Bank of Russia in 2000 drafted the Provision “On the Procedure for Creating Reserves for Possible Losses,” which used an internationally acknowledged approach to the creation of reserves such as a bank’s reasoned judgement about the extent of risk. The provision established a mandatory procedure for creating reserves for possible losses of balance assets, instruments recorded in off-balance accounts, forward transactions and other losses and extended the sphere of action covered by Bank of Russia regulatory documents on loan loss reserve requirements.

The key principles of managing liquidity, spelt out in the Basle Committee’s document “Good Practice of Liquidity Management in Banking Institutions,” were used by the Bank of Russia in drafting the Recommendations on the Analysis of Liquidity of Credit Institutions. Enforced in 2001, the Recommendations aim to improve the procedures for managing and controlling liquidity in credit institutions.

To optimise the makeup of the required ratios set for credit institutions, the Bank of Russia decided not to use penalties against credit institutions for violation of the N8 ratio, while the N11 ratio was transferred to the category of estimated ratios.

It is important that the Bank of Russia continued to create conditions conducive to the further recapitalisation of the banking sector. To this end, it established a procedure for including in the sources of additional capital the increment in the value of property resulting from its (the property’s) revaluation. Special regulations were also established for credit institutions attracting subordinated loans and deposits in foreign currency.

To bring the existing procedure of disclosing information into conformity with international standards, the Bank of Russia in 2000 took the following measures:

- mandated the inclusion of data on non-resident bank subsidiaries in all forms of consolidated reports of a banking group;
- established a procedure for publishing the consolidated annual reports of credit institutions that are parent institutions within banking groups and own more than 50% voting shares (stakes) of another bank;
- drafted the reporting form “Cash Flow Data,” which is part of a full package of financial statements compiled by banks in accordance with international standards.

In addition, the Bank of Russia recommended credit institutions to publish the following auditor-certified statements and data:

- a) consolidated annual reports all over the consolidation perimeter matching international standards;
- b) information on the compliance by credit institutions with some required ratios mandated by Bank of Russia regulatory documents as of January 1, 2000, including data on a consolidated basis, such as:
  - the own funds (capital) adequacy ratio (N1);
  - the ratio of household deposits to own funds (capital) (N11);
  - the amount of the estimated and actually created reserves for possible loan losses;
  - the amount of the estimated and actually created reserves for depreciation of securities.

In the year under review, the Bank of Russia continued to draft regulations establishing the procedure for implementing provisions of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, Federal Law on the Restructuring of Credit Institutions and Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

The Bank of Russia drafted and the Government submitted to the State Duma amendments and additions to the Federal Law on Banks and Banking Activities, the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

Draft amendments and additions to the Federal Law on Banks and Banking Activities envisage:

- tightening requirements on the periodicity and makeup of the financial reports published by credit institutions in order to provide more information to potential investors and supervising authorities;
- requiring credit institutions, including banking groups and bank holding companies, to compile and disclose without fail their consolidated reports;
- tightening requirements on buyers of shares (stakes) of credit institutions to prevent their infiltration by dishonest investors;
- establishing a procedure for winding up a credit institution which has had its licence revoked without showing signs of bankruptcy;
- introducing additional mandatory criteria for the revocation of the banking licence from a credit institution by the Bank of Russia;
- establishing more stringent qualification requirements, including business reputation requirements, for candidates to senior executive positions in a credit institution and the procedure for their approval.

The draft law on amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions aims to improve the bankruptcy procedure and guaranteeing creditors effective protection in the following main areas:

- introducing an additional criterion of bankruptcy of credit institutions, such as inadequate real value of assets for the fulfilment of obligations;
- establishing a procedure for bringing the authorised capital of a credit institution into correspondence with the credit institution's own funds; making the Bank of Russia responsible for sending a prescription to a credit institution to bring its authorised capital into correspondence with its own funds. Should the credit institution fail to comply with this demand within 45 days, it may have its banking licence revoked;
- specifying the range of powers of the provisional administration appointed to manage a credit institution; it is stipulated that a provisional administration should be appointed as soon as the credit institution had had its banking licence revoked;
- specifying additional legal consequences for executives, board members and founders of credit institutions if they are found guilty of making their credit institution bankrupt and also additional duties of a receiver are established within the framework of bankruptcy proceedings.

The draft law on amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) provides for granting to the Bank of Russia the right to evaluate the assets and liabilities of credit institutions to determine the amount of their own funds. Should there be any reason, the Bank of Russia must send a demand to a credit institution to bring its authorised capital in correspondence with its own funds (capital).

#### II.4.2.2. BANKING SUPERVISION

*In* the year under review, the banking supervision system, which involves the licensing of banking activities, off-site su-

per vision, inspection and bank rehabilitation, was aimed to enhance stability, create conditions for the healthy development of the banking sector,

and protect the interests of banks' creditors and depositors.

The Bank of Russia system of off-site banking supervision and inspection was engaged in detecting financial problems of operating credit institutions and violations they committed and in implementing, if necessary, corrective measures aimed at improving the state of affairs in credit institutions.

In 2000 the Bank of Russia continued to reorient the banking supervision system to such meaningful aspects of banking activity as risks assumed by banks, including credit, market, operation and other risks, and the state of management, accounting, reporting and internal control.

To this end, the Bank of Russia reviewed some of the criteria of financial stability of credit institutions, established in 1997. The new methodology helped improve the standard of evaluation by Bank of Russia regional branches of the financial condition of credit institutions.

Considerable work was conducted to improve the practices of supervisory response. Emphasis was laid on the early detection of problems in credit institutions and the adoption of prompt corrective measures in troubled credit institutions, as well as in credit institutions where the emergence of financial problems could not be ruled out.

One of the measures aimed at tackling this problem in the best possible way was the improvement of the methodology of analysing the activities of credit institutions. Developed by the Bank of Russia, this methodology made it possible to implement a series of organisational and methodological solutions to the problem of detecting material trends in the change of the financial standing of a bank. The actions taken in accordance with this methodology are based on the evaluation of risks regulated by the Bank of Russia and include comprehensive off-site analysis of the financial state of the bank on the basis of its reports and other sources of official information concerning its activities.

Inspections also served to improve the quality of the evaluation of the financial standing of banks.

In the year under review, the Bank of Russia continued to upgrade its inspection practices and provide them with the necessary methodologies.

In 2000 it conducted 2,447 inspections, including 1,138 comprehensive inspections. This is more than in the previous years. In addition to conducting ordinary inspections designed to verify compliance by credit institutions with federal laws and Bank of Russia rules and regulations, the state of accounting and accuracy of reporting, the timely effectuation of payments and transfers of budget and extra-budgetary funds and the observance of the foreign-exchange legislation, inspectors attached great importance to the evaluation of risks taken by credit institutions and their effect on the financial standing of banks.

The main shortcomings detected in the work of credit institutions were as follows:

- false reporting;
- non-compliance with mandatory standards;
- failure to observe the procedure and deadlines for submitting reports and publishing them in the general press;
- failure to observe the procedure for creating required reserves;
- failure to observe the procedure for creating loan loss reserves.

The principal reasons for failures and violations committed by credit institutions were a low level of corporate governance, resulting in deliberate distortion by some banks of accounting of operations and violation of the reporting procedure in order to conceal the actual level of risk they assume and exaggerate their performance, flaws in the internal control system and incompetence and/or negligence of bank employees.

Exercising its supervisory powers and guided by Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia in 2000 used an entire array of penalties and corrective measures against credit institutions that violated federal laws and Bank of Russia rules and regulations. Data on these measures are contained in the Statistical Addendum.

Protecting the interests of bank depositors is a top priority in banking supervision. In 2000 the Bank of Russia imposed restrictions on activities and banned banks with signs of financial instability from taking funds from individuals on deposit.

The Bank of Russia constantly watched credit institutions effect payments to budgets of all levels and government extra-budgetary funds. Credit

DYNAMICS OF NUMBER OF CREDIT INSTITUTIONS IN 1995—2000,  
AS OF YEAR-END (by type of organisation and legal status)

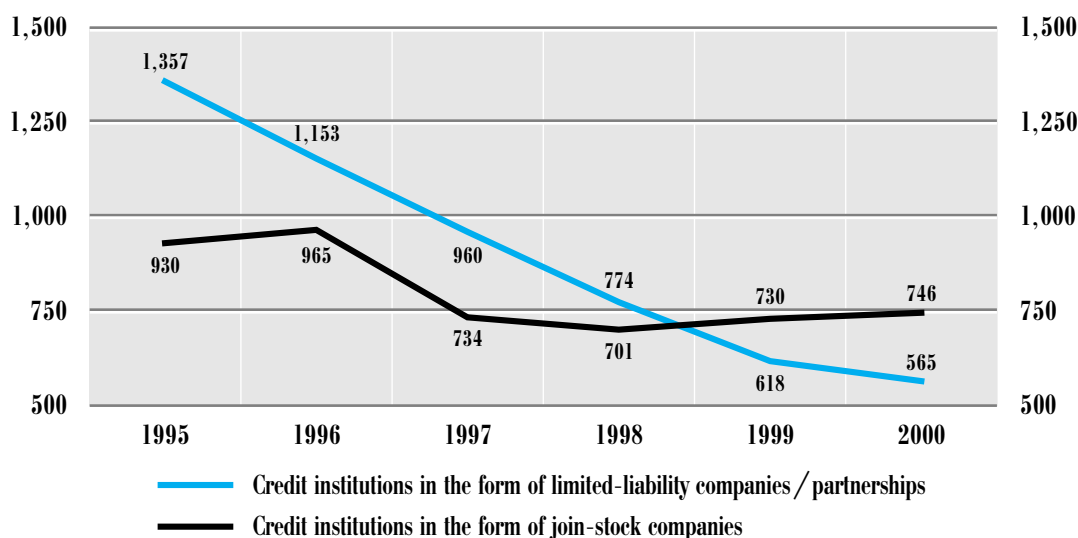


Chart 50

institutions that had unpaid clients' documents on the transfer of funds to budgets of all levels and government extra-budgetary funds due to a lack or shortage of funds in their correspondent accounts for three days or more were penalised by Bank of Russia regional branches by being prohibited for up to six months from effecting settlements on behalf of their corporate clients and transferring funds to budgets of all levels and government extra-budgetary funds. As of January 1, 2001, this penalty had been used against 12 credit institutions, while during 2000 it was applied to 54 credit institutions. The measures taken by the Bank of Russia helped reduce the amount of non-executed documents on payments to budgets of all levels and government extra-budgetary funds by credit institutions. As more than 90% of non-executed settlement documents on payments to budget of all levels belonged to banks under the control of ARCO, Article 13 of Federal Law No. 144-FZ, dated July 8, 1999, "On the Restructuring of Credit Institutions," forbade the Bank of Russia to take any corrective actions against them.

While registering and licensing credit institutions, the Bank of Russia was guided by the applicable laws and regulations designed to protect the interests of investors and depositors of credit institutions. Therefore, it paid special attention to the evaluation of financial stability of the

founders (members) of credit institutions and the standard of management and made sure that credit institutions had management who had no problems with law and had adequate banking experience and qualified personnel who could do their job competently.

In the year under review, the Bank of Russia continued to reorganise credit institutions. Specifically, 34 credit institutions were reorganised into joint-stock companies, which allowed them to attract new participants and build up capital base. As of January 1, 2001, the share of credit institutions in the form of joint-stock companies expanded to 56.9% of all operating credit institutions. Twenty banks completed consolidating their capital and 7 of the 10 merged banks (against 12 banks in 1999) became branches.

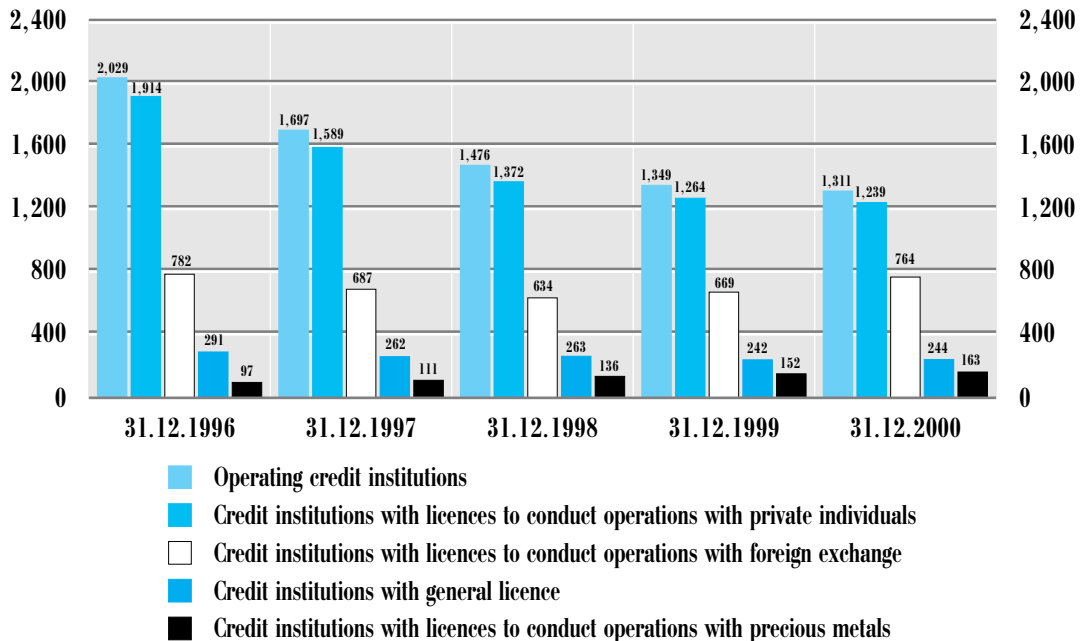
Seventeen new credit institutions, founded by resident legal entities and private individuals, were registered in the year under review.

Last year 178 credit institutions, or 13.6% of the total, expanded their activities by obtaining additional licences to conduct banking operations with foreign-currency funds of individuals and precious metals. In addition, 51 financially sound banks had their licences replaced after restrictions had been lifted on their right to establish correspondent relations with foreign banks.

As of January 1, 2001, 94.5% of the total number of operating credit institutions had the

### NUMBER OF OPERATING CREDIT INSTITUTIONS AND BANKING LICENCES GRANTED TO THEM

Chart 51



right to take household funds on deposit (against 93.7% as of January 1, 2000); 58.3% conducted banking operations with rubles and foreign currency (against 49.6%); 18.6% had a general licence (against 17.9%); 12.4% conducted operations with precious metals (against 11.3%).

These data show that the Russian banking system has grown stronger and that credit institutions continue to broaden their operations.

Improvements in the real sector and the favourable foreign trade situation created the necessary conditions for growth in corporate free funds and significant expansion of their role in the capital of Russian banks. The measures taken by credit institutions and their shareholders and members to strengthen their capital base allowed them in 2000 to increase the registered authorised capital of operating credit institutions by 1.7 times. This increment was largely a result of payment of shares (stakes) with rubles mainly by resident legal entities. The most significant growth in authorised capital of operating credit institutions was registered in Moscow (76.6 billion rubles) and in the Republic of Bashkortostan, the Republic of Tatarstan and the Moscow and Sverdlovsk Regions. Non-resident investments in the authorised capital of operating credit institu-

tions totalled 15.58 billion rubles, an increase of 3.68 billion rubles, or 30.9%, over the year. Most of the increment resulted from the purchase of stakes (shares) of operating credit institutions in the secondary market. At the same time, non-residents' share in the aggregate authorised capital of credit institutions operating in Russia contracted from 10.71 to 7.51% as growth in Russian investments outpaced growth in non-resident investments.

Twenty-nine operating credit institutions had their authorised capital reduced as their own funds were lost and the size of authorised capital was brought to the amount of own funds in accordance with the applicable legislation, and also in conformity with the decision of ARCO when a credit institution was transferred under its control. The authorised capital of these credit institutions was reduced by 2.1 billion rubles, or 1.9% of the registered authorised capital as of January 1, 2000.

Significant changes occurred in the structure of operating credit institutions in terms of the size of their authorised capital. In 2000 the number of credit institutions with authorised capital in excess of 300 million rubles increased by 1.8 times over to 91; the number of credit institutions with



authorised capital from 60 million rubles to 300 million rubles grew by 1.4 times to 195. At the same time, although the share of operating credit institutions with authorised capital of less than 10 million rubles contracted significantly, it was still too large, making up more than one-third of all credit institutions.

In the year under review, credit institutions continued to cut costs by optimising their branch networks and internal structures. As a result, over the year, the total number of branches of operating credit institutions declined to 3,793, or by 3.3%, and the number of internal structures (additional offices and cash departments) was reduced to 20,729, or by 8.6%. The greatest impetus for a reduction in the number of branches, additional offices and cash departments came from Sberbank and its policy of optimising the branch network, closing loss-making divisions and cutting expenditures on their maintenance.

Measures to restructure the banking system and rehabilitate banks were carried out in pursuance of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, Federal Law on the Restructuring of Credit Institutions and Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

In 2000 the Bank of Russia, guided by Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), revoked banking licences from 33 credit institutions. In the case of 14 credit institutions the licence-revocation procedure was halted after these institutions had drawn up and implemented financial rehabilitation plans.

In 2000 the Bank of Russia actively co-operated with the government Agency for Restructuring Credit Organisations, or ARCO. It detected troubled credit institutions and drafted and submitted to ARCO proposals on the transfer of such credit institutions to its control, monitored com-

pliance with moratoria on meeting creditors' claims and the procedure for transferring banks to the control of ARCO, made expert evaluations of bank restructuring plans and supervised their implementation. In 2000 one credit institution under ARCO's control had its banking licence revoked and ARCO is currently taking steps to liquidate this credit institution.

As a result of the work done by Bank of Russia regional branches, the number of credit institutions subject to bankruptcy-preventive measures under Article 4 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions continued to decline. In the year under review, their number decreased from 160 as of January 1, 2000, to 84 as of January 1, 2001, while their share of the balance-sheet value in the total balance-sheet value of operating credit institutions contracted from 12.8 to 9.7%.

The Bank of Russia took a tough stand in regard to banks whose own funds (capital) were smaller than their registered authorised capital. The number of such banks last year declined from 91 to 79. In the year under review, 18 credit institutions reduced their authorised capital to the actual level of their own funds (capital).

A hundred credit institutions submitted to Bank of Russia regional branches financial rehabilitation plans, of which 69 were judged feasible. Throughout the year 114 credit institutions improved their financial standing thanks to the implementation of their financial rehabilitation plans (84.4% of all plans approved).

Steps taken in 2000 also brought about a drop in the number of credit institutions with signs of insolvency (bankruptcy) and/or subject to liquidation under paragraph 4 of Article 90 and paragraph 4 of Article 99 of the Civil Code of the Russian Federation from 78 to 28 and their share in the total number of operating credit institutions contracted accordingly, from 5.8 to 2.1%.

Indicator	Jan. 1, 1998	Jan. 1, 1999	Jan. 1, 2000	Jan. 1, 2001
No. of credit institutions whose banking licences were revoked	852	1,004	1,028	806
Share of assets of credit institutions whose banking licences were revoked as a percentage of aggregate assets of registered credit institutions	8.23	11.37	11.60	9.29

To protect the interests of creditors (depositors) of credit institutions in accordance with the applicable law, the Bank of Russia appointed provisional administrations to credit institutions and oversaw their activities.

Sixty-eight credit institutions with revoked banking licences, whose founders (members) evaded their liquidation, were ruled bankrupt by courts in lawsuits filed by the Bank of Russia under the Federal Law on Insolvency (Bankruptcy) of Credit Institutions.

Enhancing the effectiveness of liquidation proceedings is one of the major objectives pursued by the Bank of Russia in protecting the rights and legitimate interests of creditors and depositors. For this purpose Bank of Russia regional branches filed bankruptcy suits against credit institutions in arbitration courts, oversaw the liquidation of credit institutions within the purview of the Bank of Russia, agreed the appointment of liquidation commissions and intermediate and liquidation balance sheets and conducted qualification examinations.

As of January 1, 2001, decisions were made to wind up 757 credit institutions, or 94% of the credit institutions subject to liquidation (916, or 89.7% as of January 1, 2000); liquidation commissions, receivers or liquidators were appointed to 618 credit institutions; 279 intermediate liquidation balance sheets and 110 liquidation balance sheets were submitted in accordance with the established procedure.

Last year 258 credit institutions (100 credit institutions in 1999) were deleted from the State Register of Credit Institutions.

To enhance the effectiveness of liquidation proceedings, the Bank of Russia conducts qualification examinations of candidates for the heads of provisional administrations and receivers and has organised training of candidates in education centres by curricula drawn up by it. Further progress in rehabilitating credit institutions and withdrawing unsalvageable banks from the banking services market depends to a great extent on the adoption of amendments to the applicable legislation and the development of the law enforcement system.

#### II.4.2.3. BANK AUDIT

The efforts made by the Bank of Russia in the field of banking audit aimed at ensuring high-quality auditing of credit institutions in order to certify the accuracy of their reports, improving the legal and regulatory framework of licensing, certification and bank audit conduct, raising the professional level of auditors and arranging closer co-operation between supervisors and auditors in effecting control over audits of credit institutions.

In compliance with the provision of the Federal Law on Banks and Banking Activities on the annual audit of credit institutions, such audits for 1999 were conducted in 1,306 credit institutions, or 96.8% of the total number of credit institutions that as of January 1, 2000, had banking licences (against 93% a year earlier). Forty-three credit institutions did not conduct audits because 22 of them had their banking licence revoked, 11 stopped conducting banking operations while the Bank of Russia considered their licence-revo-

lution documents and 2 were annexed to other credit institutions as their branches. Sanctions were used against eight credit institutions for failure to conduct audits by the established deadlines.

As a result of audits of credit institutions for 1999, auditing organisations and individual auditors certified the accuracy of accounting records of 1,304 credit institutions, or 99.8% of the total number audited; 151 of them had the accuracy of their accounting records certified after making the required changes in them.

Eight banking groups were audited to verify compliance with Bank of Russia requirements regulating the procedure for compiling consolidated annual reports.

Bank of Russia regional branches oversaw annual audits of credit institutions and controlled the completeness and quality of audits and auditors' reports. Auditors' reports and statements by Bank of Russia regional branches on audits were used in the process of overseeing the activities of

credit institutions and monitoring compliance by audit organisations and individual auditors with licence requirements and conditions.

Audit organisations were re-licensed in pursuance of the Federal Law on the Licensing of Certain Kinds of Activity, the Government Resolution on the Prices Charged in Licensing Bank Audits and Bank of Russia regulations on the specifics of licensing audit organisations. As a result, 115 audit organisations and three individual auditors had licences to audit credit institutions as of January 1, 2001.

The Bank of Russia conducted qualification examinations to issue new licences to bank auditors and extend qualification certificates of licensed auditors. Last year 151 auditors were granted audit licences and 39 had their qualification certificates extended.

As of January 1, 2001, 698 auditors had qualification certificates, 5% more than a year ago.

In co-operation with audit organisations the Bank of Russia drafted and published a document entitled “On Audit Quality Control and the Criteria of Evaluation of the Performance of Bank Audit Firms.” To bring Russian bank audit practices closer to international standards, the Bank of Russia is drafting in co-operation with audit organisations two sets of audit rules (standards), “Interbank Certification Procedures” and “Interrelations Between Bank Supervisors and External Auditors.” These bank audit standards are expected to be used in conducting audits along with other audit rules (standards), approved by the Audit Commission under the Russian President.

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

A balanced monetary and exchange rate policies pursued by the Bank of Russia contributed to a great extent to the build-up of the favourable macroeconomic situation in 2000, the improvement of government finance and the excess of federal budget revenues over expenditures at the end of the year.

The 2000 Federal Budget Law provided for the purchase by the Bank of Russia of government securities to the tune of 30 billion rubles during their primary placement and the granting to the Finance Ministry through Vneshekonombank of \$1 billion in foreign currency to redeem and service the Russian government's foreign debt. The improvement of the macroeconomic situation in 2000 brought about favourable changes in government finance, allowing the Russian government to meet its debt obligations without making new borrowings from the Bank of Russia. The Finance Ministry, therefore, made no requests for such funds to the Bank of Russia.

At the same time, in compliance with the 2000 Federal Budget Law, the government continued to restructure its debt obligations and other Finance Ministry debts (the restructuring began in 1999) into longer-term government papers with lower non-marketable interest rates. The total sum of the restructured debt amounted to 59 billion rubles at balance sheet value, or 107.1 billion rubles at par value. As a result, the Finance Ministry's overall debt to the Bank of Russia increased and the quality of the

Bank of Russia government securities portfolio deteriorated.

In addition, to comply with the 2000 Federal Budget Law, the Finance Ministry is conducting an examination of 600 million rubles of Bank of Russia promissory notes with the aim of restructuring them into federal loan bonds.

The Finance Ministry redeemed 2.0 billion rubles of federal loan bonds in the Bank of Russia portfolio and repaid 1.7 billion rubles of foreign-currency debt extended by the Bank of Russia to the Finance Ministry through Vneshekonombank in compliance with the Federal Law on Budget and Tax Policy Priorities and the 1999 Federal Budget Law for repayment and service of the Russian government's foreign debt. Federal Law No. 145-FZ, dated December 25, 2000, "On Amending the 2000 Federal Budget Law in Connection with the Collection of Additional Revenues" transferred to December 1, 2007, the deadline for repayment of the foreign-currency loan extended by the Bank of Russia to the Finance Ministry through Vneshekonombank in 1998—1999 to repay and service the government's foreign debt.

To implement the Concept of a Single Federal Budget Revenue and Expenditure Account of the Finance Ministry's Federal Treasury, approved by Government Resolution No. 107-r, dated January 23, 2000, steps were taken in 2000 to transfer budget-financed institutions and organisations to accounts opened with federal treasury bodies,

centralise the accounting of federal budget revenues at the level of the regional federal treasury divisions and introduce the electronic exchange of full-format documents between regional Bank of Russia and federal treasury divisions.

In line with the 2000 Federal Budget Law and on the basis of the agreements signed, the federal treasury bodies in 40 regions of Russia execute the respective regional and local government budgets and they have had regional and local budget accounts opened for them.

Owing to the efforts made, the number of accounts to record federal budget revenues and revenues distributed by federal treasury bodies between the various levels of the Russian budget system, opened with the Bank of Russia, decreased a little, but the number of budget accounts, including Federal Treasury accounts and the accounts of budget organisations financed from budgets of different levels, remained significant as of January 1, 2001, and amounted to almost 196,000. The share of Federal Treasury accounts to record federal budget revenues and funds, opened with the Bank of Russia, expanded year on year by 3.0 to 67.0%; 89.1% of budget-funded institutions and enterprises and organisations are financed through accounts opened for them with federal treasury bodies; 331 federal treasury bodies have been linked up to the system of electronic exchange of documents

with the Bank of Russia on the basis of agreements they have concluded with it (154 federal treasury bodies were linked up to this system in 2000). The Bank of Russia in 2000 worked with the Finance Ministry to draft regulatory documents on the procedure for consolidating financial resources in the federal treasury bodies, including customs and other payments relating to the foreign economic activity and proceeds from entrepreneurial and other profitable activities.

As a result of measures taken by the Bank of Russia, as part of the prudential supervision of credit institutions and sanctions applied to credit institutions for violation of federal laws and Bank of Russia regulations and requirements, which included the revocation of banking licence, and thanks to growth in the liquidity of credit institutions, there was a decrease in the debt of credit institutions which had not settled their clients' payments to budgets of all levels and government extra-budgetary social security funds because of the lack of funds in their correspondent accounts. From January 1, 2000 to January 1, 2001, this debt declined by 8.7 billion rubles to 8.9 billion rubles, of which the debt owed by operating credit institutions amounted to 3.3 billion rubles (more than 90% of this sum was owed by credit institutions under the control of ARCO) and 5.6 billion rubles were the debt of credit institutions who had their licences revoked.

## II.6. CASH ISSUE MANAGEMENT

The purpose of cash issue management in 2000 was to improve cash circulation in Russia.

To supply the country's payment turnover with the required amount of currency of different denominations, the Bank of Russia monitored the cash turnover of banks and changes in its structure, constantly analysed the note structure of cash in circulation and made sure that it met the needs of payment turnover, monitored the length of service of banknotes of different denominations, calculated the needs of the various Russian regions in banknotes of different denominations, drew up banknote and coin production plans, organised banknote and coin production at Goznak (State Administration for the Issue of Banknotes) enterprises and ensured the timely delivery of money to the regions in the required amounts and denominations.

The Bank of Russia issued cash in the amounts that met fully the needs of the economy and population in good time. There were no interruptions in cash supply through the Bank of Russia's fault.

The amount of cash of the 1997 issue, put in circulation in 2000, including cash in the tills of the Bank of Russia and credit institutions, increased by 158.4 billion rubles, or 54.9%. The growth in cash resulted from the expansion of the money turnover, caused by a 33.1% rise in household nominal money income.

As of January 1, 2001, there was 446.98 billion rubles of cash of the 1997 issue in circulation (according to the cash issue balance sheet), of which banknotes amounted to 442.7 billion rubles

and coins, including those made of precious metals, amounted to 4.3 billion rubles. Banknotes accounted for 99% of the total sum of cash and coins made up 1%. In the total number of currency units, banknotes made up 27% and coins 73%.

Growth in household money income and prices of consumer goods and services increased the need for large-denomination banknotes. Consequently, the Bank of Russia expanded the production of 500-ruble banknotes, whose share in total cash in circulation rose by 13.2 percentage points from January 1, 2000 to January 1, 2001. In the meantime, the share of 100- and 50-ruble banknotes contracted by 12.2 percentage points.

To cut costs involved in the transportation and processing of cash and supply the growing needs of cash turnover in large-denomination banknotes, the Bank of Russia organised the production and issue of a 1,000-ruble banknote bearing all the necessary anti-forgery printing elements. The new banknote was put in circulation on January 1, 2001.

Implementing Presidential Decree No. 822, dated August 4, 1997, "On Changing the Nominal Value of the Russian Currency and the Standard of Price," the Bank of Russia in 2000 continued to exchange its banknotes of the 1993 issue, including the 1994 modification, and 1995 issue, Soviet and Bank of Russia coins of the 1961—1996 issue, including 1-, 2- and 3-kopeck coins issued in the Soviet Union before 1961, for the banknotes and coins of the 1997 issue. In the year under review, 99.7 million rubles of old banknotes and coins were presented for exchange.

SHARE OF INDIVIDUAL BANKNOTES OF 1997 ISSUE IN CIRCULATION AS OF JANUARY 1, 2001 (%)

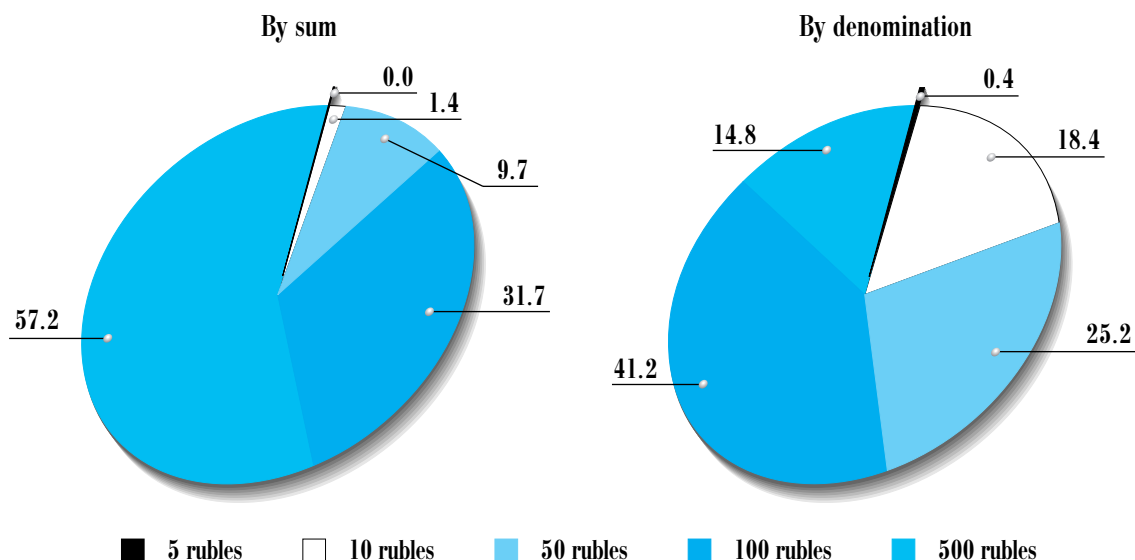


Chart 52

As of January 1, 2001, 1.14 billion rubles, or 0.83% of cash that was in circulation as of January 1, 1998, that is, by the beginning of the redenomination of the Russian currency units, had not been presented for exchange.

Cash services were provided to credit institutions and their branches, federal treasury bodies and budget-funded and other organisations in compliance with Russian laws and Bank of Russia regulations. According to Bank of Russia regional branches, 5,906 credit institutions and their branches, of which 1,500 branches of credit institutions that had no correspondent sub-accounts in cash settlement centres, and additional offices received cash services in Bank of Russia institutions as of January 1, 2001.

Last year saw the number of clients receiving cash services decline. Compared with 1999, the number of credit institutions and their branches decreased by 260 as Sberbank reorganised its branch network and some credit institutions were wound up.

In the year under review, the Bank of Russia carried out organisational and methodological work relating to cash operations conducted by its divisions, credit institutions and enterprises, institutions and organisations and supervised and systematised data on cash issue management in its institutions.

To monitor the state of cash issue management, specialists from Bank of Russia central and regional cash issue divisions conducted comprehensive and special inspections. Last year such inspections were conducted in practically all Bank of Russia institutions.

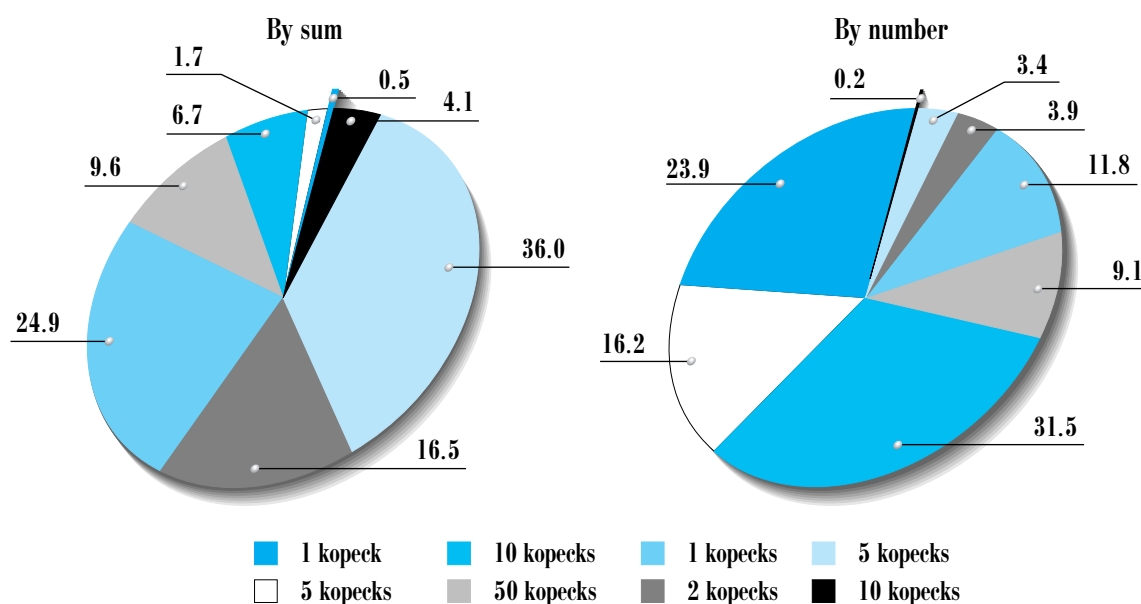
In all Bank of Russia institutions its specialists, acting in compliance with Bank of Russia regulations, conducted cash audits and audits of other valuables, checked operations with cash and other valuables and made sure that valuables were safely kept.

The number of errors (shortages, surpluses and deficient and counterfeit currency units) made by Bank of Russia cash department employees in conducting cash operations decreased almost four times compared with 1999.

In 2000 the Bank of Russia continued to modernise production facilities in its institutions in order to improve the standard of cash processing, using hi-tech equipment. The development of electronic and printing technologies accessible to the general public encourages counterfeiting and the quality of fake banknotes has become so high that they can only be detected by counting and sorting machines equipped with special sensors. As of January 1, 2001, the Bank of Russia and its branches had received 92% of the advanced cash counting



SHARE OF INDIVIDUAL COINS OF 1997 ISSUE IN CIRCULATION  
AS OF JANUARY 1, 2001 (%)



and sorting machines they were to receive according to plan.

Bank of Russia regional branches were supplied with advanced teller machines, spare parts, expendable and packing materials. The controlling and measuring segments of technological equipment were regularly checked and tuned and conditions were created for the processing of cash brought to the Bank of Russia using advanced note- and coin-counting and sorting machines. In the period under review, the Bank of Russia put into operation an automated system for the accounting of valuables in conducting cash operations in its institutions. The largest cash centre in Moscow, complete with advanced cash processing facilities, was put into operation in 2000.

The Bank of Russia monitored the level of technical strength of its cash units and cash units of credit institutions and made sure they met the established standards. Fifty-three cash settlement centres were completely refurbished and in 193 cash settlement centres some technical changes were made to strengthen their cash units. Specialists with regional Bank of Russia branches inspected credit institutions and issued more than 5,000 certificates confirming that the technical reliability of their cash units complied with Bank of Russia standards.

In the year under review, Bank of Russia institutions conducted nearly 1.5 million examinations of Bank of Russia banknotes and coins, which represents an increase of 28.7% compared with 1999. The purpose of most of these was to verify the serviceability of damaged banknotes and coins in order to decide whether it was possible to exchange them for good notes and coins.

In addition, Bank of Russia institutions examined 22,000 foreign banknotes sent to them by credit institutions last year.

The number of counterfeit Bank of Russia banknotes detected by institutions declined by 15% compared with 1999.

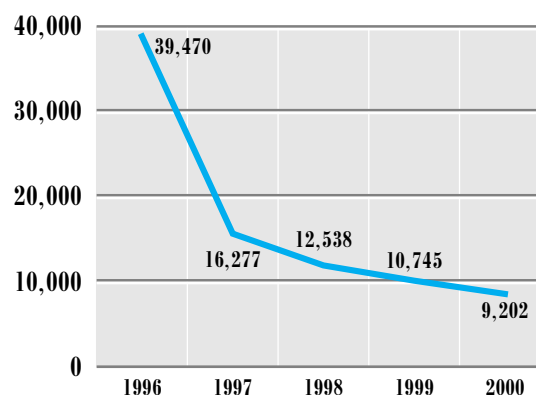
The ratio between the amount of counterfeit banknotes detected in various banking institutions, that is, at the different stages of cash movement, in 2000 remained the same as in the previous two years. Credit institutions discovered 42.0% of all counterfeit money and Bank of Russia institutions 58.0%. A large proportion of counterfeit money in the cash accepted by Bank of Russia institutions from credit institutions is the result of high quality of fake coins, which are hard to detect when money is counted by hand, and a shortage of money counting machines capable of detecting forgeries in credit institutions. The most frequently forged are the 100-ruble note and 5-ruble coin.

In the year under review, Bank of Russia institutions and credit institutions detected and passed to Interior Ministry authorities 8,500 counterfeit foreign banknotes. Compared with previous years, the number of counterfeit foreign banknotes doubled, mainly as a result of an increase in the number of fake US dollars, which make up 97.5% of all counterfeit foreign banknotes discovered. The most frequently forged US banknote is the \$100 bill (88.5% of all counterfeit US banknotes). Statistical data for 2000 testify to a great diversity of counterfeit US banknotes. The analysis of imitation security elements of foreign banknotes showed that most of the forgeries are of mediocre quality, but 25% of them are counterfeit US banknotes of such high quality that it is practically impossible to detect them with the naked eye.

In 2000 the Bank of Russia continued to issue coins of popular series and coins commemorating events of national and international importance. It issued 42 commemorative coins, of which 26 were made of silver, 8 of gold and 8 of copper-nickel alloys. The Bank of Russia resumed the issue of the 10-ruble bimetallic coin with a specially designed obverse, ensuring a higher degree of security against counterfeiting.

The measures taken by the Bank of Russia, such as optimising coin circulation and imple-

**DYNAMICS OF DETECTION  
OF COUNTERFEIT BANK OF RUSSIA  
BANKNOTES (number of banknotes)**



*Chart 54*

menting a single pricing policy in shipping coins inside the country and abroad, facilitated the emergence of a normal secondary numismatic market, which eliminated economic conditions for the illegal shipment of Russian commemorative coins abroad. Domestic demand for Russian coins has been steadily growing.

In 2000 coins in Russia were distributed by 54 credit institutions, an increase of 80% from 1999, which covered far more regions than before.

## II.7. INTERNATIONAL CO-OPERATION

### II.7.1. CO-OPERATION BETWEEN BANK OF RUSSIA AND INTERNATIONAL FINANCIAL AND ECONOMIC ORGANISATIONS

*In* the year under review, the Bank of Russia continued to co-operate with international financial institutions such as the International Monetary Fund (IMF), the International Bank of Reconstruction and Development (IBRD), the Bank for International Settlements (BIS) and other international organisations.

It participated in consultations with the IMF mission drafting a report on the economic situation in Russia pursuant to Article 4 of the IMF Articles of Agreement, which was published with the approval of the Russian government and the Bank of Russia.

A major area of co-operation between the Bank of Russia and international financial organisations was increasing transparency and meeting the requirements of international standards and codes in implementing the economic and financial policy, aimed at strengthening the international financial system. As the IMF initiated the drafting of “pilot transparency reports,” the Bank of Russia and the Fund analysed Russia’s compliance with the Code of Good Practices in Transparency of the Monetary and Fiscal Policies and evaluated the extent to which Russian practices of disseminating data met the requirements of the IMF Special Data Dissemination Standard (SDDS). According to preliminary information, Bank of Russia activities in these areas received a good rating.

Implementing a joint programme with the IMF and IBRD to evaluate the state of the financial sector, the Bank of Russia began to prepare indicators characterising the functioning of the banking sector and payment system.

It continued to provide information on an agreed-upon set of indicators for the IMF publication “International Financial Statistics” and OECD publication “Main Economic Indicators: Selected Transition Economies” and made preparations for connecting to the database of the Bank of International Settlements (BIS) in 2001.

The Bank of Russia participates in meetings of the IMF Board of Governors’ International Monetary and Financial Committee and in the activities of expert groups drafting IMF methodological documents, gathering data on capital flows and foreign debt, compiling monetary and financial statistics, assessing data disseminated by central banks and evaluating financial debt instruments. The Bank of Russia and IMF held a seminar on monetary and financial statistics for Bank of Russia and Goskomstat employees and representatives of other economic ministries and government agencies in Tula in September 2000.

The Bank of Russia and the International Bank for Reconstruction and Development continued to co-operate in the field of the banking sector. Set up under the aegis of the Bank of Russia in 1999, the Inter-Agency Co-ordinating Com-

mittee for Banking Sector Development in Russia (ICC) considered in co-operation with representatives of Russian government ministries, the IMF, the IBRD and other international organisations issues relating to the upgrading of the legislative framework for the restructuring of the banking system and its functioning, banking supervision and bank reporting, the accounting system, the development of the financial infrastructure and bank operations, etc. Within the framework of the ICC, the IBRD provides technical assistance in upgrading the restructuring methods and training in the International Audit Standards (IAS), while the European Union carries out jointly with the Bank of Russia the EU/TACIS Project “Assistance for the Accounting and Reporting Reform in the Banking System,” which aims at introducing the International Accounting Standards in Russian accounting and supervisory practices. Consultations were also held on the implementation of the TACIS programme “Advanced Training for Personnel of the Central Bank of the Russian Federation.”

Bank of Russia representatives took part in meetings of the working groups formed under the aegis of the Bank for International Settlements, including the Committee on Payment Systems and Basle Committee on Banking Regulation and Supervisory Practices and regional banking supervision groups, such as the Banking Supervision Group of Central and Eastern European Coun-

tries and the Group of Caucasus and Central Asian Countries. The activities of these groups were aimed at working out new Basle Committee capital adequacy requirements and new approaches to assess how the fundamental Basle principles of the efficiency of banking supervision and key principles of the systemically important payment systems were observed.

In 2000 Bank of Russia representatives participated in the meetings of G-8 finance ministers and central bankers and meetings of G-20, the Organisation for Economic Co-operation and Development (OECD), the World Trade Organisation (WTO), the European Union and the corresponding inter-agency commissions and working groups of these international organisations.

In the year under review, the Bank of Russia held meetings with OECD missions on issues relating to the OECD study of the investment climate in Russia, especially banking supervision, access of foreign banking capital to the Russian market, the role of banks in lending to the real sector and preparations for the fourth Russian economic survey.

The Bank of Russia continued to co-operate with regional development banks such as the European Bank for Reconstruction and Development (EBRD), the International Bank for Economic Co-operation (IBEC), the International Investment Bank (IIB) and the Black Sea Trade and Development Bank.

## II.7.2. CO-OPERATION BETWEEN BANK OF RUSSIA AND FOREIGN COUNTRIES AND THEIR CENTRAL (NATIONAL) BANKS

The Bank of Russia co-operates with foreign countries by having its representatives on intergovernmental commissions on economic, scientific and technological co-operation. The main objectives of this co-operation are to improve the methods of effecting settlements in mutual trade and broaden co-operation between commercial banks of different countries. A sub-commission on interbank co-operation was set up within the framework of the intergovernmental Russian-Chinese commission to prepare regular meetings between the two countries' heads of government. Russia also set up a similar commission with the Republic of Vietnam.

The Bank of Russia continued to work with the Reserve Bank of India to promote interbank co-operation and improve the system of bilateral settlements. A result of this work was that several Russian banks were selected whose direct guarantees the Reserve Bank of India recommended Indian commercial banks to accept.

In the year under review, the Bank of Russia continued to maintain bilateral co-operation with other central banks on issues relating to the exchange of information, training of specialists and organising banking supervision. Working meetings were held to discuss the practice of elaborating and implementing monetary policies, the functioning of payment systems, banking supervision, accounting and reporting and internal control systems. In 2000 the Bank of Russia held such meetings with Bundesbank, Banque de France, Bank of Sweden, the US Federal Reserve System, Bank of Finland, Bank of Cuba, Bank of Mexico, Bank of Chile and other banks.

Implementing the provisions of the Russia-Belarus Union Treaty of December 8, 1999, the Bank of Russia and the National Bank of the Republic of Belarus drafted, within the framework of the Interbank Monetary Union they set up in November 1999, agreements between the two countries on the introduction of a single currency and the creation of a single issuing centre and agreements between the governments and central banks on measures to create conditions conducive to the introduction of a single currency. These agreements were examined by the Russian government and the Supreme State Council and Council of Ministers of the Russia-Belarus Union State and signed in Minsk on November 30, 2000.

The CIS Interstate Monetary Committee resumed its work and declared that its immediate objectives were to complete the drafting of a concept of co-operation and co-ordination of efforts between the CIS countries in monetary policy and put forward proposals on ways to liberalise national financial services markets and improve payment relations.

The Bank of Russia continued to provide assistance to the 10-nation CIS Interstate Bank in order to turn it into an effective means of integrating the economies of the member countries.

It took part in the events organised by the Integration Committee of Belarus, Kazakhstan, Kirghizia, Russia and Tajikistan to ensure the implementation of the Agreement on the Customs Union and Common Economic Environment. Signed on February 26, 2000, the agreement provides for, among other things, creating equal conditions of access to the national financial and other markets.

## II.8. DEVELOPING AND ENHANCING EFFICIENCY OF BANK OF RUSSIA SYSTEM

### II.8.1. UPGRADING BANK OF RUSSIA ORGANISATIONAL STRUCTURE

The Bank of Russia in 2000 took steps to improve its management system in order to perform its functions more efficiently. Using the expertise of other central banks, it conducted an analysis aimed to find the most effective combination of centralisation and decentralisation in corporate governance, taking into account the strategic objectives of its monetary policy and the development of the banking sector, financial markets, payment and information and analysis systems.

The Bank of Russia is constantly improving risk management through the use of diverse methods. Risk management is regulated by Bank of Russia internal rules and standards and controlled by the Bank of Russia Board of Directors, committees and commissions. These structures, along with the corresponding working groups, deal with issues relating to monetary, investment and exchange rate policies, set limits on the volume of operations conducted and make requirements on the Bank of Russia's counterparties in operations.

The Bank of Russia is continuing to reorganise its central office structures and regional branches.

It disbanded the Regulation of Currency Circulation Department, transferring its functions to the Cash Issue Operations Department and Payment Systems and Settlements Department. Using the experience of other central banks, it

delineated such functions as the elaboration and implementation of the exchange rate policy, compiling the balance of payments and supervising overseas subsidiary credit institutions.

In October 2000, the Bank of Russia Board of Directors decided to create the Moscow regional branch on the basis of the regional branches for Moscow and for the Moscow Region, which are to be reorganised in 2001.

To optimise its settlement network, the Bank of Russia closed 11 cash settlement centres, of which four Moscow-based centres were reorganised into departments of Branch No. 3. A cash settlement centre was opened in Karachayevsk by the National Bank of the Karachai-Cherkess Republic (a regional branch of the Bank of Russia).

Consequently, as of January 1, 2001, the Bank of Russia system comprised the Central Office, 79 regional branches, including national banks and regional divisions, 1,175 cash settlement centres and other structures.

Work to improve the Bank of Russia's structure was accompanied by reductions in personnel. The number of Bank of Russia employees decreased from 88,369 in 1999 to 80,699 in 2000.

As of January 1, 2001, more than half of Bank of Russia employees perform functions relating to

cash circulation management, security and serviceability of the payment system, accounting and reporting and information systems. The Bank of Russia will continue to optimise the number of its employees, as it will improve the payment sys-

tem to enable it to effect real-time payments in a country with 11 time zones, transfer to the Federal Treasury, when it is ready, the cash budgeting of the federal budget and build advanced information and telecommunications systems.



## II.8.2. CO-ORDINATING ACTIVITIES OF BANK OF RUSSIA REGIONAL BRANCHES

*In* the year under review, the Bank of Russia co-ordinated the activities of its regional branches in implementing the single state monetary policy, ensuring the effective and uninterrupted functioning of the payment system, supervising credit institutions, exercising foreign exchange control and analysing the state of the economy and financial markets and their prospects.

Heads of the regional branches of the Bank of Russia have taken part in the discussion of guidelines for the monetary policy for the next year, supervisory practices and other important aspects of Bank of Russia activities.

The Bank of Russia co-ordinated the activities of its regional institutions by issuing regulations and recommendations on various issues, sending specialists from the central office to regional branches to inspect them, as well as helping them to tackle their problems and organise seminars and conferences on pressing issues.

Special attention was paid to organising economic forecasting and analysis, including co-ordination of the monitoring of enterprises.

Monitoring was conducted using the methodologies similar to those practised by some other central banks: it was based on monthly opinion polls of managers at over 9,000 enterprises in all the Russian regions and quarterly surveys of the investment activity of enterprises.

Following recommendations of the Bank of Russia, its regional branches pass to the central office analytical results on the financial and economic situation in their respective regions and propose improvements in the banking legislation and Bank of Russia regulations. The analysis of this information enables the Bank of Russia to take into consideration the opinion of its regional specialists in carrying out the tasks assigned to it by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

In 2000 the Bank of Russia began to develop a system of indicators on the level of activity and efficacy of its regional institutions and cash settle-

ment centres, elaborating on this basis the main principles for optimising the structure of the Bank of Russia regional network.

Developing this methodology, the Bank of Russia took into consideration the experience of some central banks (with a regional structure) in upgrading and optimising their regional networks and studied the specific activities and organisation of regional institutions of different levels, the relationships between the central office and regional branches and the methods of organising, co-ordinating, regulating and supervising their activities.

To improve co-ordination of its regional branches, the Bank of Russia completed putting into operation an automated document processing and record keeping system, which was installed in 78 Bank of Russia regional branches. The system made it possible to use a single technique for managing record keeping and implementing blanket control of document execution.

On the basis of the Unified Telecommunications Banking System (UTBS), which was in the process of development, the Bank of Russia continued to build its own Single Information Computer System. Two documents provide the regulatory basis for this work, "The Concept of a Single Information Computer System of the Central Office" and "The Concept of a Single Information Computer System of the Regional Branch," approved by the Bank of Russia Board of Directors in 1995 and 1998. As a pilot project, the Bank of Russia operated an intradepartmental information system, which was intended for the central office and several regional branches. Using the databases of Bank of Russia divisions and standard Internet solutions, this system may become a prototype of a full-scale centralised information system of the Bank of Russia.

Work continued on the construction and development of an advanced electronic mail system as a transportation medium for collecting statistical reports by Bank of Russia regional branches

and credit institutions and a documentary electronic mail system for organising an exchange of electronic documents and providing information to the Bank of Russia senior staff.

The UTBS was used as a basis for the development of a departmental telephone system

(DTS) with a single dialling plan, which at the end of 2000 embraced 59 regional branches and the central office of the Bank of Russia. The DTS made management more efficient, improved co-ordination between Bank of Russia institutions and cut expenses on trunk-calls.

### II.8.3. STAFFING AND PERSONNEL TRAINING

*In* the year under review the Bank of Russia personnel policy aimed to improve methods of recruiting, placing and evaluating personnel, raise the professional level of specialists and expanding the system of incentives in order to enhance the efficiency of the Bank of Russia's activities.

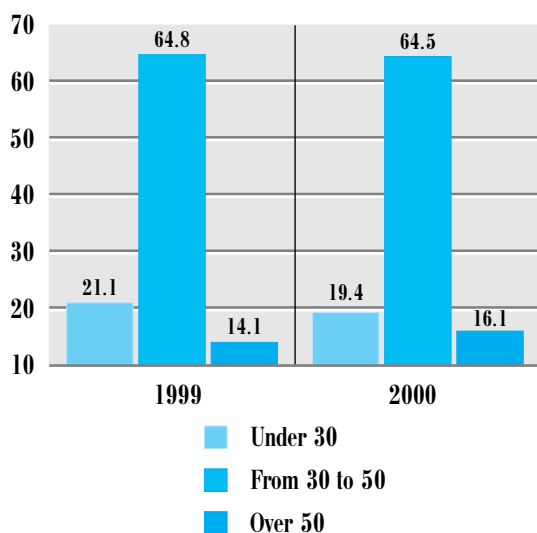
As of the end of 2000, 94% of Bank of Russia executives and specialists had university and specialised secondary education, 62.4% of whom had university education. At the same time, the age structure of Bank of Russia personnel began to change for the worse that year as the share of employees under 30 contracted, while the share of employees over 50 expanded.

Competence, personal qualities and the growth potential of employees were evaluated with the participation of specialists from the central office and regional branches. Their decisions

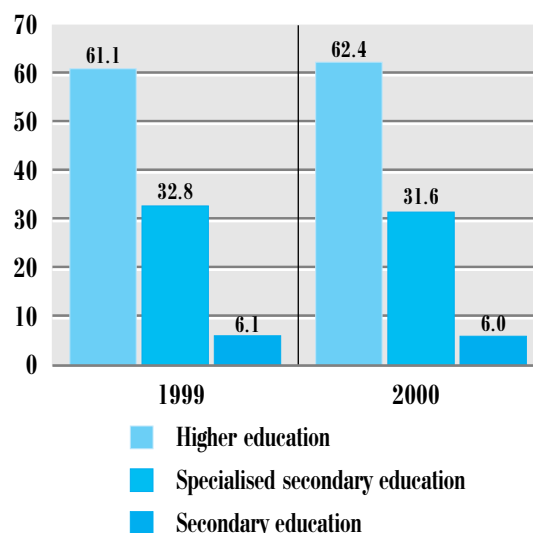
were instrumental in transferring specialists and executives from one position to another and selecting candidates for promotion after taking a special course in management training.

Measures were taken to develop a system of additional vocational training for Bank of Russia personnel. To make the system of training more flexible, the Catalogue of Vocational Training Programmes in 2000 was issued for the first time and 207 training sessions involving more than 5,000 people were held within its framework in Bank of Russia training centres and institutions. The training programmes helped to draw up individual training plans for each specialist in accordance with his professional needs and administrative duties, taking into account his education and qualifications. Special attention was paid to training in computer skills and foreign languages.

COMPARATIVE DATA ON AGE OF BANK OF RUSSIA EMPLOYEES (%)

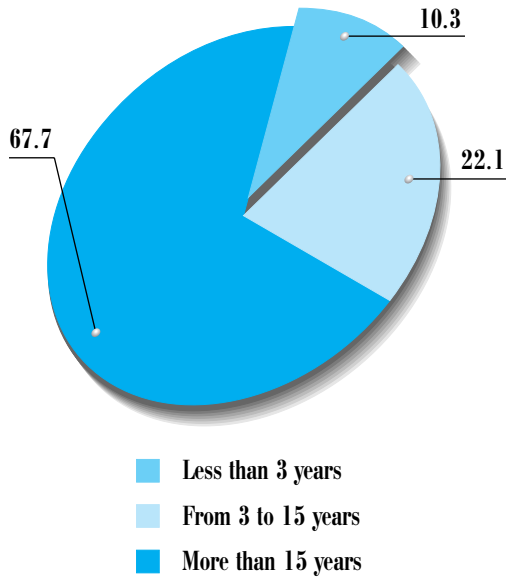


COMPARATIVE DATA ON EDUCATIONAL STATUS OF BANK OF RUSSIA EXECUTIVES AND SPECIALISTS (%)



*Charts 55, 56*

**BANK OF RUSSIA EMPLOYEES'  
LENGHT OF SERVICE  
IN BANKING SYSTEM (%)**



*Chart 57*

The Bank of Russia Personnel Training Centre has its own website on the Bank of Russia corporate Intranet featuring various training methods, teaching aids and reference material.

The Bank of Russia continued to expand cooperation in personnel training with the central banks of Germany, France, Finland, Great Britain, Spain and the Czech Republic, enabling its specialists to study the experience and expertise of these banks in many areas. It also maintained traditional ties in this field with the International Monetary Fund, the US Financial Services Volunteer Corps and the Bank for International Settlements.

Co-operating with the central (national) banks of Azerbaijan, Armenia, Belarus, Kazakhstan, Kirghizia, Moldova, Tajikistan, Uzbekistan and Ukraine, the Bank of Russia organised consultations, internship training and seminars for 48 specialists from these countries.

## II.8.4. BANK OF RUSSIA ACTIVITIES AIMED AT IMPROVING BANKING LEGISLATION. HANDLING SUITS AND CLAIMS IN BANK OF RUSSIA INSTITUTIONS

### BANK OF RUSSIA ACTIVITIES AIMED AT IMPROVING BANKING LEGISLATION

The activities of the Bank of Russia in this area were aimed at creating a legislative framework for the further development and strengthening of the banking sector. In 2000 the Bank of Russia made efforts to accelerate consideration and passing by the State of Duma of the following federal draft laws submitted by the Bank of Russia and the Government: “On Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions,” “On Amending Article 73 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)” and “On Amending the Federal Law on Banks and Banking Activities.”

The purpose of this package of laws is to toughen requirements on and increase the responsibility of credit institutions and their founders, improve bank bankruptcy and liquidation procedures, guarantee creditors effective protection and tighten supervision of credit institutions, especially by making them consolidate reports. When these bills become law, it will be possible to begin the next stage of the restructuring of the banking system.

The Bank of Russia also worked on other drafts of federal laws regulating various banking activities, such as the law on guaranteeing household deposits in banks, the law on countering the laundering of illegal proceeds and laws on money transfers, electronic signature, accounting, taxation and auditing. At present, the State Duma has at various stages of examination more than 130 draft laws which concern the Bank of Russia and which are being considered with the direct participation of Bank of Russia experts.

The Bank of Russia participates in a special working group formed to prepare the second reading of the draft federal law “On Amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia),” which was passed

in its first reading on July 5, 2000, on the initiative of a group of State Duma deputies.

This draft law and nearly 500 proposed amendments to it declare the Bank of Russia to be independent, but actually do not allow it to pursue a balanced monetary policy and effectively perform other functions.

The Bank of Russia in 2000 issued more than 50 regulations and made over 70 amendments to its earlier regulations.

In drafting its regulatory documents, the Bank of Russia paid special attention to the regulation, reporting, supervision and restructuring of credit institutions, the effectuation of settlements and the upgrading of the legislation on foreign exchange regulation and foreign exchange control.

### HANDLING SUITS AND CLAIMS IN BANK OF RUSSIA INSTITUTIONS

In 2000 claims of property and other claims made to Bank of Russia regional institutions amounted to nearly 2.4 billion rubles and \$257,900, of which 53.9 million rubles were paid to claimants.

These figures show that most of the claims made to the Bank of Russia with regard to the servicing of credit institutions’ correspondent accounts and recovery of funds at the request of bank depositors were unjustified and were therefore rejected. Courts of general jurisdiction handled 268 suits against the Bank of Russia relating to labour relations.

Bank of Russia institutions, for their part, made claims and filed suits arising from supervision of credit institutions and economic activities.

Sanctions used against commercial banks under Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) resulted in 1,680 claims to the amount of 40.3 million rubles and 91 suits to the amount of 1.9 million rubles. Of these, 1,563 claims and suits to the amount of 25.3 million rubles were met.

## II.8.5. BANK OF RUSSIA INTERNAL AUDIT

The Bank of Russia internal audit service, in the year under review, took steps to improve control of accounting practices, verify the accuracy of reports presented by organisations and check the efficiency of the internal control systems in different divisions and the execution of duties by them.

Guided by the approved working plan, the internal audit services organised comprehensive and subject-based inspections in Bank of Russia institutions and organisations and administrative management units.

In the year under review, the Bank of Russia, drawing on the experience of other central banks, introduced new internal audit techniques. Spe-

cifically, methodological recommendations on various aspects of planning and organising inspections were issued and the number of subject-based inspections increased as the number of comprehensive inspections was reduced. Particular emphasis was made on current monitoring of the work of the Bank of Russia and its separate institutions and administrative management units.

Other targets of subject-based inspections were cash issue management, accounting and operations, the payment system, the observance of limits and supervision of banks.

This table shows how the audits and inspections conducted by the internal audit service in 2000 compare with those conducted in 1999:

	(number of audits and inspections)	
	2000	1999
Comprehensive inspections of Bank of Russia institutions and organisations	790	1,227
Number of institutions in which inspections were conducted as % of total number of Bank of Russia institutions and organisations	55	76
Subject-based inspections of institutions accountable to Bank of Russia, total	1,673	1,003
of which inspections of administrative management units of regional branches and central office	280	154

When auditors and inspectors discovered violations of Bank of Russia internal regulations and procedures and other shortcomings in the work of individual divisions and regional branches,

their managers were reprimanded and remedial measures were taken. Repeated inspections were conducted to make sure that the faults discovered by earlier inspections had been rectified.

## II.8.6. BANK OF RUSSIA PARTICIPATION IN CAPITAL OF RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

Pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia participates in the authorised capital of some credit and other institutions whose activities are connected with the fulfilment by the Bank of Russia of its functions.

The Bank of Russia participates in working out the strategies of these institutions through its representatives in their management. The number of Bank of Russia representatives on the supervisory boards of these organisations corresponds to the stake held by the Bank of Russia in their authorised capital, while their efficiency is judged by the financial performance of these organisations, the strengthening of their positions in the financial markets and business reputation in the world.

As of the end of 2000 the Bank of Russia's share in the authorised capital of the Savings Bank (Sberbank) was 57.66% and Vneshtorgbank (Bank for Foreign Trade) 99.95%.

**Sberbank**, in the year under review, made efforts to improve its standards of service and lending to individual customers and participated in federal and regional medium-term investment programmes. The value of loans extended by Sberbank to private individuals in 2000 increased by 3.6 times. Last year it extended 17.7% of all bank loans extended to the real economy, while the value of these loans increased by 2.6 times year on year. As of the end of 2000, Sberbank accounted for more than 77% of all household deposits in Russia, while its share of long-term household deposits in their total volume expanded by 10.6% over the year.

To improve the structure of its management and cut administrative costs, Sberbank was reorganised last year, reducing the number of its regional branches from 71 to 18.

Consequently, in 2000 Sberbank posted a profit of 16.5 billion rubles, which represents an increase of 2.5 billion rubles, or 18.1% on 1999. Sberbank's own capital expanded by 47.2%, from

29.6 billion rubles to 43.5 billion rubles. Its shareholders received more than 500 million rubles in dividends for 1999, of which 285 million rubles went to the Bank of Russia.

**Vneshtorgbank** in 2000 carried out a series of measures to improve its financial condition. Its own capital almost doubled year on year mainly owing to a 37% increase in the bank's authorised capital and assets. The overall sum of Vneshtorgbank's loans to the real economy grew to 42 billion rubles, an increase of over 30%. At the same time, the share of ruble-denominated debt on loans in Vneshtorgbank's loan portfolio expanded from 35 to 50%.

In the year under review, Vneshtorgbank expanded its activities in the domestic market by opening branches in Arkhangelsk, Vladivostok, Chelyabinsk, and the town of Krasnogorsk in the Moscow Region.

Profits for 2000 amounted to 3.57 billion rubles, an increase of 460% compared with 1999.

The Bank of Russia also holds a stake in the **Moscow Interbank Currency Exchange (MICEX)**, a closed-end joint-stock company set up to arrange trade and clearing services in the foreign exchange market, the organised securities market and the forward and other segments of the financial market. As of the end of 2000, the Bank of Russia share in the authorised capital of MICEX was 15.71%. This increase of 6.5 percentage points over the year resulted from the purchase of shares of other shareholders of the exchange, that is, banks which had had their licences revoked or were being liquidated.

In 2000 MICEX and the Bank of Russia carried out measures to stabilise the financial markets, improving the procedure and conditions of effecting settlements on transactions, conducting operations to buy and sell foreign exchange, resuming futures trade in the forward sector of the market, upgrading the procedure for charging commission in the government securities market and reducing commission in afternoon currency trading. In line with the MICEX Development



Concept for 2001—2005, considerable attention was paid to the development of the infrastructure of the national electronic financial market, investment in advanced exchange technologies and the introduction of new financial instruments.

The value of MICEX net assets, in the year under review, rose by 17% and their structure improved due to the decline of unfinished construction projects and the corresponding increase in fixed assets. Net profit for 2000 amounted to 650 million rubles.

The Bank of Russia is a co-founder of the **National Depository Centre**, a non-profit partnership set up to provide depository services to the trading system of the organised securities market and assist members of the partnership and their clients in conducting operations in the securities market. The Bank of Russia owns a 25.5% stake in the NDC.

The Bank of Russia has the following **subsidiary credit institutions abroad**, known as the **Russian overseas banks**: Moscow Narodny Bank (London), Ost-West Handelsbank (Frankfurt-am-Main), Eurobank (Paris), Donau-bank (Vienna) and East-West United Bank (Luxembourg). The Bank of Russia's overall stake in the authorised capital of the Russian overseas banks exceeded \$400 million as of the end of last year.

These banks operate and compile their financial reports in accordance with the accounting standards and practices of their host countries. They are supervised by the banking supervisory authorities of the country of registration. The Bank of Russia has created a special division to enhance the efficiency of the Russian overseas banks.

In the year under review, the Russian overseas banks made persistent efforts to improve the structure of their assets in order to increase liquidity and restore profitability and capital base, expanded the range of services they provided to their customers and attracted new clientele.

The Bank of Russia carried out preparatory work to withdraw from the capital of the Russian overseas banks and receive permission from the local supervisory authorities for Vneshtorgbank to become a shareholder of these banks.

By the end of 2000, the Bank of Russia had been given permission by the supervisory authorities of Austria and Luxembourg, which makes it legally possible for the Bank of Russia to sell to Vneshtorgbank its stakes in Donau-bank and East-West United Bank.

However, the Bank of Russia cannot completely withdraw from the shareholders of the Russian overseas banks unless amendments are made to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

**FINANCIAL REPORTS  
AS OF JANUARY 1, 2001**



## 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:

- protecting the ruble and ensuring its stability, including its purchasing power and exchange rate against foreign currencies;
- developing and strengthening the Russian banking system;
- ensuring the effective and uninterrupted functioning of the settlement system.

The Consolidated Balance Sheet and Profit and Loss Account presented below reflect the financial state of the Bank of Russia as of January 1, 2001, and the results of its performance in 2000.

The Bank of Russia in 2000 implemented a balanced monetary policy and exchange rate policy, which contributed to the attainment of rapid rates of economic growth in Russia, helped to lower inflation considerably and maintain a relatively stable real exchange rate of the ruble and led to a significant increase in international reserves. The improvement of the macroeconomic situation brought about the recovery of the financial markets and banking sector and contributed to the betterment of the situation in government finance, including the government's foreign debt payments. In the year under review, the Bank of Russia ensured the efficient, uninterrupted and safe functioning of the payment system. The effect of economic conditions on the financial statements of the Bank of Russia is described in greater detail in Note 2 to the Financial Statements of the Bank of Russia as of January 1, 2001.

## CONSOLIDATED BALANCE SHEET

### AS OF JANUARY 1, 2001

*(million rubles)*

	Note	2000	1999
<b>ASSETS</b>			
<b>1. Precious metals</b>		<b>54,806</b>	<b>58,265</b>
<b>2. Foreign currency funds and securities placed with non-residents</b>	<b>3</b>	<b>697,802</b>	<b>236,268</b>
<b>3. Loans and deposits, of which:</b>	<b>4</b>	<b>201,460</b>	<b>195,640</b>
3.1. loans to resident institutions		12,609	15,712
3.2. loans for foreign-debt service		179,719	174,127
<b>4. Securities, of which:</b>	<b>5</b>	<b>318,956</b>	<b>288,661</b>
4.1. Russian government securities		256,464	240,410
<b>5. Other assets, of which:</b>	<b>6</b>	<b>73,072</b>	<b>64,185</b>
5.1. fixed assets		45,415	37,023
<b>Total assets</b>		<b>1,346,096</b>	<b>843,019</b>
<b>LIABILITIES</b>			
<b>1. Cash in circulation</b>		<b>448,118</b>	<b>289,798</b>
<b>2. Funds in accounts with Bank of Russia, of which:</b>	<b>7</b>	<b>535,314</b>	<b>245,421</b>
2.1. Russian government funds		81,602	50,167
2.2. funds of resident credit institutions		282,087	147,264
<b>3. Float</b>	<b>8</b>	<b>10,086</b>	<b>12,003</b>
<b>4. Other liabilities, of which:</b>	<b>9</b>	<b>186,530</b>	<b>143,953</b>
4.1. IMF loan		79,232	79,900
<b>5. Capital, of which:</b>		<b>166,048</b>	<b>151,844</b>
5.1. authorised capital		3	3
5.2. reserves and funds		192,532	179,373
5.3. losses for 1998		(26,487)	(27,532)
<b>Total liabilities</b>		<b>1,346,096</b>	<b>843,019</b>

Bank of Russia Chairman

V.V. Gerashchenko

Bank of Russia Chief Accountant

L.I. Gudenko

## PROFIT AND LOSS ACCOUNT

*(million rubles)*

	Note	2000	1999
<b>INCOME</b>			
Interest income on loans and deposits	11	27,848	4,399
Income from operations with securities	12	22,029	9,900
Income from operations with precious metals		22,749	33,721
Dividend received from shares		369	260
Other income	13	2,769	6,561
<b>Total income</b>		<b>75,764</b>	<b>54,841</b>
<b>EXPENSES</b>			
Interest expenses on loans and deposits	14	10,337	7,489
Expenses on cash circulation management	15	2,207	1,550
Expenses on operations with precious metals		1,408	1,603
Net expenses on provisions	16	31,497	19,486
Other operating expenses	17	12,409	12,415
Staff expenses	18	13,727	11,113
<b>Total expenses</b>		<b>71,585</b>	<b>53,656</b>
<b>Financial result: profit</b>		<b>4,179</b>	<b>1,185</b>

## CAPITAL, FUNDS AND ALLOCATION OF PROFIT

*(million rubles)*

	Authorised capital	Reserves	Accrued exchange rate differences	Social fund	Depreciation of fixed assets	Other funds	Losses for 1998	Allocation of profit for 2000	Total
<b>Balance as of January 1, 2000</b>	<b>3</b>	<b>17,225</b>	<b>152,587</b>	<b>791</b>	<b>8,567</b>	<b>203</b>	<b>(27,532)</b>	—	<b>151,844</b>
Profit for the year								4,179	4,179
Allocation of profit for 2000:									
To be transferred to federal budget								(2,090)	(2,090)
Allocated to funds				1,044				(1,044)	—
Used to cover losses for 1998							1,045	(1,045)	—
Accrued exchange-rate differences			14,834						14,834
Allocated to funds				4	29	1			34
Used at funds' expense		(430)	(1,977)	(180)	(127)	(39)			(2,753)
<b>Balance as of January 1, 2001</b>	<b>3</b>	<b>16,795</b>	<b>165,444</b>	<b>1,659</b>	<b>8,469</b>	<b>165</b>	<b>(26,487)</b>	—	<b>166,048</b>



## NOTES TO THE FINANCIAL STATEMENTS

### AS OF JANUARY 1, 2001

#### 1. 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 regulations issued in pursuance of the aforementioned federal laws.

##### *(a) Principles of accounting policy*

Accounting is carried out in accordance with the principle of making the accounting of balance-sheet items at the original cost at the time when 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 the balance-sheet data of the Bank of Russia, including its regional branches and institutions that form the single Bank of Russia system.

Financial statements are compiled without data on 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 indicate 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, fixed by the Bank of Russia (hereinafter referred to as the official exchange rates) as of the date of compiling the balance sheet. Foreign currency assets and liabilities are revalued daily at the official exchange rates. Income and expenditure on Bank of Russia foreign exchange operations are shown in the balance sheet in rubles at the official exchange rate as of the date of their receipt or conduct.

Unrealised exchange rate differences arising in the revaluation of assets and liabilities during changes in the official exchange rates are referred to the balance-sheet account "Accrued Exchange Rate Differences" and are not included in the Profit and Loss Account. Realised exchange rate differences are referred to Bank of Russia income or expenses.

The official exchange rates used in recalculating assets and liabilities in foreign currency on the last working day, December 29, 2000, were as follows: 28.16 rubles to the US dollar (1999: 27.00 rubles to the US dollar), 13.37 rubles to the German mark (1999: 13.92 rubles to the German mark) and 26.15 rubles to the euro,

The debt of the Bank of Russia on the loan received in July 1998 from the International Monetary Fund in SDR (Special Drawing Rights) is shown as of January 1, 2001, in the balance sheet in rubles at the exchange rate of December 29, 2000, which was 36.74 rubles to 1SDR (1999: 37.05 rubles to 1SDR).



*(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 following accounting principles were used with regard to government securities:

- government securities are shown at the acquisition (restructuring) price;
- Finance Ministry promissory notes are discounted at the acquisition price.

In addition, the following accounting principles are used with regard to securities in the Bank of Russia portfolio:

- foreign government securities are discounted at the acquisition price;
- promissory notes issued by credit institutions are discounted at the 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 purchase price.

*(g) Loans to credit institutions*

Loans to banks are shown as part of the principal debt. Credit risk provisions are entered as part of other liabilities.

*(h) Provisions for possible losses from Bank of Russia operations*

To enhance the efficiency of its monetary policy and perform the other functions assigned to the Bank of Russia, such as protecting assets from the risk of depreciation, the Bank of Russia Board of Directors, guided by generally accepted banking practices, creates provisions for possible losses from loans extended to banks and from other active operations in rubles and in foreign currency. The level of such provisions reflects the evaluation of risk on individual Bank of Russia operations. When loans are repaid and the quality of assets improves, the provisions created for them earlier are restored to Bank of Russia income.

*(i) Fixed assets*

Fixed assets are presented at the residual value (the acquisition price adjusted for revaluation minus accumulated depreciation).

Bank of Russia fixed assets were revalued pursuant to Russian Government resolutions.

Depreciation is charged at the 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 the Standard Rates of Depreciation 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 in circulation are shown in the balance sheet at face value.

*(k) Capital, funds and allocation of profit*

The Federal Law on the Central Bank of the Russian Federation (Bank of Russia) sets the authorised capital of the Bank of Russia at 3 million rubles.

Article 26 of the Law requires the Bank of Russia to transfer to the federal budget 50 percent of its actual balance 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 transferred by the decision of the Bank of Russia Board of Directors to the reserve fund and social fund and is also used to cover the loss incurred by the Bank of Russia in 1998.

Formed in accordance with the 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 the 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 CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

The year under review saw the Russian economy continue to recover quickly from the 1998 financial and economic crisis. Rapid economic growth and a significant slowing of inflation were accompanied by a strong balance of payments, a relatively stable real exchange rate of the ruble and the expansion of international reserves. All these developments had a favourable impact on the main indicators, balance-sheet structure and financial performance of the Bank of Russia.

Implementing its exchange rate policy and using favourable foreign trade conditions for major Russian exports, the Bank of Russia accumulated international reserves amid a slight real-term rally of the ruble. That stabilised the domestic foreign exchange market and kept the Russian economy competitive. The fact that international reserves more than doubled last year, while the Government and economic agents honoured their foreign debt commitments allows one to be confident that this country will continue to meet its foreign debt obligations, prop up the ruble exchange rate if necessary and will not allow Russia to become vulnerable to change in the foreign trade situation.

The Bank of Russia in this situation increased the money supply, while the operations it conducted to sterilise free liquidity, using the instruments at its disposal, allowed it to balance the money supply with rising demand for the domestic currency from economic agents. As of the end of 2000 Russia's international reserves exceeded the broad monetary base 1.1 times and the monetisation of the Russian economy increased.

In the post-crisis period the Bank of Russia, guided by federal laws, ensured repayment of a large part of the Government's foreign debt from foreign exchange reserves and credited the federal budget on an interest-free basis. The improvement of the macroeconomic situation in the year under review brought about favourable changes in government finance, allowing the Government to meet its obligations without attracting new loans from the Bank of Russia. At the same time, pursuant to the 2000 Federal Budget Law, Government continued the restructuring, begun in 1999, of its debt liabilities and Finance Ministry debt to the Bank of Russia on accrued interest into longer-term and non-marketable lower-yield government securities, which increased the Finance Ministry's overall debt and further deteriorated the quality of the Bank of Russia government securities portfolio.

Increased revenues from exports, the expansion of the share of cash settlements and the improvement of the financial standing of enterprises led to growth in balances in their bank accounts and in credit institutions' accounts with the Bank of Russia. To absorb free liquidity in the banking sector, the Bank of Russia took banks' funds on deposit and such operations led to an increase in Bank of Russia expenses compared with 1999. Investments made in the Russian overseas banks in the previous years in order to maintain their liquidity and rehabilitate them financially required the Bank of Russia to make adequate provisions.

Profit for 2000 was received mainly from investment of international reserves. Despite a slight drop in losses incurred by the Bank of Russia as a result of the depreciation of its government securities portfolio after the 1998 economic and financial crisis, they were still considerable. In its Statement on the Economic Policy for 2001 and Some Aspects of Medium-Term Strategy, the Government declared that it was going to settle its financial relations with the Bank of Russia by restructuring a sufficient portion of government debt to it into debt instruments with a market interest rate in order to enhance the efficiency of the monetary policy it pursued.

### 3. FOREIGN CURRENCY FUNDS AND SECURITIES PLACED WITH NON-RESIDENTS

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Foreign government securities	435,176	162,155
Loans extended and deposits placed with Bank of Russia subsidiaries abroad	34,554	35,485
Balances in correspondent accounts, loans extended and deposits placed with non-resident banks	228,072	38,628
<b>Total</b>	<b>697,802</b>	<b>236,268</b>

Foreign government securities are mainly US treasury obligations and German and French government debt instruments. These securities are highly liquid assets of the Bank of Russia. In 2000 the Bank of Russia increased investments mainly in US securities (by \$9,498 million) and French government papers (by \$39.4 million euros).

Loans extended and deposits placed with Bank of Russia subsidiaries abroad serve to maintain the financial stability of these banks.

Growth under the item “Balances in correspondent accounts, loans extended and deposits placed with non-resident banks” resulted from the expansion of foreign exchange reserves.

### 4. LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Funds provided for government foreign debt service	179,719	174,127
Loans and deposits with resident banks (in foreign currency)	8,854	5,405
Loans extended to resident banks (in rubles)	12,609	15,712
Other	278	396
<b>Total</b>	<b>201,460</b>	<b>195,640</b>

Under Federal Law No. 192-FZ, dated December 29, 1998, “On Budget and Tax Policy Priorities” and Federal Law No. 36-FZ “On the Federal Budget for 1999” (Article 102), the Bank of Russia in 1998 and 1999 extended to the Ministry of Finance via Vneshekonombank foreign exchange funds for Russian government foreign debt repayment and service. The increment under this item is principally the result of revaluation of foreign currency against the Russian ruble amid partial repayment of this debt by the Finance Ministry.

Foreign currency deposits are placed with some resident banks to boost their liquidity.

The principal sum of the debt on ruble-denominated loans to resident banks is represented by funds extended to banks by the Bank of Russia in 1998—1999 in accordance with the decisions of the Bank of Russia Board of Directors with the aim of enhancing the financial stability of and rehabilitating these banks. The reduction of the debt on ruble-denominated loans extended to resident banks is the result of the termination of some of the banks’ obligations to the Bank of Russia.

## 5. SECURITIES

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
<b>Russian government securities</b>		
Unlisted government securities (OFZ)	228,220	195,004
Government securities (unstructured GKO/OFZ) quoted as of August 14, 1998	—	17,671
Finance Ministry promissory notes	19,306	27,370
Other	8,938	365
<b>Subtotal</b>	<b>256,464</b>	<b>240,410</b>
Credit institutions' promissory notes acquired by Bank of Russia	5,730	6,279
Principal notes (PRIN) and interest arrears notes (IAN)	—	4,825
	<b>5,730</b>	<b>11,104</b>
Shares of banks and other organisations (Bank of Russia participation)	56,762	37,147
<b>Total</b>	<b>318,956</b>	<b>288,661</b>

In 2000 the Russian government, guided by the 2000 Federal Budget Law, continued to restructure its securities and other Finance Ministry debts to the Bank of Russia into federal loan bonds. 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, 2001, the Bank of Russia had unlisted OFZ bonds in its portfolio. The interest rate and maturity of each bond issue were set pursuant to the applicable legislation:

<b>Fixed coupon-income OFZ</b>	
due in 2007—2008	458
due in 2015—2016	4,000
due in 2020—2021	4,508
<b>Subtotal</b>	<b>8,966</b>
<b>Fixed coupon-income OFZ</b>	
due in 2005—2009	284
due in 2013—2019	39,517
due in 2020—2029	155,354
<b>Subtotal</b>	<b>195,155</b>
<b>Variable coupon-income OFZ (first-coupon rate is 18%)</b>	
due in 2014—2018	24,099
<b>Total</b>	<b>228,220</b>

For conditions and terms 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) and seeking to protect the interests of depositors, the Bank of Russia in 1998—2000 bought bank promissory notes from Sberbank, which made payments on household deposits it accepted from the corresponding banks. The reduction of the debt on bank notes bought by the Bank of Russia resulted from partial repayment and termination of bank obligations to the Bank of Russia.

In 2000 Vneshekonombank's restructured principal debt liabilities (PRIN) and interest arrears notes (IAN) were restructured in accordance with Russian Government Resolution No. 478, dated June 23, 2000, "On the Settlement of Debt of the Former USSR to Foreign Commercial Banks and Financial Institutions United in the London Club of Creditors" in exchange for a write-down of a part of the debt into external currency loan bonds due in 2010 and 2030. As of January 1, 2001, these papers were recorded as part of government securities.

Bank of Russia investments in Russian and foreign bank shares are as follows:

Name of bank	Sum of investment (at acquisition price)	% share of authorised capital (at par value)
OA O Vneshtorgbank	42,321	99.95
OA O Sberbank Rossii	1,099	57.66
Moscow Narodny Bank, London	6,058	88.89
Eurobank, Paris	3,331	77.81
Ost-West Handelsbank, Frankfurt am Main	1,480	82.00
Donau Bank, Vienna*	931	49.00
East-West United Bank, Luxembourg**	392	49.01
<b>Total</b>	<b>55,612</b>	

Letters of comfort were signed with regard to some overseas banks, in which the Bank of Russia assumed the responsibility of maintaining the stability and liquidity of these banks.

\* The remaining 51% of Donau Bank shares are owned by Vneshtorgbank.

\*\* The remaining 49% of East-West United Bank shares are owned by Vneshtorgbank and 2% by Eurobank (Paris).

By the decisions of the Bank of Russia Board of Directors, the Bank of Russia share in the authorised capital of Vneshtorgbank in 2000 was increased by 20,000 million rubles.

The Russian Government and Bank of Russia agreed a plan of the latter's withdrawal from the capital of the Russian overseas banks and their transfer to Vneshtorgbank. However, amendments need to be made to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) to put this plan into practice.



## 6. OTHER ASSETS

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
<b>Fixed assets</b>		
Buildings	25,154	20,862
Equipment (including computers, information and data processing systems, furniture, transports, etc.)	20,261	16,161
	<b>45,415</b>	<b>37,023</b>
Incompleted construction projects	3,403	6,098
Investments in government securities from additional pension funds created for Bank of Russia employees	—	4,120
Bank of Russia correspondent accounts	3,955	3,955
Bank of Russia interest claims	8,074	2,139
Settlements with suppliers, contractors and buyers	1,106	2,125
Settlements with CIS and Baltic banks	1,623	1,619
Cash in tills	2,022	1,608
Sundry settlements with Finance Ministry	352	42
Other	7,122	5,456
	<b>27,657</b>	<b>27,162</b>
<b>Total</b>	<b>73,072</b>	<b>64,185</b>

The decrease in the balance of incompleted construction resulted from the commissioning of projects relating to the management of cash circulation and information, telecommunications and security systems designed to support and modernise the payment system.

Bank of Russia correspondent accounts were opened in Vneshtorgbank mainly to enter funds to Finance Ministry and State Customs Committee accounts.

The increase under the item “Bank of Russia interest claims” is principally the result of recording interest charged on foreign exchange funds provided by the Bank of Russia to the Finance Ministry via Vneshekonombank for timely repayment and service of the Russian government’s foreign debt.

The item “Settlements with CIS banks” reflects the balance of mutual claims on interstate settlements for 1992—1993 with CIS and Baltic states.

**FIXED ASSETS***Composition of fixed assets*

	<b>Balance sheet value</b> <i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Buildings and other structures	27,010	22,467
Transport facilities	1,386	1,251
Computers, office equipment and furniture	7,843	6,165
Information and data processing systems	5,087	3,219
Equipment	8,465	7,004
Intangible assets	1,663	1,253
Other	1,797	1,193
<b>Total</b>	<b>53,251</b>	<b>42,552</b>

The item "Transport facilities" includes the cost of specialised vehicles used to deliver cash and bank documents.

The item "Equipment" includes the cost of cash processing, security service facilities and similar equipment.

The item "Intangible assets" includes the cost of software products used in settlements, accounting and reporting.

*Fixed capital movements*

	<i>(million rubles)</i>
<b>Fixed capital value</b>	
Balance as of January 1, 2001	42,552
Receipts	12,862
Retirement	(2,163)
<b>Balance as of January 1, 2001</b>	<b>53,251</b>
<b>Accrued depreciation</b>	
Balance as of January 1, 2001	5,529
Capital consumption	2,427
Capital consumption allowance for retired fixed assets	(120)
<b>Balance as of January 1, 2001</b>	<b>7,836</b>
<b>Residual value as of January 1, 2001</b>	<b>45,415</b>

## 7. FUNDS IN ACCOUNTS WITH BANK OF RUSSIA

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Federal government's funds	81,602	50,167
Credit institutions' funds in correspondent accounts	137,067	75,420
Required reserves deposited with Bank of Russia	124,301	64,577
Credit institutions' deposits with Bank of Russia	20,719	3,707
Other	171,625	51,550
<b>Total</b>	<b>535,314</b>	<b>245,421</b>

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 the federal budget and government extra-budgetary funds and regional and local budgets without charging commission.

The item "Credit institutions' deposits with the Bank of Russia" includes balances of funds drawn from resident banks that have signed with the Bank of Russia a general agreement on ruble-denominated deposit operations conducted using the Reuters Dealing System.

The item "Other" includes balances of accounts of regional and local budgets, government extra-budgetary funds and other customers of the Bank of Russia. The increase in value under this item chiefly resulted from growth in balances in Pension Fund accounts.

## 8. FLOAT

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Float	10,086	12,003

Float as of the end of the year includes funds to be transferred by the Bank of Russia to credit institutions and its customers. These funds principally accumulate as a result of technical time lags in settlements completed by the Bank of Russia in January 2001.

## 9. OTHER LIABILITIES

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
IMF loan	79,232	79,900
Bank of Russia provisions (see Note 1(h))	63,483	32,023
Deferred income from credit operations	23,992	15,601
Deferred income from government securities	7,064	6,629
Additional pension funds for Bank of Russia employees	6,223	5,092
Other	6,536	4,708
<b>Total</b>	<b>186,530</b>	<b>143,953</b>

In 1998 the Bank of Russia received a loan of SDR3,600 million from the International Monetary Fund. Part of this loan (SDR768.43 million) was transferred later that year to the Finance Ministry. In 1999 the Bank of Russia repaid SDR675.02 million due in 1999—2000. The decrease under this item in the year under review resulted from the change in the SDR rate against the Russian ruble.

The item “Bank of Russia provisions” includes 12,661 million rubles of provisions made in 1998—2000 for credit operations, 40,371 million rubles of provisions made for foreign exchange operations, 5,839 million rubles of provisions made for promissory notes acquired from banks, 1,772 million rubles of provisions made for debt of CIS and Baltic states and 2,840 million rubles of provisions made for other active operations (see Note 16).

Deferred income from credit operations is mainly represented by the debt on interest charged for loans extended in 1992—1994 in accordance with the decisions of the Government Commission on Fiscal and Monetary Policy to enterprises in some sectors of the economy, which was restructured into government domestic debt under 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 the Far North and Regions with the Same Status and Interest Charged on Them” and Federal Law No. 227-FZ, dated December 31, 1999, “On the Federal Budget for 2000,” and the Bank of Russia received Finance Ministry promissory notes (in 1995) and federal loan bonds (in 2000).

In addition, this item includes interest charged on foreign exchange funds extended by the Bank of Russia to the Finance Ministry via Vneshekonombank for timely foreign debt repayment and service by the Russian government under Federal Law No. 192-FZ, dated December 29, 1998, “On Budget and Tax Policy Priorities” and the Federal Law of February 22, 1999, “On the Federal Budget for 1999.”

Deferred income from government securities mainly comprises 4,959 million rubles as accrued coupon income unpaid by the Finance Ministry and 1,452 million rubles as interest on Finance Ministry promissory notes and securities.

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia has the right to create a pension fund for paying additional pension benefits to its employees. Implementing this pension scheme, the Bank of Russia complies with the applicable pension legislation. No assets are allocated to cover pension scheme obligations. The actuarial evaluation of Bank of Russia pension obligations was made by an independent actuary, as Bank of Russia employees are not civil servants and are not covered by guarantees to which the latter are entitled. International practice used by central banks was also taken into account.

## 10. RELATIONS BETWEEN BANK OF RUSSIA AND MINISTRY OF FINANCE

The relations between the Bank of Russia and Ministry of Finance in 2000 were regulated by Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000" and Federal Law No. 145-FZ, dated December 25, 2000, "On Amending the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues" and Russian Government Resolution No. 222, dated March 13, 2000 "On Measures to Implement the 2000 Federal Budget Law" and were aimed at completing the restructuring of the Finance Ministry's debt to the Bank of Russia. Under Articles 108—114 and 116 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000", the Finance Ministry and Bank of Russia in 2000 restructured government debt obligations and other debts into longer-term federal loan bonds with lower, non-marketable interest rates.

In 2000 the Finance Ministry repaid 1,681 million rubles as part of the foreign currency debt extended to it by the Bank of Russia via Vneshekonombank for repayment and service of the Russian government's foreign debt. Federal Law No. 145-FZ, dated December 25, 2000, "On Amending the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues" rescheduled the payment of principal until December 1, 2007.

In accordance with the Russian government's decision, the Finance Ministry in 2000 redeemed 2,000 million rubles of fixed coupon-income federal loan bonds (OFZ-PD) in the Bank of Russia portfolio.

The operations conducted in the year under review pursuant to federal laws increased the Finance Ministry's overall debt to the Bank of Russia as follows:

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Russian government debt obligations	256,464	244,621
Bank of Russia funds transferred to Vneshekonombank as credit to the Finance Ministry for repayment and service of government foreign debt (see Note 4)	179,719	174,127
Debt of CIS and Baltic states on interest on technical loans and interstate settlements	2,801	2,801
Finance Ministry debt on other Bank of Russia loans	—	69
Debt on operations in organised securities market	—	42
Debt on technical loans	352	—
<b>Total</b>	<b>439,336</b>	<b>421,660</b>

*Debt of CIS and Baltic states on interest on technical loans and interstate settlements*

As of January 1, 2001, the debt of CIS and Baltic states on interest on technical loans amounted to 2,475 million rubles and on interstate settlements to 326 million rubles.

*Debt on technical loans*

This debt arose as a result of the transfer by Ukraine, Moldavia and Armenia in 1996—1998 of funds in repayment of these countries' debt to the Bank of Russia to the Finance Ministry's federal budget revenue accounts, which were previously included in the item "Float."

*Debt obligations of the Russian Federation*

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Debt obligations resulting from restructuring of government securities and other Finance Ministry debts to Bank of Russia and acquired by Bank of Russia in 1999	228,220	216,886
Finance Ministry's promissory notes	19,306	27,370
Other debt obligations	8,938	365
<b>Total</b>	<b>256,464</b>	<b>244,621</b>

*Finance Ministry's promissory notes*

- The total amount of Finance Ministry's promissory notes in the Bank of Russia portfolio includes:
- Finance Ministry's promissory notes issued to the Bank of Russia under federal laws in connection with the restructuring into government domestic debt in 1994—1996 of the debt on centralised loans and interest on them;
  - Finance Ministry's APK Series promissory notes.

*Other debt obligations of the Russian Federation*

Other debt liabilities of the Russian Federation include bonds of the 1991 Russian Republic (RSFSR) Government Domestic Loan, state domestic foreign currency loan bonds and external foreign currency loan bonds.

The terms and conditions of the restructuring of the Finance Ministry debt to the Bank of Russia in 2000 are as follows:

Name of federal law	Finance Ministry's debt restructured into OFZ	Balance sheet value of restructured OFZ (million rubles)	OFZ interest payment conditions	OFZ maturity date	Note
Article 109 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000"	government securities owned by Bank of Russia	18,488	2% p.a. from 2001	2018—2029	
Article 111 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000"	OFZ-PD acquired by Bank of Russia after July 1, 1999, on an interest-free basis	24, 099	1st coupon income in 2001 is 18% p.a., subsequent OFZ-PK coupons to be linked to inflation projection in federal budget law for corresponding year	2014—2018	
Article 112 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000"	OFZ-PD carrying interest of 5% p.a.	7,717	2% p.a. from 2001	2018—2029	
Article 110 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000"	Finance Ministry's promissory notes due on December 25—26, 2000	3,216	2% p.a. from 2001	2019—2023	
Article 108 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000"	Finance Ministry's promissory notes due before December 31, 1999	5,102	2% p.a. from 2001	2013—2018	
Article 116 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000"	debt on centralised loans	284	2% p.a. from 2001	2005—2009	
Article 113 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000"	debt on Bank of Russia loans extended in 1991 to cover Russian republic (RSFSR) budget debt	69	2% p.a. from 2001	2018—2029	OFZ redeemed by Finance Ministry from Bank of Russia in 2000
Article 114 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000"	Finance Ministry's debt to Bank of Russia on operations in organised securities market	42	2% p.a. from 2001	Sept. 6, 2008	OFZ redeemed by Finance Ministry from Bank of Russia in 2000
<b>Total</b>		<b>59,017</b>			



In addition, to comply with Article 110 of Federal Law No. 227-FZ, dated December 31, 1999, "On the Federal Budget for 2000," the Finance Ministry is conducting expert analysis of 633 million rubles of Bank of Russia-owned promissory notes for their subsequent restructuring into federal loan bonds (OFZ).

## 11. INTEREST INCOME FROM LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
On loans and deposits in foreign currency	27,044	2,843
On ruble-denominated loans extended to credit institutions	792	1,520
Other	12	36
<b>Total</b>	<b>27,848</b>	<b>4,399</b>

The increase under the item "Interest income from foreign currency loans and deposits" results from the receipt of income from depositing foreign exchange reserves and from interest income from foreign currency funds extended to the Finance Ministry via Vneshekonombank for the Russian government's foreign debt repayment and service.

## 12. INCOME FROM OPERATIONS WITH SECURITIES

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Income from operations with securities denominated in foreign currency	19,713	9,803
Income from operations with Russia's ruble-denominated debt instruments	2,268	89
Other	48	8
<b>Total</b>	<b>22,029</b>	<b>9,900</b>

The increase under this item results from the receipt of income from investing foreign exchange reserves in highly liquid foreign government securities and coupon income from restructured government securities.

## 13. OTHER INCOME

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Income from change in market value of PRIN (restructured principal) and IAN (interest arrears notes)	—	2,783
Realised exchange rate difference	1,463	2,072
Income from hedging currency risks on forthcoming interest payments	10	232
Fees for settlement services provided by Bank of Russia	204	184
Fines and penalties received	82	144
Reimbursement of customers' telegraph and other expenses	45	98
Incomes of previous years discovered in accounting year	209	65
Other	756	983
<b>Total</b>	<b>2,769</b>	<b>6,561</b>

## 14. INTEREST EXPENSES ON LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
On IMF loan	4,223	4,037
On bank deposits	5,960	3,141
Other	154	311
<b>Total</b>	<b>10,337</b>	<b>7,489</b>

## 15. EXPENSES INVOLVED IN MANAGING CASH CIRCULATION

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Expenses involved in managing cash circulation	2,207	1,550
<b>Total</b>	<b>2,207</b>	<b>1,550</b>

This item includes expenses involved in manufacturing and destroying banknotes and coins, protecting them against counterfeiting and in acquiring and delivering packing and expendable materials necessary for the technical processing of cash.

**16. NET EXPENSES ON PROVISIONS**

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Provisions for loans to banks	(2,911)	8,299
Provisions for foreign currency assets	33,466	6,848
Provisions for other active operations with banks	—	2,840
Provisions for promissory notes repurchased from banks	31	1,499
Provisions for debt owed by CIS and Baltic states	911	—
<b>Total</b>	<b>31,497</b>	<b>19,486</b>

The negative value of net expenses on provisions for loans to banks reflects a decrease in the provisions made earlier and their recovery for Bank of Russia incomes in connection with a partial termination of banks' obligations to the Bank of Russia.

**17. OTHER OPERATING EXPENSES**

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Expenses on operations with securities	1,684	3,942
Capital consumption allowance	2,771	1,892
Expenses on operations with foreign exchange	869	1,579
Repair of fixed assets and low-cost and high-wear articles	1,139	1,055
Postal, telegraphic and telephone expenses and expenses on leasing of communications lines and channels	1,083	931
Security expenses	795	671
Expenses on maintenance of computers, software systems and information and computer services	775	473
Expenses on delivery of bank documents and valuables	642	470
Expenses on maintenance of buildings and other structures	584	391
Expenses on legal services (state tax and legal costs)	200	4
Other	1,867	1,007
<b>Total</b>	<b>12,409</b>	<b>12,415</b>

## 18. STAFF EXPENSES

	<i>(million rubles)</i>	
	<b>2000</b>	<b>1999</b>
Wages and salaries	9,844	8,106
Allocations to extra-budgetary funds	3,883	3,007
<b>Total</b>	<b>13,727</b>	<b>11,113</b>

The overall number of Bank of Russia employees in 2000 was reduced by 7,670 to 80,699. The average monthly salary of Bank of Russia employees in 2000 was 9,903 rubles.

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**Deloitte  
& Touche**

**THE BOARD OF DIRECTORS**

**of the Central Bank of the Russian Federation (Bank of Russia)**

**AUDITORS' REPORT**  
**ON ACCURACY OF FINANCIAL STATEMENTS**  
**PREPARED IN COMPLIANCE WITH RUSSIAN LEGISLATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2000**

**CONCLUSION**

We, the audit firm Deloitte & Touche CIS, a closed-end joint-stock company, pursuant to State Duma Resolution No. 841-III GD, dated November 24, 2000, and in accordance with Agreement No. 3408/A-01, dated February 13, 2001, have audited the enclosed financial statements of the Central Bank of the Russian Federation (hereinafter referred to as the Bank of Russia) for 2000, comprised of the Consolidated Balance Sheet as of December 31, 2000, Profit and Loss Account and Statement of Capital, Funds and Allocation of Profit for the Year Ended December 31, 2000, and related notes (hereinafter referred to as financial statements), which are included in Section III of the Annual Report (pages 157 to 179)<sup>1</sup>, compiled by the Bank of Russia in compliance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). We have examined other data included in the Bank of Russia Report for 2000 to make sure that they do not contradict in all material respects the audited financial statements.

Pursuant to State Duma Resolution No. 841-III GD, dated November 24, 2000, we have enlisted for the purpose of auditing the Customer's annual report for 2000 the audit firm Finansovye i bukhgalterskiye konsultanty (Finance and Accounting Consultants).

The financial statements of the Bank of Russia were compiled by Bank of Russia management in compliance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Federal Law on Accounting and Accounting Rules of the Central Bank of the Russian Federation

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<sup>1</sup>As in the original text. In this edition this corresponds to pages 108 to 130.

(Bank of Russia) No. 66, dated September 18, 1997. The statements compiled in compliance with these laws and rules differ from the statements compiled in conformity with the International Accounting Standards, including the evaluation of assets, the recognition of obligations and the definition of income, expenses and capital.

Responsibility for compiling these financial statements and their accuracy lies with Bank of Russia management. It is also responsible for the safekeeping of Bank of Russia assets and the implementation of the necessary measures to prevent abuses and violations of law and accounting rules. This requires establishing the necessary procedures and internal control systems and ensuring their proper functioning. Our duty is to express an opinion on the accuracy in all material respects of the aforementioned financial statements on the basis of the audit conducted. By the accuracy of financial statements we mean that these reports are compiled in such a way as to present in all material respects the assets and liabilities as of the accounting date and the financial results of the Bank of Russia in the accounting period as this is required by the accounting and reporting rules and regulations and the accounting principles accepted in the Bank of Russia and defined in the preceding paragraph.

We performed our engagement in compliance with the Russian legislation and using recommended auditing standards, such as:

- Provisional Auditing Rules of the Russian Federation, approved by the Russian Federation President's Decree No. 2263, dated December 22, 1993;
- Auditing Rules (Standards), approved by the Audit Commission under the President of the Russian Federation;
- Bank Auditing Standards, approved by the Committee of Bank Audit Experts of the Central Bank of the Russian Federation;
- the Company's internal auditing standards.

In accordance with these standards, the audit was planned and conducted so that we could obtain reasonable assurance that the financial statements contained no material misstatements. The audit included, on a test basis, checking of figures and explanatory notes contained in the financial statements. In addition, the audit included the assessment of the accepted accounting policy and major calculations made by Bank of Russia management, and also the assessment of the general presentation of the financial statements to ascertain their conformity with Russian laws and regulations. Our sole purpose in verifying the compliance of some operations conducted by the Bank of Russia with the applicable legislation was to attain a reasonable level of certainty that the financial statements contained no material misstatements and also to ensure the audit's compliance with the requirements of the Bank of Russia and the Audit Commission under the Russian Federation President. We believe that taking into consideration the limitations placed on the amount of our work, which are described in the next paragraph, the audit we conducted gave us sufficient grounds to express an opinion on the accuracy of these financial statements.

The amount of our work and the Auditors' Report were limited with regard to some operations and items of financial statements to which access was limited by the Federal Law on State Secrecy. In accordance with State Duma Resolution No. 841-III GD, dated November 24, 2000, these operations and items were audited by the Audit Chamber of the Russian Federation. These operations and items include precious metals, operations conducted by the Field Institutions Department, foreign currency funds and securities placed with non-residents (partly), loans and deposits with resident banks (partly), Russian government securities (partly), funds in accounts with the Bank of Russia (partly) and some other operations totalling 74,462 million rubles of assets and 2,762 million rubles of liabilities, and also income totalling 30,688 million rubles and expenses totalling 4,468 million rubles.

We believe that setting aside any corrections that might have been necessary had there been no limitations on the amount of our work, described in the preceding paragraph of the Report, the enclosed financial statements are fairly presented, that is, they are compiled in such a way as to present in all material respects the assets and liabilities of the Bank of Russia as of January 1, 2001, and its financial results for 2000 in compliance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Federal Law on Accounting and Accounting Rules of the Central Bank of the Russian Federation (Bank of Russia) No. 66, dated September 18, 1997.

We have also examined other data contained in the Bank of Russia Annual Report, which are not part of the financial statements. We have not discovered anything that might lead to any discrepancy in all material respects of these data with the data presented in the Bank of Russia Annual Report and financial statements.

Director-General  
Closed-End Joint-Stock Company  
Deloitte & Touche CIS

Dan Collinson Koch

May 15, 2001



THE AUDIT CHAMBER  
OF THE RUSSIAN FEDERATION

**AUDITOR**

---

121901 Moscow, GSP-2, 2 Zubovskaya St.

May 14, 2000

No. 11-354

To: Victor V. Gerashchenko  
Chairman,  
the Central Bank  
of the Russian Federation

Dear Viktor Vladimirovich,

The Audit Chamber of the Russian Federation has audited the accounts and operations of the Bank of Russia covered by the Russian Federation State Secrecy Law, for the period from January 1, 2000, to January 1, 2001.

The audit was conducted pursuant to paragraph 3 of Resolution No. 841-III GD of the State Duma of the Federal Assembly of the Russian Federation, dated November 24, 2000, "On the Auditor of the Report of the Central Bank of the Russian Federation for 2000."

I am sending you the report on the results of the audit to include in the Bank of Russia annual report.

Enclosure: one copy of the report on 5 pages.

M.I. Beskhmel'nitsyn



**Approved**  
by the Collegium  
of the Audit Chamber  
of the Russian Federation  
(protocol No. 20 (256),  
dated May 14, 2001)

**REPORT**  
**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, 2000**

Pursuant to Resolution No. 841-III GD of the State Duma of the Federal Assembly of the Russian Federation, dated November 24, 2000, the Audit Chamber of the Russian Federation has audited the accounts and operations of the Bank of Russia covered by the Russian Federation State Secrecy Law for 2000. These operations are included in the Balance Sheet and Profit and Loss Account of the Central Bank of the Russian Federation as of January 1, 2001.

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 report on the accounts and operations of the Bank of Russia covered by the Russian Federation State Secrecy Law.

The audit was planned and conducted in collaboration with the auditor of the Bank of Russia annual report, Deloitte & Touche CIS, on the basis of and strictly in compliance with:  
— the Federal Law on the Central Bank of the Russian Federation (Bank of Russia);  
— the Russian Federation State Secrecy Law.

The audit took into consideration the results of the previous audits to certify the Bank of Russia statements for 1995—1999, conducted by the Audit Chamber of the Russian Federation.

When compiling this Report, the Audit Chamber believed that the safekeeping of assets and, consequently, the implementation of the necessary measures to guarantee their security were the responsibility of Bank of Russia management.

The Federal Law on Accounting and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) stipulate that the Bank of Russia is independent in elaborating its accounting policy and establishing banking operation rules and accounting and reporting standards for the banking system. The main principles of the Bank of Russia accounting policy are recording the objects of accounting at their 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 showing income and expense in the profit and loss account on a cash basis, that is, after the income has been actually received and the expense has been actually made.

In the course of the audit, the Bank of Russia internal control system was tested to make sure that the standard of its 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, 2001, are compiled, in all material respects, in compliance with the applicable legislation relating to Bank of Russia activities and present fairly the assets, liabilities, incomes and expenses of the

Bank of Russia that are covered by the Russian Federation State Secrecy Law and fall within the competence of the Audit Chamber of the Russian Federation.

The Audit Chamber of the Russian Federation certifies the data contained in the Bank of Russia Consolidated Balance Sheet as of January 1, 2001.

<b>Assets</b>		(million rubles)
1. Precious metals		54,806
2. Foreign exchange funds and securities placed with non-residents		14,781
3. Loans and deposits, of which:		47
3.1. loans extended to resident organisations		14
4. Securities, of which:		4,286
4.1. Russian government securities		4,286
5. Other assets, of which:		542
5.1. fixed assets		180
<b>Total</b>		<b>74,462</b>

<b>Liabilities</b>		(million rubles)
2. Funds in accounts with Bank of Russia, of which:		2,535
2.1. Russian government funds		0
2.2. funds of resident credit institutions		10
3. Float		—743
4. Other liabilities		966
5. Capital, of which:		4
5.2. reserves and funds		4
<b>Total</b>		<b>2,762</b>

The Audit Chamber certifies the income and expense operations of the Profit and Loss Account, covered by the Russian Federation State Secrecy Law.

<b>Incomes</b>		(million rubles)
Interest income from loans and deposits		966
Income from operations with securities		6,799
Income from operations with precious metals		22,749
Dividend received from stakes and shares		—
Other incomes		174
<b>Total incomes</b>		<b>30,688</b>

<b>Expenses</b>	(million rubles)
Interest expenses on loans and deposits	540
Expenses on management of cash circulation	2,109
Expenses on operations with precious metals	1,408
Other operating expenses	99
Staff expenses	312
<b>Total expenses</b>	<b>4,468</b>

The Audit Chamber of the Russian Federation also certifies that the stated amount of "Cash in circulation" corresponds to the amount of "Cash in circulation" in the Bank of Russia Balance Sheet as of January 1, 2001, on the basis of the accounting data on Bank of Russia off-balance sheet accounts (not classified).

According to off-balance sheet accounting data for the period from January 1 up to December 31, 2000:

- 158,419.9 million rubles of banknotes and coins of the 1997 issue were put into circulation;
- 99.7 million rubles of banknotes of old issues (at new nominal value) and worn banknotes of the effective issue were redeemed.

Consequently, the amount of cash in circulation in the period under review increased by 158,320.2 million rubles.

The amount indicated under the item "Cash in circulation" in the Bank of Russia Consolidated Balance Sheet as of January 1, 2000, is 289,798 million rubles.

This amount is certified in the Report of the Audit Chamber of the Russian Federation 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, 1999, to January 1, 2000, which was approved by the Collegium of the Audit Chamber of the Russian Federation (protocol No. 17(209), dated May 12, 2000).

Consequently, the stated amount of "Cash in circulation" in the Bank of Russia Consolidated Balance Sheet as of January 1, 2001, is 448,118 million rubles and it corresponds to the amount indicated under the item "Cash in circulation" of the Bank of Russia Balance Sheet as of January 1, 2001.

In the opinion of the Audit Chamber, the accounting policy pursued by the Central Bank of the Russian Federation with regard to operations with precious metals (accounting at the acquisition cost) misrepresents the state of Bank of Russia assets and distorts substantially the total of its balance sheet value.

Auditor  
of the Audit Chamber  
of the Russian Federation

M.I. Beskhmel'nitsyn



**ADDENDA**

**IV**

## MAJOR STEPS TAKEN BY THE BANK OF RUSSIA IN 2000 TO IMPLEMENT THE SINGLE STATE MONETARY POLICY

### 1. REQUIRED RESERVES, INTEREST RATE POLICY, REFINANCING OF BANKS, DEPOSIT OPERATIONS AND POLICY IN THE GOVERNMENT SECURITIES MARKET

**REQUIRED RESERVES.** In January 2000 the Bank of Russia Board of Directors decided to raise the required reserve ratios. The required reserve ratio for funds borrowed from legal entities in rubles and from legal entities and private individuals in foreign currency was increased from 8.5% to 10% and the required reserve ratio for funds borrowed from private individuals in rubles was raised from 5.5% to 7% (the raises applied to the Savings Bank and other credit institutions). At the same time, the Bank of Russia took the decision to effect on January 14, 2000, an unscheduled regulation of credit institutions' required reserves as of January 1, 2000, taking into account the new required reserve ratios set in the period from December 1, 1999, up to January 1, 2000 (Bank of Russia Directive No. 731-U, dated January 11, 2000).

To upgrade the required reserve mechanism, the Bank of Russia in 2000:

- made amendments to 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" and Bank of Russia Provision No. 51, dated November 4, 1996, "On the Required Reserves Deposited by the Savings Bank with the Central Bank of the Russian Federation" (Bank of Russia Directives Nos. 784-U and 785-U, dated April 24, 2000);
- set standard time-limits for the regulation of the amount of the required reserves of credit institutions and specified the procedure for Bank of Russia control over the observance of reserve requirements by credit institutions with a network of branches and by Sberbank (Bank of Russia Directives Nos. 883-U and 884-U, dated December 25, 2000).

**DEPOSIT OPERATIONS.** To regulate liquidity (withdraw free liquidity) of the banking system and maintain stability in the domestic foreign exchange market, the Bank of Russia in 2000 conducted deposit operations with resident banks in rubles, using the Reuters Dealing System. These operations were regulated by Bank of Russia Provision No. 67-P, dated January 13, 1999, "On the Procedure for Conducting Deposit Operations with Resident Banks in the Russian Federation Currency by the Central Bank of the Russian Federation" (with subsequent amendments).

The Bank of Russia conducted deposit operations on the standard conditions "overnight," "tomorrow," "spot-next," "1 week," "spot — 1 week," "2 weeks," "spot — 2 weeks," "1 month" and "3 months."

On January 10 and November 23, 2000, it held auctions of 1-week, 2-week and 1-month deposits (Bank of Russia Operation Directives No. 7-T, dated January 6, 2000, and No. 172-T, dated November 20, 2000).

**REFINANCING OF BANKS.** The Bank of Russia in 2000 implemented a series of measures to improve the bank refinancing mechanism.

It issued Directive No. 726-U, dated January 6, 2000, "On the Temporary Procedure for Interaction in Charging and Entering to Accounting Records the Sums of Interest on Bank of Russia Loans" and Directive No. 756-U, dated March 15, 2000 "On Amending Bank of Russia Directive No. 726-U, Dated January 6, 2000, on the Temporary Procedure for Interaction in Charging and Entering to Accounting Records the Sums of Interest on Bank of Russia Loans," which regulated the procedure for charging and entering to accounting records interest on Bank of Russia loans and delineated



responsibility between Bank of Russia divisions in implementing this procedure in compliance with Bank of Russia Directive No. 655-U, dated October 4, 1999.

In accordance with the decision of the Bank of Russia Board of Directors, the Bank of Russia correction factors applied to the market value of government securities accepted as collateral for Bank of Russia loans were raised from 0.3 to 0.5 (Bank of Russia Directive No. 831-U, dated September 25, 2000).

The Bank of Russia created a mechanism to extend loans to banks against collateral and warranties (Bank of Russia Provision No. 122-P, dated October 3, 2000). To test this mechanism, the Bank of Russia in October 2000 launched a pilot project in its St. Petersburg regional branch (Bank of Russia Directive No. 842-U, dated October 3, 2000).

Along with the operations to refinance banks, the Bank of Russia in 2000 took steps to ensure repayment of the loans it extended to enterprises in some sectors of the economy in 1992—1994 in compliance with the decisions of the Government Commission on Fiscal and Monetary Policy.

In 2000 it carried out the following measures to implement the Concept of the Development of the Housing Mortgage Lending System in Russia, approved by Russian Government Resolution No. 28, dated January 11, 2000:

- in accordance with the plan to draft regulations that would encourage housing mortgage lending in Russia, approved by the aforementioned Resolution, the Bank of Russia considered and submitted to the drafters its comments and proposals on the draft federal laws on mortgage-backed securities, on refinancing in the field of housing mortgage lending and other draft laws and regulations;
- the Bank of Russia amended its Instruction No. 62a, dated June 30, 1997, “On the Procedure for Making and Using Reserves for Possible Loan Losses” in the part where it set criteria for interest backing of long-term loans (Bank of Russia Directive No. 794-U, dated May 24, 2000).

**INTEREST RATES.** At the beginning of 2000 the refinancing rate of 55% p.a., set in 1999, was in effect. During the year the Bank of Russia Board

of Directors cut the refinancing rate from 55% to 25%:

Bank of Russia Directive No. 734-U, dated January 21, 2000, cut the refinancing rate to 45%;

Bank of Russia Directive No. 753-U, dated March 6, 2000, cut the refinancing rate to 38%;

Bank of Russia Directive No. 757-U, dated March 20, 2000, cut the refinancing rate to 33%;

Bank of Russia Directive No. 818-U, dated July 7, 2000, cut the refinancing rate to 28%;

Bank of Russia Directive No. 855-U, dated November 3, 2000, cut the refinancing rate to 25%.

The overnight lending rate was announced daily in 2000 and during the year was cut from 50% to 22% p.a.

**BANK OF RUSSIA POLICY IN GOVERNMENT SECURITIES MARKET.** In 2000 the Bank of Russia implemented the following measures in the GKO—OFZ market.

In compliance with Russian Government Resolution No. 357-r, the Bank of Russia from April 10 to July 1, 2000, acting as an agent of the Finance Ministry, participated in the third stage of the restructuring of government securities that were due before December 31, 1999. On December 25, 2000, the Russian Government signed an order extending until December 31, 2001, the restructuring for persons who had not restructured their papers.

The Bank of Russia collaborated with the Finance Ministry in drafting the Provision on the Exchange of Series III OGVZ Bonds for OGVZ Bonds of the 1999 Issue and/or Fixed Coupon-Income Federal Loan Bonds (approved by Ministry of Finance Order No. 12n, dated January 28, 2000). In accordance with this Provision, Series III OGVZ bonds were exchanged for a new issue of OGVZ bonds and Issue 27012 OFZ-FD bonds.

To give OFZ-PD holders wider opportunities to use their bonds, the Bank of Russia issued Directive No. 815-U, dated July 3, 2000, “On the Procedure to Repay Overdue Debt on Taxes to the Federal Budget,” which allowed them to pay overdue debt on taxes with bonds of this issue. The Government agreed with the Bank of Russia Provision on Repayment of Overdue Debt on

Taxes to the Federal Budget in 2000, Using Proceeds from Early Redemption of Fixed Coupon-Income Federal Loan Bonds (approved by Order No. 35n and No. AP-3-09/122 of the Finance Ministry and Ministry of Taxes and Duties, dated April 5, 2000).

To continue the procedure for singling out small investors' portfolios, begun on December 15, 1999, non-residents who had had their papers restructured after that date were granted the opportunity from February 4 to 25, 2000, to transfer funds and securities in accounts without effecting purchase and sale transactions (Bank of Russia Directive No. 740-U, dated February 4, 2000, on Amending Bank of Russia Directive No. 663-U, dated October 14, 1999, on the Procedure for Transferring Funds and Securities Owned by Non-residents).

To improve the system of supervision over operations conducted by non-residents in the organised securities market, control over the amount of funds deposited with the MICEX Clearing House was transferred from settlement centres to authorised banks (Bank of Russia Directive No. 732-U, dated January 12, 2000, on Amending Bank of Russia Directive No. 638-U,

dated September 15, 1999, on Settlements Effected by Authorised Banks for Non-resident Operations in the Organised Securities Market).

In November—December 2000, the Bank of Russia resumed the auction sale of foreign exchange to non-residents. It amended its Provision No. 69-P "On the Procedure for Selling by the Bank of Russia Foreign Exchange to Banks Authorised to Open and Keep Special C-type Accounts in their Name at the Instruction and Expense of Non-resident Investors," which regulated the procedure for holding such auctions (Bank of Russia Directive No. 856-U, dated November 4, 2000).

To provide non-residents with wider opportunities to use funds in C-type accounts, the Bank of Russia issued regulatory documents allowing non-resident holders of such accounts to make direct investments in the Russian economy (Bank of Russia Provision No. 123-P, dated October 3, 2000, "On the Procedure for Making Foreign Investments in the Russian Economy, Using Funds in Special Non-resident C-type Accounts" and Bank of Russia Instruction No. 96-I, dated December 28, 2000, "On Special Non-resident C-type Accounts").

## 2. RELATIONSHIP WITH FEDERAL BUDGET

The 2000 Federal Budget Law stipulated that the Bank of Russia would buy 30 billion rubles of government securities in the primary market and allocate up to \$1 billion to the Finance Ministry via Vneshekonombank to repay and service the government's foreign debt. The improvement of the macroeconomic situation in 2000 brought about favourable changes in government finance, allowing the Government to meet its debt obligations without making new borrowings from the Bank of Russia. The Finance Ministry, therefore, did not request any funds for this purpose from the Bank of Russia.

Under the 2000 Federal Budget Law, the Russian Government continued the restructuring, begun in 1999, of its debt liabilities and Finance Ministry debt to the Bank of Russia on accrued interest into longer-term government

securities with lower, non-marketable interest rates. The total balance sheet value of the restructured debt amounted to 59 billion rubles, or 107.1 billion rubles at par. Consequently, the Finance Ministry's overall debt to the Bank of Russia increased and the quality of the latter's government securities portfolio deteriorated.

In addition, to implement the 2000 Federal Budget Law, the Finance Ministry is currently conducting an expert examination of 600 million rubles of Bank of Russia-owned promissory notes for their subsequent restructuring into federal loan bonds.

The Finance Ministry redeemed 2.0 billion rubles of federal loan bonds in the Bank of Russia portfolio and repaid 1.7 billion rubles of the foreign currency debt extended to it by the Bank of Russia via Vneshekonombank in compliance with



the Federal Law on Budget and Tax Policy Priorities and the 1999 Federal Budget Law for government foreign debt repayment and service. Federal Law No. 145-FZ, dated December 25, 2000, “On Amending the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues,” deferred until December 1, 2007, repayment of the foreign currency debt extended by the Bank of Russia to the Finance Ministry in 1998—

1999 via Vneshekonombank for government foreign debt repayment and service.

The Bank of Russia in 2000 co-operated with the Finance Ministry in drafting regulatory documents on the procedure for consolidating financial resources in the federal treasury bodies, including customs and other proceeds from foreign economic activity and taxes from entrepreneurial and other profitable activities.

### 3. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

To improve the system of foreign exchange regulation and foreign exchange control, the Bank of Russia implemented the following measures in the year under review:

- to counter capital outflow in foreign trade:
  - on January 1, 2000, it expanded the sphere of control over export operations by spreading customs banking controls to ruble export operations between Russian residents and their foreign counterparties (Bank of Russia and State Customs Committee Joint Instruction No. 86-I and No. 01-23/26541, dated October 13, 1999, “On the Procedure for Exercising Foreign Exchange Control over Proceeds from Exports Brought to the Russian Federation”);
  - the Bank of Russia improved the regulatory framework of foreign exchange control over import operations, spreading customs banking controls to import operations in which goods are paid for in rubles via bills of exchange as well as to practically all customs regimes of imports (Bank of Russia and State Customs Committee Joint Instruction 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 Imports by Residents”);
- to curb excessive demand for foreign currency in the domestic foreign exchange market, using import contracts without actually providing any services (the so-called “invisible” services) and the results of intellectual activity,

the Bank of Russia introduced preliminary control over the appropriateness of the purchases by authorised banks on behalf of their clients of foreign exchange to effectuate payments under such contracts (Joint Instruction of the Federal Foreign Exchange and Export Control Service and Bank of Russia No. 03-26/493 and No. 88-I, dated February 10, 2000, “On the Procedure for Issuing Statements on the Appropriateness of Payments Made in Foreign Currency under Contracts for the Fulfilment of Works, Provision of Services or Transfer of the Results of Intellectual Activities”);

- to control ruble and conversion operations conducted by non-residents, the Bank of Russia drafted a regulation establishing the procedure for preliminary control over the write-off of ruble funds from resident accounts in favour of non-residents according to the account regime (Bank of Russia Instruction No. 93-I, dated October 12, 2000, “On the Procedure for Opening Non-resident Bank Accounts in the Russian Federation Currency by Authorised Banks and Conducting Operations on Such Accounts”);
- to guarantee fulfilment of some obligations to non-residents, resident legal entities were granted the right to accumulate in deposits foreign exchange they bought in the domestic foreign exchange market before transferring it to non-residents (Bank of Russia Provision No. 114-P, dated June 21, 2000, “On Depositing Foreign Exchange with Authorised Banks by Residents from the Special Transit Currency Account”).

## PRINCIPAL MEASURES TAKEN BY BANK OF RUSSIA TO UPGRADE BANKING SYSTEM

### MEASURES IMPLEMENTED TO IMPROVE PROCEDURES FOR REGULATING ACTIVITIES OF CREDIT INSTITUTIONS

To bring the applicable procedure for compiling statements closer to international standards, the Bank of Russia issued Directive No. 746-U, dated February 22, 2000, which required banking groups to include in all forms of their consolidated statement data on their non-resident subsidiaries.

Bank of Russia Directive No. 902-U, dated January 15, 2001, introduced reporting form No. 123 "Cash Flow Data," which is a part of the complete package of financial statements compiled by banks in compliance with international standards. Credit institutions are expected to start publishing these statements in the general press beginning from the statements for 2001.

In 2000 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," while Bank of Russia Directive No. 794-U, dated May 24, 2000, redefined security for long-term loans, allowing borrowers to have collateral for claims on loans not during the entire period of the long-term borrowing from a bank, but for the nearest year alone.

The need to improve the technique of creating reserves for the depreciation of securities and to ensure that the transactions to buy and sell securities are fully and properly taken account of in calculating these reserves, the Bank of Russia and the Finance Ministry issued a joint Directive No. 85-T, dated April 17, 2000, in which they defined more exactly the procedure for calculating reserves for shares with different registration numbers and bought in different lots. In addition, the covering letter explained the procedure for changing reserves when securities are transferred from the listed category to the unlisted one and vice versa.

To enhance the efficiency of managing and controlling liquidity in credit institutions, the

Bank of Russia worked out Recommendations No. 139-T, dated July 27, 2000, on the Analysis of Liquidity of Credit Institutions.

Bank of Russia Directive No. 864-U, dated December 18, 2000, "On Amending Bank of Russia Directive No. 513-U, dated March 19, 1999, on the Procedure for Paying up Authorised Capital of Credit Institutions with Foreign Exchange and Recording Such Operations in Accounts," established the procedure for opening correspondent accounts in parent non-resident banks for entering foreign currency funds to them in paying shares (stakes) in Russian credit institutions. In addition, the Bank of Russia drew up a list of documents to be presented by credit institutions paying up authorised capital in foreign currency in order to open a correspondent account in Vneshtorgbank and Sberbank and, in the cases stipulated by the relevant Bank of Russia regulations, in non-resident banks (Bank of Russia Official Explanation No. 4-OR, dated December 18, 2000, "On the Application of Individual Provisions of Bank of Russia Directive No. 513-U, dated March 19, 1999.")

To optimise the requirements made to banks, the Bank of Russia issued the following regulatory documents:

- Directive No. 795-U, dated May 24, 2000, "On the Application of the Maximum Risk per Creditor (Depositor) Ratio (N8)" (on non-use of sanctions against credit institutions for failure to comply with the N8 ratio);
- Directive No. 891-U, dated December 29, 2000, "On Amending Bank of Russia Directive No. 192-U, dated March 27, 1998, on Additional Measures to Protect the Interests of Bank Depositors." The N11 ratio was given the status of an imputed (estimated) ratio with no time-limits.

To upgrade the methodology of banking supervision, the Bank of Russia issued the following regulatory documents:

- Directive No. 833-U, dated September 29, 2000, “On Amending Bank of Russia Provision No. 31-P, dated June 1, 1998, on the Methodology of Calculating Own Funds (Capital) of Credit Institutions,” which lifted temporary restrictions on the inclusion in the sources of additional capital from growth in the value of property resulting from revaluation;
- Directive No. 745-U, dated February 22, 2000, “On Publishing Statements by Credit Institutions for 1999” and an amendment to it, Directive No. 764-U, dated March 31, 2000, “On Amending Bank of Russia Directive No. 745-U, Dated February 22, 2000, on Publishing Statements by Credit Institutions for 1999,” which set requirements for and made recommendations on the disclosure of activities of credit institutions in their published statements for 1999;
- Directive No. 832-U, dated September 28, 2000, “On Amending Bank of Russia Instruction No. 1, Dated October 1, 1997,” which excluded balances in credit institutions’ accounts under arrest from highly liquid assets;
- Directive No. 744-U, dated February 21, 2000, which established a uniform procedure for calculating open currency positions on foreign currencies and precious metals;
- Directive No. 872-U, dated December 21, 2000, “On the Specifics of the Prudential Supervision of Credit Institutions that Have Attracted Subordinated Loans (Deposits) in Foreign Currency,” which established a special classification for such credit institutions and specified the procedure for applying sanctions to credit institutions that violate prudential standards;
- Directive No. 789-U, dated May 12, 2000, “On Amending Bank of Russia Instruction No. 1, Dated October 1, 1997” (in connection with the introduction in the Chart of Accounts of Balance Account 524 “Obligations to Be Fulfilled on the Securities Issued” and Balance Account 525 “Other Accounts on Operations with the Securities Issued,” changes were

made in the calculation of the instant liquidity ratio (N2), bank current liquidity ratio (N3) and risk ratio of own promissory note liabilities (N13);

- Operational Directive No. 61-T, dated March 10, 2000, “On the Cancellation of Bank of Russia Operational Directive No. 51-T, Dated February 4, 1999, “On the Procedure for Applying Sanctions to Credit Institutions for Failure to Follow the Sequence of Creating Reserves for Possible Loan Losses, Set by Paragraph 2.2 of Bank of Russia Directive No. 101-U, Dated December 25, 1997;”
- Operational Directive No. 31-T, dated February 3, 2000, “On the Specifics of Applying Sanctions to Credit Institutions for Failure to Create Reserves for Possible Loan Losses in 2000 and the Procedure for Readjusting Own Funds (Capital) of Credit Institutions to the Amount of the Shortage of Their Reserves for Possible Loan Losses.”

The Bank of Russia continued to make amendments to its Instruction No. 17, dated October 1, 1997, “On Compiling Financial Statements,” specifying the procedure for calculating corrections to bring final data of the financial statements into conformity with international standards (Bank of Russia Directive No. 729-U, dated January 10, 2000, and Bank of Russia Directive No. 782-U, dated April 20, 2000).

It also continued to upgrade the procedure for calculating credit risk on instruments shown in off-balance accounts and forward transactions:

- Bank of Russia Operational Directive No. 158-T, dated October 6, 2000, “On the Application of Supplement 8 to Bank of Russia Instruction No. 1, Dated October 1, 1997, on the Procedure for Regulating Banking Activities” excluded from the calculation of credit risk forward deals with an expired value date, struck by credit institutions before August 17, 1998;
- Bank of Russia Operational Directive No. 101-T, dated May 5, 2000, “On the Application of Supplement 6 to Bank of Russia Instruction No. 1, Dated October 1, 1997, on the Procedure for Regulating Banking Activities” established the procedure for including unused revolving credit lines in the calculation of credit risk.

## LICENSING OF CREDIT INSTITUTIONS AND AUDIT FIRMS

*State Registration of Credit Institutions and Audit Firms*

The Bank of Russia in 2000 set on a quarterly basis the ruble equivalent of minimum authorised capital necessary to found a credit institution (except a subsidiary of a foreign bank) and minimum own funds (capital) of a bank requesting a general banking licence (Bank of Russia Directives No. 767-U, dated April 3, 2000, No. 813-U, dated July 3, 2000, and No. 836-U, dated October 2, 2000).

As regards the application of individual laws:

- the Bank of Russia, in pursuance of the Federal Law on the Restructuring of Credit Institutions, established the procedure for registering and licensing the activities of credit institutions set up on the initiative of the State Agency for the Restructuring of Credit Organisations (ARCO) and the procedure for registering the change in the authorised capital of a credit institution transferred to the control of ARCO (Bank of Russia Provision No. 113-P, dated June 7, 2000, “On the Procedure for the State Registration of Credit Institutions Established on the Initiative of the State Agency for the Restructuring of Credit Organisations and Licensing Their Activities” and Bank of Russia Directive No. 798-U, dated June 7, 2000, “On the Procedure for Registering the Change Made in the Authorised Capital of a Credit Institution when Transferred to the Control of the State Agency for the Restructuring of Credit Organisations;”
  - the Bank of Russia spelt out the procedure for applying the applicable legislation on persons holding more than one job in the branches of credit institutions and additional offices of credit institutions or their branches (Bank of Russia Operational Directive No. 39-T, dated February 10, 2000, “On the Impossibility of Holding by Chief Executive Officers and Chief Accountants of Branches of Credit Institutions and Managers of Additional Offices of Credit Institutions (Branches) Similar Positions in Other Credit Institutions;”
  - the Bank of Russia explained the procedure for applying paragraph 4 of Article 94 of the Federal Law on Joint-Stock Companies and paragraph 3 of Article 59 of the Federal Law on Limited Liability Companies (Bank of Russia Operational Directive No. 100-T, dated May 5, 2000);
  - Bank of Russia Official Explanation No. 2-OR, dated August 15, 2000, “On the Documents Confirming the State Registration of Credit Institutions Established before the Enforcement of the Federal Law on Banks and Banking Activity” said that the confirmation of the state registration of credit institutions registered before the enforcement of the aforementioned law was their charters registered by the Bank of Russia;
  - Bank of Russia Official Explanation No. 5-OR, dated December 19, 2000, “On the Procedure for Applying Paragraph 4 of Bank of Russia Directive No. 460-U, Dated December 28, 1998” established the procedure for agreeing candidates for the position of managers of additional offices of credit institutions with the Bank of Russia and specified the procedure for granting the right to sign cash settlement documents to managers of an additional office of a credit institution (branch);
  - pursuant to the Federal Law on Joint-Stock Companies and Federal Law on the Securities Market, the Bank of Russia established the procedure for passing information to the Bank of Russia on affiliated persons by credit institutions operating in the form of joint-stock companies (Bank of Russia Operational Directive No. 76-T, dated March 24, 2000, “On the Procedure for Making the Accounting of Affiliated Persons and Presenting Information to the Bank of Russia on Affiliated Persons by Credit Institutions”).
- As regards the licensing of operations with precious metals and establishing correspondent relations with foreign banks, the Bank of Russia issued the following regulatory documents:
- Directive No. 736-U, dated January 26, 2000, “On Amending Bank of Russia Letter No. 367,

Dated December 3, 1996, on the Procedure for Issuing Licences to Conduct Operations with Precious Metals” introduced qualification requirements for employees with the task of conducting operations with precious metals;

- Directive No. 758-U, dated March 21, 2000, “On Amending Bank of Russia Letter No. 345, Dated October 17, 1996, on the Establishment by Russian Credit Institutions of Direct Correspondent Relations with Foreign Banks” specified the procedure for establishing correspondent relations with foreign banks registered in offshore zones of foreign countries.

To oversee the issue and registration of securities by credit institutions, the Bank of Russia:

- spelt out the specifics of the procedure for issuing and registering securities (shares and bonds) by credit institutions under the control of ARCO (Bank of Russia Provision No. 110-P, dated April 3, 2000, “On the Specifics of the Issue and Registration of Securities by Credit Institutions under the Control of the State Agency for the Restructuring of Credit Organisations”);
- established the procedure for registering securities (share and bond) issues by credit institutions during their examination by the State Agency for the Restructuring of Credit Organisations (Bank of Russia Provision No. 111-P, dated April 3, 2000, “On the Specifics of the Issue and Registration of Shares by Credit Institutions in the Process of Their Transfer under the Control of the State Agency for the Restructuring of Credit Organisations”);
- amended Bank of Russia Instruction No. 8, dated September 17, 1996, “On the Rules Regulating the Issue and Registration of Securities by Credit Institutions in the Russian Federation” in connection with the re-organisation of the Bank of Russia and change in the procedure for presenting quarterly reports on securities by Bank of Russia regional branches (Bank of Russia Directive No. 768-U, dated April 3, 2000, “On Amending Bank of Russia Instruction No. 8, Dated September 17, 1996, on the Rules Regulating the Issue and Registration of Securities by Credit Institutions in the Russian Federation”);

- in connection with the enforcement of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Federal Law on the Protection of Rights and Legitimate Interests of Investors in the Securities Market, amendments were made to Bank of Russia Instruction No. 8, dated September 17, 1996, on the Rules Regulating the Issue and Registration of Securities by Credit Institutions in the Russian Federation insofar as it concerned the procedure for making the decision to float securities (depending on the method of placement: open or closed subscription; when a provisional administration was appointed to a credit institution) and the possibility of using funds from settlement, current, deposit and correspondent accounts of a credit institution implementing a financial rehabilitation plan as payment for shares without entering these funds to the credit institution’s accrual account with the Bank of Russia (Bank of Russia Directive No. 769-U, dated April 3, 2000).

#### *Supervision of Audits of Credit Institutions and Licensing of Audit Activities*

To improve the supervision of audits of credit institutions and the licensing of audit activities, the Bank of Russia issued the following documents:

- Operational Directive No. 56-T, dated February 28, 2000, “On the Procedure for Submitting Information on the Annual Report of the Bank of Russia Regional Branches for 1999” was issued to improve supervision of audits of credit institutions;
- Operational Directive No. 74-T, dated March 23, 2000, “On the Supervision of Bank Audits and the Activities of Audit Firms (Auditors)” was issued to increase control over audits of credit institutions and the activities of audit firms (individual auditors);
- Bank of Russia Directive No. 846-U, dated October 4, 2000, “On the Specifics of Licensing the Activities of Bank Audit Firms” was issued to bring the practice of licensing bank audit activities into conformity with the Federal Law on the Licensing of Individual Kinds of Activity.



## RESTRUCTURING AND FINANCIAL REHABILITATION OF THE BANKING SYSTEM

To ensure the practical implementation of the provisions of Federal Law No. 40-FZ, dated February 25, 1999, "On Insolvency (Bankruptcy) of Credit Institutions" and Federal Law No. 144-FZ, dated July 8, 1999, "On the Restructuring of Credit Institutions," the Bank of Russia in 2000 issued regulatory documents in the areas described below.

*Bankruptcy Prevention*

Bank of Russia Directive No. 845-U, dated October 4, 2000, "On Amending Bank of Russia Directive No. 245-U, Dated June 1, 1998, on the Procedure for Reducing the Authorised Capital of a Credit Institution in the Event of Its Own Funds (Capital) Becoming Less Than Its Registered Authorised Capital" established a new procedure for reducing the authorised capital of credit institutions to the actual amount of their own funds (capital), including credit institutions that qualify for the implementation of bankruptcy-prevention measures, and explained how Bank of Russia regional branches should handle credit institutions whose own funds (capital) are smaller than their authorised capital. The document also specified the methodology of capital calculation that should be used in reducing the authorised capital of credit institutions.

Amendments were made to the Bank of Russia Provisions establishing the procedure for appointing a provisional administration to a credit institution and spelling out its functions (Directive No. 837-U, dated October 2, 2000, "On Amending Bank of Russia Provision No. 87-P, Dated August 20, 1999, on the Provisional Administration of a Credit Institution Appointed for the Period of its Examination in Pursuance of the Federal Law on the Restructuring of Credit Institutions" and Directive No. 850-U, dated October 16, 2000, "On Amending Bank of Russia Provision No. 76-P, Dated May 14, 1999, on the Provisional Administration of a Credit Institution").

A number of operational directives issued by the Bank of Russia established the procedure for passing information from the regional branches of the Bank of Russia to its central office on the

transfer of credit institutions to the control of the State Agency for the Restructuring of Credit Organisations (Operational Directive No. 5-T, dated January 5, 2000) and explained the specifics of the application and effect of the earlier sanctions taken against credit institutions placed under the control of ARCO (Operational Directive No. 27-T, dated January 31, 2000) and the procedure for putting into effect and cancelling the sanctions taken earlier against credit institutions put under the control of ARCO (Operational Directive No. 141-T, dated August 3, 2000).

Directive No. 852-U, dated October 20, 2000, "On the Procedure for Identifying Credit Institutions that May Be Subject to the Federal Law on the Restructuring of Credit Institutions" regulates Bank of Russia actions in pursuance of the Federal Law on the Restructuring of Credit Institutions, including the procedure for calculating the criteria envisaged in paragraph 3 of Article 2 of the aforementioned law and sets the procedure for establishing the grounds stipulated in Article 3 of the aforementioned law and the procedure for passing information on such credit institutions by Bank of Russia regional branches to the Bank of Russia central office. Operational Directive No. 109-T, dated May 25, 2000, "On the Procedure for Presenting Information in Compliance with the Requirements of the Federal Law on the Restructuring of Credit Institutions" establishes the procedure for submitting reports on credit institutions that meet at least one of the criteria.

Operational Directive No. 161-T, dated October 20, 2000, "On the Work of Bank of Russia Regional Branches to Exercise Control over Implementation of Measures Taken to Prevent Insolvency (Bankruptcy) of Credit Institutions" analyses the actions taken by Bank of Russia branches in this area in 1999 and contains recommendations on how to improve them.

Operational Directive No. 106-T, dated May 17, 2000, "On Passing Information to the Bank of Russia on Progress in Implementing Restructuring Plans in Credit Institutions" established the procedure for presenting information by Bank of Russia regional branches to the Bank

of Russia Bank Rehabilitation Department on how credit institutions carried out their restructuring plans.

Operational Directive No. 19-T, dated January 20, 2000, “Answers to Questions and Proposals on Banking Supervision in the Conditions of the Restructuring of the Banking System” explained the difficulties that arose in the work of Bank of Russia regional branches.

#### *Revocation of Banking Licence*

Directive No. 749-U, dated March 1, 2000, “On the Procedure for Filing the Application with the Bank of Russia by a Credit Institution to Cancel Its Banking Licence Owing to the Cessation of Its Activities as a Result of the Liquidation of the Credit Institution by the Decision of its Founders (Members)” describes how members of a credit institution should compile the application to cancel its licence, contains a list of documents that must be attached to the application, sets the procedure for considering such requests and making decisions on them by the Bank of Russia and provides the details on how credit institutions whose banking licence has been recalled by the Bank of Russia should be liquidated.

#### *Qualification Examinations for Heads of Provisional Administrations of Credit Institutions and Receivers of Bankrupt Credit Institutions*

Operational Directive No. 202-T, dated December 28, 2000, “On the Qualification Examinations for the Heads of Provisional Administrations of Credit Institutions and Receivers of Bankrupt Credit Institutions” contains methodological recommendations on how Bank of Russia re-

gional branches should conduct qualification examinations for heads of provisional administrations of credit institutions and receivers of bankrupt credit institutions.

#### *Control over Liquidation of Credit Institutions*

Provision No. 125-P, dated October 4, 2000, “On the Procedure for Compiling the Interim Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution and Agreeing Them with a Bank of Russia Regional Branch” contains requirements for the compiling of interim liquidation and liquidation balance sheets of credit institutions and getting them agreed with Bank of Russia regional branches.

Operational Directive No. 83-T, dated April 12, 2000, “On the Provision of Information on the Course of Liquidation of Credit Institutions” noted as a shortcoming in the work of Bank of Russia regional branches their failure to present on time progress reports on the so-called permanent working commissions (PWC).

Operational Directive No. 114-T, dated May 30, 2000, “On Filing Bankruptcy Suits by the Bank of Russia against Credit Institutions with Arbitration Courts” contains methodological recommendations on how Bank of Russia regional branches should initiate insolvency (bankruptcy) proceedings against credit institutions whose banking licence has been revoked.

Operational Directive No. 44-T, dated August 16, 2000, “On the Memo of the Supreme Arbitration Court of the Russian Federation” informed Bank of Russia regional branches on how arbitration courts should apply in practice Article 48 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions.

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Table 1

**DYNAMICS OF MAJOR MACROECONOMIC INDICATORS**  
(as % of previous year)

	1998	1999	2000
<b>Gross domestic product</b>	<b>95.1</b>	<b>105.4</b>	<b>108.3</b>
Of which:			
Goods production	92.6	110.7	110.7
Of which:			
industry	94.8	110.8	112.1
agriculture	81.2	117.1	105.0
forestry	99.0	99.7	100.4
construction	93.5	106.1	111.5
other manufacturing sectors	92.6	103.2	104.1
Production of services	97.5	101.8	106.2
Market services	96.5	101.9	107.2
Of which:			
transport	95.4	105.9	105.2
communications	102.6	127.5	113.0
trade, public catering and procurements	94.1	97.6	110.4
Non-market services	100.4	101.4	101.8
GDP deflator index, times	1.162	1.646	1.371
Consumer price index (December on December of previous year), times	1.844	1.365	1.202
Labour productivity	96.5	104.8	107.1
Fixed capital investment	88.0	105.3	117.4
Retail trade turnover	96.7	92.3	108.9
Unemployment rate by ILO methodology, as % of economically active population, annualised average	11.9	12.7	10.5

*Note. Tables 1 to 8 are based on data provided by State Statistics Committee (Goskomstat) and Bank of Russia calculations (as of May 15, 2001); Tables 9 to 14 are based on data provided by State Customs Committee (as of May 15, 2001) 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 do not cross 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

**GDP PRODUCTION STRUCTURE IN BASIC PRICES\* (%)**

	1998	1999	2000
<b>Gross domestic product</b>	<b>100</b>	<b>100</b>	<b>100</b>
Of which:			
Goods production	43.2	45.5	46.8
Of which:			
industry	29.9	31.1	32.5
agriculture	5.4	7.6	7.1
construction	7.1	6.2	6.7
Production of services	56.8	54.5	53.2
Market services	42.8	44.0	42.6
Of which:			
transport and communications	10.8	9.5	8.4
trade, public catering and procurements	19.5	21.7	21.1
Non-market services	14.0	10.5	10.6

\* 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 including financial intermediate services indirectly measured.

Table 3

**GDP BY INCOME USE METHOD, IN CURRENT MARKET PRICES (%)**

	1998	1999	2000
<b>GDP by income use method</b>	<b>100</b>	<b>100</b>	<b>100</b>
Expenditure on final consumption	76.6	68.2	62.5
Of which:			
households	54.6	51.6	46.1
government sector and non-profit organisations providing services to households	22.0	16.6	16.4
Gross accumulation of fixed capital (including net purchase of values)	17.7	15.8	17.8
Change in inventories	−1.5	−0.8	−0.7
Net exports of goods and services	7.2	16.8	20.4

Table 4

**GDP ALLOCATION BY INCOME (%)**

	1998	1999	2000
<b>Gross domestic product</b>	<b>100</b>	<b>100</b>	<b>100</b>
Of which:			
wages and salaries	47.2	40.9	40.0
net taxes on production and imports	15.1	16.0	17.1
gross profit and gross mixed income	37.7	43.1	42.9

Table 5

**BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENDITURE IN RUSSIA (million rubles)**

	1999	2000	2000 as % of 1999
<b>Money income</b>	<b>2,811,059.5</b>	<b>3,742,294.3</b>	<b>133.1</b>
Wages and salaries	1,838,432.9	2,454,944.9	133.5
% share	65.4	65.6	
Social transfers	381,370.4	501,467.4	131.5
% share	13.6	13.4	
Income from business activities	357,923.9	471,529.0	131.7
% share	12.7	12.6	
Income from property	207,109.2	269,445.2	130.1
% share	7.4	7.2	
Other income	26,223.1	44,907.8	171.3
% share	0.9	1.2	
<b>Money expenditure</b>	<b>2,431,474.7</b>	<b>3,244,327.8</b>	<b>133.4</b>
Consumer expenditure	2,216,986.8	2,911,458.8	131.3
% share	91.2	89.7	
Taxes and other expenses	214,487.9	332,869.0	155.2
% share	8.8	10.3	
<b>Growth in savings at banks and cash in hand and purchase of foreign exchange</b>	<b>379,584.8</b>	<b>497,966.5</b>	<b>131.2</b>
Organised savings	98,633.8	142,326.5	144.3
% share	26.0	28.6	
Purchase of foreign exchange	226,857.3	253,604.5	111.8
% share	59.8	50.9	
Cash in hand	54,093.7	102,035.5	188.6
% share	14.3	20.5	
<b>For reference:</b>			
<b>% share of money income</b>			
consumer expenditure	78.9	77.8	
organised savings	3.5	3.8	
purchase of foreign exchange	8.1	6.8	
cash	1.9	2.7	
taxes and other payments	7.6	8.9	
<b>Disposable money income</b>	<b>2,619,003.1</b>	<b>3,451,922.8</b>	<b>131.8</b>
% share of			
consumer expenditure	84.7	84.3	
organised savings	3.8	4.1	
purchase of foreign exchange	8.7	7.3	
cash	2.1	3.0	

Table 6

## INCOME DIFFERENTIATION OF POPULATION

	1998	1999	2000
Funds ratio, times*	13.4	14.0	13.7
Gini coefficient, units**	0.379	0.399	0.394

\* The funds coefficient is the ratio between average incomes inside the population groups compared 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 7

## DYNAMICS OF MAJOR INDICATORS OF FINANCIAL STANDING OF ENTERPRISES (as % of 1999)

	Profit (loss)	Working assets		Payables		Receivables	
		total	of which: monetary assets	total	of which: overdue debt	total	of which: overdue debt
<b>Total</b>	<b>175.2</b>	<b>132.3</b>	<b>137.1</b>	<b>121.2</b>	<b>116</b>	<b>122.6</b>	<b>112.5</b>
Industry	171.5	135.3	131.2	114.1	108.4	121.4	108.3
Of which:							
electric-power industry	135.8	102.4	2.8 times	95.1	94.6	95.2	92.2
fuel sector	2.2 times	143.8	142.5	108	107.2	124.4	106.4
ferrous metallurgy	184.7	145.8	165.9	106.1	87.7	112.3	92.2
non-ferrous metallurgy	143.9	184.4	80.4	150.7	154	185.7	2.8 times
chemical and petrochemical industry	136	130.6	130.6	113.9	102.2	109.4	103.1
machine-building and metal-working	186.2	137.7	124.8	125.5	121.2	126.3	108.2
timber, wood-working and pulp-and-paper industry	96.3	128.8	152.4	101.2	95.8	112.9	97.3
building materials	153.4	123	160.8	119.2	110.6	115.9	102.2
light industry	110	126.1	134.7	123.1	115.4	121.8	114.6
food industry	140.5	130.8	126.3	115.7	111.8	136.8	112.7
Agriculture	86	122.9	115.9	123.3	122.2	121.7	116.9
Transport	155.2	126.3	133.3	118.2	116.4	102	94.6
Communications	2.1 times	181.9	202.5	145.1	76.2	140.6	96.2
Construction	168.8	141.9	147.3	133.3	112.3	121.5	105.3
Trade and public catering	2.3 times	112.8	105.9	154.6	2.3 times	165.2	2.8 times
Housing and communal services	115.6*	105.6	175.6	107.7	111.2	99.6	102

\* Growth in losses.

*Table 8*

**STATE OF PAYMENTS FOR SHIPPED PRODUCE (WORK FULFILLED AND SERVICES PROVIDED)  
OF MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES**

	1999		2000	
	billion rubles	structure of payments, %	billion rubles	structure of payments, %
<b>Volume of shipped produce</b>	<b>2,328.8</b>		<b>3,676.7</b>	
including				
paid-for produce	1,988.4	100	3,231.6	100
of which paid for with:				
cash	1,077.7	54.2	2,246.3	69.5
promissory notes	214.8	10.8	266.3	8.2
securities	1.23	0.1	0.9	0
transfer of right of claim on pecuniary obligations	12.6	0.6	15.1	0.5
netting of claims	480.4	24.2	504.9	15.6
direct exchange of commodities (barter)	113.5	5.7	105.6	3.3
other kinds of payments	88.2	4.4	92.5	2.9

Table 9

## RUSSIA'S FOREIGN TRADE

	Billion US dollars							As % of previous year					
	1994	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
<b>with all countries</b>													
turnover	101.9	124.9	131.1	138.1	114.9	102.0	136.6	122.5	105.0	105.3	83.2	88.8	133.9
exports	63.3	78.2	85.1	85.0	71.3	71.8	102.8	123.6	108.8	99.9	83.9	100.7	143.1
imports	38.7	46.7	46.0	53.0	43.6	30.2	33.8	120.8	98.6	115.2	82.2	69.3	112.0
<b>with non-CIS countries</b>													
turnover	77.5	96.8	100.7	107.2	89.9	83.0	111.2	124.8	104.0	106.5	83.8	92.3	134.0
exports	49.2	63.7	69.2	68.4	57.6	61.1	89.0	129.4	108.7	98.8	84.2	106.1	145.6
imports	28.3	33.1	31.5	38.8	32.3	21.8	22.2	116.8	95.1	123.2	83.2	67.7	101.6
<b>with CIS countries</b>													
turnover	24.4	28.1	30.4	30.9	25.0	19.0	25.4	115.3	108.3	101.4	81.1	76.1	133.5
exports	14.1	14.5	15.9	16.6	13.7	10.7	13.8	103.2	109.4	104.6	82.4	78.0	129.1
imports	10.3	13.6	14.5	14.2	11.3	8.3	11.6	131.7	107.0	97.8	79.5	73.7	139.1



Table 10

## RUSSIA'S FOREIGN TRADE TURNOVER WITH MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year					
	1994	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>123</b>	<b>105</b>	<b>105</b>	<b>83</b>	<b>89</b>	<b>134</b>
OECD	52.2	50.1	47.8	57.3	58.4	57.9	57.3	118	100	126	85	88	133
EU	37.0	35.4	32.9	34.5	33.9	34.4	34.9	117	98	110	82	90	136
CIS	23.9	22.5	23.2	22.3	21.8	18.7	18.6	115	108	101	81	76	133
CEE	11.2	12.7	12.6	13.5	12.4	12.9	14.9	138	105	113	76	92	154
Baltic countries	2.3	2.7	2.5	3.0	2.6	3.0	3.9	141	99	126	71	106	169
Germany	10.9	10.2	9.1	9.5	9.8	10.2	9.6	114	94	110	85	93	126
Belarus	5.1	4.0	5.0	6.8	8.1	6.9	6.8	97	130	144	98	75	133
Ukraine	10.9	11.0	10.6	8.1	7.7	7.2	6.3	124	101	81	79	83	118
Italy	4.3	4.2	3.9	4.5	4.4	4.8	6.2	120	99	120	81	96	175
USA	5.3	5.6	5.9	6.2	8.0	6.9	5.4	128	111	110	108	77	103
China	3.7	3.4	4.4	3.8	3.8	4.3	4.5	112	135	92	83	101	141
Great Britain	4.5	3.3	3.3	3.1	3.6	3.4	3.9	91	104	100	97	84	153
Poland	2.0	2.4	2.3	2.8	2.8	3.1	3.8	145	102	127	83	99	161
Netherlands	3.9	3.9	3.3	4.2	4.2	4.1	3.7	122	90	133	85	86	120
Kazakhstan	4.1	4.2	4.3	3.8	3.3	2.6	3.2	125	107	93	72	69	169
Switzerland	4.2	3.4	3.2	2.9	3.1	3.6	3.0	99	100	97	87	103	113
Finland	3.5	3.5	3.3	3.4	3.1	3.3	3.0	124	97	108	76	95	122
Turkey	1.4	1.7	1.7	2.0	2.1	1.9	2.5	156	104	123	88	79	178
Japan	3.3	3.2	3.0	2.8	2.6	2.5	2.4	117	99	101	76	86	130
France	2.2	2.1	2.2	2.3	2.7	2.3	2.3	116	111	112	95	78	129
Other	30.7	34.0	34.6	33.6	30.8	33.0	33.4	136	107	102	76	95	136

Table 11

## RUSSIAN EXPORTS TO MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year					
	1994	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>124</b>	<b>109</b>	<b>100</b>	<b>84</b>	<b>101</b>	<b>143</b>
OECD	52.3	50.3	48.2	56.9	58.2	59.0	59.2	119	104	118	86	102	144
EU	35.2	33.6	32.1	32.9	32.5	33.4	35.6	118	104	102	83	103	153
CEE	11.8	13.7	14.8	15.7	14.6	15.4	17.4	143	118	106	78	106	162
CIS	22.3	18.6	18.7	19.5	19.2	14.9	13.4	103	109	105	82	78	129
Baltic countries	2.7	2.9	3.1	3.7	3.2	3.9	4.8	136	116	117	72	125	176
Germany	8.6	7.9	7.9	7.7	8.0	8.6	9.0	115	108	97	88	108	149
Italy	4.4	4.3	3.3	4.2	4.5	5.1	7.1	122	84	126	90	115	197
Belarus	4.9	3.8	4.1	5.5	6.5	5.2	5.4	95	120	133	100	81	147
China	4.5	4.3	5.5	4.7	4.4	4.8	5.1	119	140	84	80	110	150
Ukraine	10.6	9.1	8.9	8.5	7.8	6.7	4.9	107	106	96	77	86	105
USA	5.3	5.5	5.7	5.3	7.2	6.5	4.5	128	112	93	114	92	99
Great Britain	5.8	3.9	3.8	3.3	4.2	4.0	4.4	83	105	89	104	96	159
Poland	1.8	2.2	2.5	3.0	3.1	3.6	4.3	149	126	118	87	120	171
Netherlands	3.7	4.1	3.9	5.4	5.5	4.9	4.2	136	104	137	87	89	123
Switzerland	5.9	4.5	4.4	4.2	4.4	4.7	3.7	95	106	95	88	107	115
Finland	3.1	3.1	3.1	3.3	2.9	3.3	3.0	122	110	105	75	115	130
Turkey	1.6	2.1	2.0	2.3	2.7	2.3	3.0	164	103	118	98	84	191
Japan	3.5	4.1	3.4	3.5	3.1	2.9	2.7	141	92	101	74	97	131
Kazakhstan	3.5	3.3	3.0	2.9	2.7	1.7	2.2	116	100	97	77	65	183
France	2.0	1.9	1.9	1.9	2.0	1.7	1.8	123	105	102	90	83	157
Other	30.9	35.9	36.6	34.5	31.0	34.0	34.8	144	111	94	75	110	147

Table 12

## RUSSIAN IMPORTS FROM MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year					
	1994	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>121</b>	<b>99</b>	<b>115</b>	<b>82</b>	<b>69</b>	<b>112</b>
OECD	52.0	49.7	47.0	58.0	58.7	55.1	51.5	115	93	142	83	65	105
CIS	26.7	29.1	31.6	26.8	26.0	27.6	34.3	132	107	98	79	74	139
EU	39.8	38.4	34.5	36.9	36.1	36.8	32.8	117	88	123	80	71	100
CEE	10.3	11.0	8.6	10.1	8.8	7.0	7.2	128	77	134	72	55	115
Baltic countries	1.7	2.2	1.4	1.9	1.6	1.0	1.0	155	61	162	67	44	112
Germany	14.7	13.9	11.3	12.5	12.6	13.9	11.5	114	80	128	83	76	93
Belarus	5.4	4.5	6.6	9.0	10.6	10.7	11.1	100	145	158	96	70	116
Ukraine	11.4	14.2	13.7	7.5	7.5	8.4	10.8	150	95	63	82	77	144
USA	5.4	5.7	6.3	7.7	9.4	7.9	8.0	128	110	140	101	58	113
Kazakhstan	2.6	5.7	6.6	5.2	4.3	4.6	6.5	134	114	90	69	74	157
Italy	4.1	4.0	5.1	5.0	4.2	3.8	3.6	116	126	113	69	64	104
France	5.2	2.3	2.8	3.0	3.7	3.9	3.5	107	118	126	100	74	100
Finland	4.2	4.4	3.6	3.5	3.3	3.1	2.8	125	82	112	77	66	101
China	2.5	1.9	2.2	2.4	2.7	2.9	2.8	91	116	126	92	77	106
Great Britain	2.3	2.4	2.5	2.8	2.8	2.2	2.5	123	103	131	82	54	127
Netherlands	4.2	3.5	2.2	2.3	2.1	2.3	2.2	102	61	119	76	75	107
Poland	2.4	2.8	2.0	2.6	2.4	2.0	2.1	140	70	146	77	58	119
Japan	2.9	1.6	2.1	1.9	1.9	1.5	1.7	68	128	101	83	56	126
Sweden	0.8	1.2	1.2	1.6	1.6	1.6	1.4	176	102	156	80	68	97
Republic of Korea	1.1	1.1	1.7	1.6	2.3	1.0	1.1	117	159	105	121	31	113
Other	30.9	31.0	30.2	31.5	28.7	30.1	28.5	121	96	120	75	73	106

Table 13

## COMMODITY STRUCTURE OF RUSSIAN EXPORTS\*

	Structure, %							Growth rates as % of previous year					
	1994	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>119</b>	<b>109</b>	<b>99</b>	<b>83</b>	<b>102</b>	<b>141</b>
Mineral products	44.1	41.7	47.8	48.3	42.7	44.6	53.9	112	124	100	73	107	170
Including:													
mineral fuel	43.1	40.4	46.8	47.4	41.5	43.8	53.2	111	126	100	73	108	171
Of which:													
oil	17.9	16.5	18.4	17.0	14.2	19.7	24.7	109	121	91	69	142	176
natural gas	16.4	15.2	17.2	19.5	19.4	15.9	16.8	110	123	112	83	84	148
Metals and metal products	17.8	20.3	19.8	20.8	22.1	20.5	17.1	136	106	103	88	95	117
Machinery, equipment and transport facilities	8.8	10.1	9.7	10.2	11.0	10.6	8.8	137	103	104	89	99	116
Chemicals and rubber	8.7	9.9	8.6	8.2	8.4	8.3	7.1	136	94	94	85	101	119
Gemstones, precious metals and articles made of them	10.2	7.1	4.7	3.9	6.5	6.4	5.1	83	72	81	137	101	112
Timber and pulp-and-paper products	4.1	5.7	4.3	4.4	5.1	5.3	4.4	165	81	100	97	105	117
Foodstuffs and agricultural raw materials (except textiles)	2.2	1.8	2.1	1.8	1.8	1.1	1.4	97	124	83	84	64	170
Textiles, textile goods and footwear	2.1	1.5	1.1	1.0	1.1	1.0	0.7	85	81	92	88	96	92
Leather, furs and goods made of them	0.6	0.4	0.4	0.5	0.6	0.3	0.2	82	118	106	97	50	125
Other goods	1.4	1.3	1.5	1.0	0.8	1.9	1.4	113	124	63	72	227	108

\* Excluding data on exports to Belarus.

Table 14

## COMMODITY STRUCTURE OF RUSSIAN IMPORTS\*

	Structure, %							Growth rates as % of previous year					
	1994	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>117</b>	<b>95</b>	<b>112</b>	<b>81</b>	<b>69</b>	<b>110</b>
Machinery, equipment and transport facilities	35.2	32.9	31.8	35.1	35.7	32.3	30.5	110	92	124	82	63	104
Foodstuffs and agricultural raw materials (except textile)	27.7	30.2	26.0	26.3	26.3	28.4	23.3	128	82	114	81	75	90
Chemicals and rubber	9.9	10.7	14.7	14.5	15.2	16.4	18.6	126	130	111	85	75	125
Metals and metal products	6.5	7.5	8.7	6.9	6.8	7.2	8.3	134	110	88	80	73	127
Mineral products	6.5	6.1	5.7	5.5	5.1	4.3	6.8	109	89	107	76	57	177
Including:													
mineral fuel	3.6	3.8	4.0	3.9	3.6	2.7	4.6	124	100	109	76	51	190
textiles, textile goods and footwear	7.9	5.2	4.6	4.0	3.3	4.3	4.8	77	84	98	65	91	125
Timber and pulp-and-paper products	1.5	2.4	3.4	3.6	3.9	3.5	3.8	188	136	120	88	62	118
Leather, furs and goods made of them	0.5	0.3	0.3	0.3	0.2	0.2	0.3	73	103	104	62	60	152
Gemstones, precious metals and articles made of them	0.2	0.9	1.3	0.2	0.1	0.1	0.2	492	135	18	30	118	149
Other goods	4.0	3.8	3.5	3.5	3.2	3.2	3.3	112	88	112	74	68	113

\* Excluding data on imports from Belarus.

Table 15

**FINANCE MINISTRY'S DEBT TO BANK OF RUSSIA AS OF JANUARY 1, 2001 (million rubles)**

	At balance sheet value of debt obligations
<b>Total debt</b>	<b>439,336</b>
Including:	
1. Russian government debt obligations	256,464
Of which:	
Russian government debt obligations received by Bank of Russia as a result of restructuring of government securities and other Finance Ministry debts to Bank of Russia and acquired by Bank of Russia in 1999	228,220
Finance Ministry promissory notes	19,306
other debt obligations	8,938
2. Bank of Russia funds transferred to Vneshekonombank to extend loans to Finance Ministry for Russian government foreign debt repayment and service	179,719
3. CIS and Baltic countries' debt on interest on technical loans and interstate settlements	2,801
4. Debt on technical loans	352

Table 16

## RUSSIA'S BALANCE OF PAYMENTS FOR 2000 (analytical presentation, million US dollars)

	Q1	Q2	Q3	Q4	2000	For reference: 1999
<b>Current account</b>	<b>11,926</b>	<b>10,943</b>	<b>10,546</b>	<b>12,927</b>	<b>46,342</b>	<b>24,647</b>
Balance of trade	14,384	14,630	15,601	16,089	60,703	36,129
<i>Exports</i>	<i>24,364</i>	<i>25,009</i>	<i>26,728</i>	<i>29,464</i>	<i>105,565</i>	<i>75,666</i>
crude oil	5,865	5,991	6,738	6,678	25,272	14,158
petroleum products	2,444	2,779	3,146	2,550	10,919	5,448
natural gas	4,706	3,555	3,482	4,902	16,644	11,352
other	11,349	12,685	13,362	15,335	52,730	44,708
<i>Imports</i>	<i>-9,980</i>	<i>-10,379</i>	<i>-11,127</i>	<i>-13,375</i>	<i>-44,862</i>	<i>-39,537</i>
Balance of services	-1,572	-2,086	-2,228	-1,914	-7,800	-4,368
<i>Exports</i>	<i>1,809</i>	<i>2,348</i>	<i>2,925</i>	<i>2,550</i>	<i>9,632</i>	<i>9,067</i>
transportation services	679	861	866	856	3,261	3,006
travel	657	965	1,390	828	3,839	3,723
other services	473	523	669	867	2,532	2,338
<i>Imports</i>	<i>-3,381</i>	<i>-4,434</i>	<i>-5,153</i>	<i>-4,464</i>	<i>-17,432</i>	<i>-13,435</i>
transportation services	-480	-587	-627	-635	-2,330	-2,221
travel	-1,754	-2,712	-3,377	-2,382	-10,224	-7,097
other services	-1,146	-1,135	-1,149	-1,448	-4,878	-4,117
Wage balance	55	59	69	85	268	221
Balance of investment income (interest and dividends)	-1,004	-1,756	-2,861	-1,298	-6,919	-7,937
Income receivable	2,407	602	584	659	4,253	3,456
Income payable	-3,411	-2,358	-3,445	-1,957	-11,172	-11,393
<i>Federal government</i>	<i>-749</i>	<i>-1,484</i>	<i>-2,732</i>	<i>-1,170</i>	<i>-6,134</i>	<i>-6,419</i>
Income receivable	1,949	115	128	90	2,281	2,525
Income payable	-2,697	-1,599	-2,860	-1,259	-8,415	-8,944
<i>Local governments (income payable)</i>	<i>-63</i>	<i>-50</i>	<i>-44</i>	<i>-43</i>	<i>-199</i>	<i>-226</i>
<i>Central Bank (interest payable on IMF loans)</i>	<i>-39</i>	<i>-34</i>	<i>-38</i>	<i>-39</i>	<i>-150</i>	<i>-173</i>

Cont.

	Q1	Q2	Q3	Q4	2000	For reference: 1999
<i>Banks</i>	183	326	330	403	1,242	306
Income receivable	307	425	422	548	1,702	805
Income payable	-124	-99	-92	-145	-460	-498
<i>Non-financial enterprises</i>	-336	-514	-379	-449	-1,678	-1,426
Income receivable	152	62	34	22	270	126
Income payable	-488	-576	-413	-470	-1,948	-1,552
Balance of current transfers	63	95	-33	-35	90	601
<b>Capital and financial accounts</b>	<b>-6,548</b>	<b>-3,764</b>	<b>-3,799</b>	<b>-6,879</b>	<b>-20,990</b>	<b>-15,953</b>
<b>Capital account (capital transfers)</b>	<b>22</b>	<b>-39</b>	<b>10,976</b>	<b>-4</b>	<b>10,955</b>	<b>-328</b>
<b>Financial account (except reserves)</b>	<b>-6,570</b>	<b>-3,725</b>	<b>-14,775</b>	<b>-6,875</b>	<b>-31,945</b>	<b>-15,625</b>
<b>Liabilities (+ up, — down)</b>	<b>517</b>	<b>-1,352</b>	<b>-10,989</b>	<b>287</b>	<b>-11,538</b>	<b>1,511</b>
<i>Federal government</i>	365	-1,072	-11,756	-1,473	-13,937	1,122
Portfolio investments (debt securities)	84	-1,053	-8,662	-702	-10,334	-693
issue	107	81	21,237	32	21,457	3,202
redemption (by schedule)	-491	-1,902	-30,039	-490	-32,921	-7,198
principal amount	-70	-360	-29,770	-94	-30,294	-3,210
coupons	-421	-1,542	-269	-396	-2,627	-3,988
re-investment of income	1,030	1,019	943	764	3,757	4,367
secondary market	-563	-251	-804	-1,008	-2,626	-1,063
Loans	-22	-1,116	-4	-862	-2,004	-4
utilisation	481	161	398	103	1,144	2,734
redemption (by schedule)	-1,994	-1,428	-2,012	-1,095	-6,528	-7,339
restructuring	1,490	150	1,610	130	3,380	4,600
Overdue debt	274	1,096	-3,096	89	-1,638	1,832
accumulation	333	1,175	251	141	1,900	6,330
repayment/restructuring	-59	-79	-3,347	-53	-3,538	-4,498
Other liabilities	30	1	6	3	39	-13
<i>Local governments</i>	-124	-289	-91	-280	-784	-247
<i>Central Bank (operations with IMF loans)</i>	0	0	0	0	0	-917



End

	Q1	Q2	Q3	Q4	2000	For reference: 1999
<i>Banks</i>	58	-138	559	1,039	1,517	-879
Direct investment	40	44	51	95	229	495
Loans and deposits	-77	-290	140	593	366	-1,406
Other liabilities	96	108	367	352	923	33
<i>Non-financial enterprises</i>	218	147	300	1,001	1,665	2,432
Direct investment	496	415	610	954	2,475	2,814
Portfolio investment	469	-171	-136	-79	83	-225
Loans	-747	-97	-175	126	-893	-448
Other liabilities	0	0	0	0	0	291
<b>Assets, except reserves (+ down, - up)</b>	<b>-7,087</b>	<b>-2,373</b>	<b>-3,785</b>	<b>-7,162</b>	<b>-20,407</b>	<b>-17,136</b>
<i>Federal government</i>	-1,670	249	-82	-91	-1,594	-1,347
Loans	1,851	944	958	2,052	5,806	4,576
Overdue debt	-3,715	-668	-1,033	-2,121	-7,537	-5,712
Other assets	194	-27	-8	-21	138	-211
<i>Banks</i>	-1,551	-559	-1,019	-351	-3,480	-3,388
Direct investment	-1	4	-235	-108	-340	-37
Loans and deposits	-1,867	-464	-1,167	-62	-3,559	-3,281
Other assets	317	-99	382	-181	419	-71
<i>Non-financial enterprises and households</i>	-3,865	-2,063	-2,684	-6,720	-15,333	-12,401
Direct and portfolio investments	-541	-376	-1,127	-1,189	-3,233	-1,927
Foreign cash	-112	463	314	-1,001	-337	1,031
Commercial loans and advances	-736	-184	-847	-2,413	-4,180	-5,550
Debt on commodity deliveries under intergovernmental agreements	-596	-276	666	-328	-534	-305
Non-receipt of proceeds from exports and import advances not reimbursed in time	-1,598	-1,266	-1,513	-915	-5,293	-5,051
Other assets	-283	-424	-177	-874	-1,758	-600
<b>Net errors and omissions</b>	<b>-2,276</b>	<b>-959</b>	<b>-2,768</b>	<b>-3,339</b>	<b>-9,342</b>	<b>-6,916</b>
<b>Change in foreign exchange reserves (+ down, - up)</b>	<b>-3,102</b>	<b>-6,219</b>	<b>-3,979</b>	<b>-2,710</b>	<b>-16,010</b>	<b>-1,778</b>

Table 17

**STRUCTURE OF FOREIGN INVESTMENT IN RUSSIA IN 2000 (billion US dollars)\***

Type of investment	Q1	Q2	Q3	Q4	2000	For reference: 1999
Direct	0.5	0.5	0.7	1	2.7	3.3
Portfolio	0.6	-1.5	-8.8	-0.4	-10.1	-1.2
Other	-0.6	-0.3	-2.9	-0.3	-4.1	-0.6
<b>Total</b>	<b>0.5</b>	<b>-1.3</b>	<b>-11</b>	<b>0.3</b>	<b>-11.5</b>	<b>1.5</b>

\* Net growth in debt obligations to non-residents according to balance of payments data.

Note.

— means decrease in residents' foreign debt obligations.

Table 18

**DYNAMICS OF RUSSIAN DEBT TO IMF AND IBRD IN 2000 (billion US dollars)**

Financing facility	Debt as of 1.01.2000	Used in period under review	Repaid in period under review	Exchange rate revaluation	Debt as of 1.01.2001
IMF loans	15.2	0	2.9	-0.7	11.6
Systemic Transformation Facility, 1993—1994	2.1	0	0.5	-0.1	1.5
Stand-by Loan, 1995—1996	2.5	0	2.3	-0.1	0.1
Extended Fund Facility, 1996—1998	7	0	0.1	-0.4	6.5
Compensatory and Contingency Financing Facility*, 1998	3	0	0	-0.2	2.8
Stand-by Loan, 1999	0.6	0	0	0	0.6
IBRD loans	6.7	0.5	0.3	-0.1	6.8

\* Bank of Russia debt.

Table 19

**STRUCTURE OF RUSSIAN RESIDENTS' INVESTMENT IN FOREIGN ASSETS (NET OF RESERVES) IN 2000 (billion US dollars)\***

Type of investment	Q1	Q2	Q3	Q4	2000	For reference: 1999
Direct	0.5	0.4	0.8	1.3	3	2
Portfolio	0	0	0.3	0.1	0.4	-0.3
Other	6.6	2	2.7	5.7	17	15.4
<b>Total</b>	<b>7.1</b>	<b>2.4</b>	<b>3.8</b>	<b>7.1</b>	<b>20.4</b>	<b>17.1</b>

\* Net growth in residents' foreign assets according to balance of payments data.

Note.

— means decrease in residents' foreign assets.

Table 20

**INTERNATIONAL INVESTMENT POSITION OF RUSSIA'S BANKING SYSTEM**  
(as of January 1, 2000 and January 1, 2001, million US dollars)

	Balance as of 1.01.2000	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2001
<b>Assets</b>	<b>28,373</b>	<b>19,489</b>	<b>-541</b>	<b>-332</b>	<b>18,617</b>	<b>46,989</b>
<b>Direct investment abroad</b>	<b>1,077</b>	<b>340</b>	<b>-52</b>	<b>4</b>	<b>291</b>	<b>1,368</b>
Shareholding and reinvested income	672	-2	-47	2	-47	626
Other capital	404	342	-6	2	338	742
<b>Portfolio investment</b>	<b>861</b>	<b>-142</b>	<b>-34</b>	<b>-2</b>	<b>-178</b>	<b>683</b>
Shareholding	6	9	0	0	8	15
Debt securities	855	-151	-33	-2	-186	669
long-term	713	-353	-7	0	-360	354
short-term	142	202	-27	-2	173	315
<b>Other investment</b>	<b>13,732</b>	<b>3,298</b>	<b>-253</b>	<b>-43</b>	<b>3,002</b>	<b>16,733</b>
Foreign cash and deposits	10,892	3,147	-206	-13	2,929	13,819
Foreign cash in tills	775	-124	-7	-4	-134	640
Current accounts and deposits	10,117	3,271	-200	-9	3,063	13,179
long-term	319	49	0	0	49	368
short-term	9,798	3,222	-200	-9	3,014	12,811
Loans	2,179	395	-28	-10	357	2,536
long-term	1,153	173	-6	-8	160	1,313
short-term	1,026	221	-22	-2	197	1,223
Overdue debt	258	-188	0	-7	-194	64
Other assets	403	-57	-19	-14	-89	314
long-term	59	5	-1	0	4	63
short-term	344	-62	-17	-14	-93	251

Cont.

	Balance as of 1.01.2000	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2001
<b>Reserves</b>	<b>12,456</b>	<b>16,010</b>	<b>—203</b>	<b>—291</b>	<b>15,517</b>	<b>27,972</b>
Monetary gold	3,998	0	0	—291	—291	3,708
Special Drawing Rights (SDR)	1	2	—2	0	0	1
Reserve position in IMF	1	0	0	0	0	1
Other foreign exchange assets	8,455	16,009	—202	0	15,807	24,263
Adjustment for reserves	248	—17	2	0	—15	233
<b>Liabilities</b>	<b>11,808</b>	<b>1,517</b>	<b>—19</b>	<b>—291</b>	<b>1,207</b>	<b>13,015</b>
<b>Direct investment in Russia</b>	<b>731</b>	<b>229</b>	<b>39</b>	<b>—1</b>	<b>267</b>	<b>997</b>
Shareholding and reinvested income	564	204	47	—1	249	813
Other capital	167	26	—8	0	18	184
<b>Portfolio investment</b>	<b>346</b>	<b>530</b>	<b>8</b>	<b>—26</b>	<b>511</b>	<b>857</b>
Shareholding	40	2	8	1	11	51
Debt securities	306	527	0	—28	500	805
long-term	121	392	—2	—7	383	504
short-term	185	136	1	—20	117	302
<b>Other investment</b>	<b>10,732</b>	<b>758</b>	<b>—66</b>	<b>—263</b>	<b>430</b>	<b>11,161</b>
Cash rubles and deposits	3,577	907	—47	—83	777	4,353
Cash rubles	31	155	—2	—23	131	162
Current accounts and deposits	3,546	752	—46	—61	646	4,191
long-term	753	—429	0	—12	—441	312
short-term	2,793	1,181	—46	—49	1,087	3,880
Loans	6,100	—387	—178	—52	—617	5,483
IMF loans	2,960	0	—150	0	—150	2,810
other long-term loans	1,784	—968	—12	6	—974	811
short-term loans	1,355	581	—16	—58	507	1,862

End

	Balance as of 1.01.2000	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2001
Overdue debt	806	42	1	—127	—84	723
Other liabilities	249	195	159	—1	353	602
long-term	93	65	—1	0	64	157
short-term	157	130	160	—1	289	446
<b>Net international investment position</b>	<b>16,565</b>	<b>17,972</b>	<b>—521</b>	<b>—41</b>	<b>17,410</b>	<b>33,974</b>

For reference: +means net increase in assets or liabilities, — means their net decrease. This use of the symbol 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. “Reserves” include gold and foreign exchange reserves of the Finance Ministry as a monetary authority.

3. “Adjustment for reserves” is included in the table to match balance of payments and Russian international investment position data, which are compiled in accordance with the IMF Balance of Payments Manual (Fifth Edition), on the one hand, with the official international reserve statistics, which are calculated using national methodology, on the other hand. The differences between the methodology of calculating international reserves and the methodology recommended in the IMF Manual are as follows:

— before the 3rd quarter of 1999 international reserves included short-term foreign currency deposits with resident banks;

— beginning from the 3rd quarter of 1999 an equivalent of the foreign currency balances in resident banks’ accounts with the Bank of Russia, except the balances kept by the Bank of Russia for foreign debt service, is excluded from the sum of international reserves.

4. Gold is valued at \$300 per troy oz.

5. “IMF loans” show Bank of Russia 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 21

## DYNAMICS OF RUSSIA'S INTERNATIONAL RESERVES IN 2000 (million US dollars)

	Balance as of												
	2000											2001	
	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
Reserves (including Finance Ministry assets)	12,455	12,948	13,657	15,532	17,091	19,570	20,996	23,302	23,731	25,007	25,880	27,667	27,972
Foreign exchange assets	8,457	8,912	9,606	11,456	13,410	15,878	17,685	19,955	20,289	21,474	22,290	24,035	24,264
Monetary gold*	3,998	4,035	4,051	4,076	3,682	3,692	3,312	3,347	3,442	3,533	3,590	3,632	3,708

\* Gold is valued at \$300 per troy oz.

Table 22

## RUSSIA'S FOREIGN DEBT (as of date, billion US dollars)

	1.01.2000	1.04.2000	1.07.2000	1.10.2000	1.01.2001
<b>Total</b>	<b>180,0</b>	<b>176,2</b>	<b>174,7</b>	<b>161,6</b>	<b>162,8</b>
<b>New Russian debt</b>	<b>82,5</b>	<b>79,2</b>	<b>77,0</b>	<b>95,5</b>	<b>95,1</b>
<b>General government</b>	<b>50,1</b>	<b>47,6</b>	<b>45,4</b>	<b>63,4</b>	<b>61,2</b>
<i>Federal government</i>	<i>48,1</i>	<i>45,8</i>	<i>43,8</i>	<i>61,9</i>	<i>60,0</i>
loans extended by international financial organisations	19,2	18,1	17,2	16,4	15,8
<i>IMF</i>	<i>12,3</i>	<i>11,2</i>	<i>10,3</i>	<i>9,3</i>	<i>8,8</i>
<i>IBRD</i>	<i>6,7</i>	<i>6,7</i>	<i>6,7</i>	<i>6,9</i>	<i>6,8</i>
<i>other</i>	<i>0,2</i>	<i>0,2</i>	<i>0,2</i>	<i>0,2</i>	<i>0,2</i>
other loans	10,0	9,6	9,3	8,6	8,6
foreign currency-denominated securities	12,1	11,6	11,3	31,5	30,7
<i>eurobonds (including eurobonds issued to restructure GKO and debt to London Club)</i>	<i>11,1</i>	<i>10,7</i>	<i>10,6</i>	<i>30,7</i>	<i>29,9</i>
<i>6th and 7th tranches of OGVZ bonds and OGVZ bonds issued in 1999</i>	<i>0,6</i>	<i>0,6</i>	<i>0,6</i>	<i>0,7</i>	<i>0,7</i>
<i>other securities</i>	<i>0,4</i>	<i>0,3</i>	<i>0,1</i>	<i>0,1</i>	<i>0,0</i>
ruble-denominated securities (GKO—OFZ)	3,6	3,2	2,8	2,2	1,6
other debt	3,2	3,2	3,2	3,2	3,2
<b>Local governments</b>	<b>2,0</b>	<b>1,9</b>	<b>1,6</b>	<b>1,5</b>	<b>1,2</b>
loans	0,9	0,8	0,8	0,8	0,6
eurobonds	1,1	1,1	0,8	0,7	0,6
<b>Bank of Russia (as regards IMF loan)</b>	<b>3,0</b>	<b>2,9</b>	<b>2,9</b>	<b>2,8</b>	<b>2,8</b>
<b>Banking system (without shareholding)*</b>	<b>8,2</b>	<b>8,1</b>	<b>8,0</b>	<b>8,5</b>	<b>9,3</b>
loans	3,3	3,0	3,1	2,7	2,9
current accounts and deposits	3,6	3,7	3,4	3,9	4,4
debt securities	0,3	0,3	0,3	0,4	0,8
other debt	1,1	1,1	1,2	1,5	1,3

End

	1.01.2000	1.04.2000	1.07.2000	1.10.2000	1.01.2001
<b>Non-financial enterprises (without shareholding)</b>	<b>21,1</b>	<b>20,6</b>	<b>20,7</b>	<b>20,9</b>	<b>21,7</b>
loans received by direct investment enterprise	3,8	4,1	4,4	4,7	5,4
debt on financial leasing	1,5	1,5	1,5	1,5	1,5
other loans	15,7	15,0	14,9	14,6	14,8
<b>Debt of former USSR</b>	<b>97,5</b>	<b>97,0</b>	<b>97,7</b>	<b>66,2</b>	<b>67,7</b>
<b>  General government</b>	<b>97,5</b>	<b>97,0</b>	<b>97,7</b>	<b>66,2</b>	<b>67,7</b>
<i>Federal government</i>	<i>97,5</i>	<i>97,0</i>	<i>97,7</i>	<i>66,2</i>	<i>67,7</i>
Paris Club of creditor nations	38,7	38,4	38,1	38,8	40,2
London Club of commercial bank creditors**	30,6	30,5	31,7	0,0	0,0
3rd, 4th and 5th tranches of OVGYZ bonds	1,8	1,8	1,6	1,4	1,2
debt to former Eastern-bloc countries	14,8	14,7	14,5	14,3	14,3
other debt	11,6	11,6	11,8	11,7	12,0

\* These include debt obligations of the Bank of Russia (except debt obligations to the IMF) and other credit institutions, including Vneshekonombank. Foreign debt recorded by Vneshekonombank as an agent of the Russian government is presented as part of debt obligations of the general government.

\*\* From October 1, 2000, debt to the London Club of commercial bank creditors has been included in the new Russian debt owing to its restructuring into sovereign eurobonds (as part of the debt was written down) in the 3rd quarter of 2000.

Note.

Government securities are presented as part of the debt to non-residents and evaluated at their par value.



Table 23

## MAJOR ECONOMIC DEVELOPMENT INDICATORS OF CIS COUNTRIES IN 2000

	Azerbaijan	Armenia	Belarus*	Georgia	Kazakhstan	Kirghizia	Moldova	Russia	Tajikistan**	Turkmenia	Ukraine
<b>Key macroeconomic indicators</b>											
Gross domestic product (as % of previous year)	111.4	106.0	105.8	101.9	109.6	105.0	101.9	108.3	108.3	122.9	106.0
Industrial production (as % of previous year)	106.9	106.4	108.0	106.1	114.6	106.0	106.9	109.0	110.3	129.0	112.9
Retail trade turnover (as % of previous year)	109.8	108.5	108.5	111.6	—	107.2	100.3	108.9	78.8	130.0	106.9
Consumer price index (as % of December 1999)	102.1	100.4	207.5	104.6	109.8	118.2	118.5	120.2	160.6	107.4	125.8
Officially registered unemployed as % of economically active population (as of end of year)	1.15	10.6	2.1	—	3.7	3.1	—	1.4	—	—	4.22
Official central (national) bank rate (refinancing rate), %											
December 1999	10	43	120	29.0	18	55.07	—	55	14.3	27	45.0
December 2000	10	25	80	6.3	14	38.29	—	25	20.6	20	27.0
Official exchange rate of national currency set by central (national) bank, units of national currency											
against US dollar											
as of 1.01.2000	4,373	523.77	320	1.9300	138.20	45.4293	11.5902	27.00	1,436	5,200	5.2163
as of 1.01.2001	4,565	552.18	1,180	1.9750	144.50	48.3041	12.3833	28.16	2.2	5,200	5.4345
against Russian ruble											
as of 1.01.2000	161.96	19.04	11.87	0.0702	5.03	1.7002	0.4183	—	53.19	189	0.193
as of 1.01.2001	162.11	19.55	41.97	0.0693	5.16	1.7153	0.4322	—	0.07813	185.91	0.193
Money supply in national currency (rate of growth by beginning of year, %)	18.3	38.6	134.0	33.6	45.9	12.1	39.0	62.4	30.4	...	44.5

End

	Azerbaijan	Armenia	Belarus*	Georgia	Kazakhstan	Kirghizia	Moldova	Russia	Tajikistan**	Turkmenia	Ukraine
<b>Major financial market indicators (as of end of year)</b>											
Interbank lending rate in national currency	20.33	28.76	167.1	—	18.00	32.12	16.87	7.3	45.854	...	7.8
Yield on government debt instruments	15.25	26.31	75.9	19.14	7.70	44.79	19.48	23.16	40	...	23.18
Interest rate on loans denominated in national currency											
short-term loans	19.53	26.52	88.1	22.5	19.6	49.5	33.11	18.1	18.593	...	37.9
long-term loans	21.6	18.92	19.1	17.0	17.3	50.94	29.09	16.7	26.387	...	38.0
Interest rate on household deposits in national currency											
demand deposits	1.9	2.87	9	4	2.1	5.69	6.13	2.0	8.0	...	4.1
short-term deposits	9.26	20.26	114.8	11.1	15.9	23.53	24.96	4.2	36.0	...	23.6
long-term deposits	8.0	24.60	129.7	2.0	15.2	33.26	27.44	33.0	36.0	...	40.2
No. of registered commercial banks											
as of 1.01.2000	70	32	36	36	55	23	17	2,342	19	13	203
as of 1.01.2001	59	31	32	30	48	22	16	2,084	19	13	195

\* On January 1, 2000, the Belarussian ruble was re-denominated 1,000:1.

\*\* On October 30, 2000, Tajikistan introduced a new currency, the somoni (1 somoni=1,000 Tajikistan rubles).

Note. The refinancing rate in Kirghizia was set before June 7, 2000, on the basis of average weighted yield on 3-month government bills, and afterwards it has been set on the basis of average weighted yield on 28-day notes of the National Bank of the Republic of Kirghizia; Georgia's rates are those of auctions of loans with terms up to 29 days. The interbank lending rate in Azerbaijan is the rate on 90-day loans, in Armenia loans with terms up to 15 days, in Belarus, Russia and Ukraine overnight loans, in Kirghizia and Moldova loans with all terms. Yields on government debt instruments are those of 91-day papers in Armenia, 6- to 12-month papers in Belarus, 28-day papers in Georgia, 3- to 6-month papers in Kazakhstan, 3-month papers in Kirghizia, papers with all terms in Moldova and 182-day papers in Tajikistan. In Russia the yield is set on the basis of the effective indicator of GKO—OFZ market turnover.

This table is based on data provided by CIS central (national) banks.

Table 24

## MAJOR ECONOMIC DEVELOPMENT INDICATORS OF NON-CIS COUNTRIES IN 1998—2000\*

	Real GDP growth rates, increase as % of previous year			Consumer price growth rates, increase as % of previous year			Unemployment rate, %			Current account balance, as % of GDP		
	1998	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999	2000
USA	4.4	4.2	5.0	1.6	2.2	3.4	4.5	4.2	4.0	-2.5	-3.6	-4.4
Canada	3.3	4.5	4.7	1.0	1.7	2.7	8.3	7.6	6.8	-1.8	-0.4	1.8
Japan	-1.1	0.8	1.7	0.6	-0.3	-0.7	4.1	4.7	4.7	3.1	2.4	2.5
Australia	5.3	4.7	3.7	0.9	1.5	4.5	8.0	7.2	6.6	-5.0	-5.8	-4.0
EU**	2.8	2.5	3.3	1.3	1.2	2.1	9.5	9.1	8.2	0.5	-0.1	-0.6
Great Britain***	2.6	2.3	3.0	2.7	2.3	2.1	6.3	6.1	5.5	0.0	-1.1	-1.7
EMU****	2.8	2.5	3.4	1.1	1.1	2.3	10.9	10.0	9.0	0.5	-0.1	-0.4
Germany	2.1	1.6	3.0	0.6	0.6	2.1	11.0	10.5	9.6	-0.2	-0.9	-1.1
France	3.3	3.2	3.2	0.7	0.6	1.8	11.9	11.3	9.7	2.6	2.6	2.1
Italy	1.8	1.6	2.9	2.0	1.7	2.6	11.8	11.4	10.6	1.7	0.5	-0.6
Hong Kong	-5.3	3.1	10.5	2.8	-4.0	-3.7	4.7	6.3	5.0	2.4	6.6	5.8
Singapore	0.1	5.9	9.9	-0.3	0.0	1.3	3.2	3.5	3.1	24.6	25.9	23.6
Taiwan	4.6	5.4	6.0	1.7	0.2	1.3	2.7	2.9	3.0	1.3	2.9	3.0
South Korea	-6.7	10.9	8.8	7.5	0.8	2.3	6.8	6.3	4.1	12.7	6.0	2.4
China	7.8	7.1	8.0	-0.8	-1.4	0.4	3.1	3.1	3.1	3.1	1.6	1.2
Argentina	3.9	-3.4	-0.5	0.9	-1.2	-0.9	14.1	14.3	15.1	-4.8	-4.4	-3.4
Brazil	0.2	0.8	4.2	3.2	4.9	7.0	7.6	7.6	7.1	-4.3	-4.7	-4.2
Mexico	5.0	3.8	6.9	15.9	16.6	9.5	2.3	2.5	2.2	-3.8	-2.9	-3.1
Hungary	4.9	4.4	5.2	14.2	10.0	9.8	7.8	7.0	6.4	-4.9	-4.3	-3.5
Poland	4.8	4.1	4.1	11.8	7.3	10.1	10.4	13.1	15.0	-4.4	-7.5	-6.1
Czech Republic	-2.2	-0.8	3.1	10.7	2.1	3.9	6.1	8.6	9.0	-2.4	-3.0	-4.8

\* Based on national statistical sources of corresponding countries, EUROSTAT and IMF.

\*\* Austria, Belgium, Great Britain, Germany, Greece, Denmark, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland, France and Sweden.

\*\*\* Consumer price growth rates do not include interest on mortgage credit.

\*\*\*\* Austria, Belgium, Germany, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland and France.

Table 25

**MONEY SUPPLY (national definition, billion rubles)**

	1.01.2000	1.04.2000	1.07.2000	1.10.2000	1.01.2001
Money supply (M2), total	704.7	751.4	892.2	992.4	1,144.3
cash in circulation (M0)*	266.5	251.5	321.8	351.0	419.3
non-cash funds	438.1	499.9	570.4	641.4	725.0

\* Cash in circulation outside the banking system.

Table 26

**AVERAGE MONTHLY RATES OF MONEY SUPPLY GROWTH IN 2000 (%)**

	Q1	Q2	Q3	Q4	Year's total
Money supply (M2), total	2.2	5.9	3.6	4.9	4.1
cash in circulation*	-1.9	8.6	2.9	6.1	3.8
non-cash funds	4.5	4.5	4.0	4.2	4.3

\* Cash in circulation outside the banking system.

Table 27

**STRUCTURE OF MONEY SUPPLY (M2)**

	1.01.2000		1.01.2001		Growth index for 2000
	billion rubles	%	billion rubles	%	
Money supply (M2), total	704.7	100.0	1,144.3	100.0	1.62
Of which:					
cash in circulation*	266.5	37.8	419.3	36.6	1.57
non-cash funds	438.1	62.2	725.0	63.4	1.65
Of which:					
funds of non-financial institutions	234.9	33.3	420.1	36.7	1.79
household deposits	203.2	28.8	304.9	26.6	1.50

\* Cash in circulation outside the banking system.

Table 28

**MONETARY BASE AND ITS STRUCTURE**

	1.01.2000		1.01.2001		Growth index for 2000
	billion rubles	%	billion rubles	%	
Monetary base (in broad definition)	425.8	100.0	721.6	100.0	1.69
Of which:					
cash in circulation, including cash balances in tills of credit institutions*	288.6	67.8	446.5	61.9	1.55
credit institutions' correspondent accounts with Bank of Russia**	68.9	16.2	130.1	18.0	1.89
required reserves***	64.6	15.2	124.3	17.2	1.92
credit institutions' deposits with Bank of Russia	3.7	0.9	20.7	2.9	5.59

\* 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 29

**ANALYTICAL ACCOUNTS OF CREDIT INSTITUTIONS (million rubles)**

	1.01.2000	1.01.2001	Change for 2000
Reserves	160,017.3	301,124.5	141,107.2
Foreign assets	370,651.3	476,581.8	105,930.5
Claims on general government	437,675.2	526,020.7	88,345.5
Of which:			
claims on regional and local governments	19,870.5	18,531.3	—1,339.2
Claims on non-financial state enterprises	46,901.2	73,972.6	27,071.4
Claims on non-financial private enterprises and households	521,644.8	867,132.2	345,487.4
Claims on other financial institutions	13,060.2	14,525.0	1,464.8
Demand deposits	249,673.7	443,020.9	193,347.2
Time and savings deposits and foreign currency deposits	456,527.8	680,646.9	224,119.1
Of which:			
foreign currency deposits	290,212.9	420,090.5	129,877.6
Limited-access deposits	10,223.6	6,373.3	—3,850.3
Money market instruments	107,817.2	191,059.0	83,241.8
Foreign liabilities	222,626.6	248,920.7	26,294.1
General government deposits	28,671.8	54,547.2	25,875.4
Of which:			
regional and local government deposits	15,626.8	36,641.8	21,015.0
Obligations to monetary authorities	200,121.4	205,439.4	5,318.0
Capital accounts	293,199.4	437,265.2	144,065.8
Other (net)	—18,911.6	—7,915.9	10,995.7

Table 30

**MONETARY SURVEY (million rubles)**

	1.01.2000	1.01.2001	Change for 2000
Net foreign assets of monetary authorities and credit institutions	107,184.1	737,141.0	629,956.9
Domestic credit	1,487,198.2	1,691,683.9	204,485.7
Net credit to general government	905,162.5	735,687.3	—169,475.2
Claims on non-financial state enterprises	47,014.9	74,075.2	27,060.3
Claims on non-financial private enterprises and households	521,960.6	867,396.4	345,435.8
Claims on other financial institutions	13,060.2	14,525.0	1,464.8
Money	526,771.8	879,309.8	352,538.0
Quasi-money	458,102.7	680,654.4	222,551.7
Limited-access deposits	10,223.6	6,373.3	—3,850.3
Money market instruments	107,817.2	191,059.0	83,241.8
Capital accounts	445,043.2	603,312.7	158,269.5
Other (net)	46,423.9	68,115.8	21,691.9

Table 31

**SANCTIONS APPLIED TO CREDIT INSTITUTIONS IN 2000**

No.	Description of actions	No. of banks
<b>Preventive actions</b>		
1	Notifying in writing management and/or board of directors (supervisory board) of credit institution about shortcomings in its work and recommending remedial actions	1,123
2	Calling a meeting	236
3	Other (recommendations to draw up a plan of remedial actions, increase control over reporting, make realistic assessment of credit risks, avoid distortions in statements, etc.)	42
<b>Coercive actions</b>		
4	Fines	843
	Including:	
4.1	finances for non-compliance with reserve requirements	382
4.2	finances for violation of other prudential standards	461
5	Imposing restrictions on individual operations conducted by credit institutions	244
	Including:	
5.1	taking household funds on deposit	175
5.2	effecting settlements on behalf of legal entities involved in transfer of funds to budgets of all levels and government extra-budgetary funds	54
6	Prohibiting credit institutions from conducting individual banking operations	161
	Including:	
6.1	taking household funds on deposit	112
6.2	other	49
7	Demands	1,034
	Including:	
7.1	demands to comply with Bank of Russia mandatory ratios and standards	224
7.2	demands to replace management	18
7.3	other	792
8	Prohibiting credit institutions from opening branches	218
9	Appointing provisional administration to credit institution	3
10	Revoking banking licence	33

Table 32

## NOTE STRUCTURE OF 1997 BANK OF RUSSIA BANKNOTES IN CIRCULATION

Denomination, rubles	Total in circulation, million rubles		As % of 1.01.2000	% share	
	1.01.2000	1.01.2001		1.01.2000	1.01.2001
500	125,527.60	253,007.30	201.6	44	57.2
100	112,456.10	140,335.90	124.8	39.4	31.7
50	40,507.30	42,991.40	106.1	14.2	9.7
10	6,657.70	6,277.60	94.3	2.3	1.4
5	170.70	61.40	36	0.1	0
<b>Total banknotes of 1997 issue</b>	<b>285,319.40</b>	<b>442,673.60</b>	<b>155.2</b>	<b>100</b>	<b>100</b>

Table 33

## STRUCTURE OF 1997 BANK OF RUSSIA COINS IN CIRCULATION\*

Denomination	Total in circulation, million rubles		As % of 1.01.2000	% share	
	1.01.2000	1.01.2001		1.01.2000	1.01.2001
1 kopeck	15.3	21.7	141.8	0.5	0.5
5 kopecks	55.5	73.4	132.3	1.7	1.7
10 kopecks	196.5	285.7	145.4	6.1	6.7
50 kopecks	329.1	413.7	125.7	10.1	9.6
1 ruble	818.4	1,073.2	131.1	25.3	24.9
2 rubles	514.3	709.1	137.9	15.9	16.5
5 rubles	1,310.1	1,549.7	118.3	40.4	36
10 rubles	—	177.7	100	—	4.1
<b>Total coins of 1997 issue</b>	<b>3,239.2</b>	<b>4,304.2</b>	<b>132.9</b>	<b>100</b>	<b>100</b>

\* Excluding coins made of precious metals.



Table 34

**BANK OF RUSSIA STAKES IN AUTHORISED CAPITAL OF RUSSIAN CREDIT INSTITUTIONS  
AND OTHER ORGANISATIONS**

Name of organisation	1.01.2000	1.01.2001		
	Sum of shares (stakes) owned by Bank of Russia (at par)	Sum of shares (stakes) owned by Bank of Russia (at par)	Bank of Russia % share in authorised capital	Bank of Russia % share in voting capital
Sberbank	432,500.25	432,500.25	57.66	61.78
Vneshtorgbank	22,117,403	42,117,403	99.95	99.95
Moscow Interbank Currency Exchange	10,623	18,137	15.71	15.71
National Depository Centre	12,750	12,750	25.50	29.31

Table 35

**BANK OF RUSSIA STAKES IN CAPITAL OF OVERSEAS SUBSIDIARIES**

Name of bank	Currency	Bank of Russia voting shares		Bank of Russia % share as of 1.01.2001	
		1.01.2000	1.01.2001	in authorised capital	in voting capital
Ost-West Handelsbank, Frankfurt am Main*	German mark	106,600,000.00	106,600,000.00	82.0	82.0
Eurobank, Paris**	French franc	945,852,903.40	946,036,236.65	77.8	77.8
Moscow Narodny Bank, London**	British pound sterling	128,242,621.55	128,242,621.55	88.9	88.9
Donau-bank, Vienna	Austrian schilling	490,000,000.00	490,000,000.00	49.0	49.0
East-West United Bank, Luxembourg	euro	14,997,558.25	14,997,558.25	49.0	49.0

\* Since 2000 Bank of Russia stake in Ost-West Handelsbank has been represented by 1,066 registered single shares without nominal value.

\*\* Excluding shares of "nominal" shareholders recorded in the Bank of Russia balance sheet.

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