

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



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



Approved by the Bank of Russia Board of Directors on April 29, 2003

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INTRODUCTION

The Bank of Russia Annual Report for 2002, compiled in compliance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), adopted in July 2002, reflects the fulfilment of the functions assigned to the Bank of Russia to protect the ruble and ensure its stability, develop and strengthen the Russian banking system and ensure the effective and uninterrupted functioning of the Russian payment system. This Annual Report contains information on the organisational structure of the Bank of Russia and its activities aimed at enhancing the efficiency of the Bank of Russia system. Bank of Russia financial statements as of January 1, 2003, whose credibility has been confirmed by the auditor ZAO BDO UniconRuf, appointed by the National Banking Board, are an inalienable part of the Annual Report. Changes and amendments have been made in the structure of the financial statements to meet the requirements of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). The Bank of Russia Annual Report is important from the viewpoint of the openness of information and transparency of the Bank of Russia for all participants in economic activities.

The main result of Russia's social and economic development in 2002 was the further slowing of inflation accompanied by continued quite rapid economic growth. Owing to the Russian economy's heavy dependence on energy exports, the overall favourable situation on world energy markets for Russia in 2002 played a decisive role in the formation of Gross Domestic Product and budget revenue and in international reserve dynamics. At the same time, in the environment of a strong balance of payments against the background of structural reforms conducted in Russia, the Bank of Russia was confronted with the difficult task of achieving a sensible compromise between strengthening the national currency, slowing inflation and maintaining short-term and long-term economic growth.

A major result of monetary policy in 2002 was the reduction of the inflation and devaluation expectations of the public. Despite a slight overshoot of the inflation target, Bank of Russia actions in the field of monetary and exchange rate policies, backed by the Government and implemented in the context of the budget policy, made it possible to keep core inflation within the projected range and prevent more significant growth in the general level of consumer prices in 2002.

The concerted efforts of the Government and Bank of Russia helped tackle by and large the tasks set for 2002 in the Banking Sector Development Strategy. The amendments to applicable legislation, which came into effect in 2002, expanded the legal framework of banking regulation and supervision and facilitated the rehabilitation of the banking sector. The decisions taken in the field of banking regulation and supervision with the aim of maintaining stability of the banking sector and safeguarding the legitimate interests of bank creditors and depositors were adopted after a thorough evaluation of the situation and future developments, and with a view to enabling the supervisory authority to make the most of its possibilities and powers within the framework of applicable legislation.

The role of banks in the Russian economy increased during the year under review. The expansion of the capital base of credit institutions as a result of the increased profitability of the banking business and the measures taken to make banking more transparent helped increase public confidence in banks. The role of household deposits as one of the principal sources of capital formation for the banking sector, which was undermined by the 1998 crisis, has been practically

restored. The expansion of the resource base of credit institutions and longer borrowing terms facilitated the creation of additional conditions for the banking sector to convert savings into investments.

Last year the Bank of Russia carried out measures further to upgrade the payment system and enhance its efficiency by promoting the use of electronic settlements and making the payment system more open and transparent. It worked out new methodologies and techniques connected with the introduction of a real time gross settlements system.

Work continued to switch the Russian banking sector to IAS and the Bank of Russia Committee for IAS was set up to organise banks' conversion to international standards.

The Bank of Russia will continue to implement a policy aimed at consistently slowing inflation and upgrading banking supervision in the belief that macroeconomic stability and banking sector credibility are major factors of long-term sustainable economic growth. The experience it has gained in tackling complex problems in a rapidly changing environment allows one to feel confident that the Bank of Russia will attain the objectives it has set for the near future.



**THE ECONOMIC AND
FINANCIAL SITUATION
IN RUSSIA**

I

I.1. THE ECONOMIC SITUATION IN RUSSIA

The two most important results of the development of the Russian economy in 2002 were relatively high rates of economic growth and a rise in household incomes. GDP growth in Russia (4.3%) surpassed not only the expansion of the world economy as a whole (3%)¹, but also the increase in the production of goods and services in the industrialised nations (1.8%) and economies in transition (4.1%). At the same time, the role of the intensive factors of economic growth slightly declined in 2002. The slowing of growth in fixed capital investment last year showed that the pace of structural reform in Russia was too slow and the reform was not effective enough.

Economic developments in Russia in 2002 were seriously affected by changes in the world economy. A quite favourable price situation on world commodity markets for Russian exporters contributed to growth in output by export-oriented sectors. In 2002, Russian exports reached their highest level since 1992. A steady inflow of foreign exchange from foreign trade operations facilitated the maintenance of a strong balance of payments, growth in the country's international reserves and a rise in federal budget revenues and allowed Russia to service its foreign debt on time.

Favourable macroeconomic developments in 2002 were largely the result of the monetary policy pursued, which aimed at reducing inflation

to a level allowing conditions to emerge for the maintenance of sustained economic growth. Given the favourable foreign trade situation and significant inflow of foreign exchange to the country, it was a difficult task for economic policy to achieve a compromise between strengthening the national currency, slowing inflation and maintaining economic growth. Compared with 2001, inflation slowed down by more than 1.2 times, while core inflation declined by more than 1.5 times. The full-year rate of inflation, however, exceeded the plan target by one percentage point.

The state of government finance was a major factor of macroeconomic stability: for the first time Russian lawmakers approved a budget surplus for 2002 at 1.6% of GDP. The 2002 federal budget surplus in reality amounted to 1.5% of GDP. Russia serviced in full all its foreign and domestic debt obligations. To be able to effect its foreign debt payments when such payments peak and to alleviate its debt burden, the Russian government created a financial reserve, which had exceeded the projected levels by the end of 2002.

Output growth in 2002 was accompanied by a rise in the efficiency of production. The expansion of output was ensured not only by the increased utilisation of existing production capacities, but also by putting into operation new, more efficient ones. According to estimates, the utilisation ratio of production capacities in 2002

¹ According to the IMF's April 2003 economic report.

increased about 1% year on year, while labour productivity rose 1.8% in the economy as a whole. More efficient use of fixed assets is a major factor of growth in labour productivity.

Growth in the output of goods and services in 2002 was ensured by broadening consumer and investment demand. The measures taken by the Government in 2002 to raise the minimum wage and increase social guarantees created conditions for accelerated growth in household income and the corresponding increase in final consumption expenditure. Household spending on final consumption rose 8.5% in 2002, but unlike the situation in the two preceding years when growth in the gross fixed capital formation exceeded growth in spending on final consumption, the gross fixed capital formation in 2002 was slower than increment in household spending on final consumption.

The financial standing of Russian enterprises was characterised by a wide gap between the financial position of export-oriented companies and that of the manufacturing sector. As prices in the mining industries rose faster than in the manufacturing sector, the latter's production costs increased. There was a rise in unit production costs and a fall in profitability in the manufacturing sector. According to estimates, the expansion of production in the fuel and non-ferrous metallurgy sectors in 2002 accounted for more than half of the overall growth in industrial output. Volatile output dynamics in the branches orientated to the domestic market despite a fairly high level of solvent demand indicated that most of the manufacturing industries were not competitive enough to outsell importers.

Judging by Russia's balance of payments, there was a significant decline in the net outflow of corporate funds from the country in 2002, primarily owing to the increased inflow of portfolio investments and loans. This factor made the main contribution towards the formation of the financial position of the non-financial enterprise sector. Unlike the situation in the previous periods, in 2001 and 2002 enterprises were net borrowers of funds from the banking sector. Hence, the role of the banking system as the transmission mechanism of the monetary policy began to increase in the Russian economy.

Households are the sector that ensures the provision of financial resources to the economy.

According to estimates, growth in the household sector's net financial assets relative to GDP in 2002 reached the highest level since 1998. The savings strategies of the public underwent appreciable change over that period in favour of financing the national economy rather than the rest of the world.

Price dynamics in the Russian economy were formed as Russia continued to enjoy a strong balance of payments. Thanks to the co-operative efforts of the Bank of Russia and the Russian Government, consumer price growth slowed down significantly in 2002. In December 2002, consumer prices rose 15.1% year on year (in December 2001, consumer prices went up 18.6% year on year).

Even though core inflation has not exceeded the expected level, consumer price growth was faster than planned owing to rapid rates of growth in the prices of services provided to the public.

A major factor containing consumer price growth as a whole was rates of growth in food prices. Food prices were formed under the effect of slower year-on-year producer price growth in the food industry, which turned out highly competitive products. Food prices, excluding those for vegetables and fruit, rose 8.5% in 2002 year on year. Among the goods and services included in the consumer goods basket for the consumer price index calculation, growth in the prices of this group of products slowed down most significantly year on year (by 1.9 times). Estimates show that growth in food prices, excluding those for vegetables and fruit, in 2002 brought about a rise of 3.9 percentage points, or 25.9% of the overall price growth on the consumer goods market against 8.4 percentage points, or 45.2%, in 2001.

Growth in vegetable and fruit prices in 2002 accelerated by 1.2 times year on year. Vegetable and fruit prices rose 33.3% last year against 27.6% in 2001. Over the year, growth in vegetable and fruit prices brought about a rise of 1.8 percentage points, or 11.7% of the overall price growth on the consumer goods market. In 2001, the respective figures were 1.4 percentage points and 7.4%. Thus, the influence of volatile prices on overall price dynamics on the consumer goods market increased in 2002.

Non-food prices in 2002 grew faster than food prices, vegetable and fruit prices excluded. Non-food prices rose 10.9% in 2002 against 12.7% in

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

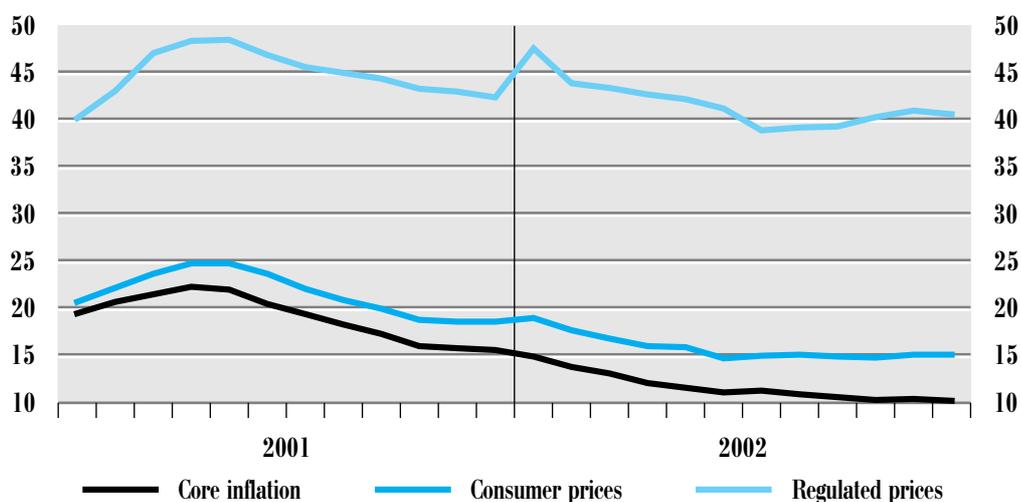


Chart 1

2001. Non-food price dynamics were formed amid relatively slow growth in producer prices in light industry, compared with the previous year, while output volumes contracted in that industry. Import price dynamics had a noticeable effect on non-food consumer price dynamics, owing to a large extent to the stronger euro and the exchange rate policy pursued in 2002.

Core inflation² in 2002 slowed down to 10.2% from 15.6% in 2001. It accounted for 8.4 percentage points, or 55.6% of the overall price growth on the consumer goods market against 13.2 percentage points, or 70.8% in 2001. In 2002, core inflation declined more than the general level of consumer prices.

Service prices rose 36.2% in 2002 against 36.9% in 2001. The most significant increase was registered last year in rent and communal service charges (48.8%), communications fees (37.6%) and children's pre-school tuition fees (33.6%). Passenger transport fares continued to rise at a rapid rate (26%). Growth accelerated year on year in healthcare charges, passenger transport fares, communications, children's pre-school instruction and education fees. Over the year, growth in service prices accounted for a rise of 5.9 percentage points, or 38.9% of overall price growth on the consumer goods market. In 2001,

the respective figures were 5.1 percentage points and 27.6%.

Rapid rates of growth in the prices of some socially important products made it increasingly difficult to meet the inflation target for 2002. The price of granulated sugar, for example, rose 30.8% whereas in 2001 it fell 4.5% and gasoline prices soared 20.4% after a 8.6% fall in 2001. Medicine prices went up 15.1% against 2.1% in 2001.

Industrial producer prices in 2002 accelerated compared with 2001 and rose more than consumer prices. In the first half of the year consumer prices rose faster than industrial producer prices, whereas in the second half the opposite was true. The accelerated industrial producer price growth in the second half of 2002 was caused, above all, by a sharp rise in producer prices in the fuel sector, ferrous metallurgy sector and petrochemical, timber, woodworking and pulp-and-paper industries.

In 2002, industrial producer prices increased 17.1% against 10.7% in 2001. At the same time, producer prices in the electric-power industry rose 27.3% and the fuel sector 24.3%. In the oil-extracting, oil-refining and gas industries producer prices went up 25.6%, 19.9% and 30.2% respectively. In 2001, producer prices in the electric-power industry rose 30.2% and the oil-extracting

² Calculated according to Goskomstat methodology.

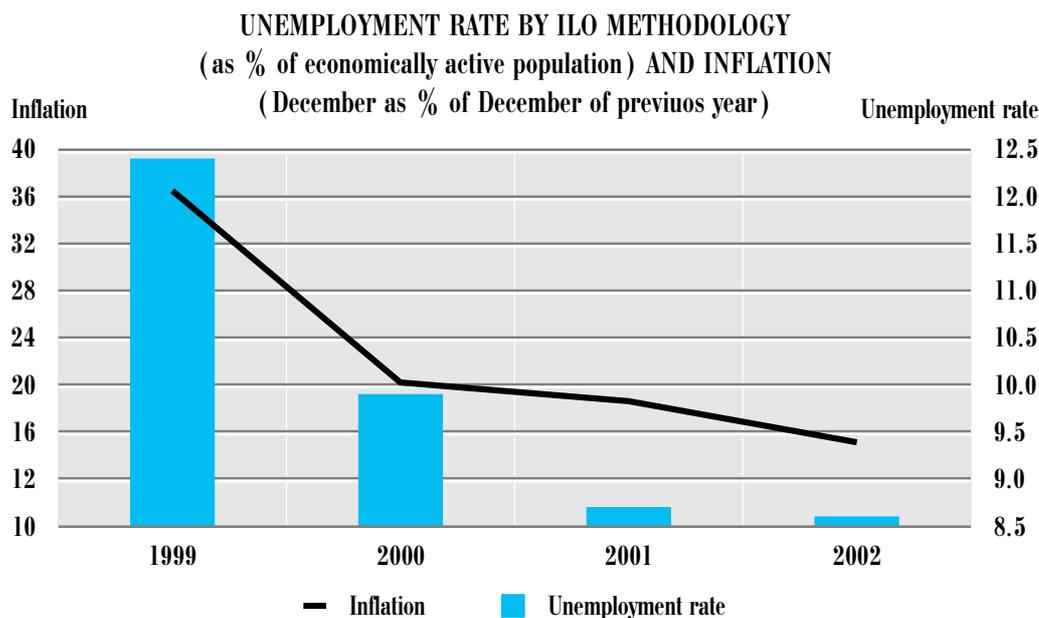


Chart 2

and oil-refining industries registered a fall in prices. Producer prices in the fuel sector edged up just 2.2% in 2001. Rapid rates of price growth in these sectors in 2002 had an adverse effect on production cost dynamics. Producer prices in the light and food industries rose 5.3% and 5.8% respectively in 2002 against 10.9% and 15% in 2001.

Thanks to economic growth, some favourable trends, such as a rise in **employed numbers** and a fall in the **unemployment level**, continued. Russia's economically active population increased to 71.8 million in 2002, of whom 92.0% were employed in the economy and 8.0% were considered unemployed in accordance with ILO methodology. In 2001, the respective figures were 70.9 million and 91.0% and 9.0%.

According to the government employment service, there was a year-on-year rise in the number of vacancies in 2002. At the same time, growth in the number of registered jobless also accelerated, escalating tension on the labour market. In 2002, the unemployment-vacancy ratio rose 15.4% year on year to 15 unemployed people per 10 reported vacancies.

Growth in output in 2002 stimulated job creation. The number of new jobs in 2002 rose 11.2% year on year.

The results of 2002 placed Russia in the group of countries with rapid **GDP** growth rates. Russia's GDP in 2002 expanded 4.3% year on

year (in 2001 it grew 5%). Value added increased 3.2% in the manufacturing sector and 5.4% in the services sector.

All key branches of the economy registered a rise in output in 2002. Production expanded in industry, construction, agriculture and transport, while and retail and wholesale trade volumes expanded significantly.

Industrial output in 2002 rose 3.7% year on year. The major factors of growth in industrial production were the favourable foreign trade situation, which facilitated the expansion of export-oriented production, and growth in domestic demand, which stimulated the development of other industries.

An analysis of rates of growth in industrial output, excluding seasonal and random factors, shows that the starting conditions for industry in 2002 were roughly the same as in 2001. The intensity of industrial production increased in the first half of the year, but slowed down in the second. A slowing of production activity in the second half of the year has been registered since 1999, but in 2002 it was more significant than ever.

According to estimates, the biggest contribution to industrial production growth was made in 2002 by the fuel sector, non-ferrous metallurgy sector and food industry.

The fuel sector demonstrated sustained growth in production, which rose 7% over the

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

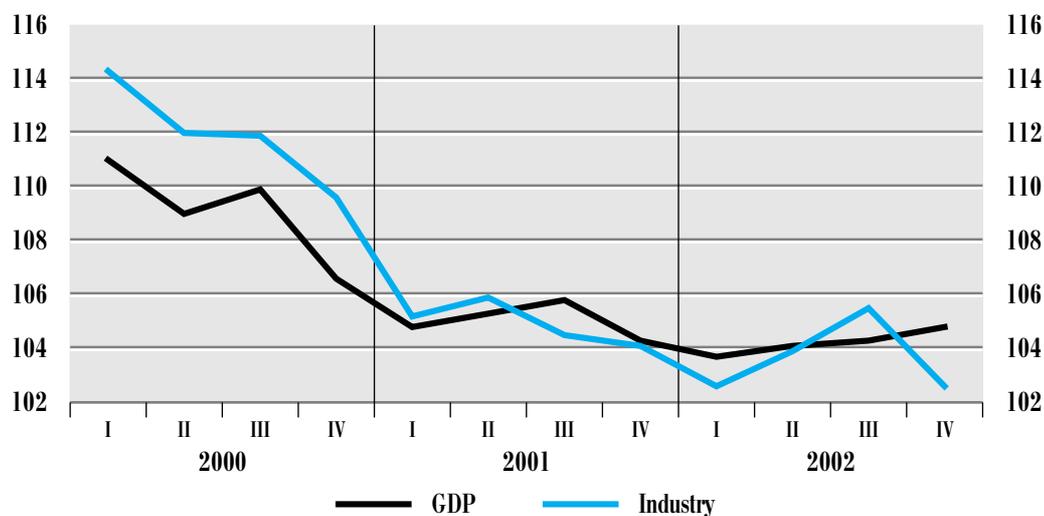


Chart 3

year against 6.1% in 2001. Stable external demand contributed to growth in output in the oil-extracting, oil-refining and gas industries in 2002. There was also a rise in the deliveries of oil, petroleum products and natural gas to foreign and domestic markets.

Output in the non-ferrous metallurgy sector rose 6% in 2002 against 4.9% in 2001. The chemical and petrochemical industries, ferrous metallurgy sector and wood-paper industry registered output growth (by 1.6%, 3% and 2.4% respectively), while the electric-power industry reduced production by 0.7%. Light industry was the only industry orientated to the domestic market that registered a fall in output (by 3.4% in 2002 against growth of 5.0% in 2001). The fact that production declined in light industry amid growth in household incomes and the expansion of import volumes indicates that the competitiveness of this industry was still low. A low level of investment activity was accompanied by the slowing of production growth in machine-building (2.0% in 2002 against 7.2% in 2001). In the food and building materials industries output increased 6.5% and 3% respectively.

The expansion of production in the food industry stimulated demand for farm produce. Agricultural output rose 1.7% in 2002.

As a result of growth in industrial and agricultural production and a rise in activity in the construction sector, transport companies regis-

tered an increase in freight traffic. In 2002, their freight turnover expanded 5.6%.

The financial standing of Russian enterprises deteriorated a little in 2002. The value of profit (net financial result) made by large and medium-sized enterprises and organisations (excluding small businesses, banks, insurance companies and budget-financed organisations) in 2002 amounted to 905.8 billion rubles, or 8.3% of GDP against 12.4% of GDP in 2001. Last year's profit was 18.9% smaller than in 2001. The share of profit-making enterprises contracted by 5 percentage points to 56.6% as of January 1, 2003.

The main reason for the fall in profit in the economy was its 26.3% decrease in industry. In 2001, industrial enterprises accounted for 52.7% of the economy's net profit, whereas in 2002 they accounted for 47.9%. Practically all industries registered a deterioration in their financial performance and a fall in profitability.

The main factor of the deterioration in corporate financial performance in 2002 amid growth in the output of goods and services was a rise in costs caused by the accelerated growth in prices of products turned out by cost-intensive industries, such as the fuel and energy sector, ferrous metallurgy sector and petrochemical industry, compared with a general price rise in industry. The ratio of profitability of the goods, products, works and services sold to earnings in 2002 was 10.1% in the economy and 12.3% in industry. The respective

percentages in 2001 were 12.6% and 15.6%. The highest level of profitability in 2002, as in 2001, was registered in export-oriented industries.

Despite the deterioration in corporate financial performance, the management of the financial activities of enterprises continued to change for the better in 2002 and that became manifest, among other things, in the improvement of the structure of working assets and payment discipline. The volume of paid-for products continued to expand in 2002 amid faster rates of growth in settlements effected with money, which accounted for 82% of the value of products (works and services) of the major taxpayers and industrial monopolies, an increase of 4.6 percentage points on 2001.

The distraction of assets to receivables decreased in the structure of working assets in 2002. Money increased 39.2% last year to 6.9% of working assets. Practically all sectors of the economy registered its growth. As of the end of 2002, working assets of large and medium-sized enterprises amounted to 7,914 billion rubles, an increase of 23% over the year.

Changes took place in the small business sector last year. As of January 1, 2003, there were 882,300 small businesses in Russia, 39,300 more than as of January 1, 2002. The number of full-time, part-time and contract workers and employees in small businesses in 2002 rose 7.3% year on year. In 2002, small businesses produced 1,160 billion rubles worth of goods, of which 25.2% were produced in industry, 28.1% in trade and public catering and 24.7% in construction. The small business sector's output accounted for 10.7% of GDP against 9.4% in 2001.

Continued economic growth and a rise in employment in 2002 brought about an increase in **household money income**.

Nominal money income rose 27.7% in 2002 year on year to 6,790.7 billion rubles, which accounted for 62.5% of GDP, an increase of 3.7 percentage points on 2001.

Real money income in 2002 rose 10.3% year on year and real disposable money income increased 9.9%. Real imputed average monthly wages rose 16.2% and real imputed monthly pension increased 16.3%.

Despite a rise in real income, the Russian population remained highly differentiated in terms of

PRODUCTION GROWTH RATES IN INDIVIDUAL INDUSTRIES IN 2002 (as % of 2001)

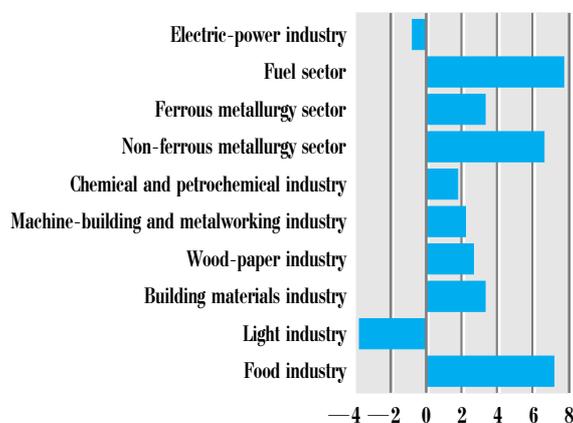


Chart 4

income. In 2002, as in 2001, 10% of the highest-income population accounted for 29.3% of the total value of money income, while 10% of the lowest-income population accounted for 2.1%.

The number of people with average per capita money income below the subsistence minimum set for Russia as a whole accounted for 25% of the country's total population in 2002 against 27.3% in 2001.

The share of household income spent on goods and services in the structure of money income use in 2002 contracted to 73.2% from 74.6% in 2001. Growth in real money income contributed to a rise in consumer demand. In real terms, consumer spending rose 8.2%.

The share of household savings in deposits and securities in the structure of money income use in 2002 remained unchanged from 2001 at 3.7%.

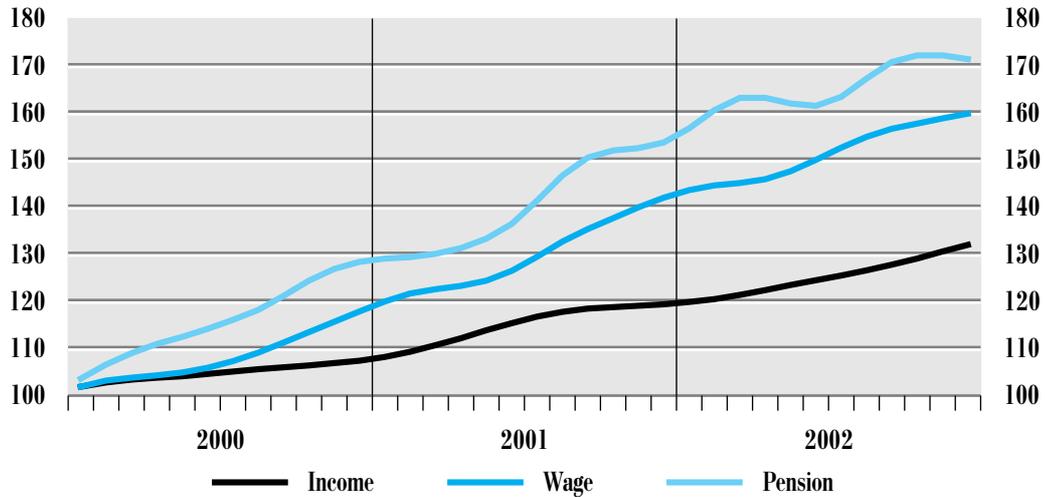
Owing to relatively stable ruble exchange rate dynamics, the share of personal income spent on the purchase of foreign exchange in 2002 contracted to 5.5% from 5.7% in 2001.

As real income grew, **real household spending on final consumption** rose 8.5% and that, according to estimates, ensured growth in GDP by 4.1 percentage points.

A rise in non-interest federal budget expenditures in 2002 contributed to growth in **general government expenditures on final consumption**, which rose 2.4% year on year, while in 2001 they fell 0.8%.

REAL DISPOSABLE MONEY INCOME, WAGE AND PENSION DYNAMICS
(trend, December 1999 = 100%)

Chart 5



Expenditures on final consumption in the economy as a whole rose 6.9% in 2002 and their share in GDP expanded from 65.2% in 2001 to 68.3% in 2002.

The rate of growth in **gross capital formation** in 2002 slowed down to 1.6% from 19.3% in 2001 as corporate investment activity was quite low throughout 2002. Fixed capital investment that year expanded 2.6% year on year, a significant decrease from the previous year's growth of 10%.

The biggest amount of investments in fixed capital of large and medium-sized enterprises in 2002, as in the previous years, went to industry, transport and the housing and communal services sector. Data for 2002 indicate that these sectors accounted for 42.7%, 19.1% and 15.4% of the total value of fixed capital investment respectively. The share of other sectors of the economy was considerably smaller.

The sectoral structure of fixed capital investment in Russian industry in 2002 was orientated, as before, to the raw materials sector. The electric-power industry and fuel and metallurgy sectors in 2002 accounted for 71.7% of all investments made by large and medium-sized enterprises in industry.

As was the case in the previous years, enterprises' own funds remained the principal source of financing investment. They accounted for 48.0% of fixed capital investment of large and medium-sized enterprises, a contraction of

1.4 percentage points compared with 2001. Another major source of financing fixed capital investment was budget funds, especially regional budget funds, which accounted for 19.6% of the sources of financing fixed capital investment.

The expansion of bank credit as a source of financing fixed capital investment was impeded by the deterioration of the financial standing of enterprises and high credit risk connected with institutional flaws. The share of bank credit in the financing of investment expanded by 0.4 percentage points year on year to 4.8%. Foreign investment accounted for 4.1% of fixed capital investment against 4.6% in 2001.

The slowing of investment activity told on GDP growth rates. Growth in gross capital formation in 2002 ensured an increase of GDP by 0.4 percentage points against 3.6 percentage points in 2001.

Net exports fell 4.4% in 2002 against 15% in 2001 and the negative influence of net exports on GDP dynamics decreased significantly compared with 2001. The share of net exports in the structure of GDP consumption contracted from 12.7% in 2001 to 10.6% in 2002.

Favourable trends predominated in the **foreign trade** situation in 2002. A global economic recovery after a major slowdown in 2001, the resumption of growth in international trade, an overall favourable price situation on world commodity markets for Russian exporters and the expansion

DYNAMICS OF RUSSIA'S MAJOR BALANCE OF PAYMENT COMPONENTS
AND INTERNATIONAL RESERVES (billion US dollars)

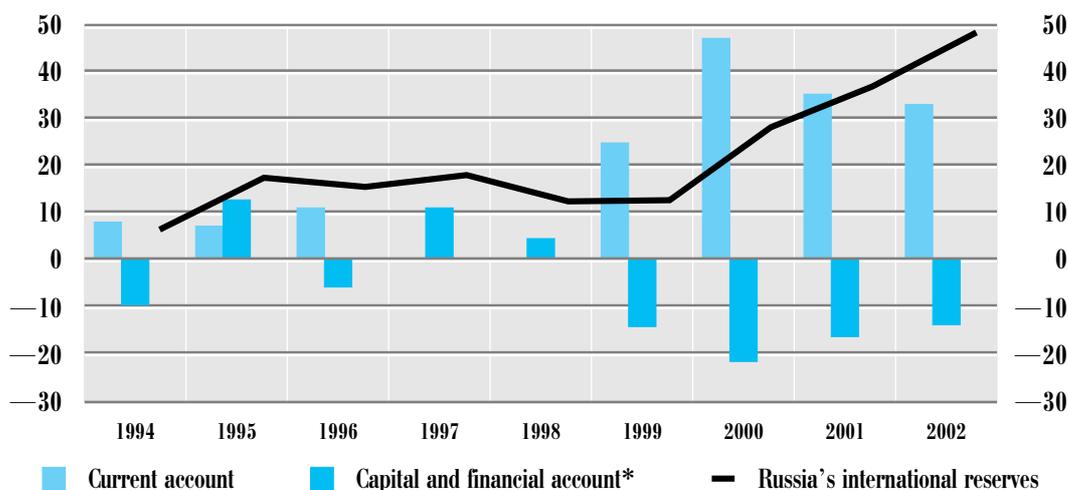


Chart 6

* Net of change in reserves.

of demand for Russian exports had a beneficial effect on the country's balance of payments. Russia enjoyed a large current account surplus, net outflow of capital decreased and international reserves expanded. Although Russia's current account contracted to 9.5% of GDP in 2002 from 11.3% in 2001, it was large. The capital and financial account deficit (including changes in reserves) declined to 7.3% of GDP in 2002 from 8% in 2001. By the end of last year, the country's international reserves had reached a level high enough to cover imports of goods and services for 6.9 months.

The main source of foreign exchange for Russia in 2002 was exports of goods and services. The expansion of export volumes of some commodities delivered to foreign markets was the principal factor of growth in exports, which expanded by about 10% in volume. The value of commodity exports in 2002 rose more than 5% year on year to more than \$107 billion. The change in the structure of commodity exports was manifest in the expansion of the share of oil and petroleum products from 33.3% in 2001 to 37.2% in 2002, the highest level registered since 1994. Exports of services rose faster than exports of goods. In 2002, exports of goods and services increased almost 7% year on year, exceeding \$120 billion.

Another significant source of foreign exchange for Russia in 2002 was foreign investment, whose net inflow to the non-financial enterprise sector rose by 3.6 times compared with 2001, reflecting

Russia's increased attractiveness for foreign investors. Russia had its credit ratings upgraded as analysts of international rating agencies praised the fiscal and foreign trade policies and structural reforms conducted by the Russian Government and Central Bank in 2002. Net foreign capital inflow to the non-financial enterprise sector in the form of loans and credits increased 10.8 times and accounted for nearly two-thirds of all investments in that sector. The structure of credit improved as the tenor of loans increased. As yields fell on volatile international financial markets, the Russian stock market became a little more attractive and net inflow of portfolio investments in Russia increased 2.7 times. Net inflow of foreign direct investments decreased 11%.

The biggest demand for foreign exchange on the domestic foreign exchange market was made by importers of goods and services, although the rate of growth in imports of goods and services in 2002 slowed to 14%, whereas in 2001 imports grew 19.5%. Growth in imports in 2002 was largely caused by a rise in solvent demand for investment goods necessary to supply the needs of the expanding economy and an increase in the demand for consumer goods brought about by the rise in household income. Imports rose mainly as a result of the expansion of import volumes. The share of investment and consumer goods expanded in the structure of imports, while the share of raw materials and intermediate goods contracted.

FOREIGN TRADE

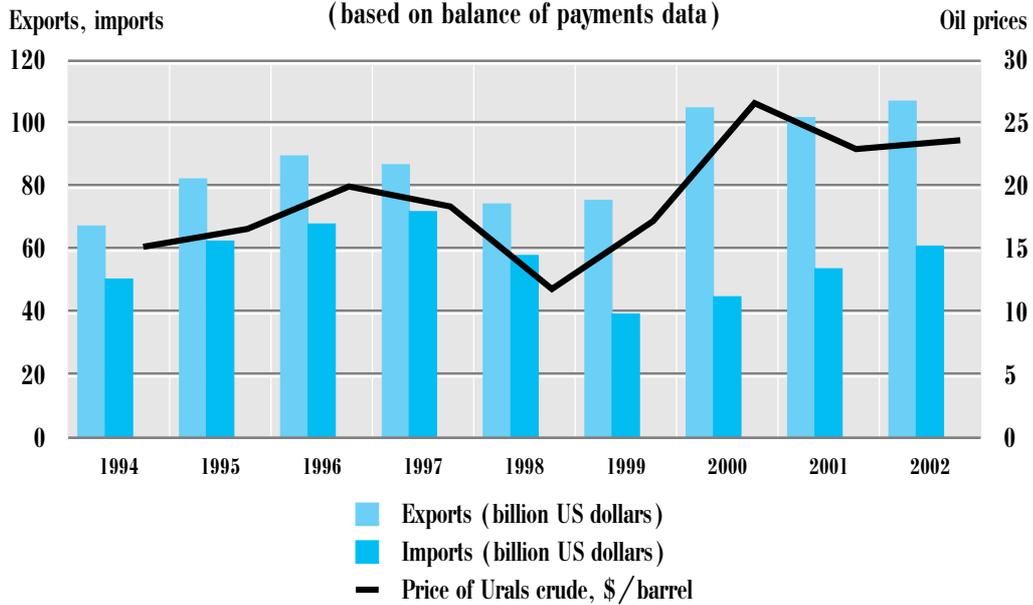


Chart 7

Foreign exchange remained in high demand in 2002, as the country had to service and repay its foreign debts. At the same time, the amount of foreign debt payments effected by the federal government declined by about 4%.

The expansion in the value of trade in goods and services in 2002 was accompanied by growth in Russian capital outflow. The value of investment in foreign economies by the non-financial enterprise and household sectors increased by 1.7 times compared with 2001. Exporters resumed extending credits to foreign buyers. Private sector direct and portfolio investment abroad expanded by 19% year on year in 2002. However, as big corporations significantly increased borrowing on foreign financial markets, net outflow of capital from the private sector continued to decline in 2002.

Considerable foreign currency earnings from exports and foreign loans taken by the non-financial enterprise sector, which far surpassed the demand for foreign exchange, created conditions conducive to the further expansion of foreign exchange reserves in 2002 at more rapid rates than in 2001. Russia's international reserves amounted to \$47.8 billion as of January 1, 2003.

Foreign trade remained a major source of budget revenues. Despite the lowering or lifting of customs duties on some imports and exports, re-

ceipts from foreign trade amid the expansion of exports and imports of goods accounted for a large part of the country's budget revenue in 2002.

Throughout 2002, the Russian Government actively used the tariff and non-tariff regulation of foreign trade in order to make Russian goods more competitive on foreign markets and protect domestic commodity producers. The range of taxable goods was constantly reduced last year and average weighted export and import duties were cut. Overall, export duties on more than 200 commodities were reduced and export duties on about 500 commodities were lifted. Import duties on manufacturing equipment that was made outside Russia were cut. The licensing of exports and imports was cancelled for some goods. The granting to Russia of the market economy status by the United States and European Union was extremely important for expanding the access of Russian goods to world markets.

Preparations continued in 2002 for Russia's accession to the World Trade Organisation (WTO). This country did not change its official position that Russia should be admitted to this organisation under standard terms and conditions, without any discrimination. As Russia prepared to join this international organisation, it implemented a set of comprehensive measures to improve its national legislation.

1.2. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

Budget policy was implemented in 2002 to facilitate the achievement of the tasks set in the President's Budget Message to the Federal Assembly, "On the Budget Policy in 2002," the 2002 Federal Budget Law and Russian Federation Government Resolution No. 137, dated February 28, 2002, "On Measures to Implement the 2002 Federal Budget Law," which provided for maintaining macroeconomic equilibrium and a deficit-free federal budget despite increases in foreign debt payments, increasing stability of the budget system, reducing its dependence on fluctuating foreign trade conditions, continuing tax reform, enhancing the efficiency of government spending and co-ordinating budget policy with monetary, foreign trade and structural policies.

The favourable dynamics the Russian economy continued to enjoy in 2002 and favourable foreign trade developments allowed the Government to exceed the federal budget revenue levels set in the 2002 Federal Budget Law and the revised tax collection target for 2002, maintain a federal budget surplus, as in the previous year, and create as of January 1, 2003, a financial reserve that far surpassed the level set by the Federal Law.

According to the Finance Ministry's preliminary data, Russia's federal budget revenue in 2002 amounted to 2,202.2 billion rubles, more than 2.8% over the government's revised budget revenue target. This represents 20.3% of GDP,

an increase of 2.7 percentage points on 2001 (17.6%). Year-on-year growth in federal budget revenue largely resulted from the collection of the flat social tax, which brought 339.5 billion rubles to the budget against the planned target of 281.2 billion rubles.

Federal budget expenditure amounted to 2,046.0 billion rubles, an increase of 5.1% over the plan target. This represents 18.8% of GDP against 14.6% of GDP in 2001. The federal budget surplus amounted to 156.2 billion rubles.

The structure of federal budget expenditures improved. Non-interest expenditures amounted to 1,822.3 billion rubles (89.1% of total expenditure against 85.4% approved by the Federal Law) and interest expenditures equalled 223.7 billion rubles (10.9% and 14.6% respectively).

Foreign debt service expenditures accounted for 83.3% of the total amount of interest expenditures against 79.7% set by the Federal Law, and domestic government debt service expenditures accounted for 16.7% against 20.3% approved by the Federal Law.

The share of expenditures on social policy, industry, the electric-power industry, construction and emergency and disaster prevention and cleanup expanded in 2002.

In 2002, following repeated requests by the Bank of Russia, the Government instructed the Ministry of Finance and chief managers and man-

FEDERAL BUDGET EXPENDITURES
IN 2002 (%)

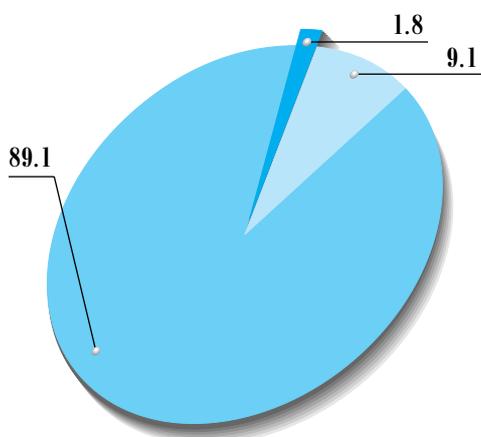


Chart 8

- Non-interest expenditures
- Foreign debt service expenditures
- Domestic government debt service expenditures

agers of federal budget funds to take measures to ensure even financing of federal budget expenditures owing to which the dynamics of federal budget expenditures and balances of federal budget accounts in the Bank of Russia were smoother in 2002.

As a result, federal budget expenditures by quarter amounted to 17.8%, 22.7%, 24.6% and 34.9% of the full-year federal budget expenditure, and in December 2002 they accounted for 36.1% of the fourth-quarter expenditures against 47.4% in 2001.

Over the year, the balances of funds in ruble-denominated federal budget accounts in the Bank of Russia rose by 110.3 billion rubles, or 110%, to 208.7 billion rubles as of January 1, 2003.

According to the Finance Ministry, Russia's consolidated budget revenue in 2002 amounted to 3,515.6 billion rubles, or 32.4% of GDP, and expenditure 3,403.7 billion rubles, or 31.3% of GDP, of which regional consolidated budget revenue amounted to 1,632.6 billion rubles and expenditure — 1,676.8 billion rubles.

Preliminary data indicate that taking into consideration the changes in the methodology of compiling the budget of the Pension Fund, its revenues in 2002 amounted to 699.1 billion rubles and expenditures 791.6 billion rubles; revenues of the

Social Insurance Fund amounted to 139.5 billion rubles and expenditures — 124.6 billion rubles; revenues of the Compulsory Medical Insurance Fund amounted to 5.11 billion rubles and expenditures — 5.08 billion rubles.

The balances in regional and local budget accounts opened in Bank of Russia regional branches in 2002 rose by 7.8 billion rubles, or 35.6%, to 29.8 billion rubles as of January 1, 2003. At the same time, in January—November 2002 the balances in these accounts rose by 45.4 billion rubles (from 22.0 billion rubles to 67.4 billion rubles), whereas in December they fell sharply, by 37.6 billion rubles, or 55.7% (from 67.4 billion rubles to 29.8 billion rubles). The balances in the accounts of the state extrabudgetary funds in the Bank of Russia fell during the year under review by 96.6 billion rubles, or 71.9%, to 37.7 billion rubles.

According to Finance Ministry data, Russia's domestic government debt amounted to 680.3 billion rubles as of January 1, 2003, which means that it was 71.8 billion rubles under the upper limit set for the domestic government debt by Article 107 of the 2002 Federal Budget Law (with changes and amendments) and 146.8 billion rubles more than domestic government debt as of January 1, 2002.

Relative to GDP, Russia's domestic government debt expanded to 6.26% from 5.9% as of January 1, 2001.

The increase in domestic government debt compared with the previous year was the result of the issue of debt depreciation federal loan bonds with the purpose of widening the range of debt instruments on the organised securities market, fixed coupon-income federal loan bonds with the purpose of investing the funded part of retirement pension and free funds from the Pension Fund reserve, and permanent coupon-income federal loan bonds in connection with their exchange for Bank of Russia-owned Vneshtorgbank shares under the 2002 Federal Budget Law.

Of the total amount of domestic government debt, only about 32% of government securities are traded on the organised securities market.

More than 68% of Russia's domestic government debt is represented by non-marketable government securities, the larger part of which (72.4%) are owned by the Bank of Russia. These

**FEDERAL BUDGET EXPENDITURES AND BALANCES OF FEDERAL BUDGET
RUBLE ACCOUNTS IN BANK OF RUSSIA IN 2002 (billion rubles)**

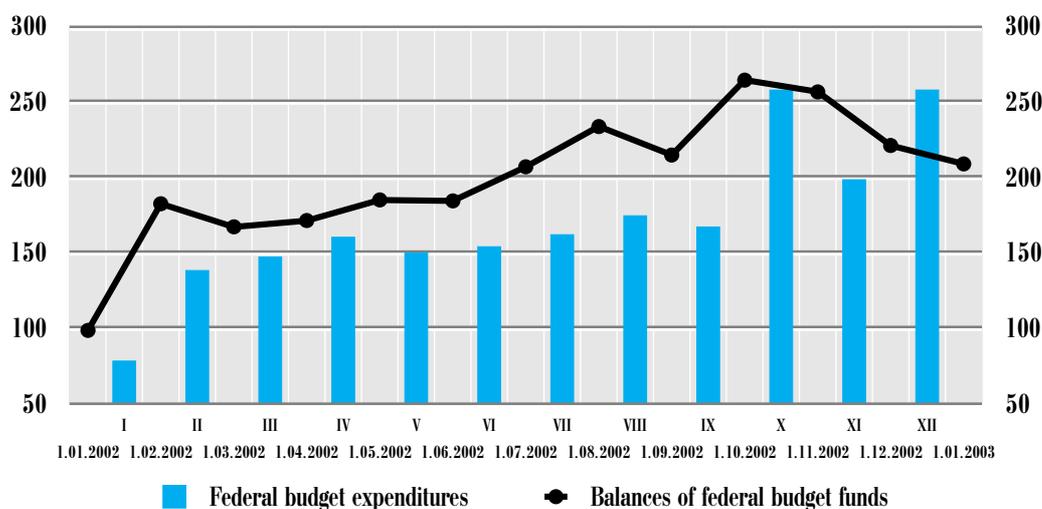


Chart 9

are mainly government securities with long terms to maturity (up to the year 2029) and a coupon income from nought to 6% p.a.

The Finance Ministry's debt to the Bank of Russia, which is part of Russia's domestic government debt, calculated according to the methodology established by the applicable federal legislation, continues to account for the largest part of this debt. As of January 1, 2003, it amounted to 388.9 billion rubles, or 57.2%, increasing over the year by 38.1 billion rubles as a result of the exchange of Bank of Russia-owned Vneshtorgbank shares for permanent coupon-income fed-

eral loan bonds under Article 108 of the 2002 Federal Budget Law and use by the Bank of Russia as a monetary policy tool direct repo operations with Russian government debt instruments.

The Finance Ministry's foreign currency debt to the Bank of Russia, which comprises the debt on the funds provided by the Bank of Russia to the Finance Ministry through Vneshekonombank for the effectuation of Russian government foreign debt payment and service, is included in the Russian government's foreign debt, according to the methodology established by the applicable federal legislation.

I.3. THE FINANCIAL SECTOR

The state of the financial sector of the Russian economy in 2002 was characterised by a rise in the number of institutions, their increased capitalisation and the expansion of the range of their activities. As of the end of 2002, there were 1,329 credit institutions operating in the financial sector, including 1,282 banks and 47 non-bank credit institutions, 1,408 insurance companies, 60 unit investment funds and 284 non-governmental pension funds. The capital base of these financial institutions in 2002 expanded to 6.4% of GDP from 5.9% in 2001; the capital base of credit institutions accounted for 5.4% of GDP, non-governmental pension funds 0.5% and insurance companies 0.4%.

The legislative framework of the financial institutions was formed as the corresponding laws and bylaws were passed. Under the applicable legislation, the activities of the financial institutions are regulated and supervised by the Bank of Russia (credit institutions), Finance Ministry (insurance companies), Federal Securities Commission (unit investment funds and professional securities market participants) and Labour Ministry (non-governmental pension funds). The legislative framework of non-bank credit institutions, which was slow to develop in the early years of the economic reform, developed at a rapid rate in 2002.

Although credit institutions are outnumbered by non-bank financial institutions, they play a leading role in financial intermediation: private

individuals still prefer them to other institutions. Banks have the largest financial potential of all financial institutions. The growing requirements for the capitalisation of credit institutions and the undeviating position of the Bank of Russia that banks must comply with the key prudential standards create additional conditions for growth in the number of bank mergers and acquisitions, which aims to ensure the amalgamation of the banking business. The current structure of the financial sector, in which banks play the principal functional role in transforming accumulated savings into investments, is to a great extent the result of the accelerated construction of the legislative framework of banking and the increased demand for basic banking services.

The trends in the development of the financial sector of the Russian economy in 2002 were determined, above all, by the development of credit institutions, as their main performance indicators far surpassed similar indicators of other financial institutions. Relative to GDP, the assets of credit institutions expanded by 3.2 percentage points over the year to 38.2%. The continued expansion of the capital base of credit institutions, based on the positive dynamics of bank profits, and the measures taken to make banking more transparent helped increase customer confidence in banks. Along with growth in production and a rise in real household income, this created conditions for the further expansion of the volume of banking operations. Some banks in-

EFFECTIVE INTEREST RATE ON COMMERCIAL BANKS' RUBLE LENDING
AND DEPOSIT OPERATIONS BY TERM (% p.a.)

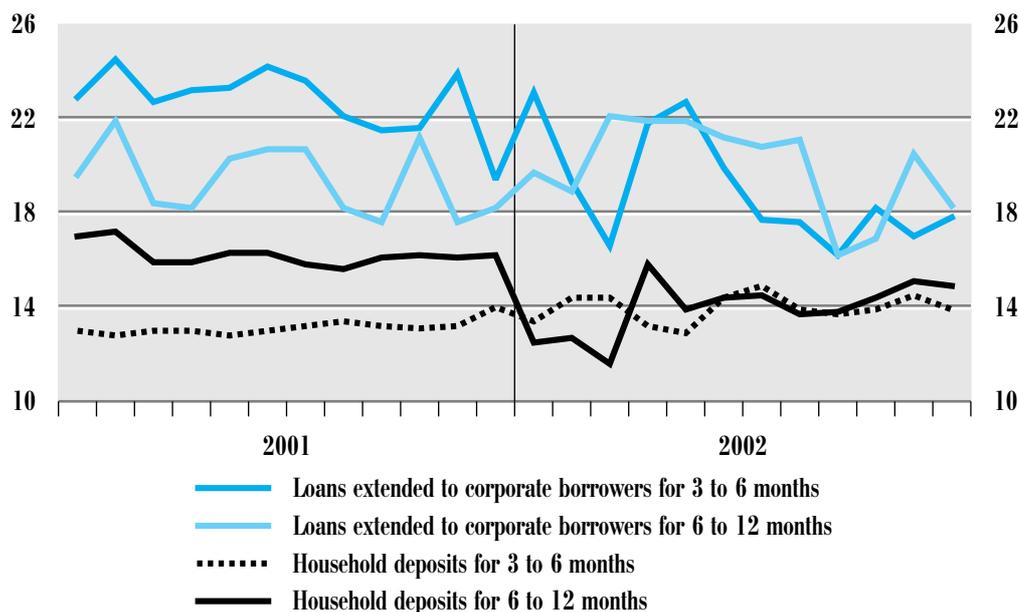


Chart 10

creasingly demonstrated their desire to provide specialised services, especially to retail clients, such as consumer and mortgage lending, lending to small businesses and leasing operations.

Non-bank credit institutions mainly specialise in settlement operations, including settlement operations on the organised securities market, clearing and collection, but institutionally they are also capable of conducting a number of financial intermediation operations. The Bank of Russia implements the prudential regulation of the activities of non-bank credit institutions, taking into account the specifics of their functional role. The scale of operations conducted by non-bank credit institutions has been quite stable and has a slight tendency towards growth.

While the role of banks in the economy constantly increased, the improvement of the legislative framework in 2002 opened up broader opportunities for non-bank financial institutions to get to the financial market and in the future these institutions will be able to compete with credit institutions in providing comparable financial services. During the year under review, the Bank of Russia upgraded the procedure for regulating and supervising non-bank financial institutions and adopted or drafted for adoption decisions designed to encourage non-bank financial institutions to

build up their capital. The launching of the pension reform provided a major additional impetus for the development of pension funds and the Government's approval of the Insurance Development Concept stimulated the expansion of insurance companies. Thus, the role of non-bank financial institutions as institutional investors on the Russian financial market gradually increased in 2002.

A rise in the activity of non-bank financial institutions on the financial market was also facilitated by the improvement of the investment climate in the country, the increased transparency of the financial market and the tendency towards risk reduction amid the stabilisation of the situation in major segments of the market. The expansion and harmonisation of the conditions of activity of financial intermediation institutions created an environment conducive to the evening out of the terms and conditions on which different financial products were offered.

The consolidation of non-bank financial institutions in 2002 led to the expansion of their cooperation with banks, a process that corresponded to the global practice of giving customers the widest possible choice of services by large and diversified financial structures. A number of Russian insurance companies, non-governmental pension

YIELD CURVES OF FINANCIAL INSTRUMENTS IN 2002 (% p.a.)

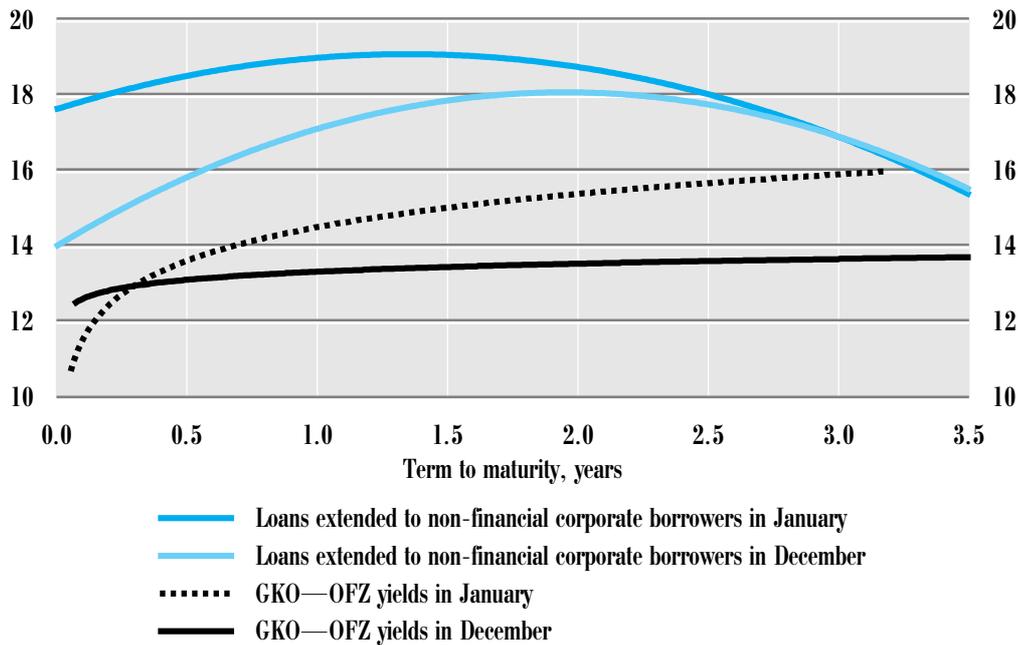


Chart 11

funds and investment funds implement joint programmes with banks, offering customers comprehensive (universal) financial services, including basic banking and insurance services and new financial products.

In the future, organisations such as credit co-operatives, credit unions, mutual credit societies and building societies, which have a good reputation and successfully function in several foreign countries, may occupy a special place in the Russian financial sector. Some of them have already opened in Russia, but owing to the absence of an adequate legislative framework and mechanism to regulate them, the role of these non-bank financial institutions in Russia remained negligible in 2002. Using principally their members' funds and tackling in the main the problem of mutual financial assistance, such financial institutions could help mobilise financial resources for the development of small businesses, farming and housing construction.

The upgrading of the legislative and regulatory framework with the purpose of more effectively protecting the rights of issuers and investors, raising the standard of corporate governance, further improving the regulation of the issuance of securities and disclosing information on the financial markets, facilitated the develop-

ment of the infrastructure of the Russian financial market as a major element of the financial sector in 2002. All these measures aim to enable the Russian financial market to respond to the challenges of growing competition at home and meet the requirements of the globalisation of international financial markets.

Progress was registered in the development of the existing system of professional securities market participants, whose activities are regulated by the resolutions and other regulations of the Federal Securities Commission (FSC). According to available data, more than 1,500 licences for the professional securities market participants operated in Russia at the end of the year. These licences regulated broker, dealer and depository activities and such activities as keeping the register, trust management, clearing and organising trades on the securities market. Eight stock exchanges and five currency exchanges had licences to organise trade in securities.

The current system of regulation of the participants and the procedure for conducting operations in the main segments of the financial market requires government regulators to co-operate with self-regulating organisations of market participants, whose activities reflect the desire of the financial institutions to set the standards of

**INTEREST MARGIN ON BANKS' LENDING AND DEPOSIT OPERATIONS
WITH NON-FINANCIAL CLIENTS IN 2001 AND 2002 BY TERM**
(year's average, percentage points)

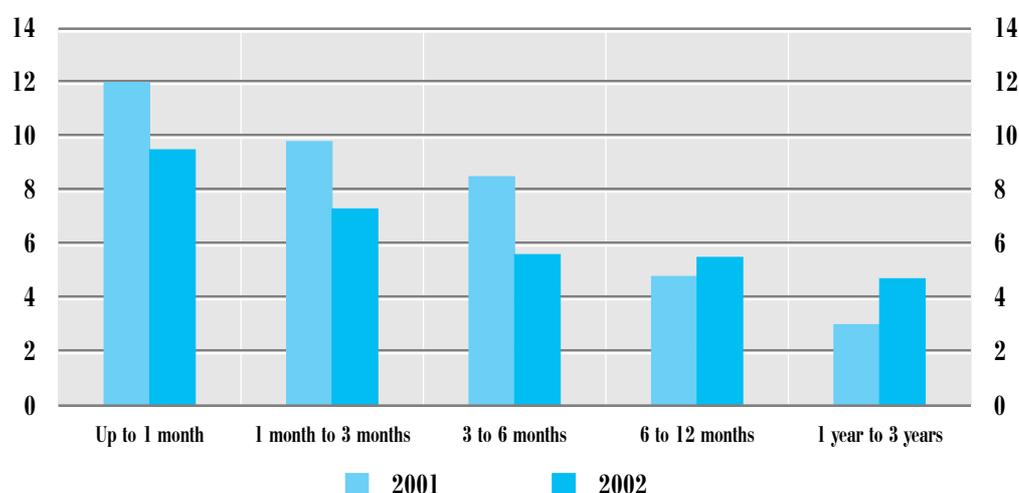


Chart 12

fair play in business, reduce financial risk and ensure the stability of the financial institutions. Such a combination of rigid framework regulation, reflecting the long-term strategic priorities of the Russian financial system and economy as a whole, and flexible regulation of the technical, organisational and information aspects of the market participants' activity helped encourage competition on the Russian financial market and made it more transparent.

A major sign of the increased integration and further progress of the Russian financial market was the establishment of closer interest rates and yields on instruments with similar terms to maturity in all segments of the money and capital market amid the general trend of interest rates and yields to fall. Compared with 2001, the average annual effective indicator for the GKO—OFZ market portfolio in 2002 declined by 3 percentage points, the average annual interest rate on ruble bills discounted by banks slipped by 0.3 percentage points, the yield on Moscow government bonds on the secondary market fell by 3.9 percentage points. Interest rates on the interbank loan market remained lower than in most other sectors of the money market. The average annual rate on overnight interbank ruble loans fell to 8.2% p.a. in 2002 from 10.1% in 2001.

A fall in interest rates on major financial instruments along with the expansion of the range

of such instruments reduced the cost of servicing ruble borrowings for non-financial borrowers. The average weighted rate on ruble loans for all terms fell from 17.8% p.a. in January to 15.0% p.a. in December 2002. The most significant decline in short-term interest rates was registered in ruble loans extended to corporate borrowers for a term from 3 to 6 months: compared with 2001, the average interest rate on such loans fell by 3.4 percentage points over the year (from 21.3% to 17.9% p.a.) and from January to December 2002 it declined by 4.7 percentage points (from 21.5% to 16.8% p.a.). The interest rate on US dollar loans extended for all terms was quite stable, fluctuating slightly within the range of 10.1% to 11.2% p.a. and the year's average rate fell to 10.5% p.a. from 11.7% p.a. in 2001.

The use of corporate bonds as an alternative to bank loans, whose rates are close to the interest rates on loans with the same terms to maturity, gives non-financial sector enterprises additional opportunities to raise funds. This segment of the financial market demonstrated some of the most rapid rates in 2002. The value of primary placements on the Moscow Interbank Currency Exchange (MICEX), the leading corporate bond bourse, in 2002 increased 93% year on year, while secondary turnover more than doubled. In the future, the corporate debt market may rival long-term bank lending.

The interest rate policy pursued by commercial banks with regard to deposit operations in 2002 encouraged depositors to commit their funds for longer terms. As interest rates fell in the economy as a whole, the average weighted rate on household deposits in rubles declined from 12.5% p.a. in January to 11.8% p.a. in December 2002, but interest rates fell less than inflation. The value of household deposits with terms longer than 1 year (a total in rubles and dollars) more than doubled, creating conditions for the further expansion of long-term bank lending.

A fall in average interest rates on loans and a rise in the value of deposits that paid higher interest in 2002 caused the interest margin on lending and deposit operations for a term up to 6 months to fall compared with 2001. The interest margin

on longer-term operations slightly rose, allowing credit institutions to receive big net interest income throughout the reporting year.

As the financial sector expanded and the overall financial situation stabilised, the differences in economic agents' expectations with regard to inflation, exchange rate and base interest rate dynamics and market risk assessments narrowed. This caused a downward shift and smoothening of yield curves on various financial instruments. An overall favourable economic situation and vigorous actions taken by the monetary authorities to reduce market fluctuations in 2002 facilitated the establishment of a more balanced structure of market interest rates, a structure corresponding to the contemporary stage of financial intermediation.

I.3.1. CREDIT INSTITUTIONS¹

In 2002, the banking sector in Russia continued to expand more rapidly than the economy as a whole. The rate of growth in banking sector capital in real terms was 2.6 times faster than GDP growth, the rate of growth in banking sector assets was 4 times faster, loans to the non-financial sector increased 5 times faster and household deposits 9 times faster. As a result, the ratio of banking sector assets to GDP expanded to 38.2% as of January 1, 2003, against 34.9% as of January 1, 2002, loans to the domestic non-financial enterprise sector 14.6% against 13.0% and funds drawn from corporate entities and private individuals 19.5% against 17.5%.

The banking sector developed in a quite favourable macroeconomic environment. Banking sector assets rose 31.2% in 2002 and more than 80% of credit institutions operating at the end of last year demonstrated steady growth in assets. In real terms², banking sector assets expanded 17.8% in 2002, exceeding by 1.25 times the pre-crisis level (July 1, 1998). The share of ruble assets in total banking sector assets expanded a little in 2002, from 62% to 64% (as of July 1, 1998, ruble assets accounted for almost 73%).

The institutional structure of the banking sector did not change much in 2002. The level of asset concentration remained fairly high in the banking sector as a whole: as of January 1, 2003, the top 20 banks in terms of assets accounted for more than 62% of banking sector assets and the 200 biggest banks accounted for almost 89% of all banking sector assets (compared with the beginning of 2002, asset concentration levels remained practically unchanged). At the same time, the top five banks slightly expanded their share in total banking sector assets (from 42.8% to 44.2%), mainly owing to the Savings Bank (Sberbank).

As the general level of banking sector capitalisation rose in 2002, the level of capital concentration in large banks remained unchanged. The number of credit institutions with a capital exceeding 5 million euros increased from 401 to 423 (a growth of 5.5%), while the aggregate capital of this group of banks expanded almost 25%. The share of banks with a capital in excess of 5 million euros in the aggregate capital of operating credit institutions with positive capital remained practically unchanged over the year at 93% as of January 1, 2003.

The number of branches of credit institutions continued to fall in 2002, declining from 3,433 to 3,326. This trend is largely the result of the amalgamation of Sberbank branches' internal structures, which led to the reduction of the Sberbank affiliate network by 71 branches. At the same time, a major tendency of 2002 was growth in the number of new offices opened by banks (from 5,718 to 6,387). This tendency was mainly the result of the relatively low cost of such expansion.

The provision of Russian regions with banking services did not change significantly in 2002. It continued to differ from region to region owing to uneven economic development of the Russian regions and differences in their production and resource potentials. The leaders in the provision of banking services are the Northwestern and Volga Federal Districts³, while the Siberian Federal District closes the list.

An important result of 2002 was the continued tendency towards growth in creditor and depositor confidence in banks and, as a consequence, the expansion of their resource base. This creates additional opportunities for credit institutions to transform household savings into loans and investments and continue to increase lending to the economy.

¹ All indicators have been calculated for operating credit institutions.

² Consumer price index and official ruble/dollar exchange rate dynamics during corresponding period have been used to calculate real growth rates.

³ The average provision of the Russian regions with banking services has been calculated without taking into account the credit institutions of Moscow and the Moscow Region.

BANKING SECTOR GROWTH RATES IN REAL TERMS (% a year)

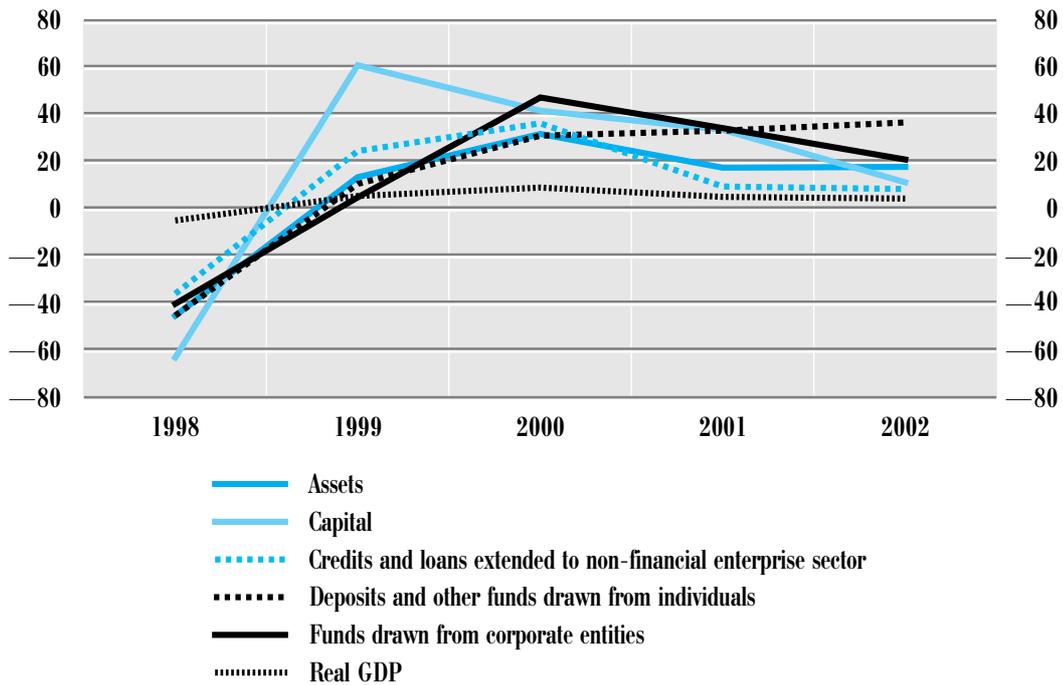


Chart 13

THE STRUCTURE OF CREDIT INSTITUTIONS' LIABILITIES. It is the developments in the household sector, especially increased confidence and a rise in real money income, that played the decisive role in the flow of funds to the banking sector in 2002. At the same time, the role of the non-financial enterprise sector slightly decreased in the formation of the resource base of banks.

Household deposits were the most dynamic part of banking sector liabilities. In 2002, the balances of household accounts¹ rose 51.9%; the balances of household accounts in rubles increased 45.6% and in foreign currency 63.0%. Seventy-four percent of operating credit institutions registered a rise in household deposits. Household deposits with Sberbank expanded 41.7% in 2002, but Sberbank's share in the total value of household deposits at banks contracted from 72.1% to 67.3%.

The role of household deposits as a major source of banking sector resources, undermined by the 1998 crisis, has almost been restored: as of January 1, 2003, the value of household deposits with the banking sector, foreign currency deposits included, amounted to 1,029.6 billion rubles, while their share in banking sector liabili-

ties reached 24.8% against 21.5% as of January 1, 2002, and 25.2% as of July 1, 1998.

The value of funds drawn by banks from corporate entities amounted to 1,091.4 billion rubles as of January 1, 2003, an increase of 20.9% over the year (2001 growth was 25.0%). As of January 1, 2003, this source of banking sector resources accounted for a little over 26% of banking sector liabilities. Thus, the share of corporate and household funds drawn from these sources became almost the same, while in 2000 they accounted for 30.6% and 18.9% of liabilities respectively.

Credit institutions stepped up their borrowing activity on the interbank market, especially the international interbank market. The value of interbank loans taken in 2002 rose 55% and their share in banking sector liabilities expanded from 6.4% to 7.6%. As of January 1, 2003, non-resident banks accounted for almost 62% of the total value of funds borrowed by Russian credit institutions on the interbank loan and deposit market. Of this, 46% of the total value of loans, deposits and other funds received by Russian credit institutions from non-resident banks had terms longer than one year.

¹ Net of funds in self-employed entrepreneurs' accounts.

STRUCTURE OF BANKING SECTOR LIABILITIES (%)

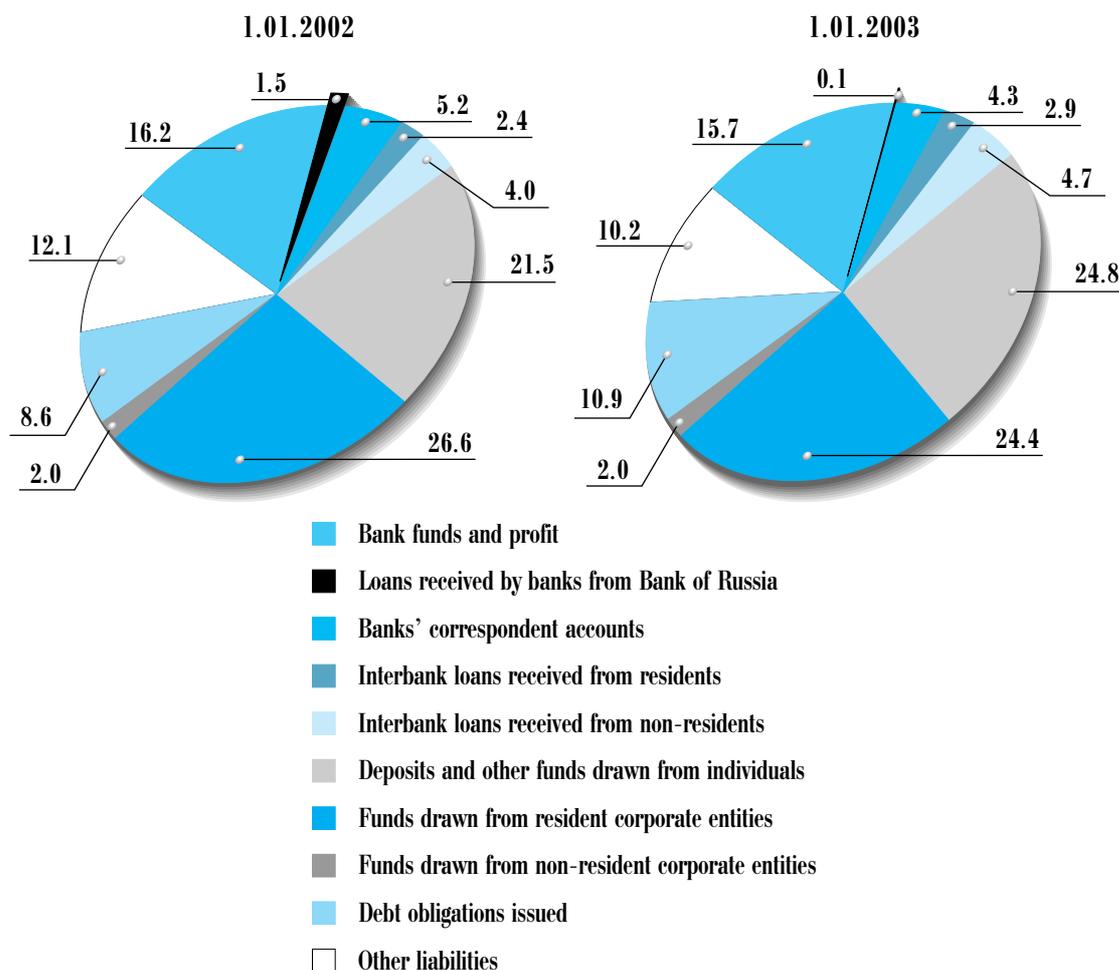


Chart 14

As before, a major source of resources for credit institutions was the issue of their own promissory notes. In 2002, the value of promissory notes issued by credit institutions rose almost 56% and their share in banking sector liabilities expanded from 7.6% to 9.0%. Funds raised by issuing other securities (bonds, certificates of deposit and savings certificates) still play a minor role in the resource base formation: as of January 1, 2003, the aggregate share of these securities in banking sector liabilities was 2% at the outside (it was less than 1% at the beginning of the year).

The overall tenor of the resource base of credit institutions is gradually getting longer: as of January 1, 2003, bank obligations with terms longer than 1 year accounted for 14.5% of the total value of bank obligations against less than 9% as of January 1, 2002. The main factor of growth is

the expansion of household deposits with terms longer than 1 year: as of the beginning of last year, household deposits with such terms accounted for 24.4% of the total value of household deposits and by January 1, 2003, their share had expanded to 35.5%. Nevertheless, although the situation has now improved a little, the predominance of short-term liabilities and a shortage of medium- and long-term resources continue seriously to restrict banks' capability to extend medium-term credits to the non-financial sector of the economy.

THE STRUCTURE OF CREDIT INSTITUTIONS' ASSETS. Bank credit continued to expand in 2002, especially in the non-financial sector of the economy.

The value of loans extended by banks to the non-financial enterprise sector in 2002 rose 35%

STRUCTURE OF BANKING SECTOR ASSETS (%)

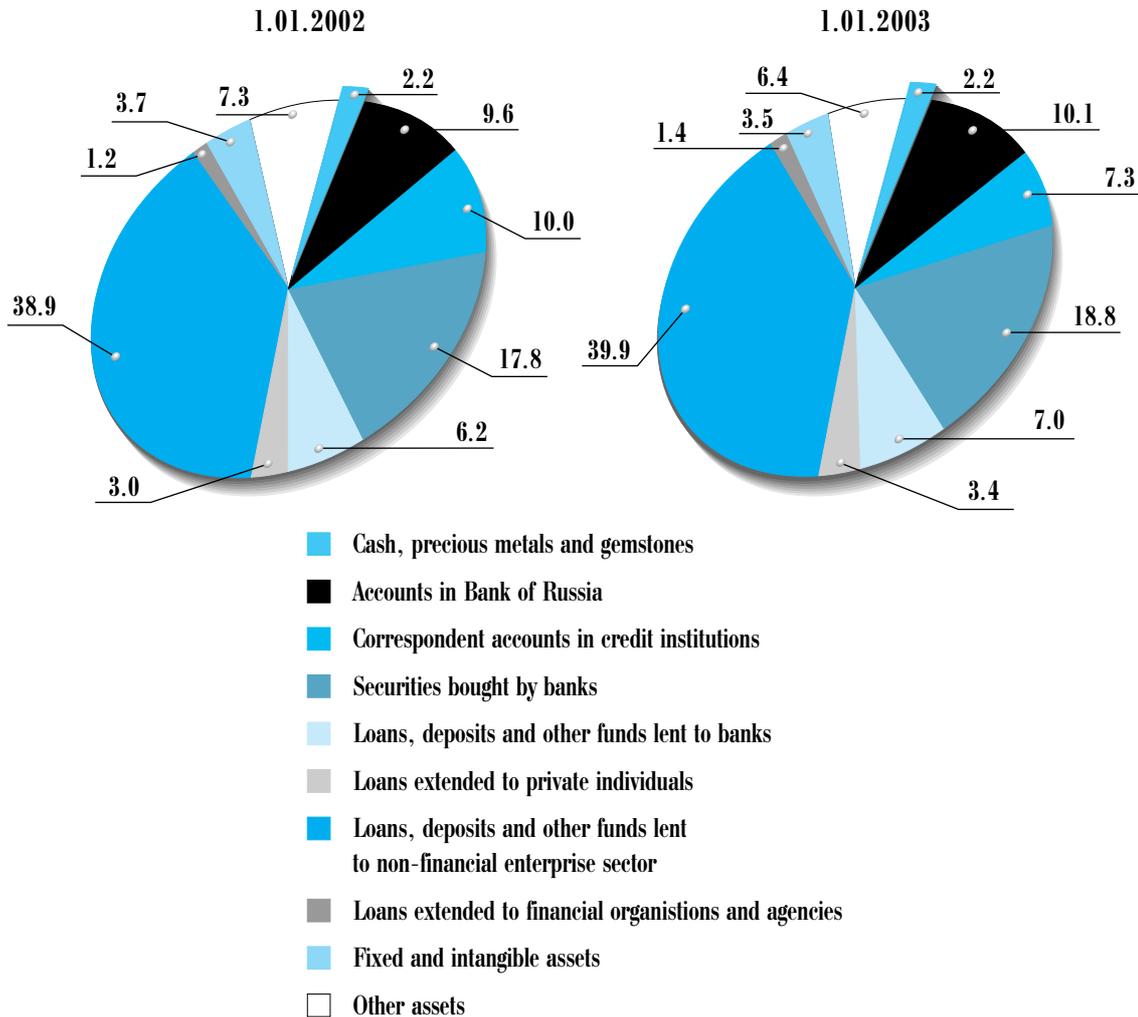


Chart 15

to 1,654.0 billion rubles as of January 1, 2003. Loans extended to Russian enterprises and organisations in rubles accounted for almost two-thirds of that amount. The share of loans extended to the non-financial enterprise sector expanded to nearly 40% of the value of assets of operating credit institutions. Seventy percent of operating credit institutions registered growth in lending operations with the non-financial enterprise sector.

Lending to the household sector expanded at a rapid rate. The value of consumer loans extended in 2002 rose by more than 1.5 times, from 93.3 billion rubles to 141.2 billion rubles. At the same time, the share of these loans in assets remains small: 3.4% as of January 1, 2003, against 3.0% as of January 1, 2002.

The domestic interbank market developed rapidly in 2002. The rates of increment in loans, deposits and other funds of credit institutions extended to resident banks amounted to 61% and exceeded by more than 1.5 times the same indicator for such funds extended to non-resident credit institutions. Nonetheless, the balances of funds invested by credit institutions in the international interbank market continued to exceed by far the balance of funds invested in the domestic interbank market. As of January 1, 2003, these balances amounted to 171.5 billion rubles and 119.9 billion rubles respectively. Overall, as the value of interbank loans and deposits grew, their share in the assets of operating credit institutions expanded from 6.2% as of January 1, 2002, to 7.0% as of January 1, 2003.

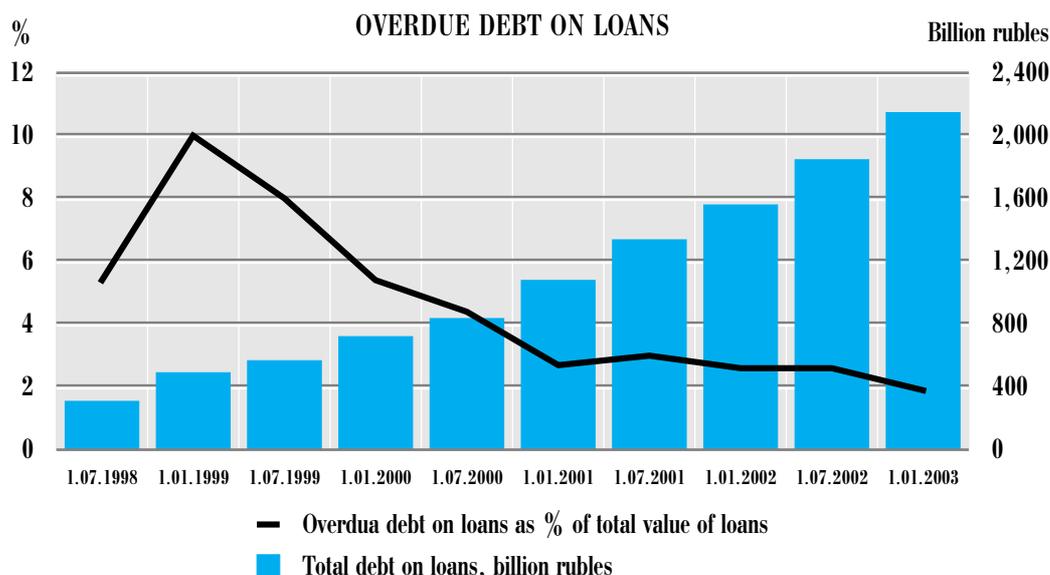


Chart 16

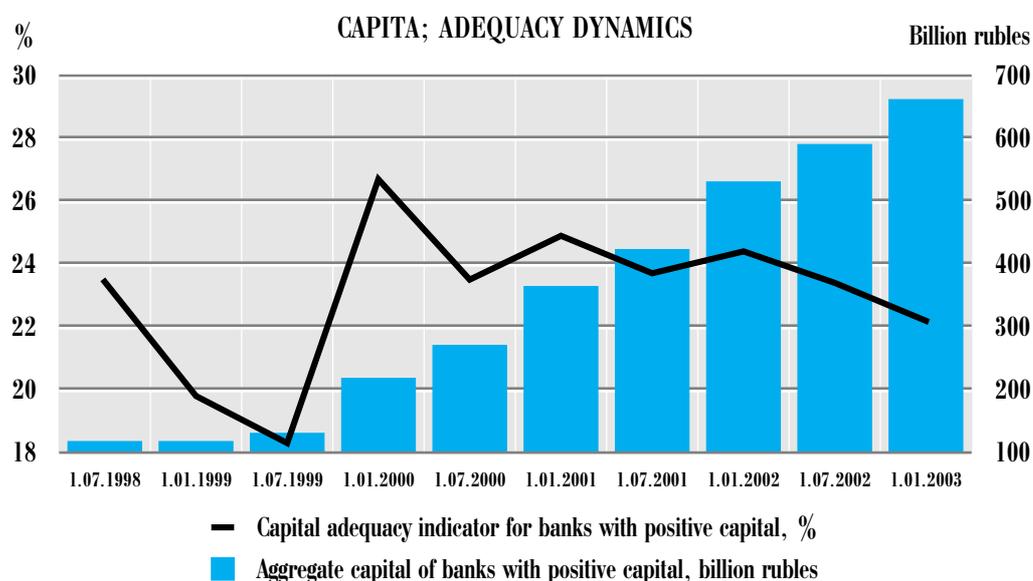


Chart 17

Judging by banks' reports, the quality of the loan portfolio remained satisfactory in 2002. The share of standard loans in the banks' loan portfolio was 90.1% as of January 1, 2003, while the share of overdue debt on loans was 1.9%. The reserve for possible loan losses (RPLL) created by banks completely covered doubtful and bad loans, which accounted for 5.6% of the total value of debt on loans (6.3% as of the beginning of 2002). Shortly before the August 1998 crisis, the RPLL covered fewer than half of the bad loans, which, according to banks' reports, accounted for almost 10% of the loan portfolio.

Banks' investments in ruble-denominated Russian government securities rose 41% in 2002 and in foreign currency-denominated securities 6.6%. As a result, the share of bank investments in ruble-denominated Russian government debt instruments expanded from 34% to 39%. Overall, the share of investments in Russian government debt instruments remained unchanged from 2001 at 10% of total banking sector assets.

The purchase of Russian companies' promissory notes remains a major area of banks' active operations. Although the value of bank investments in promissory notes increased 42% in 2002,

**BANKING SECTOR ASSETS DISTRIBUTED AMONG CREDIT INSTITUTIONS
GROUPED BY FINANCIAL STABILITY (billion rubles)**

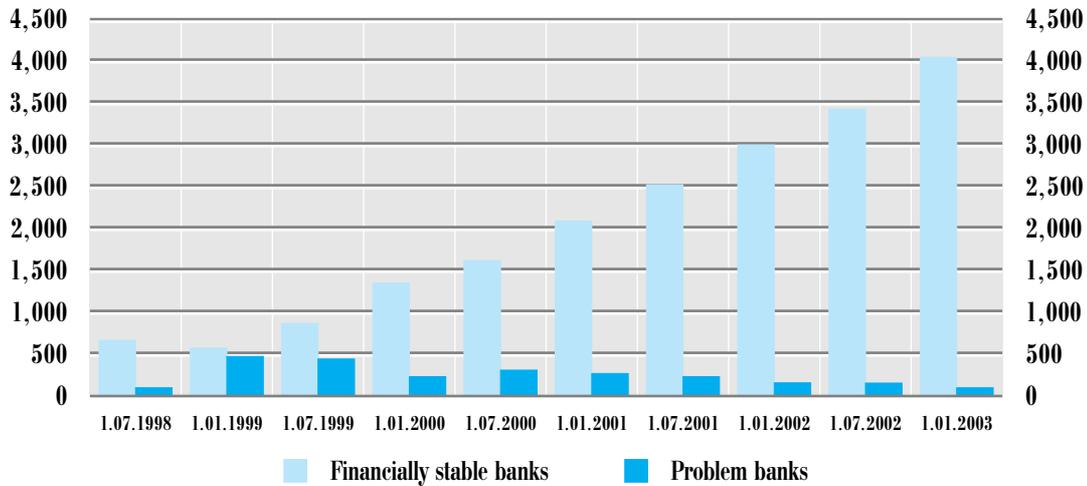


Chart 18

their share in banking sector assets remained virtually unchanged at about 5%. The share of bank investments in Russian corporate stocks and bonds remained small at less than 2% of banking sector assets.

Rapid growth in credit investments makes credit institutions increasingly dependent on the financial standing of the borrower enterprises.

Preliminary assessments of the Russian banking sector's financial stability, which included assessments made with the help of the stress testing methods, show that credit risk is the principal source of potential loss of capital. At the same time, there is still a shortage of medium- and long-term resources in bank liabilities, which is a factor of liquidity risk in the banking sector, especially structural risk that arises when credit institutions transform their short-term liabilities into long-term investments. And although compared with the pre-crisis level, the banking sector has become far better protected (according to banks' reports, the value of their RPLL amounted to almost 150 billion rubles as of January 1, 2003, or 1.4% of GDP against 0.7% of GDP as of July 1, 1998), bank managers and owners and regulating authorities should take a conservative ap-

proach to the evaluation of credit institutions' possibilities to assume additional risks with regard to the real economy, cover such risks by current income and capital and create full reserves for possible loan losses on time.

THE FINANCIAL STANDING OF CREDIT INSTITUTIONS. In 2002, operating credit institutions made a profit¹ of 93.0 billion rubles against 67.6 billion rubles in 2001. Profits for the financial year were reported by 1,279 credit institutions, or 96% of the total number of operating credit institutions (95% as of January 1, 2002). Profit-making credit institutions last year accounted for 99.4% of total banking sector assets against 97.2% in 2001. A rise in losses incurred by loss-making credit institutions (from 3.1 billion rubles as of January 1, 2002, to 12.0 billion rubles as of January 1, 2003) largely resulted from the increased losses (from 2.2 billion rubles as of January 1, 2002, to 11.7 billion rubles as of January 1, 2003) of credit institutions controlled by the Agency for the Restructuring of Credit Organisations (ARCO).

The profitability of banking sector assets² rose 2.6% in 2002 from 2.4% in 2001. The rate of

¹ These data refer to net financial result.

² Profitability of assets is calculated as the ratio of profit to assets. The year's financial result before tax (the balance of profit and loss) and the average annual (average chronological) value of assets of credit institutions are used for the calculation.

SOURCES OF GROWTH IN BANKING SECTOR'S OWN FUNDS (CAPITAL) (%)

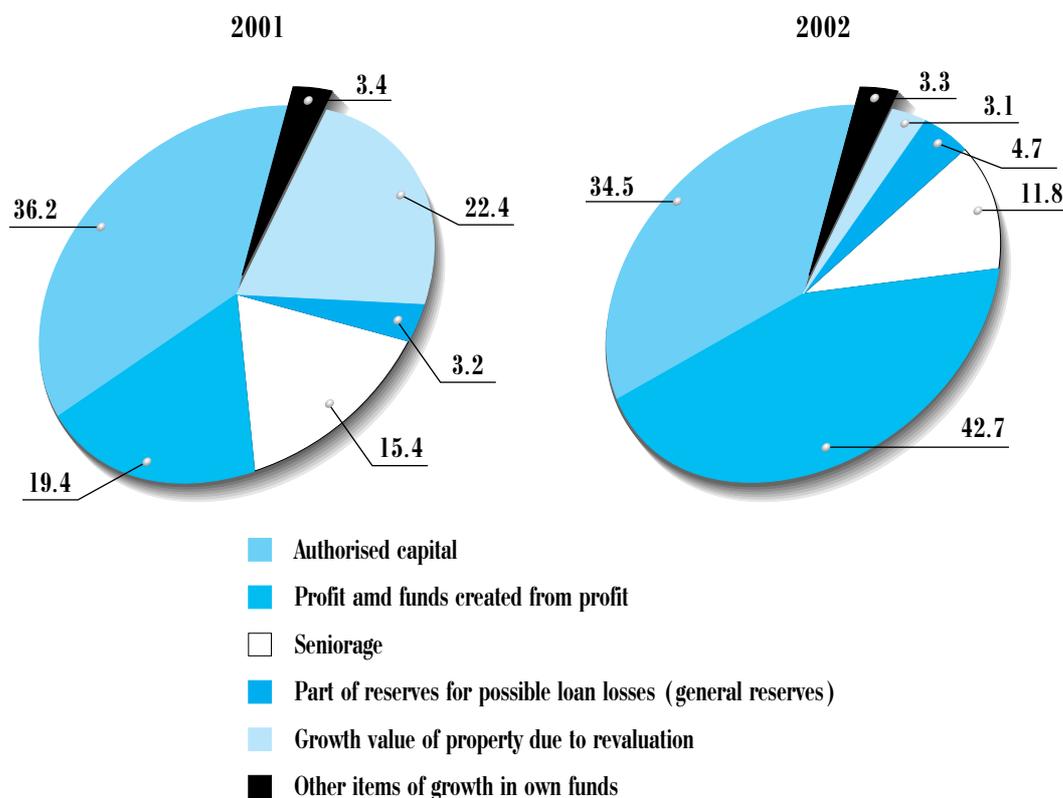


Chart 19

return on capital¹ remained high in 2002 at 18.0%, although it was a little lower than in 2001 (19.4%). Such profitability dynamics is the result of banking capital² growing faster than assets.

The banking sector leads all other sectors of the economy in terms of profitability, although according to Goskomstat data, the average level of profitability in industry was under 11%. The rate of return on capital in the Russian banking sector is now a little higher than in Europe and the United States where this rate has varied lately between 12% and 15%.

A rise in lending activity and the expansion of banks' operations with securities amid declining opportunities for making profit on the foreign exchange market predetermined changes in the structure of income of credit institutions. At the

same time, while the share of net interest income in the 2002 financial result remained unchanged at 60%, the share of net income from operations with securities expanded from 12% to 16%. In the meantime, the share of net income from operations with foreign exchange and foreign currency valuables (adjusted for exchange rate differentials) contracted from 11% to 9%. There was also a contraction in the share of net commission income (from 20% to 17%).

The dynamics of the main parameters characterising the financial standing of credit institutions in 2002 show that the Russian banking sector is quite stable by and large. The share of financially stable credit institutions exceeded 95% of the total number of credit institutions as of January 1, 2003, whereas as of January 1, 2002, it was 93%. As of January 1, 2003, finan-

¹ The rate of return on capital is calculated as the ratio of profit to capital. The year's financial result before tax (the balance of profit and loss) and the average annual (average chronological) value of capital of credit institutions are used for the calculation.

² In 2002, banks' assets (annual averages) expanded 30%, capital rose 48% and financial result (profit) increased 38%.

cially stable credit institutions accounted for more than 97% of banking sector assets against 95% as of January 1, 2002.

As of January 1, 2003, the operating credit institutions' own funds amounted to 581.3 billion rubles, a growth of 28.1% since the beginning of the year or 11% in real terms. The ratio of banking sector capital to GDP in 2002 increased from 5.0% to 5.4%, while the capital to assets ratio remained unchanged at 14%. As of January 1, 2003, the capital of operating credit institutions exceeded by 25.8% the capi-

tal of operating credit institutions as of July 1, 1998.

Growth in the banking sector's own funds (capital) in 2002 mainly resulted from the profit received and the funds created from it (43% of the total sum of growth in own funds), increment in the paid-up authorised capital of operating credit institutions included in the own funds calculation (35%) and income from share placements (12%). Other sources accounted for 10% of the total sum of capital growth. However, the quality of capital remains a serious problem.

I.3.2. OTHER FINANCIAL INSTITUTIONS

INSURANCE COMPANIES. As of January 1, 2003, there were 1,408 insurance companies on the State Register of Insurers compared with 1,350 insurance companies registered as of January 1, 2002. According to the Finance Ministry, the aggregate authorised capital of insurance companies amounted to 47.6 billion rubles as of January 1, 2003, an increase of 74.4% on the beginning of 2002.

The total sum of insurance premiums for all kinds of insurance in 2002 amounted to 300.4 billion rubles, an increase of 8.1% year on year, and the total sum of indemnities amounted to 231.6 billion rubles, a rise of 27%. It should be noted that the Central Federal District accounted for 83.1% of all insurance premiums and 90.3% of all indemnities. From premiums insurers created insurance reserves that are necessary to ensure the financial stability and solvency of the insurance companies and are a source of investment in the economy. According to data as of January 1, 2002, 88.5 billion rubles of insurance reserves were invested, an increase of 174.2% on the same date in 2001.

The relatively favourable macroeconomic developments that continued in 2002, the gradual improvement of the social situation and changes in the tax legislation affected the system of priorities of insurance companies and brought about changes in the structure of the insurance services they offered. Property and liability insurance developed at the most dynamic pace last year in terms of both insurance premiums (154.9% and 132.1%) and indemnities (170.8% and 188.8%). At the same time, unlike the situation in 2001, there was a sharp fall (by 25.7%) in the value of life insurance premiums. The value of life insurance premiums (104 billion rubles) almost equalled the value of property insurance premiums (90.1 billion rubles) and their aggregate share of the total amount of insurance premiums contracted over the year from 50.4% to 34.6%. At the same time, life insurance indemnities exceeded life insurance premiums, mainly as a result of the fulfilment by insurers of their obligations under earlier contracts. The main reason for

the decreased role of life insurance is that from January 1, 2003, a 13% tax has been imposed on income payments on life insurance policies if such payments are effected during the first five years since the conclusion of the contract. Thus, five-year life insurance contracts that were used by some companies as a means of avoiding taxation in paying compensation to employees began to lose their appeal. As a result, already in 2002 insurers began gradually to abandon short-term life insurance schemes in favour of long-term contracts. In the future, this may facilitate the accumulation of the long-term financial potential of insurance companies and the enhancement of their role in the investment process.

The changes in the structure of insurance in 2002 changed the ratio between insurance indemnities and insurance premiums (from 65.6% in 2001 to 77.1% in 2002) and this showed that the insurance companies' financial base for deriving profit from the insurance business had narrowed. Insurance companies' long-term investments remained negligible as insurance companies continued to experience a shortage of long-term resources.

As competition on the insurance market increased, insurance companies ventured into new areas of business. In 2002, in addition to working with banks to offer clients insurance and banking services, insurance companies participated in bank holding companies and co-operated with banks in carrying out mortgage programmes.

A major step forward in 2002 was the approval by the Russian Government in late September 2002 of the Insurance Development Concept, whose implementation may give an additional impetus to the expansion of this segment of the financial market. The long-term objectives of the insurance business are formulated in the Concept as follows:

- building a legislative basis for the insurance services market;
- promoting the development of compulsory and voluntary insurance;
- creating an effective mechanism of state regulation and supervision of insurance;

- encouraging the transformation of household savings into long-term investment, using long-term life insurance schemes;
- promoting stage-by-stage integration of the national insurance system into the international insurance market.

UNIT INVESTMENT FUNDS (PIFs). According to the Federal Securities Commission, which regulates and controls the activities of the unit investment funds and the institutions that service them (managing companies, depositories and appraisers), the total number of PIFs rose by nine in 2002 to 60 as of the end of the year, of which 32 were open-end funds (their owners have the right to demand redemption of their shares on any working day), 25 interval funds (this right is effective within a set time period) and three closed-end funds (such funds do not have this right unless the law stipulates otherwise)¹. The total value of PIFs' net assets amounted to 12.7 billion rubles, an increase of 40.3% year on year, but the rate of their growth slowed from the previous year (77.8% in 2001 against 2002). Under the applicable legislation PIFs are not legal entities and function under the aegis of managing companies that have the FSC licence to manage unit funds, unit investment funds and non-governmental pension funds.

According to the National Managers' League (NML), the number of managing companies rose significantly in 2002 (from 36 to 82). In addition to PIFs, clients of these companies are insurance companies, non-governmental pension funds, private individuals, enterprises and other legal entities. The Russian managing companies are characterised by a high level of concentration: the top 10 managing companies control more than 90% of their total assets.

In 2002, the FSC took a series of landmark decisions designed to expand the sphere of activity of unit investment funds, improve control over them and increase their financial stability and credibility, which helped reduce risks and made

this segment of the market more transparent. These regulating measures made these financial institutions more attractive to potential investors. Specifically, the FSC approved the minimum value of property a unit investment fund should have to be considered legal² and raised requirements for the minimum value of a managing company's own funds³. In addition, it appreciably broadened the range of unit fund categories: the existing share, bond and mixed investment funds were complemented with money market funds, fund funds, real estate funds, index funds and high-risk (venture) investment funds. The FSC ruled that the name of a fund should indicate its category, depending on the makeup and structure of its assets⁴. Lastly, a law was adopted in 2002 legalising the secondary circulation of investment funds on the exchange⁵. As a result, the stock market received an additional stock trading mechanism and potential investors the opportunity to know the real market value of PIFs' shares.

A major step forward in the development of PIFs was the establishment in 2002 of the country's first three close-end funds which entirely differed from open-end and interval funds in their purposes and activities. The most important distinction of the close-end PIFs is that they are designed to finance long-term and mostly large-scale investment projects, including projects in the real sector of the economy.

Last year was quite successful for the collective investment market in terms of return on capital. Unit stock funds proved the best performers, accounting for 76% of PIFs' total net assets. Their success was the result of a favourable situation and stability in the corresponding segment of the stock market during the year. As of the end of 2002, there were 24 stock funds on the market, of which 11 were open-end funds, 10 interval funds and three close-end funds. Next in terms of profit came the mixed investment funds, which accounted for 20% of PIFs' total net assets. There were 27 mixed investment funds (14 open-end and 13 interval funds). Stability was the tradi-

¹ These data have been provided by the National Managers' League (NML), which has the FSC's permission to operate as a self-regulating managing company.

² FSC Resolution No. 15/ps, dated April 27, 2002.

³ FSC Resolution No. 26/ps, dated July 3, 2002.

⁴ FSC Resolution No. 31/ps, dated August 14, 2002.

⁵ FSC Resolution No. 18/ps, dated June 7, 2002.

tional feature of bond funds, which accounted for 4% of PIFs total net assets, as most of them registered profits that exceeded the inflation rate. There were nine bond funds, of which seven were open-end funds and two interval funds.

There was a rise in PIFs' investment activity in 2002. According to the FSC, PIFs' investments in shares and bonds rose by 1.75 times over the year and their share in total assets expanded from 57.2% as of January 1, 2002, to 71.4% as of January 1, 2003.

NON-GOVERNMENTAL PENSION FUNDS (NPF).

As of January 1, 2003, 284 non-governmental pension funds had been granted licences by the Labour Ministry's Inspectorate for Non-Governmental Pension Funds. This represents an increase of 22 on the same date of 2001. By October 2002, 4.3 million people participated in these funds, a rise of 11.2% on October 1, 2001. However, NPF participants account for just 5.9% of the economically active population and last year their number did not expand much from the previous year.

The value of NPFs' own property amounted to 54.8 billion rubles as of October 1, 2002, an increase of 88.3% on October 1, 2001. The NPFs

pension reserves amounted to 43.4 billion rubles as of October 1, 2002, more than twice the amount registered as of October 1, 2001. Pension payments rose by 1.5 times over that period.

Most of the NPFs' financial resources (almost 70%) are concentrated in 10 funds set up by the largest industrial and financial structures. As a result, the latter have additional investment resources, which they chiefly use for the expansion of their own businesses. This practice has a significant effect on the structure of NPFs' investment portfolio. As of the beginning of October 2002, shares accounted for 52.9% of the NPFs' 42.9 billion rubles of investments. These are followed by promissory notes (16.1%), bank deposits (14.8%) and government securities (10.7%).

To encourage the development of non-governmental pension schemes and enlist NPFs to the implementation of the government pension reform, the Russian Government in 2002 revised the procedure for licensing NPFs and announced that the licences granted to NPFs before January 1, 2003, would be replaced by July 1, 2009¹. The issue of new licences will keep on the market the NPFs that meet more precise criteria and thus help increase the credibility of these financial institutions.

¹ Russian Federation Government Resolution No. 546, dated July 22, 2002.

I.3.3. FINANCIAL MARKETS

INTERBANK LOAN MARKET

The main result of the development of the interbank loan market in 2002 was a significant stabilisation of interbank interest rates. For most of the year, the average monthly interest rate on overnight ruble loans ranged from 4% to 13%. The continued improvement of the situation in the adjacent segments of the financial market in 2002 had a favourable effect on market interest rate dynamics. At the end of that year, Bank of Russia operations on the money market helped reduce interest rate volatility.

The interbank loan market gradually stabilised in 2002 as banking sector liquidity remained at a fairly high level and that caused interest rates on ruble loans to fall for most of the year. Sporadic interest rate rises were connected with short-term liquidity fluctuations, caused above all by seasonal factors and brief spells of high demand for foreign exchange.

The consolidation of the Russian banking system and the reduced risk of lending to Russian banks affected the structure of the interbank loan portfolio. For most of the year, comparative dynamics of overall debt and overdue debt on interbank loans extended to resident banks were posi-

tive. The average annual ratio of overdue debt to overall debt on interbank loans, deposits and other funds lent to resident banks contracted to 5.3% in 2002 from 6.8% in 2001. As the value of debt on interbank loans rose, its structure changed in the year under review owing to loans and deposits extended to resident banks, expanding to 35.6% on average in 2002 from 29.2% in 2001.

As before, most of the operations on the interbank lending market were concentrated in the Moscow Region. Significant amounts of interbank lending operations were also conducted by banks in the Northwestern, Volga and Ural Federal Districts.

Interbank lending was conducted by Russian banks in the form of direct interbank operations and a considerable amount of transactions on the interbank market was conducted between banks under long-term agreements on co-operation in interbank lending. Such agreements allow banks to have a number of constant and reliable partners with a good credit history. The continued efforts to improve the provision of the market with information was a major condition of greater transparency of market operations.

THE FOREIGN EXCHANGE MARKET

In 2002, as in the previous years, the foreign exchange market was the principal sector of the Russian financial market in terms of the volume of operations. The turnover of conversion operations far surpassed the turnover of the interbank lending market and stock market.

In 2002, Russia continued to liberalise its foreign exchange market. Specifically, the new procedure for compulsory sale of export currency earnings, which came into force from December 1, 2002, allowed exporters to sell foreign exchange not only at the Single Trading Session of interbank currency exchanges (STS) and to the Bank of Russia, but also on the over-the-counter interbank market and to the exporter's bank.

The structure of the interbank foreign exchange market remained quite stable during the year under review. The share of direct transactions between banks on the over-the-counter market continued to expand in the overall turnover of the interbank market as a whole in 2002 and reached 95% against 93% in 2001. The exchange and over-the-counter segments of the foreign exchange market retained their specialisation in 2002: the exchange floor was mainly used for small operations on clients' behalf, while the over-the-counter interbank market provided a venue for large-sum client operations and arbitrage deals between credit institutions.

The Bank of Russia in 2002 conducted operations on the domestic foreign exchange market in

**DYNAMICS OF OFFERED AND ACTUAL INTERBANK INTEREST RATES
ON OVERNIGHT RUBLE LOANS IN 2002 (% p.a)**

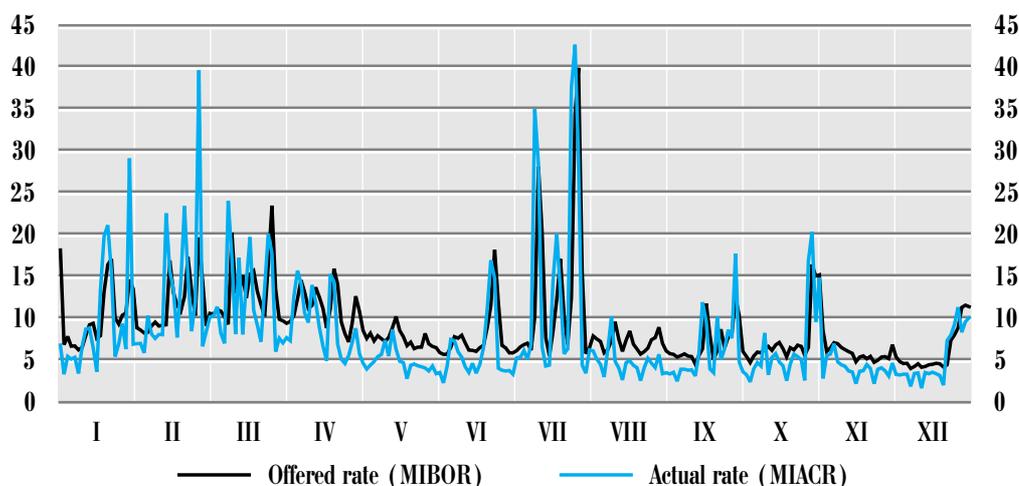


Chart 20

the conditions of the completion by the member countries of the European Economic and Monetary Union of the transition to a single currency and its significant exchange rate appreciation on international markets. At the same time, the US dollar remained the main foreign currency on the Russian foreign exchange market and the volume of ruble/euro lending operations accounted for less than 1% of the ruble/dollar operations. Therefore, conducting operations in the ruble/dollar segment, the Bank of Russia set the official rate of the euro against the Russian ruble on the basis of the US dollar's rate against the ruble on the domestic foreign exchange market and the US dollar's rate against the euro on the international market.

In 2002, the Bank of Russia bought and sold US dollars for rubles on the over-the-counter interbank market with value dates no later than the second working day. Until December 2002, it had bought foreign exchange within the framework of the system of compulsory sale of export currency earnings directly from exporters' authorised banks. The value of these operations in 2002 amounted to nearly \$26 billion.

In the period under review, the Bank of Russia drafted a number of internal documents that regulated in detail the procedure for conducting transactions with the Bank of Russia's contractor credit institutions on the domestic foreign ex-

change market, setting individual limits on the value of such transactions. The new procedure allowed the Bank of Russia to make more effective use of such operations as a means of promptly influencing the current situation on the domestic foreign exchange market. The aggregate value of operations with the banks that are the main market operators amounted to nearly \$2.6 billion¹ in 2002.

In addition, the Bank of Russia continued to conduct operations with credit institutions on the interbank market, making settlements through the Electronic Lot Trading System (SELT) of the Moscow Interbank Currency Exchange (MICEX). It also set an upper limit on the volume of such operations, which aggregated \$7.1 billion in 2002.

The conditions of trade in the exchange segment of the domestic foreign exchange market also changed significantly in 2002. Seeking to liberalise the market and change the procedure for compulsory sale of currency earnings by exporters, the Bank of Russia took part in elaborating a new procedure for conducting trades at the STS, which made operations in the exchange segment of the market more attractive to banks (owing to the reduction of the commission charge for operations at the STS to a market level and the lifting of the requirement for traders to make a 100% preliminary deposit for ruble/dollar op-

¹ Net of transactions relating to compulsory sale of exporters' currency earnings.

erations at the STS). The new rules at the STS, which came into force from December 1, 2002, helped keep the volume of STS ruble/dollar operations at the level of the previous months and allowed the currency exchange to preserve its role as a major segment of the market, whose exchange rate is used by the Bank of Russia for setting the official exchange rate.

As mutual confidence between banks increased, foreign exchange liabilities of credit institutions expanded and the infrastructure of the domestic foreign exchange market improved, the aggregate turnover of conversion transactions continued to rise. In 2002, the average daily turnover of ruble/dollar spot transactions on the interbank exchange and over-the-counter market rose by almost a quarter year on year to \$4.4 billion. The major contributor to growth in the aggregate turnover of conversion operations was the over-the-counter interbank segment of the market, especially the expansion of conversion operations conducted by credit institutions with clients (the volume of such ruble/dollar operations rose by about one-third year on year).

The aggregate volume of ruble/dollar operations in the exchange segment of the foreign exchange market amounted to about \$63 billion, a fall of 11% from the previous year¹. The main reason for decline in exchange trade turnover was a contraction in the volume of exporters' compulsory sales of currency earnings on the exchange.

Most of the exchange spot transactions were conducted at the SELT afternoon session on MICEX: these transactions accounted for about 65% of the aggregate volume of ruble/dollar spot transactions on MICEX. Compared with 2001, the share of trades for "today" and "tomorrow" settlements at the SELT afternoon session on

MICEX contracted a little, while the share of swap transactions expanded significantly.

The aggregate volume of ruble/dollar operations at the STS amounted to nearly \$22 billion in 2002, a contraction of 17% year on year. At the same time, the Single Trading Session of interbank currency exchanges in 2002 retained its role as a segment of the domestic foreign exchange market where the exchange rate formation is most transparent and provides economic agents with exchange rate benchmarks, on the basis of which the Bank of Russia sets the official ruble/dollar exchange rate. In addition, the STS continued to provide access for regional credit institutions to the highly liquid foreign exchange market of the Moscow Region.

The currency structure of the over-the-counter domestic foreign exchange market was dominated in 2002, as in the previous year, by ruble/dollar trades, which reflected the US dollar's leading role in international settlements. At the same time, the turnover of operations with the single European currency expanded at a more rapid rate, reflecting the increased interest in the euro on the part of credit institutions and clients, including private individuals. The average daily interbank ruble/euro trade turnover rose about 16% compared with December 2001 to an equivalent of \$52 million in December 2002.

Ruble/dollar trades also dominated in the currency structure of exchange trade, while the volumes of operations with other foreign currencies were small.

Turnovers in the forward exchange segment of the currency market remained small. The average daily ruble/dollar trade turnover of the forward over-the-counter foreign exchange market amounted to about \$25 million in 2002.

GOVERNMENT SECURITIES

GKO—OFZ MARKET. The yield on government bonds in 2002 was formed under the effect of two major factors: the Ministry of Finance had stepped up its activity in

managing domestic government debt and the amount of free funds held by market participants had increased as a result of the inflow of vast amounts of export earnings to the economy,

² Overall volume of operations at the STS and afternoon trade in SELT on MICEX is used here and below as a measure of the aggregate volume of ruble/dollar operations in the exchange segment of the currency market as regional interbank currency exchange turnovers remain extremely small.

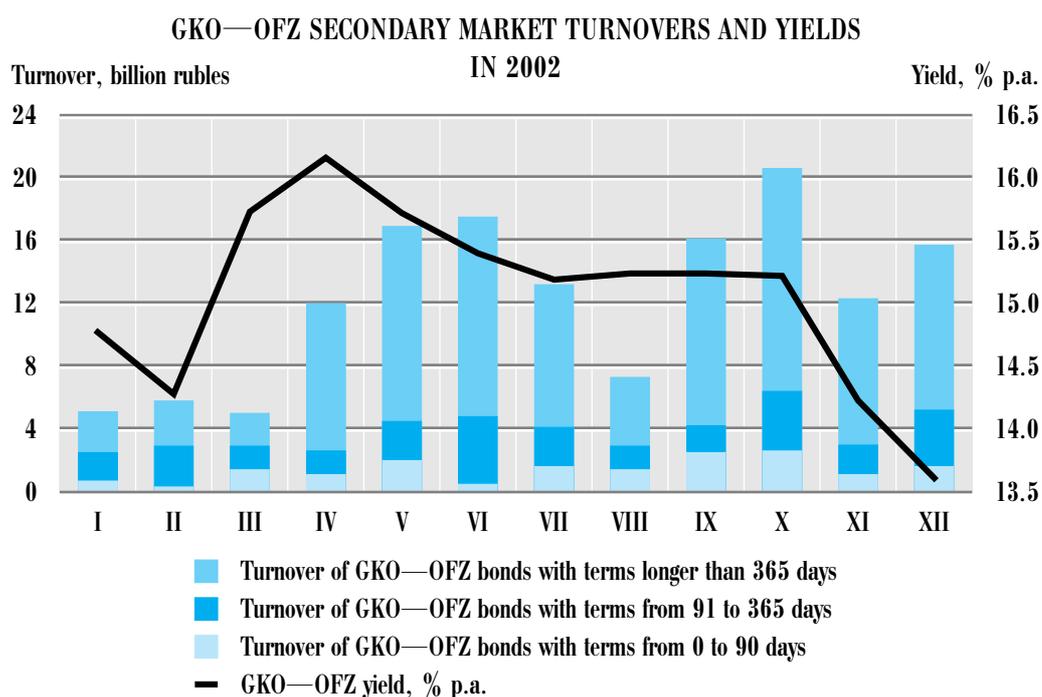


Chart 21

caused by high world prices of Russian export commodities.

The nominal value of the GKO—OFZ market expanded from 160.1 billion rubles as of January 1, 2002, to 217.0 billion rubles as of January 1, 2003. By the end of last year, GKO—OFZ yields had fallen by almost 3 percentage points to 13.6% p.a. The average daily trade turnover expanded 10% year on year to 592 million rubles.

The Finance Ministry exerted decisive influence on the situation on the domestic government debt market in 2002, as it acted as one of the major market operators: the issuer's share in the market turnover stood at nearly 40%, not counting primary placements.

The main objective of government policy on the GKO—OFZ market was to improve the borrowing conditions in anticipation of large foreign debt payments in 2003. To stimulate investment activity on the government bonds market, the Finance Ministry announced in early 2002 that it was going to correct GKO—OFZ yields gradually, taking into account the real and projected rates of inflation.

One of the reasons for a rise in yields in February and March was uncertainty about the short-term dynamics of the exchange rate and growth in the supply of financial instruments

as a result of the issue of bonds by corporate entities.

The subsequent period saw a gradual decline in yields on government bonds under the effect of the Finance Ministry's increased activity in managing domestic debt. GKO—OFZ prices rose in the fourth quarter as the Bank of Russia began to conduct operations to refinance credit institutions, using government securities. Credit institutions, GKO—OFZ market dealers, stepped up their activity in buying bonds, since these market participants sought to bring their government securities portfolios into conformity with Bank of Russia requirements in order to be included in the list of contractors for direct repo operations. A price increase of government securities was also facilitated by a fall in interest rates on the money market amid the expansion of ruble liquidity owing to an inflow of vast amounts of foreign exchange to the balance of payments current account and a contraction in the capital and financial account deficits. A rise in GKO and OFZ bond prices led to growth in the yields to resale in the short term and that provided an additional impetus to demand for government bonds by all market participants, including non-resident investors.

During the year, yields on government bonds were corrected by the issuer in the course of pri-

mary GKO and OFZ bond placements, depending on the current market situation. When, for example, demand was high for a certain government bond issue, its average weighted yield was established at the auction practically without a premium to market prices and that caused prices of government bonds with similar parameters to rise in secondary trading.

Funds that were not committed at auctions formed positive GKO—OFZ price dynamics on the secondary market, encouraging the Finance Ministry to intensify direct government bond sales on the open market. In 2002, the share of GKO—OFZ bonds placed for secondary trade doubled in the total volume of borrowings year on year. Apart from additional placements, the Finance Ministry practised the holding of auctions of additional government bond issues that were particularly popular with investors.

Growth in the nominal value of the GKO—OFZ market mainly resulted from the issue of federal loan bonds due in 2004—2008, while the share of short-term borrowings contracted. Seeking to increase the liquidity of government securities and extend the market duration, the Finance Ministry offered market participants a new financial instrument, the so-called debt depreciation federal loan bonds, or OFZ-AD. One of the objectives of this bond issue was to create large issues of government securities capable of playing the role of a benchmark cost of borrowings on the stock market, especially its corporate segment.

The difference between this financial instrument and the OFZ bond issues placed earlier lies in the redemption procedure: the principal amount of the debt is paid by instalments rather than a lump sum. Thus, the Finance Ministry significantly alleviates the burden on the budget, spreading the payments over a period of time, while market participants have the opportunity to manage their funds more effectively and reduce investment risk.

High investor demand caused OFZ-AD prices to soar in 2002. Investments in Series 46001 OFZ-AD bonds, for instance, brought investors a real income of 27% p.a.

The extension of the domestic government debt duration and the approximation of government bond yields to the inflation rate have created conditions for the emergence of large insti-

tutional investors on the GKO—OFZ market, especially pension funds and insurance companies. However, despite some favourable changes, the level of liquidity of the GKO—OFZ market is still too low. A major obstacle to the expansion of the domestic debt market is the high concentration of government bond issues in the portfolios of some big market players who invest funds for a long term with the aim of receiving a stable income. It is not surprising that the turnover of the bond issues in their portfolios is close to nil.

Dealers held the largest government securities portfolio in 2002. At the same time, the non-resident share in the government bond market contracted during the year, from 11.7% to 7.0%, mainly as a result of the redemption of government bond issues held by non-residents. At the end of the year, foreign market participants stepped up their purchases: in November and December their investments in GKO and OFZ bonds exceeded 2 billion rubles a month.

Continuing to liberalise the C-account regime, the Bank of Russia held six auctions of foreign exchange for authorised banks servicing non-residents. The total value of foreign exchange sold by the Bank of Russia was close to \$160 million. Owing to extremely low demand at last year's autumn auctions, the Bank of Russia decided not to hold any in 2003.

In January, non-residents received permission to make direct investments in the Russian economy to the amount of 10 billion rubles. Early in June, the Bank of Russia reduced to four months the period during which non-residents were required to keep their funds in transit accounts. In addition, non-residents were granted the right to transfer government bonds to the transit section of the depo account and subsequently enter receipts from their sale to the so-called C (conversion)-accounts. The transfer of government securities takes a year (1/12 of the total value of the bonds subject to the transfer is transferred each month). The Bank of Russia established a similar procedure for transferring corporate and sub-federal securities to the depo section of non-residents' accounts.

REGIONAL GOVERNMENT BOND MARKET. The dynamic development of the sub-federal bond market in 2002 was characterised by the expan-

sion of bond issue volumes, longer borrowing terms, growth in the liquidity of regional bond market instruments and their increased attractiveness for investors. In addition to the principal issuers (Moscow and St. Petersburg), other Russian regions became increasingly active in placing bond issues, such as the Republic of Bashkortostan, Republic of Komi, Republic of Sakha (Yakutia), Khanty-Mansi Autonomous Area and Moscow and Tver Regions.

In the period under review, 25 Russian regions and municipalities registered the terms and conditions of their bond issues with the Ministry of Finance. Bonds were placed mainly on the largest floors trading in sub-federal bonds, the Moscow Interbank Currency Exchange (MICEX) and St. Petersburg Currency Exchange (SPCE). In 2002, the SPCE gradually ceded to MICEX its position as the largest trading floor of the Russian regional bond market in terms of operation volumes and the number of issuers it represented. The change resulted from the expansion and development of the Moscow bond market infrastructure and a sharp rise in the volume of market borrowings made by the Moscow government on that floor.

In 2002, the Moscow government placed at MICEX auctions 8.9 billion rubles of bonds at par against 1.75 billion rubles in 2001. The auction yield of the bonds varied from 16% to 18% p.a. The overall volume of secondary trade in Moscow bonds on MICEX amounted to 18.6 billion rubles in 2002, almost three times the volume registered in 2001.

The St. Petersburg government placed 3.0 billion rubles of government registered bonds (GRB) at par in 2002 against 2.2 billion rubles in 2001. The St. Petersburg government bond market was characterised by a variety of instruments and the extension of borrowing terms.

RUSSIAN GOVERNMENT CURRENCY BOND MARKET. The Russian government bonded foreign debt was represented by the following foreign currency-denominated instruments in 2002:

- Russian government eurobonds (10 issues), issued in 1997—2000 and due in 2003—2030;
- Series IV—VII domestic government currency loan bonds (OGVZ), issued in 1993 and 1996 and due in 2003—2011 and government

VOLUMES OF RESIDENT OPERATIONS WITH NON-RESIDENTS TO BUY AND SELL OUTSTANDING RUSSIAN GOVERNMENT CURRENCY DEBT OBLIGATIONS ON SECONDARY MARKET IN 2002 (at market price, billion US dollars)

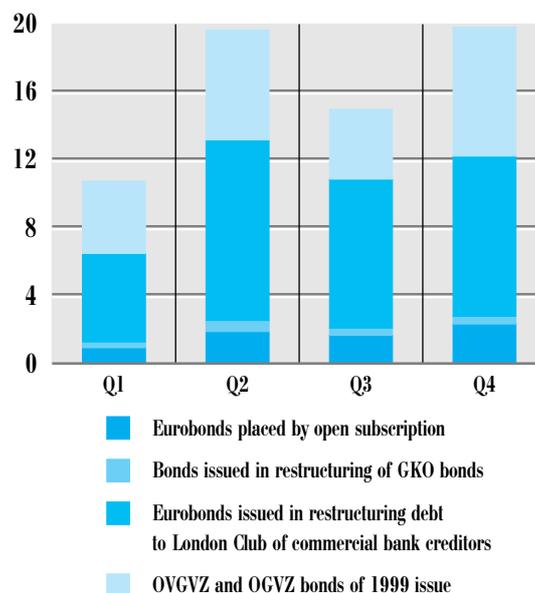


Chart 22

currency loan bonds (OGVZ), issued in 1999 and due in 2007.

According to the Finance Ministry, as of the beginning of 2002 these bonds had a total nominal value of \$45.2 billion and as of October 1, 2002, \$47.1 billion.

In 2002, the commercial debt of the former USSR was exchanged for \$1.37 billion worth of Russian government eurobonds maturing in 2010 and 2030.

Coupon income payments on all foreign currency-denominated instruments were made in full and on schedule. The total amount of coupon income payments equalled \$2.9 billion.

The major volume of Russian government currency loan bonds were tradable as before on the international over-the-counter market of debt obligations of the emerging-market countries.

In the period under review, investors received the opportunity to conduct operations with US dollar-denominated Russian government eurobonds on the organised domestic market, which caters to small and medium-scale investors.

The price level of these instruments on the domestic market corresponded to the level of prices on the international market. In 2002, the value of trades in Russian government eurobonds in the Russian Trading System (RTS) amounted to \$288 million at actual prices and \$11 million on MICEX.

The situation on the Russian currency bond market was affected by the favourable macroeconomic situation in the country, the expansion of Russia's international reserves, the government's foreign debt management policy and the situation

on the world capital market. Against this background, international rating agencies upgraded Russia's sovereign rating on currency borrowings and the ratings of Russian bonded foreign debt instruments.

The long-term downtrend of yields on Russian currency debt instruments continued in 2002. The occasional periods of stabilisation and short-term decline in market prices and corresponding growth in yields, registered during that period, were caused by the fluctuating conditions on world stock markets.

CREDIT INSTITUTIONS' SECURITIES

The market of bank promissory notes continued to develop dynamically in 2002: the value of promissory notes issued by banks rose more than 1.5 times and there was an increase in the number of large bank issuers. For most of the year, this market demonstrated a gradual narrowing of the spreads between yields on papers with different maturities, while the average weighted maturity of ruble promissory notes increased from 76 days in 2001 to 136 days in 2002. Hence the year 2002 was characterised by more active use of bank promissory notes by Russian investors as a medium-term investment instrument.

Forty-seven terms and conditions of certificates of deposit and four terms and conditions of savings certificates were registered in 2002. As in 2001, credit institutions of the Moscow Region accounted for the bulk of the securities issued (196 billion rubles) and the volume of certificate sales in the Moscow Region expanded 66% year on year.

The year under review saw a clear tendency towards decline in aggregate volumes of securities issued by credit institutions. In 2002, 331 credit institutions registered 356 security issues worth a total of 61.6 billion rubles, whereas in 2001, 424 credit institutions registered 482 security issues with a total value of 109.76 billion rubles.

The decline may be attributable to the coming into force from January 1, 2002, of some provisions of the Federal Law on Joint-Stock Companies, which seriously influenced the security issue process. As the requirements for the procedure

to increase authorised capital by including a company's property in it were tightened and a standard was introduced allowing a company to increase its authorised capital by raising the nominal value of shares at the expense of the company's property only, companies increased their authorised capital mainly by making additional share placements.

To increase their authorised capital by making additional share placements, 241 credit companies launched 263 share issues with a total value of 34.1 billion rubles in the year under review. In 2001, 329 banks registered additional share issues with a total value of 39.5 billion rubles. One credit institution increased its authorised capital by 276.3 million rubles by raising the nominal value of its shares.

As usual, credit institutions of the Moscow Region significantly increased their authorised capital by issuing additional shares; at the same time, major regional banks (in the Republic of Tatarstan and Republic of Bashkortostan, for example) also stepped up their share issuing activity in 2002.

The coming into force of the share splitting provision of the Federal Law on Joint-Stock Companies led to a fall in the number of share issues made by credit institutions for the consolidation of their stocks. Three share issues were registered in the year under review against seven in 2001.

Two share splitting issues were registered in 2002. They were launched mainly as part of preparations to convert securities for future reorganisation in the form of acquisition.

Additional share issues were launched in the course of reorganisation in the form of acquisition in 2002 by the following credit institutions: the joint-stock commercial banks AKB Business Service Trust (Kemerovo), AKB EXPRESS TULA and AKB MENATEP St. Petersburg, which launched additional share issues with a total value of 200 million rubles. It should be noted that AKB MENATEP St. Petersburg acquired two credit institutions.

In the year under review, 42 credit institutions worth a total of 9.2 billion rubles were transformed into limited liability joint-stock companies against 67 credit institutions worth a total of 63.9 billion rubles in 2001.

Although 838 credit institutions, or 63% of the total number, operate as open-end joint-stock companies, just a small part of their shares are traded on the organised securities market and may be of interest to potential investors. The overwhelming majority of banks are too small to attract big investors and their shares are usually placed among former shareholders of credit institutions or investors selected in advance.

Unlike the stock market, the corporate bond market experienced a rise in banks' issuing activity: 19 credit institutions registered 20 share issues with a total value of 9.56 billion rubles, whereas in the previous year 11 credit institutions registered 15 share issues with a total value of 4.60 billion rubles.

To make bonds more attractive and secure, banks issued securitised bonds and enlisted underwriters, mainly on organised floors, such as MICEX, using direct trade by auction. The most common type of security is third-party guarantees in the form of irrevocable offer.

Bank share quotations on the secondary market in 2002 were characterised by a pronounced upward trend amid the expansion of operation volumes. Credit institutions' shares accounted for about 5% of the total volume of secondary trading in shares on MICEX and in the RTS. Sberbank shares were the most traded bank shares and there was stable demand on the secondary market for bank bonds, including highly liquid Vneshtorgbank shares.

NON-FINANCIAL SECTOR CORPORATE SECURITIES MARKET

The Russian corporate stock and bond market developed in 2002 against the background of the improved financial standing of leading issuing companies. Operations with corporate securities were conducted on the exchange and over-the-counter segments of the stock market. The two main Moscow floors, MICEX and the RTS, dominated in the exchange segment. In addition, operations were conducted on several regional stock exchanges and stock-exchange segments of seven regional currency bourses. Trading via distant terminals and Internet trading were most widely used by the stock exchange departments of the St. Petersburg, Siberian, Samara and Nizhni Novgorod interbank currency exchanges.

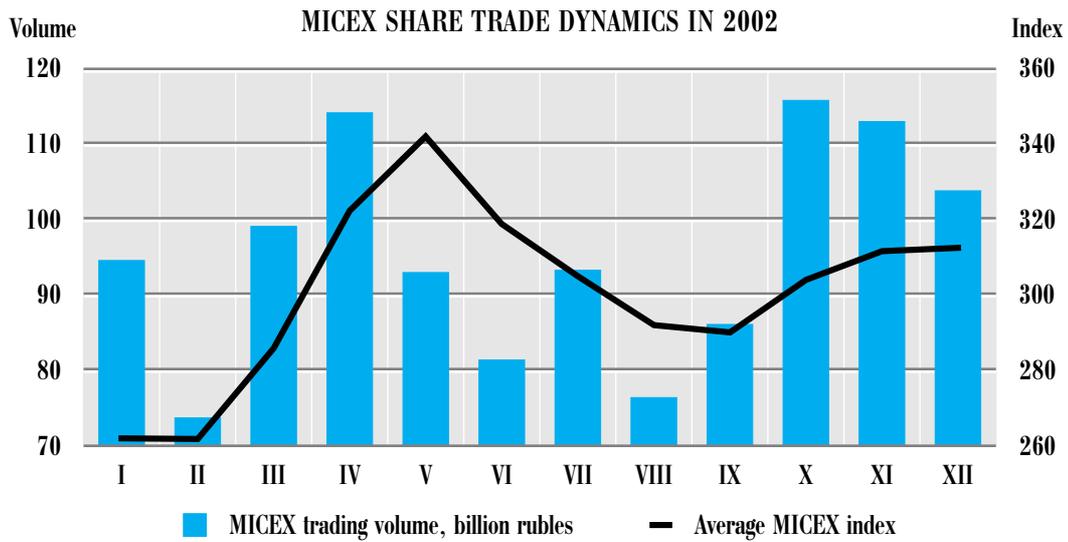
Primary **share** placements were effected, as a rule, on the over-the-counter market by open or closed subscription.

The MICEX index rose 34% in 2002 and the RTS index gained 38%. The capitalisation of the RTS stock market at the end of the period under review amounted to \$93 billion, an increase of 34% on the previous year.

Aggregate turnovers of secondary trade in shares on Russian exchanges expanded significantly in the period under review. Energy companies' shares continued to dominate the structure of exchange trade in stocks. The manufacturing sector's share of the MICEX and RTS stock trading volumes was still less than 1%.

The role of **corporate bonds** in the financing of the real economy rose significantly in 2002. Sixty-seven corporate bond issues with a total value of 47.6 billion rubles were placed on MICEX in the period under review. This represents an almost 100% increase on the previous year. Growth in the volume of new corporate bond issues resulted from the increased attractiveness of these instruments for issuers and investors as major macroeconomic indicators continued to demonstrate positive dynamics. Bonds were placed through auctions held on exchanges, mainly MICEX, as well as on the over-the-counter market through financial intermediaries, and professional stock market participants. Banks usually acted as organisers, un-

Chart 23



derwriters and paying agents for corporate bond issues.

The dynamic expansion of the primary market stimulated activity on the secondary corporate bond market. Secondary corporate bond trade turnover on MICEX rose by 2.2 times year on year to 72.3 billion rubles, while the effective yield on corporate bonds on the secondary market fell as GKO and OFZ yields declined. Market participants began to show more interest in long-term bonds.

Bonds issued by fuel sector enterprises accounted for the largest share in MICEX secondary trade in corporate bonds in 2002.

The factors behind the expansion of the over-the-counter corporate securities market were the presence of a large number of unlisted bond issues and the conduct of a number of large-scale operations with shares designed to ensure control over enterprises, including operations relating to the implementation of the state property privatisation programme. In addition, players on the over-the-counter market conducted operations with listed

securities that had representative price characteristics in order to build large blocks of securities that met the requirements of exchange trade. Financial intermediaries and small shareholders were usually contractors in such operations. The development of information analysis systems and Internet trading systems were the principal objectives of the upgrading of the technological infrastructure of the over-the-counter segment of the corporate securities market.

The situation on the market of **non-bank promissory notes** in 2002 was seriously affected by the gradual replacement of notes by corporate bonds owing to the phasing out of promissory note programmes by a number of big non-financial issuers. The decline in the offer of promissory notes facilitated a fall in yields on these notes of the most reliable issuers and the corresponding reduction in the activity of non-bank promissory note market operators. At the same time, these notes were used as a medium-term borrowing instrument by borrowers who had no access to the bond market.

FINANCIAL DERIVATIVES MARKET

Stability of the real sector and foreign exchange and stock markets stimulated the further expansion of the financial derivatives market. The aggregate futures and options trade turnover on the main floors amounted to

119 billion rubles in 2002, which represents a more than six-fold increase on 2001.

Closer ties between the financial market and real economy in 2002 facilitated growth in the demand for futures contracts on the exchange as

an instrument of hedging risk and led to the extension of contract terms and open positions. The intensification of hedging operations on the derivatives market increased the importance of the information function of futures quotations and attracted new players to the market. However, compared with other sectors of the Russian financial market, derivatives operations remained small in volume.

The creation of the FORTS trading system in late 2001 and further expansion of the MICEX standard contracts sector facilitated the concentration of operations by big regional market participants on the Moscow trading floors.

Owing to relative stability and predictability of the ruble/dollar exchange rate, the biggest progress was made in the share and stock index futures segment of the market: the range of contracts broadened significantly and trade turnovers expanded at the most rapid rates.

The stock options segment of the market also demonstrated dynamic growth in 2002. Stock options trade turnover amounted to 1.4 billion rubles in 2002 against 100 million rubles in 2001, but growth in the trade turnover of this segment of the market was not accompanied by the expansion of its instrumental structure. The level of diversification of the market remained low.

MICEX and the SPCE remained the principal currency futures trading floors in 2002. The volume of currency futures operations continued to expand that year: the average daily US dollar open

STRUCTURE OF TRADE
IN FUTURES CONTRACTS
FOR BASIC ASSETS IN 2002
(billion rubles)

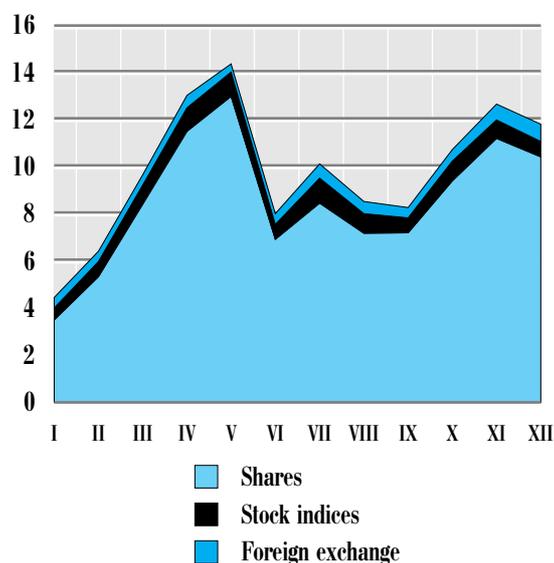


Chart 24

positions on MICEX and the SPCE rose from \$2.2 million in 2001 to \$6.5 million in 2002¹.

Despite its dynamic growth, imbalances remained on the derivatives market caused by the uneven development of its various segments. Medium- and long-term contracts were still not on the market and there were no interest, commodity and credit derivatives. The inadequate legal framework remained a major problem for the derivatives market.

¹ Average annual values are used in the calculation.

I.4. BALANCE OF PAYMENTS AND FOREIGN DEBT

I. BALANCE OF PAYMENTS

Russia continued to enjoy a stable balance of payments in 2002 as foreign trade conditions were good and large quantities of borrowed capital flowed into the private sector.

The Russian Government serviced its foreign debt obligations fully and on time and the country's international reserves continued to grow.

CURRENT ACCOUNT

The current account surplus amounted to \$32.8 billion, a fall of 6% from the previous year's \$35 billion. The surplus in Russia's trade with non-CIS countries amounted to \$29.6 billion and CIS countries \$3.2 billion.

Foreign trade turnover expanded 8% to more than \$168 billion. Exports rose 5% and imports 13%. As a result, the **balance of trade** surplus slightly contracted (by 4%) but at \$46.3 billion it was one of the largest in recent years.

Foreign trade conditions improved for Russia compared with the previous year: the export contract price index stood at 96.1% and import contract price index was 93.4%.

Exports of goods were valued at more than \$107 billion, of which the value of exports to non-CIS countries amounted to \$91 billion (a rise of 5%) and exports to CIS countries \$16 billion (an increase of 7%).

As export prices fell, the factor that ensured the favourable dynamics of exports was the expansion of export volumes (by 10%), which reflected a rise in the demand for Russian products on foreign markets.

Exports of oil and petroleum products expanded at rapid rates in volume terms (16% and 18% respectively).

Crude oil, petroleum products and natural gas accounted for 52% of the total value of exports and the value of exports of these raw materials increased by \$4.1 billion.

Exports of other goods rose by \$1.3 billion, also as a result of growth in export volumes, which offset a fall in the prices of most commodities: food prices fell 7%, ferrous and non-ferrous metal prices were down 2%, prices for engineering products declined 5% and chemical prices decreased 7%.

The leading importers of Russian products were Germany (7.5%), Italy and the Netherlands (7% each), China (6.4%) and Ukraine and Belarus (5.5% each).

Imports of goods amounted to \$61 billion, of which imports from non-CIS countries were valued at \$48.8 billion (a rise of 20%) and imports from CIS countries \$12.2 billion (a fall of 7%).

A rise in the demand for imports, caused by increased incomes in the economy, was manifest in the further expansion of import volumes (by 21%). At the same time, in 2002 imports grew

more slowly than in 2001 in terms of both value and volume.

As for the commodity structure of imports, the share of machinery, equipment and vehicles expanded from 34% to 36%, the share of chemical products contracted from 18% to 17% and the share of foodstuffs remained unchanged from the base period at 22%.

The largest exporters to Russia were Germany (14% of Russian imports), Belarus (9%), Ukraine (7%), the United States (6%) and China (5%).

The deficit in the **balance of services** increased 7% to \$9.1 billion.

The turnover of international services expanded by \$5.1 billion to \$35.2 billion, exceeding the highest level registered in 1997; exports of services rose 21% and imports 15%.

Operations relating to travel and tourism accounted for the largest share of the international service turnover, expanding from 45% to 46%; the share of transport services contracted from 25% to 24% and that of other services stood at about 30%.

Russia exported services to the total amount of \$13 billion against \$10.8 billion in 2001, of which transport services were valued at \$5.5 billion against \$4.7 billion, travel-related services \$4.2 billion against \$3.6 billion and other services \$3.4 billion against \$2.6 billion.

Exports of international transport services rose 18%, mainly owing to operations with non-CIS countries. The most rapid rates of growth were registered in pipeline and air transport.

Travel-related services, which were valued at \$12 billion against \$10 billion a year earlier, accounted for 54% of service imports, which totalled \$22.1 billion over the year. The main factor of growth in service imports was a rise in real disposable income.

Imports of transport services fell 4%, which, given appreciable growth in commodity imports, testifies to the increased competitiveness of Russian carriers. The value of transport service imports amounted to \$2.9 billion.

There was a surplus of \$200 million in the **balance of wages** against \$100 million in 2001.

Wages and salaries paid to foreign workers remained unchanged from the previous year at \$500 million, while the number of non-resident workers and employees in Russia fell 19%.

The incomes of Russians working abroad totalled \$700 million, an increase of 13%, caused by growth in the number of Russian residents working abroad and a rise in their average wage.

The deficit in the **balance of investment incomes** rose from \$4.1 billion to \$4.3 billion. Owing to interest rate dynamics on international financial markets, the anticipated incomes fell almost 20% year on year to \$4.9 billion. The total amount of interest due stood at \$9.2 billion and the government sector accounted for 68% of that amount.

Actual interest payments on the federal government's foreign debt totalled \$5.1 billion against \$5.9 billion in the previous year.

CAPITAL AND FINANCIAL ACCOUNTS

CAPITAL ACCOUNT. The balance of capital transfers was negative. Valued at \$12.4 billion, it largely resulted from operations connected with the settlement of debt on liabilities and assets of the former USSR.

At the same time, the balance of migrants' transfers, which includes the value of migrants' property and funds, was also negative (—\$500 million).

FINANCIAL ACCOUNT. The financial account deficit (here and below figures apply to the year under review and base year net of operations relating to debt remission) amounted to \$13.4 billion, reflecting the excess of foreign capital outflow over foreign capital inflow. However, the financial account deficit contracted year on year (in 2001 it was valued at —\$16.0 billion).

The value of **foreign liabilities** increased by \$7.5 billion (during the base period, it fell by \$1.4 billion).

Different sectors of the economy made different contributions to this value. The government sector's liabilities declined by \$6.8 billion (in the same period of the previous year they decreased by \$6.6 billion).

The overall sum of payments made on the principal debt by the federal government amounted to \$6.6 billion, of which \$4.2 billion, or 63% of the total amount, was paid on the new Russian debt, including \$2.1 billion (31%) paid on loans from international financial organisations.

Debt payments to the Paris Club of creditor nations amounted to \$1.4 billion (21%).

The actual debt burden on the economy decreased: the foreign debt service ratio (the ratio between the amount of debt payments and exports of goods and services) contracted from 11.6% to 9.9%, while the ratio between actual payments and consolidated budget revenues fell from 14% to 10.6%.

The Russian Government's foreign borrowing amounted to \$700 million. These funds came from international financial organisations and were provided under bilateral intergovernmental agreements.

The banking sector's foreign liabilities slightly rose (by \$1.9 billion against \$4.6 billion in 2001). Foreign capital flowed in mostly in the form of loans and deposits.

As of January 1, 2003, foreign liabilities of the banking system were valued at \$16.5 billion, of which \$10.8 billion, or 66%, were short-term liabilities.

One of the notable developments in 2002 was the massive inflow of foreign capital to the non-financial enterprise sector. For the first time since 1998, a year of low non-resident investment activity, capital inflow to the real sector exceeded \$12 billion. The export-orientated sectors of the economy, particularly raw material sector enterprises, were especially attractive to investors. Long-term loans accounted for about 67% of net foreign capital attracted to this country (\$8.3 billion).

Net inflow of foreign direct investment declined from \$2.4 billion to \$2.1 billion, whereas investment in Russian corporate securities expanded: growth in non-financial sector liabilities on portfolio investments (\$2 billion) was 2.7 times bigger than a year earlier (\$700 million).

Residents' **foreign assets** (net of the official foreign exchange reserves) expanded by \$20.9 billion (base year growth was \$14.7 billion).

Growth in the government sector's foreign assets stood at \$2 billion, mainly as a result of the accumulation of overdue interest debt on loans extended to foreign countries by the former USSR.

Growth in the banking sector's foreign assets slowed to \$500 million, or 31%, in 2002 from

\$1.6 billion in 2001. Low and volatile interest rates on international financial markets compelled investors to look for alternative means of putting their money into the domestic economy.

As of January 1, 2003, banks' foreign assets amounted to \$22.5 billion, of which 76% were short-term financial instruments.

The net international investment position of the banking system (the ratio between foreign assets net of reserves and foreign liabilities) increased from \$5.9 billion to \$6.0 billion.

Resident capital outflow from the non-financial enterprise sector, estimated at \$18.4 billion, was more intense than a year earlier (\$11 billion). At the same time, net outflow of financial resources decreased from \$16.3 billion to \$11.1 billion, owing to the massive foreign capital inflow.

The value of direct and portfolio investment in the capital outflow structure increased from \$2.7 billion to \$3.3 billion, but its share contracted from 25% to 18%.

The accumulation process of foreign exchange in the non-banking sector stabilised at just \$800 million, as foreign exchange lost much of its attraction as an investment. The contraction of the share of household income spent on the purchase of foreign exchange from 5.7% to 5.5% may serve as indirect evidence of that.

FOREIGN EXCHANGE RESERVES. The favourable situation on international markets and the large current account surplus led to the massive inflow of foreign exchange to the country. A large part of it was accumulated as international reserves, which rose by \$11.4 billion over the year to \$44.1 billion as of the end of last year and together with monetary gold reserves stood at \$47.8 billion.

Indicators characterising international reserve sufficiency improved. Russia has enough gold and foreign exchange reserves to finance imports for 6.9 months against 6 months as of January 1, 2002.

II. FOREIGN DEBT

Throughout 2002, residents' foreign debt rose in dollar terms from \$150.8 billion to \$153.5 billion, mainly as a result of the US dollar's significant decline against other major world curren-

cies and the ensuing considerable exchange rate revaluations (up to \$6.5 billion regarding the official debt alone).

Most of Russia's foreign debt is the government sector's liabilities, which amount to \$104.7 billion, or 68% of the entire debt). Of this, \$103.6 billion is the debt of the federal government and \$1 billion the debt of regional governments.

The largest part of the federal government's foreign liabilities is the debt assumed by Russia as successor to the former USSR. As of January 1, 2003, this debt amounted to \$55.3 billion, or 53%. It includes the debt to the Paris Club of creditor nations (\$39.2 billion, or 71% of the former USSR's debt), debt to ex-socialist bloc countries (\$4.1 billion, or 8%), liabilities on the 3rd, 4th and 5th tranches of OVGZ bonds (\$1.7 billion, or 3%) and other foreign liabilities (\$10.2 billion, or 18%), which comprise, among other debts, the debt owed to countries that are not members of the Paris Club, the International Investment Bank (IIB), International Bank for Economic Co-operation (IBEC) and commercial debt.

Russia's new debt was estimated at \$48.4 billion. As before, securities denominated in foreign currency (valued at \$26.2 billion, or 54% of Russia's new debt) and loans from international financial organisations (\$13.3 billion, or 27%) accounted for the largest part of this debt. The debt on intergovernmental loans amounted to \$5.7 billion (12%) and the debt on ruble-denominated liabilities to non-residents in the form of GKO and OFZ bonds stood at \$500 million (1%).

Russian regional governments' foreign debt remained unchanged at \$1 billion.

Foreign debt owed by the banking system rose 12% to \$15.2 billion.

The biggest growth in debt obligations to non-residents was registered in the non-financial enterprise sector, whose debt increased by \$9.6 billion.

As a result, as of January 1, 2003, the ratio of foreign debt of all sectors of the economy to GDP fell to 44% from 49% at the beginning of 2002, in which the share of the government sector's debt contracted from 37% to 30%.

1.5. THE WORLD ECONOMY AND INTERNATIONAL FINANCIAL MARKETS

World economic growth accelerated and international trade volumes expanded in 2002. The main factor of growth in business activity in the world was the expansion of the production of goods and services in the United States, caused by a rise in domestic demand in that country. US imports of goods and services in 2002 increased, while exports fell. A rise in net demand for imported goods in the United States was a major factor of growth in output in European and Asian countries, which sell a large part of their products on the US market and are major importers of US goods.

At the same time, in 2002 the United States and other industrialised nations continued to see investment in production fall. Their federal budget performance deteriorated and imbalances in trade between individual countries increased. As investors were not quite certain about the irreversibility of the post-recession economic recovery, as pessimism about corporate profit forecasts prevailed and as the credibility of corporate reporting and audit practices declined, share prices fell on the stock markets in the United States, Western Europe and some Asian countries. The crisis in Argentina destabilised the economic, monetary and financial situation in Latin America.

ECONOMIC GROWTH. According to an IMF estimate, the world's real output growth rates quickened to 3% in 2002 from 2.3% in 2001. The ac-

celeration of economic growth in the industrialised nations was more significant than in the countries that had not reached a comparable level of development. Real GDP growth in the industrialised nations in 2002 is estimated at 1.8% against 0.9% in 2001. Production growth in developing countries was not so impressive — 4.6% in 2002 against 3.9% in 2001. Growth in output in transitional economies in 2002 was not so dynamic as in the previous year — 4.1% against 5.1% in 2001.

US real GDP expanded 2.4% in 2002 against 0.3% in 2001. The main factor of the acceleration of US economic growth rates was a more dynamic rise in domestic demand than in the previous year. A cut in personal income tax, which along with low mortgage interest rates and slower inflation led to a significant acceleration of growth in real disposable income (in 2002, US real disposable income rose 4.3% against 1.8% in 2001), facilitated a rise in domestic demand.

At the same time, the investment recession continued in the United States in 2002. The ratio of the utilisation of production capacity fell year on year and the number of jobs in the manufacturing sector declined significantly. As a result of a fall in US corporate stock prices, the net value of the household sector's aggregate assets decreased relative to the sector's disposable income. In that situation, consumer spending increased unevenly during 2002 and that led to significant

REAL GDP GROWTH IN LEADING INDUSTRIALISED NATIONS IN 2002
(as % of 2001)

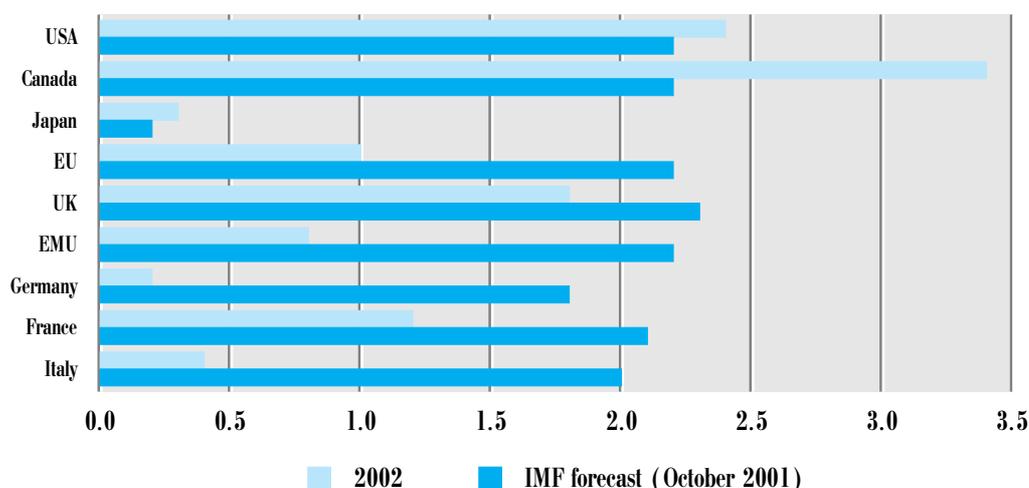


Chart 25

fluctuations in GDP growth rates from quarter to quarter.

The supply of US goods, mainly investment goods, to foreign markets declined in 2002, while US demand for foreign goods, especially consumer goods such as cars, rose. The factors behind growth in US net demand for foreign goods were the dollar's significant rally in 1995—2001, a rise in US domestic demand in 2002 and a slowdown in domestic demand in countries which are the United States' leading trading partners.

A fall in imports had a decisive effect on GDP growth rates in the Economic and Monetary Union (EMU), while a rise in exports became a decisive factor of positive production dynamics in Japan and played a part in accelerating economic growth rates in other Asian countries and US partners under the North American Free Trade Agreement (NAFTA).

Canada's real GDP rose 3.4% in 2002 against 1.5% in 2001. Positive production dynamics in that country resulted not only from growth in spending on individual consumption, but also a rise in investment activity (private sector fixed capital investment in Canada rose 1.6% in 2002). A major factor of recovery in the Canadian economy in 2002 was a rise in US demand for housing construction materials imported from Canada.

The EMU's real GDP growth rate slowed down to 0.8% in 2002 from 1.4% in 2001. A

major factor of GDP expansion was a fall in imports to the EMU. At the same time, this fall reflected the slowing of growth in consumer spending and investment decline. Production growth rates slowed in 2002 in Germany, France and Italy. Economic growth slowed year on year to 0.2% from 0.6% in Germany, to 1.2% from 1.8% in France and to 0.4% from 1.8% in Italy. Growth in business activity in European countries was contained to a great extent by the debt problems of telecommunications companies and the difficulties experienced by financial institutions as a result of a rise in the number of insolvent debtors, especially bankrupt companies in the United States and Argentina.

The non-EMU member countries of the European Union (Britain, Sweden and Denmark) registered a fall in business activity in 2002 compared with 2001, although it was higher than in the EMU. This fact is attributable to more dynamic growth in private sector consumer spending, encouraged by a relatively favourable situation on the labour market. In Britain, a rise in household sector borrowings, stimulated by low interest rates, also played a positive role. Britain's real GDP expanded 1.8% in 2002 against 2.1% in 2001. Economic growth in the European Union as a whole slowed to 1% from 1.5% in 2001.

Japan's real GDP expanded 0.3% in 2002 against 0.4% in 2001. A decisive factor of production growth in Japan was a rise in exports.

The favourable situation on export markets allowed the Japanese economy to avoid a recession that could have been caused by a fall in domestic demand connected with the structural problems of the country's banking system and non-financial corporate sector. A large share of doubtful and bad loans in credit institutions' assets seriously impaired the system of financial intermediation in Japan and that, in turn, reduced the effectiveness of the monetary policy pursued.

Economic growth rates in the new industrial countries of Asia rose 4.6% in 2002 against 0.8% in 2001, according to an IMF estimate. Production growth was facilitated by the improved situation on the export markets for industrial goods, but all these countries, except South Korea, experienced a fall in fixed capital investment. South Korea's real GDP growth rates accelerated to 6.3% in 2002 from 3.2% in 2001 and Hong Kong registered a 2.3% rise in its real GDP against 0.6% in 2001. In 2002, real GDP expanded 2.2% in Singapore (in 2001 it contracted by 2.4%) and 3.5% in Taiwan (in 2001 it fell by 2.2%).

According to an IMF estimate, real GDP of the developing countries of Asia rose 6.5% in 2002 against 5.7% in 2001. China's economic growth rates accelerated to 8% from 7.3% in 2001. One of the contributing factors was China's entry into the World Trade Organisation (WTO), which led to a rise in Chinese exports, growth in the money income of the urban population, an increase in the government enterprise sector's expenditures on investment and the expansion of mortgage lending (encouraging banks to grant mortgage and consumer loans is one of the objectives of China's economic policy; since 1998, the value of such loans has amounted to about 500 billion yuan).

Favourable industrial exports dynamics, a rise in prices of some raw materials, the expansion of household sector consumer spending and government expenditures and the implementation of stimulating monetary and fiscal policies in 2002 facilitated the acceleration of economic growth in South East Asian countries. Real GDP rose 4.2% against 0.4% in 2001 in Malaysia, 3.7% against 3.4% in Indonesia, 5.2% against 1.9% in Thailand and 4.6% against 3.2% in the Philippines. India's real GDP growth accelerated to 5.1% from 4.1% in 2001.

The slackening of demand for imported goods and services in EMU and natural disasters in 2002 slowed production growth in Central European countries. At the same time, production growth rates remained high in the countries which had strengthened their positions on export markets thanks to an inflow of foreign direct investments. In Hungary real GDP expanded 3.3% against 3.8% in 2001 and in the Czech Republic it rose 2% against 3.1% in 2001. Economic growth rates in Poland accelerated to 1.3% from 1% in 2001.

Production growth in countries of Central Asia slowed down year on year owing to the slowing of economic growth in Russia, their leading trading partner within the framework of the Commonwealth of Independent States (CIS), and a fall in prices of some major exports, such as cotton and non-ferrous metals. Production growth also slowed down in the European members of the CIS. Ukraine's real GDP grew 4.6% in 2002 against 9.2% in 2001.

According to an IMF estimate, the output of goods and services in Latin America fell 0.1% in 2002 after a rise of 0.6% in 2001. The Argentine crisis was accompanied by a sharp fall in production in that country and it destabilised the financial system of neighbouring Uruguay. The region's problems were also linked with inadequate external financing and, in some countries, with political tension. Argentina's real GDP contracted 10.9% in 2002 compared with a 4.4% fall in 2001. Real GDP growth rates in Chile slowed to 2.1% from 3.1% in 2001, while Brazil's economic growth accelerated to 1.5% from 1.4% in 2001. As Brazil lost much of its credibility on the international capital market owing to its huge government debt, the country had to conclude a standby loan agreement with the IMF and adopt a rigid fiscal policy. Mexico's real GDP expanded 0.9% in 2002 after a 0.3% contraction in 2001, owing to a rise in Mexican net exports to the United States.

DOMESTIC DEMAND. US domestic demand expanded 3% in 2002 against 0.4% in 2001. Unlike the situation in 2001 when finished product inventories sharply contracted, in 2002 they expanded, making a positive contribution to domestic demand dynamics and causing gross capital formation to increase despite a fall in fixed capital investments. Final domestic demand rose 2.4%

in 2002 against 1.6% in 2001. The main contribution to its growth was made by the household sector with its increased spending on individual consumption. The positive contribution of spending on consumption and government sector investment increased. US private sector investment in fixed capital fell 3.1% and its contribution to domestic demand dynamics remained negative. There was a significant fall in expenditures on the construction of production premises and facilities. Investments in machinery, equipment and transport vehicles declined, while enterprise expenditures on the purchase of computer hardware and software increased. There was a rise in investment in housing construction.

Growth in EMU domestic demand slowed to 0.2% in 2002 from 0.9% in 2001, as gross domestic investment declined 2.5% and growth in consumer spending of the household sector slowed, while growth in government sector expenditures accelerated. In Japan, domestic demand fell 0.3% in 2002 after it rose 1.1% in 2001. The reason for the decline was the accelerated reduction of inventories. Final domestic demand rose 0.1%. A 3.8% fall in private sector investment and a 4.7% decline in government sector investment were offset by a rise in spending on consumption in both sectors.

South Korea registered an expansion of all components of domestic demand in 2002. A rise in consumer spending in Taiwan allowed this country to avoid a fall in domestic demand amid a reduction in investment. A major factor that offset investment decline in Singapore was growth in government sector consumption. Hong Kong experienced a decline in consumption and private sector investment, which led to a fall in domestic demand. A rise in domestic demand was a major factor of economic growth in developing countries of South East Asia and Central European states.

INFLATION. US consumer price growth slowed to 1.6% in 2002 from 2.8% in 2001. The base consumer price index, which does not comprise food and energy prices, rose 2.3% against 2.7% in the previous year. Lower inflation in the United States in 2002 was attributable to a 5.9% fall in fuel and energy prices and a 1.5% decline in producer prices of consumer goods. A major factor of slowing inflation in the United States was the re-

duction of unit labour costs as a result of a rise in labour productivity.

EMU consumer prices rose 2.2% in 2002 against 2.4% in 2001. Energy prices declined 0.6% on the consumer goods market. Producer prices of industrial goods in EMU were down 0.1% in 2002. A major factor of a price slowdown in the EMU in 2002 was the euro's rally. In some periods of the year the rate of inflation fluctuated significantly owing to volatile oil and food price dynamics, the rounding-up of prices after the euro was put into circulation for the public and some other factors.

Japan's consumer prices fell 0.9% in 2002 against 0.7% in 2001. The decline resulted from a fall in nominal household income and expenditures amid low business activity and rising unemployment. Most other Asian countries registered slowing inflation and consumer prices fell in China, Hong Kong, Taiwan and Singapore. Inflation rates slowed in the Central European countries. In Hungary consumer price growth slowed to 5.3% in 2002 from 9.2% in 2001, in Poland to 1.9% from 5.5% and in the Czech Republic to 1.8% from 4.7%. A major factor of the slowing inflation rates in these countries was the strengthening of their national currencies against the US dollar (the Hungarian and Czech currencies also rose against the euro). Devaluation caused a sharp rise in consumer goods prices in Argentina, but price growth slowed in many other Latin American countries. The inflation rate in Mexico fell to 5% from 6.4% in 2001 and in Chile to 2.5% from 3.6%. Consumer price growth in Brazil accelerated to 8.5% from 6.8% in 2001.

EMPLOYMENT. The number of jobs fell in most of the industrialised nations. The United States registered a fall in job numbers in the manufacturing and mining industries, construction, wholesale and retail trade and transport and communications. The US jobless rate rose to 5.8% of the labour force against 4.8% in 2001, reaching the highest level since 1994. The average duration of unemployment increased to 9.3 weeks from 6.7 weeks in 2001.

The EMU unemployment rate in 2002 rose to 8.3% of the labour force against 8% in 2001. In Germany as a whole, i.e. including eastern and western parts of the country, the jobless rate in-

creased to 9.8% from 9.4% in 2001. Japan's unemployment rate rose to 5.4% of the labour force from 5% in 2001. Job numbers fell in the manufacturing industry, wholesale and retail trade, construction, agriculture and the forestry industry; there was a major fall in job numbers at large enterprises (with more than 500 workers and employees). Unemployment rates rose significantly in 2002 in Poland, Brazil and the new industrial countries of Asia, except South Korea.

GOVERNMENT FINANCE. Budget performance deteriorated in many countries in 2002. Growth in government expenditures, necessitated by the government's new financial policy priorities, and tax cuts created a US federal budget deficit of \$231.2 billion (2.2% of GDP) after a surplus of \$92.3 billion (0.9% of GDP) in 2001. The US consolidated budget deficit in 2002 rose to 3.6% of GDP against 0.7% of GDP in 2001.

The economic slowdown led to a fall in EU budget revenues. According to an IMF estimate, the EU consolidated budget deficit rose to 1.9% of GDP from 1% of GDP in 2001. The EMU consolidated budget deficit expanded to 2.2% of GDP in 2002 from 1.5% in 2001. Germany's budget deficit of 3.6% of GDP exceeded the 3% limit set by the Maastricht Treaty and the European Pact of Stability and Growth.

Japan's consolidated budget deficit rose to 7.7% of GDP from 7.2% of GDP in 2001. There was a rise in the average weighted budget deficits of the countries in transition.

INTERNATIONAL TRADE AND BALANCES OF PAYMENTS. International trade turnover expanded 2.9% in 2002 against 0.1% in 2001, according to an IMF estimate. Aggregate trade volumes of the industrialised nations rose after a fall in 2001.

US trade turnover in 2002 remained unchanged from the previous year at \$2.4 trillion. Owing to a fall in exports and a rise in imports, the US trade deficit rose to \$435.7 billion against \$358.3 billion in 2001. The US current account deficit increased to 4.8% of GDP in 2002 against 3.9% of GDP in 2001 as a result of the expansion of the trade deficit and the reduction in the inflow of incomes from foreign investment. The capital and financial account surplus rose to 4.5% of GDP against 3.8% of GDP in 2001.

EMU trade turnover in 2002 remained unchanged from 2001 at 2.6 trillion euros. A rise in exports and a fall in imports caused the EMU trade surplus to expand to 146.1 billion euros from 76.6 billion euros in 2001. The EMU current account surplus in 2002 amounted to 0.9% against the deficit of 0.2% of GDP in 2001. The capital and financial account deficit grew to 2.2% of GDP from 0.5% of GDP in 2001 as a result of a sharp contraction of the inflow of financial credits, deposits and cash to the EMU (there was a simultaneous fall in net outflow of direct investment from the EMU). The EMU's official foreign exchange reserves increased to \$246.5 billion at the end of 2002 from \$234.5 billion at the end of 2001.

Japan's trade turnover in 2002 expanded to 108.8 trillion yen against 105.6 trillion yen in 2001. Owing to a rise in exports, the country's trade surplus rose to 6.6 trillion yen against 3.2 trillion yen in 2001. Japan's current account surplus increased to 2.8% of GDP from 2.1% of GDP in 2001. The capital and financial account deficit rose to 1.6% of GDP against 1.2% of GDP in 2001. The main reason for the increase was the repatriation of capital brought to Japan earlier in the form of portfolio investments. Japan's official foreign exchange reserves amounted to \$461.2 billion as of the end of 2002 against \$395.2 billion as of the end of 2001.

Britain's trade turnover in 2002 amounted to 557.3 billion pounds against 557.7 billion pounds in 2001. As a result of a fall in imports of goods and a rise in exports of services, the country's trade deficit contracted to 18.9 billion pounds from 22.2 billion pounds in 2001. The UK current account deficit in 2002 fell to 0.8% of GDP from 1.3% of GDP in 2001, while the capital and financial account surplus rose to 2.3% of GDP from 1.7% of GDP. The main reasons for the latter's expansion were an increase in the inflow of portfolio investments to Britain and a decrease in their outflow from the country. Britain's official foreign exchange reserves rose to \$39.4 billion as of the end of 2002 from \$37.3 billion as of the end of 2001.

Growth in exports accelerated in developing countries, but import growth rate quickened even more as a result of a rise in domestic demand in Asian countries and an increase in the demand for imported goods in the Middle East. By con-

trast, the countries in transition experienced a sharp fall in import growth rates amid a moderate acceleration of export growth. Import growth slowed down significantly in the Czech Republic and Slovakia, owing to a fall in the demand for imported investment goods and materials used in the production of export commodities. Growth in imports of goods and services in the countries with transition economies ceased to exceed the expansion of export volumes.

According to an IMF estimate, the volume of net external financing of developing countries in 2002 contracted just as in 2001 by \$14 billion, while the volume of net external financing of the countries in transition expanded by \$12.4 billion against \$6 billion in 2001. The inflow of direct investment into developing countries decreased in 2002 owing to a fall in direct investment inflow into Latin America. The inflow of direct investment into the countries with transition economies expanded. The share of foreign direct investment in the structure of the sources of external financing in developing countries contracted to a little more than 80% from 90% in 2001 and in the countries in transition it declined to 60% from more than 75% in 2001.

COMMODITY MARKETS. Growth resumed in world trade in goods in 2002. After a 0.5% contraction in 2002, it rose 3.1% in 2002, according to IMF data. Prices on world commodity markets mainly increased during the year. In 2002, the average price of Brent, Dubai and WTI crude rose 2.8% year on year to \$25 per barrel. Prices of non-energy products went up 0.7% on average.

Oil price growth in 2002 was stimulated by the resumption of growth in demand, connected with the increased consumption of energy in the world. Among other factors that caused oil prices to rise were the decision by the OPEC member countries to keep oil production quotas unchanged for 2002, the escalation of tension in the Middle East, Iraq's embargo on oil supplies to the US market and the decision by the European Union and some other countries to increase their strategic oil reserves. One of the main factors that determined oil price dynamics in the second half of 2002 was tension in relations between the United States and Iraq. In addition, a sharp rise in the price of oil in December 2002 was provoked by a

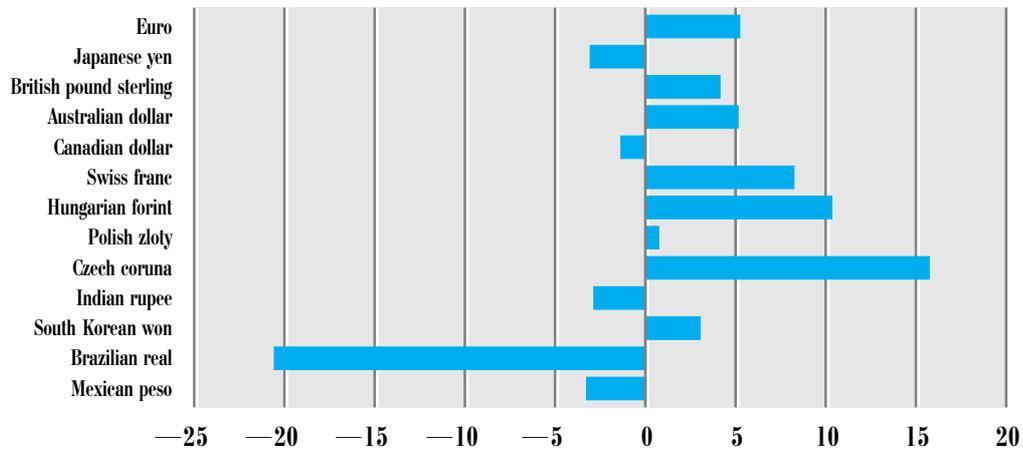
political crisis in Venezuela that paralysed the country's oil industry and caused a contraction in oil supplies to the world market. Petroleum product price dynamics were affected not only by the price of oil, but also a rising demand for fuel. Despite the resumption of growth in natural gas prices, in 2002 their level was 15% lower than in 2001 on the US market and 25% lower on the European market.

Although prices of metal products in 2002 fell 2.7% on average year on year, the world's economic recovery caused the demand for some metals and their prices to rise in 2002. A minor price upturn was registered on the steel market, while an upward price trend was seen on the aluminium and copper markets; the dynamics of aluminium and copper reserves were volatile in 2002. The price of nickel mainly rose in 2002 as its supply declined significantly and reserves dwindled. The price of aluminium in 2002 fell 6.6% on average year on year to \$1,351 per tonne, the price of copper was down 1.3% to \$1,560 per tonne and the price of nickel rose 13.6% to \$6,783 per tonne. The main factors of growth in gold prices in 2002 were not only the dollar's fall against most other major currencies, the decline of major stock indices and investors' increased interest for gold, but also the escalation of tension in the Middle East. At the end of 2002, the price of gold had soared to a five-year high of nearly \$350 per troy oz. Platinum and palladium prices changed different ways. Growth in platinum prices, caused by market shortages, was accompanied by a fall in the price of palladium that resulted from a drop in demand as producers accumulated considerable reserves. The average price of gold in 2002 rose 14.4% year on year to \$310 per troy oz, the price of platinum increased 1.9% to \$539 per troy oz and the price of palladium fell 44% to \$337 per troy oz.

Bad weather and rising demand led to a rise in food prices and prices of agricultural raw materials in 2002. Food prices increased 0.9% year on year and prices of agricultural raw materials rose 1.8%. Prices of beverages (tea, coffee and cocoa) in 2002 rose 16.5% after their significant decline in the period from 1998 through 2001.

FOREIGN EXCHANGE MARKET. The US dollar fell against every other major world currency except

RATES OF GROWTH IN EXCHANGE RATES OF FOREIGN CURRENCIES
AGAINST US DOLLAR IN 2002 (as % of 2001)*



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

Chart 26

the Japanese yen in 2002. The main reason for the dollar's decline was growth in the US current account deficit. At the same time, US interest rates in 2002 were lower than in 2001. As the anticipated return on capital invested in US corporate stocks decreased, doubts appeared about the fairness of US corporate financial reporting. As a result, in 2002 net inflow of foreign capital to the United States (the balance of operations connected with US residents' financial obligations to non-residents) declined year on year.

The average annual rate of the US dollar against the euro fell 5.2% in 2002. It was for the first time since 1999 when the single European currency was introduced that the euro posted a full-year gain against the dollar. In November 2002, for the first time since December 2000, the euro's average monthly rate exceeded 1 dollar again. The US dollar lost 4.1% against the British pound, less than it lost against the euro owing to profound interrelations between the UK and US corporate sectors. The dollar fell 8.2% against the Swiss franc, a significant decline caused by the decreased credibility of US and EMU financial institutions. At the same time, the dollar gained 3.1% against the Japanese yen, as the maintenance of a weak yen was in 2002 practically the only instrument of economic policy capable of ensuring growth in production.

MONEY MARKET. The average annual level of interest rates on the money markets of the leading industrialised nations in 2002 was considerably lower than in 2001. It was mainly the result of their fall in 2001 when the monetary authorities of these countries sought to stimulate economic growth by low interest rates on loans. Throughout 2002, the central banks of most of the industrialised nations did not change the benchmark interest rates they had set in 2001 until the fourth quarter of last year.

In continuing to implement a policy of zero money market interest rates, the Bank of Japan in October raised the banking sector liquidity benchmark from 10—15 trillion yen to 15—20 trillion yen. The US Federal Reserve in November lowered the benchmark federal funds rate from 1.75% to 1.25%. The European Central Bank in December cut the base refinancing rate from 3.25% to 2.75%. The Bank of England left the repo rate unchanged in 2002. The National Bank of Switzerland reduced twice the benchmark 3-month LIBOR on the Swiss franc, in May and in June 2002 (by half a percentage point in both cases).

STOCK MARKET. Share price levels on the stock markets of the United States, Western Europe and some Asian countries declined in 2002. A decisive factor of the US share price downturn in 2002 was a loss of confidence in US companies,

AVERAGE ANNUAL GROWTH IN SHARE PRICE INDICES IN 2002
(as % of 2001)

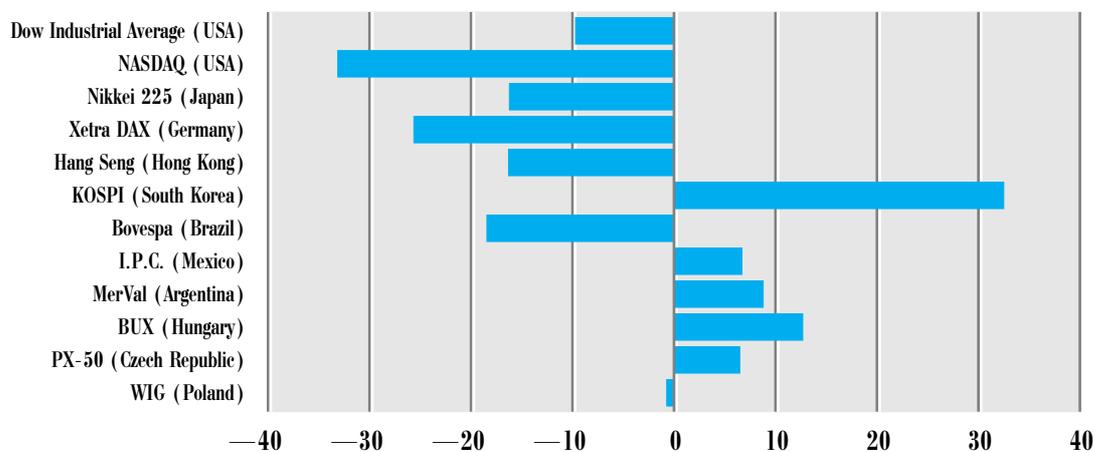


Chart 27

Source: Reuters.

caused by corporate reporting and audit fraud scandals. The poor financial performance of long-distance telecommunications companies and losses incurred by financial institutions had an adverse effect on the stock markets of the leading industrialised nations in 2002. In Japan, the lowering of the investment ratings of credit institutions and the absence of a final programme and exact schedule for banking sector reform played a negative role. The price level of US industrial corporate shares declined 9.7%, while the price level of US high-tech corporate stocks was down 33.1%. Share price levels fell 25.6% in Germany, 16.2% in Japan and 16.3% in Hong Kong.

In the meantime, there was a rise in price levels on the stock markets of South Korea, Taiwan and most of the South East Asian nations in 2002. This growth was the result of a rise in business activity in these countries, especially the improvement of the export situation and the increased demand for high-tech equipment components.

A rise in share prices on Central European markets, excluding Poland, was the result of dynamic economic growth in these countries, the continued inflow of foreign direct investment and the achievement of a new level of certainty regarding EU membership. Despite significant intrayear fluctuations, the average level of share prices in Argentina in 2002 was higher than in 2001. The country's switch to a floating exchange rate policy was accompanied by a sharp devalua-

tion of the peso and had numerous negative consequences, but at the same time, it made Argentinian goods more competitive.

CAPITAL MARKET. Yields fell on US, EMU and Japanese government securities in 2002. A rise in investor demand for highly secure financial assets that paid guaranteed income was attributable to the expectations of a low level of return on capital invested in stocks and various circumstances that undermined confidence in private non-financial companies and financial institutions. Forecasts for the short-term prospects for the US economy in 2002 stabilised (not finally, though), but longer-term projections deteriorated, affecting the US government securities yield curve accordingly. The average yield on short-term debt instruments in 2002 was considerably lower than in 2001. It was the result of its fall in 2001, caused by the unprecedented easing of monetary policy by the Federal Reserve. Throughout 2002, the yield on short-term debt obligations was relatively stable, while the yields on 2- to 10-year bonds in 2002 fell more steeply than in 2001.

The yield on US government securities (denominated in dollars) with all terms to maturity in 2002 was lower on average than the yield on the EMU's euro-denominated bonds with the same terms to maturity. The yield on EMU government bonds fell in 2002 and the shorter the term to ma-

turity was, the deeper the fall. This trend reflected the unfavourable nature of short-term prospects for the eurozone economy and the worsening forecasts for the next two to three years amid relatively stable forecasts for the next five to 10 years. The average annual yields on EMU securities with different terms to maturity in 2002 formed a gently rising curve (in 2001 they had the outlines of a parabola with its minimum falling on instruments with 1-year terms to maturity). The yield on Japanese government bonds also declined in 2002. The yields on securities with terms to maturity from 3 months to 1 year were close to nil. The yield curve had a positive inclination in the interval between 2 years and 30 years, while the differences between the average annual yields on papers with different terms to maturity remained virtually unchanged in 2002.

The corporate reporting fraud scandals in the United States seriously undermined investors' confidence in private corporate borrowers. Investors had doubts about the creditworthiness of US and Western European telecommunications com-

panies and there was concern about the losses incurred by European financial institutions as a result of the devaluation of their stock and corporate bond portfolios and the bankruptcies of some companies that owed big debts to US and European banks.

Credit became more expensive for corporate borrowers with both "speculative" and "investment" credit ratings and that led to a reduction in 2002 in the net value of securities issued on the international capital market. Last year saw a dramatic fall in confidence in Latin American countries, especially Argentina, which was completely barred from the international capital market. Investors' attitude to the emerging markets remained selective, an encouraging change from universal mistrust noted in 1998 after a series of monetary and financial crises in Asia. A relatively high level of confidence in the economic policy and balances of payments of Asian countries in 2002 allowed some of them to regain access to the international capital market, while other secured a broader access to this market.

**BANK OF RUSSIA
ACTIVITIES**

II

II.1. MONETARY POLICY

II.1.1. OBJECTIVES AND RESULTS OF MONETARY POLICY

Guidelines for the Single State Monetary Policy for 2002 set as the ultimate objective of monetary policy the reduction of inflation to 12—14% a year, a rate which corresponded to the projected GDP growth of 3.5—4.5%.

To keep inflation within the established limits and at the same time preserve a controllable floating exchange rate regime, the Bank of Russia used the M2 aggregate of money supply as an intermediate monetary policy target, because despite varying time lags and frequent changes in domestic and external economic environment, there is an obvious interconnection between money supply and inflation.

It was no easy task for the Bank of Russia to correct inflation promptly through monetary regulation, as a large part of service prices were regulated by the government. Their short-term dynamics are not the direct consequence of monetary policy; they depend on the state of local budgets, changes in the prices of goods produced by the natural monopolies and the efficiency of the sectors that provide paid services to the public and almost instantly tell on consumer price dynamics. Therefore, to evaluate the relevance of monetary policy at any given stage to the target set for the general rate of inflation, the Bank of Russia in 2002 used core inflation as an indicator which characterised better than any other

indicator persistent and long-term results of the effect of monetary factors on inflation in the economy.

The actual rate of inflation in 2002 stood at 15.1% (calculated from December to December), a fall from 2001 (18.6%). Core inflation, which ran at 10.2%, was practically equal to the level considered by the Bank of Russia as a target. The overshoot of the actual inflation rate over the target rate reflected the increased influence of structural factors on price dynamics in 2002 and was largely caused by the persistently rapid rates of growth in prices for paid services provided to the public. Growth in service prices accounted for 38.9% of the overall price growth on the consumer goods market against 27.6% in the previous year.

In determining the demand for money in 2002, the Bank of Russia believed that it would be affected, above all, by such factors as continued economic growth, a rise in real disposable money income and the increased propensity to save. Taking macroeconomic forecasts into consideration, the Bank of Russia expected the demand for rubles to rise 22—28% in 2002. At the same time, it did not rule out changes in the demand for the national currency during the year owing to the volatile dynamics of the velocity of money and uncertainty about foreign trade developments.

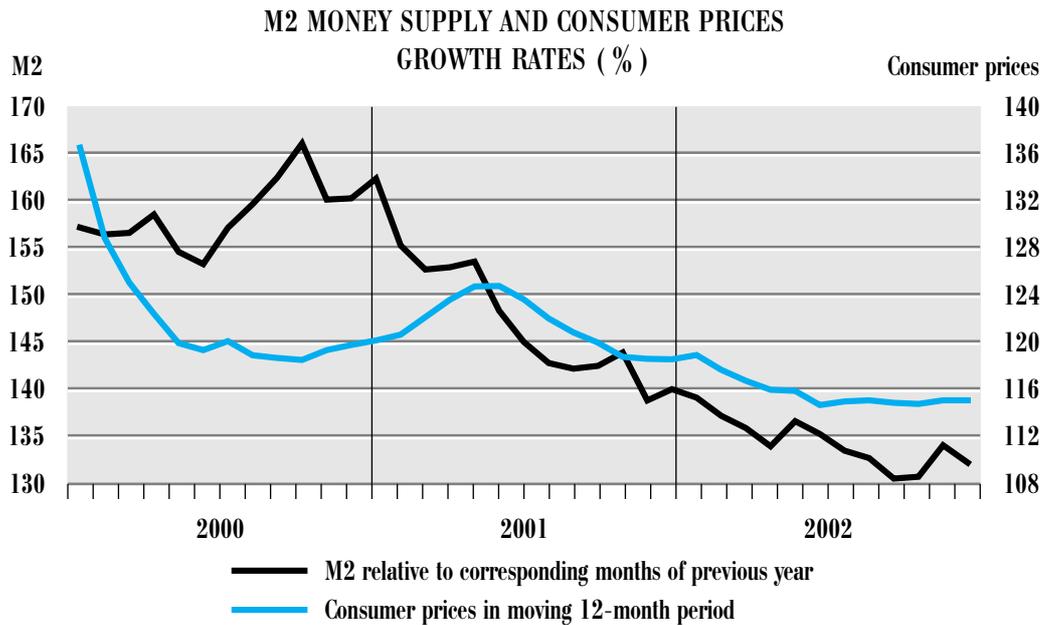


Chart 28

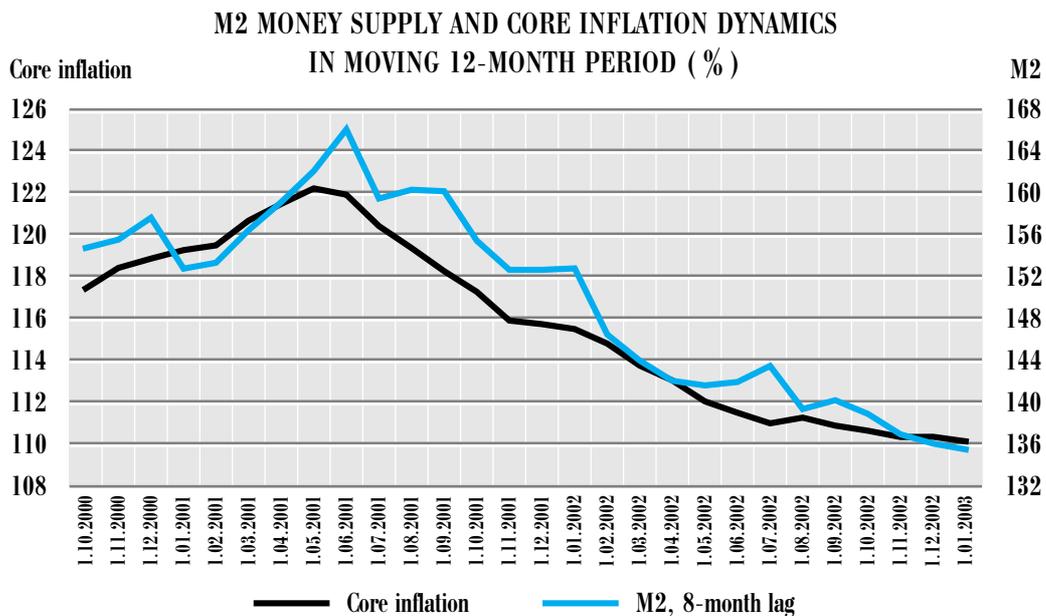


Chart 29

Building upon the controllable floating exchange rate regime, the Bank of Russia in 2002 pursued a policy aimed at ensuring smooth dynamics of the ruble/dollar rate and preventing sharp fluctuations. Over the year (from January 1 to December 31, 2002), the exchange rate of the ruble against the dollar changed from 30.1372 to 31.7844, which means that the ruble lost 5.5% of its value. In 2001, it lost 7.0% of its value.

The average annual real appreciation of the ruble against the dollar, an indicator allowing to take into account the intrayear exchange rate fluctuations and the rates of inflation in Russia and the United States, decreased from 13.9% in 2001 to 6.1% in 2002.

High prices for major Russian export commodities allowed Russia not only to maintain stability on the domestic foreign exchange market, but also increase its international reserves to a

PROJECTED AND ACTUAL M2 GROWTH RATES (moving year, %)

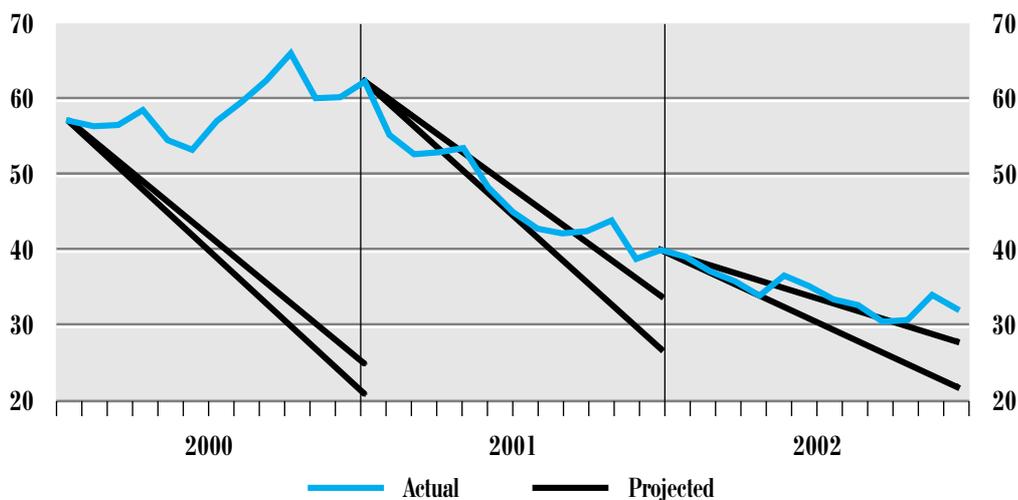


Chart 30

M2 GROWTH RATES IN 2001 AND 2002 (%)

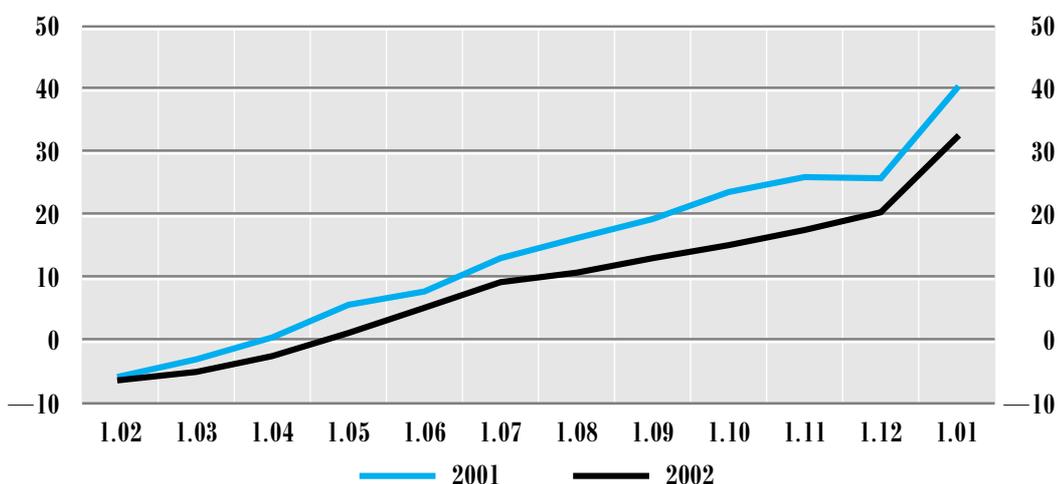


Chart 31

higher-than-expected level. In 2002, Russia's international reserves (net of the Bank of Russia short-term liabilities denominated in freely convertible currencies) expanded by \$13.2 billion to \$47.8 billion as of the beginning of 2003.

As Russia continued to enjoy a strong balance of payments in 2002, the main source of growth in the money supply for most of the year was Bank of Russia purchases of foreign exchange on the domestic market.

The analysis of the monetary situation in 2002 showed that all the substantive assumptions laid at the basis of the projected demand for money that year proved right. The money supply (monetary aggregate M2) expanded 32.3% in 2002, a

significant decrease on the previous year's growth of 40.1%, and on the whole corresponded to the forecast path of the demand for money. However, despite a strong balance of payments, the efforts to offset increases in government-regulated service prices by tightening the dynamics of monetary aggregates failed.

Although the quantitative parameters of the velocity of money cannot be accurately predicted at present, its dynamics last year almost completely corresponded to the forecast trend for the year. The velocity of money, calculated by the M2 aggregate, for example, slowed in 2002 from 7.0 to 6.2 on an average annualised basis. Significant growth in long money in the money supply struc-

**RATIO BETWEEN BALANCES IN FEDERAL AND REGIONAL GOVERNMENT ACCOUNTS
IN BANK OF RUSSIA AND M2 AGGREGATE (actual values and trend, %)**

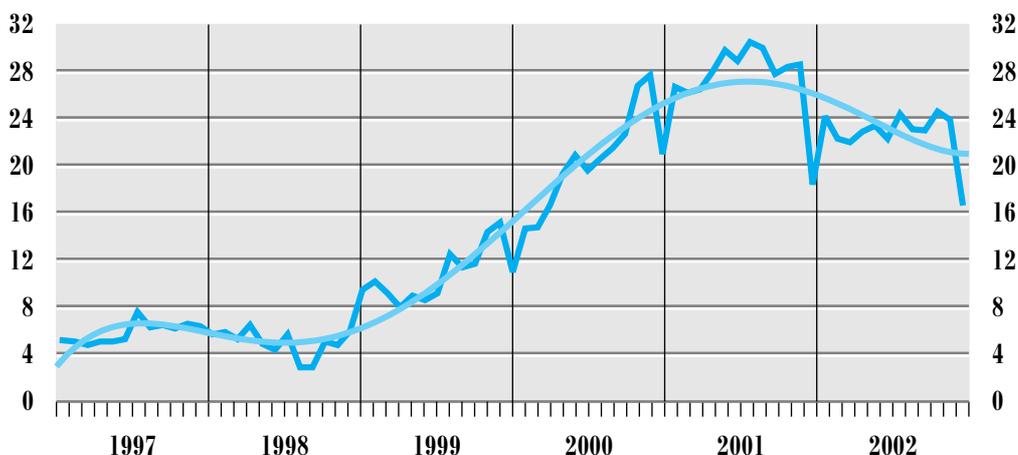


Chart 32

**VELOCITY OF M2 MONEY
(on an average annualised basis)**

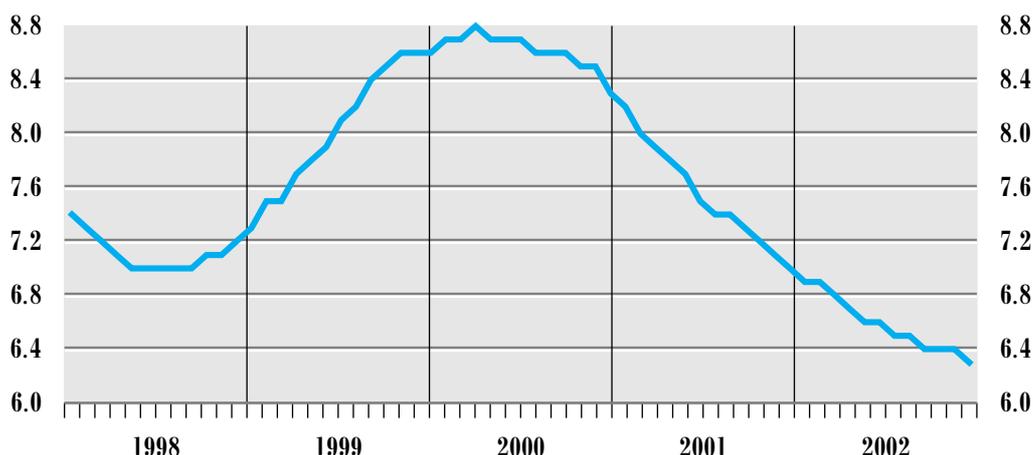


Chart 33

ture was of great importance for the slowing of the velocity in 2002. Among the contributing factors were year-on-year increase in real disposable income, the appreciation of the ruble, the increased confidence in the banking system and more or less attractive terms of household bank deposits. As a result, in 2002 time deposits of private individuals were the most dynamic element of the money supply.

As was expected, the velocity of money in 2002 decreased more slowly than in the previous year: in 2001 it slowed by 15.6%, whereas in 2002 it slowed by 10.7%. A factor that has contained the reduction of the velocity in the past few years is a large proportion of cash in the money supply, de-

spite the expansion of the share of its less liquid components.

The velocity of money dynamics were seriously affected last year by significant year-on-year growth in foreign exchange accumulations by the household sector (in both cash and non-cash form). The public's persistent tendency to keep savings in foreign currency to some extent contained demand for the national currency.

The state of settlements continued to improve last year and the share of money in companies' working assets expanded, although the contribution of the increased monetisation of settlements to the slowing of the velocity in 2002 was noticeably smaller than a year earlier. Thus, the share

DYNAMICS OF AVERAGE MONTHLY BALANCES IN CREDIT INSTITUTIONS' CORRESPONDENT ACCOUNT IN 2001 AND 2002 (billion rubles)

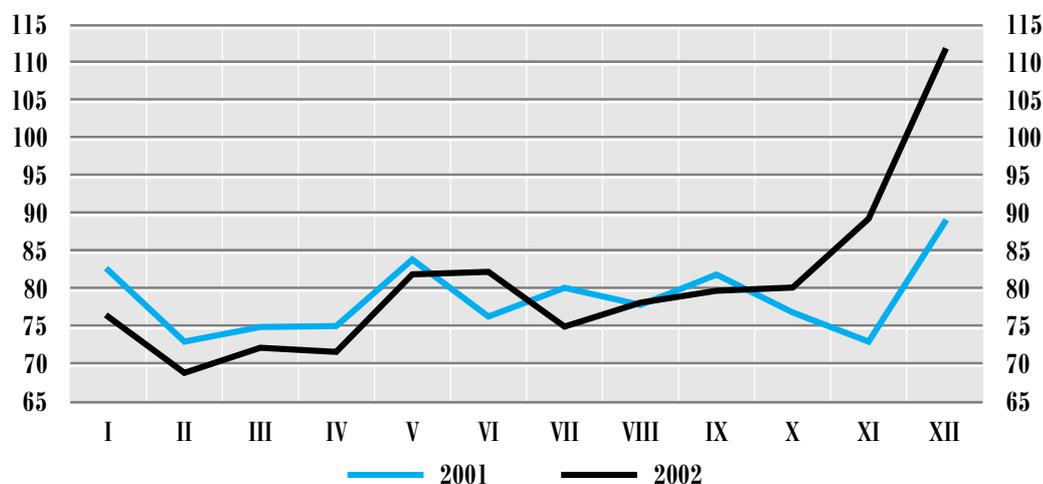


Chart 34

of products that was paid for in cash as a proportion of the total value of paid-for products¹ in 2002 was 82% on average, an increase of 4.6 percentage points compared with 2001, while in 2001 the increase stood at 7.9 percentage points.

Nevertheless, growth in the money supply, commensurate with the demand for money, raised the general level of monetisation of the economy (by the M2 aggregate) from 14.3% to 16% last year and, taking into account foreign currency deposits (by the M2X aggregate), from 19.1% to 20.8%.

The federal budget surplus in 2002 was accompanied by the accumulation for most of the year of vast funds in all budget accounts and the accounts of government extrabudgetary funds in the Bank of Russia. At the same time, the potential of this means of containing the money supply declined significantly in 2002 and the changed dynamics of the ratio of government deposits with the Bank of Russia to the money supply bear this out to some extent. In 1999—2001 this ratio constantly increased, whereas in 2002 the opposite tendency prevailed and the ratio of the government deposits with the Bank of Russia to the M2 aggregate of money supply decreased over the year to about 22% on average against 27% in 2001.

Monetary regulation brought about some changes in banking sector liquidity compared with

the previous year. In 2001, the average annual level of funds in credit institutions' correspondent accounts rose 6.4%, whereas in the year under review their growth stood at just 2.4%. At the same time, there was a significant rise in the value of commercial bank deposits with the Bank of Russia, which almost doubled year on year.

As the money supply expanded significantly owing to increase in net international reserves, the rate of growth in bank claims on the non-financial enterprise and household sectors in 2002 decreased by almost half year on year. As before, most of the loans were extended to corporate borrowers, but the share of loans extended to industrial enterprises in 2002 contracted to 36.8% of the total amount of the clients' debt on loans against 41.1% in 2001, while the share of loans extended to trade and public catering establishments expanded to 21.5% from 19.5% in 2001. The share of debt on bank loans extended to private individuals slightly expanded (to 8.2% from 7.2% in 2001).

The money multiplier, calculated by the broad monetary base, remained practically unchanged in 2002.

Regulating banking sector liquidity by conducting its operations and changing the refinancing rate, the Bank of Russia in 2002 exerted indirect influence on the dynamics of interest rates

¹ These are Goskomstat data on payments for the products shipped, work performed and services provided by the largest Russian taxpayers and industrial monopolies.

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

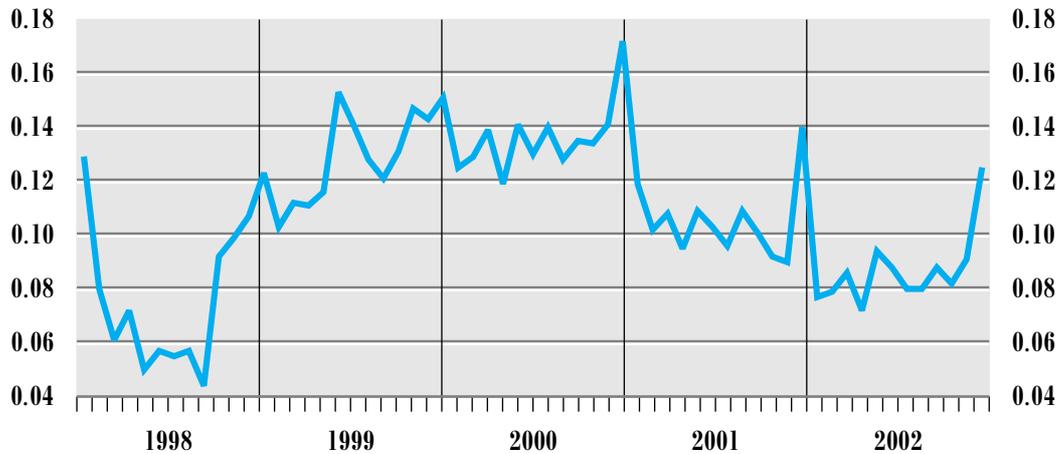


Chart 35

on commercial banks' operations. A cut in the refinancing rate did not imply an easing of monetary policy in the conditions of a strong balance of payments, but brought it closer to the existing interest rates amid the declining level of inflation and inflation expectations. Along with the reduction of credit risk, this preconditioned a lower level of interest rates on commercial banks' loans to businesses compared with 2001.

The margin on banks' lending and deposit operations continued to fall last year, declining from 11.3 percentage points in December 2001 to 10.7 percentage points in December 2002. At the same time, the difference between credit and deposit prices remains quite big, reflecting the existence of high credit risk and inadequate legislative protection of creditors' rights.

The analysis of the developments in 2002 shows that the trends and factors that influenced the inflation process in the year under review created problems for the attainment of the principal objective of monetary policy. Owing to a massive inflow of foreign exchange into the country as a result of

rising world energy prices, in the second half of the year the M2 dynamics tended to move closer to the upper limit of the projected path. Nevertheless, the expansion of the money supply in the first half of 2002 was commensurate with the demand for money with inflation running at 14%. At the same time, the measures taken by the Bank of Russia to regulate the money supply amid a strong balance of payments failed to bring about the desired slowing of money supply growth with the aim of offsetting more rapid rates of increase in regulated prices. In the last few months of the year the possibility of radically changing the current monetary situation with the aid of the exchange rate policy was limited, because it was unclear how this tactic would affect the economy as a whole.

At the same time, moderate growth in the money supply until the summer of 2002 and the ruble exchange rate dynamics in the fourth quarter of last year, regulated by the Bank of Russia, made it possible to keep the rate of core inflation within the projected range and avert a more significant increase in full-year inflation.

II.1.2. DYNAMICS OF MONETARY AND CREDIT INDICATORS

To achieve the objectives of the monetary policy aimed at gradually slowing inflation in the medium term, the Bank of Russia carried out measures to control the dynamics of the money supply and regulate banking sector liquidity. In so doing, it took into consideration the fact that the money supply and the demand for money were influenced by external and internal economic developments.

As of January 1, 2003, the money supply (M2) amounted to 2,119.6 billion rubles, an increase of 32.3% on the beginning of 2002. In real terms, however, money supply growth slowed to 14.9% from 18.1% in 2001, reflecting the slowing of growth in the demand for money connected with the dynamics of macroeconomic indicators.

The enlarged structure of the M2 monetary aggregate has been stable over the past two years: the share of cash outside the banking system contracted from 36.6% to 36.0% in 2001–2002, while the share of non-cash funds, which include household deposits and non-financial enterprises' deposits, expanded from 63.4% to 64.0%.

The improvements in the money supply structure in this period were characterised by the accelerated growth in household deposits compared with the other components of the money supply. In 2001 the biggest growth in absolute terms was registered in cash outside the banking system (M2 expanded 36%), while in 2002 the biggest growth was demonstrated by household deposits (more than 39%). Last year's rate of growth in ruble household deposits (45.2% in nominal terms, or 26.2% in real terms) resulted from a significant rise in nominal money income (27.7%), changes in the structure of income use and a scarcity of alternative outlets for savings for most of the households.

The share of spending on goods and services as a proportion of household income has been gradually contracting (in 2002 it narrowed to 73.2% from 74.6% in 2001, according to Goskomstat), while the public's propensity for organised savings has been growing.

Throughout the period under review, household time deposits rose faster than other deposits

and their share expanded from 74.1% to 79.3% in the total value of deposits (household deposits with terms longer than 1 year accounted for 60% of the year's growth in household deposits and their share expanded from 29.2% to 38.8%). The value of time deposits with all banks rose 35% in real terms (the value of demand deposits increased 1%). These structural changes were facilitated by the structure of interest rates by term. The share of time deposits with the Savings Bank (Sberbank) expanded from 79% to 85% and other banks from 53% to 60%. Demand deposits with banks other than Sberbank increased more slowly in real terms this year than in 2001 — 31% against 59%. The value of demand deposits with Sberbank fell in real terms. Overall, in 2000–2002 Sberbank's share in the total value of household ruble deposits contracted from 88.4% to 78.1%.

Growth in the balances of funds in non-financial enterprises' accounts continued to slow in 2002: they declined to 23.8% from 36.0% in 2001 and in real terms to 7.5% from 14.7%. Their share in the money supply contracted from 35.7% to 33.4% over the year. In addition to the slowing of growth in the key branches of the economy, a major factor that contained the expansion of non-financial enterprises' bank deposits and predetermined low rates of growth in investment activity in 2002 was the deterioration of the financial standing of the non-financial enterprise sector compared with the previous year, which was manifest in a fall in profits and a reduction in the profitability of production. According to Goskomstat data, the net financial result (profit net of loss) of enterprises in the key branches of the economy decreased 18.9% year on year. The deterioration of the financial standing of the real economy was due to a rise in production costs, caused by raw material and energy price increases, including increases in the prices of goods produced and services provided by the natural monopolies, wage increases, which surpassed growth in labour productivity, and competition from imports.

The dynamics of foreign currency deposits of the non-financial enterprise and household sec-

tors in 2002 were affected by a wide range of different factors, such as the change in the balance of payments, including the balance of trade and capital and financial accounts, the exchange rate dynamics of the ruble and euro against the US dollar, inflation and devaluation expectations and interest rate trends on the domestic and international financial markets. For most of the year the share of foreign currency deposits in the total value of non-financial enterprise and household deposits continued slowly to contract, just as it did in the preceding period.

The structure of the money supply by source, including foreign currency deposits, was affected in 2002 by the same main factors as in the previous year and hence it did not change much. During the year under review, the dynamics of net foreign assets and domestic credit of the banking sector had a key role to play in the expansion of the money supply, foreign currency deposits included.

Net foreign assets of the monetary authorities and credit institutions rose by 479.2 billion rubles in 2002, while Russia's international reserves, which do not include the Bank of Russia's short-term liabilities denominated in freely convertible currencies, increased by \$13.2 billion. Net foreign assets of credit institutions continued to decrease in absolute terms and their reduction last year was more significant than in 2001 — 24.8 billion rubles against 3.3 billion rubles. These dynamics, the result of growth in foreign liabilities of credit institutions continuing to exceed growth in their foreign assets, were formed in the conditions of the continued rise of the exchange rate of the ruble in real terms and a low level of interest rates on international financial markets. The situation on the domestic and foreign markets was conducive to growth in credit institutions' foreign liabilities owing to external borrowing and an inflow of funds to the Russian money market with its persistent demand for long-term credit resources. Thus, the contraction of credit institutions' net foreign assets in 2002 continued to serve as a source of growth in resources for the expansion of the banking sector's domestic credit.

The banking sector's domestic credit in 2002 expanded by 651.9 billion rubles and during that year was a major source of growth in the money supply. In the past two years the dynamics of do-

mestic credit were stable: domestic credit expanded about 30% a year, a growth that in absolute terms corresponded to about nine-tenths of the increase in the money supply, including foreign currency deposits, in the same period.

As for the structure of domestic credit, it underwent some alterations as a result of the changed dynamics of its main components. In 2000—2001, growth in domestic credit resulted entirely from the expansion of banking sector claims on the non-financial enterprise and household sectors, which rose at more rapid rates in that period, whereas in 2002, the dynamics of this component of domestic credit slowed: the year's growth was 36% against 56% and 65% in 2001 and 2000 respectively.

Several factors were responsible for such dynamics: the slowing of economic growth, increased credit risk owing to the expansion of the range of borrowers, the deterioration of the financial standing of many potential corporate borrowers, the slowing of growth in funds attracted by credit institutions from enterprises and the tendency of some large companies to combine borrowing at home with taking big foreign loans, which become increasingly attractive as interest rates on them stay low and the ruble's exchange rate rises.

At the same time, in 2002, for the first time since 1999, the banking sector's net credit to the government resumed its growth. Its increase, which amounted to 113.3 billion rubles, or 16%, was almost entirely due to growth in credit institutions' net claims on the government. The principal source of growth in this kind of credit was the expansion of credit institutions' government securities portfolio, which includes sub-federal and municipal loan bonds, in the conditions of growth in domestic borrowings by the Finance Ministry and some regional governments compared with the previous year.

In controlling the formation of the money supply and evaluating its effect on the rate of inflation, the Bank of Russia considered the dynamics and structure of the monetary base as a key monetary indicator.

The broad monetary base, which includes cash in circulation, credit institutions' required reserves for the funds borrowed in the national and foreign currencies, credit institutions' correspon-

**RATES OF GROWTH IN BANKING SECTOR
DOMESTIC CREDIT AND ITS COMPONENTS
(% growth over the year)**

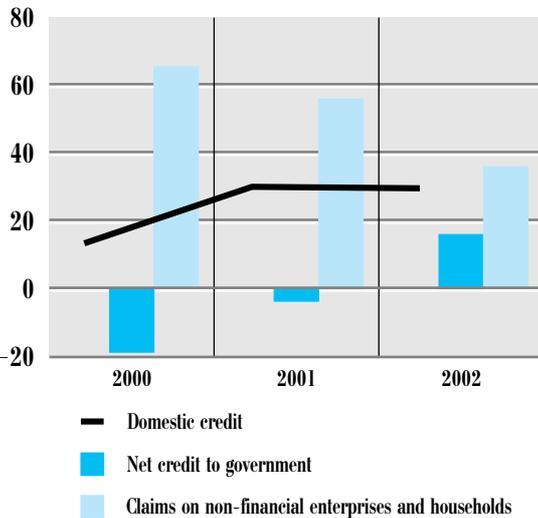


Chart 36

dent and deposit accounts in the Bank of Russia and the latter's obligations to repurchase securities and whose size characterises the supply of money from the monetary authorities, amounted to 1,232.6 billion rubles as of January 1, 2003, an increase of 32.8% over the year (15.4% growth in real terms). The money multiplier, calculated as the ratio of the M2 aggregate to the broad monetary base, remained practically unchanged over the year. At the same time, the acceleration of year-on-year growth in the money supply (in 2001 it expanded 28.6%) shows that the conditions in which it is formed have changed.

As was forecast in the Guidelines for the Single State Monetary Policy for 2002, the monetary base dynamics last year, as in the previous year, when Russia continued to enjoy a strong balance of payments, were formed under the effect of growth in net international reserves of the monetary authorities. In 2002, net international reserves, measured at the fixed cross rates of foreign currencies to the US dollar as of the end of 2001, expanded by \$12.9 billion, an increase of \$2.2 billion over the previous year.

As foreign exchange flowed to the domestic market in quantity, the monetary authorities sterilised a part of the money supply in order to achieve the targets of their monetary policy and balance out the supply and demand for money.

The principal means of sterilising excess liquidity in 2002 were taking credit institutions' funds on deposits with the Bank of Russia and increasing balances in the federal and regional governments' accounts in the Bank of Russia. As a result, net domestic assets of the monetary authorities contracted in absolute terms. At the same time, the scale of the sterilisation operations in 2002 expanded compared with 2001 and hence the broad monetary base, calculated net of the value of absorbed liquidity, expanded 28.1% against 31.9% in 2001.

Although the balances of federal government accounts in the Bank of Russia, counted as part of the monetary authorities' net credit to the federal government, more than doubled, the budget in 2002, as in 2001, was mainly an instrument for the short-term absorption of liquidity. There were several reasons for this.

In December 2002, repeating the previous years' tendency, though in a milder form, a significant fall in the balances of funds in federal and regional government accounts in the Bank of Russia led to the expansion of the monetary authorities' net credit to the federal and regional governments and growth in the monetary base. The same factors, including a reduction in the balances of federal and regional government accounts in credit institutions, affected the dynamics of the money supply: in the last month of 2002, the M2 aggregate expanded 9.8%, whereas in January—November its growth stood at 20.4%. The Bank of Russia used all the instruments it had at its disposal to absorb surplus liquidity (operations on the foreign exchange market, deposit operations and modified repo auctions) but they proved insufficient to sterilise the entire money overhang caused by the budget expansion.

In addition, growth in the balances of federal government accounts in the Bank of Russia was accompanied by a comparable reduction in the balances of government extrabudgetary fund accounts in the Bank of Russia, which was caused, to some extent, by Pension Fund investments of spare resources in securities. In 2001, growth in the balances of funds in the federal government accounts in the Bank of Russia was accompanied by a simultaneous reduction in the balances of regional and local government accounts in the Bank of Russia.

MAJOR SOURCES OF GROWTH IN MONETARY BASE IN 2001 AND 2002
(quarterly growth as % of monetary base as of beginning of quarter)

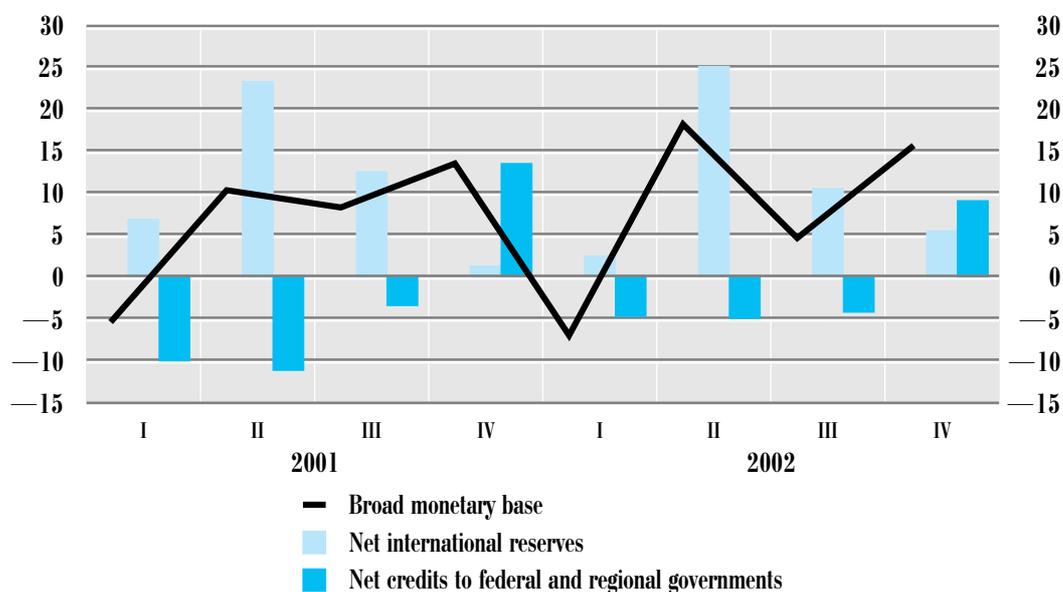


Chart 37

As a result, the aggregate balances of federal and regional government accounts in the Bank of Russia decreased in real terms in 2001—2002.

There were minor changes in the money supply structure in 2002. The share of cash in circulation, including till cash balances at banks, had contracted by the end of the year by 1.2 percentage points compared with the level registered as of January 1, 2002, and stood at 66.0%. Cash in circulation increased 13.4% in real terms against 17.7% in 2001.

The rate of growth in the balances of credit institutions' correspondent accounts in the Bank of Russia in 2002, as in 2001, was close to the industrial producer price index in the same period (117.4% and 117.1% in 2002 and 111.1%

and 110.7% in 2001). Their share in the monetary base contracted from 15.6% to 13.8%.

As the required reserve ratios remained unchanged in the period under review, their dynamics depended on the value of the funds borrowed by credit institutions and their share in the monetary base slightly contracted (from 16.9% to 16.3%). The share of credit institutions' deposits with the Bank of Russia expanded from 0.4% to 3.8% of the monetary base.

The aggregate reserves of credit institutions (till cash, required reserves, balances of credit institutions' correspondent accounts and deposit accounts in the Bank of Russia and Bank of Russia obligations for repurchase of securities) amounted to 471.5 billion rubles as of January 1, 2003, an increase of 31.8% over the year.

II.1.3. INSTRUMENTS OF MONETARY POLICY

To regulate banking sector liquidity, the Bank of Russia in 2002 used instruments of monetary policy that allowed it to absorb free funds and provide additional liquidity to banks. During the year, the Bank of Russia began to use market instruments more actively to regulate the level of interest rates on the inter-bank market. As Russia continued to enjoy a strong balance of payments, priority was attached to the development of the instruments to absorb liquidity that were designed to contain the monetary component of inflation.

DEPOSIT OPERATIONS. In 2002, the Bank of Russia actively conducted deposit operations with resident banks in rubles, using the Reuters Dealing System. These operations, with different value dates and borrowing terms, allowed the Bank of Russia quickly to tie up banks' free funds and influence the general level of banking sector liquidity and interbank market interest rates.

To regulate credit institutions' short-term liquidity, the Bank of Russia conducted deposit operations, using the Reuters Dealing System, on standard demand, with the maturities of overnight, tom-next, spot-next, 1 week, spot-week, 2 weeks and spot — 2 weeks conditions. At the same time, it changed the interest rates on deposit operations, depending on the situation on the money market, keeping at a high level the interest rates on medium-term (1- and 3-month) deposits and lowering interest rates on short-term deposits.

In 2002, the Bank of Russia made some changes in the system of existing instruments of monetary policy in order to facilitate a transition to regular use of medium-term market instruments for sterilising money supply at interest rates set by auction and simultaneously restricted operations to absorb liquidity conducted at a fixed rate. In accordance with the decision of its Board of Directors, the Bank of Russia on November 21, 2002, began to conduct 2-week deposit auctions, using the Reuters Dealing System, and deposit operations with overnight, tom-next, spot-next, 1 week and spot-week maturities at a fixed in-

terest rate of 3%, while suspending 1-month and 3-month fixed-rate deposit operations. In addition, on November 28 the Bank of Russia began to conduct modified 4-week repo auctions.

Three deposit auctions were held in November and December 2002, in which 57 banks from eight regions participated. The cut-off prices set on the results of the auctions were at the level of 6.95% and 7.5% p.a. The deposit auctions held in the year under review and this year allowed the Bank of Russia to bring the deposit auction interest rates closer to the money market rates and exert greater influence on the latter.

In all, 139 banks from 10 regions took part in Bank of Russia deposit operations in the year under review; of these, 135 banks that participated in deposit operations conducted with the aid of the Reuters Dealing System were serviced by the Bank of Russia Moscow Branch, the Bank of Russia St. Petersburg, Vologda, Ryazan, Sverdlovsk, Tyumen and Chelyabinsk regional branches, the Bank of Russia Krasnodar and Krasnoyarsk territorial branches and the National Bank of the Republic of Bashkortostan.

Interest rates on Bank of Russia deposit operations in 2002 varied from 0.6% to 14.5% p.a. The minimum amount of funds taken on deposit remained unchanged during the year under review: 20 million rubles on deposits with fixed interest rates and 10 million rubles on deposits made at auctions. The average annual balance of funds taken on deposit with the Bank of Russia in 2002 amounted to 72.2 billion rubles against 36.7 billion rubles in 2001.

In 2002, the Bank of Russia continued to upgrade the procedure for conducting deposit operations. Specifically, it drafted and enforced Provision No. 203-P, dated November 5, 2002, "On the Procedure for Conducting Deposit Operations by the Central Bank of the Russian Federation with Credit Institutions in the Russian Federation Currency," which allowed non-bank credit institutions to participate in Bank of Russia deposit operations and enabled the Bank of Russia to use the Reuters Dealing System in conducting deposit auctions with credit institutions.

REQUIRED RESERVES. Taking into consideration a fairly high level of banking sector liquidity, the Bank of Russia in 2002 did not change the required reserve ratios and made no contingency changes in the level of the required reserves.

Owing to growth in the balances of funds borrowed by credit institutions from their corporate and individual clients, their required reserves deposited with the Bank of Russia increased by 44.5 billion rubles over the year, or 1.28 times, of which the balances of ruble accounts rose by 27.5 billion rubles, or 1.29 times, and the balances of foreign currency accounts grew by 17.0 billion rubles, or 1.27 times. No significant changes were registered in the structure of the required reserves in the year under review. The share of the required reserves in credit institutions' ruble liabilities expanded from 59.8% to 60.3% over the year, while the share of the required reserves in credit institutions' foreign currency liabilities contracted from 40.2% to 39.7%.

The Bank of Russia and its regional branches in 2002 ensured that credit institutions deposited the required reserves fully and on time. The Bank of Russia regional branches regularly examined the correctness of credit institutions' required reserve calculations and reports. Credit institutions that had branches were inspected with a view to ascertaining that their branches correctly recorded on their accounts their share in the required reserves.

Most of the credit institutions deposited their required reserves with the Bank of Russia fully and on time. The share of credit institutions that failed to deposit the full amount of their required reserves decreased by 2.64 times in the year under review to 0.37%.

Credit institutions that violated the required reserve procedure in 2002 paid a total of 5.6 million rubles in fines.

REFINANCING BANKS. To build a uniform bank refinancing system, controlled from a single centre, the Bank of Russia in 2002 established a single procedure for co-operation between Bank of Russia branches and divisions in extending intraday, overnight and Lombard loans to banks and a procedure for setting a limit on intraday and overnight credit on a bank's correspondent account (subaccount). These measures allowed

the Bank of Russia to continue spreading to the Russian regions (as soon as the corresponding Bank of Russia regional payment systems were technically ready for that) the mechanism to maintain banking sector liquidity by extending intraday and overnight loans to banks (Bank of Russia Provision No. 19-P, dated March 6, 1998). In the spring of 2002, the Bank of Russia provided the opportunity to use this mechanism to banks in the Sverdlovsk Region and in December 2002 the same decision was taken with regard to banks in the Rostov Region. Previously, only banks in the Moscow Region, St. Petersburg and the Novosibirsk Region could take intraday and overnight loans. In addition, the Bank of Russia developed the practice of granting intraday and overnight loans to banks' correspondent subaccounts, opened in various divisions of the Bank of Russia settlement network.

During the year, the Bank of Russia extended overnight loans to 41 banks (out of the total of 77 banks party to general credit agreements), including bank branches, to the total amount of 13.1 billion rubles, an increase of 60% over 2001. All loans were repaid on time. The average monthly amount of overnight loans in 2002 varied from 300 million to 3.8 billion rubles. The total value of intraday loans in 2002 rose by 1.6 times year on year to 327 billion rubles.

At present all Bank of Russia regional branches are technically ready to extend Bank of Russia intraday and overnight loans in compliance with Bank of Russia Provision No. 19-P, dated March 6, 1998 (with amendments and addenda).

In June 2002, the Bank of Russia took the decision to raise the correction index for federal loan bonds on the Lombard list to 0.8 from 0.6. In addition, seeking to extend the Lombard list, the Bank of Russia in August 2002 took the decision to include in it debt depreciation federal loan bonds (OFZ-AD) and variable coupon-income federal loan bonds (OFZ-PK), sold by the Bank of Russia from its portfolio with an obligation to repurchase.

All Lombard credit auctions were cancelled in the year under review as banks showed no interest in them and on July 1 the Bank of Russia took the decision to suspend the extension of Lombard loans.

In 2002, the Bank of Russia made efforts to upgrade and disseminate the procedure for ex-

tending its loans against promissory notes and rights of claim under credit agreements with manufacturing companies and bank guarantees (pursuant to Bank of Russia Provision No. 122-P, dated October 3, 2000). In the year under review, it extended 100 million rubles worth of such loans to banks for a term of 6 months and the banks repaid their debt on them on time.

In November 2002, the Bank of Russia took the decision to spread this refinancing mechanism to the banks serviced by the Bank of Russia Moscow branch, the Bank of Russia Vladimir, Kursk, Nizhni Novgorod, Novosibirsk, Ryazan and Saratov regional branches, the Bank of Russia Krasnoyarsk territorial branch and the national banks of the Republic of Altai, Republic of Bashkortostan and Republic of Khakasia.

The debt on loans extended in accordance with the special decisions of the Bank of Russia Board of Directors in support of the measures to increase financial stability amounted to 1.5 billion rubles as of January 1, 2003. In accordance with the Bank of Russia Board of Directors' decisions, the remaining loans in 2002 were prolonged for one year with an obligation to repay them in the first half of 2003.

In 2002, the Bank of Russia took steps to ensure repayment of the centralised credits extended to banks in 1992—1994 in accordance with the decisions of the Government Financial and Monetary Policy Commission to finance individual enterprises. As of January 1, 2003, the debt on these credits amounted to 700 million rubles, including interest. This represents a decrease of 400 million rubles, or 38%, on January 1, 2002. The entire remaining debt is overdue.

The total sum of the debt on Bank of Russia loans amounted to 1.9 billion rubles as of January 1, 2003, a decrease of 8.8 billion rubles from the amount registered as of January 1, 2002. The contraction of the debt is the result of repayment of loans by some banks in accordance with the agreements concluded with them and the restructuring of the debt on previously extended loans into an interest free promissory note in accordance with the provisions of the amicable settlement.

The Bank of Russia conducted operations with the Finance Ministry's Series APK bills it had bought out from banks, restructured them into

Series IV-APK federal loan bonds and presented Series V-APK bills to the Finance Ministry for payment in accordance with the Federal Law passed to this effect. In all, 1.0 billion rubles of Series IV-APK bills were restructured into federal loan bonds in 2002. The Finance Ministry transferred 1.0 billion rubles to the Bank of Russia in repayment of Series V-APK bills, increasing Bank of Russia income by 400 million rubles. As of January 1, 2003, the Bank of Russia kept in the depository of its First Operations Department 45,699 Finance Ministry Series VI—VIII-APK bills with a total nominal value of 3.6 billion rubles and redemption dates in 2003—2005.

The debt on bank bills acquired by the Bank of Russia during the transfer of household deposits to Sberbank after the 1998 crisis and bills received by the Bank of Russia in 2001—2002 under the amicable settlements with banks amounted to 12.4 billion rubles as of January 1, 2003, an increase of 6.8 billion rubles on the amount registered January 1, 2001. This growth in debt is the result of the restructuring of debt owed to the Bank of Russia in accordance with the provisions of the amicable settlement. The debt on the cession of the right of claim on bills amounted to 400 million rubles as of January 1, 2003, i.e. it decreased by 100 million rubles during the year owing to its repayment by the deadlines set by the agreements.

OPEN MARKET OPERATIONS. To enhance the efficiency of the management of the current level of banking sector liquidity and overcome seasonal volatility on the money market, the Bank of Russia resorted to transactions on selling government bonds from its own portfolio with an obligation to repurchase (exchange modified repo operations) and direct repo operations.

In February 2002, it held two auctions to sell federal loan bonds from its own portfolio with an obligation to repurchase under Bank of Russia Provision No. 176-P, dated January 11, 2002. As a result, bonds with a nominal value of nearly 420 million rubles were placed at the average weighted yield to offer of 13.81% and 14.17% p.a.

In the second half of the year under review, the volume of market participants' free liquidity expanded significantly. In November, the Bank of Russia introduced an alternative mechanism to

**DYNAMICS OF INTERBANK MARKET OVERNIGHT INTEREST RATE
IN DECEMBER 2001 AND 2002 (% p.a.)**

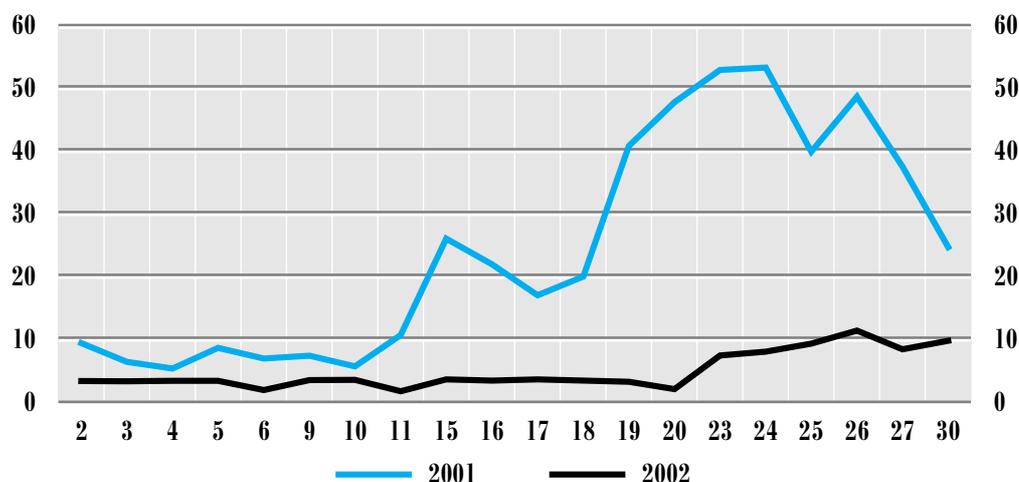


Chart 38

regulate the level of free funds: it began to conduct operations supplying or withdrawing liquidity on a permanent basis by auction. The principal method used by the Bank of Russia to sterilise surplus liquidity for four weeks was selling federal loan bonds from its own portfolio with an obligation to repurchase. At the end of the year, the total value of funds raised with the aid of operations to sell federal loan bonds with an obligation to repurchase amounted to 1.8 billion rubles and the interest rate varied from 10.55% to 10.95% p.a.

In addition to sterilising surplus liquidity, the Bank of Russia conducted direct repo operations with GKO—OFZ market dealers who had concluded the corresponding agreements with it in order to smooth intramonth fluctuations of liquidity levels. Since November 18, 2002, direct repo auctions have been held on a regular basis twice a day, significantly reducing interbank lending rate fluctuations and the average level of these rates. The total amount of liquidity provided through direct repo operations exceeded 26 billion rubles in 2002 and the average interest rate stood at 6.9% p.a.

In 2002, the Bank of Russia did not issue its own bonds (OBR) because of some legislative restrictions that significantly reduced the effectiveness of this instrument for the regulation of the current level of market participants' free funds. In the year under review, the Bank of Russia continued to campaign against the restrictions

imposed on the issue of OBR bonds, sending to the Government draft amendments to the Federal Law on the Security Market and Federal Law on the Protection of the Rights and Legitimate Interests of Investors.

INTEREST RATE POLICY. The Bank of Russia's interest rate policy in 2002 was aimed at securing fewer fluctuations and gradually reducing the level of short-term interest rates on the money market in order to create conditions conducive to a reduction in the general level of interest rates in the economy and maintain sustainable economic growth.

In a series of landmark decisions taken during the year under review, the Bank of Russia gradually reduced the refinancing rate from 25% to 21% p.a. and its own rate on overnight loans from 22% to 18% p.a. On November 21, it set a single fixed rate of 3% p.a. on deposit operations conducted through the Reuters Dealing System on standard demand, overnight, tom-next, spot-next, 1 week and spot-week maturities and in the third and fourth quarters of the year under review it broadened the range of market instruments of monetary policy used in sterilising liquidity and supplying it to banks. This allowed the Bank of Russia to make more active use of interest rates for monetary regulation.

The measures taken by the Bank of Russia facilitated the reduction of the average level of in-

interest rates in various segments of the financial market. Specifically, the average interest rate on overnight interbank loans fell from 10.1% p.a. in 2001 to 8.2% p.a. in 2002.

The Bank of Russia used the mechanism to sterilise liquidity and supply it to banks in order to influence the general level of short-term inter-

est rates on the money market and maintain its stability. In tackling the set of problems involved in the upgrading of monetary policy instruments, the Bank of Russia is seeking to increase the role of interest rates on its operations in that process. Work to this end continued in the year under review.

II.1.4. EXCHANGE RATE POLICY AND RESERVE MANAGEMENT

EXCHANGE RATE POLICY. Following the Guidelines for the Single State Monetary Policy for 2002, the Bank of Russia last year implemented its exchange rate policy in the conditions of the floating exchange rate regime.

The situation on international markets remained favourable for major Russian export commodities in 2002, ensuring a steady inflow of export currency earnings to the country. Despite a slight year-on-year contraction in the current account surplus, mainly as a result of growth in import volumes, a balanced situation remained on the foreign exchange market. The Bank of Russia focused its efforts on smoothing exchange rate fluctuations in order to ensure economically justified rates of the ruble's appreciation in real terms.

The principal instrument of foreign exchange policy used by the Bank of Russia in 2002 was, as before, ruble/dollar conversion operations in the exchange and over-the-counter segments of the domestic foreign exchange market, which the Bank of Russia combined with other instruments of monetary policy. In the period under review, the Bank of Russia used conversion operations with T+2 settlements in conducting currency interventions.

For most of 2002 (until the enforcement of the new procedure for compulsory sale of export currency earnings and the change in the STS trade mechanism), the Bank of Russia purchased foreign exchange from exporters, mainly by buying directly from the authorised banks that serviced them. Since December 1, 2002, it has been buying foreign exchange on the exchange and over-the-counter currency market. The value of foreign exchange bought by the Bank of Russia from exporters in 2002 on the domestic foreign exchange market fell 23% year on year, mainly because of the lowering of the level of compulsory sale of export earnings in the year under review. At the same time, overall net sales of foreign exchange by the Bank of Russia in the exchange and over-the-counter segments of the domestic foreign exchange market decreased by 1.6 times year on year, while the net result of the Bank of Russia currency operations on the domestic foreign

exchange market in the same period increased by \$1.5 billion year on year to \$17.3 billion.

To improve the regulation of the current liquidity of financial market participants and its influence on the exchange rate of the ruble, the Bank of Russia not only conducted deposit, repo and modified repo operations, but also began to conduct overnight currency swap operations. Using this set of instruments, the Bank of Russia was able quickly to respond to any changes in the situation on the money market and regulate the supply of foreign exchange and the demand for it.

In 2002, the Bank of Russia took measures to turn currency swap operations into a permanent instrument for replenishing the current liquidity of the banking sector. To this end, in September it enforced its Order "On the Conduct of Currency Swap Transactions by the Bank of Russia on the Domestic Foreign Exchange Market," which established the procedure for conducting such operations. The fact that the Bank of Russia regularly announced the terms and conditions of such operations played a major role in enhancing the importance of the instruments of exchange rate policy. The value of the currency swap operations conducted by the Bank of Russia in the period under review amounted to nearly \$1.0 billion.

The establishment in 2002 of the market interest rate band, with the Bank of Russia interest rates on the refinancing instruments (currency swap and overnight loan operations) as its upper limit and the rates on the resources borrowed by the Bank of Russia (exchange modified repo operations and banks' deposits with the Bank of Russia) as its lower limit, and the practice of regularly announcing the terms and conditions of operations with these instruments created preconditions for increasing the role played by interest rates in general and in exchange rate policy in particular.

Despite the introduction of the new instruments of monetary policy by the Bank of Russia, the volume of operations with them was small and hence the purchase of foreign exchange by the Bank of Russia on the domestic market remained the principal refinancing channel.

DYNAMICS OF NOMINAL US DOLLAR EXCHANGE RATE AGAINST RUBLE
IN 2001 AND 2002 (rubles per US dollar)

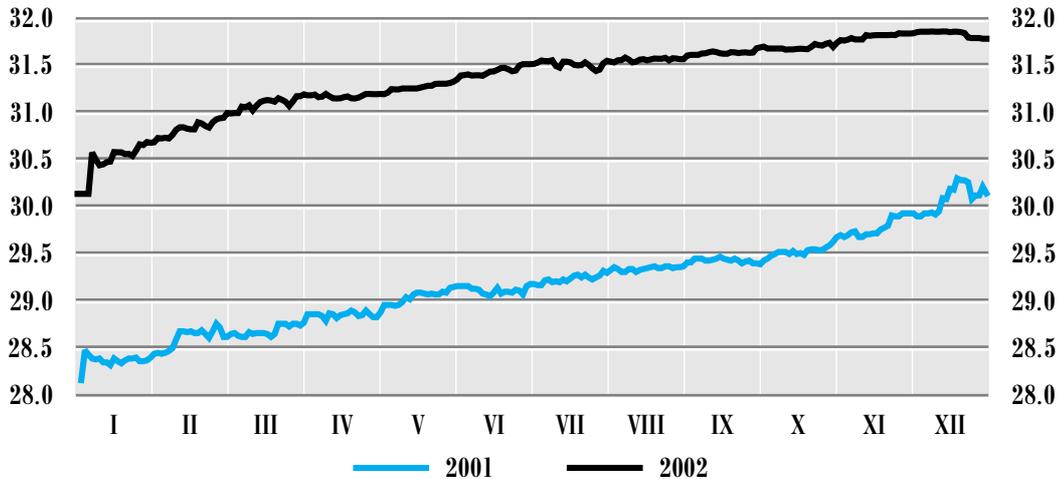


Chart 39

In the period under review, the exchange rate dynamics continued to play a major role in the inflation process in the Russian economy. The Bank of Russia, therefore, paid special attention to the maintenance of stability on the foreign exchange market and tried to keep the rate of growth in the nominal rate of the ruble within the limits ensuring relative stability of import prices and a low level of devaluation expectations.

Despite the euro's significant rise on international markets, the rate of the US dollar against the ruble continued to play the role of the nominal benchmark for the Bank of Russia exchange rate policy in 2002. At the same time, the euro's dynamics on the world market correspondingly affected the evaluation of the results of the US dollar/ruble exchange rate policy from the viewpoint of the achievement of the year's target for the real effective rate of the ruble.

As a result of the Bank of Russia exchange rate policy, which took into consideration the changes in the currency flow balance in various periods of the year under review and included measures designed to dampen short-term surges in the demand for foreign exchange and its supply on the domestic market, the exchange rate dynamics in 2002 were smooth, while the rate of the nominal devaluation slowed year on year.

New favourable trends emerged on the foreign exchange market in the early months of the year under review. Strong pressure exerted on the ruble at the end of 2001, which was mainly caused

by short-term fluctuating circumstances (especially the establishment of long currency positions by the banking sector, a low level of export earnings sales, increased devaluation expectations and massive withdrawals of funds from government accounts in the Bank of Russia), was neutralised by and large by the middle of January by Bank of Russia currency interventions. As the exchange rate stabilised and business activity rose, export currency earnings sales increased.

A rise in the prices of major Russian exports, which caused the exchange rate growth rates to slow, played a major role in shaping conditions on the domestic foreign exchange market in February and March. The effect of the improvement of the situation on the world's hydrocarbon raw materials market became clear in March when export earnings volumes rose again after the February fall. In April and May, the volume of export earnings continued to expand and that along with growth in the demand for money (owing to the increased credit portfolio activity of the banks) and periodical shortages of current liquidity stimulated foreign exchange sales by banks and provided additional support to the ruble.

In summer, the domestic foreign exchange market was affected by the traditional seasonal decline in business activity in the non-banking and banking sectors of the economy and the supply of foreign exchange on the market matched the demand for it. A recovery in operators' activity was

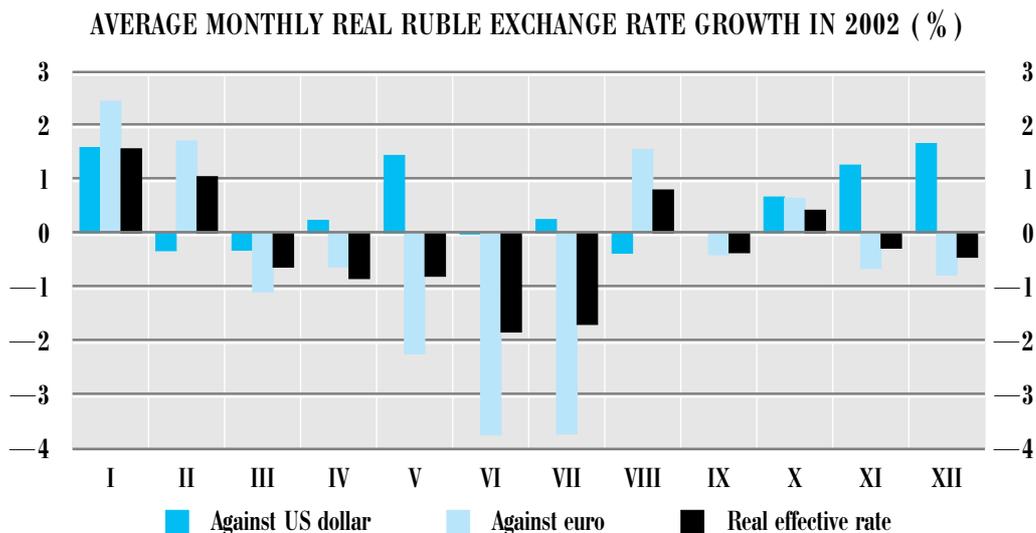


Chart 40

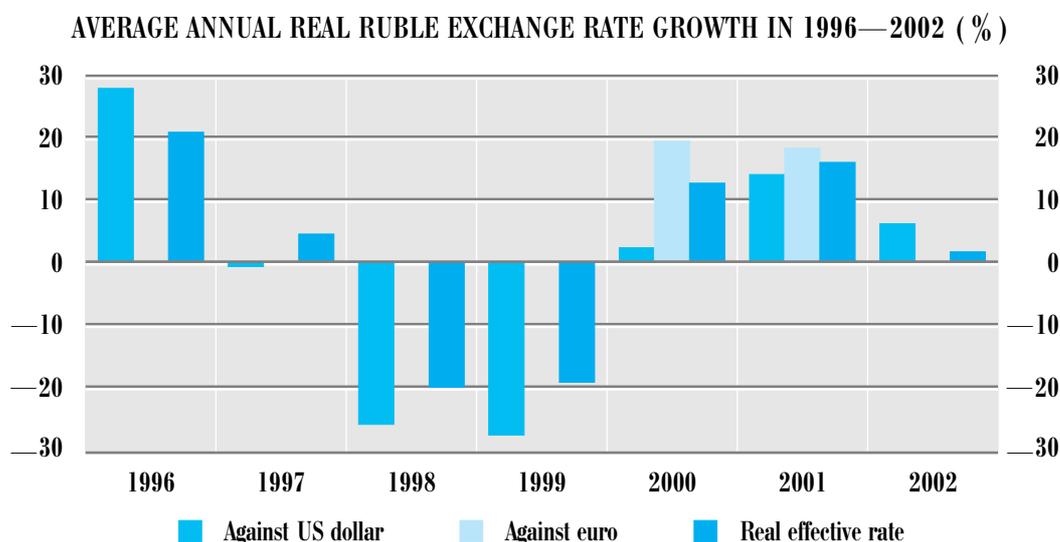


Chart 41

registered at the beginning of autumn when the demand for foreign exchange rose amid traditional seasonal increases in devaluation expectations and foreign exchange purchases by banks for their clients' future orders. Nevertheless, thanks to the favourable economic situation at home and abroad and the operations conducted by the Bank of Russia on the domestic foreign exchange market, the exchange rate remained stable in that period: growth rates in September did not exceed average annual levels.

In October, the demand for foreign exchange rose again, mainly as a result of the increased foreign exchange purchases against import contracts and corporate foreign debt service. Although the

inflow of unusually large amounts of export currency earnings in that period supplied practically the entire growing demand for foreign exchange, the Bank of Russia had to step up its corrective influence on the market situation in order to change market participants' sentiment in favour of the ruble's downturn.

The market was relatively calm in the second half of November and December. By the end of November, the exchange rate's stability and the vigorous efforts exerted by the Bank of Russia had changed market participants' expectations regarding the ruble's usual accelerated devaluation in December and January. As a result, foreign exchange flows relating to the current account came

DYNAMICS OF BANKING SECTOR CURRENCY POSITION

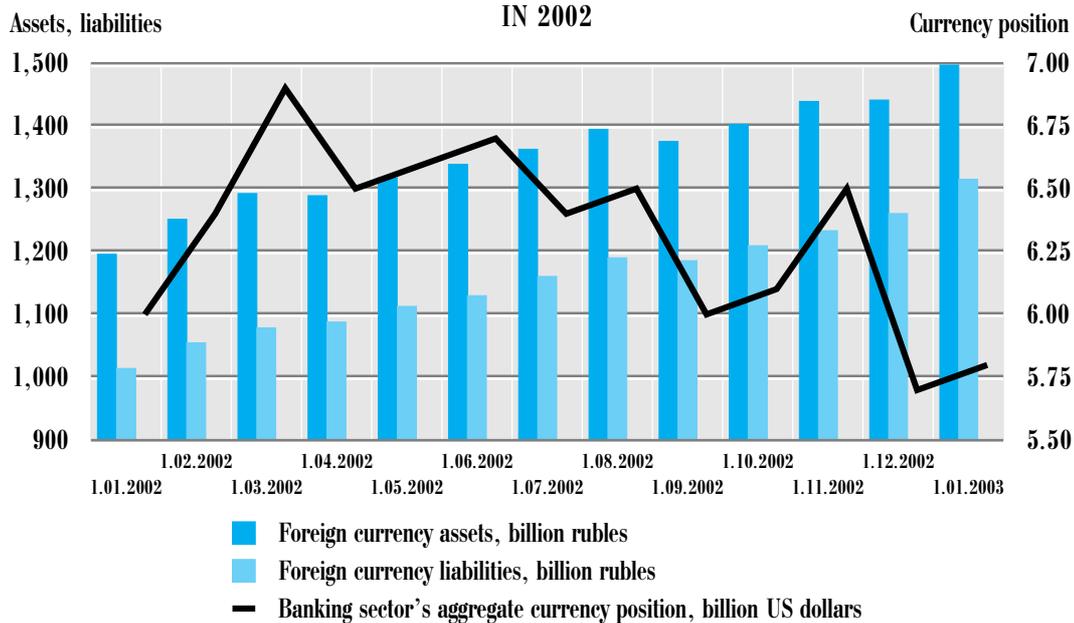


Chart 42

to play an important role, while minor excesses of demand over supply in some periods were eliminated by Bank of Russia pinpoint interventions.

Overall, in 2002 the nominal rate of the US dollar against the ruble rose 5.5%, from 30.1372 rubles to the dollar to 31.7844 rubles to the dollar (a growth of 7.0% was registered in 2001). The monthly rates of growth in the exchange rate varied from -0.2% in December to 1.8% in January, while the average monthly rate in the year under review stood at 0.4% against 0.6% in 2001.

The official exchange rate of the euro against the ruble rose 25% in 2002 against 1.8% in 2001, from 26.6172 rubles to 33.2719 rubles to the euro. That growth was the result of the euro's significant upturn on the international market.

There was no single trend in the ruble's real rate dynamics in 2002. While rising against the dollar in real terms for most of the year, the average monthly real rate of the ruble against the euro was negative for the most part. The monthly effective real rate of the ruble also had a tendency to fall in the period under review. In December 2002, the ruble gained 6.2% against the dollar in real terms compared to December 2001, but lost 6.9% against the euro. The real effective rate of the ruble fell 3.1% over that period.

The average annualised real rate of the ruble against the US dollar (period to period) rose 6.1%, the real rate of the ruble against the euro remained virtually unchanged and the real effective rate rose 1.5%. Thus, while the fall in the ruble's real rate against the euro in 2002 practically made up for its growth in 2001, the real effective rate of the ruble in 2002 fell less than it rose in the previous year.

The results of the Bank of Russia exchange rate policy contributed to the improvements in the Russian economy as a whole. Specifically, a fall in devaluation expectations made the ruble-denominated assets more attractive to investors and that led to a decrease in capital flight from Russia. At the same time, as the demand for banking credit rose, stimulating the expansion of GDP and business activity in the real economy, the currency position of the banking sector continued to decline in 2002.

The year's real exchange rate dynamics show that it practically had no effect on the competitiveness of domestic production. The overall export efficiency of major Russian export commodities was high, while a favourable price situation brought about an expansion in export volumes of some key products, such as oil and petroleum products.

The ruble's stability potential increased in 2002. The adequate level of international reserves, which serve as a source of resources and hence a means of repelling short-term speculative attacks on the exchange rate, made it possible to increase the cover of the broad monetary base with international reserves from 112% to 123%¹.

The exchange rate policy pursued by the Bank of Russia in 2002 proved effective in the current economic situation. The floating exchange rate regime enabled the monetary authorities quickly to respond to any change in the economic situation and the country's balance of payments while tackling the task of replenishing international reserves and preventing abrupt fluctuations of the exchange rate. As a result, the exchange rate dynamics last year were smoother than in the previous year and that allowed economic agents to stand on firmer ground in making economic decisions and stimulated demand for assets denominated in the national currency.

MANAGING FOREIGN EXCHANGE RESERVES. The Bank of Russia managed foreign exchange reserves in 2002 in compliance with the Basic Principles of Managing Bank of Russia Foreign Exchange Reserves, approved by the Bank of Russia Board of Directors.

The principal objective of reserve management is to find the best way of preserving reserve assets without undermining their liquidity and yield, so the Bank of Russia tackled this problem by diversifying investment and hedging risk by conducting operations on international currency and financial markets. The ratio between risk and return in reserve management was determined in accordance with the Investment Directives for the Transaction and Investment Portfolios of the Bank of Russia Foreign Exchange Reserves. In addition, credit risks were restricted by credit risk limits set for Bank of Russia counterparties.

The following factors were taken into consideration when tackling the problems involved in reserve management in 2002: a current account surplus, which ensured a steady inflow of foreign exchange to the country, the persistent necessity

for the government to make big foreign debt payments and a fall in interest rates on major international financial market instruments.

The management of reserve assets was based on the portfolio principle, which requires all assets to be divided between the transaction and investment portfolios. The standard ratio between risk and award expected for the risks assumed by the Bank of Russia in managing reserves is determined as benchmark returns for each portfolio.

The transaction portfolio contains the most liquid instruments of the money market and partly the capital market. Funds from the investment portfolio are placed into relatively longer-term and, consequently, higher-yielding instruments of the international capital market.

The value of the transaction portfolio of the foreign exchange reserves, i.e. the amount of the Bank of Russia's most liquid funds which may be immediately used in currency interventions and other contingencies, rose 40% in 2002. The main reason for the expansion of the transaction portfolio was the active purchase of US dollars on the domestic foreign exchange market for most of the year under review. At the same time, the transfer of some liquid funds to the investment portfolio led to a slight fall in the value of the transaction portfolio in the fourth quarter of 2002.

The transaction portfolio yield in 2002 was a little below the standard level because the duration of the actual portfolio was slightly shorter than the duration of the standard portfolio. This, in turn, was the result of the fact that the Bank of Russia purchased foreign exchange on the domestic market during the entire period under review, reducing the average weighted term of investments.

The value of the investment portfolio rose almost 50% in 2002. The main reasons for the expansion of this component of foreign exchange reserves were the aforementioned transfer of funds from the transaction portfolio and a rise in the prices of US and eurozone securities. The yield of the investment portfolio in 2002 slightly deviated from the yield of the standard portfolio, whose makeup is established by the Investment Directives for the Transaction and Investment

¹ The value of Russia's international reserves net of the Bank of Russia short-term liabilities and the official US dollar/ruble exchange rate are used in this calculation.

Portfolios of the Bank of Russia Foreign Exchange Reserves. The main reasons for the deflection of the investment portfolio yield from the standard level were a shorter duration of the instruments in that portfolio and the difference between the prices of actual transactions with securities and the buyer's indicative quotations used in the standard portfolio yield calculation.

In 2002, the Bank of Russia Board of Directors approved a new version of the Basic Principles of Managing Bank of Russia Foreign Exchange Reserves, which established a uniform standard currency structure of Bank of Russia reserves. As a result, by the end of 2002, the euro's share in Bank of Russia foreign exchange reserves had more than doubled and exceeded 20% (including forward currency transactions), while the share of the US dollar had contracted from 90% to less than 75%. The respective portions of other reserve currencies also expanded.

Overall, in the period under review Bank of Russia foreign exchange reserves increased from \$29.8 billion to \$42.1 billion¹, a rise of more than 40% against 33% in 2001, while Russia's international reserves expanded from \$34.6 billion to \$47.8 billion, an increase of 38.2%¹. The main reasons for the acceleration of growth in foreign exchange reserves were a reduction in Bank of Russia foreign exchange sales amid almost unchanged foreign exchange purchases on the domestic market.

The currency component of the Bank of Russia gold and currency reserves expanded from 90% to 93% in 2002, while the share of monetary gold contracted from 10% to 7%. The value of gold in Bank of Russia reserve assets, calculated at the price of gold of \$300 per troy oz, declined from \$3.5 billion to \$3.1 billion in the year under review owing to the transfer of gold to Bank of Russia metal accounts in foreign banks.

¹ The value of Bank of Russia foreign exchange reserves net of Bank of Russia short-term liabilities is used in this calculation.

II.2. BANKING REGULATION AND SUPERVISION

II.2.1. UPGRADING THE LEGAL FRAMEWORK

In 2002, the Bank of Russia actively participated in upgrading the applicable legislation regulating the activities of credit institutions. It carried out this work in pursuance of the Banking Sector Development Strategy, set out in a joint statement of the Government and Bank of Russia in December 2001.

The most important federal law passed in 2002 was the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which introduced the following new aspects of banking regulation and supervision:

- the Bank of Russia has been granted the right to supervise not only credit institutions, but also banking groups (paragraph 1 of Article 56 and paragraph 2 of Article 62);
- the Law stipulates that the Bank of Russia may establish required ratios for banking groups (Articles 62, 64, 65, 67, 70 and 71);
- the Law specifies the procedure for the Bank of Russia to fine credit institutions for violations of the required reserve ratios;
- the Law stipulates that new rules set by the Bank of Russia shall apply to the accounting and statistical reports for the period starting no earlier than the date of the publication of these rules (Article 57);
- the Law has broadened the powers of the Bank of Russia to discipline credit institutions for violations (Article 74). It grants the Bank of

Russia the right to prohibit the re-organisation of a credit institution if the re-organisation provides grounds for the use of the bankruptcy-prevention measures laid down in the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions and the right to propose that the founders (members) of a credit institution take action with the aim of increasing the credit institution's own funds (capital) to a level that would ensure compliance with the required ratios;

- the Law has established standards regarding the Bank of Russia qualification requirements for candidates nominated to executive positions in a credit institution (Article 60), obtaining Bank of Russia prior permission to acquire more than 20% of shares (stakes) in a credit institution and the notification of the Bank of Russia about the acquisition of more than 5% of shares (stakes) in a credit institution (Article 61), bringing these standards into conformity with the Federal Law on Banks and Banking Activities.

In 2002, the Bank of Russia actively participated in drafting the Federal Law on Household Deposit Insurance. The establishment of a deposit insurance system will require making amendments to the Civil Code and Tax Code of the Russian Federation, Federal Law on Banks and Banking Activities, Federal Law on the Central Bank

of the Russian Federation (Bank of Russia) and some other federal laws.

The Russian Federation Code on Administrative Offences, which came into force on July 1, 2002, provides for the following:

- the possibility of disciplining a credit institution as an individual offender (Article 15.26) or as one of a group of corporate offenders. For the first time the Bank of Russia has been included in the Code as a body whose executives are entitled to initiate administrative action;
- Article 14.14 provides for responsibility for obstructing the actions of a provisional administration appointed by the Bank of Russia to a credit institution;
- responsibility for violation of legislation on countering the legalisation (laundering) of income obtained by criminal means and the financing of terrorism (Article 15.27).

The Code of Arbitration Procedure, which came into force on September 1, 2002, established a detailed procedure for appealing against rules and regulations, including Bank of Russia rules and regulations.

The Federal Law on the State Registration of Legal Entities, which came into force on July 1, 2002, established a single procedure for the state registration of legal entities, including credit institutions.

The Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism allows a bank to refuse to conclude a bank account (deposit) agreement with a private individual or legal entity if the latter fail to produce a document confirming information contained in this law or produces false documents or if there is evidence, obtained in accordance with this Law, implicating a person in terrorist activities.

The Federal Law on Amending Point 2 of Article 855 of the Civil Code of the Russian Federation established the calendar order of writing down funds on settlement documents, providing for payments to the budgets of all levels and government extrabudgetary funds and the transfer and/or payment of funds for settlements relating to the payment of wages and salaries to persons working on contract.

In 2002, the Bank of Russia drafted a Federal Law on Amending the Civil Code of the Russian

Federation, which established rules for setting a date for interest payment on deposits from the day following the day on which funds were deposited up to and including the day on which the credit institution returned the deposit.

The amendments to the applicable banking legislation that came into force in 2002 were of great importance for the development and improvement of the legislative basis of banking supervision, the regulation of the registration of credit institutions and licensing of banking activities, bankruptcy prevention and streamlining bank liquidation procedures. The enforcement of the above amendments allowed the Bank of Russia to make the following amendments to its rules and regulations:

- the Bank of Russia drafted a new version of Instruction No. 1, dated October 1, 1997, “On the Procedure for Regulating the Activities of Banks,” which struck off the list of the required ratios the N8, N9 and N11 ratios, because the new version of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) does not have them on the list of the required ratios which the Bank of Russia has the right to establish. At the same time, for methodological reasons the draft instruction does not contain the required ratios N11.1 and N14, but it specifies the methodology of calculating some required ratios;
- the Bank of Russia drafted the Provision on Consolidated Reporting, which established inter alia the procedure for a banking/consolidated group to calculate its own funds (net assets) and the procedure for the Bank of Russia consolidated supervision of credit institutions in connection with the granting to the Bank of Russia of the right to discipline banking groups in the event of situations endangering the legitimate interests of creditors and depositors of credit institutions that are members of the above groups;
- in pursuance of Article 51 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia drafted a regulation “On the Procedure for Exchanging Information between the Bank of Russia and Central Banks and Supervisory Authorities of Foreign States;”

- the Bank of Russia changed the procedure for the state registration of credit institutions, stipulating that the state registration of credit institutions when they are founded, reorganised or liquidated and the state registration of the changes in their founding documents is conducted by the federal bodies of executive power (hereinafter referred to as the authorised registering body), but the decision on the state registration of a credit institution is made by the Bank of Russia;
- the Bank of Russia established the procedure for co-operation between the Bank of Russia and the authorised registering body in the process of the state registration of credit institutions and the state registration of changes in their founding documents;
- the Bank of Russia established the level of the stamp duty levied for the state registration of credit institutions, including the stamp duty levied for the state registration of changes in their founding documents, and the license fee for considering the question of issuing a banking licence;
- the Bank of Russia established administrative responsibility for executives of a credit institution if they obstruct the provisional administration appointed to the credit institution, and determined the range of Bank of Russia executives who have the right to draw up protocols on administrative offences committed by employees of credit institutions;
- the Bank of Russia stipulated that its regional branches are obliged to prohibit the reorganisation of a credit institution if its reorganisation will create grounds for the implementation of the bankruptcy-prevention measures envisaged by the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions;
- the Bank of Russia stipulated that the liquidation of a credit institution is considered complete and the credit institution is considered liquidated after the corresponding entry has been made by the authorised registering body in the single state register of legal entities.

In 2002, the Bank of Russia continued to convert the existing system of banking regulation to international standards, including those laid down in the documents of the Basel Committee on Banking Supervision, and international accounting

standards. The most significant step taken in that direction was the drafting of a new version of the Bank of Russia Provision “On the Procedure for Creating Reserves for Possible Losses by Credit Institutions” and a new version of the Instruction “On the Procedure for Creating and Using Reserves for Possible Loan Losses.”

To exclude from the capital calculation the sources of credit institutions’ own funds (authorised capital, income from the issue of securities, profit, etc.) created by using various “schemes,” i.e. fictitiously, the Bank of Russia drafted the Provision “On the Methodology of Determining Credit Institutions’ Own Funds (Capital)” (registered with the Ministry of Justice on March 17, 2003).

The Bank of Russia drafted an operating instruction, entitled “On Lending to Related Borrowers,” recommending banks to take additional precautions regarding the risks involved in lending to related borrowers.

In 2002, the Bank of Russia began to prepare proposals for amending the legislation on corporate governance of credit institutions. The aims of these amendments are to ensure the observance of the priority of interests of a credit institution and its creditors and depositors over the interests of its individual founders (members) and managers, prevent a conflict of interests in the management of a credit institution and establish requirements for managers’ decision-making practices. The corresponding proposals by the Bank of Russia for amending the Federal Law on Banks and Banking Activities and Federal Law on the Central Bank of the Russian Federation (Bank of Russia) are being worked out taking into consideration the opinion of the banking community.

Continuing to promote advanced foreign experience in banking regulation and supervision, the Bank of Russia made known to the credit institutions the following recommendations of the Basel Committee on Banking Supervision: Internal Audit in Banks and the Supervisor’s Relationship with Auditors and Supervisory Guidance on Dealing with Weak Banks.

In 2002, the Bank of Russia began to draft an updated regulation setting rules for organising internal control in credit institutions and banking groups and requirements for monitoring compliance with these rules.

Aware of the increased role of information technologies in banking and a rise in related banking risks, the Bank of Russia in 2002 continued to work on the principles of banking supervision and regulation in this area. Taking into consideration the rapid advance of the Internet-related technologies in banking, the Bank of Russia conducted a survey of credit institutions' websites. Having summarised and analysed the data it collected, the Bank of Russia drafted regulations on how credit institutions should inform the Bank of Russia about the Internet technologies they introduce and use in banking and recommendations on the content and format of credit institutions' websites.

In 2002, the Bank of Russia participated in discussing draft regulations on auditing practices

in Russia, prepared by the Finance Ministry in pursuance of the Federal Law on Auditing, including drafts of federal audit rules (standards).

In pursuing the Banking Sector Development Strategy, since December 2002 the Bank of Russia has published the Internet version of its monthly bulletin *Russian Banking Sector Review* (www.cbr.ru), which provides information on the Russian banking sector and its institutional characteristics and major aggregate data on credit institutions and macroprudential indicators of the banking sector, such as capital adequacy, credit and market risks and liquidity. The disclosure of this information will allow credit institutions, investors, supervisors and other users to keep track of the Russian banking sector's key performance indicators.

II.2.2. OFF-SITE SUPERVISION AND INSPECTION OF CREDIT INSTITUTIONS

In 2002, the Bank of Russia carried out a series of measures to maintain the stability of the Russian banking sector and protect the legitimate interests of credit institutions' creditors and depositors and took decisions on current issues of banking supervision.

Its activities in the field of off-site supervision were aimed, above all, at evaluating the nature and level of risks assumed by banks and the extent of their financial stability and optimising supervisory practices. Adequate supervisory response was ensured by a sensible assessment of the situation, taking into consideration its most probable outcome, and the effective implementation by the supervisory authority of the possibilities and powers conferred on it by the applicable legislation.

The dynamics of sanctions used against credit institutions in 2002 testify to a fall in the total number of violations of applicable rules and regulations. As before, supervisors tended to use preventive measures and the number of coercive actions taken against credit institutions declined.

Various legal measures were taken against violator banks as a result of the analysis of banks' financial statements in 2002. The managements and/or the boards of directors (supervisory board) of 1,187 credit institutions were warned in writing about the shortcomings discovered in their work and meetings were held with the managers of 301 banks.

In 2002, the Bank of Russia imposed restrictions on or prohibited 28 banks from taking household savings on deposit (64 banks were penalised in this way in 2001); 83 banks were prohibited from opening branches (131 banks in 2001); 473 banks were fined for violating prudential standards. Credit institutions were also served with notices demanding that they bring their required ratios into compliance with the Bank of Russia regulations (150 banks were served with such notices compared with 250 in 2001).

As of January 1, 2003, four credit institutions were prohibited from transferring funds to the

budgets of all levels and government extrabudgetary funds at the instruction of legal entities. Of all operating credit institutions, only banks under the control of the government Agency for the Restructuring of Credit Organisations (ARCO) had a backlog of unpaid settlement documents on payments to budgets of all levels, but Article 13 of Federal Law No. 144-FZ, dated July 8, 1999, "On the Restructuring of Credit Institutions" forbade the Bank of Russia to use sanctions against them.

To optimise banking supervision, the Bank of Russia in 2002 took steps to improve the instruments used in analysing the financial position of credit institutions, such as making a preliminary assessment of the situation in banks and identifying all high-risk areas in their activities and evaluating the standard and quality of management, the effectiveness of the internal control system and ensuring that banks compile true and fair accounts and reports on the risks they assume. The Bank of Russia began designing an early warning system, testing various statistical forecasting models and methods, selecting forecast and explanatory variables and determining the forecasting horizons (regressive and cluster analyses were used).

The Bank of Russia completed the elaboration and testing of the Recommendations on Conducting the Analysis of the Activities of Credit Institutions and the Development of Banking Services in the Region, designed to provide methodological aid to Bank of Russia regional branches in analysing the activities of credit institutions in their respective regions, evaluating the extent to which the region is provided with banking services and, on this basis, determining the financial stability of regional credit institutions and prospects for their development.

To improve supervision, the Bank of Russia drew up a programme to introduce the institute of curators of credit institutions. The experiment to appoint curators to individual banks, launched in 10 Russian regions, including Moscow, has

been conducted since August 1, 2002 on the basis of the Bank of Russia draft recommendations “On the Experimental Introduction in Supervisory Practices of the Institute of Curators of Credit Institutions.”

In addition, the Bank of Russia tackled the task of improving the general organisation of current supervision in its regional branches, including the problem of raising the level of co-ordination (co-operation) between various off-site inspection and supervision units, in order to ensure more effective use of inspection findings for comprehensive analysis of the situation in individual credit institutions and determine appropriate supervisory response whenever necessary.

The principal objective of the inspections conducted by the Bank of Russia in 2002 was to find out the actual financial standing of credit institutions. Bank of Russia inspectors paid special attention to the evaluation of:

- how credit institutions complied with the requirements of federal legislation and Bank of Russia rules and regulations;
- the state of accounting and credibility of the accounting, financial and statistical reports submitted to the Bank of Russia;
- the quality of assets of credit institutions;
- the appropriateness of the formation of credit institutions’ own funds (capital).

In 2002, the Bank of Russia conducted 4,600 inspections of credit institutions and their branches, of which 1,953 inspections were conducted in credit institutions and 2,647 in branches of credit institutions. It also conducted 565 comprehensive inspections of credit institutions, of which 275 were conducted in branches of credit institutions. The number of thematic inspections of credit institutions and their branches amounted to 3,760.

The Bank of Russia conducted 1,838 scheduled comprehensive and thematic inspections of credit institutions and their branches. Inspections were planned taking into account the objectives of banking supervision and the situation in the banking sector in the Russian regions.

Inspections of credit institutions and supervision over their branches, which is conducted by other Bank of Russia regional institutions, were co-ordinated by Bank of Russia regional branches, which supervised parent credit institutions. In

2002, interregional inspections were organised in 53 credit institutions and their 107 branches.

The Bank of Russia conducted 2,762 unscheduled inspections of credit institutions and their branches, or 60% of the total number of Bank of Russia inspections. Such inspections were conducted after off-site supervision uncovered situations that required verification as to the existence of potential threats to the interests of creditors and investors of credit institutions.

Owing to the enforcement in 2002 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes, the Bank of Russia organised unscheduled inspections of all credit institutions and their branches to make sure that they complied with the requirements of this Law.

Bank of Russia inspections of credit institutions and their branches in 2002 helped discover 25,028 violations of federal laws and Bank of Russia rules and regulations and 1,463 shortcomings in the activities of credit institutions and their branches, including shortcomings in the organisation of risk management and internal control systems in credit institutions.

The most common violations of legislation and Bank of Russia rules and regulations were committed by credit institutions in the year under review in conducting operations with clients, operations with cash and precious metals and foreign exchange operations and in accounting.

Credit institutions which inspectors found guilty of violating legislation or Bank of Russia rules and regulations, failing to provide information or providing incomplete or false information were served with notices requiring them to take corrective action and penalised in accordance with Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

A number of organisational changes were made in the bank inspection system in 2002. In pursuance of the Bank of Russia Board of Directors’ decision passed on September 4, 2002 (minutes No. 20), the Bank of Russia adopted new approaches to inspecting credit institutions and their branches, as is required by Article 73 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). To ensure co-ordination in conducting inspections, the function of providing the organisational and methodological

guidance of inspections of credit institutions and their branches in Russia was conferred on the Bank of Russia Chief Inspectorate, formed in compliance with Bank of Russia Order No. OD-602, dated September 16, 2002. The above changes were made in order to make inspections more substantive and ensure that inspection results serve specific practical purposes: it is important that inspectors realise the full impact of the risks assumed by the credit institutions they inspect and that credit institutions correctly classify them and make proper reserves for possible loan losses and realise how the violations and short-

comings uncovered by inspectors may affect the financial position of the credit institution and its future.

In the year under review, the Bank of Russia exercised control within the powers granted to it over the conduct of obligatory annual audits of credit institutions and banking groups and analysed the quality of audits. The work carried out by the Bank of Russia within the framework of the working groups formed by the Finance Ministry was aimed at upgrading bank audit practices and bringing them closer to internationally accepted standards.

II.2.3. REGISTRATION AND LICENSING OF BANKING ACTIVITIES

A major element of banking supervision is control over the compliance with the requirements of the legislation and Bank of Russia rules and regulations regarding the state registration of credit institutions and issuing banking licences. In the year under review, the Bank of Russia took steps to fulfil the tasks set in the Banking Sector Development Strategy:

- to prevent the establishment and expansion of credit institutions incapable of ensuring their financial stability and without any sound commercial prospects;
- to ensure effective control over the lawfulness of the authorised capital formation and ascertain the origins of the founders' (members') money in order to prevent financially unsound organisations and dishonest persons from establishing control over credit institutions;
- to make sure that the members of the board of directors (supervisory board), managers and chief accountants of credit institutions and their branches meet the qualification and business reputation requirements set by the law.

In the year under review, the Bank of Russia paid special attention to building mechanisms to make the shareholding (stakeholding) structure of credit institutions more transparent. It tackled this problem by establishing the procedure for providing information about the affiliated persons in credit institutions and data on bank holding companies and banking groups. In addition, transparency of the ownership structure became one of the factors taken into account when granting permission for the expansion of activities of a credit institution. The Bank of Russia procedure for providing information on the affiliated persons makes it possible to determine interconnections between members of credit institutions and detect persons or a group of persons capable of directly or indirectly controlling the activities of a credit institution.

In 2002, the Bank of Russia established the procedure requiring the parent organisations (managing companies) of the bank holding companies to provide information about the members of the bank holding companies. This information

is important for the implementation by the Bank of Russia of measures to increase the transparency of the shareholding (stakeholding) structure of credit institutions.

The establishment of requirements regarding the evaluation of commercial prospects of a credit institution was a significant element of the work aimed at upgrading the system of requirements for credit institutions. The analysis of credit institutions' business plans is a major element in the evaluation of the standard of corporate governance in credit institutions and their ability to make profit in the selected segment of the banking services market.

Since July 1, 2002, when the procedure for the state registration of legal entities was changed, the Bank of Russia has taken decisions on the state registration of credit institutions and co-operated with the authorised registering body.

The total number of operating credit institutions in 2002 rose from 1,319 to 1,329.

Forty-one credit institutions were registered in 2002 (30 credit institutions were registered in 2001 and 17 in 2000), including 35 banks and six non-bank credit institutions. These figures show that the tendency towards growth in the number of new credit institutions, first registered in 2000, continued.

The attractiveness of the Russian banking sector for foreign investors is confirmed by the fact that four wholly foreign owned banks were founded in Russia in 2002 (none was created in 2001). As of January 1, 2003, there were 126 credit institutions with foreign interest, of which 27 were wholly foreign owned banks and 10 had foreign interest of less than 100% but more than 50%. Non-resident investment in the authorised capital of credit institutions amounted to 15.9 billion rubles as of January 1, 2003, a year-on-year increase of 2.0 billion rubles, or 14.8% (the percent share of non-resident participation in the aggregate authorised capital of operating credit institutions remained unchanged from 2001 at 5.3%).

As of January 1, 2003, the share of credit institutions in the form of joint-stock companies expanded from 60.3% to 63.0%, mainly because

NUMBER OF OPERATING CREDIT INSTITUTIONS BY REGION

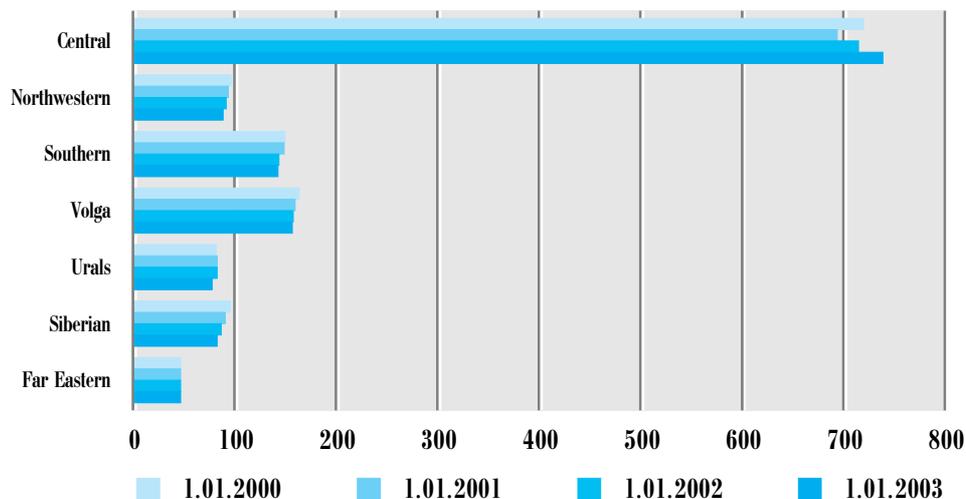


Chart 43

CHANGE IN BANKING SECTOR STRUCTURE BY TYPE OF CREDIT INSTITUTIONS
(as % of total number of operating credit institutions)

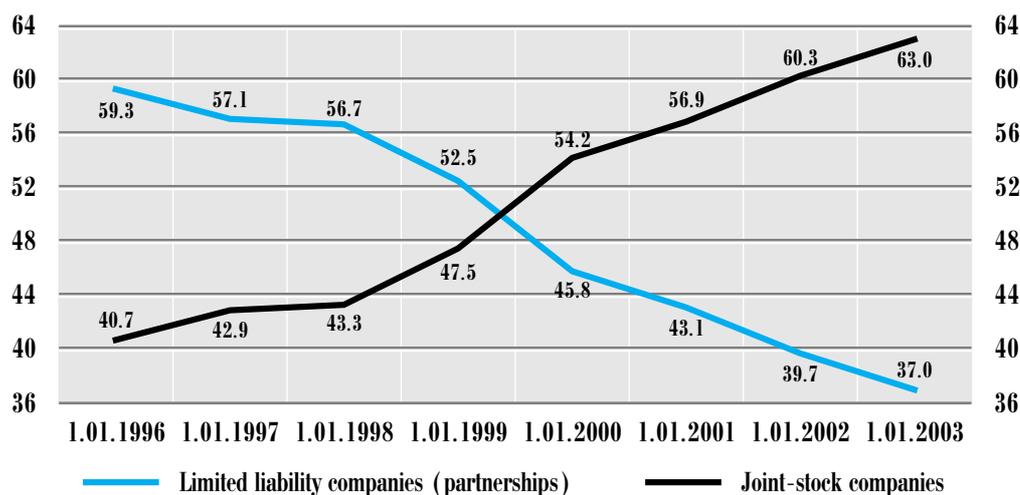


Chart 44

41 credit institutions had been transformed from limited liability companies into joint-stock companies (66 credit institutions in 2001). Credit institutions in the form of joint-stock companies are more transparent than other credit institutions because the applicable legislation requires joint-stock companies to disclose far more information than limited liability companies.

Credit institutions continued to become universalised in 2002. As of January 1, 2003, of the total number of operating credit institutions:

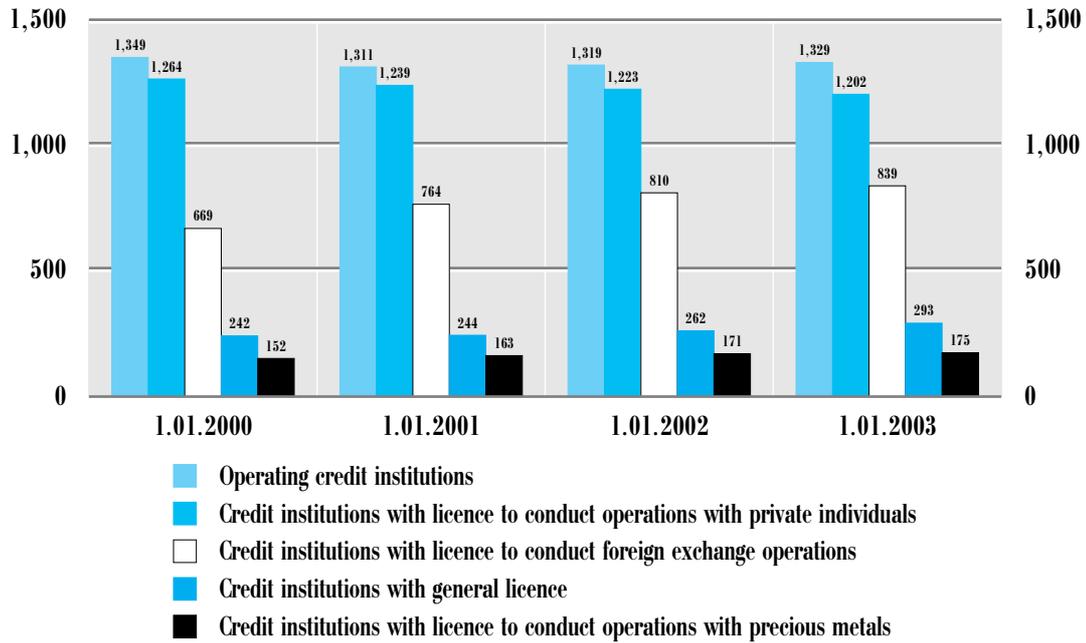
- 90.4% against 92.7% as of January 1, 2002, had the right to take household savings on de-

posit (the contraction resulted from the fact that new credit institutions must operate for two years to apply for this licence and the number of banks conducting such operations fell from 1,223 to 1,202 due to licence revocations or cancellations);

- 63.1% against 61.4% conducted banking operations in rubles and foreign currency;
- 22.0% against 19.9% held general licences;
- 13.2% against 13.0% had the right to conduct operations with precious metals.

The aggregate registered authorised capital of credit institutions in 2002 expanded from

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



261.0 billion rubles to 300.4 billion rubles, an increase of 39.4 billion rubles, or 15.1%). At the same time, the size of and rate of growth in registered authorised capital decreased in 2002 year on year (growth stood at 53.6 billion rubles, or 25.8%). The slowdown resulted from high capital adequacy levels and the decreased need to attract funds to authorised capital to maintain current banking business volumes and meet the regulatory requirements, calculated according to the Russian banking supervision standards.

The following data confirm the tendency towards the concentration of capital of credit institutions. The number of operating credit institutions with an authorised capital of more than 300 million rubles rose 30% (170 credit institutions, or 12.8% of the total) and the number of credit institutions with an authorised capital from 60 million rubles to 300 million rubles increased 20% (321 credit institutions, or 24.2% of the total).

Three mergers of credit institutions were registered in 2002.

II.2.4. LIQUIDATION, FINANCIAL REHABILITATION AND RE-ORGANISATION OF CREDIT INSTITUTIONS AND MATCHING THEIR AUTHORISED CAPITAL WITH THEIR OWN FUNDS

The Bank of Russia constantly takes measures to identify credit institutions that qualify for being subjected to bankruptcy-prevention procedures under Article 4 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions. The situation in the banking sector in 2002 was different from the situation in other years in that most of the credit institutions that qualified for being subjected to bankruptcy-prevention procedures managed to restore their solvency before the Bank of Russia took action against them (61 credit institutions).

In 2002, the Bank of Russia began to implement financial rehabilitation plans with regard to 22 credit institutions. At the same time, Bank of Russia regional branches controlled 64 credit institutions that carried out such plans, of which 42 credit institutions had begun to carry out financial rehabilitation plans before January 1, 2002. In 2002, 39 credit institutions completed the implementation of their financial rehabilitation plans under Bank of Russia supervision.

The Bank of Russia in 2002 paid special attention to monitoring credit institutions' reporting and accounting practices and the analysis of inspection results in order to make sure that credit institutions did not allow their own funds (capital) to fall below the level of their authorised capital set by their founding documents.

In the year under review, five credit institutions had restored their own funds (capital) before the Bank of Russia sent them a notice that they should match their own funds (capital) with their authorised capital, while 46 credit institutions received such notices. Five credit institutions had their banking licences revoked for failing to comply with this requirement.

To protect the interests of creditors and depositors, the Bank of Russia used as a bankruptcy-prevention and supervisory measure the appointment of provisional administrations to credit institutions. In 2002, it monitored the activities of

37 provisional administrations, of which 24 were appointed in 2002, six of them to operating credit institutions which subsequently had their banking licences revoked, and 18 were appointed to credit institutions after they had had their banking licences revoked.

One of the practical tasks relating to banking sector development is increasing stability of the banking sector through weeding out insolvent credit institutions from the banking services market. Acting in compliance with the applicable legislation, the Bank of Russia as of January 1, 2003, revoked banking licences of 1,376 credit institutions (in 2002, 25 credit institutions had their banking licences revoked and one credit institution had its licence cancelled in accordance with the decision taken by its members). Provisional administrations were appointed to all the credit institutions that had their banking licences revoked.

The amendments to the banking legislation which came into force in 2001 broadened the Bank of Russia's powers to withdraw financially troubled credit institutions from the market before they reneged on their obligations to creditors. The fact that 13 out of 25 credit institutions had no backlog of unpaid settlement documents when their banking licence was revoked may serve as an example of the effective preventive use of supervisory instruments.

As of January 1, 2003, 468 credit institutions were liquidated in accordance with the procedure established by the law, of which 71 credit institutions were wound up in 2002. Receivers (liquidators) were appointed to and liquidation commissions were set up in 412 credit institutions, 111 of them in 2002. Bank of Russia employees were appointed receivers to five credit institutions, declared debtors in absentia by arbitration courts, under Article 6 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions.

As regards 321 out of the aforementioned 468 credit institutions, arbitration courts are yet

to complete bankruptcy proceedings against them or liquidate them.

As of January 1, 2003, 876 credit institutions were struck off the State Register owing to the revocation of licences (212 in 2002). The analysis of documents of the liquidated credit institutions and 64 inspections of receivers (liquidators), conducted by the Bank of Russia in 2002, showed that receivers violated federal laws in conducting liquidation procedures, while arbitration courts closed bankruptcy proceedings before finding out all the facts relevant to the case. The Bank of Russia sent corresponding reports on 90 credit institutions to the Supreme Arbitration Court of the Russian Federation.

In 2002, the Bank of Russia issued 193 bank receiver's certificates, extended the terms of 497 receiver's certificates, cancelled five

receiver's certificates and refused to issue receiver's certificates to 136 candidates.

In pursuance of the Federal Law on the Restructuring of Credit Institutions and using the information provided to the Bank of Russia by the Agency for the Restructuring of Credit Organisations (ARCO) and Bank of Russia regional branches, the Bank of Russia in 2002 oversaw the restructuring of 12 credit institutions (four credit institutions as of January 1, 2003), of which 10 credit institutions were under the control of ARCO. Six credit institutions withdrew from the control of ARCO in 2002; ARCO completed the liquidation procedure with regard to one credit institution and the restructuring of one credit institution, which had not been transferred under the control of ARCO, was completed. Three credit institutions had the terms of their restructuring plans extended by the Bank of Russia.

II.3. THE RUSSIAN PAYMENT SYSTEM

II.3.1. THE STATE OF THE RUSSIAN PAYMENT SYSTEM.

THE DEVELOPMENT AND UPGRADING OF THE BANK OF RUSSIA PAYMENT SYSTEM

The Russian payment system, which is comprised of the Bank of Russia payment system and private payment systems, functioned reliably and efficiently in 2002 and by and large met the needs of the country's economy. Much credit for this goes to the Bank of Russia, which made persistent efforts to enhance the efficiency of the effectuation of non-cash payments and settlements, organise cash circulation and regulate cash settlements.

The participants in the Russian payment system as of January 1, 2003, were 1,172 Bank of Russia institutions, 1,331 credit institutions¹, including 41 non-bank settlement credit institutions, and 3,326 credit institution branches. In addition, settlement services were provided to clients by 6,387 additional offices of credit institutions.

As of January 1, 2003, the participants in the Russian payment system had opened 271.4 million bank accounts for their resident and non-resident clients in the Russian currency, of which 4.2 million accounts (1.6%) were opened for le-

gal entities that are not credit institutions and 267.2 million accounts (98.4%) were opened for private individuals; most of the individual accounts (90.1%) were opened in the Savings Bank (Sberbank). The average number of bank accounts per resident of Russia rose from 1.8 to 1.9.

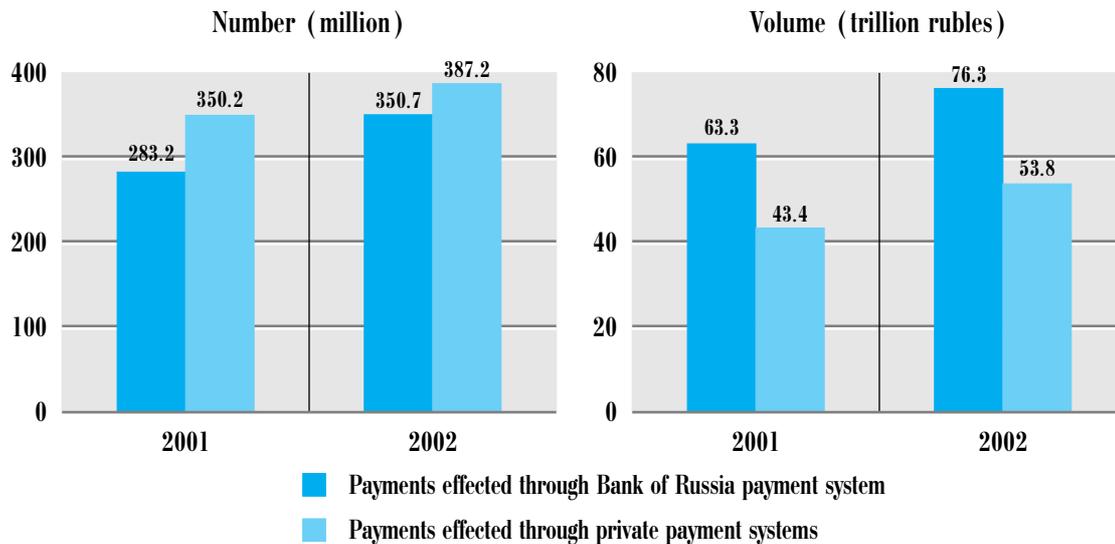
As of January 1, 2003, Russia had on average one participant in the payment system per 24,700 residents, an increase of 1.2% year on year, and 660 legal entities, a rise of 8.9%. At the same time, taking into account the additional offices opened by credit institutions and their branches, the respective ratios were one payment system participant per 11,800 residents, a fall of 1.7%, and 315 legal entities, a rise of 5.7%.

On the whole, these changes testify to the expansion of the volume and range of settlement services provided by credit institutions.

In 2002, the Russian payment system conducted 737.9 million payments worth a total of 130.1 trillion rubles. This represents an increase of 22.0% year on year, which is higher than the inflation rate. This growth along with a 16.5%

¹ These figures are based on data from the Russian BIC Directory. They may differ from data in the State Register of Credit Institutions owing to gaps in the time of updating figures.

NUMBER OF PAYMENTS EFFECTED BY RUSSIAN PAYMENT SYSTEM



Charts 46, 47

increase in the number of payments was the result of a rise in the business activity of economic agents.

The ratio between non-cash payments effected by the Bank of Russia payment system and private payment systems in the country's payment system remained virtually unchanged in 2002.

As in previous years, payments effected through the Bank of Russia payment system in 2002 accounted for a large portion of non-cash payments: 47.6% in number and 58.7% in volume. A constantly high level of payments effected through the Bank of Russia payment system is due to its efficient and uninterrupted functioning and the fact that the risk-free funds in Bank of Russia accounts, used in settlements between credit institutions, minimise the latter's financial risks.

The dynamic development of the Bank of Russia payment system was accompanied by the rapid development of private payment systems, which allowed credit institutions and their clients to optimise their payments, reducing their time and costs.

The payment order remained the principal instrument of payment in non-cash settlements, accounting for 77.1% of the total number of payments and 90.6% of the total volume of payments. Year on year this represents an increase of 2.8% and 3.9% respectively.

Payment orders were the predominant form of settlements because they were widely used as payment for goods and services and in non-commodity operations, such as the transfer of taxes, duties and other compulsory payments to budgets of all levels and extrabudgetary funds. Their wide use was also connected with rapid growth in electronic payments, made by payment orders, which help reduce settlement times to a minimum.

In 2002, there was a slight increase in the use of payment requests and collection orders (1.7% in 2002 against 1.6% in 2001 in number and 0.6% against 0.5% in volume). The use of payment instruments such as letters of credit and cheques issued by credit institutions remained unchanged (0.2% in number and 0.1% in volume).

Other instruments of payment, such as payment warrants, which are used in the partial payment of settlement documents when clients do not have enough funds in their accounts and in a number of special cases when a bank or a bank's client changes their details, accounted for 21.0% of all payments in number and 8.7% in volume.

Electronic payments accounted for 72.3% of the total number of payments and 84.0% of the total volume of payments effected through the Russian payment system in 2002, while payments effected on paper accounted for 27.7% and 16.0% respectively. Electronic payments dominated in-

terbank settlements, whereas paper documents accounted for a large portion of settlements effected between clients of one unit of a credit institution, because the speed with which such payments are effected met the clients' requirements.

Most of the payments effected through the Russian payment system were intraregional payments, which accounted for 91.0% of the total number and 84.1% of the total volume of payments. Interregional payments accounted for 9.0% and 15.9% respectively.

The overall amount of cash passing through the cash departments of the Bank of Russia and credit institutions in 2002 increased 32.5% year on year, mainly as a result of a rise in nominal money income and consumer price growth. This represents a slowdown of 5.9 percentage points compared to 2001. The average daily cash turnover expanded by 8 billion rubles to 32.2 billion rubles (in 2001 it increased by 6.7 billion rubles).

The Bank of Russia and credit institutions supplied with their own cash resources 96.1% of their clients' needs in cash against 95.2% in 2001.

The rate of growth in cash turnover in the year under review (32.5%) was faster than the rate of expansion in non-cash payment volumes (22%).

The following indicators characterised the **Bank of Russia payment system**.

The participants in the Bank of Russia payment system as of January 1, 2003, were 1,172 Bank of Russia branches and divisions, 1,331 credit institutions and 1,773 branches of credit institutions, which, according to the Russian BIC Directory, had correspondent accounts (subaccounts) opened for them in the Bank of Russia.

Compared to January 1, 2002, the number of credit institutions that opened correspondent accounts in the Bank of Russia rose by eight, or 0.6%, while the number of branches of credit institutions that had correspondent subaccounts in the Bank of Russia fell by 44, or 2.5%, owing to the continued reorganisation of the branch network of credit institutions and extensive use of information technologies.

In addition, in accordance with the applicable legislation, the Bank of Russia provided services to the bodies that executed budgets of all levels, including the Federal Treasury bodies, budget-financed institutions, regional and municipal treasuries, government extrabudgetary funds and

other clients in areas where there were no credit institutions. The number of such clients declined from 74,410 as of January 1, 2002, to 66,388 as of January 1, 2003, or 10.8%, mainly due to the transfer to servicing by the federal treasury bodies of budget-financed institutions and regional and local budgets, as well as the establishment of treasuries in Russian regions and municipalities and similar reforms conducted by them. The reduction in the number of clients other than credit institutions was also the result of the transfer by the Bank of Russia of clients that did not comply with the requirements of the law to servicing by credit institutions and their branches.

The number of the Finance Ministry's Federal Treasury bodies, clients of the Bank of Russia, fell from 1,402 to 1,384, or 1.3%, owing to their re-organisation.

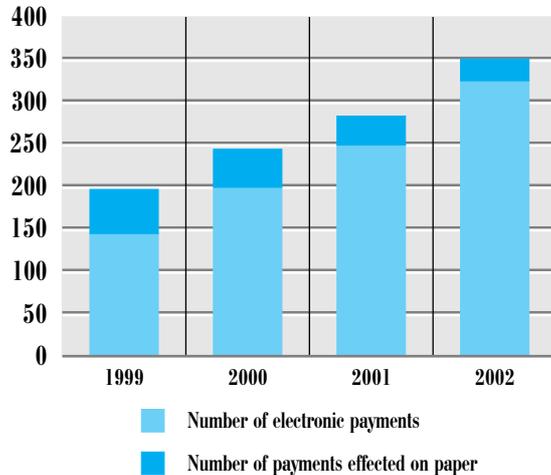
In 2002, the Bank of Russia payment system effected 350.7 million payments, or 1.4 million payments a day on average; the total annual volume of payments amounted to 76.3 trillion rubles. Compared with 2001, the number of payments increased 23.8%, the average daily number of payments rose 27.3% and the volume of payments expanded 20.5%. The increase resulted, above all, from a rise in the number of payments made to the budgets of all levels owing to the need to make a detailed accounting of these payments for effective budget formation and allocation.

The principal participants in the Bank of Russia payment system in 2002, as in the previous years, were credit institutions and their branches, which accounted for 82.4% of the total number of payments and 79.5% of their total volume (the respective percentages for 2001 were 81.6% and 75.2%).

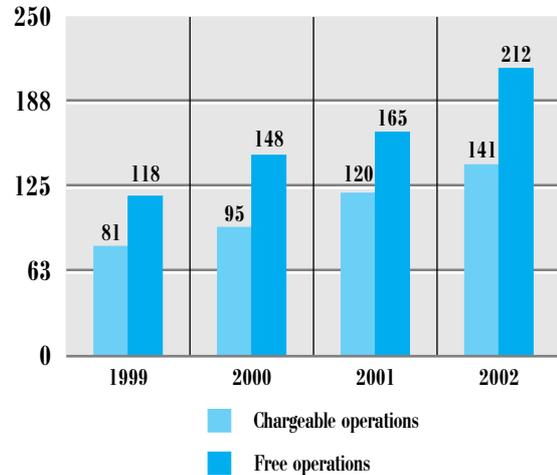
The share of payments effected by Bank of Russia clients that are not credit institutions contracted from 16.9% in 2001 to 16.4% in 2002 in number and from 24.0% to 19.8% in volume. There was also a contraction in the share of payments effected by Bank of Russia branches and divisions on their own settlement operations: from 1.5% to 1.2% in number and from 0.8% to 0.7% in volume.

Credit institutions and their branches preferred to effect settlements through the Bank of Russia payment system because it is reliable and uses advanced technologies and information pro-

RATIO BETWEEN PAYMENTS EFFECTED THROUGH BANK OF RUSSIA PAYMENT SYSTEM ELECTRONICALLY AND ON PAPER
(million payments)



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



Charts 48, 49

tection methods, ensuring the effective and secure provision of services to all settling participants and allowing them quickly to exchange information without any credit risk. The processing of the constantly rising number of payments is ensured by the development of information and telecommunications systems.

Most of the payments effected through the Bank of Russia payment system were intraregional payments, which in 2002 accounted for 89.1% of the total number of payments and 82.1% of their volume. Interregional payments accounted for 10.9% and 17.9% respectively.

In 2002, the Bank of Russia continued to make efforts to enhance the efficiency of its payment system and reduce the risks involved in its operation, mainly by consistently encouraging the use of electronic payments.

Electronic payments in 2002 accounted for 92.7% of the total number of payments and 92.1% of the total volume of payments (88.0% and 82.2% in 2001).

Interregional electronic payments are normally effected within one day or no later than the next day, depending on the distance between the time zones of the regions where the payer and payee are located.

Settlements on intraregional electronic payments are effected within one day according to

the schedule of exchange and processing of electronic payments. In 59 out of 78 Bank of Russia regional branches settlements were effected by the centralised method and in 19 by the decentralised method by Bank of Russia institutions. In 55 out of the above 59 Bank of Russia regional branches payments were processed continuously within one day and in three Bank of Russia regional branches payment information was processed on a discrete basis at the fixed time several times a day. In the Moscow branch of the Bank of Russia information was processed both discretely and continuously.

The continuous processing of payments makes it possible to debit and enter funds on intraregional payments instantly, creating conditions for the acceleration of their turnover.

As of January 1, 2003, the participants in intraregional electronic settlements were 1,138 out of 1,172 Bank of Russia institutions, or 97.1% of the total (as of January 1, 2002, 1,135 out of 1,175 Bank of Russia institutions, or 96.6% of the total), while the participants in interregional electronic settlements were 1,083 Bank of Russia institutions, or 92.4% of the total (as of January 1, 2002, 1,031 out of 1,175 Bank of Russia institutions, or 87.7% of the total).

The measures taken to engage Bank of Russia institutions in the electronic settlement system

made it possible to step up the efforts to engage credit institutions in the exchange of electronic documents. As of the end of 2002, 76 Bank of Russia regional branches exchanged electronic documents with 2,771 credit institutions and their branches, or 89.3% of the total number of credit institutions and branches of credit institutions (3,104) serviced by the Bank of Russia (as of January 1, 2002, 2,502 out of 3,140, or 79.7% of the total number). Simultaneously, the Bank of Russia continued to make efforts to engage in the electronic document exchange its other clients that are not credit institutions, especially the Federal Treasury bodies. As of the end of 2002, the latter's share in the electronic document exchange with the Bank of Russia stood at 28.8% of their total number (1,384); as of January 1, 2002, 266 out of 1,402, or 19% of the total number.

The turnover of average balances of funds of credit institutions and their branches in correspondent accounts and subaccounts in the Bank of Russia in 2002 was 0.32 days, or 3.14 turnovers a day, against 0.42 days, or 2.4 turnovers a day, in 2001.

The acceleration in turnovers resulted from a rise in the activity of credit institutions and their clients, the consolidation of credit institutions' accounts and more efficient management of liquidity, which was facilitated by the measures taken by the Bank of Russia to spread electronic settlements and reduce payment times.

The improvements in the general structure of payments effected through the Bank of Russia payment system in the year under review led to a 4.7% fall in the number of payments made on paper and a 9.9% decline in the value of such payments.

The Bank of Russia effected payments on paper if there were clients' instructions to make payments by mail or by wire transfer, if electronic payments had to be accompanied by settlement documents on paper, containing all information about the payment, and also in some regions where the Bank of Russia decided not to conduct electronic payments.

The average actual settlement time for paper payments at intraregional level in 2002 did not change from 2001 (1.1 days), while it changed a little at interregional level (from 4.7 days to

4.8 days), owing to the change in the structure of payments made on paper: the proportion of payments made at clients' instruction by wire contracted relative to the share of postal payments, which take more time to conduct.

As of January 1, 2003, the value of settlement documents that had not been paid because of the lack of funds in credit institutions' correspondent accounts or credit institution branches' correspondent subaccounts amounted to 8.5 billion rubles, declining by 1.2 times from 10.2 billion rubles as of January 1, 2002.

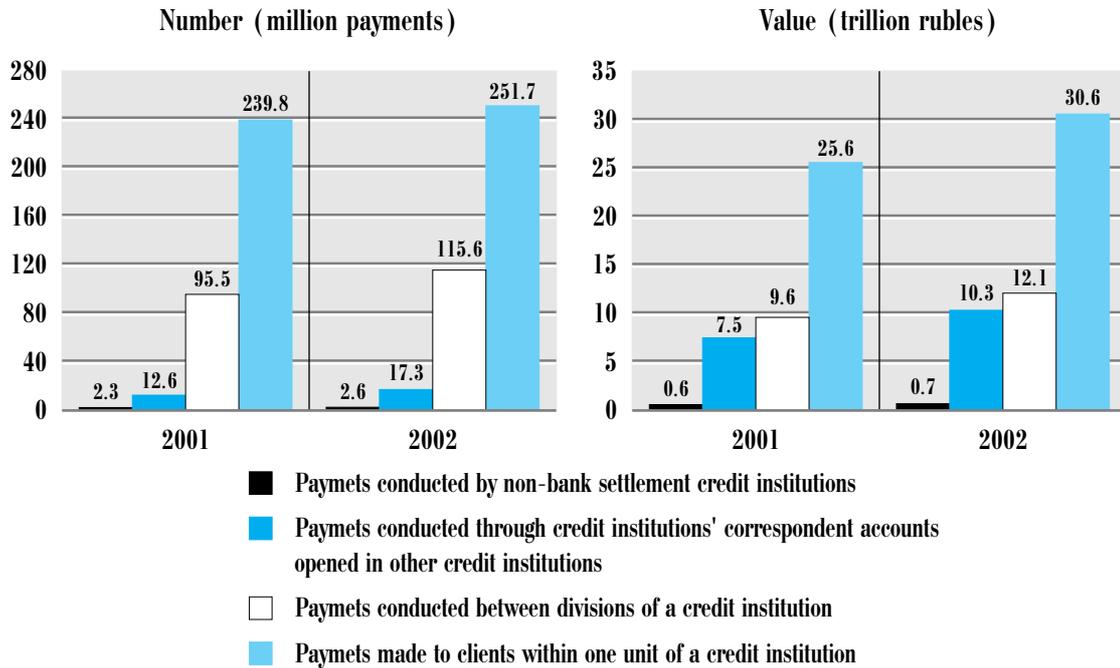
The value of unpaid settlement documents decreased as the total number of credit institutions and branches of credit institutions with a backlog of unpaid settlement documents declined by 2.1 times (from 95 to 45). As of January 1, 2003, 42 credit institutions whose licence had been recalled accounted for 59.1% of the total value of unpaid settlement documents, two credit institutions under the control of ARCO accounted for 40.9% and one credit institution, which was not under ARCO's control, accounted for less than 0.01%.

The Bank of Russia's pricing policy did not change much in 2002. The fees charged by the Bank of Russia for its settlement services were unchanged from the previous year. In compliance with federal legislation, the Bank of Russia conducted operations with budget funds of all levels free of charge. Operations conducted by the Bank of Russia for a fee accounted for 39.9% of all operations and free operations accounted for 60.1%.

The private payment systems are represented by intrabank payment systems designed for settlements between the divisions of one credit institution, the payment systems established by credit institutions for settlements on correspondent accounts opened in other credit institutions, the payment systems of non-bank settlement credit institutions and the systems of settlements between clients of one division of a credit institution or its branch.

Private payment systems demonstrated dynamic growth in 2002; they focused their efforts on the introduction of advanced techniques for processing settlement documents and the provision of the widest possible range of high-quality settlement services with the aim of attracting clients.

NUMBER AND VALUE OF PAYMENTS EFFECTED THROUGH PRIVATE PAYMENT SYSTEMS



Charts 50, 51

Payments effected through settlement systems between clients of one division of a credit institution or its branch in 2002 accounted for 65.0% of the total number of payments and 56.9% of the total volume of payments effected through private payment systems and payments between the divisions of one credit institution accounted for 29.9% and 22.6% respectively (the respective percentages for 2001 were 27.2% and 22.1%). These figures show that credit institutions have upgraded their own settlement systems, giving the economic agents they service the opportunity to make settlements more effectively.

Payments conducted through credit institutions' correspondent accounts opened in other credit institutions accounted for 4.5% of the total number and 19.1% of the total volume. At the same time, these payments demonstrated the most rapid rates of growth (36.7% in number and 37.0% in volume), whereas payments effected through the Russian payment system increased 16.5% in number and 22.0% in volume.

The share of payments conducted through non-bank settlement credit institutions in 2002 was practically unchanged from 2001 and ac-

counted for 0.6% of the number of payments conducted through private payment systems and 1.4% of the volume of such payments.

The tendency towards growth in the issue of bank cards continued in Russia in 2002. Year on year, the number of bank cards grew 47.6% to 15.5 million. Bank cards issued by the Russian systems accounted for 51.7% and international systems 48.3% of the total number of bank cards. However, in 2002, as in 2001, cards issued by international systems grew faster than those issued by the Russian systems — 73% and 27% respectively.

The number of payment card operations conducted in Russia in 2002 amounted to 281.2 million, an increase of 147.5% year on year, and their volume expanded 163.7% to 720.7 billion rubles. Such significant growth in card operations was the result of the dynamic development of the infrastructure designed for such operations. The number of ATMs rose by 53.7% in 2002 to 9,000 (as of January 1, 2003), cash dispensers by 5.7% to 14,100 and trading outlets accepting payment cards by 52.2% to 49,100. At the same time, the share of card payments for goods and services expanded slightly in 2002, from 0.9% in 2001 to

1.3% of the total volume of paid services and public catering and retail trade turnover.

Cash withdrawal operations accounted for 92.8% of the entire volume of card operations and the share of card payments for goods and services stood at 7.2% (in 2001, 92.1% and 7.9% respectively). Cash withdrawal operations made up such a large portion of card payments because of the large number of bank schemes for the transfer of companies' wage payments using bank cards, so cash withdrawals were the most common operation conducted by workers and employees of such companies.

In 2002, the Bank of Russia continued to upgrade the legislative framework of the Russian payment system.

To upgrade the system of non-cash settlements, the Bank of Russia issued a new version of its Provision No. 2-P, "On Non-Cash Settlements in the Russian Federation," which specified the procedure for implementing settlements by payment orders paid with an acceptance and defined the finality and irrevocability of payments in order to safeguard settling participants against financial risk and make the payment sys-

tem even more reliable and secure. In 2002, the Bank of Russia drafted jointly with the Ministry of Finance and Ministry of Taxes and Duties a set of rules and regulations designed to standardise settlement documents in order to expedite the transfer of tax and other payments to the budgets of all levels and government extrabudgetary funds and for the financing of budget expenditures.

To improve the organisation of cash circulation and the regulation of cash settlements, the Bank of Russia and the Ministry of Taxes and Duties in 2002 made clarifications regarding the Bank of Russia limit set on the maximum amount of cash that can be used in settlements between legal entities.

The Bank of Russia continued to oversee the payment systems in order to ensure their stable and effective functioning and make them more open and transparent.

Continuing consistently to upgrade its payment system, the Bank of Russia developed new methodologies and worked out practical solutions designed to facilitate the introduction of a real time gross settlement system.

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

The technical infrastructure of the payment system is comprised of a number of specialised automated systems located throughout Russia in accordance with the organisational structure of the Bank of Russia. It is an inalienable part of the Bank of Russia information and telecommunications system.

The work carried out in 2002 in the interests of the payment system aimed to ensure the achievement of these two principal objectives:

- to ensure the continuous operation of the technical facilities of the payment system;
- to enhance the efficiency of the technical infrastructure of the payment system.

The Bank of Russia continued to replace obsolescent and obsolete equipment and fit out its branches and divisions with advanced hardware and software. Specifically, it installed a new workstation for the data processing centres of eight regional branches using the Ryazan automated bank settlement system and transferred the Moskva automated bank settlement system to a more powerful workstation ensuring the necessary level of productivity, dependability and reliability. The Bank of Russia also replaced obsolescent subscriber payment systems in the cash settlement centres of its eight regional branches with the RABIS-NP standard software system and re-equipped its 45 regional branches and 130 field institutions with advanced computers and software systems.

By now, 59 out of 78 Bank of Russia regional branches have been transferred to a centralised intraregional system of processing payment documents, which processes up to 90% of the entire volume of payment documents passing through the Bank of Russia system. Fifty-four Bank of Russia institutions have been included in the interregional electronic settlement system and 21 Bank of Russia field institutions have become participants in intraregional electronic settlements. In all, 1,132 out of 1,172 Bank of Russia cash settlement centres and main cash settlement centres participate in interregional electronic settlements.

As of the end of 2002, 74 Bank of Russia regional branches and central office divisions exchanged information via the Unified Telecommunications Banking Network (UTBN). The putting into operation of 72 regional segments of the UTBN made it possible to send most payment orders to the Bank of Russia electronically. Payment orders made by clients on paper account for less than 10% of all payment orders made for electronic settlements.

To maintain banking sector liquidity by extending intraday and overnight loans to banks, the Bank of Russia modernised the software system used for these purposes.

The Bank of Russia upgraded and monitored the development of software systems on the basis of the existing legislative framework of the payment system and improved the techniques of collecting and processing reports and accounts from Bank of Russia branches and divisions and credit institutions. To create a single information environment for non-cash settlements in Russia and collect, process and analyse financial, accounting and statistical reports, the Bank of Russia constantly updated its regulatory and reference information.

To enhance the efficiency of the technical infrastructure of the payment system and work out practical solutions for the implementation of the next stage of the Concept of the Real Time Gross Settlement System, the Bank of Russia developed the required technology for the future. It analysed the requirements and technological decisions regarding the automated processing of payment information of several Bank of Russia regional branches in a single data processing centre and conducted an experiment to process accounting and operational data from several regional branches in a single centre, using a standard software system.

Standard formats of electronic data exchange between the Bank of Russia and its clients in conducting payment operations were developed and tested. The results received will make it possible

to introduce standard formats for all software systems used in accounting, simplifying the exchange of payment data between settlement participants. International formats of payment messages have been automatically converted into standard formats and standard formats have been converted into international ones.

Vigorous efforts were made to introduce automated means of managing and operating the Bank of Russia information and telecommunications system. By the end of the year under

review, regional control centres, united in a single system, had been installed in 62 Bank of Russia regional branches. That work facilitated the creation of a central control service which monitors and controls on a round-the-clock basis the accounting, information, telecommunications, and communications systems and utilities. This service has significantly increased the reliability of the Bank of Russia payment system, quickly reacting to any failure or emergency.

II.4. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

The Bank of Russia in 2002 continued to improve the system of foreign exchange regulation and foreign exchange control against the background of the favourable situation on world raw material markets. The measures it took in that area were designed to further liberalise foreign exchange legislation and, at the same time, enhance the efficiency of the instruments and methods of foreign exchange control in order to reduce illegal capital flight and raise the quality of statistical accounting and reporting of foreign exchange operations.

In 2002, resident exporters, who are required to sell a part of their currency earnings, sold \$48.3 billion. Thanks to macroeconomic stability and the favourable foreign trade situation, which allowed Russia to enjoy a strong balance of payments, the lowering of the compulsory sale requirement for exporters from 75% to 50% in August 2002 did not create any imbalances between the demand for foreign exchange and its supply on the domestic market. The reduction in obligatory foreign exchange sales was accompanied by growth in sales of foreign exchange not subject to compulsory sale.

On December 1, 2002, the Bank of Russia, seeking to promote free-market principles and create more favourable conditions for foreign exchange market participants amid a vast supply of export currency earnings on the domestic market, lifted the requirement for exporters to sell

their currency earnings on interbank currency exchanges only. The compulsory sale segment of the market was expanded significantly as resident legal entities were granted the right to sell foreign exchange on the over-the-counter market or directly to the authorised bank that serviced the resident exporter.

Vast amounts of currency earnings offered on the domestic foreign exchange market on the whole not only met the growing demand of the non-financial and household sectors for foreign exchange, but also led to growth in the country's foreign exchange reserves. In 2002, the demand for foreign exchange in the foreign trade sector increased by \$2.8 billion year on year to \$47.8 billion. At the same time, the structure of the demand for foreign exchange by purpose, determined on the basis of contracts, agreements and other substantiating documents presented to the authorised banks, did not change significantly. About 50% of foreign exchange (\$23.6 billion) was purchased by the non-financial sector to repay its debts on financial loans (of which \$4.6 billion were paid on debts to non-residents) and 45% (\$21.5 billion) to pay for imported goods and services.

To cut the cost of buying foreign exchange, the Bank of Russia in December 2002 reduced from 100% to 20% the amount of rubles resident legal entities were required to deposit when buying foreign exchange to make advance payments

under import contracts. At the same time, residents were also allowed to retain the right to deposit a smaller sum or not to deposit any money at all, if they used internationally accepted guarantees in settlements with non-residents (this could be an irrevocable letter of credit opened for a resident by the authorised bank or a guarantee given by a foreign bank to a resident as security for a non-resident's obligations under an import contract or an agreement insuring the risk of non-return of foreign exchange or a bill of exchange issued by a non-resident to a resident and guaranteed by a foreign bank).

According to banks' reports, owing to a rise in household income and significant growth in operations conducted by non-resident individuals on the domestic foreign exchange market, net individual demand for foreign exchange (the difference between the amount of foreign exchange sold to individuals and paid out from their accounts and the amount of foreign exchange bought from individuals and entered to their accounts) in 2002 rose to \$12.7 billion from \$8.9 billion in 2001. The non-resident share in the total value of net individual demand for foreign exchange expanded from 44% in 2001 to 58% in 2002. At the same time, the balances in resident individuals' foreign currency accounts (deposits) increased continually. As of the end of December 2002, they amounted to \$12.3 billion in dollar terms against \$7.9 billion as of the end of 2001.

In regulating the procedure for conducting foreign exchange operations connected with capital flow and the opening of accounts abroad by Russian residents, the Bank of Russia, taking into consideration the favourable trends in the Russian economy, continued the transition from permission procedures to notification ones. The aim of this policy was to attract long-term foreign capital to the real sector of the Russian economy and improve the investment climate in the country.

An analysis of the application during the year of a notification procedure for taking financial loans from non-residents for a term of more than 180 days, established by the Bank of Russia at the end of 2001 to make the Russian economy more attractive to investors, showed that it was a timely decision. Overall, medium- and long-term investments made up the largest portion of non-resident credit extended to the real economy. In

2002, the value of loans taken from non-residents for a term of more than 180 days amounted to \$15.7 billion, or 70% of the total of \$22 billion of non-resident financial loans. At the same time, during the year Russian borrowers paid \$14.7 billion on the principal amount of the debt and as interest, of which \$8.4 billion were paid on loans with terms over 180 days.

Acting within the powers conferred on it by the applicable legislation, the Bank of Russia continued to phase out the system of permits applied to residents who wish to open accounts abroad. To create more comfortable conditions for Russian businesses and promote their interests abroad, the Bank of Russia in October 2002 replaced the permission procedure applied to resident legal entities opening accounts in foreign banks for their overseas offices and branches by the notification procedure. Taking into consideration that representation expenses involve a small number of operations, the Bank of Russia established a special regime for such accounts (drawing up a list of operations which legal entities are allowed to conduct through such accounts) and set up a procedure to monitor the movement of funds through such accounts.

One of the results of the measures taken to liberalise the procedure for conducting foreign exchange operations connected with capital flow and simplify the procedure for opening accounts abroad by Russian residents was a significant fall in the number of permits issued by the Bank of Russia. In 2002, the Bank of Russia issued 1,400 permits (a decrease by almost one-third compared with 2001) worth a total of \$6.5 billion (\$10.6 billion in 2001). Of this sum, the value of the licensed foreign exchange operations, which involve the taking of capital out of the country, amounted to nearly \$4.2 billion (of this amount, \$600 million were taken out of the country upon the occurrence of special circumstances stipulated by agreements with non-residents) and foreign capital invested in the non-financial sector of the Russian economy amounted to \$2.2 billion.

The supervision and accounting of resident foreign exchange operations in foreign trade from the viewpoint of the completeness and timeliness of the repatriation of currency earnings from exports and the effectuation of payments and the delivery of goods under import contracts contin-

ued to be implemented within the framework of the customs-banking foreign exchange control system. To expand its sphere of action, the Bank of Russia and State Customs Committee on January 1, 2002, extended the customs banking foreign exchange control procedures to settlements effected in exporting goods in the following customs regimes: re-export, temporary export and the processing of goods outside the customs territory. In 2002, this system covered practically all foreign trade operations involving cash settlements: 86% of Russian exports and 80% of customs-registered imports.

As a result of the measures described above, illegal capital flight through foreign trade operations, such as non-repatriation of ruble and foreign currency export earnings and non-reimbursement of advances received for imports, in 2002 decreased by more than half compared with 2001, to \$1.6 billion, and its share in foreign trade turnover contracted to 1% from 2%.

At the same time, balance of payments data indicate that illegal capital flight has increased through transactions which are the hardest to control from the viewpoint of the confirmation of the actual cost of assets acquired. In their capital flight schemes, residents increasingly use fictitious transactions with non-residents on imports of "invisible" services (marketing, advertising, consultancy, etc.) and securities purchase and sale deals. Such deals are usually paid for in rubles through the ruble accounts kept by non-residents and the latter subsequently convert

rubles into foreign currency and transfer the money abroad.

The Bank of Russia believes that in the current macroeconomic situation, when the country is still in the process of transition to market economics, the system of foreign exchange regulation and foreign exchange control should retain some of its fundamental principles, such as the requirement for the compulsory repatriation and sale of export currency earnings and the regulation of the conditions and procedure for conducting a number of capital flow operations that have the most significant impact on the balance of payments. It is important that the measures taken within the framework of foreign exchange regulation and foreign exchange control at the time of economic stability should focus on ensuring the completeness and effectiveness of the statistical accounting of foreign exchange operations for the purpose of their efficient monitoring and the compiling of a balance of payments. At the same time, the system of foreign exchange regulation should have a set of instruments which the Government and Bank of Russia could use if the situation in the economy in general and on the domestic foreign exchange market in particular changes for the worse.

The above principles have found their expression in a new version of the draft Federal Law on Foreign Exchange Regulation and Foreign Exchange Control, which the Government submitted to the State Duma on December 30, 2002. The Bank of Russia actively participated in elaborating this draft law.

II.5. BANK OF RUSSIA ANTI-LAUNDERING ACTIONS

The Federal Law on Countering the Legalisation (Laundering) of Criminal Incomes, which came into force on February 1, 2002, laid the groundwork for building in Russia a system to fight laundering of criminally obtained incomes. This law conferred upon the Bank of Russia, which is the banking supervision authority, a number of functions designed to ensure and maintain the effectiveness of the anti-laundering system being built in the banking sector. Specifically, the Bank of Russia should organise specialised internal control, ensure that credit institutions pass information to the authorised body on operations with money or property subject to compulsory control and other operations that may be connected with money laundering and monitor the observance of the anti-laundering legislation by credit institutions.

Participation in building an anti-laundering system by carrying out the corresponding work in the banking sector was one of the new important activities of the Bank of Russia in 2002.

Before the enforcement of the Federal Law on Countering the Legalisation (Laundering) of Criminal Incomes, the Bank of Russia had elaborated and adopted the necessary regulatory and methodological framework. It issued Recommendations for Credit Institutions to Establish Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminal Incomes. In working out these recommendations, the Bank

of Russia extensively used international experience in preventing proceeds from crime penetrating the banking sector, notably the recommendations of the Financial Action Task Force (FATF) of the Basel Committee on Banking Supervision and Global Anti-Laundering Guidelines for Private Banking, known as the Wolfsberg Principles, worked out by the world's leading banks.

As regards the techniques of transferring information, the Bank of Russia made the decision to use its own information and telecommunications networks to pass on data, as stipulated by the law, from credit institutions to the Russian Financial Monitoring Committee (FMC). Experience has shown that taking into consideration the size of Russia's territory, the number of credit institutions and the great number of time zones in Russia, that decision ensured the passing on of information to the FMC within the time periods required by the law. In addition, the use of standard formats and special communications channels guaranteed a high level of security for the transmitted data against unsanctioned access and made possible the automatic processing of information and verification of its completeness and authenticity in the FMC. Two levels of the cryptographic protection of information were used in the process: coding and the means of ensuring the completeness and authenticity of information (the message authentication code).

Realising that the functions conferred on the credit institutions by the law were new to them, the Bank of Russia constantly provided methodological assistance to credit institutions, keeping them up to date on issues relating to compliance with the anti-laundering legislation. During the period of the banking sector's adaptation to the new anti-laundering practices, the Bank of Russia and its regional branches organised a round-the-clock telephone hot line service for credit institutions, which operated for several months. In addition, throughout the year the Bank of Russia analysed and explained various aspects of the practical implementation of its rules and regulations issued in pursuance of the anti-laundering law. It sent out through its regional branches 12 memos to credit institutions.

Aware of the commitments undertaken by Russia to the international community regarding the fight against terrorism and complying with the requirements of the Russian Federation President's Decree No. 6, dated January 10, 2002, "On Measures to Fulfil UN Security Council Resolution 1373 of September 28, 2001" and Decree No. 393, dated April 17, 2002, "On Measures to Fulfil UN Security Council Resolutions 1388 of January 15, 2002, and 1390 of January 16, 2002," the Bank of Russia in 2002 sent out to credit institutions lists of organisations and individuals considered by foreign countries and international organisations to be connected with terrorism and implicated in terrorist financing. Those lists contained information on 122 legal entities and 435 private individuals.

Exercising its powers to control the observance by credit institutions of the Federal Law on Countering the Legalisation (Laundering) of Criminal Incomes, conferred on it by the law, the Bank of Russia established the procedure for monitoring the activities of credit institutions in this area and formulated uniform methodological principles of organising inspections of credit institutions from the viewpoint of their compliance with anti-laundering requirements.

From March to July 2002, the Bank of Russia regional branches inspected all head offices and from September to December all branches of credit institutions (not counting Sberbank branches). In all, in 2002 the Bank of Russia inspected 1,328 head offices and 2,077 branches of

credit institutions from the viewpoint of their compliance with the anti-laundering legislation.

The inspections showed that most credit institutions fulfilled in good faith the functions conferred on them by the law. They carried out the necessary organisational and technical measures to establish specialised internal control designed to counter money laundering and within the time period established by the law, passed on information to the FMC on operations with money or other property subject to obligatory control. At the same time, as a result of the inspections it was discovered that 9% of the total number of head offices inspected and 11.7% of the total number of branches of credit institutions inspected committed violations of the anti-laundering legislation. The credit institutions that committed these violations were disciplined in accordance with the procedure established by the law.

In connection with the adoption in October 2002 of the Federal Law on Amending the Federal Law on Countering the Legalisation (Laundering) of Criminal Incomes, which extended the legal and organisational anti-laundering procedures to the fight against the terrorist financing and granted to credit institutions additional powers to prevent the proceeds from crime penetrating the banking system and prevent the use of the banking system for laundering criminally obtained incomes, the Bank of Russia made the necessary changes in its rules and regulations. Specifically, taking into consideration the requirements of the new federal law and the experience gained by credit institutions in creating and sending electronic messages, the Bank of Russia revised the procedure for passing on information by credit institutions to the FMC on operations with money and other property subject to obligatory control, or other operations which a credit institution may suspect of being connected with money laundering or terrorist financing. In addition, the Bank of Russia made amendments to the Recommendations for Credit Institutions to Establish Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminal Incomes, which corresponded to the requirements of the new law.

Taking into consideration the fact that one of the main conditions of the functioning of the anti-laundering system is the employment of qualified

specialists responsible for organising anti-laundering internal control systems, the Bank of Russia paid special attention to training credit institutions' specialists and employees of its regional branches. Twenty-two thematic seminars were held in 2002 and specialists from 1,164 credit institutions, or about 90% of all credit institutions, and more than 450 employees of Bank of Russia regional branches received the appropriate training.

In addition to organising and providing regular instruction, the Bank of Russia worked out a system of comprehensive and continuous training for executives and specialists with the anti-laundering divisions of its regional branches. In September 2002, it approved the Standard Seminar Programme for its employees, which was included in the Bank of Russia advanced training catalogue for 2003.

In fulfilling the functions conferred on it by the law, the Bank of Russia attached great importance to co-ordinating its actions with the Financial Monitoring Committee. To this end, in January 2002 it signed an agreement on co-operation in sharing information with the FMC pursuant to the Federal Law on Countering the Legalisation (Laundering) of Criminal Incomes and in June this agreement was amended to take into account the changes made in the anti-laun-

dering legislation. Specifically, an interagency working group was formed to deal with day-to-day affairs in co-operation between credit institutions, the Bank of Russia and the FMC in implementing the anti-laundering legislation.

The Bank of Russia actively co-operated with international anti-laundering organisations and organisations fighting the financing of terrorism. In September 2002, the Bank of Russia jointly with the FMC and other federal government agencies conducted large-scale work to prepare a FATF delegation's visit to Russia. Bank of Russia representatives were included in the Russian delegation that participated in FATF plenary meetings and meetings of the FATF's regional arm, the MONEYVAL Committee of the Council of Europe (the Select Committee of Experts on the Evaluation of Anti-money Laundering Measures). In December 2002, the Bank of Russia took part in a conference for the countries of Europe and Central Asia, co-sponsored by the World Bank and International Monetary Fund.

The efforts made by the Bank of Russia to build an anti-laundering system in the Russian banking sector have been praised by international financial and economic organisations and it is largely thanks to these efforts that in October 2002 the FATF voted to take Russia off the list of non-cooperating countries and territories.

II.6. BANK OF RUSSIA ACTIVITIES RELATING TO GOVERNMENT FINANCE

Economic growth in 2002, the favourable foreign trade situation and an excess of federal budget revenues over the amount stipulated by the 2002 Federal Budget Law contributed to the further stabilisation of government finances.

The Bank of Russia and Finance Ministry continued to co-ordinate their monetary and budget policies, focusing their attention on the forecasting and monitoring of federal budget expenditures which affect growth in the money supply and the rate of inflation.

Attaching so much significance to this matter was dictated by the need to react promptly to fluctuations in federal budget fund flows, which exert pressure on banking sector liquidity, and to make sensible use of the monetary policy instruments.

Taking into consideration that the implementation of the monetary programme depended on the dynamics of net credit to the federal and regional governments, the Bank of Russia, when analysing the state of debt the Finance Ministry owed it, made sure that the Finance Ministry fulfilled on time its debt obligations to it, settled the debt the CIS and Baltic states owed it on interest on overdrafts and interstate settlements and conducted direct and reverse repo operations with Russian government debt instruments. At the same time, in pursuance of Article 1081 of the 2002 Federal Budget Law, the Bank of Russia

exchanged Vneshtorgbank shares it owned for permanent coupon-income federal loan bonds with a nominal value of 42.1 billion rubles. The Finance Ministry's debt to the Bank of Russia has increased as a result.

The structure of the Finance Ministry's debt to the Bank of Russia did not change much, however, as the Finance Ministry, notwithstanding the Bank of Russia's repeated calls, refused to restructure the securities received by the Bank of Russia as a result of the 1999—2000 restructuring of 15.0 billion rubles of government securities into variable coupon-income federal loan bonds and the share of outstanding government securities on the market remained the same.

When implementing the Concept of a Single Federal Treasury Account of Federal Budget Revenue and Federal Budget Funds, the Bank of Russia in 2002, as in the previous years, provided considerable methodological and information assistance to the Federal Treasury and hence facilitated the speediest transition of the Federal Treasury bodies to a single account and helped the Federal Treasury bodies to carry out their work in full in accordance with the budget law.

As of January 1, 2003, Bank of Russia institutions provided services to 56,200 budget-financed institutions, which had more than 123,000 accounts opened for them. Over the year, their number fell by 10.3% and 22% respectively, owing to the centralisation of federal

budget revenue and federal budget funds accounting operations, the transition of budget-financed institutions and regional and local budgets to servicing in the Federal Treasury bodies and the creation of treasuries in Russian regions and municipalities.

In addition, the centralisation of operations to account for the revenues allocated by the Federal Treasury bodies continued. In 2002, the accounts to record the revenues allocated by the Federal Treasury bodies, opened for the Finance Ministry's Federal Treasury Departments, were closed in 73 constituent entities of the Russian Federation.

The measures taken changed the procedure for transferring federal budget revenues to the financing of expenditures, accelerating the movement of federal budget funds and creating preconditions for the more accurate prediction of federal budget performance indicators and better manageability of federal budget funds.

The changes in the procedure for handling Federal Treasury accounts were accompanied by changes in the procedure for compiling bank reports on the balances in federal budget revenue accounts and federal budget funds accounts.

Realising that the implementation of the Concept of a Single Federal Treasury Account of Federal Budget Revenue and Federal Budget Funds hinged upon the establishment of a computerised integrated treasury system, the Bank of Russia in 2002 continued to switch to the exchange of information on the basis of the electronic exchange of documents between the various divisions of the Bank of Russia settlement network and Federal Treasury bodies with accounts in Bank of Russia institutions. As of January 1, 2003, 398 Federal Treasury bodies, or 28.8% of the total, had the technical facilities that allowed them to link up with the system of electronic exchange of documents with the Bank of Russia.

Pursuant to the 2002 Federal Budget Law (Article 51), the Bank of Russia in 2002 contin-

ued to transfer Russian regions subsidised from the Federal Fund for Assistance to Russian Regions and their budgets to the cash service of the Finance Ministry's Federal Treasury bodies. As of January 1, 2003, 1,092 bodies of the Finance Ministry's Federal Treasury had 1,109 accounts opened for them to service regional budgets and 1,261 bodies had 1,436 accounts opened for them to service local budgets.

In accordance with the applicable federal legislation, the Bank of Russia manages the accounts of the government extrabudgetary funds. As of January 1, 2003, Bank of Russia institutions managed the accounts of 1,530 Pension Fund bodies, 865 Social Insurance Fund bodies, the Compulsory Medical Insurance Fund and 500 regional compulsory medical insurance funds. A total of 5,239 accounts were opened for these government social extrabudgetary funds.

In 2002, as a result of the improvement of banking sector liquidity and persistent efforts made by the Bank of Russia in prudential supervision over credit institutions, there was a contraction in credit institutions' debt on payments to budgets of all levels and government extrabudgetary funds because of a lack of funds in their correspondent accounts. The debt on credit institutions' client payments and own payments decreased by 474 million rubles, or 13.9%, to 2,930 million rubles as of January 1, 2003, of which the debt of operating credit institutions contracted by 150 million rubles, or 5.5%, to 2,600 million rubles. It should be noted that 99.9% of the debt (2,598 million rubles) was owed by credit institutions that as of January 1, 2003, were under the control of ARCO. In addition, one operating bank owed a debt to the budget, so in December 2002 the Bank of Russia disciplined it by prohibiting it from transferring funds to budgets of all levels and government extrabudgetary funds on behalf of legal entities for six months.

II.7. CASH ISSUE MANAGEMENT

The purpose of cash issue operations conducted by the Bank of Russia was to fulfil the tasks and functions assigned to it in organising cash circulation in Russia.

According to the cash issue balance sheet, as of January 1, 2003, there were 816,537.0 million rubles of Bank of Russia 1997 notes and coins in circulation, of which 809,553.7 million rubles were in notes and 6,983.3 million rubles in coins, including coins made of precious metals. Banknotes accounted for 99.1% of the total amount of cash in circulation and coins 0.9%. The amount of cash grew by 192,134.5 million rubles, or 30.8%, in 2002.

Growth in the amount of cash in circulation had objective causes: it was the result of the expansion of cash turnover brought about by nominal money income and consumer price increases. According to preliminary data released by the State Statistics Committee, or Goskomstat, money income rose 27.7% in 2002, while wage increased 35%. In 2002, the share of wage expanded to 66.2% of money income against 64.6% in 2001. The share of wage in GDP also expanded: from 42.7% in 2001 to 46.4% in 2002.

Thus, the amount of cash in circulation matched the needs of the economy and population in cash amid the expanding market for goods and services, which used cash as a means of payment.

A rise in money income and consumer price increases in 2002 changed the note structure of cash in circulation: the share of 10-, 50-, 100-

and 500-ruble notes contracted by 15.8 percentage points over the year.

At the same time, the number of 1,000-ruble notes in circulation continued to increase in 2002 and the share of these notes expanded to 30.7% of the total amount of banknotes in circulation as of January 1, 2003, against 14.9% as of January 1, 2002.

When analysing the note structure of cash in circulation, the Bank of Russia forecast and organised the production of banknotes and coins and ensured their regular delivery to reserve funds in the amounts that met fully and on time the needs of the economy and population in cash. Bank of Russia institutions never failed to pay out cash in 2002.

Acting in compliance with the Provision on the Procedure for Taking and Sending the Russian Currency from and to the Russian Federation, dated October 6, 1993 (with changes and amendments), the authorised banks in 2002 brought Russian currency to and took Russian currency from Ukraine, the Republic of Belarus, Republic of Azerbaijan, Republic of Armenia, Kyrgyz Republic and Georgia. Those operations were necessary to provide cash rubles for the correspondent accounts of non-resident banks and their cash departments, which supplied enterprises and organisations with the rubles they needed for their travel expenses, and supply cash rubles to the exchange offices opened in the above states. A total of 2,840 million rubles were brought to Russia and 287 million rubles were taken out of

CHANGE IN AMOUNT OF CASH IN CIRCULATION IN 2002 (billion rubles)

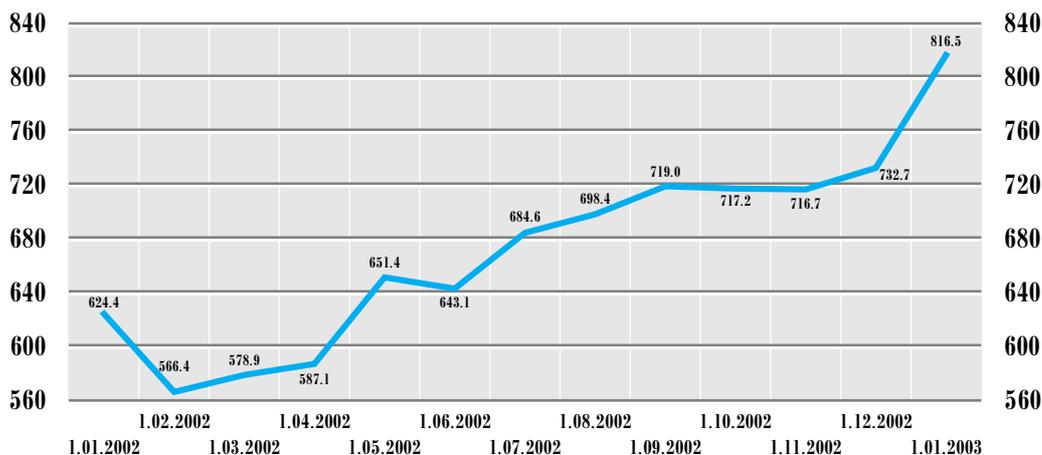


Chart 52

CASH GROWTH IN 2001 AND 2002 (%)

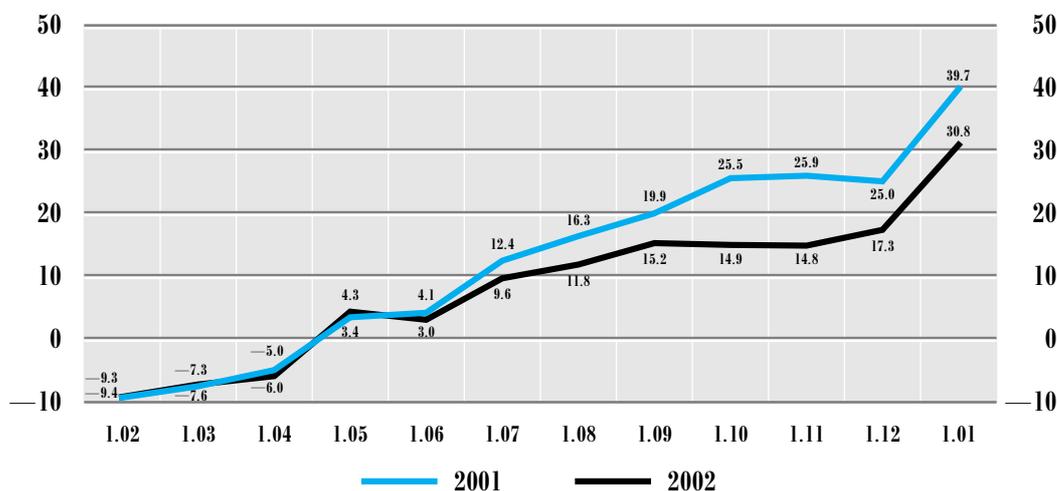


Chart 53

Russia (in 2001, 540 million rubles and 238 million rubles respectively).

In compliance with the Russian Federation President's Decree No. 1387, dated December 3, 2001, "On Amending the Russian Federation President's 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 on December 31, 2002, ended the exchange of Bank of Russia 1993 notes and their 1994 modifications, 1995 notes, USSR and Bank of Russia 1961—1996 coins and USSR 1-, 2- and 3-kopeck coins minted before 1961 for Bank of Russia 1997 notes and coins for private individuals.

Old currency with a new nominal value of 27.8 million rubles was presented for exchange

in the year under review against 45.1 million rubles in 2001. In all, in the period from 1998 to 2002 old currency with a new nominal value of 135,977.2 million rubles was withdrawn from circulation. This represents 99.2% of the amount that was in circulation by the beginning of the exchange (January 1, 1998).

In accordance with the corresponding agreements, Bank of Russia institutions provided cash services to 5,533 credit institutions and their branches and 123,826 organisations that were not credit institutions but were entitled to such services under the applicable federal laws and Bank of Russia regulations. There were no complaints from clients about the cash services provided by Bank of Russia institutions.

**DYNAMICS OF DETECTION
OF COUNTERFEIT BANK OF RUSSIA
NOTES AND COINS (pieces)**

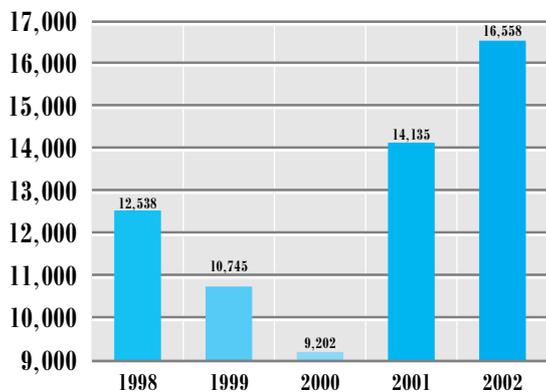


Chart 5A

The Bank of Russia attached great importance to the improvement of the quality of cash issue management in its branches and divisions. Therefore, it organised conferences, meetings to exchange experience and the training of specialists with cash settlement centres and cash issue divisions of Bank of Russia regional branches. Scheduled inspections of cash issue management and audits of valuables were conducted and letters of complaint were sent to Bank of Russia institutions after them. The number of cash errors committed by Bank of Russia institutions in 2002 fell by 11.8% year on year, while their amount increased 34.4%.

The Bank of Russia provided its branches and divisions and credit institutions with cash operation methodologies and regulations. It improved the provision of cash services by Bank of Russia institutions to branches of credit institutions that had no correspondent subaccounts in cash settlement centres, additional offices of credit institutions and their branches and budget funds managers and recipients with personal accounts in Federal Treasury bodies. The Bank of Russia revised the procedure for conducting cash operations in credit institutions from the viewpoint of establishing the levels of technical strength of the offices where credit institutions conducted operations with valuables, increasing the role and responsibility of managers of credit institutions with regard to security of credit institutions and their employees and widening the range of software systems permitted for use by credit institutions in handling cash.

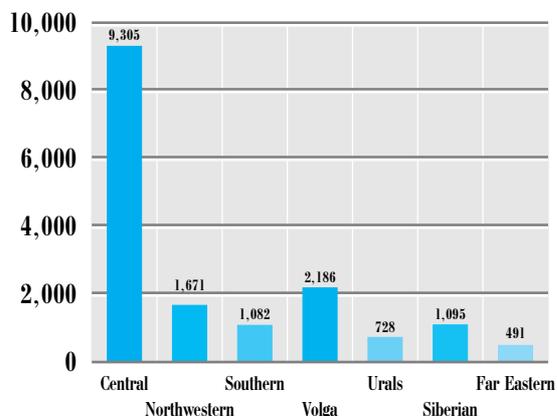
Bank of Russia institutions verified the paying capacity of Bank of Russia and foreign banknotes and coins. In 2002, the number of expert examinations of Bank of Russia banknotes and coins, conducted by Bank of Russia institutions, was roughly the same as in 2001 (about 1,300,000). Most of the expert examinations were conducted with the aim of determining whether damaged Bank of Russia banknotes and coins retained their paying capacity and could be exchanged for good banknotes and coins. Bank of Russia experts examined 18,000 foreign banknotes sent by credit institutions for examination and 363 Bank of Russia and foreign banknotes and coins at the request of law enforcement agencies.

The number of counterfeit Bank of Russia notes and coins detected by the Russian banking system and passed to the Interior Ministry bodies rose 17.1% year on year (in 2001, year on year growth amounted to 53.6%). The increase resulted from a rise in the number of counterfeit 1,000-ruble and 500-ruble banknotes. Most of the banknotes forged in 2002 were 500-ruble and 100-ruble banknotes and the 5-ruble coin. Most of the counterfeit banknotes and coins were detected in the Central Federal District (56.2% of the total number of counterfeit banknotes and coins detected in Russia).

In 2002, the value of counterfeit Bank of Russia notes and coins discovered by credit institutions accounted for 54.5% of the total value of detected counterfeit Bank of Russia notes and coins, a decrease of 2.7% from 2001.

Bank of Russia institutions and credit institutions detected and passed on to Interior Ministry bodies 9,401 counterfeit foreign banknotes, a decrease of 1.1% from 2001. As before, most of the counterfeit banknotes were US banknotes: counterfeit US banknotes detected in the year under review accounted for 99.3% of the total number of detected counterfeit foreign banknotes. Most of the counterfeit US banknotes were \$100 bills, which accounted for 92.8% of the total number of counterfeit US banknotes. There is evidence of a great diversity of counterfeit US banknotes. Most of the forgeries are of poor quality, but 16.1% of the total number of counterfeit US banknotes are so good that a non-specialist can hardly recognise them as forgeries.

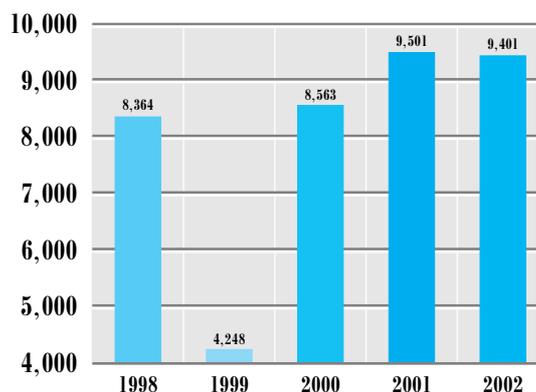
DYNAMICS OF COUNTERFEIT BANK OF RUSSIA NOTES AND COINS IN FEDERAL DISTRICTS (pieces)



Measures were taken to enhance the efficiency of co-operation between the Bank of Russia and law enforcement agencies in combating counterfeiting. In addition to quarterly analytical reports, the Bank of Russia sent to the Interior Ministry materials on the detection of especially dangerous counterfeit Bank of Russia notes in the banking sector.

In 2002, the Bank of Russia continued to mechanise and automate cash operations, supplying its regional branches with new cash handling equipment and automated cash issue machines,

DYNAMICS OF DETECTION OF COUNTERFEIT FOREIGN BANKNOTES (pieces)



Charts 55, 56

and modernise the existing cash processing equipment. It began to test some future models of cash counting and sorting equipment.

In 2002, the Bank of Russia continued to issue commemorative coins. In all, it issued 54 commemorative coins, including 12 gold coins with a total circulation of 70,100 (in 2001, it issued seven commemorative gold coins with a total circulation of 11,800), 32 silver coins with a circulation of 298,500 (in 2001, it issued 18 silver coins with a circulation of 130,300) and 10 coins made of non-precious metals with a circulation of 50.0 million (in 2001, it issued three such coins with a circulation of 50.0 million).

II.8. INTERNATIONAL CO-OPERATION

II.8.1. CO-OPERATION BETWEEN THE BANK OF RUSSIA AND INTERNATIONAL FINANCIAL AND ECONOMIC ORGANISATIONS

In the year under review, the Bank of Russia continued to co-operate with the International Monetary Fund (IMF), World Bank Group, Bank for International Settlements (BIS), European Bank for Reconstruction and Development (EBRD) and some other international organisations.

It participated in the meetings of the International Monetary Committee and Development Committee (April) and in the annual meeting of the **International Monetary Fund and World Bank** (September) devoted to the resolution and prevention of financial crises, the implementation of a debt relief proposal for the poorest nations and measures to combat money laundering and terrorist financing.

The Bank of Russia continued to co-operate with the IMF and World Bank missions to enhance the efficiency of Bank of Russia open-market and other monetary operations, the use of the monetary policy instruments and assistance given to financial market development and upgrading foreign exchange regulation and the payment system. The sides also worked together in implementing the joint IMF-World Bank programme to evaluate the state of the Russian financial sector (analysis and evaluation of the contents of published data on the financial sector, compatibility

of the Russian banking supervision system with the Basel Committee's core principles for effective banking supervision, the code of good practice for transparent monetary and financial policy, stress testing of Russian banks, building a deposit insurance system and compliance with the core principles by the most important payment systems of the country).

As part of its technical assistance programme, the IMF provided consulting services to the Bank of Russia on the establishment of credit bureaus, internal control and early warning systems to detect problems in credit institutions at the early stages.

Guided by its monetary policy priorities and following IMF recommendations, the Bank of Russia made the decision to transform and upgrade the system of monetary policy instruments it used, emphasising the comprehensive use of market instruments designed to manage credit institutions' current liquidity more efficiently. It took into consideration the experience gained by the IMF in building an automated system of daily monitoring and forecasting of banking sector liquidity levels.

The Bank of Russia exchanged information with the IMF in order to build an electronic database on banking regulation laws and publish data

in the IMF's *International Financial Statistics*. Taking into consideration the economic situation in the country and the current state of economic statistics, the Bank of Russia urged the Finance Ministry and State Customs Committee to reconsider the issue of Russia's official accession to the IMF Special Data Dissemination Standard (SDDS) and take steps to ensure the full compliance of economic data disseminated by Russia with SDDS requirements. To this end, the Bank of Russia complemented its foreign debt statistics by data on the amount of Russia's foreign debt broken down into different currencies and repayment terms.

The Bank of Russia conducted jointly with the IMF and World Bank a seminar for employees of the Bank of Russia, Ministry of Finance, Federal Securities Commission and State Statistics Committee to spell out the proposals of international financial organisations for elaborating and implementing standards and codes in various sectors of the economy.

At the proposal of the IMF, the Bank of Russia took part in the discussion of the IMF-drafted statistical reporting forms of the IMF member countries, which are to be introduced in accordance with the new Monetary and Financial Statistics Manual.

The Bank of Russia discussed with the World Bank issues pertaining to the use of funds and the extension of the term of the loan granted to finance the development of financial institutions and prospects for the implementation of the programme to assist the development of small and medium-sized banks within the framework of the corresponding World Bank project.

The World Bank provided technical assistance to the Bank of Russia on issues pertaining to supervision on the basis of risk evaluation in accordance with international standards and using foreign expertise, the functions fulfilled by the curators of credit institutions, the improvement of the capital calculation by preventing the use of various "padding" schemes and the financial analysis of the banks participating in the deposit insurance system. A seminar was held with the participation of the World Bank to discuss its report "Building Trust: Developing the Russian Financial Sector."

The Bank of Russia Chairman regularly participated in central bankers' meetings in the **Bank**

for International Settlements (BIS), which discussed prospects for the world economy and financial markets, the role of accounting and reporting in enhancing the efficiency of the financial system, sovereign debt and the role of monetary policy in facilitating economic growth and preventing financial crises. Bank of Russia representatives took part in the work of the BIS Committee on Payment and Settlement Systems and the Basel Committee on Banking Supervision. The Bank of Russia collaborated with the BIS in writing the Red Book on Russian Payment Systems. The preparatory stage of the project to provide access to the Bank of Russia to the electronic system for the exchange of information between central banks and the BIS was implemented and when the project is completed, the Bank of Russia will be able to use statistical and analytical material from the BIS database. The Bank of Russia also closely co-operated with the BIS in creating the time series of indicators on Russia for their presentation to the BIS.

The Bank of Russia continued to prepare evaluation reports on the Russian projects of the **European Bank for Reconstruction and Development** (EBRD) at the request of the Russian Economic Development and Trade Ministry, participated in the Council meetings of the **International Investment Bank** and **International Bank for Economic Co-operation** and was in constant contact with the Finance Ministry on matters relating to the further development of these two banks.

The Bank of Russia participated in the negotiations with the leadership of the **Inter-American Development Bank** (IADB) on the conditions on which Russia could join the IADB and on the provision of technical assistance by the IADB for the establishment of a CIS regional development bank and took part in the conclusion of a framework agreement between Russia and the **European Investment Bank** (EIB) on the latter's activities in this country.

The Bank of Russia continued to establish closer ties with other Group of Eight central banks. Bank of Russia senior executives took part in the Group of Eight meetings of finance ministers and central bankers held in Ottawa, Canada, in February and Washington, D.C., in September.

The Bank of Russia participated in implementing the interagency plan for Russia's participation in Group of Eight activities, carrying out the decisions of the Group of Eight summit in Genoa, Italy, and making preparations for the Group of Eight summit at Kananaskis, Canada.

The Bank of Russia Chairman took part in the **Group of 20** finance ministers and central bankers meeting, held in New Delhi, India, in November, where Russia presented the report "Measures to Ensure Financial Stability: Internal Economic Policy Conditions Necessary for the Recovery of International Capital Flows."

At the 16th meeting of the **Consultative Council on Foreign Investment in Russia**, held in September, the Bank of Russia presented the report "Banking Sector and Financial Market Developments in Russia."

The Bank of Russia was also represented at the meetings of **Asia-Pacific Economic Co-operation** (APEC) deputy finance ministers and central bankers held in Washington, D.C., in April and Los Cabos, Mexico, in September.

Involved in the process of negotiating Russia's accession to the **World Trade Organisation** (WTO), the Bank of Russia took part in the talks with WTO member countries on financial services and in drafting a report on the results of these talks. As the Russian government stepped up its negotiating activity, the Bank of Russia and the Russian Economic Development and Trade Ministry made changes in Russia's proposals on financial services in the course of the negotiations. At the end of 2002, the Bank of Russia actively conducted negotiations on financial services with more than 20 WTO member countries.

The Bank of Russia participated in drafting Russian proposals for the Monterrey Consensus Document, the final document of the **International Conference on Financing for Development**, held under the aegis of the **United Nations** (UN) in Monterrey, Mexico, in March.

The Bank of Russia regularly sent statistical data to the **UN Economic Commission for Europe** and the **Organisation for Economic Co-operation and Development**.

II.8.2. CO-OPERATION BETWEEN THE BANK OF RUSSIA AND FOREIGN COUNTRIES AND THEIR CENTRAL (NATIONAL) BANKS AND BANKING SUPERVISORY AUTHORITIES

In maintaining co-operation with foreign countries and their central (national) banks, the Bank of Russia sought to advance Russia's foreign trade interests and create favourable conditions for the development of interbank co-operation.

It actively co-operated with the National Bank of the Republic of Belarus within the framework of the **Union State Treaty** of December 8, 1999, the Russian-Belarusian agreement on a single currency and issuing centre and the agreement between the governments and central banks of the two countries on measures to create conditions conducive to the introduction of a single currency, signed on November 30, 2000.

This work was co-ordinated with the Interbank Monetary Council of the National Bank of the Republic of Belarus and the Bank of Russia. In 2002, the Council held four meetings to discuss, among other things, the implementation of the monetary policy guidelines of the two countries in 2001 and 2002 and major objectives for 2003, issues pertaining to the harmonisation of the principles of monetary and foreign exchange policy and foreign exchange regulation and foreign exchange control and the practices of the central banks and banking systems of the two countries. A bilateral balance of payments and a consolidated balance of payments of Russia and Belarus were drafted and a draft model of the Union State's payment system was agreed. At present, the Council is working on proposals for the use of the Russian ruble as the sole form of legal tender in Belarus after 2005.

On June 4, 2002, the governments and central banks of the two countries approved a joint plan of actions for the introduction of a single currency of the Union State in the period from 2001 to 2005. The Bank of Russia and the National Bank of the Republic of Belarus adopted a detailed programme for the implementation of the

provisions of the above plan within the purview of the two banks.

In 2002, the Bank of Russia completed the disbursement of a 4.5-billion-ruble loan to the National Bank of the Republic of Belarus, which was extended under the interbank credit line agreement of December 15, 2000, to stabilise the exchange rate of the Belarussian ruble against the Russian ruble.

The council of the central bankers of the member countries of the Eurasian Economic Community, an organisation created to promote integration in monetary, financial, payment, settlement and interbank relations, held three meetings in 2002. The aim of the council is to ensure co-ordination of actions regarding investments in the economies of the member countries, simplify the procedure for opening accounts in the national currencies, harmonise the rules for taking foreign exchange in and out of the member countries and train personnel.

The Bank of Russia actively participated in the work of the CIS **Interstate Monetary Committee**. As regards the results of the work of this organisation in 2002, mention should be made of the adoption on April 26 of the Memorandum on Guidelines for Co-operation in Monetary Relations and the creation of a working group to study the possibility of using the EU experience in monetary and financial integration in CIS conditions. The Committee continued to draft proposals for implementing the concept of a CIS common banking services market and the draft concept of co-operation and co-ordination of actions of the CIS member countries in monetary and financial relations. The Committee is currently discussing with the CIS International Association of Exchanges and central banks the idea of creating an integrated exchange environment for the CIS member countries.

The Bank of Russia continued to assist the development of the **Interstate Bank (ISB)**. In

2002, the Bank of Russia Chairman was re-elected Chairman of the ISB Council. One of the major objectives of the ISB Council is to reform the bank so that the member countries can use it as a settlement and payment centre and to build up its investment potential. New Articles of Association of the ISB were drafted and amendments were prepared to the Agreement on the Establishment of the Interstate Bank, dated January 22, 1993, in which the tasks and functions of the bank were updated.

The Bank of Russia co-operated with non-CIS states in 2002 in the form of bilateral co-operation between central banks and interbank commissions and working groups and through participation in bilateral intergovernmental commissions on trade, economic, scientific and technological co-operation. The Bank of Russia also took part in negotiations on drafting bilateral intergovernmental agreements, discussing issues within its competence.

The Bank of Russia continued to promote its long-standing ties with the central banks of China, India and Vietnam and broadened its contacts with the central banks of Egypt, Indonesia, South Africa and some Western European countries.

The Russian-Chinese Sub-Commission on Interbank Co-operation held its third meeting in May and as a result of the accords reached at that meeting, the Bank of Russia and the People's Bank of China signed the Agreement on Co-operation in Countering Legalisation of Criminally Obtained Incomes and Terrorist Financing, the agreement on foreign exchange control and the Agreement on Interbank Settlements in Cross-Border Trade.

Interbank co-operation continued between Russia and Vietnam within the framework of the permanent Working Group on Banking Co-operation between the Central Bank of the Russian Federation and the State Bank of Vietnam. At the second meeting of the Working Group, held in July 2002, the discussion between the parties focused on ways of expanding the network of correspondent relations between Russian and Vietnamese commercial banks, using advanced internationally accepted forms of settlements.

The visit of a delegation of Russian bankers to Egypt in October 2002 resulted in the signing of the Memorandum of Understanding between the

Central Bank of the Russian Federation and the Central Bank of Egypt. Simultaneously, seminars on the Russian banking legislation and a presentation of seven Russian banks were held in Cairo and Alexandria.

In December 2002, Bank of Russia representatives participated in the Moscow roundtable "Russia-Egypt: New Horizons of Co-operation and Prospects for the Future," organised by the Egyptian embassy.

In 2002, the Bank of Russia continued to seek better conditions and forms of co-operation with foreign supervisory authorities. In October, it signed the Memorandum of Understanding in the Field of Banking Supervision with the Latvian Commission for the Financial and Capital Markets.

A new version of the Agreement on Co-operation in Banking Supervision with the Central Bank of Armenia was drafted and the Bank of Russia and the National Bank of the Republic of Kazakhstan drafted a protocol on amendments to the banking supervision agreement between the two banks.

The Bank of Russia invited the UK Financial Services Authority, the US Federal Reserve Board and the Swiss Federal Banking Commission to return to the discussion of the issue of signing agreements on co-operation in banking supervision (in the form of a memorandum of understanding or a statement of co-operation).

In 2002, the Bank of Russia considered draft memorandums of understanding in the field of banking supervision it received from the Banking Regulation and Supervision Agency of the Turkish Republic, the Banking Supervision Commission of the Republic of Poland and the National Bank of Slovakia and prepared comments and proposals on them.

The Bank of Russia closely co-operated with foreign experts who were stress testing the Russian banking sector within the framework of the Financial Sector Assessment Programme (FSAP), carried out in Russia by the IMF and World Bank. Stress testing is a means of evaluating stability of the banking sector under adverse external influences, such as general economic shocks or abrupt changes in price factors, interest rates and exchange rates.

In July 2002, the Banking and Financial Sub-Group of the Russian-Indian Intergovernmental

Commission on Trade, Economic, Scientific, Technological and Cultural Co-operation held its seventh meeting, after which India's EXIM Bank and Vneshtorgbank signed an agreement on the opening of a \$25-million credit line for Vneshtorgbank.

In July 2002, the Bank of Russia organised a roundtable in St. Petersburg within the framework of the Sub-Group to discuss ways of expanding business co-operation between Indian commercial banks and credit institutions based in the Northwestern region of Russia.

Bank of Russia representatives also took part in the work of the Russian government commission on co-operation with the European Union and mixed commission on economic co-operation between Russia and the Belgium-Luxembourg Economic Union, which discussed, among other things, ways to im-

prove the forms of interbank co-operation and credit relations.

In compliance with the Russian Government Resolution of June 9, 2001, the Bank of Russia and the Economic Development and Trade Ministry and other government ministries and agencies concerned took part in negotiations with 11 countries (Bulgaria, Belgium, Guinea, Indonesia, Iceland, Yemen, Malta, China, the Netherlands, Thailand and Finland) on the drafting of intergovernmental agreements on the encouragement and mutual protection of capital investments. Such agreements have been signed with Yemen and Thailand.

The Bank of Russia continued to co-operate with the EU European Commission within the framework of the TACIS programme in assisting the implementation of the accounting and reporting reform in the banking sector.

II.9. UPGRADING THE BANK OF RUSSIA SYSTEM AND ENHANCING ITS EFFICIENCY

II.9.1. THE BANK OF RUSSIA ORGANISATIONAL STRUCTURE AND MEASURES TAKEN TO IMPROVE IT

In 2002, the Bank of Russia continued to upgrade its organisational structure, carry on the work that has been conducted over the past few years. Taking into consideration the tasks assigned to it, the Bank gradually and consistently carried out the reform of the system of its structural units. At the same time, the efficiency of the existing organisational structure and its ability to adapt itself to the changing conditions allowed the Bank of Russia to avoid radically overhauling this system.

The Bank of Russia had slightly to increase its personnel to enable it to fulfil its functions successfully. In 2002, as in the previous year, the Bank of Russia personnel expanded by a little more than 1%. It managed to cope with the increased workload and broader functions without making any greater increases by eliminating overlapping functions and raising the qualification level of its employees and their labour productivity.

As the task of building a stable banking system capable of meeting the needs of the expanding economy was still on the agenda, the Bank of Russia was encouraged to rationalise its supervisory procedures and hence make significant changes in its supervisory divisions.

In 2002, it set up the Main Inspectorate of Credit Institutions with the purpose of introducing new inspection procedures and co-ordinating the activities of regional inspectorates.

At the same time, the Bank of Russia reviewed the functions of its supervisory divisions. The Main Inspectorate of Credit Institutions (MICI) was assigned the function of organising, providing the methodology for and conducting inspections of credit institutions, while the Banking Regulation and Supervision Department was made responsible for the methodological and organisational aspects of banking regulation and supervision of current activities of credit institutions.

The liberalisation of the foreign exchange legislation required the Bank of Russia to merge its departments responsible for monitoring compliance with this legislation by economic agents. The Foreign Exchange Regulation Department and Foreign Exchange Control Department were reorganised into the Department for Foreign Exchange Regulation and Foreign Exchange Control, a measure that allowed the Bank of Russia to cut the size of its staff.

The change in the tax legislation regarding the Bank of Russia (the law that allowed the Bank

of Russia not to register with the tax authorities was repealed) confronted it with a number of new tasks, such as calculating the taxable base and the amounts of taxes and duties to be paid, submitting reports to the tax authorities, co-ordinating the activities of its units in this area, etc. To deal with these matters, the Bank of Russia formed the Tax Division within its Financial Department and increased the number of specialists in its regional branches. As a result, the Bank of Russia staff increased by 200. Some other departments of the Bank of Russia central office underwent minor changes.

The Bank of Russia regional branches in 2002 carried through a vast amount of work, supervising banks, analysing the economic and financial situation in their respective regions, overseeing foreign exchange operations, regulating banking sector liquidity in their respective regions, introducing advanced information technologies, ensuring the security of information and expanding the scope of statistical observations. A slight increase in the number of employees was necessary for the successful implementation of these tasks. Staff was expanded in the Bank of Russia branches in the Murmansk, Samara, Saratov and Chelyabinsk Regions, the national banks (Bank of Russia regional branches) of the Republic of Dagestan and Udmurt Republic and some other regional branches.

The development of the Russian payment system remains one of the priorities of the Bank of Russia. Significant growth in the number of payments, brought about by a rise in business activity, increased the workload on the employees of Bank of Russia settlement divisions and hence the Bank of Russia had to increase their number slightly.

The Bank of Russia attached great importance to issues relating to the organisation of cash circulation: some time ago it expanded the range of standard procedures designed to detect and withdraw from circulation counterfeit and worn banknotes. At the same time, the use of advanced software systems allowed the Bank of Russia not only to meet the increased demand for settlement

services, but also cut the number of cash settlement centres. Three cash settlement centres were closed in 2002.

The Bank of Russia developed the infrastructure of its settlement network not only to increase its productivity and accelerate settlements, but also to ensure their security. The protection of the settlement network and other elements of the Bank of Russia information and telecommunications system from unauthorised access remained one of the Bank of Russia's priorities. To improve the methods of the cryptographic conversion of data, modernise software systems and replace the electronic digital signature devices in the payment, information, analysis, archive and other systems, the Bank of Russia increased the staff of its computer software and hardware divisions.

In fulfilling the function of providing banking services to military units and other national security bodies and servicemen, conferred on it by the law, the Bank of Russia in 2002 opened three field institutions in areas where Russian troops were deployed.

To cut costs involved in the safe keeping of valuables, the Bank of Russia reorganised the system of interregional depositories in Moscow and St. Petersburg, creating one interregional depository in each of the two cities instead of several depository units. The merger made it possible to cut the managerial staff and the staff of auxiliary services.

The implementation of measures designed to increase the security of Bank of Russia facilities also required a slight increase in the number of employees.

As of January 1, 2003, the Bank of Russia system comprised the central office, 59 branches, 19 national banks (regional branches), the office of the Bank of Russia representative in the Chechen Republic, 1,165 cash settlement centres, five departments and one operations department of the Moscow branch, field institutions and cash management divisions and divisions ensuring the functioning of the Bank of Russia. The average number of Bank of Russia employees rose to 82,712 in 2002 from 81,841 in 2001.

II.9.2. CO-ORDINATING THE ACTIVITIES OF BANK OF RUSSIA REGIONAL BRANCHES

In the year under review, the Bank of Russia co-ordinated the activities of its regional branches in order to improve banking supervision and enhance its efficiency, upgrade and strengthen the Russian banking system, combat money laundering, ensure the efficient and uninterrupted functioning of the payment system, exercise foreign exchange control, organise and conduct the monitoring of enterprises and participate in the implementation of the single state monetary policy.

The Bank of Russia co-ordinated the activities of its regional branches by issuing regulations and recommendations on various aspects of banking, holding seminars and conferences on crucial issues relating to the activities of the Bank of Russia and organised visits by central office specialists to inspect regional branches and help them accomplish their tasks and fulfil their functions.

In 2002, the Bank of Russia continued to co-ordinate the activities of its regional branches, while spreading the practice of extending loans to banks against collateral and guarantees. It organised meetings with specialists of its regional branches involved in effecting this refinancing procedure, explaining to them its main principles and practical implications.

In accordance with the decision of the Bank of Russia Board of Directors, the new refinancing procedure was adopted in the fourth quarter of 2002 by the Bank of Russia branches in the Moscow Region, Krasnoyarsk Territory, Vladimir, Kursk, Nizhni Novgorod, Novosibirsk, Ryazan and Saratov Regions and the Republics of Altai, Bashkortostan and Khakasia.

In the year under review, the Bank of Russia and its regional branches continued to monitor enterprises. To co-ordinate these activities, the Bank of Russia forwarded to its regional branches Provision No. 186-P, dated March 19, 2002, "On Monitoring Enterprises by the Bank of Russia." Nearly 14,000 enterprises in virtually all Russian regions, except the Chechen Republic,

had been covered by the Bank of Russia monitoring programme by the end of 2002.

The monitoring conducted by the Bank of Russia with the purpose of collecting information for analysis relating to the major aspects of its activity includes monthly surveys of factory and plant managers, who are asked to comment on the latest economic developments, and quarterly surveys of the investment activity of enterprises.

In the second half of 2002, the Bank of Russia launched a new stage of the enterprise monitoring programme, approved by its Order No. R-442, dated September 20, 2002, "On Measures to Prepare for the Practical Application of the Bank of Russia Monitoring of Enterprises in the Interests of the Banking Community." Its objective was to put into practice the concept of building on the basis of a single, permanent and independent database of the Bank of Russia a comprehensive information system to collect, process, analyse and provide to banking services market participants data on the demand for banking services, the economic situation and investment activity. This system is to be complemented by information provided by banks on the services they offer.

The programme aims at giving the above system the form of a Bank of Russia information pool entitled "Monitoring of Enterprises and their Demand for Banking Services." The pool is to be based on the current enterprise monitoring mechanism, which will be complemented by advanced information technologies.

In 2002, the Bank of Russia co-ordinated the activities of its regional branches from the viewpoint of building a system to monitor the activities of the Bank of Russia regional branches. The aim of such monitoring is to analyse and evaluate the performance of the Bank of Russia regional branches in order to determine their current standing and trends in the development of each branch and the Bank of Russia regional branch network as a whole. The Bank of Russia tested a

system of indicators characterising the scale and efficiency of its regional branches.

In the year under review, the Bank of Russia continued to develop methodologies and instruments of analysis designed to enhance the efficiency of its regional branch network. It worked on methodologies of evaluating the amount of work carried out by regional branches in various areas and determining whether the staffing levels of their divisions corresponded to the amount of work they performed.

In doing this work, the Bank of Russia took into account the experience of some foreign central banks in promoting the development and optimising their regional branch networks. It studied the functions and organisational structure of regional branches of different levels, relations between the central office and regional branches, the management, co-ordination and control of their activities and staffing levels and their correspondence to the amounts of work performed by individual elements of the regional branch network.

II.9.3. STAFFING AND PERSONNEL TRAINING

The aim of personnel management in the Bank of Russia in 2002 was to upgrade the procedure for selecting, placing and professional training of specialists and the efforts it made to this end led to the improvement of the quality of Bank of Russia personnel.

In the year under review, the Bank of Russia staffing level rose 1.7% to 99.7% of the required number as of January 1, 2003. The number of executives and specialists with a higher professional education increased 3.3% and they accounted for 66.6% of the total number of Bank of Russia employees. In 2002, more than 1,500 specialists graduated from higher education establishments, where they studied without giving up their work, mostly in professions of primary importance for the Bank of Russia — finance and credit, accounting, analysis and audit and law.

The number of executives and specialists who had worked in the banking system for more than three years rose 0.7% and more than 15 years 1%.

In 2002, the Bank of Russia introduced standard forms of documents relating to personnel management and revised its labour relations with employees to bring them into compliance with the Russian Federation Labour Code, which came into effect on February 1, 2002. The Bank of

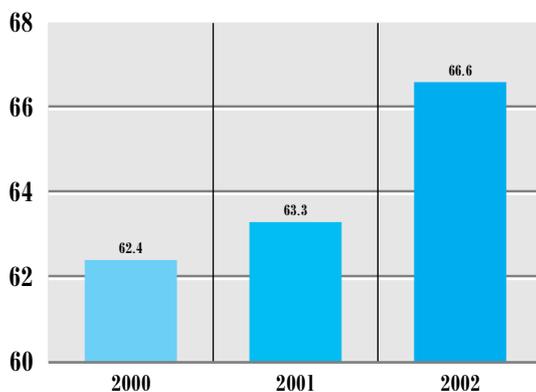
Russia elaborated a number of regulations arising from the requirements of the Labour Code and issued methodological recommendations on how to apply them.

Raising the qualifications of Bank of Russia employees was a major element of personnel management in the Bank of Russia. The Bank of Russia upgraded the methods of organising personnel training to ensure that the level of professional training of specialists met the qualification requirements of the positions they held.

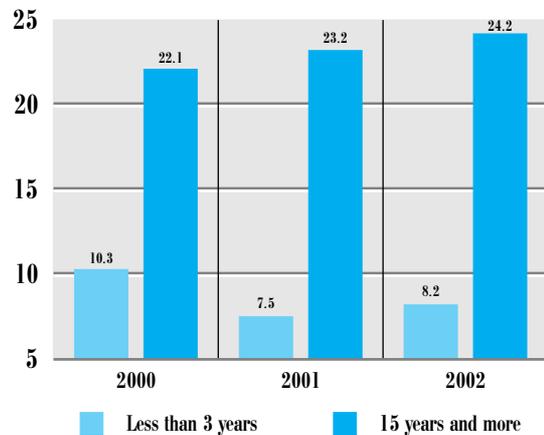
The main objective of personnel training in the Bank of Russia in 2002, as in previous years, was to implement supplementary vocational training programmes. In 2002, the Bank of Russia implemented on the basis of its banking schools (colleges) and training centres 189 instruction programmes, including 125 thematic seminars, 49 advanced training courses and 15 courses of advanced training for executives, which covered 8,650 employees of the Bank of Russia regional branches and central office.

In addition, the Bank of Russia banking schools (colleges) and instruction centres carried out their own training programmes with their own syllabuses.

NUMBER OF EXECUTIVES AND SPECIALISTS WITH PROFESSIONAL HIGHER EDUCATION
(as % of actual number)



DYNAMICS OF CHANGE IN STRUCTURE OF BANKING SECTOR PERSONNEL IN TERMS OF LENGTH OF WORK
(as % of actual number)



Charts 57, 58

The total number of specialists who received advanced training in Bank of Russia banking schools and training centres amounted to 16,910 in 2002.

A total of 3,917 specialists with the computer, telecommunications, security and data protection services received advanced training in specialised institutions and instruction centres.

To facilitate the implementation of the Banking Sector Development Strategy and create an entirely new staff of specialists capable of modernising the banking system, the Bank of Russia drew up its first ever programme for re-training bank supervisors, which was launched in 2002. The training programmes implemented in collaboration with the Russian Government's Economic Academy and the Higher School of Economics combine vocational and business training designed to fulfil the task of organising a contemporary system of banking supervision.

In the year under review, the Bank of Russia widely used the opportunities offered by co-operation with foreign central banks and international organisations, institutes and training centres within the framework of technical assistance for personnel training. Six hundred and seventy Bank of Russia specialists participated in 113 international training programmes in Russia and abroad.

Seminars designed to prepare the banking system for the implementation of the anti-laundering legislation, held by the US Financial Services Volunteer Corps, and devoted to Russian payment system development (Banque de France and Deutsche Bank) and banking regulation and the

**ADVANCED TRAINING OF SPECIALISTS
IN BANK OF RUSSIA BANKING SCHOOLS
AND INSTRUCTION CENTRES IN 2002**
(as % of total number of trainees)

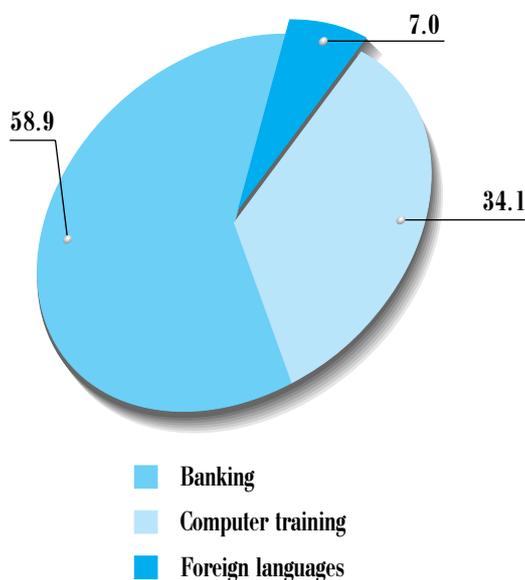


Chart 59

enhancement of the efficiency of banking supervision (World Bank) were of great practical importance.

In the year under review, the Bank of Russia continued to strengthen professional ties with CIS and EAEC central (national) banks in the field of personnel training. It implemented 20 international training projects that involved 145 representatives of CIS central (national) banks.

II.9.4. BANK OF RUSSIA ACTIVITIES AIMED AT IMPROVING BANKING LEGISLATION. SUITS AND CLAIMS IN BANK OF RUSSIA INSTITUTIONS

The efforts made by the Bank of Russia to upgrade banking legislation were aimed at strengthening the legislative framework for the further development of the banking system.

The most important law for the Bank of Russia passed last year was the new Federal Law on the Central Bank of the Russian Federation (Bank of Russia) (hereinafter referred to as the Bank of Russia Law). It is the fundamental document establishing the status, purposes, functions and powers of the Bank of Russia.

Of all the new points in this Federal Law, mention should be made, above all, of the change it made in the structure of the Bank of Russia's management by increasing the role of the National Banking Board.

Article 12 of the Bank of Russia Law stipulates that the National Banking Board is a collegiate body of the Bank of Russia comprised of 12 members, of whom two represent the Federation Council, three the State Duma, three the President of the Russian Federation, three the Russian Federation Government and one is the Bank of Russia Chairman.

The National Banking Board has a wide range of powers and it can exert considerable influence on the activities of the Bank of Russia. The most significant powers of the National Banking Board are its right to approve on the basis of the Board of Directors' proposals the level of personnel costs for the next year and expenses on pension, life and medical insurance of Bank of Russia employees, capital investments and other administrative and business expenses. The National Banking Board has the right to decide on Bank of Russia participation in the capital of credit institutions, appoint the chief auditor of the Bank of Russia and consider his reports, select an audit firm to audit Bank of Russia annual financial statements, approve at the proposal of the Board of Directors accounting and reporting rules for the Bank of Russia and approve at the proposal of the Board of Directors the procedure for creating Bank of Russia provisions and allocating Bank of Russia profit that remains at the disposal of the Bank of Russia.

As for other new points, Article 7 of the Bank of Russia Law established the forms of regulations issued by the Bank of Russia on matters within its competence and stipulated the general rule that all Bank of Russia regulations, not just those which immediately affect citizens' rights, freedoms and duties, as the old version of the law stipulated, must be registered with the Ministry of Justice in accordance with the procedure established for the state registration of bylaws issued by the federal bodies of executive power.

In addition, the Bank of Russia Law specified the functions fulfilled by the Bank of Russia and the powers conferred on its managerial bodies, i.e., the Board of Directors and the Bank of Russia Chairman, and established the procedure for compiling and presenting the Bank of Russia annual report and guidelines for the single state monetary policy. The Bank of Russia Law also granted to the Bank of Russia the right to establish required ratios not only for credit institutions, but also banking groups.

In understanding that the upgrading of the mechanism to prevent "dirty money" from penetrating the banking system and preventing the use of the infrastructure of law-abiding credit institutions for the financing of terrorism and extremism are tasks of national importance, the Bank of Russia in 2002 actively participated in upgrading the **Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes** (hereinafter referred to as the Anti-Laundering Law). This work resulted in the passing of two federal laws that amended the Anti-Laundering Law being adopted.

The Federal Law on Amending Russian Federation Laws in Connection with the Adoption of the Federal Law on Countering Extremist Activities supplemented the list of operations subject to mandatory control under Article 6 of the Anti-Laundering Law.

In addition, significant amendments to the Anti-Laundering Law were made by the Federal Law on Amending the Federal Law on Counter-

ing the Legalisation (Laundering) of Criminally Obtained Incomes, which came into force on January 3, 2003.

These amendments to the Anti-Laundering Law included regulations designed to prevent the financing of terrorism, extended the range of organisations conducting operations with money or other property that must provide information on these operations to the FMC, reviewed and supplemented the range of operations subject to mandatory control and established the grounds for the inclusion of organisations and individuals in the list of legal entities and private individuals implicated in extremist activities.

In addition, credit institutions were granted the right in the cases stipulated by the law to refuse to conclude a bank account (deposit) agreement with a private individual or legal entity and organisations conducting operations with money and other property were granted the right to refuse to fulfil a client's order to conduct operations (except for the operations to enter funds to an account) on which no documents necessary for the recording of data were presented.

Special mention should be made of the **new Federal Law on Insolvency (Bankruptcy)**, one of the federal laws in the drafting of which the Bank of Russia was actively involved in 2002. This law provided a basis for establishing a new procedure and creating conditions for the implementation of measures to prevent insolvency (bankruptcy) and a procedure and conditions for conducting bankruptcy proceedings and regulating other relations arising from the debtor's inability to meet all the creditors' claims.

In addition, the Bank of Russia drafted in collaboration with federal government agencies a new version of the **Russian Federation Law on Foreign Exchange Regulation and Foreign Exchange Control**, which is to become a fundamental document designed to help significantly liberalise the current foreign exchange regime. The corresponding draft federal law was submitted by the Government to the State Duma on December 31, 2002.

One of the key draft laws on which the Economic Development and Trade Ministry jointly worked with the Bank of Russia, Ministry of Finance and Ministry of Justice throughout 2002 is the draft **Federal Law on Household Bank Deposit Insurance**, which sets out the basic prin-

ciples of building and operating a system of mandatory household deposit insurance.

The fundamental objective of such a system, which also meets the interests of the banking system, is to develop a mechanism to protect household savings deposited with Russian credit institutions. The projected deposit insurance system will facilitate the formation of a sound resource base for long-term lending to the economy.

The following draft federal laws, written with the participation of the Bank of Russia, were considered by the State Duma in 2002: the **draft Federal Law on Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and the draft Federal Law on Amending Russian Federation Laws in Connection with the Adoption of the Federal Law on Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions**.

The first of the two draft laws is designed to revise and improve the following legal mechanisms:

- 1) to enhance the efficiency of bank bankruptcy-prevention measures and establish procedures for their instant implementation;
- 2) to upgrade bank bankruptcy procedures with the purpose of building a comprehensive system of financial and legal protection of creditors' interests.

The draft law aims to establish additional disciplinary measures against bank managers and owners in the event of a threat of bankruptcy in order to compel them to take immediate and effective financial rehabilitation measures and protect the interests of creditors and depositors.

The draft law also provides additional grounds for the appointment of a provisional administration to a credit institution.

In addition, experience in applying the Federal Law on Insolvency (Bankruptcy) of Credit Institutions showed that the institute of the receiver (liquidator) as an individual entrepreneur in the banking sector was weak and inefficient.

The Banking Sector Development Strategy provides for the establishment of the institute of the corporate liquidator of banks whose licences have been revoked. Hence the draft law confers the function of liquidating banks that took household savings on deposit on the Agency for the Restructuring of Credit Organisations (ARCO). Other credit institutions will be liquidated by

specialised agencies accredited with the Bank of Russia. The draft law establishes qualification requirements for such organisations.

The second draft law provides for making amendments that conform with the first draft law in the Federal Law on Banks and Banking Activities, the Federal Law on the Restructuring of Credit Institutions and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). It aims to ensure the comprehensive implementation of the concept of the corporate liquidator of credit institutions.

Special mention should be made of the work carried out by the Bank of Russia in 2002 to draft amendments to the **Federal Law on Banks and Banking Activities** (hereinafter referred to as the Banking Law), which is the fundamental document establishing the structure of the Russian banking system.

A major aspect of this work is the drafting of **amendments to the Banking Law that would guarantee the Bank of Russia as the banking supervisory authority the provision of the necessary information on the real owners of a credit institution.**

That would allow the Bank of Russia, as the banking supervisory authority, to receive credible information on persons who exert direct influence on the functioning and, consequently, financial state of a credit institution. At present the Bank of Russia has limited powers in this area.

Another purpose of the efforts to amend the Banking Law is **to reduce the minimum amount of shares (stakes) in a credit institution whose acquisition requires notification of the Bank of Russia or its permission.**

At present Bank of Russia permission is required for the purchase of more than 20% of shares (stakes) in a credit institution and the Bank of Russia must be notified about any purchase of more than 5% of shares (stakes) in a credit institution.

The draft federal law under consideration now provides for reducing the amount of shares (stakes) whose purchase requires Bank of Russia permission from 20% to 10% and the amount of shares whose purchase requires notifying the Bank of Russia from 5% to 1%.

In addition, the Bank of Russia in 2002 actively participated in **drafting amendments to the Federal Law on the Protection of Competition**

on the Financial Services Market, designed to upgrade the legal framework for the development of competition on the banking services market, specifying definitions of such terms as “an unjustifiably high or low price of a financial service,” “the dominant position of a credit institution” and “a group of persons.” It also took part in the work conducted by the Finance Ministry to draft a new version of the Federal Law on Accounting, which provides for creating legislative conditions conducive to Russia’s conversion to international accounting standards.

In 2002, the Bank of Russia issued more than 170 regulations, some of which changed and amended its previous regulations. The Bank of Russia also made consistent efforts to streamline and harmonise its regulations and other documents and issued the corresponding ordinances to this effect.

In 2002, the Bank of Russia issued five official clarifications on various aspects of banking regulations.

CLAIMS AND SUITS

IN BANK OF RUSSIA BRANCHES

A total of 769 property claims to the amount of more than 680 million rubles and over 10,000 US dollars were made against Bank of Russia regional branches in 2002, of which only 50 claims to the amount of 3.5 million rubles were met.

These figures show that most of the claims and suits made against the Bank of Russia regarding the servicing of credit institutions’ correspondent accounts and the recovery of funds at the request of depositors of credit institutions were unjustified and could not be met.

In 2002, courts of common law considered 66 claims against the Bank of Russia regarding labour relations.

Some Bank of Russia decisions to penalise credit institutions were disputed and out of the 26 such claims to the total amount of 1,834,000 rubles nine claims to the amount of 948,000 rubles were met.

Bank of Russia branches, for their part, made claims and suits in fulfilling their supervisory functions. They made 1,106 claims against banks to the amount of 46.9 million rubles and initiated 131 suits to the amount of 8.02 million rubles, of which 1,077 claims and suits were satisfied to the amount of 40.3 million rubles.

II.9.5. BANK OF RUSSIA INTERNAL AUDIT

Bank of Russia internal audit services were guided in their activities by a plan approved by the Bank of Russia Chairman and ensured the conduct of comprehensive inspections and thematic examinations of Bank of Russia institutions, organisations and managerial structures.

In 2002, 99.7% of all Bank of Russia institutions and organisations that draw up their own balance sheets were subjected to some form of control; of these, 637 Bank of Russia institutions (44.2%) were subjected to comprehensive inspections. Two centralised inspections of the entire Bank of Russia system were conducted in the year under review: one was concerned with pensions and other benefits provided to former employees of the Bank of Russia and life insurance of some categories of Bank of Russia employees, and the other focused on the organisation of regulation and supervision of credit institutions' activities on the securities market and settlements on operations with government securities and other papers.

Audits and inspections helped discover various shortcomings, many of which were eliminated in the course of audits and inspections. Employees of the Bank of Russia Chief Auditor's division made sure that the shortcomings discovered by inspections and audits were eliminated fully and on time.

All inspection and audit reports were examined by management of the Bank of Russia or its regional branches and appropriate action was taken on them. Auditors and inspectors sent 1,340 letters of complaint to Bank of Russia executives, containing practical recommendations on what they should do to improve their performance and eliminate shortcomings; in 129 cases orders were issued to punish executives, of whom

five were dismissed, 13 demoted and 305 disciplined in other ways; 1,485 employees had their bonus payments cancelled or reduced.

The Bank of Russia management was informed about the results of the aforementioned centralised inspections of the Bank of Russia system, consolidated reports were drafted for the heads of the corresponding divisions of the Bank of Russia central office and summary letters were sent to the managers of Bank of Russia regional branches.

The Bank of Russia Internal Audit Department in 2002 continued to make sure that the shortcomings discovered by the inspections of the Bank of Russia system in the previous years were eliminated: in 2000 such inspections concerned capital investments and in 2001 the relations between Bank of Russia regional branches and credit institutions.

In 2002, the Bank of Russia continued to upgrade the organisation of the internal audit services and the methodologies used by it. The heads of the Bank of Russia regional branches were provided with recommendations on ways to improve their work and adopt new approaches to the organisation of internal audit. The Bank of Russia drafted and sent to all its regional branches "Methodological Recommendations on Conducting Inspections of Bank of Russia Regional Branches with Regard to Control over the Activities of Credit Institutions on the Securities Market and Settlements on Operations with Government Securities."

In the year under review, the Bank of Russia paid great attention to training employees of the Bank of Russia Chief Auditor's Division: 17% of its staff took a course of advanced training, organised by the Bank of Russia Personnel Training Centre and Internal Audit Department.

II.9.6. BANK OF RUSSIA PARTICIPATION IN CAPITAL OF RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

In the year under review, the Bank of Russia participated in the capital of the Savings Bank (Sberbank), which is an open-end joint-stock company, and until October 2002 it had participated in the capital of Vneshtorgbank (Bank for Foreign Trade), also an open-end joint-stock company. These two banks are of strategic importance for the national economy.

The Bank of Russia participated in managing and controlling these two banks through its representatives in their bodies of management and control (supervisory boards and auditing commissions) in proportion with its stakes in these banks.

In 2002, the Bank of Russia stake in **Sberbank** remained unchanged at 60.57%. The dominant position of government and Bank of Russia representatives in the Sberbank Supervisory Board and Auditing Commission guaranteed the state effective control over Sberbank's activities. The duties and powers of the Sberbank Supervisory Board were considerably expanded in 2002 from the viewpoint of control over Sberbank's current activities and that facilitated the implementation of the provisions of the Banking Sector Development Strategy requiring the enhancement of control over the bank's commercial policy.

Sberbank's activities in the year under review were conducted in compliance with the Concept of Sberbank's Development until the Year 2005, approved by the Supervisory Board.

Sberbank performed the socially important function of ensuring the fulfilment of the state's obligations to citizens (servicing Russia's domestic government debt, transferring taxes, duties and utility payments and paying pensions, allowances, etc.). In fulfilling this socially important mission, Sberbank retained a system of benefits for citizens of pension age, whose deposits account for more than 60% of the bank's ruble deposits. Understanding the importance of the social aspect of the rehabilitation programme for the Chechen Republic, Sberbank resumed its operations there in 2002.

A major element of Sberbank's active operations was extending loans to big corporate clients, including enterprises in the fuel and energy sector, the metallurgy sector, chemical industry and other industries. In 2002, Sberbank diversified the services it provided to corporate clients, expanding into new spheres such as trust management of securities and underwriting. In the period under review, Sberbank attached great importance to lending to small and medium-sized businesses within the framework of the programme for assistance to Russian small business and extending loans to private individuals.

The financial result of Sberbank's activities in 2002 was a balance sheet profit of 36 billion rubles, an increase of 70% on the previous year. The dividends for 2001 received by the Bank of Russia from Sberbank amounted to 602.4 million rubles.

Pursuant to Article 8 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Article 1081 of the 2002 Federal Budget Law, the Bank of Russia passed its **Vneshtorgbank** shares to the Government in exchange for permanent coupon-income federal loan bonds (OFZ-PD) due in 2012.

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia participates in the capital of other organisations of importance for its activities.

To be able to operate effectively on the domestic foreign exchange and organised securities markets, the Bank of Russia holds interest in the capital of the Moscow Interbank Currency Exchange (MICEX), a closed-end joint-stock company, and National Depository Centre (NDC), a non-profit partnership.

In the year under review, the Bank of Russia increased its stake in **MICEX** by 3.9 percentage points to 22.23% after acquiring MICEX shares from credit institutions whose licences were revoked. MICEX diversified its services in 2002 by enabling traders to conduct repo operations with

corporate securities and transactions with eurobonds.

The Bank of Russia stake in the NDC remained unchanged in 2002 at 49% as of January 1, 2003. In the period under review, the NDC upgraded its techniques of providing depository services to professional securities market participants regarding the safe keeping and registering the owners of GKO and OFZ bonds, regional and municipal government bonds and corporate securities.

Taking into consideration the importance of the city of St. Petersburg as the country's second largest financial centre and the technical infrastructure of the St. Petersburg Currency Exchange (SPCEX) and wishing to use it as a reserve exchange trading floor, the Bank of Russia Board of Directors decided that the Bank of Russia should participate in the capital of the St. Petersburg Currency Exchange, a closed-end joint-stock company. Therefore, in June 2002 the Bank of Russia bought 151 SPCEX shares, or 10% of the exchange's authorised capital.

The profits for 2001 made by MICEX, NDC and SPCEX went to promote the development and upgrade the technical infrastructure of these organisations.

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

Under the applicable Russian legislation, the Bank of Russia participates in the capital of the Russian overseas banks in accordance with Article 8 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which stipulates that any actions with regard to the

stakes in the capital of these banks should be undertaken by the Bank of Russia in agreement with the Russian Government. Under Article 13 of the above Federal Law, it is up to the National Banking Board to take decisions regarding the Bank of Russia participation in the capital of credit institutions.

Guided by the objectives of the Banking Sector Development Strategy and the new version of the Law on the Central Bank of the Russian Federation, the Bank of Russia continues gradually to withdraw from the capital of overseas banks.

The Bank of Russia has a 15% stake in the Donau-bank (Vienna) and East-West United Bank (Luxembourg). It has retained its blocks of shares in these banks at the recommendation of the host country supervisory authorities. The Bank of Russia stake in Ost-West Handelsbank (Frankfurt am Main) is 51.62%, Eurobank (Paris) 87.03% and Moscow Narodny Bank (London) 88.89%.

In 2002, the Bank of Russia gradually created conditions for its withdrawal from the capital of overseas banks. Specifically, it held meetings and consultations with host country supervisory authorities, took steps to make these banks more independent financially and less dependent on the Bank of Russia's financial support, looked for acceptable Russian and foreign investors and considered various share disposal options. In the period under review, the Bank of Russia continued to legalise its right of ownership for the shares of overseas banks that were held by tradition by a number of Soviet and Russian legal entities, known as "nominee shareholders."

The Russian overseas banks were profitable by and large and have a sound financial standing.

The middle-term Banking Sector Development Strategy, elaborated by the Government and Bank of Russia, provides for a gradual withdrawal by the Bank of Russia from the capital of overseas banks by selling the remaining shares it holds. At the same time, the Bank of Russia believes that its stakes should be sold without harming the economic interests of the country.



**BANK OF RUSSIA
FINANCIAL STATEMENTS
AS OF JANUARY 1, 2003**



INTRODUCTION

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

The makeup of the Bank of Russia financial statements (hereinafter referred to as the financial statements) has been changed in compliance with this Law.

The financial statements as of January 1, 2003, presented below comprise:

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

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

- to protect the ruble and ensure its stability;
- to upgrade and strengthen the Russian banking system;
- to ensure the effective and uninterrupted functioning of the settlement system.

The monetary policy pursued by the Bank of Russia in 2002, designed to reduce the rate of inflation and ensure smooth dynamics of the ruble’s exchange rate, facilitated the maintenance of economic growth, ensured monetary and financial stability and led to the expansion of Russia’s international reserves.

In the year under review, as economic growth continued, the amount of payments increased and the share of monetary settlements expanded, the Bank of Russia ensured the reliable, uninterrupted and safe functioning of the payment system.

The effect of the economic environment on the Bank of Russia financial statements is described in greater detail in Addendum 2 to the Bank of Russia Financial Statements as of January 1, 2003.

ANNUAL BALANCE SHEET

AS OF JANUARY 1, 2003

(million rubles)

	Note	2002	2001
ASSETS			
1. Precious metals		49,365	58,288
2. Foreign currency funds and securities placed with non-residents	3	1,427,298	1,003,315
3. Loans and deposits, of which:	4	216,481	248,758
3.1. loans extended to resident organisations		1,924	10,712
3.2. loans intended for foreign debt service		197,063	192,224
4. Securities, of which:	5	379,931	328,782
4.1. Russian government securities		348,025	263,708
5. Other assets, of which:	6	71,260	74,097
5.1. fixed assets		55,896	50,711
Total assets		2,144,335	1,713,240
LIABILITIES			
1. Cash in circulation		817,602	625,495
2. Funds in accounts with Bank of Russia, of which:	7	820,542	690,900
2.1. Russian government funds		271,301	121,746
2.2. funds of resident credit organisations		420,847	316,840
3. Float	8	8,390	4,211
4. Other liabilities	9	133,070	150,322
5. Capital, of which:		364,731	242,312
5.1. authorised capital		3,000	3
5.2. reserves and funds		370,713	263,752
5.3. losses for 1998		(8,982)	(21,443)
Total liabilities		2,144,335	1,713,240

Bank of Russia Chairman

Sergei M. Ignatiev

Bank of Russia Chief Accountant

Lyudmila I. Gudenko

PROFIT AND LOSS ACCOUNT

		<i>(million rubles)</i>	
	Note	2002	2001
INCOME			
Interest income	11	46,914	36,549
Income from operations with securities	12	17,780	20,358
Income from operations with precious metals		17,534	35,396
Dividend received from stakes and shares		1,249	1,028
Net income from recovery of provisions	13	24,046	—
Other income	14	5,253	3,407
Total income		112,776	96,738
EXPENSES			
Interest expenses	15	8,189	8,124
Expenses on cash circulation management	16	2,767	2,597
Expenses on operations with precious metals		437	284
Net expenses on making provisions		—	26,367
Other operating expenses	17	22,628	20,228
Personnel costs		28,870	21,055
Total expenses		62,891	78,655
Financial result: profit		49,885	18,083

CAPITAL, FUNDS AND PROFIT ALLOCATION

(million rubles)

	Authorised capital	Reserves	Accrued exchange rate differences	Social fund	Depreciation of fixed assets	Other funds	Losses for 1998	Allocation of profit for 2002	Total
Balance as of January 1, 2002	3	19,769	233,011	2,501	8,335	136	(21,443)	—	242,312
Profit for the year								49,885	49,885
Allocation of profit for 2002:									
Taxes and duties paid								(40)	(40)
To be transferred to federal budget								(24,923)	(24,923)
Allocated to funds		(2,997)						(12,461)	(15,458)
Transferred to cover losses for 1998							12,461	(12,461)	—
Accrued exchange rate differences			97,945						97,945
Allocated to funds	2,997	11,465		996		1			15,459
Used at the expense of funds				(308)	(120)	(21)			(449)
Balance as of January 1, 2003	3,000	28,237	330,956	3,189	8,215	116	(8,982)	—	364,731



NOTES TO THE FINANCIAL STATEMENTS AS OF JANUARY 1, 2003

1. ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES

Accounting and financial reporting is conducted by the Bank of Russia 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 above federal laws.

(a) Accounting principles

Accounting is conducted in accordance with the principle of making the accounting of balance-sheet items at their initial cost at the time of the assets' acquisition or when liabilities arise. The principles of revaluation of individual assets and liabilities are set out below.

(b) Financial reporting principles

These financial statements have been compiled on the basis of the balance sheet data of the Bank of Russia, including its regional branches and institutions that make up the single Bank of Russia system.

These financial statements have been compiled without including data on Russia- and foreign-based credit and other institutions in whose authorised capital the Bank of Russia has a stake (see Note 5).

These financial statements have been compiled in millions of Russian rubles, abbreviated as Rbs m. Figures in brackets denote negative values.

(c) Precious metals

Precious metals are shown at their acquisition cost. Precious metals in deposits and unallocated metal accounts with non-resident credit institutions are recorded at their acquisition cost and included in the "Foreign currency funds and securities placed with non-residents" category.

(d) Foreign currency assets and liabilities

Foreign currency assets and liabilities are shown in Russian rubles at the official rates of exchange of foreign currencies against the Russian ruble set by the Bank of Russia (hereinafter referred to as the official exchange rates) as of the date of compiling the balance sheet. Foreign currency assets and liabilities are revalued daily at the official rates of exchange. Incomes and expenses on Bank of Russia foreign currency operations are shown on 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 course of revaluation of assets and liabilities are recorded in the balance-sheet account "Accrued Exchange Rate Differences" and are not included in the Profit and Loss Account. Realised exchange rate differences are included in Bank of Russia incomes or expenses.

The official rates of exchange used in recalculating foreign currency assets and liabilities on the last business day, December 31, 2002, were as follows: 31.7844 rubles to the US dollar (2001: 30.14 rubles to the dollar) and 33.1098 rubles to the euro (2001: 26.49 rubles to the euro).

(e) Securities

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia has the right to buy and sell on the open market government securities issued by the Ministry of Finance. The following principles were used in accounting of government securities:

- government securities in the investment portfolio are recorded at their acquisition (restructuring) price;

- government securities in the trade portfolio are revalued at the average weighted price upon the results of trading;

- Finance Ministry promissory notes are recorded at their acquisition price.

In addition, the following accounting principles are used with regard to other securities in the Bank of Russia portfolio:

- foreign government securities are recorded at their acquisition price;
- bank promissory notes are recorded at their acquisition price.

Promissory notes that have not been paid when due and have not been protested are recorded at their acquisition price, taking into account the discount and interest.

(f) Investment

Bank of Russia investments in the authorised capital of credit and other institutions based in Russia and abroad are recorded at their acquisition price.

(g) Loans extended to credit institutions

Loans extended to credit institutions are shown as part of the principal debt, while provisions made for credit risk are counted as part of other liabilities.

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

To protect its assets against the risk of depreciation, the Bank of Russia, using generally accepted banking practice, makes provisions for possible losses on loans extended to credit institutions, for devaluation of investments in securities and for other active operations it conducts in rubles and foreign currency. Bank of Russia provisions are made from deductions referred to Bank of Russia expenses. When loans are repaid, deposits returned and promissory notes paid and the quality of assets improves or their risk becomes less, the provisions made for them earlier are recovered to the Bank of Russia incomes.

(i) Fixed assets

Fixed assets are shown at their residual value (the purchase price plus revaluation minus the amounts of accumulated depreciation).

Bank of Russia fixed assets have been revalued pursuant to Russian government resolutions.

Depreciation is charged at the official rates of depreciation on the basis of USSR Council of Ministers Resolution No. 1072, dated October 22, 1990, "On Standard Rates of Depreciation Charges for the Complete Restoration of Fixed Assets of the National Economy of the USSR:"

	%
Buildings	1.2—3
Equipment (including computers, furniture, transport, etc.)	5—20

(j) Cash in circulation

The Bank of Russia is the sole issuer of cash and organiser of its circulation. The banknotes and coins put into circulation are shown in the balance sheet at their face value.

(k) Capital

The capital of the Bank of Russia is composed of:

- authorised capital. Under Article 10 of Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia has an authorised capital of 3 billion rubles;

— various reserves and funds created to enable the Bank of Russia to fulfil the functions conferred on it by Federal Law No. 86-FZ, dated July 10, 2002, “On the Central Bank of the Russian Federation (Bank of Russia).” The sources and uses of the reserves and funds are shown in the Statement of Bank of Russia Reserves and Funds.

After 1999 the “Capital” item has served to account for the amount of uncovered losses incurred in 1998 owing to the devaluation of the Bank of Russia government securities portfolio.

(l) Recognition of Bank of Russia income and expenses

Income and expenses are presented in the Profit and Loss Account on a cash basis, i.e., after income has been actually received and expenses have been actually completed.

(m) Balance sheet profit

Balance sheet profit is presented in the Profit and Loss Account under the heading “financial result: profit” as the difference between the sum of income received and expenses made on the main and side activities of the Bank of Russia.

(n) Taxation of the Bank of Russia

Taxes and duties are paid by the Bank of Russia and its organisations in accordance with the Tax Code of the Russian Federation. The Bank of Russia elaborates the accounting policies for the purposes of taxation.

2. THE EFFECT OF THE ECONOMIC ENVIRONMENT ON BANK OF RUSSIA FINANCIAL STATEMENTS

The overall favourable foreign trade situation for Russia in 2002, which brought about a massive inflow of foreign exchange to the country and the efforts made by the Bank of Russia to further reduce inflation, facilitate economic growth and ensure monetary and financial stability, had a significant effect on the Bank of Russia’s balance sheet and financial standing.

Taking into consideration the increased uncertainty about the state of the world economy and Russia’s considerable forthcoming foreign debt payments, the Bank of Russia continued to accumulate gold and currency reserves in order to maintain a stable and balanced domestic financial market in the year under review and in the near future. In the year under review, foreign currency funds became the main asset in the Bank of Russia consolidated balance sheet. At the same time, owing to the Bank of Russia’s purposeful efforts to contain money supply growth and hence reduce inflation, the share of cash put into circulation remained virtually unchanged in the consolidated balance sheet liabilities.

The need to tie up free banking sector liquidity, which expanded as the inflow of foreign currency export earnings to the country increased and the intrayear budget expenditure pattern remained uneven during the year under review, required the Bank of Russia actively to use sterilisation measures and that led to a rise in its expenses on these purposes.

Growth in Russian exporters’ earnings, facilitated by the exchange rate policy, was accompanied in 2002 by the expansion of the balances of credit institutions’ funds in accounts in the Bank of Russia. It should be noted that most of that growth was tied up in the required reserve accounts and credit institutions’ deposits with the Bank of Russia. Thanks to a federal budget surplus, the balances of funds in government accounts in the Bank of Russia more than doubled.

Owing to the decision by the Bank of Russia to withdraw from the capital of some banks, the value of shares of subsidiary and dependent banks in the Bank of Russia portfolio declined by almost 40 billion rubles. The value of government securities owned by the Bank of Russia rose significantly as a result of the exchange of Vneshtorgbank shares for Russian government securities.

The settlement of the Finance Ministry's debt to the Bank of Russia, conducted according to market principles, has not yet been completed, however. In 2002, the Finance Ministry failed to use the right granted to it by law to restructure the securities received by the Bank of Russia as a result of the 1999—2000 restructuring into variable coupon-income federal loan bonds and that limited the possibilities of the Bank of Russia to effect monetary regulation by conducting open-market operations because of a low level of liquidity of its securities portfolio. The losses of the past years incurred by the Bank of Russia as a result of the financial crisis of 1998 on account of the government securities in its portfolio have not been redressed and the Bank of Russia regularly covers them from its profit.

The profit made by the Bank of Russia in 2002 was more than in 2001, which was mainly the result of incomes that arose from the recovery of the provisions that were earlier made by the Bank of Russia owing to the repayment of debts owed to it. At the same time, incomes from the investment of gold and currency reserves and sale of precious metals, which were the main sources of profit for the Bank of Russia in 2001, significantly decreased in the year under review as a result of interest rate cuts and the deterioration of the situation on international financial markets.

3. FOREIGN CURRENCY FUNDS AND SECURITIES PLACED WITH NON-RESIDENTS

	<i>(million rubles)</i>	
	2002	2001
Foreign government securities	802,528	593,954
Loans extended to and deposits made with Bank of Russia subsidiaries abroad	39,756	38,711
Balances in correspondent accounts, loans extended to and deposits made with non-resident banks	585,014	370,650
Total	1,427,298	1,003,315

Debt instruments and bills issued by foreigners are mainly represented by US treasury bills, German, French, Belgian and Dutch government debt instruments and debt instruments of extrabudgetary funds and federal agencies of the above states. In 2002, the Bank of Russia also purchased debt securities issued by the governments of Austria, Spain, Finland and Ireland and a number of international financial organisations, including the International Bank for Reconstruction and Development, European Investment Bank, International Finance Corporation and Inter-American Development Bank.

Loans extended to and deposits placed with Bank of Russia overseas banks are investments designed to maintain the financial stability of these banks.

Growth under the item "Balances in correspondent accounts, loans extended to and deposits placed with non-resident banks" resulted from the expansion of currency reserves.

4. LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	2002	2001
Funds provided to government for foreign debt service	197,063	192,224
Loans and deposits in resident banks (in foreign currency)	10,807	44,140
Loans extended to resident banks (in rubles)	1,924	10,712
Other	6,687	1,682
Total	216,481	248,758

In pursuance of Federal Law No. 192-FZ, dated December 29, 1998, “On Budget and Tax Policy Priorities” and Federal Law No. 36-FZ, dated February 22, 1999, “On the Federal Budget for 1999,” the Bank of Russia in 1998 and 1999 extended to the Finance Ministry through Vneshekonombank foreign-currency funds for foreign debt repayment and service. In 2002, the Finance Ministry repaid 2,319 million rubles to the Bank of Russia in debt on the funds provided by the Bank of Russia to the Finance Ministry in Deutsche marks for urgent foreign debt payment and service, which was converted into a euro-denominated debt due on January 30, 2002. In pursuance of Federal Law No. 145-FZ, dated December 25, 2000, “On Amending the 2000 Federal Budget Law in Connection with the Receipt of Additional Revenues,” the term of repayment of the Finance Ministry’s debt to the Bank of Russia on funds provided through Vneshekonombank in US dollars for urgent foreign debt repayment and service was extended to December 1, 2007. Increment under this item was the result of the revaluation of foreign currency against the Russian ruble.

Foreign currency deposits were placed with some resident banks to back up their liquidity. Decrease under this item is mainly the result of the closing of some deposits.

The principal amount of the debt on ruble loans to resident banks is represented by the funds extended to banks by the Bank of Russia in 1998—1999 in compliance with the corresponding decisions taken by the Bank of Russia Board of Directors with the aim of stabilising and rehabilitating these banks. The reduction of the debt on ruble loans extended to resident banks in rubles is mainly the result of the restructuring of the 6,500-million-ruble debt into bank promissory notes and repayment of 2,289 million rubles of debt on loans.

Increment under the “Other” item is mainly the result of the disbursement of the second and third tranches of a loan extended to the National Bank of the Republic of Belarus along the credit line opened in 2000.

5. SECURITIES

	<i>(million rubles)</i>	
	2002	2001
Russian government securities		
Government securities (OFZ)	277,587	232,079
of which:		
— investment portfolio (not traded on organised securities market)	237,183	232,079
— trade portfolio (traded on organised securities market)	40,404	—
Finance Ministry promissory notes	11,021	15,457
Other	59,417	16,172
Subtotal	348,025	263,708
Bank promissory notes acquired by Bank of Russia	12,390	5,623
	12,390	5,623
Shares of banks and other organisations (Bank of Russia stakes)	19,516	59,451
Total	379,931	328,782

The federal loan bonds (OFZ) in the investment portfolio are Russian government debt instruments with terms to redemption from 2005 to 2029, most of which (85%) have terms to redemption from 2018 to 2029.

Most of the OFZ bonds resulted from the restructuring of government securities and other debts in 1999—2001 in accordance with the 1999, 2000 and 2001 federal budget laws. The characteristics of these securities, such as interest rates and terms to redemption of each issue, are established by law. The securities received from the Finance Ministry as a result of the restructuring have been accounted for at the balance sheet value of the restructured papers.

The structure of the investment portfolio in terms of coupon income and maturity as of January 1, 2003, is shown below:

Federal loan bonds (OFZ)	Balance sheet value (million rubles)
0% permanent coupon-income OFZ bonds	
due in 2007—2008	458
due in 2015—2016	4,000
due in 2020—2021	4,508
Subtotal	8,966
1% permanent coupon-income OFZ	
due in 2005	10
due in 2019—2023	3,843
Subtotal	3,853
2% permanent coupon-income OFZ	
due in 2005—2009	284
due in 2013—2019	39,643
due in 2020—2029	155,861
Subtotal	195,788
6% permanent coupon-income OFZ	
due in 2012	14,117
Subtotal	14,117
Variable coupon-income OFZ (with current interest rate of 12%)	
due in 2014—2015	9,639
due in 2018	4,820
Subtotal	14,459
Total	237,183

To regulate banking sector liquidity, the Bank of Russia in 2002 began to conduct direct repo operations and sell government securities with an obligation to repurchase.

The Bank of Russia sold the following government securities with an obligation to repurchase:

- OFZ with 6% permanent coupon income;
- OFZ with 12% variable coupon income.

The structure of the Bank of Russia trade portfolio in terms of coupon income and maturity as of January 1, 2003, is shown below:

Types of GKO and OFZ bonds (OFZ)**Balance sheet value**
(million rubles)

OFZ bonds with 6% permanent coupon income due in 2012	27,481
OFZ bonds with variable coupon income (currently 12%) due in 2016—2017	9,640
GKO and OFZ bonds purchased in direct repo operations	3,283
Total	40,404

The debt accounted for in the item “Bank promissory notes acquired by Bank of Russia” comprises the bank promissory notes acquired in 1998—2000 from Sberbank in accordance with the decision of the Bank of Russia Board of Directors. Sberbank repaid deposits taken from individuals and promissory notes received by the Bank of Russia in 2001—2002 under amicable agreements. The change in the debt on the bank promissory notes acquired by the Bank of Russia is mainly the result of the restructuring under amicable agreements of the debt on bank loans and deposits into bank promissory notes to the amount of 6,975 million rubles and repayment of promissory notes to the amount of 208 million rubles.

Bank of Russia investments in the shares of Russian and foreign banks are shown below:

Name of bank	Sum of investment (at acquisition price)	<i>(million rubles)</i>
		% share in authorised capital (at par)
Sberbank	4,563	60.57
Moscow Narodny Bank, London	7,330	88.89
Eurobank, Paris	4,219	87.03
Ost-West Handelsbank, Frankfurt am Main	1,180	51.62
Donau-bank, Vienna	361	15.00
East-West United Bank, Luxembourg	152	15.00
Total	17,805	—

Letters of comfort were signed with regard to some overseas banks, pledging the Bank of Russia to assume responsibility for maintaining stability and liquidity of the above banks.

Pursuant to Article 108¹ of Federal Law No. 194-FZ, dated December 30, 2001, “On the Federal Budget for 2002,” the Bank of Russia in 2002 exchanged the Vneshtorgbank shares in its portfolio for permanent coupon-income federal loan bonds (OFZ-PD).

The increase in the sum of Bank of Russia investments in the capital of foreign banks is the result of the revaluation of foreign currency against the Russian ruble.

6. OTHER ASSETS

	<i>(million rubles)</i>	
	2002	2001
Fixed assets		
Buildings	28,537	27,662
Equipment (including computers, information and data processing systems, furniture, transport, etc.)	27,359	23,049
	55,896	50,711
Incomplete construction projects	3,148	2,260
Bank of Russia correspondent accounts	29	11
Bank of Russia interest claims	1,574	4,649
Settlements with suppliers, contractors and buyers	1,277	1,319
Settlements with CIS and Baltic states' banks	1,297	1,623
Cash in vaults	3,141	2,483
Sundry settlements with Finance Ministry	352	352
Other	4,546	10,689
	15,364	23,386
Total	71,260	74,097

The increase in the balance of “incomplete construction projects” resulted from the reconstruction of Bank of Russia office buildings and the installation of security and software systems of the Bank of Russia information and telecommunications system.

The decrease under the item “Bank of Russia interest claims” is mainly the result of the writing off of accrued interest on loans to credit institutions in connection with the restructuring under amicable agreements of the debt on loans and interest on them into the credit institutions’ promissory notes.

The item “Settlements with CIS and Baltic states’ banks” shows the balance of mutual claims regarding interstate settlements for 1992—1993 between CIS and Baltic states. The decrease under this item results from the writing off from the Bank of Russia balance sheet of the CIS and Baltic states’ debt on interstate settlements for the first half of 1992 at the expense of the provisions made for this debt earlier.

FIXED ASSETS*Structure of fixed assets*

	Balance sheet value <i>(million rubles)</i>	
	2002	2001
Buildings and other structures	31,047	29,813
Transport facilities	1,645	1,471
Computers, office equipment and furniture	14,385	10,361
Information and data processing systems	8,019	6,497
Equipment	10,495	9,655
Intangible assets	3,052	2,125
Other	1,634	1,623
Total	70,277	61,545

The increase in the amount shown under the item “Buildings and other structures” is mainly the result of the reconstruction of Bank of Russia office buildings.

Transport facilities include the cost of special transport for carrying cash and bank documents.

The increase in the value of “Computers, office equipment and furniture” resulted from the purchase of computers and other systems and devices designed for the automatic transmission, storage and processing of data in the Bank of Russia payment, operations and information analysis systems and facilities to protect banking information.

The increase in the amount shown under the item “Information and data processing systems” mainly results from the installation of the Bankir data transmission system.

“Equipment” includes the cost of cash-processing, security and other equipment of this kind.

“Intangible assets” include the cost of software products used in effecting settlements and in accounting and reporting.

Fixed capital movement

	<i>(million rubles)</i>
Fixed capital value	
Balance as of January 1, 2002	61,545
Receipt	10,004
Retirement	(1,272)
Balance as of January 1, 2003	70,277
Accrued depreciation	
Balance as of January 1, 2002	10,834
Depreciation deductions	3,908
Depreciation deductions for retired fixed assets	(361)
Balance as of January 1, 2003	14,381
Residual value as of January 1, 2003	55,896

7. FUNDS IN ACCOUNTS WITH BANK OF RUSSIA

	<i>(million rubles)</i>	
	2002	2001
Federal government funds	271,301	121,746
Credit institutions' funds in correspondent accounts	172,311	156,507
Required reserves deposited with Bank of Russia	201,139	156,608
Bank deposits with Bank of Russia	47,398	3,725
Other	128,393	252,314
Total	820,542	690,900

Under Article 23 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia conducts operations with federal budget funds and government extrabudgetary funds and regional and local budget funds without charging any commission.

Bank deposits with the Bank of Russia include the balances of funds drawn from resident credit institutions that have signed with the Bank of Russia a general agreement on ruble deposit operations, conducted through the Reuters Dealing System, and credit institutions that participated in deposit auctions. Growth in the balances of borrowed funds resulted from the expansion of the volume of operations to take funds from resident credit institutions on deposits with the Bank of Russia with the aim of absorbing free banking sector liquidity.

“Other” funds include the balances of regional and local government accounts and accounts of government extrabudgetary funds and other customers of the Bank of Russia. The decrease in the value of “Other” funds was mainly caused by a contraction in the balances of Pension Fund accounts and a decrease in non-resident banks' funds involved in transactions to sell securities with an obligation of reverse repurchase.

8. FLOAT

	<i>(million rubles)</i>	
	2002	2001
Float	8,390	4,211
Total	8,390	4,211

Float as of the end of the year mainly comprises the funds the Bank of Russia is to transfer to credit institutions and its clients. These funds are accumulated as a result of the time lags in settlements completed by the Bank of Russia in January 2003.

9. OTHER LIABILITIES

	<i>(million rubles)</i>	
	2002	2001
Bank of Russia provisions (see Note 1(h))	65,137	89,816
Deferred income from lending operations	13,572	18,992
Deferred income from government securities	6,915	7,014
Additional pension provisions for Bank of Russia employees	18,176	10,508
Other	29,270	23,992
Total	133,070	150,322

“Bank of Russia provisions” include 1,841 million rubles set aside in 1998—2002 for loans to credit institutions, 39,116 million rubles for foreign exchange operations, 12,597 million rubles for promissory notes acquired from credit institutions, 1,446 million rubles for the debt owed by CIS and Baltic states, 7,297 million rubles for operations with OFZ and other debts, and 2,840 million rubles for other active operations.

Deferred income from lending operations is mainly represented by the debt on interest charged on the loans extended in 1992—1994 by the decision of the Government Commission on Fiscal and Monetary Policy to enterprises in some branches of the economy. This debt was subsequently included in the domestic government debt in compliance with Federal Law No. 46-FZ, dated April 24, 1995, “On the Restructuring of the Debt on Centralised Loans to Agribusiness Enterprises and Organisations Delivering (Storing and Selling) Products (Goods) to Regions of the Far North and Similar Regions, and Interest Charged on Them,” Federal Law No. 39-FZ, dated March 31, 1995, “On the Federal Budget for 1995,” Federal Law No. 212-FZ, dated December 27, 1995, “On Amending the 1995 Federal Budget Law” and Federal Law No. 227-FZ, dated December 31, 1999, “On the Federal Budget for 2000.” Under the agreements signed with the Finance Ministry, the Bank of Russia received Finance Ministry promissory notes, some of which were restructured into federal loan bonds. The decrease in funds accounted for in this item resulted from the writing off of interest in connection with the repayment of the Finance Ministry promissory notes and debt on permanent coupon-income federal loan bonds.

Deferred income from government securities mainly comprises 4,959 million rubles in accrued coupon income that has not been paid by the Finance Ministry and 1,452 million rubles in interest on the Finance Ministry promissory notes and securities restructured into OFZ-PD bonds.

The Federal Law on the Central Bank of the Russian Federation (Bank of Russia) allows the Bank of Russia to create a pension fund for paying additional pensions to its employees. In implementing this pension scheme, the Bank of Russia complies with the applicable pension legislation. No assets are allocated to cover obligations under this pension scheme. In so doing, it takes into consideration the fact that Bank of Russia employees are not civil servants and hence they are not covered by the guarantees to which the latter are entitled. In addition, such pension schemes are acceptable international practice with central banks. The increase in the funds recorded under this item resulted from the creation of pension funds for Bank of Russia employees in accordance with the indicative actuarial evaluation of Bank of Russia pension obligations, conducted by an independent actuary.

10. RELATIONS BETWEEN BANK OF RUSSIA AND MINISTRY OF FINANCE

In the period under review, the relations between the Bank of Russia and Ministry of Finance were regulated by the 2002 Federal Budget Law (with changes and amendments) and Russian Federation Government Resolution No. 137, dated February 28, 2002, "On Measures to Implement the 2002 Federal Budget Law" and their aim was to co-ordinate the budget and monetary policies and ensure the fulfilment by the Finance Ministry of its obligations to the Bank of Russia.

The Finance Ministry's ruble-denominated debt to the Bank of Russia increased by 38,271 million rubles over the year to 288,960 million rubles as of January 1, 2003.

The Finance Ministry foreign currency debt to the Bank of Russia amounted to 256,480 million rubles, an increase of 48,084 million rubles owing to the change in the ruble's exchange rate against the US dollar and Bank of Russia operations to buy Russian government securities denominated in foreign currency.

The structure of the Finance Ministry's debt to the Bank of Russia is shown below:

	<i>(million rubles)</i>	
	2002	2001
Russian government debt obligations	344,742	263,708
Russian government debt obligations acquired by Bank of Russia through direct repo operations	3,283	—
Bank of Russia funds transferred to Vneshekonombank for extending loans to Finance Ministry for foreign debt repayment and service	197,063	192,224
CIS and Baltic states' debt on interest on overdrafts and interstate settlements	—	2,801
Debt on overdrafts	352	352
Total	545,440	459,085

Russian government debt obligations

The Russian government debt obligations comprise:

- permanent and variable coupon-income federal loan bonds received by the Bank of Russia as a result of the restructuring, pursuant to the federal law, of government securities and other debts owed by the Finance Ministry to the Bank of Russia, which began in 1999, and permanent coupon-income federal loan bonds acquired by the Bank of Russia in 1999 under Article 3 of the 1999 Federal Budget Law, with a total balance sheet value of 232,706 million rubles. Compared to January 1, 2002, the balance sheet value of the federal loan bonds increased by 627 million rubles. The change in the balance sheet value is the result of the restructuring of the Finance Ministry's Series IV-APK promissory notes into federal loan bonds;
- permanent coupon-income federal loan bonds received as a result of the exchange of Vneshtorgbank shares under Article 108¹ of the 2002 Federal Budget Law with a balance sheet value of 41,598 million rubles;
- Finance Ministry promissory notes with a balance sheet value of 11,021 million rubles, represented by the Finance Ministry promissory notes received by the Bank of Russia as a result of the restructuring into Russian government domestic debt in 1994—1996, pursuant to the Russian Federation legislation, of the debt on centralised loans and accrued interest on them due in 2002—

2006 and Finance Ministry APK Series notes due in 2003—2005. Compared to January 1, 2002, the balance sheet value of the Finance Ministry notes decreased by 4,436 million rubles as a result of the redemption by the Finance Ministry, pursuant to the 2002 Federal Budget Law, of Series V-APK notes with a balance sheet value of 593 million rubles and notes due on December 25 and 26, 2002, with a balance sheet value of 3,216 million rubles and the restructuring of the Finance Ministry's Series IV-APK notes into OFZ-PD bonds with a balance sheet value of 627 million rubles;

- other debt obligations with a balance sheet value of 59,417 million rubles include the Russian government's domestic currency loan bonds and external currency loan bonds and RSFSR republic domestic government loan bonds of 1991 bought by the Bank of Russia from investors in 2002.

Russian government debt obligations acquired by Bank of Russia through direct repo operations

To co-ordinate the budget and monetary policy and regulate banking sector liquidity, the Bank of Russia in 2002 used as instruments of monetary policy direct and reverse repo operations with Russian government debt obligations. As of January 1, 2003, the Bank of Russia had in its portfolio federal loan bonds acquired through direct repo operations with a balance sheet value of 3,283 million rubles.

Bank of Russia funds transferred to Vneshekonombank for extending loans to Finance Ministry for foreign debt repayment and service

The Finance Ministry's debt to the Bank of Russia on foreign currency funds transferred to Vneshekonombank in 1998—1999 pursuant to Federal Law No. 192-FZ, dated December 29, 1998, "On Budget and Tax Policy Priorities" and Federal Law No. 36-FZ, dated February 22, 1999, "On the Federal Budget for 1999," for extending loans to the Finance Ministry for Russian government foreign debt service and repayment amounted to 197,063 million rubles as of January 1, 2003, an increase of 4,839 million rubles over the year owing to the change in the ruble's exchange rate against the US dollar from 30.14 as of January 1, 2002, to 31.7844 as of January 1, 2003.

Finance Ministry's debt on overdrafts

The Finance Ministry's debt on overdrafts of 352 million rubles arose as a result of the transfer by Ukraine, the Republic of Moldova and Republic of Armenia in 1996—1998 of funds as repayment of their debt to the Bank of Russia to the Finance Ministry federal budget revenue account and it is accounted for as "Other assets."

The Bank of Russia in 2002 settled the CIS and Baltic states' debt on interest charged on overdrafts to the amount of 2,475 million rubles and wrote off by the decision of its Board of Directors the CIS and Baltic states' debt on interstate settlements for the first half of 1992, which arose as a result of the verification of these settlements owing to the provisions made for this debt to the amount of 326 million rubles.

The Ministry of Finance has fulfilled its obligations to the Bank of Russia and repaid the ruble and foreign currency debt and interest it owed the Bank of Russia on this debt, which was due in 2002.

In 2002, the Ministry of Finance, ignoring the repeated proposals made by the Bank of Russia, failed to use its right to restructure, pursuant to Article 108 of the 2002 Federal Budget Law, the government securities received by the Bank of Russia as a result of the 1999—2000 restructuring to the amount of 15.0 billion rubles into variable coupon-income federal loan bonds with a coupon interest equal to the rate of inflation envisaged in federal budget projections for the corresponding financial year, terms to redemption in 2005 through 2007 and coupon payments made once a year beginning from 2003. That limited the possibilities of the Bank of Russia to regulate banking sector liquidity.

11. INTEREST INCOME

	<i>(million rubles)</i>	
	2002	2001
Interest income from foreign currency loans and deposits	22,478	19,241
Interest income from ruble loans extended to credit institutions	405	337
Interest income from securities	23,985	16,958
Other	46	13
Total	46,914	36,549

“Interest income from foreign currency loans and deposits” includes interest received from funds deposited by the Bank of Russia with Vneshekonombank in 1998—1999 for the effectuation of payments on Russian government foreign debt payment and service.

12. INCOME FROM OPERATIONS WITH SECURITIES

	<i>(million rubles)</i>	
	2002	2001
Income from operations with foreign currency-denominated securities	13,182	20,294
Income from operations with ruble-denominated Russian government debt instruments	21	—
Other	4,577	64
Total	17,780	20,358

“Income from operations with foreign currency-denominated securities” includes income from re-sale and redemption of foreign currency-denominated securities.

The increase in “Other” income is chiefly the result of the receipt of interest connected with the redemption of Finance Ministry promissory notes.

13. NET INCOME FROM RECOVERY OF PROVISIONS

	<i>(million rubles)</i>	
	2002	2001
Provisions for loans extended to credit institutions	2,290	—
Provisions for operations with foreign exchange	19,644	—
Provisions for promissory notes acquired from credit institutions	(45)	—
Provisions for operations with federal loan bonds and other debt	2,157	—
Total	24,046	—

Net income from the recovery of provisions for loans extended to credit institutions resulted from the reduction of the provisions made earlier and their recovery to Bank of Russia income owing to the termination of credit institutions' obligations to the Bank of Russia.

Net expenses on provisions to the amount of 26,367 million rubles were accounted for in 2001 in the Profit and Loss Account.

“Provisions for promissory notes acquired from credit institutions” reflect the creation of additional provisions for notes acquired from credit institutions during the restructuring of the debt on loans and deposits of credit institutions and promissory notes under amicable agreements.

14. OTHER INCOME

	<i>(million rubles)</i>	
	2002	2001
Realised difference in rates of exchange	2,811	1,492
Payment for settlement services provided by Bank of Russia	597	442
Fines and penalties received	70	40
Compensation by customers of telegraph and other expenses	15	24
Incomes of previous years discovered in reporting year	534	217
Other	1,226	1,192
Total	5,253	3,407

15. INTEREST EXPENSES

	<i>(million rubles)</i>	
	2002	2001
Interest expenses on IMF loan	18	3,604
Interest expenses on deposits taken from credit institutions	7,373	3,624
Interest expenses on repo operations in foreign currency	770	890
Other	28	6
Total	8,189	8,124

The decrease in “Interest expenses on IMF loan” in the year under review resulted from full repayment of debt obligations to the IMF. The latest interest payment on the IMF loan was made by the Bank of Russia according to schedule in February 2002.

The increase in “Interest expenses on deposits taken from credit institutions” in the year under review resulted from the expansion of operations to take resident credit institutions' funds on deposits with the Bank of Russia with the aim of absorbing free banking sector liquidity.

16. EXPENSES ON CASH CIRCULATION MANAGEMENT

	<i>(million rubles)</i>	
	2002	2001
Expenses on cash circulation management	2,767	2,597
Total	2,767	2,597

This item includes the expenses involved in manufacturing and destroying banknotes and coins, protecting them against counterfeiting and purchasing and delivering packing and other expendable materials necessary for the technical processing of cash.

17. OTHER OPERATING EXPENSES

	<i>(million rubles)</i>	
	2002	2001
Expenses on operations with securities	713	858
Depreciation deductions	4,063	3,490
Expenses on operations with foreign exchange	304	4,397
Repairs of fixed assets and low-cost and quick-wearing articles	2,216	1,500
Postage, telegraph and telephone expenses and expenses on lease of communication lines and channels	1,073	1,051
Security expenses	1,398	949
Expenses on maintenance of computer hardware and software systems and related services	1,597	1,193
Expenses on delivery of bank documents and valuables	882	799
Expenses on maintenance of buildings and other structures	957	842
Expenses on legal services (stamp duty and legal costs)	6	8
Taxes and duties paid	559	2
Other	8,860	5,139
Total	22,628	20,228

“Other” operating expenses reflect an increase in pension provisions for Bank of Russia employees in accordance with the indicative actuarial evaluation of Bank of Russia pension obligations, made by an independent actuary, to the amount of 7,763 million rubles.

18. PERSONNEL COSTS

For the explanatory note to “Personnel costs,” see the Statement of Bank of Russia Personnel Costs.

STATEMENT OF PROFIT RECEIVED AND ITS ALLOCATIONS

	<i>(million rubles)</i>	
	2002	2001
1. Actual profit for the year	49,885	18,083
2. Taxes and duties paid from Bank of Russia profit in compliance with Tax Code	40	—
3. To be transferred to federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)	24,923	9,042
4. Profit at Bank of Russia disposal, total	24,922	9,041
Of this, transferred:		
— to cover losses incurred by Bank of Russia in 1998	12,461	5,044
— to the Reserve Fund	11,465	2,997
— to the Social Fund	996	1,000

Under Article 11 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), profit of the Bank of Russia for the year is determined as the difference between the sum of income from banking operations and transactions conducted under Article 46 of the above Federal Law and income from the participation in the capital of credit institutions and expenses involved in the fulfilment by the Bank of Russia of its functions conferred on it by Article 4 of the same law.

The profit of the Bank of Russia for 2002 amounted to 49,885 million rubles. This represents a considerable increase on 2001, which is connected, above all, with the income received by the Bank of Russia as it recovered the provisions it made earlier in connection with repayment by banks of their debt obligations to the Bank of Russia. At the same time, incomes from the investment of gold and currency reserves and sale of precious metals, which were the principal sources of Bank of Russia income and profit in 2001, decreased significantly in the year under review as a result of the deterioration of the situation on international financial markets.

Pursuant to Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia transfers to the federal budget 50% of its actual profit for the year remaining after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation. Profit that remained at the disposal of the Bank of Russia is transferred by the Board of Directors to reserves and various funds in accordance with the procedure established by the National Banking Board.

STATEMENT OF BANK OF RUSSIA RESERVES AND FUNDS

(million rubles)

	Reserve	Social Fund	Accumulated exchange rate differences	Fixed assets revaluation fund	Other funds
Balance as of January 1, 2002	19,769	2,501	233,011	8,335	136
Transferred to reserves and funds	11,465	996	97,945	—	1
Reserves and funds used	2,997	308	—	120	21
Balance as of January 1, 2003	28,237	3,189	330,956	8,215	116

Pursuant to Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia transfers profit that remains at its disposal after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation and after the transfer of 50% of its profit to the federal budget, to reserves and various funds.

The procedure for allocating profit remaining at the disposal of the Bank of Russia is approved by the National Banking Board.

The purpose of the Bank of Russia Reserve is to ensure the stable functioning of the Bank of Russia in fulfilling the functions conferred on it by law. The Reserve is created from Bank of Russia profit. To replenish the Reserve, the Bank of Russia may, by the decision of its Board of Directors, transfer to it money from other funds and reserves that are part of the Bank of Russia's own assets (capital). The principal uses of the Reserve are to cover losses from active operations connected with writing off bad debts from the Bank of Russia balance sheet and cover losses incurred in conducting settlement and cash operations.

Pursuant to Article 97 of Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia in 2002 transferred from the Reserve 2,997 million rubles to increase its authorised capital, which had been reserved for this purpose by the decision of the Board of Directors when Bank of Russia profit for 2001 was allocated. In accordance with the procedure for allocating profit at the Bank of Russia's disposal, approved by the National Banking Board, and by the decision of the Board of Directors, 11,465 million rubles were transferred to the Reserve from Bank of Russia profit for 2002.

The aim of the Social Fund is to meet the social needs of Bank of Russia employees and, in some cases, pensioners registered with the Bank of Russia. The Social Fund is created from Bank of Russia profit.

The procedure for creating and spending money from the Social Fund is regulated by the Bank of Russia Provision on the Creation and Use of the Social Fund of the Central Bank of the Russian Federation.

Most of the money spent from the Social Fund in 2002 went to meet the financial and other personal needs of Bank of Russia employees.

In accordance with the procedure for allocating profit at the Bank of Russia's disposal, approved by the National Banking Board, and by the decision of the Bank of Russia Board of Directors, 996 million rubles, or 4% of this profit, were transferred to the Social Fund from the Bank of Russia's profit for 2002.

The “Accumulated exchange rate differences” item reflects the movement of unrealised exchange rate differences in the revaluation of the balances of active and passive accounts of the Bank of Russia balance sheet in foreign currency. As a result of the revaluation, the accumulated exchange rate differences amounted to 97,945 million rubles in 2002 (an excess of positive unrealised exchange rate differences over negative ones).

The Fixed Assets Revaluation Fund represents growth in the value of property as a result of the revaluation of fixed assets, made by the decision of the Russian Government in 1992, 1994, 1995, 1996 and 1998.

In accordance with the procedure for writing off tangible assets and receivables, 120 million rubles were used from the Fixed Assets Revaluation Funds in 2002 in writing off fixed assets from the balance sheets of regional branches (national banks) and other Bank of Russia divisions.

“Other funds” comprise:

- the Fixed Assets Fund, which includes the fixed assets of the banking schools and organisations financed by the Bank of Russia, acquired and transferred before January 1, 1996. In 2002, 21 million rubles were spent from this Fund when writing off the balance sheet useless and morally obsolete fixed assets acquired before January 1, 1996. As of the January 1, 2003, the balance of the Fund equalled 99 million rubles;
- the cost of property received free of charge. This item reflects the cost of property transferred to Bank of Russia regional branches and organisations by other organisations and individuals free of charge. As of January 1, 2003, the balance of funds accounted for under this item amounted to 17 million rubles.

**STATEMENT ON THE MANAGEMENT BY BANK OF RUSSIA
OF SECURITIES AND STAKES THAT FORM PART
OF BANK OF RUSSIA PROPERTY**

BANK OF RUSSIA INVESTMENTS IN DEBT INSTRUMENTS AND BILLS

	<i>(million rubles)</i>	
	2002	2001
1. Debt instruments and bills of foreign issuers, of which:	802,528	593,954
1.1. denominated in US dollars	663,740	511,177
1.2. denominated in euros	138,788	82,777
2. Russian government debt instruments and promissory notes, of which:	348,025	263,708
2.1. ruble-denominated bonds traded on the organised securities market (trade portfolio)	40,404	—
2.2. ruble-denominated bonds not traded on the organised securities market (investment portfolio)	237,183	232,079
2.3. bonds denominated in foreign currency	59,417	16,172
2.4. other debt instruments and promissory notes	11,021	15,457
3. Debt instruments and promissory notes of credit institutions	12,390	5,623
Total	1,162,943	863,285

BANK OF RUSSIA INVESTMENTS IN THE CAPITAL OF BANKS AND OTHER ORGANISATIONS

(million rubles)

Investment	January 1, 2003		January 1, 2002	
	Balance sheet sum	% share in capital (at par)	Balance sheet sum	% share in capital (at par)
Investment in residents' shares, of which:	4,715	—	46,966	—
Vneshtorgbank	0	0	42,321	99.95
Sberbank	4,563	60.57	4,563	60.57
Moscow Interbank Currency Exchange (MICEX)	149	22.23	82	18.33
St. Petersburg Currency Exchange (SPCEX)	3	10.0	0	0
Investment in non-residents' shares, of which:	14,802	—	12,487	—
Moscow Narodny Bank, London	7,330	88.89	6,278	88.89
Eurobank, Paris	4,219	87.03	3,375	87.03
Ost-West Handelsbank, Frankfurt am Main	1,180	51.62	944	51.62
Donau-bank, Vienna	361	15.00	289	15.00
East-West United Bank, Luxembourg	152	15.00	122	15.00
Bank for International Settlements, Basel	1,233	0.57	1,169	0.57
Intelsat	327	0.53	310	0.51
Other investments in residents' capital, of which:	25	—	25	—
National Depository Centre	25	49.00	25	49.00
Other investments in non-residents' capital, of which:	10	—	10	—
Mezhgosbank	10	50.00	10	50.00

The Bank of Russia manages securities and its stakes in the capital of organisations in accordance with the purposes, tasks and functions established by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

Investing in foreign issuers' securities denominated in foreign currency is part of the Bank of Russia's policy in managing gold and currency reserves pursuant to paragraph 7 of Article 4 of the above Law.

The Bank of Russia conducts operations with Russian government securities denominated in the Russian currency pursuant to paragraphs 1 and 3 of Article 4, paragraph 3 of Article 35 and Ar-

title 39 of the above Law as part of the measures taken to implement monetary policy. The Bank of Russia participates in the capital of organisations in cases stipulated by Article 8 of the above Law.

The principal objective of the management of foreign exchange reserves by the Bank of Russia is to ensure an optimal combination of their security, liquidity and profitability. Hence, the Bank of Russia invests in the most secure and liquid securities of foreign issuers, denominated in foreign currency.

Debt instruments and bills of foreign issuers are principally debt instruments of foreign states, extrabudgetary funds and federal agencies of the United States and European countries and international financial organisations.

The sum of Bank of Russia investments in debt instruments and bills of foreign issuers increased by 208,574 million rubles in 2002. The main factor of growth is the significant expansion of foreign exchange reserves in the period under review. In addition, the change in the balance sheet value of investments in foreign issuers' debt instruments and bills is the result of revaluation of foreign currency against the Russian ruble.

In 2002, Bank of Russia investments in US treasury bills increased by \$1,431 million and investments in debt instruments of member countries of the Economic and Monetary Union (Germany, France, Belgium, the Netherlands, Austria, Finland, Spain and Ireland) rose by 474 million euros. In 2002, Bank of Russia investments in US federal agencies' securities increased by 1,548 million US dollars and 61 million euros and investments in European non-government securities by 287 million euros. To further diversify its investments in securities, the Bank of Russia in 2002 purchased securities of several international financial organisations, such as the International Bank for Reconstruction and Development, European Investment Bank, International Finance Corporation and Inter-American Development Bank, to the amount of 697 million US dollars and 256 million euros.

Russian government debt instruments and promissory notes as of January 1, 2003, were comprised of federal loan bonds that were not traded on the organised securities market (investment portfolio), federal loan bonds that were traded on the organised securities market (trade portfolio), domestic and foreign government currency loan bonds, 1991 RSFSR domestic government loan bonds and Finance Ministry promissory notes.

The changes in the balances of the Bank of Russia investment portfolio in 2002 are shown below:

Type of operation	Balance sheet value (million rubles)
OFZ balance as of January 1, 2002	232,079
Restructuring of Finance Ministry's Series IV-APK promissory notes under Article 87 of the 2001 Federal Budget Law	627
Exchange of Vneshtorgbank shares under Article 108 ¹ of the 2002 Federal Budget Law	42,117
Transfer of securities to trade portfolio in connection with beginning of operations on organised securities market	(37,640)
OFZ balance as of January 1, 2003	237,183

When the Bank of Russia began to conduct operations on the securities market, it made the decision to transfer a part of federal loan bonds (OFZ) from its investment portfolio to its trade portfolio.

The changes in the balances of the Bank of Russia trade portfolio are shown below:

Type of operation	Balance sheet value <i>(million rubles)</i>
OFZ balance as of January 1, 2002	—
Transfer of securities from investment portfolio in connection with beginning of operations on organised securities market	37,640
Purchase of GKO and OFZ bonds through direct repo operations	3,283
OFZ sale operations with obligation of reverse repurchase	(437)
Revaluation of trade portfolio	(82)
OFZ balance as of January 1, 2003	40,404

The value of investments in domestic and foreign government currency loan bonds increased in 2002 as the Bank of Russia purchased them from Vneshtorgbank and received them from Donau-bank (Vienna) and East-West United Bank (Luxembourg) and foreign currency was revalued against the Russian ruble.

The sum of investments in credit institutions' debt instruments and promissory notes increased by 6,767 million rubles in 2002. The reasons for the increase are shown in Note 5 to the Financial Statements.

The Bank of Russia participates in the capital of resident organisations in compliance with the requirements of Article 8 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

The makeup of the resident organisations in whose capital the Bank of Russia participates changed in 2002 mainly as a result of the implementation of the Russian government and Bank of Russia plans to withdraw from the capital of credit institutions. Specifically, in 2002 the Bank of Russia withdrew from the capital of Vneshtorgbank.

To facilitate its activities on the domestic foreign exchange market and organised government securities market, the Bank of Russia participates in the capital of the Moscow Interbank Currency Exchange (MICEX), a closed-end joint-stock company, and National Depository Centre (NDC), a non-profit partnership.

To increase its influence on MICEX, the Bank of Russia in 2002 purchased 4,510 MICEX shares with a total value of 68 million rubles, alienated by MICEX shareholding credit institutions whose banking licence was revoked. As a result, the Bank of Russia stake in MICEX rose 3.9% over the year to 22.23% as of January 1, 2003.

The Bank of Russia stake in the NDC remained unchanged in the year under review.

Taking into consideration the importance of St. Petersburg as Russia's second largest financial centre and understanding that the technical infrastructure of the St. Petersburg Currency Exchange allowed it to be used as a reserve trading floor, the Bank of Russia Board of Directors decided that the Bank of Russia should participate in the capital of the SPCEX. In accordance with that decision, the Bank of Russia in June 2002 purchased 151 shares in the SPCEX, i.e. 10% of the bourse's authorised capital.

Pursuant to Article 8 of Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia participates in the capital of the following Russian overseas banks: Donau-bank AG (Vienna), East-West United Bank (Luxembourg), Banque Commercial de l'Europe du Nord-Eurobank (Paris), Moscow Narodny Bank (London) and Ost-West Handelsbank AG (Frankfurt am Main).

The Bank of Russia participates in the capital of the Bank for International Settlements in Basel on the basis of Article 9 of Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)" as the capital of an international organisation promoting monetary and banking co-operation, including co-operation between central banks.

There was no acquisition or alienation of Bank of Russia shares in the capital of Russian overseas banks or the Bank for International Settlements in the year under review.

The Bank of Russia has been a shareholder in the Intelsat Company since July 18, 2001. An extraordinary meeting of Intelsat shareholders, held in June 2002, took the decision to convert every three ordinary and/or preference shares with a nominal value of \$1 into one ordinary share with a nominal value of \$3. As a result, 2,544,345 Intelsat ordinary shares with a nominal value of \$2,544,345, owned by the Bank of Russia, were converted into 848,115 ordinary shares.

In September 2002, Intelsat bought from a shareholder 6,284,635 ordinary shares and the Bank of Russia stake in the company increased as a result.

The Bank of Russia owns 1 share in the Society for Worldwide Interbank Financial Telecommunications (SWIFT), which it purchased in 1996 when it became a member of SWIFT.

The change in the balance sheet value of the Bank of Russia stake in the capital of non-resident organisations in rubles resulted from the revaluation of foreign currency against the Russian ruble.

The Bank of Russia participates in the capital of the Interstate Bank, founded by CIS countries in 1993 under the interstate agreement of January 22, 1993.

STATEMENT OF BANK OF RUSSIA PERSONNEL COSTS

Items of expenditure	<i>(million rubles)</i>	
	2002	2001
Wages and salaries	21,683	16,678
Other payments to employees	2,021	—
Additional compensation and other payments	5,166	4,258
Other	—	119*
Total personnel costs	28,870	21,055

The average number (payroll) of Bank of Russia employees in 2002 was 82,712.

The average monthly income of Bank of Russia employees in 2002 was 23,882 rubles.

The increase in personnel costs resulted from the implementation in 2002 of measures to bring the remuneration conditions of Bank of Russia employees into compliance with the requirements of the Labour Code and Tax Code of the Russian Federation: the Bank of Russia cancelled the so-called monthly compensation payments (MCP) and, at the same time, raised salaries and introduced seniority pay.

Taking into consideration that the MCP amount directly depended on the length of work in the Bank of Russia system, raises in salaries and seniority pay were calculated so that the total income of a Bank of Russia employee with the longest work record remained unchanged. The structure of pay was also changed: before March 1, 2002, the share of lump-sum payments (end-year bonuses and holiday allowances) for employees with the longest record of work in the Bank of Russia accounted for 49% of their salaries and monthly payments accounted for 51% of the employee's full-year earnings, whereas in the new conditions monthly payments accounted for 80% and lump-sum payments 20%.

Taking into consideration that these measures were implemented from March 1, 2002, when the end-year lump-sum payment for 2001 was made in January 2002, as was required by the Bank of Russia Remuneration Regulation, the increase in monthly payments led to an increase in the Bank of Russia's personnel costs.

* The list of expenses included in this item has been approved by the National Banking Board. Therefore, the methodology of compiling the Statement of Bank of Russia Personnel Costs has been changed: beginning from the Statement for 2002, data shown as "Other" have been included in "Other operating expenses" (Note 17).

STATEMENT OF CAPITAL INVESTMENT BUDGET PERFORMANCE

(million rubles)

Capital investment	Approved for 2002	Actual amount in 2002	Actual amount in 2001
Fixed capital investment	10,496	9,115	7,226
Capital investment in intangible assets	1,105	1,005	515
Total	11,601	10,120	7,741

The following expenses have been included in “Fixed capital investment”:

- expenses on the construction (reconstruction) of Bank of Russia facilities in accordance with the capital construction plan approved by the Board of Directors and the purchase of large-size appliances and equipment for the maintenance of the life support systems of buildings and structures; in 2001 these expenses accounted for 51% and in 2002 for 34% of the total value of actual capital investment;
- expenses on the management of cash turnover: the purchase of technical facilities to mechanise the processing of cash (banknote counting and sorting machines and coin counters) and auxiliary workplace equipment for depositories and cash counting units and the purchase (modernisation) of special armoured vehicles; in 2001 these expenses accounted for 2% and in 2002 for 3% of the total value of capital investment;
- expenses to ensure the functioning of the Bank of Russia payment, operations and information analysis systems: the purchase of computers, information technology and information protection facilities and the development and upgrading of the Single Banking Telecommunications System; in 2001 these expenses accounted for 30% and in 2002 for 46% of the total value of capital investment;
- expenses on the security and protection of Bank of Russia facilities: the development and modernisation and upgrading of security systems and expenses on the purchase of individual means of protection; in 2001 these expenses accounted for 10% and in 2002 for 7% of the total value of capital investment.

“Capital investment in intangible assets” represents expenses on the purchase of software products and copyright (for use in information technology and information protection systems and security facilities); in 2001 these expenses accounted for 7% and in 2002 for 10% of the total value of capital investment.

The increase in Bank of Russia capital investment compared with 2001 mainly resulted from an increase in expenses on the purchase of equipment and hardware and software systems for the Bank of Russia payment, operations and information analysis systems. Capital investment in the management of cash turnover increased as a result of the modernisation of cash counting and sorting machines.

A total of 1,481 million rubles of capital investment, or 12.8% of the total amount of capital investment approved for the year, remained unused in 2002, of which 674.5 million rubles were to be invested in the construction of money vaults and 214.1 million rubles in the construction (reconstruction) of office buildings and structures. Overall, in 2002 the Bank of Russia financed the construction (reconstruction) of 84 projects as against 114 projects in 2001, of which 56 projects against 67 projects respectively were continued from the previous year.



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AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS
OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION
FOR THE YEAR ENDED DECEMBER 31, 2002

The Financial Statements of the Central Bank of the Russian Federation (Bank of Russia) for 2002 have been audited by ZAO BDO YunionRuf, the legal successor to ZAO Yunion/MS Consultancy Group, under Agreement No. 10102-05-025/03, dated February 18, 2003, concluded with ZAO Yunion/MS Consultancy Group on the basis of the decision of the National Banking Board, dated December 30, 2002 (p. IV of Minutes No. 3 "On Appointing the Auditing Organisation to Audit the Bank of Russia Financial Statements for 2002").

ZAO BDO YunionRuf has been registered by Inspectorate No. 26 of the Ministry of Taxes and Duties of the Russian Federation for the Southern Administrative District of Moscow (Certificate of Registration in the Single State Register of Legal Entities Serial No. 77 No. 006869528, dated February 27, 2003, Main State Registration Number 1037739271701).

The audit was conducted by ZAO BDO YunionRuf in the period of Audit Licence No. E 000547, dated June 25, 2002, issued by the Ministry of Finance of the Russian Federation, effective until June 24, 2007.

The audit of the Financial Statements of the Central Bank of the Russian Federation for 2002 was headed by auditor Vladimir M. Volkov, holder of Qualification Certificate No. 029070, issued in line with the decision of the Central Audit Certification and Licensing Commission of the Central Bank of the Russian Federation, dated July 10, 1995 (Minutes No. 6), extended until July 27, 2004 inclusive (Minutes No. 3 of the CACLC of the Central Bank of the Russian Federation).

The audit was conducted from February 24, 2003, to April 30, 2003.

We have audited the enclosed Financial Statements of the Central Bank of the Russian Federation for 2002, comprising:

- Annual Balance Sheet as of January 1, 2003;
- Profit and Loss Account;
- Statement of Profit Received and its Allocation;

- Statement of Bank of Russia Reserves and Funds;
- Statement on the Management by Bank of Russia of Securities and Stakes that Form Part of Bank of Russia Property;
- Statement of Bank of Russia Personnel Costs;
- Statement of Capital Investment Budget Performance.

These statements have been prepared by management of the Central Bank of the Russian Federation in compliance with the standards established by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) (as amended by Federal Law No. 65-FZ, dated April 26, 1995), Federal Law No. 86-FZ, dated July 10, 2002, “On the Central Bank of the Russian Federation (Bank of Russia),” Federal Law No. 129-FZ, dated November 21, 1996, “On Accounting,” Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia) No. 66, dated September 18, 1997, and other accounting and financial reporting regulations of the Russian Federation.

The auditor’s duty is to express an opinion about the veracity of all the material aspects of the financial statements presented and about the compliance of the accounting procedure with the Russian Federation legislation. It was not the purpose of the audit to express an opinion about the full compliance of the activities of the Central Bank of the Russian Federation with the Russian Federation legislation.

We planned and conducted the audit in such a way as to be able to say with a fair degree of certainty that there are no significant distortions in the financial statements presented.

The audit included an evaluation of the management system aimed at ascertaining its adequacy from the viewpoint of the fulfilment by the Central Bank of the Russian Federation of its objectives and functions and an evaluation of the internal control system of the Central Bank of the Russian Federation aimed at making sure that the extent of its formalisation and its organisation correspond to the nature and volume of operations conducted by the Central Bank of the Russian Federation. We have examined on a sample basis documents confirming numeric data and explanatory notes contained in the annual financial statements of the Central Bank of the Russian Federation for 2002. We have not participated in the stocktaking of the assets of the Central Bank of the Russian Federation, but we have conducted control procedures to verify the results of the stocktaking.

The responsibility for correct accounting and for the preparation and truth and fairness of the annual financial statements and data on the basis of which we have formed our opinion and for the safety of assets and the prevention of abuses and violations of the legislation is borne by management of the Central Bank of the Russian Federation. We are responsible for forming an independent judgement, expressing our opinion on the veracity of the above financial statements in all their material aspects, based on the results of the audit.

The audit was conducted pursuant to Federal Law No. 86-FZ, dated July 10, 2002, “On the Central Bank of the Russian Federation (Bank of Russia),” Federal Law No. 119-FZ, dated August 7, 2001, “On Auditing,” federal auditing rules (standards) approved by Russian Federation Government Resolution No. 696, dated September 23, 2002, and other audit regulations and also intracompany audit standards and methodologies.

In 2002, before Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)" came into force, Bank of Russia accounting and reporting rules were set by the Bank of Russia Board of Directors. After the above law came into force (from July 13, 2002), the changes in Bank of Russia accounting and reporting rules were approved by the National Banking Board at the proposal of the Bank of Russia Board of Directors. The main accounting and reporting principles of the Central Bank of the Russian Federation are historical cost accounting (except for the revaluation of foreign currency funds, investments in government securities and the revaluation of fixed assets) and accounting for income and expenses as they are received or paid.

We believe that the work we have carried out is sufficient for expressing an opinion about the veracity of the annual financial statements of the Central Bank of the Russian Federation and for making our report.

A major limitation on the scope of our work and the auditor's report was that under Russian Federation Law No. 5485-1, dated July 21, 1993, "On State Secrecy," we had limited access to some data recorded in the annual financial statements of the Central Bank of the Russian Federation. These data include sums that are not subject to verification by independent auditors. Taking this circumstance into account, we cannot express an opinion on the veracity of the annual financial statements with regard to operations conducted by the Field Units Department and some other operations, which have been examined by the Audit Chamber of the Russian Federation pursuant to Resolution No. 3536-III GD of the State Duma of the Federal Assembly of the Russian Federation, dated January 15, 2003, "On the Instructions for the Audit Chamber of the Russian Federation." In this respect, we rely on the opinion of the Audit Chamber of the Russian Federation, which has confirmed the Annual Balance Sheet assets total of 55,226 million rubles and liabilities total of 2,427 million rubles and the Profit and Loss Account income of 12,653 million rubles and expenses of 4,289 million rubles.

We believe that if we leave aside any adjustments that might have been deemed necessary in the absence of the above limitation on the scope of our work, the enclosed annual financial statements are accurate, that is, prepared in such a way as to ensure the accounting in all their material aspects of assets and liabilities of the Central Bank of the Russian Federation as of January 1, 2003, and the financial results of its activities in 2002 in compliance with the requirements of the applicable legislation with respect to the activities of the Central Bank of the Russian Federation.

Director General

A.Yu. Dubinsky

Auditor

V.M. Volkov

April 30, 2003



THE AUDIT CHAMBER
OF THE RUSSIAN FEDERATION

AUDITOR

119992 Moscow, GSP-2, ul. Zubovskaya 2

April 24, 2003

No. 06-80/06-3

To Sergei M. Ignatiev

Chairman
of the Central Bank
of the Russian Federation

STATEMENT
on the Results of an Examination
of Bank of Russia Accounts and Operations for 2002
Covered by the Russian Federation State Secrecy Law

Pursuant to Article 25 of Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation," and in accordance with its work plan for 2003 (p. 1.5.5.2.4), the Audit Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation covered by the Russian Federation State Secrecy Law, conducted within the framework of the audit of the Bank of Russia annual financial statements for 2002. The above accounts and operations are accounted for in the Consolidated Balance Sheet of the Central Bank of the Russian Federation as of January 1, 2003, Profit and Loss Account as of January 1, 2003, Statement of Bank of Russia Reserves and Funds as of January 1, 2003, Statement of Bank of Russia Personnel Costs for 2002, Statement of Capital Investment Budget Performance for 2002 and Statement on the Management by the Bank of Russia of Securities and Stakes that Form Part of Bank of Russia Property for 2002.

The Bank of Russia management is responsible for the preparation and presentation of the above forms of accounting documents, on the basis of which the Audit Chamber of the Russian Federation has formed its judgement. The Audit Chamber is responsible for drawing up a statement based on the results of an examination of Bank of Russia accounts and operations covered by the Russian Federation State Secrecy Law.

Responsibility for placing data in the category covered by the Russian Federation State Secrecy Law and hence for delimiting the competence of the auditor of the Annual Report of the Central Bank of the Russian Federation for 2002 and the Audit Chamber of the Russian Federation rests with the Bank of Russia.

This Statement is drawn up in compliance with Federal Law No. 119-FZ, dated August 7, 2001, "On Auditing."

The Federal Law on the Central Bank of the Russian Federation (Bank of Russia) stipulates that the Bank of Russia is independent in elaborating an accounting policy and setting banking operations, accounting and reporting rules for the banking system. The main principles of the Bank of Russia accounting policy are historical cost accounting (taking into consideration the specifics of revaluation of foreign currency funds, investments in government securities and fixed assets accounting) and the cash method of accounting for income and expenses in the profit and loss account, i.e., after income has been actually received and expenses have been actually completed.

The annual financial statements of the Central Bank of the Russian Federation for 2002 are compiled in all their material aspects in compliance with the requirements of the applicable legislation with regard to the Bank of Russia and reflect the assets, liabilities, income and expenses of the Bank of Russia on accounts and operations covered by the Russian Federation State Secrecy Law and falling within the competence of the Audit Chamber of the Russian Federation under Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

The Audit Chamber of the Russian Federation hereby confirms data from:

the Consolidated Balance Sheet of the Central Bank of the Russian Federation as of January 1, 2003;

Profit and Loss Account as of January 1, 2003;

Statement of Bank of Russia Reserves and Funds as of January 1, 2003;

Statement of Bank of Russia Personnel Costs for 2002;

Statement of Capital Investment Budget Performance for 2002; and

Statement on the Management by the Bank of Russia of Securities and Stakes that Form Part of Bank of Russia Property for 2002.

S.O. Shokhin



ADDENDA

IV

MAJOR STEPS TAKEN BY THE BANK OF RUSSIA IN 2002 TO IMPLEMENT THE SINGLE STATE MONETARY POLICY

I. REQUIRED RESERVES, REFINANCING OF BANKS AND BANK OF RUSSIA DEPOSIT OPERATIONS

REQUIRED RESERVES. To eliminate discrepancies in the regulatory framework setting the required reserve depositing procedures for credit institutions, the Bank of Russia issued Ordinance No. 1143-U, dated April 29, 2002, "On Amending Bank of Russia Provision No. 37, dated March 30, 1996, 'On the Required Reserves Deposited by Credit Institutions with the Central Bank of the Russian Federation,'" and Ordinance No. 1144-U, dated April 29, 2002, "On Amending Bank of Russia Provision No. 51, dated November 4, 1996, 'On the Required Reserves of the Savings Bank of the Russian Federation Deposited with the Central Bank of the Russian Federation,'" which amended the above Provisions by including in them all the changes and additions made to them earlier.

In addition, owing to the enforcement of Federal Law No. 86-FZ, dated July 10, 2002, "On the Central Bank of the Russian Federation (Bank of Russia)," the Bank of Russia issued Letter No. 107-T, dated July 31, 2002, "On Some Issues Relating to the Application of Article 38 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)," which explained the Bank of Russia procedure for fining credit institutions for violations of the required reserve deposit and calculation procedures.

DEPOSIT OPERATIONS. To eliminate discrepancies in regulations on Bank of Russia deposit op-

erations, the Bank of Russia issued Ordinance No. 1126-U, dated March 20, 2002, "On Amending Bank of Russia Provision No. 67-P, dated January 13, 1999, 'On the Procedure for Conducting Deposit Operations by the Central Bank of the Russian Federation with Resident Banks in the Russian Federation Currency,'" which amended the above Bank of Russia Provision by including all the changes and additions made to it earlier.

To upgrade the procedure for conducting deposit operations, the Bank of Russia issued the following regulations:

- Bank of Russia Provision No. 203-P, dated November 5, 2002, "On the Procedure for Conducting Deposit Operations by the Central Bank of the Russian Federation with Credit Institutions in the Russian Federation Currency." This document allowed non-bank credit institutions conducting deposit and lending operations and settlement non-bank credit institutions to deposit funds with the Bank of Russia, specified the criteria applied to credit institutions wishing to get access to Bank of Russia deposit operations and established the procedure for conducting deposit auctions for credit institutions, using the Reuters Dealing System;
- Bank of Russia Ordinance No. 1211-U, dated November 27, 2002, "On Invalidating Some Bank of Russia Regulations," such as Bank of

Russia Provision No. 67-P, dated January 13, 1999, “On the Procedure for Conducting Deposit Operations by the Central Bank of the Russian Federation with Credit Institutions in the Russian Federation Currency” and Bank of Russia ordinances to amend this Bank of Russia provision.

REFINANCING OF BANKS. To work out a single pattern of co-operation between Bank of Russia divisions and branches in extending intraday, overnight and Lombard loans to banks and establish the procedure for setting intraday and overnight credit limits on a bank’s correspondent account (subaccount), the Bank of Russia issued the following regulations:

- Bank of Russia Ordinance No. 1132-U, dated April 5, 2002, “On the Procedure for Co-operation between the Bank of Russia General Economic Department and Bank of Russia Regional Branches in Extending and Repaying Bank of Russia Loans;”
- Bank of Russia Ordinance No. 1149-U, dated May 8, 2002, “On the Procedure for Co-operation between Bank of Russia Branches and Divisions in Recovering Funds from a Correspondent Account(s)/Subaccount(s) of a Credit Institution Opened in a Division(s) of the Bank of Russia Settlement Network;”
- Bank of Russia Order No. OD-275, dated May 8, 2002, “On Organising the Work of Bank of Russia Branches and Divisions in Connection with the Enforcement of Bank of Russia Ordinance No. 1149-U, dated May 8, 2002, ‘On the Procedure for Co-operation between Bank of Russia Branches and Divisions in Recovering Funds from a Correspondent Account(s)/Subaccount(s) of a Credit Institution Opened in a Division(s) of the Bank of Russia Settlement Network;”
- Bank of Russia Ordinance No. 1167-U, dated June 21, 2002, “On the Procedure for Co-operation between Bank of Russia Branches and Divisions in Setting Intraday and Overnight Credit Limits;”
- Bank of Russia Order No. OD-413, dated June 21, 2002, “On Organising the Work of Bank of Russia Branches and Divisions in Connection with the Enforcement of Bank of Russia Ordinance No. 1167-U, dated June 21,

2002, ‘On the Procedure for Co-operation between Bank of Russia Branches and Divisions in Setting Intraday and Overnight Credit Limits.’”

To upgrade the procedure for extending intraday, overnight and Lombard loans, the Bank of Russia issued the following regulations:

- Bank of Russia Ordinance No. 1168-U, dated June 24, 2002, “On Amending Bank of Russia Provision No. 36, dated March 13, 1996, ‘On the Procedure for Extending Lombard Loans to Banks by the Bank of Russia;”
- Bank of Russia Ordinance No. 1169-U, dated June 24, 2002, “On Amending Bank of Russia Provision No. 19-P, dated March 6, 1998, ‘On the Procedure for Extending Bank of Russia Loans to Banks against Government Securities;”
- Bank of Russia Ordinance No. 1170-U, dated June 24, 2002, “On Terms and Conditions of Extending Intraday and Overnight Loans.”

In connection with the decisions of the Bank of Russia Board of Directors to raise the adjustment ratio for federal loan bonds and extend the Bank of Russia Lombard list, the Bank of Russia drafted and issued the following regulations:

- Bank of Russia Ordinance No. 1171-U, dated June 21, 2002, “On Amending Bank of Russia Ordinance No. 1001-U, dated July 17, 2001, ‘On Bank of Russia Adjustment Ratios Used to Correct the Market Value of Securities Accepted as Security against Bank of Russia Loans;”
- Bank of Russia Ordinance No. 1208-U, dated November 18, 2002, “On Accepting as Security against Bank of Russia Loans Debt-Depreciation Federal Loan Bonds and Variable Coupon-Income Federal Loan Bonds Sold by the Bank of Russia from its Portfolio with an Obligation of Reverse Repurchase.”

To promote the practice of extending Bank of Russia loans against promissory notes and rights of claim on loan agreements with production companies and bank guarantees, the Bank of Russia issued Order No. OD-786, dated December 4, 2002, “On Disseminating the Procedure for Extending Bank of Russia Loans to Banks Against Collateral and Guarantees.”

2. RELATIONS WITH THE FEDERAL BUDGET

Working together with the Finance Ministry to implement the Concept of a Single Federal Treasury Budget Account and hence centralise operations with federal budget and Federal Treasury accounts, the Bank of Russia issued Ordinance No. 1100-U, dated January 21, 2002, “On the Procedure for Handling Settlement Documents after the Details of Payees and Payee Banks Have Changed in Connection with the Closing of the Accounts to Record Incomes Distributed by Federal Treasury Bodies between Different Budget Levels and the Accounts to Record Federal Budget Revenues and Customs and Other Payments Effected in the Sphere of Foreign Trade.” This document made it possible to ensure the safety of budget funds when Federal Treasury accounts were closed. In addition, the Bank of Russia drafted and issued jointly with the Finance Ministry Provisions Nos. 130n/208-P, 131n/209-P and 132n/210-P, dated December 20, 2002, on the procedure to complete operations on 2002 federal budget accounts opened respectively in credit institutions, various divisions of the Bank of Russia settlement network and Bank of Russia First Operations Department (OPERU-1). In accordance with these documents, the Federal Treasury closed federal budget revenues and other federal budget accounts and federal budget revenues and other federal budget accounts used in effecting payments from the federal budget.

To improve the automated processing by tax and customs bodies of information contained in settlement documents and raise the quality and enhance the efficiency of tax and customs controls over tax and duty payments and the transfer of funds to the budget accounts of all levels of the Russian budget system, the Bank of Russia issued Letter No. 111-T, dated August 12, 2002, “On Indicating the Budget Classification Code and the Code of the National Classifier of the Constituent Territories (OKATO) of the Russian Federation,” in which it recommended its branches and divisions and credit institutions to explain to their clients how they should fill in the settlement documents for the trans-

fer or recovery of funds from budget accounts at all levels of the Russian budget system. The Bank of Russia also drafted in collaboration with the Ministry of Taxes and Duties and Ministry of Finance regulations on filling in payer and payee identification data in the settlement documents for the transfer of taxes, duties and other mandatory payments to the Russian budget system.

Taking into consideration the change in the procedure for transferring federal budget funds for expenditure financing, the Bank of Russia issued Operating Instruction No. 187-T, dated December 31, 2002, in which it notified its regional branches about the Finance Ministry’s Order No. 116n, dated November 20, 2002, “On Approving the Procedure for the Transfer by the Finance Ministry’s Federal Treasury Bodies of Funds to the Federal Budget from Account 40101 ‘Revenues Distributed by Federal Treasury Bodies among the Various Levels of the Russian Federation Budget System’ to Account 40105 ‘Federal Budget Funds.’”

To improve the provision of information for urgent decisions taken with regard to conducting operations and using the instruments of monetary policy and compiling consolidated banking sector liquidity forecasts, the Bank of Russia upgraded the procedure for making a forecast on the basis of the balances of accounts of budgets of all levels and made the necessary corrections in the compiling of statements on the balances of federal budget revenue and other federal budget accounts, submitted to the Finance Ministry and Ministry of Taxes and Duties.

In addition, the Bank of Russia issued a number of specific instructions and regulations, such as the instructions establishing the procedure for closing personal federal budget accounts allocated on a returnable and chargeable basis in the event of the liquidation of the credit institution and using these funds for financing and the procedure for numbering personal accounts opened in the balance sheet accounts of the Federal Compulsory Medical Insurance Fund and regional compulsory medical insurance funds.

3. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

To upgrade the system of foreign exchange regulation and foreign exchange control, the Bank of Russia carried out the following measures in the year under review:

- a) to promote the market principles of the functioning of the domestic foreign exchange market and create more comfortable conditions for its participants, the Bank of Russia:
 - expanded the segment of the market designed for compulsory sale by exporters of their foreign currency earnings (Bank of Russia Ordinance No. 1192-U, dated September 5, 2002, “On the Procedure for Selling Foreign Currency on the Domestic Foreign Exchange Market of the Russian Federation”);
 - reduced the amount of the ruble deposits resident legal entities are required to make in buying foreign exchange for advance payments under import contracts (Bank of Russia Ordinance No. 1223-U, dated December 17, 2002, “On the Specifics of the Purchase by Resident Legal Entities of Foreign Exchange with the Russian Federation Currency for the Effectuation of Payments under Import Contracts”);
- b) to create more comfortable conditions for and promote Russian business interests abroad, the requirement for resident legal entities to obtain permission for opening accounts in foreign banks for servicing their representative offices and branches outside Russia was replaced by the notification requirement (Bank of Russia Provision No. 201-P, dated October 16, 2002, “On the Procedure for Opening and Managing Foreign Currency Accounts by Resident Legal Entities Abroad with the Purpose of Servicing their Representative Offices”);
- c) to counter illegal capital flight in foreign trade, the Bank of Russia jointly with the State Customs Committee upgraded the regulatory framework of foreign exchange control over export operations, extending from January 1, 2002, customs and banking foreign exchange controls to settlements effected in the following customs export regimes: re-export, temporary export and the processing of goods outside the customs territory.

4. GKO—OFZ MARKET AND OPEN-MARKET OPERATIONS

To facilitate the implementation of the policy of upgrading the system of monetary regulation, the Bank of Russia issued the following regulations:

- Provision No. 176-P, dated January 11, 2002, “On the Procedure for Selling Government Securities by the Bank of Russia with an Obligation of Reverse Repurchase.” Four OFZ auctions were held by the Bank of Russia in 2002 and in February and March 2002 the Bank of Russia sold federal loan bonds on the secondary market. The total value of funds raised through reverse repurchase operations amounted to 2.8 billion rubles;
- Order No. OD-740, dated November 10, 2002, “On Direct Repo Transactions between the Bank of Russia and Credit Institutions.”

Auctions where GKO—OFZ market dealers buy funds have been held since November 18, 2002. By the end of the year, the total value of refinancing through direct repo operations had totalled 26.1 billion rubles.

To upgrade the mechanism of open-market operations, the Bank of Russia carried out the following measures:

- pursuant to Article 121 of the 2003 Federal Budget Law, the Bank of Russia approved and submitted to the Finance Ministry for approval a plan for refinancing up to 300 billion rubles of OFZ bonds in its portfolio without changing the overall bond redemption schedule;
- transactions with Bank of Russia bonds (OBR) were added to the list of open-market operations (Article 39 of the Federal Law on

the Central Bank of the Russian Federation (Bank of Russia);

- the Bank of Russia submitted to the Finance Ministry draft amendments to the Securities Market Law and Law on the Protection of the Legitimate Interests of Investors, which lifted all restrictions on the issue of OBR bonds.

The following regulations were issued to ease controls over non-resident operations on the GKO—OFZ market:

- Ordinance No. 1139, dated April 16, 2002, “On the Transfer of Securities Accounted for in Special Non-resident C-type Accounts.” The document allowed the transfer of securities between “depo” accounts of different holders without effecting purchase/sale transactions.
- Ordinance No. 1155, dated June 3, 2002, “On Establishing the Procedure for Transferring Securities Accounted for in Non-resident C-type Accounts to the Main Sections of the Non-resident Deposit Account.” The regulation permitted the transfer of corporate securities and regional government bonds to the main sections of “depo” accounts.

- Ordinance No. 1156, dated June 3, 2002, “On Establishing the Procedure for Depositing GKO and OFZ Bonds Kept in C-type Accounts and Subsequently Transferring Receipts from their Sale (Redemption) to Special Non-resident C-type (Conversion) Accounts.” The document allowed non-residents to repatriate each month their receipts from the sale (redemption) of one-twelfth of the value of government bonds transferred to the transit section.

- Ordinance No. 1157, dated June 3, 2002, “On Amending Bank of Russia Ordinance No. 987-U, Dated June 27, 2001, ‘On the Transfer of Funds on Special Non-resident C-type (Investment) Accounts and the Period of Time During Which Non-resident Funds Should Be Kept in Transit Accounts.’” The regulation reduced to four months the time period during which non-residents were required to keep funds in transit accounts.

To increase the liquidity of the GKO—OFZ market, the Bank of Russia in 2002 decided to extend the duration of the government securities trading session by 30 minutes.

MAJOR ACTIONS UNDERTAKEN IN 2002 TO UPGRADE BANKING REGULATION AND SUPERVISION

MEASURES TAKEN TO UPGRADE OFF-SITE SUPERVISION AND INSPECTION OF CREDIT INSTITUTIONS

To establish the procedure for compiling consolidated statements by credit and non-credit institutions, presenting them to the Bank of Russia and using data from consolidated statements for the purposes of banking supervision, the Bank of Russia issued Provision No. 191-P, dated July 30, 2002, "On Consolidated Statements" and Ordinance No. 1114-U, dated February 21, 2002, "On Amending Bank of Russia Provision No. 85-P, dated August 5, 1999, 'On the Procedure for Using Data Reported by Non-credit Institution Members of a Group in Compiling Consolidated Statements by Credit Institutions.'"

In connection with the change in the procedure for accounting for securities, which required all securities to be divided into listed and unlisted (Bank of Russia Ordinance No. 1054-U, dated November 20, 2001, "On Amending Accounting Rules for Credit Institutions in the Russian Federation No. 61, Dated June 18, 1997"), the Bank of Russia issued the following documents:

- Ordinance No. 1127-U, dated March 20, 2002, "On Amending Bank of Russia Provision No. 159-P, Dated November 26, 2001, 'On the Methodology of Calculating Own Funds (Capital) of Credit Institutions;'"
- Ordinance No. 1128-U, dated March 20, 2002, "On Amending Bank of Russia Instruction No. 1, Dated October 1, 1997, 'On the Procedure for Regulating the Activities of Banks.'"

The Bank of Russia also issued Ordinance No. 1141-U, dated April 18, 2002, "On Eliminating Discrepancies in Bank of Russia Regulations," which stipulated that Bank of Russia Provision No. 137-P, dated April 12, 2001, should not apply to doubtful and (or) bad debts recognised as such for the purposes of tax accounting in connection with the coming into force of Section 25 of Part Two of the Tax Code of the Russian Federation.

The Bank of Russia revised some of the principles of regulating currency risk of credit institutions, setting a single limit on balance sheet and off-balance sheet instruments as the foreign exchange market stabilised and amended the procedure for regulating the open currency position limits by authorised banks by using the currency position of capital. These changes were put into effect by Bank of Russia Ordinance No. 1142-U, dated April 19, 2002, "On Amending Bank of Russia Instruction No. 41, Dated May 22, 1996, 'On Setting Open Currency Position Limits and Monitoring Compliance by Authorised Banks.'"

The Bank of Russia issued Ordinance No. 1147-U, dated May 6, 2002, "On Amending Bank of Russia Instruction No. 1, Dated October 1, 1997, 'On the Procedure for Regulating the Activities of Banks,'" in connection with the issue of Bank of Russia Ordinance No. 1118-U, dated March 13, 2002, "On Amending Accounting Rules for Credit Institutions in the Russian

Federation No. 61, Dated June 18, 1997,” which introduced some changes in the accounting procedures used by credit institutions with regard to federal budget funds.

In connection with the changes made in the Federal Law on Joint-Stock Companies, the Bank of Russia issued Ordinance No. 1181-U, dated July 25, 2002, “On Invalidating Bank of Russia Provision No. 112-P, Dated April 24, 2000, ‘On the Procedure for Creating and Using a Reserve Fund by a Credit Institution.’”

After the Russian President approved a new approach to the development of economic relations with the Latvian Republic, the Bank of Russia issued Ordinance No. 1196-U, dated October 1, 2002, “On Invalidating Bank of Russia Ordinance No. 240-U, Dated May 27, 1998, ‘On the Procedure for Creating a Reserve for Operations Conducted by Resident Credit Institutions of the Russian Federation with Resident Legal Entities and Private Individuals of Latvia.’”

Drafting amendments to its foreign exchange regulation and foreign exchange control envisaging the division of offshore zones into three groups, depending on the extent of their reliability and compliance with international banking regulation and supervision standards, the Bank of Russia drafted an ordinance “On Creating a Reserve for Operations Conducted by Credit Institutions with Offshore Zone Residents.” This draft regulation provided for building a more effective system of requirements to reserve operations conducted by Russian credit institutions with offshore-based commercial representations of resident banks of industrialised nations. It also established a procedure for creating a reserve for operations with letters of credit and syndicated loans, reworded the definition of forward transactions and operations involving the issue of guarantees and included in the reserve calculation the corresponding assets revalued owing to the change in the ruble’s exchange rate against foreign currencies.

The Bank of Russia drafted the Official Clarification “On the Application of Bank of Russia Ordinance No. 606-U, dated July 13, 1999, ‘On Creating a Reserve for Operations Conducted by Russian Credit Institutions with Offshore Zone Residents,’” explaining that Russian credit institutions need not make a reserve for operations

conducted through correspondent accounts opened in the clearing centres of Ireland and the Grand Duchy of Luxembourg.

In 2002, the Bank of Russia carried out measures aimed at implementing the provisions of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism. Specifically, it supplied credit institutions with recommendations on how they should work out internal control rules directed against money laundering and terrorist financing and established the procedure for presenting data to the Financial Monitoring Committee (FMC) and for exercising control over the observance of the anti-laundering legislation by credit institutions.

The measures taken by the Bank of Russia in this area are as follows:

- the Bank of Russia worked out methodological recommendations for inspecting credit institutions from the viewpoint of their observance of the legislation designed to counter money laundering and terrorist financing (Bank of Russia Operating Instruction No. 27-T, dated March 6, 2002, “On Conducting Inspections of Credit Institutions”);
- taking into consideration the changes made in legislation and the experience gained in 2002, the Bank of Russia upgraded the procedure for reporting to the FMC operations conducted by credit institutions with money and other property subject to mandatory control and other operations that may involve money laundering (Bank of Russia Provision No. 207-P, dated December 20, 2002, “On the Procedure for Presenting Data by Credit Institutions to the Authorised Body, Stipulated by the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism”);
- the Bank of Russia determined the specifics of exercising control over the organisation and functioning in credit institutions of specialised internal control systems designed to counter money laundering and terrorist financing (Bank of Russia Operating Instruction No. 177-T, dated December 24, 2002, “On Bank of Russia Control over the Observance by Credit Institutions of the Federal Law on Countering the Legalisation (Laundering)

of Criminally Obtained Incomes and the Financing of Terrorism”);

- taking into consideration that additional provisions for the revocation and cancellation of banking licences were included in the Federal Law on Banks and Banking Activities, such as repeated violations within one year of Articles 6 and 7 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism, the Bank of Russia amended its Ordinance No. 1152-U, dated May 24, 2002,

“On Amending Bank of Russia Ordinance No. 1025-U, dated August 27, 2001, ‘On the Procedure for Initiating the Revocation of Banking Licences from Credit Institutions in Accordance with Part 1 and Part 2 of Article 20 of the Federal Law on Banks and Banking Activities’” and Ordinance No. 1154-U, dated May 28, 2002, “On Amending Bank of Russia Provision No. 264, dated April 2, 1996, ‘On the Revocation of Banking Licences from Credit Institutions in the Russian Federation’”).

MEASURES TAKEN TO UPGRADE THE PROCEDURE FOR REGISTERING CREDIT INSTITUTIONS AND LICENSING BANKING ACTIVITIES AND REGISTERING SECURITY ISSUES OF CREDIT INSTITUTIONS

To ensure the transparency of the structure of ownership of stakes (shares) in credit institutions, the Bank of Russia issued Provision No. 184-P, dated March 19, 2002, “On the Procedure for Registering and Providing Information on the Affiliated Persons in Credit Institutions,” which provided for collecting and analysing information on persons capable of exerting significant influence on the activities of credit institutions. The Bank of Russia also issued Ordinance No. 1135-U, dated April 11, 2002, “On Amending Bank of Russia Ordinance No. 7-U, Dated October 24, 1997, ‘On the Procedure for Compiling and Presenting Reports by Credit Institutions to the Central Bank of the Russian Federation,’” which established the form of the report on a credit institution’s affiliated persons.

In pursuance of Article 4 of the Federal Law on Banks and Banking Activities, the Bank of Russia issued Provision No. 197-P, dated September 19, 2002, “On the Procedure for Providing Information on the Bank Holding Companies,” which established the procedure for presenting information to the Bank of Russia by the parent organisation (managing company) of a bank holding company on the makeup of the bank holding company and the nature of the relationship between its members.

In 2002, the Bank of Russia issued a new version of its Instruction No. 102-I, dated July 22, 2002, “On the Procedure for Issuing and Registering Securities by Credit Institutions in the Russian Federation.” In connection with the amendments made to the Federal Law on Joint-Stock Companies (No. 134-FZ, dated October 31, 2002), the Instruction changed the procedure used by the management of a credit institution in making the decision to place securities and in connection with the requirements of the Federal Law on the Securities Market, it specified the provisions on the range of issuers who are required to disclose information in the form of quarterly reports on securities and material facts (developments and actions) in their financial and business activities. In addition, the Bank of Russia specified the provisions regarding control over the observance of banking legislation and Bank of Russia regulations by purchasers in determining the grounds for the refusal to register, suspend or invalidate a securities issue.

In continuing to take steps to create equal conditions for the participation of residents and non-residents in the Russian banking system, the Bank of Russia issued Ordinance No. 1129-U, dated March 20, 2002, “On Amending Bank of Russia Provision No. 437, dated April 23, 1997, ‘On the Specifics of the Registration of Credit Institutions

with Foreign Stakes and on the Procedure for Obtaining Bank of Russia Prior Permission to Increase the Authorised Capital of a Registered Credit Institution with Non-resident Funds,” which stipulated that the same requirements should be made to the minimum amount of the authorised capital of a subsidiary credit institution set up by a foreign bank as for the subsidiaries opened by Russian credit institutions.

To optimise the flows of information, the Bank of Russia issued Ordinance No. 1153-U, dated May 24, 2002, “On Keeping Registers of Paper Documents by Credit Institutions and Their Branches and Divisions,” which cancelled the requirement for Bank of Russia regional branches to keep registers of paper documents of credit institutions and their branches and divisions.

Pursuant to subparagraph 4 of Article 14 of the Federal Law on Banks and Banking Activities, the Bank of Russia issued Ordinance No. 1176-U, dated July 5, 2002, “On Business Plans of Credit Institutions,” which stipulated the contents of credit institutions’ business plans and established the procedure for presenting them to the Bank of Russia. The Ordinance was drafted to enable the Bank of Russia to evaluate:

- the ability of a credit institution to ensure its financial stability, meet prudential standards and reserve requirements and comply with the requirements of the law with regard to the interests of creditors and depositors;
- the ability of a credit institution to function for a long period of time as a profitable commercial enterprise;
- the efficiency of the risk management system of a credit institution.

Bank of Russia Ordinance No. 1177-U, dated July 5, 2002, “On Amending Bank of Russia Instruction No. 75-I, dated July 23, 1998, ‘On the Procedure for Applying Federal Laws Regulating the Procedure for Registering Credit Institutions and Licensing Banking Activities’” brought these procedures into compliance with the amended federal legislation (in respect to cooperation with the Ministry of Taxes and Duties on matters relating to the state registration of credit institutions). In addition, new, more stringent requirements were imposed on credit institutions from the viewpoint of a credit institution’s financial stability and openness of

the structure of ownership of stakes (shares) in a credit institution.

In its Ordinance No. 1186-U, dated August 14, 2002, “On Paying up the Authorised Capital of Credit Institutions with Funds from Budgets of All Levels, Government Extrabudgetary Funds and Free Funds and Other Property Owned by Federal and Local Government Bodies,” the Bank of Russia drew up a list of documents that a credit institution must present to the corresponding Bank of Russia regional branch for the latter to examine the propriety of the participation in and payment of the credit institution’s authorised capital and revised the procedure for monitoring compliance with banking legislation in the case when shares (stakes) in a credit institution have been purchased by the federal, regional and local governments.

With its Operating Instruction No. 82-T, dated June 27, 2002, “On the Procedure for Cooperation between the Ministry of Taxes and Duties and Bank of Russia on Matters Pertaining to the State Registration of Credit Institutions,” the Bank of Russia notified its regional branches about the above procedure jointly established by the Bank of Russia and the Ministry of Taxes and Duties (No. BG-16-09/86 and No. 01-33/2202, dated June 26, 2002) for the purpose of efficient document exchange.

In connection with Russian Federation Government Resolution No. 454-r, dated April 2, 2002, on the cessation of the participation of state enterprises and government organisations in the authorised capital of credit institutions, the Bank of Russia drafted Operating Instruction No. 102-T, dated June 23, 2002, “On Passing Information to the Property Ministry,” which established the procedure which the Bank of Russia regional branches should use in reporting the discovered instances of such participation to the Property Ministry.

By its Operating Instruction No. 171-T, dated December 10, 2002, “On the Procedure for Cooperation between the Ministry of Taxes and Duties and Bank of Russia on Matters Pertaining to the Passing of Registration Cases of Credit Institutions,” the Bank of Russia notified its regional branches about the above procedure jointly established by the Bank of Russia and the Ministry of Taxes and Duties (No. BG-16-09/145 and

No. 01-33-2/4393, dated December 9, 2002). The new registration procedure for legal entities requires the transfer of their registration cases to the Ministry of Taxes and Duties from the Bank of Russia and other bodies which previously registered legal entities. The new regulation contains the list of documents that must be passed on and the procedure for doing so.

Bank of Russia Operating Instruction No. 180-T, dated December 27, 2002, "On Some Issues Relating to the Application of the Legislation on the Notification of the Bank of Russia about the Election of Members of the Boards of Directors (Supervisory Boards) of Credit Institutions," drafted in connection with the changes made in the applicable federal legislation, contained recommendations on the procedure for using the criteria established by law for evaluating the business reputation of candidates for the position of members of the boards of directors (supervisory boards) of credit institutions pursuant to Articles 11.1 and 16 of the Federal Law on Banks and Banking Activities and clarified the procedure for notifying the Bank of Russia regional branches about the election of members of the boards of directors (supervisory boards) of credit institutions and the procedure for pena-

lising credit institutions for electing persons whose business reputation does not meet the qualification requirements and for failing to obey a Bank of Russia order to replace a member of the board of directors (supervisory board) within the required period of time.

In compliance with the requirements of Bank of Russia Ordinance No. 586-U, dated June 24, 1999, "On the Minimum Amount of the Authorised Capital of the Newly-Created Credit Institutions and the Amount of Own Funds (Capital) of the Banks Applying for a General Banking Licence and Credit Institutions Applying for the Change of Status from that of a Non-Bank Credit Institution to that of a Bank," the Bank of Russia issued Operating Instructions No. 1-T, dated January 3, 2002, No. 40-T, dated April 5, 2002, No. 86-T, dated July 3, 2002, No. 133-T, dated October 2, 2002, and No 186-T, dated December 31, 2002, which established on a quarterly basis the ruble equivalents of the minimum amount of authorised capital for the newly-created credit institutions and the amount of own funds (capital) of the banks applying for a general banking licence and credit institutions applying for the change of status from that of a non-bank credit institution to that of a bank.

MEASURES TAKEN TO IMPROVE THE METHODS OF PREVENTING BANKRUPTCIES OF CREDIT INSTITUTIONS, REVOKING BANKING LICENCES AND CONTROLLING LIQUIDATION PROCEDURES IN CREDIT INSTITUTIONS

Bank of Russia Ordinance No. 1154-U, dated May 28, 2002, "On Amending Bank of Russia Provision No. 264, dated April 2, 1996, 'On the Revocation of Banking Licences from Credit Institutions in the Russian Federation'" brought the licence revocation procedure into compliance with the amended Federal Law on Banks and Banking Activities, which stipulated that the Bank of Russia must revoke the banking licence from a credit institution in the following cases:

- if the credit institution's capital adequacy ratio is less than 2%;
- if the credit institution fails to comply with the Bank of Russia requirement to match the size

of its authorised capital with its own funds (capital);

- if the credit institution is unable to meet creditors' claims under pecuniary obligations.

It was stipulated that the Bank of Russia must appoint a provisional administration to a credit institution no later than on the day following the licence revocation date.

In connection with the amendments made in Article 20 of the Federal Law on Banks and Banking Activities, the Bank of Russia amended its Ordinance No. 1025-U, dated August 27, 2001, "On the Procedure for Initiating the Revocation of Banking Licence from Credit Institutions in

Accordance with Part 1 and Part 2 of Article 20 of the Federal Law on Banks and Banking Activities,” which stipulated that banking licence should be revoked from a credit institution if it has repeatedly violated within one year the provisions of Articles 6 and 7 (except for point 3 of Article 7) of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes (Bank of Russia Ordinance No. 1152-U, dated May 24, 2002).

In compliance with the requirements of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, which stipulates that a Bank of Russia employee may perform the functions of the receiver in the absence of the bankrupt credit institution, the Bank of Russia issued Ordinance No. 1108-U, dated February 12, 2002, “On the Procedure for Appointing a Bank of Russia Employee as a Receiver in the Absence of a Bankrupt Credit Institution and his Functions,” which established:

- the procedure for submitting to an arbitration court the proposal for nominating a candidate for the appointment as a receiver;
- the powers and responsibility of the receiver;
- the procedure for creating from the staff of the supervisory division a reserve of candidates for the appointment as receivers in the absence of a bankrupt credit institution;
- the procedure for drawing up a budget of expenditure;
- the reporting procedure for the receiver.

Bank of Russia Provision No. 175-P, dated January 11, 2002, “On Amending Bank of Russia Provision No. 132-P, Dated January 17, 2001, ‘On Conducting Bank of Russia Inspections of the Activities of Receivers in Bankrupt Credit Institutions’” stipulated that the Bank of Russia should inspect the liquidators of credit institutions and established the duties of receivers and liquidators in assisting inspections.

Bank of Russia Ordinance No. 1162-U, dated June 13, 2002, “On Amending Bank of Russia Provision No. 125-P, Dated October 4, 2000, ‘On the Procedure for Compiling an Interim Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution and Their Approval by Bank of Russia Regional Branches’” provided for tightening controls over the liquidation of credit institutions that had their licences revoked. Specifically, it stipulated that the liquidator organisation should take stock of the property and liabilities of the credit institution being liquidated, examining and confirming in writing their presence and condition and evaluate the property of the credit institution. In addition, the Ordinance spelled out the details of the voluntary liquidation of a credit institution.

Overall, in 2002 the Bank of Russia issued 58 regulations and operating instructions pertaining to the licensing and financial rehabilitation of credit institutions, including three Provisions, one Instruction, 18 Ordinances and 36 Operating Instructions.

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Table 1

DYNAMICS OF MAJOR MACROECONOMIC INDICATORS (as % of previous year)

	2000	2001	2002
Gross domestic product	109.0	105.0	104.3
of which:			
Production of goods	111.0	106.5	103.2
of which:			
— industry	109.5	104.9	103.7
— agriculture	112.7	111.4	101.5
— construction	115.9	109.9	102.7
Production of services	107.5	103.5	105.4
Market services	108.8	104.2	105.9
of which:			
— transport and communications	106.0	105.3	105.6
— trade, public catering and procurements	113.0	103.9	108.1
Non-market services	101.3	99.4	102.4
GDP deflator index, times	1.405	1.178	1.152
Consumer price index (December to December of previous year), times	1.202	1.186	1.151
Labour productivity	105.9	104.7	101.8
Fixed capital investment	117.4	110.0	102.6
Retail trade turnover	108.8	110.7	109.2
Unemployment rate according to ILO methodology, as % of economically active population, annualised average	10.5	9.0	8.0

Note. Tables 1 to 11 are based on data compiled by State Statistics Committee (Goskomstat) and Bank of Russia calculations (as of April 25, 2003); Tables 12 to 16 are based on data reported by the State Customs Committee and Goskomstat (as of April 25, 2003), which 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 that have not been registered by the State Customs Committee, export and import volumes of goods that have not crossed the Russian border and some other elements. State Customs Committee data are necessary for analysis of commodity and geographical structure of Russia's foreign trade.

Table 2

INFLATION STRUCTURE

	2001		2002	
	Growth in percentage points	% contribution to growth	Growth in percentage points	% contribution to growth
General rate of inflation (December to December)	18.6	100	15.1	100
Inflation growth due to:				
— core inflation*	13.2	70.8	8.4	55.6
— growth in prices of goods and services not included in core inflation* calculation	5.4	29.2	6.7	44.4
of which:				
— growth in vegetable and fruit prices	1.4	7.4	1.8	11.7
— growth in regulated service and fuel prices	4.1	21.8	4.9	32.7

* Calculated according to Goskomstat methodology.

Table 3

GDP PRODUCTION STRUCTURE IN BASIC PRICES (%)*

	2000	2001	2002
Gross domestic product	100	100	100
Of which:			
Production of goods	45.0	42.9	40.4
of which:			
— industry	31.4	28.1	26.5
— agriculture	6.4	6.5	5.8
— construction	6.6	7.5	7.3
Production of services	55.0	57.1	59.6
Market services	46.6	48.0	49.9
of which:			
— transport and communications	9.0	9.3	9.9
— trade, public catering and procurements	23.7	22.5	22.7
Non-market services	8.4	9.1	9.7

* Unlike GDP in market prices, GDP in basic prices does not include food taxes but includes food subsidies. Data in basic prices are shown without excluding indirectly measured financial intermediation services.

Table 4

STRUCTURE OF GDP CALCULATED BY INCOME USE METHOD IN CURRENT MARKET PRICES (%)

	2000	2001	2002
GDP calculated by income use method	100	100	100
Expenditure on final consumption	61.3	65.2	68.3
of which:			
— households	45.1	47.8	50.0
— government agencies and non-profit organisations providing services to households	16.2	17.4	18.3
Gross accumulation	18.6	22.1	21.1
of which:			
— gross fixed capital formation (including net purchase of valuables)	16.9	18.7	17.9
— change in inventories	1.7	3.4	3.2
Net exports of goods and services	20.1	12.7	10.6

Table 5

DYNAMICS OF GDP CONSUMPTION ELEMENTS IN COMPARABLE PRICES (as % of previous year)

	2000	2001	2002
GDP	109.0	105.0	104.3
of which:			
Expenditure on final consumption	107.4	107.2	106.9
— household sector	109.3	109.9	108.5
— government agencies	101.4	99.2	102.4
— non-profit organisations	100.2	101.9	104.6
Gross accumulation (including net purchase of valuables)	131.9	119.3	101.6
Net exports of goods and services	93.8	85.0	95.6

Table 6

STRUCTURE OF GDP FORMATION BY SOURCE OF INCOME (%)

	2000	2001	2002
Gross domestic product	100	100	100
of which:			
— wages and salaries of hired workers and employees (including hidden wages and salaries)	40.2	42.7	46.4
— net taxes on output and imports	17.1	15.5	13.6
— gross profit and gross mixed income	42.7	41.8	40.0

Table 7

BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENDITURE IN RUSSIA (million rubles)

	2001	2002	2002 as % of 2001
Money income	5,318,352.8	6,790,704.9	127.7
Wages and salaries	3,437,753.0	4,493,438.0	130.7
% share	64.6	66.2	
Social transfers	812,034.0	1,013,850.0	124.9
% share	15.3	14.9	
Income from entrepreneurial activities	661,789.0	820,117.0	123.9
% share	12.4	12.1	
Income from property	307,517.0	332,037.0	108.0
% share	5.8	4.9	
Other income	99,259.8	131,262.9	132.2
% share	1.9	1.9	
Money expenditure	4,438,361.8	5,592,073.5	126.0
— consumer expenditure	3,965,363.8	4,968,588.2	125.3
— compulsory payments and contributions	472,998.0	623,485.3	131.8
Growth in savings and cash in hand and purchase of foreign exchange	879,991.0	1,198,631.4	136.2
— savings*	475,196.4	707,751.9	148.9
of which:			
— deposits and securities	195,774.0	249,009.0	127.2
— purchase of foreign exchange	300,825.6	371,645.0	123.5
— cash in hand	103,969.0	119,234.5	114.7
For the record:			
% share in money income of			
— consumer expenditure	74.6	73.2	
— compulsory payments and contributions	8.9	9.2	
— savings	8.9	10.4	
of which:			
— deposits and securities	3.7	3.7	
— purchase of foreign exchange	5.7	5.5	
— cash in hand	2.0	1.8	
Disposable money income	4,846,684.1	6,169,969.6	127.3
% share in them of			
— consumer expenditure	81.8	80.5	
— savings	9.8	11.5	
of which:			
— deposits and securities	4.0	4.0	
— purchase of foreign exchange	6.2	6.0	
— cash in hand	2.1	1.9	

* Savings include increase (decrease) in deposits, purchase of securities, change in accounts of self-employed entrepreneurs, change in debt on loans and purchase of real estate.

Table 8

INCOME DIFFERENTIATION OF POPULATION

	2000	2001	2002
Funds ratio, times*	13.8	14	14
Gini coefficient, units**	0.399	0.398	0.398

* The funds ratio is the ratio between income averages within the population groups compared or between their shares in total income.

** The Gini coefficient (income concentration index) shows the extent to which the actual distribution of household income deviates from the even distribution line. In the even distribution of income the Gini coefficient tends towards zero; the greater the income differentiation of the population, the closer the Gini coefficient to 1.

Table 9

DYNAMICS OF MAJOR CORPORATE FINANCIAL PERFORMANCE INDICATORS IN 2002 (as % of 2001)

	Profit (loss)	Working assets		Payables		Receivables	
		total	of which: monetary funds	total	of which: overdue debt	total	of which: overdue debt
Total	81.1	123.0	139.2	114.2	91.8	114.1	90.4
Industry	73.7	118.8	161.7	109.4	87.5	108.5	95.2
of which:							
— electric-power industry	45.3	105.9	119.4	83.7	70.4	88.9	84.7
— fuel sector	75.4	127.5	262.7	125.2	91.7	121.0	105.5
— ferrous metallurgy	127.1	123.2	215.7	110.0	82.9	103.3	77.4
— non-ferrous metallurgy	61.1	95.7	92.3	102.4	92.4	96.6	89.9
— chemical and petrochemical industry	42.5	117.3	118.0	102.1	100.6	115.8	120.8
— machine-building and metalworking	67.7	121.7	132.4	110.8	89.9	109.5	95.5
— timber, woodworking and pulp-and-paper industry	65.7	124.2	132.8	103.7	94.7	136.2	110.1
— building materials	87.4	127.2	130.5	112.2	94.0	121.1	109.8
— light industry	—*	123.9	128.8	108.9	104.8	111.1	98.7
— food industry	98.4	131.6	119.5	113.4	89.5	116.3	85.7
Agriculture	7.2	115.6	125.0	110.0	99.6	118.5	109.0
Transport	74.7	123.6	154.4	105.3	71.6	102.5	99.4
Communications	135.3	117.6	94.6	123.6	93.0	139.8	89.8
Construction	72.0	123.3	145.3	115.6	95.8	110.9	90.0
Trade and public catering	80.6	125.9	127.4	110.3	109.2	108.0	66.4
Housing and communal services sector	by 4 times**	123.3	106.5	109.6	101.6	112.6	99.3

* 2002 — loss, 2001 — profit.

** Losses.

Table 10

**STATE OF PAYMENTS FOR PRODUCTS SHIPPED (WORK PERFORMED AND SERVICES PROVIDED)
BY MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES**

	2001*		2002	
	billion rubles	structure of payments, %	billion rubles	structure of payments, %
Volume of products shipped	4,971.2		5,741.7	
of which				
— paid-for products	4,489.8	100.0	5,190.2	100.0
of which products paid for with:				
— money	3,476.5	77.4	4,255.2	82.0
— promissory notes	347.8	7.7	327.6	6.3
— securities	3.6	0.1	1.4	0.0
— assignment of claims on pecuniary obligations	17.0	0.4	17.5	0.3
— netting of claims	425.5	9.5	371.9	7.2
— barter arrangements	103.9	2.3	78.4	1.5
— other kinds of settlements	116.7	2.6	138.2	2.7

* 2002 structure and methodology.

Table 11

RUSSIA'S FOREIGN TRADE
(calculated by balance of payments methodology)

	Billion US dollars						Growth rate as % of previous year					
	1997	1998	1999	2000	2001	2002	1997	1998	1999	2000	2001	2002
With all countries												
Turnover	158.9	132.5	115.1	149.9	155.6	168.2	100.7	83.4	86.9	130.2	103.8	108.1
Exports	86.9	74.4	75.6	105.0	101.9	107.2	96.9	85.7	101.5	139.0	97.0	105.3
Imports	72.0	58.0	39.5	44.9	53.8	61.0	105.7	80.6	68.1	113.5	119.8	113.4
Balance	14.9	16.4	36.0	60.2	48.1	46.3	69.1	110.2	219.2	167.1	80.0	96.2
With non-CIS countries												
Turnover	121.2	102.4	92.7	122.2	127.3	139.8	102.4	84.4	90.6	131.8	104.2	109.8
Exports	67.8	58.7	63.6	90.8	86.6	91.0	95.4	86.5	108.4	142.8	95.4	105.0
Imports	53.4	43.7	29.2	31.4	40.7	48.8	112.9	81.9	66.7	107.8	129.6	119.9
Balance	14.4	14.9	34.4	59.3	45.9	42.2	60.5	103.6	230.3	172.5	77.3	91.9
With CIS countries												
Turnover	37.7	30.1	22.4	27.7	28.3	28.4	95.6	79.9	74.3	123.7	102.3	100.4
Exports	19.1	15.8	12.0	14.2	15.3	16.3	102.7	82.8	76.0	118.8	107.2	106.6
Imports	18.6	14.3	10.4	13.4	13.0	12.2	89.3	76.9	72.6	129.4	97.1	93.2
Balance	0.5	1.5	1.6	0.8	2.2	4.1	—	305.9	108.3	50.9	271.1	185.2

Table 12

COMMODITY STRUCTURE OF RUSSIAN EXPORTS

	Structure, %						Growth rates as % of previous year					
	1997	1998	1999	2000	2001	2002	1997	1998	1999	2000	2001	2002
Total	100	100	100	100	100	100	100	84	102	141	97	106
Mineral products,	48.3	42.8	44.8	53.8	54.7	55.0	100	74	107	170	98	107
of which:												
— fuel and energy	47.4	41.6	44.0	53.1	54.1	54.4	100	74	108	171	99	107
of which:												
— oil	17.4	14.4	19.4	24.5	24.6	27.1	93	69	138	179	97	117
— natural gas	19.3	18.8	15.6	16.1	17.8	15.0	112	82	85	147	107	89
Metals and metal products	20.3	21.6	20.1	16.9	14.7	14.1	104	89	95	119	84	102
Machinery, equipment and transport vehicles	10.5	11.5	10.8	8.8	10.4	9.4	109	92	96	115	115	96
Chemicals and rubber	8.5	8.6	8.5	7.2	7.5	6.9	97	85	101	120	101	98
Timber and pulp-and-paper products	4.2	5.0	5.1	4.3	4.4	4.6	100	100	103	120	99	111
Gemstones, precious metals and articles made of them	3.8	5.9	6.0	4.8	4.1	4.5	82	131	104	113	83	116
Foodstuffs and agricultural raw materials (except textiles)	1.9	2.0	1.3	1.6	1.9	2.5	89	88	70	164	117	143
Textiles, textile goods and footwear	1.1	1.1	1.1	0.8	0.8	0.8	90	89	101	101	98	110
Leather, furs and articles made of them	0.5	0.6	0.3	0.3	0.2	0.3	100	100	52	130	85	117
Other goods	0.9	1.0	1.9	1.6	1.3	1.9	67	88	199	115	82	153
For the record:												
Total exports, billion US dollars (data compiled by State Customs Committee and State Statistics Committee)	85.0	71.3	72.9	103.1	100.0	106.2						

Table 13

COMMODITY STRUCTURE OF RUSSIAN IMPORTS

	Structure, %						Growth rates as % of previous year					
	1997	1998	1999	2000	2001	2002	1997	1998	1999	2000	2001	2002
Total	100	100	100	100	100	100	115	82	70	112	124	110
Machinery, equipment and transport vehicles	35.1	35.8	33.1	31.4	34.0	36.1	127	84	64	106	134	117
Foodstuffs and agricultural raw materials (except textiles)	25.1	24.6	26.6	21.8	22.0	22.4	116	80	75	91	125	112
Chemicals and rubber	14.3	15.1	16.1	17.9	18.2	16.6	115	87	74	125	126	101
Metals and metal products	7.0	6.9	7.2	8.1	7.2	6.3	95	81	73	126	110	96
Textiles, textile products and footwear	4.5	4.1	5.2	5.9	5.5	5.3	109	75	88	126	115	106
Timber and pulp-and-paper products	3.6	3.9	3.6	3.8	4.0	4.3	127	89	63	120	130	118
Mineral products,	5.8	5.5	4.0	6.3	4.1	3.7	111	77	50	177	80	100
of which:												
— fuel and energy products	4.3	4.1	2.6	4.3	2.5	2.2	115	78	43	188	71	99
Leather, furs and articles made of them	0.4	0.2	0.3	0.4	0.5	0.4	116	50	87	146	175	93
Gemstones, precious metals and articles made of them	0.2	0.1	0.2	0.2	0.1	0.1	17	34	130	161	35	142
Other goods	4.1	3.8	3.8	4.1	4.5	4.8	105	81	70	118	134	118
For the record:												
Total imports, billion US dollars (data compiled by State Customs Committee and State Statistics Committee)	53.0	43.6	30.3	33.9	41.9	46.2						

Table 14

RUSSIA'S FOREIGN TRADE TURNOVER WITH MAJOR TRADING PARTNERS

	Structure, %						Growth rates as % of previous year					
	1997	1998	1999	2000	2001	2002	1997	1998	1999	2000	2001	2002
Total	100	100	100	100	100	100	105	83	90	133	104	107
OECD	57.3	58.4	58.2	57.4	58.0	57.9	126	85	89	131	105	107
EU	34.5	33.9	34.9	35.1	36.7	36.5	110	82	93	133	108	107
CIS	22.3	21.8	18.5	18.6	18.1	16.9	101	81	76	133	101	100
CEE	13.5	12.4	12.8	14.8	13.8	12.8	113	76	92	154	96	100
Baltic countries	3.0	2.6	3.0	3.8	3.0	3.0	126	71	107	168	81	108
Germany	9.5	9.8	10.1	9.6	10.6	9.6	110	85	93	126	114	97
Belarus	6.8	8.1	6.8	6.8	6.6	6.5	144	98	75	133	101	106
Italy	4.5	4.4	4.8	6.2	6.4	6.3	120	81	98	172	108	106
China	3.8	3.8	4.3	4.5	5.1	6.0	92	83	102	140	116	127
Ukraine	8.1	7.7	7.1	6.3	6.4	5.9	81	79	83	119	105	99
The Netherlands	4.2	4.2	4.2	3.7	3.9	5.4	133	85	90	117	109	149
USA	6.2	8.0	6.9	5.4	5.2	4.5	110	108	77	103	101	93
Switzerland	2.9	3.1	3.5	3.0	1.9	3.8	97	87	103	113	65	213
Poland	2.8	2.8	3.1	3.8	3.6	3.3	127	83	100	161	100	97
UK	3.1	3.6	3.5	4.0	3.7	3.2	100	97	85	155	95	93
France	2.3	2.7	2.4	2.3	2.9	3.0	112	95	80	126	134	109
Finland	3.4	3.1	3.3	3.0	3.1	2.9	108	76	96	121	108	101
Kazakhstan	3.8	3.3	2.5	3.2	3.4	2.9	93	72	69	169	107	91
Turkey	2.0	2.1	1.9	2.5	2.4	2.7	123	88	79	177	97	122
Japan	2.8	2.6	2.5	2.4	2.3	1.8	101	76	86	129	99	84
Other	33.6	30.8	33.2	33.3	32.5	32.2	102	76	97	133	101	106
For the record:												
Total foreign trade turnover, billion US dollars (data compiled by State Customs Committee and State Statistics Committee)	138.1	114.9	103.2	137.0	141.8	152.3						

Table 15

RUSSIAN EXPORTS TO MAJOR TRADING PARTNERS

	Structure, %						Growth rates as % of previous year					
	1997	1998	1999	2000	2001	2002	1997	1998	1999	2000	2001	2002
Total	100	100	100	100	100	100	100	84	102	141	97	106
OECD	56.9	58.2	59.4	59.3	58.5	57.4	118	86	104	141	96	104
EU	32.9	32.5	34.1	35.8	36.7	35.2	102	83	107	148	99	102
CIS	15.7	14.6	15.2	17.3	16.5	14.9	106	78	106	161	92	96
CEE	19.5	19.2	14.7	13.4	14.5	14.7	105	82	78	129	105	107
Baltic countries	3.7	3.2	3.9	4.8	3.8	3.8	117	72	126	174	77	106
Germany	7.7	8.0	8.5	9.0	9.2	7.5	97	88	108	149	100	87
Italy	4.2	4.5	5.2	7.0	7.4	7.0	126	90	117	193	102	100
The Netherlands	5.4	5.5	5.0	4.2	4.7	6.8	137	87	93	118	108	153
China	4.7	4.4	4.8	5.1	5.6	6.4	84	80	111	149	106	122
Ukraine	8.5	7.8	6.6	4.9	5.3	5.5	96	77	86	105	105	111
Belarus	5.5	6.5	5.2	5.4	5.3	5.5	133	100	81	148	95	111
Switzerland	4.2	4.4	4.6	3.7	2.3	5.0	95	88	107	115	60	231
USA	5.3	7.2	6.5	4.5	4.2	3.7	93	114	92	99	90	94
UK	3.3	4.2	4.0	4.5	4.3	3.6	89	104	98	162	92	88
Poland	3.0	3.1	3.6	4.3	4.2	3.5	118	87	120	171	94	88
Turkey	2.3	2.7	2.2	3.0	2.8	3.2	118	98	84	190	91	118
Finland	3.3	2.9	3.3	3.0	3.1	2.7	105	75	117	129	100	94
France	1.9	2.0	1.7	1.8	2.6	2.5	102	90	83	157	138	101
Kazakhstan	2.9	2.7	1.7	2.2	2.8	2.3	97	77	65	183	123	87
Japan	3.5	3.1	2.9	2.7	2.4	1.7	101	74	98	130	88	74
Other	34.5	31.0	34.3	34.6	33.8	33.1	94	76	113	143	95	104
For the record:												
Total exports, billion US dollars (data compiled by State Customs Committee and State Statistics Committee)	85.0	71.3	72.9	103.1	100.0	106.2						

Table 16

RUSSIAN IMPORTS FROM MAJOR TRADING PARTNERS

	Structure, %						Growth rates as % of previous year					
	1997	1998	1999	2000	2001	2002	1997	1998	1999	2000	2001	2002
Total	100	100	100	100	100	100	115	82	70	112	124	110
OECD	58.0	58.7	55.2	51.6	56.7	59.1	142	83	65	105	136	115
EU	36.9	36.1	36.9	32.9	36.7	39.4	123	80	71	100	138	118
CIS	26.8	26.0	27.5	34.2	26.7	22.1	98	79	74	139	96	91
CEE	10.1	8.8	7.0	7.2	7.3	8.0	134	72	55	116	126	121
Baltic countries	1.9	1.6	1.0	1.0	1.0	1.2	162	67	44	112	129	129
Germany	12.5	12.6	13.9	11.5	13.8	14.2	128	83	77	93	148	113
Belarus	9.0	10.6	10.6	10.9	9.7	8.8	158	96	70	115	110	99
Ukraine	7.5	7.5	8.3	10.8	9.2	7.0	63	82	77	144	105	84
USA	7.7	9.4	7.9	8.0	7.7	6.4	140	101	58	113	120	91
China	2.4	2.7	3.0	2.8	3.9	5.2	126	92	77	106	173	145
Italy	5.0	4.2	3.8	3.6	4.1	4.8	113	69	64	104	141	130
Kazakhstan	5.2	4.3	4.6	6.5	4.8	4.2	90	69	74	157	91	97
France	3.0	3.7	4.1	3.5	3.7	4.1	126	100	77	96	129	123
Finland	3.5	3.3	3.1	2.8	3.1	3.3	112	77	66	101	134	118
Poland	2.6	2.4	2.0	2.1	2.3	2.8	146	77	58	119	134	135
UK	2.8	2.8	2.2	2.5	2.4	2.4	131	82	55	127	116	112
The Netherlands	2.3	2.1	2.3	2.2	2.0	2.3	119	76	75	107	114	125
Japan	1.9	1.9	1.5	1.7	2.1	2.1	101	83	56	125	153	112
Turkey	1.5	1.2	1.0	1.0	1.2	1.6	138	65	61	112	148	140
Switzerland	1.0	1.0	1.0	0.8	0.9	0.9	108	81	73	88	144	106
Other	32.3	30.4	30.6	29.3	29.1	30.0	121	78	70	107	123	114
For the record:												
Total imports, billion US dollars (data compiled by State Customs Committee and State Statistics Committee)	53.0	43.6	30.3	33.9	41.9	46.2						

Table 17

STRUCTURE OF RUSSIAN GOVERNMENT DOMESTIC DEBT AS OF JANUARY 1, 2003
(at par, billion rubles)

Debt instruments	Total in domestic government debt	Of these, traded on organised securities market
Fixed coupon-income federal loan bonds (OFZ-FK)	207.1	154
Permanent coupon-income federal loan bonds (OFZ-PD)	350.7	1.9
Variable coupon-income federal loan bonds (OFZ-PK)	24.1	—
Debt depreciation federal loan bonds (OFZ-AD)	42.3	42.3
Short-term couponless government bonds (GKO)	18.8	18.8
Other debt accounted for as part of domestic government debt	37.3	—
Total	680.3	217

Table 18

FINANCE MINISTRY DEBT TO BANK OF RUSSIA AS OF JANUARY 1, 2003 (million rubles)

	At balance-sheet value of debt obligations
Total debt	545,440
Of which:	
1. Russian government debt instruments	348,025
of which:	
— permanent coupon-income and variable coupon-income federal loan bonds (OFZ-PD and OFZ-PK) received as a result of the restructuring of Bank of Russia-owned government securities and other debts and acquired by Bank of Russia in 1999	274,304
— acquired through repo operations	3,283
— Finance Ministry promissory notes	11,021
— other debt obligations	59,417
2. Bank of Russia funds transferred to Vneshekonombank for extending loans to Finance Ministry for Russian government foreign debt repayment and service	197,063
3. Debt on overdrafts	352

Table 19

INSTITUTES OF FINANCIAL INTERMEDIATION

	1.01.2003	For the record: 1.01.2002
Credit institutions		
Operating credit institutions, total	1,329	1,319
of which:		
— banks	1,282	1,276
— non-bank credit institutions	47	43
Operating credit institutions with foreign interest, total	126	126
Branches of credit institutions operating in Russia	3,326	3,433
Representative offices of operating Russian credit institutions, total	205	178
Insurance companies*		
Operating insurance companies, total	1,408	1,350
Operating insurance companies with foreign interest, total	48	54
Unit investment funds**		
Operating unit investment funds, total	60	51
of which:		
— open-end	32	28
— interval	25	23
— closed-end	3	—
Non-governmental pension funds***		
Operating non-governmental pension funds, total	284	262

* According to Finance Ministry's data.

** According to the National Managers' League, which has the Federal Securities Commission's permission to conduct operations as a self-regulating managers' organisation.

*** According to the Labour Ministry's Inspectorate for Non-governmental Pension Funds.

Table 20

OUTSTANDING RUSSIAN GOVERNMENT FOREIGN CURRENCY BONDED LOANS AS OF JANUARY 1, 2003

Date of issue	Redemption date	Currency	Volume in circulation at par in original currency, million units of currency	Coupon interest rate, % p.a.
Eurobonds placed by open subscription (6 issues)				
25.03.1997	25.03.2004	Deutsche mark (DEM)	2,000	9
26.06.1997	26.06.2007	US dollar (USD)	2,400	10
31.03.1998	31.03.2005	Deutsche mark (DEM)	1,250	9.375
30.04.1998	30.04.2003	Italian lira (ITL)	750,000	9
10.06.1998	10.06.2003	US dollar (USD)	1,250	11.75
24.06.1998	26.06.2028	US dollar (USD)	2,500	12.75
Eurobonds issued in restructuring of GKO bonds (2 issues)				
24.07.1998	25.07.2005	US dollar (USD)	2,969	8.75
24.07.1998	24.07.2018	US dollar (USD)	3,466	11
Eurobonds issued in second restructuring of debt to London Club of commercial bank creditors (2 issues)				
31.03.2000	31.03.2010	US dollar (USD)	2,719	8.25
31.03.2000	29.03.2030	US dollar (USD)	19,529	5
Domestic government foreign currency loan bonds (Series 4, 5, 6, and 7 OGVZ bonds) and government foreign currency loan bonds issued in 1999 (OGVZ)				
14.05.1993	14.05.2003	US dollar (USD)	1,980*	3
14.05.1993	14.05.2008	US dollar (USD)	2,837	3
14.05.1996	14.05.2006	US dollar (USD)	1,750	3
14.05.1996	14.05.2011	US dollar (USD)	1,750	3
1.02.2000	14.11.2007	US dollar (USD)	885	3

* Preliminary data.

Table 2.1

RUSSIA'S BALANCE OF PAYMENTS FOR 2002 (analytic presentation, million US dollars)

	Q1	Q2	Q3	Q4	2002	For the record: 2001
Current account	6,761	8,052	8,618	9,376	32,807	34,959
Balance of trade	9,242	11,369	13,093	12,578	46,281	48,121
<i>Exports</i>	<i>21,589</i>	<i>26,137</i>	<i>28,818</i>	<i>30,703</i>	<i>107,247</i>	<i>101,884</i>
crude oil	5,360	6,884	8,446	8,081	28,772	24,563
petroleum products	1,995	2,666	3,326	3,155	11,142	9,402
natural gas	4,332	3,480	3,511	4,574	15,897	17,766
other	9,901	13,107	13,535	14,893	51,437	50,154
<i>Imports</i>	<i>-12,347</i>	<i>-14,768</i>	<i>-15,725</i>	<i>-18,125</i>	<i>-60,966</i>	<i>-53,764</i>
Balance of services	-1,805	-2,243	-2,779	-2,243	-9,070	-8,444
<i>Exports</i>	<i>2,577</i>	<i>3,176</i>	<i>3,820</i>	<i>3,469</i>	<i>13,042</i>	<i>10,785</i>
transport services	1,104	1,387	1,505	1,497	5,492	4,655
travel	716	1,018	1,564	890	4,188	3,560
other services	757	771	751	1,082	3,362	2,570
<i>Imports</i>	<i>-4,382</i>	<i>-5,419</i>	<i>-6,599</i>	<i>-5,711</i>	<i>-22,111</i>	<i>-19,229</i>
transport services	-575	-696	-780	-811	-2,862	-2,984
travel	-2,183	-3,084	-4,112	-2,626	-12,005	-9,960
other services	-1,624	-1,639	-1,706	-2,274	-7,244	-6,284
Wage balance	55	55	19	67	197	130
Balance of investment income (interest and dividends)	-513	-987	-1,713	-1,055	-4,269	-4,089
Income receivable	2,251	808	984	906	4,949	6,176
Income payable	-2,764	-1,795	-2,697	-1,962	-9,217	-10,265
<i>Federal government</i>	<i>-418</i>	<i>-686</i>	<i>-1,631</i>	<i>-858</i>	<i>-3,593</i>	<i>-4,847</i>
Income receivable	1,693	286	380	255	2,614	2,617
Income payable	-2,111	-972	-2,012	-1,113	-6,207	-7,464
<i>Regional and local governments (income payable)</i>	<i>-10</i>	<i>-27</i>	<i>-10</i>	<i>-38</i>	<i>-84</i>	<i>-76</i>
<i>Central Bank (interest payable on IMF loans)</i>	<i>-1</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-1</i>	<i>-124</i>

Cont.

	Q1	Q2	Q3	Q4	2002	For the record: 2001
<i>Banks</i>	213	172	235	186	806	1,780
Income receivable	334	328	392	380	1,434	2,190
Income payable	-122	-155	-157	-194	-629	-411
<i>Non-financial enterprises</i>	-298	-446	-307	-346	-1,397	-822
Income receivable	224	195	211	271	900	1,369
Income payable	-521	-641	-518	-617	-2,298	-2,191
Balance of current transfers	-218	-142	-2	29	-333	-759
Capital and financial accounts	-5,422	-1,488	-2,130	-4,871	-13,911	-16,521
Capital account (capital transfers)	-62	-1,172	-5,804	-5,350	-12,388	-9,356
Financial account (except reserves)	-5,360	-316	3,674	479	-1,523	-7,165
Liabilities (+ signifies increase, — signifies decrease)	337	-3,674	-103	3,882	441	-4,789
<i>Federal government</i>	-1,487	-7,468	-2,035	-2,834	-13,825	-9,864
Portfolio investment (debt securities)	-318	-625	27	623	-293	-1,787
issue	50	4	3	1,400	1,457	123
redemption (schedule)	-632	-622	-605	-515	-2,375	-3,188
principal amount	-9	-116	-117	-56	-298	-1,157
coupons	-623	-506	-489	-459	-2,077	-2,031
re-investment of income	631	623	618	781	2,653	2,911
secondary market	-367	-630	11	-1,042	-2,029	-1,633
Loans and borrowings	-1,452	-6,436	-1,491	-1,711	-11,090	-7,021
use	207	118	136	212	673	644
redemption (schedule)	-1,659	-7,436	-2,420	-1,923	-13,438	-7,700
restructuring	0	882	793	0	1,675	36
Overdue debt	273	-404	-564	-1,756	-2,451	693
accumulation	309	152	241	394	1,096	1,147
repayment/restructuring	-37	-556	-805	-2,150	-3,547	-455
Other liabilities	10	-3	-6	9	9	-1,749
<i>Regional and local governments</i>	2	-90	-12	31	-69	-172
<i>Central Bank (operations with IMF loans)</i>	0	0	0	0	0	-2,762

End

	Q1	Q2	Q3	Q4	2002	For the record: 2001
<i>Banks</i>	107	607	—453	1,601	1,862	4,580
Direct investment	47	100	63	82	291	75
Loans and deposits	100	393	—403	1,424	1,514	3,876
Other liabilities	—40	114	—112	95	57	629
<i>Non-financial enterprises</i>	1,715	3,278	2,396	5,084	12,473	3,429
Direct investment	317	503	799	511	2,130	2,394
Portfolio investment	293	238	464	994	1,989	746
Loans and borrowings	1,090	2,536	1,131	3,577	8,334	769
Other liabilities	15	1	1	2	19	—479
Assets, except reserves (+ signifies increase, — signifies decrease)	—5,697	3,358	3,778	—3,403	—1,964	—2,376
<i>Federal government</i>	—1,576	6,773	6,162	5,631	16,990	10,099
Loans and borrowings	1,267	751	—2,604	—645	—1,231	302
Overdue debt	—2,846	6,005	8,033	4,786	15,979	9,238
Other assets	3	17	733	1,489	2,242	559
<i>Banks</i>	—605	111	672	—693	—515	—1,637
Direct investment	—3	8	—1	35	39	70
Loans and deposits	—628	646	796	—102	713	—1,246
Other assets	26	—544	—123	—627	—1,267	—461
<i>Non-financial enterprises and households</i>	—3,516	—3,526	—3,057	—8,340	—18,438	—10,838
Direct and portfolio investments	—463	—981	—379	—1,444	—3,267	—2,736
Foreign cash	—742	514	1,254	—1,843	—817	—815
Trade credits and advances	364	—302	—711	—1,363	—2,013	475
Debt on commodity deliveries under intergovernmental agreements	—26	6	33	—210	—197	—365
Non-receipt of proceeds from exports and goods and services non-delivered on time against money transfers under import contracts*	—2,448	—2,668	—3,027	—3,025	—11,168	—6,388
Other assets	—201	—93	—227	—455	—976	—1,008
Net errors and omissions	—840	—470	—3,257	—2,954	—7,522	—10,226
Change in foreign currency reserves (+ signifies decrease, — signifies increase)**	—499	—6,095	—3,231	—1,550	—11,375	—8,212

* From 2001 Q3 these data include evaluation of non-provision of services for import advance payments.

** Before 2002 Q3 international reserves included the value of assets used as security for Bank of Russia foreign currency-denominated short-term obligations to non-residents.

Table 22

STRUCTURE OF FOREIGN INVESTMENT IN RUSSIA IN 2002 (billion US dollars)*

Type of investment	Q1	Q2	Q3	Q4	2002	2001	For the record:	
							2002**	2001**
Direct	0.4	0.6	0.9	0.6	2.4	2.5	2.4	2.5
Portfolio	0.2	-0.3	0.4	1.6	1.9	-0.7	0.2	-0.7
Other	-0.2	-4.0	-1.4	1.7	-3.9	-6.5	4.9	-3.2
Total	0.3	-3.7	-0.1	3.9	0.4	-4.8	7.5	-1.4

* Net growth in debt obligations to non-residents according to balance of payments data.

** These data do not take account of debt forgiveness and netting operations.

Notes.

— denotes decrease in residents' foreign debt obligations.

Minor differences between total and sum of items are due to rounding off of data.

Table 23

**STRUCTURE OF RUSSIAN RESIDENT INVESTMENT IN FOREIGN ASSETS (NET OF RESERVES)
IN 2002 (billion US dollars)***

Type of investment	Q1	Q2	Q3	Q4	2002	2001	For the record:	
							2002**	2001**
Direct	0.5	1.0	0.4	1.4	3.3	2.5	3.3	2.5
Portfolio	-0.1	0.3	0.0	0.6	0.8	-0.1	0.8	-0.1
Other	5.2	-4.6	-4.2	1.4	-2.1	-0.1	16.8	12.3
Total	5.7	-3.4	-3.8	3.4	2.0	2.4	20.9	14.7

* Net growth in non-residents' assets according to balance of payments data.

** These data do not take account of debt forgiveness and netting operations.

Notes.

— denotes decrease in residents' foreign assets.

Minor differences between total and sum of items are due to rounding off of data.

Table 2A

INTERNATIONAL INVESTMENT POSITION OF RUSSIAN BANKING SYSTEM
(as of January 1, 2002, and January 1, 2003, million US dollars)

	Balance as of 1.01.2002	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2003
Assets	57,141	11,890	1,660	—363	13,187	70,328
Direct investment abroad	1,298	—39	108	—3	66	1,364
Participation in capital and reinvested income	591	18	134	—3	149	739
Other capital	707	—57	—26	0	—83	624
Portfolio investment	598	851	—60	468	1,260	1,857
Participation in capital	11	0	4	1	5	17
Debt securities	586	851	—64	467	1,255	1,841
long-term	342	984	—163	467	1,288	1,630
short-term	244	—133	99	0	—34	210
Other investment	18,624	—297	285	702	690	19,314
Foreign cash and deposits	14,790	—2,009	306	721	—981	13,809
Foreign cash in tills	924	263	11	—9	265	1,189
Current accounts and deposits	13,866	—2,272	295	730	—1,246	12,620
long-term	358	40	1	0	42	400
short-term	13,508	—2,312	294	731	—1,288	12,220
Loans and borrowings	3,129	1,559	—16	—10	1,534	4,662
long-term	1,577	273	0	—1	273	1,850
short-term	1,552	1,285	—16	—9	1,261	2,812
Overdue debt	163	10	—6	1	5	167
Other assets	542	144	0	—10	133	675
long-term	49	0	—1	0	—1	48
short-term	493	143	1	—10	134	627

Cont.

	Balance as of 1.01.2002	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2003
Reserves	36,622	11,375	1,327	—1,531	11,171	47,793
Monetary gold	4,080	0	0	—340	—341	3,739
Special Drawing Rights (SDR)	3	—2	1	0	—2	1
Reserve position in IMF	1	0	0	0	0	2
Other currency assets	32,538	11,377	1,326	—1,190	11,513	44,051
Liabilities	14,600	1,862	52	—20	1,895	16,494
Direct investment in Russia	1,005	291	—43	9	257	1,263
Participation in capital and reinvested income	935	294	—43	12	263	1,198
Other capital	70	—3	0	—3	—6	64
Portfolio investment	1,587	260	19	—9	270	1,857
Participation in capital	53	21	19	—4	36	89
Debt securities	1,534	239	0	—5	234	1,768
long-term	560	172	1	0	172	732
short-term	975	67	0	—5	61	1,036
Other investment	12,007	1,311	76	—19	1,368	13,375
Cash rubles and deposits	5,716	512	—8	—12	491	6,206
Cash rubles	198	11	—10	0	1	199
Current accounts and deposits	5,517	501	1	—12	490	6,007
long-term	528	291	0	—1	290	818
short-term	4,989	210	2	—12	200	5,189
Loans and borrowings	5,003	1,013	72	—6	1,080	6,082
long-term	1,172	1,499	44	—8	1,534	2,706
short-term	3,831	—486	29	3	—454	3,377

End

	Balance as of 1.01.2002	Change as a result of operations	Change as a result of revaluation	Other changes	Total changes	Balance as of 1.01.2003
Overdue debt	736	—363	1	1	—361	375
Other liabilities	553	150	11	—2	158	711
long-term	82	—15	11	0	—5	77
short-term	471	165	0	—2	163	634
Net international investment position	42,542	10,028	1,608	—344	11,292	53,834

For the record: + denotes net growth in assets and liabilities, — denotes their net decrease. This use of the sign differs from how it is used in balance of payments statistics.

Notes.

1. This Table presents data compiled by the Bank of Russia and credit institutions, including Vneshekonombank. It does not include 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 currency reserves of the Finance Ministry as a monetary regulator. Before 2002 Q3, the value of assets used as security against Bank of Russia foreign currency-denominated short-term obligations to non-residents was accounted for as part of international reserves.

3. Monetary gold is accounted for at \$300 per troy oz.

4. “Other changes” include assets and liabilities of credit institutions which had their banking licence revoked in the period under review.

Table 25

DYNAMICS OF RUSSIAN DEBT TO INTERNATIONAL FINANCIAL ORGANISATIONS IN 2002 (billion US dollars)

Financing facility	Debt as of 1.01.2002	Used	Repaid	Growth due to exchange rate revaluation	Debt as of 1.01.2003
IMF loans:	7.4	0.0	1.5	0.5	6.5
Systemic Transformation Facility	1.0	0.0	0.6	0.1	0.5
Extended Fund Facility	5.8	0.0	0.8	0.4	5.4
Standby Loan	0.6	0.0	0.1	0.0	0.6
IBRD loans	6.7	0.2	0.5	0.1	6.6
EBRD loans	0.2	0.0	0.0	0.0	0.2

Table 26

DYNAMICS OF RUSSIA'S INTERNATIONAL RESERVES IN 2002 (million US dollars)

Indicator	Balance as of												
	2002											2003	
	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)*	36,622	36,408	36,860	37,295	39,155	42,227	43,579	43,294	44,327	45,619	46,767	48,205	47,793
Foreign currency assets	32,542	32,317	32,768	33,179	35,025	38,496	39,848	39,564	40,596	41,887	43,034	44,470	44,054
Monetary gold**	4,080	4,091	4,092	4,116	4,131	3,731	3,731	3,731	3,731	3,732	3,733	3,735	3,739

* Before 2002 Q3, the value of assets used as security against the Bank of Russia's foreign currency-denominated short-term debt obligations to non-residents was accounted for as part of international assets.

** Monetary gold is accounted for at \$300 per troy oz.

Table 27

RUSSIA'S FOREIGN DEBT IN 2002 (calculated according to international methodology, billion US dollars)

	January 1, 2002	April 1, 2002	July 1, 2002	October 1, 2002	January 1, 2003
Total	150.8	149.9	150.6	149.3	153.5
Genetal government	113.2	111.3	108.4	106.1	104.7
Federal government	112.2	110.3	107.5	105.1	103.6
<i>New Russian debt</i>	<i>51.0</i>	<i>49.6</i>	<i>49.0</i>	<i>48.0</i>	<i>48.4</i>
loans from international financial organisations	14.4	14.0	14.2	13.7	13.3
IMF	7.4	7.1	7.3	6.9	6.5
IBRD	6.7	6.7	6.7	6.7	6.6
other	0.2	0.2	0.2	0.2	0.2
other loans	6.4	6.0	6.3	5.8	5.7
foreign currency-denominated securities	26.9	26.5	25.3	25.5	26.2
<i>Finance Ministry eurobonds</i>	<i>7.1</i>	<i>7.1</i>	<i>7.3</i>	<i>7.2</i>	<i>7.1</i>
<i>eurobonds issued in restructuring of GKO</i>	<i>1.4</i>	<i>1.3</i>	<i>1.3</i>	<i>1.4</i>	<i>1.4</i>
<i>eurobonds issued for 2nd restructuring of debt to London Club</i>	<i>17.4</i>	<i>16.9</i>	<i>15.4</i>	<i>15.4</i>	<i>16.3</i>
<i>6th and 7th tranches of OVGZ bonds and OGVZ bonds issued in 1999</i>	<i>1.0</i>	<i>1.1</i>	<i>1.2</i>	<i>1.4</i>	<i>1.4</i>
ruble-denominated securities (GKO and OFZ bonds)	0.6	0.5	0.5	0.4	0.5
other debt	2.6	2.6	2.6	2.7	2.7
<i>Soviet-era debt</i>	<i>61.2</i>	<i>60.7</i>	<i>58.5</i>	<i>57.1</i>	<i>55.3</i>
Paris Club of creditor nations	36.3	35.4	38.4	37.6	39.2
3rd, 4th and 5th tranches of OVGZ bonds	1.7	1.8	2.3	2.2	1.7
debt to former socialist countries	11.5	11.6	5.3	4.7	4.1
other debt	11.8	11.9	12.5	12.6	10.2
Regional and local governments	1.0	1.0	1.0	0.9	1.0
loans	0.8	0.8	0.9	0.8	0.9
eurobonds	0.2	0.2	0.1	0.1	0.1

End

	January 1, 2002	April 1, 2002	July 1, 2002	October 1, 2002	January 1, 2003
Banking system (without equity position)*	13.6	13.6	14.2	13.6	15.2
loans	5.1	5.5	5.3	4.8	6.1
current accounts and deposits	5.7	5.3	5.9	6.1	6.2
debt securities	1.5	1.7	1.9	1.8	1.8
other debt	1.3	1.1	1.0	1.0	1.1
Non-financial enterprises (without equity position)	24.0	25.1	28.0	29.6	33.6
loans received by enterprises as direct investment	6.6	6.6	6.8	7.3	7.6
debt on finance leasing	1.3	1.3	1.3	1.4	1.3
other loans	16.0	17.2	19.9	20.9	24.6

* These include debt obligations of Bank of Russia and credit institutions, including Vneshekonombank. Foreign debt accounted for by Vneshekonombank as an agent of the Russian government is shown as part of general government debt obligations.

Note.

Government securities are accounted for as part of the debt to non-residents and evaluated at their face value.

Table 28

MAJOR ECONOMIC DEVELOPMENT INDICATORS FOR CIS COUNTRIES IN 2002

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kirghizia	Moldova	Russia	Tajikistan	Turkmenia	Ukraine
Key macroeconomic indicators											
Gross domestic product (as % of previous year)	110.6	112.9	104.7	105.4	109.5	99.5	107.2	104.3	109.1	—	104.8
Industrial output (as % of previous year)	103.6	114.2	104.3	104.9	109.8	86.9	110.6	103.7	108.2	121.7	107.0
Retail trade turnover (as % of previous year)	109.6	115.6	112.9	105.3	108.6	108.2	117.7	109.2	117.4	140.0	114.8
Consumer price index (as % of December of previous year)	103.2	102.0	134.8	105.4	106.6	102.3	104.4	115.1	114.5	107.8	99.4
Official unemployment rate as % of economically active population (as of end of year)	1.35	9.4	3.0	—	2.6	3.1	—	1.8	—	—	3.8
Official central (national) bank rate (refinancing rate), as of end of year, %:											
2001	10	15	48	—	9	7.95	—	25	20	12	13.2
2002	7	13.5	38	22.4	7.5	4.43	—	21	20	12	7.1
Official (central bank) exchange rate (units of national currency) as of end of year											
against US dollar:											
2001	4,775	561.81	1,580	2.060	150.2	47.7186	13.0909	30.14	2.55	5,200	5.2985
2002	4,893	584.89	1,920	2.090	155.6	46.0949	13.8220	31.7844	3.00	5,200	5.3324
against Russian ruble:											
2001	158.43	18.47	52.31	0.0683	4.97	1.5832	0.4340	—	0.08461	172.64	0.176
2002	153.94	18.28	60.41	0.0658	4.89	1.4499	0.4329	—	0.09437	163.54	0.168
Money supply in national currency (rate of growth as of start of year, %)	15.4	49.3	59.6	14.5	47.3	34.2	30.4	32.3	43.8	—	42.2

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kirghizia	Moldova	Russia	Tajikistan	Turkmenia	Ukraine
Major financial market indicators (as of end of year)											
Interbank rate on loans in national currency	18.00	13.16	46.1	—	6.00	7.82	7.54	5.1	24.00	7.0	4.5
Yield on government debt instruments	9.97	15.60	38.0	49	—	7.01	10.49	12.67	—	—	8.96
Interest rate on loans denominated in national currency:											
short-term loans	17.28	18.83	49.1	23.31	14.1	24.93	18.84	14.9	13.22	—	22.2
long-term loans	12.26	23.71	21.5	17.00	14.7	22.98	19.36	14.5	30.00	—	17.6
Interest rate on household deposits in national currency:											
demand deposits	1.77	5.89	9.0	2.4	1.0	0.40	6.46	1.0	0.01	—	3.7
short-term deposits	17.47	11.18	35.6	10.43	10.3	10.87	13.46	4.2	5.00	—	14.8
long-term deposits	7.32	11.99	39.7	13	13.6	15.98	14.96	15.9	22.66	—	19.7
No. of registered commercial banks:											
2001	53	30	29	27	44	20	16	1,953	17	13	189
2002	46	25	32	25	38	20	16	1,773	17	13	182

Notes.

Financial market indicators for Russia have been calculated as weighted averages for December 2002. The interbank interest rate on loans in the national currency has been calculated on the basis of overnight loans. The yield on government securities is the average volume- and term-weighted yield on GKO bonds with terms up to 90 days. Interest rates on long-term deposits and loans in the national currency have been calculated for terms longer than 1 year (excluding the Savings Bank (Sberbank)).

Interbank lending rates in CIS countries have been calculated as follows: 180 days in Azerbaijan, 15 to 360 days in Armenia, 1 day in Belarus and Ukraine, up to 30 days in Georgia and Kazakhstan, and all terms in Kirghizia, Moldova, Tajikistan and Turkmenia. Yields on government securities in Azerbaijan and Kirghizia have been calculated on the basis of papers with a term of 3 months, Armenia 9—12 months, Belarus 6—12 months, and all terms in Georgia, Moldova and Ukraine.

This Table has been compiled on the basis of data provided by CIS central (national) banks.

Table 29

MAJOR ECONOMIC DEVELOPMENT INDICATORS FOR NON-CIS COUNTRIES IN 2000—2002*

	Real GDP, % growth on previous year			Consumer prices, % growth on previous year			Unemployment rate, % of workforce			Current account balance, as % of GDP**		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002
USA	3.8	0.3	2.4	3.4	2.8	1.6	4.0	4.8	5.8	-4.2	-3.9	-4.8
Canada	4.5	1.5	3.4	2.7	2.6	2.2	6.8	7.2	7.6	2.6	2.8	1.5
Japan	2.8	0.4	0.3	-0.7	-0.7	-0.9	4.7	5.0	5.4	2.5	2.1	2.8
European Union***	3.5	1.5	1.0	2.3	2.5	2.1	8.2	7.4	7.7	-0.4	-0.2	0.3
United Kingdom****	3.1	2.1	1.8	2.1	2.1	2.2	5.5	5.1	5.2	-2.0	-1.3	-0.8
Economic and Monetary Union*****	3.5	1.4	0.8	2.1	2.4	2.2	8.4	8.0	8.3	-0.9	-0.2	0.9
Germany*****	2.9	0.6	0.2	1.4	1.9	1.3	9.6	9.4	9.8	-1.1	0.2	2.5
France*****	4.2	1.8	1.2	1.8	1.8	1.9	9.5	8.7	9.0	1.5	1.8	2.1
Italy*****	3.1	1.8	0.4	2.6	2.3	2.6	10.6	9.6	9.0	-0.5	0.0	-0.6
Hong Kong	10.2	0.6	2.3	-3.8	-1.6	-3.0	4.9	5.1	7.3	5.4	7.5	11.4
Singapore	9.4	-2.4	2.2	1.3	1.0	-0.4	3.1	3.3	4.4	16.7	19.0	21.5
Taiwan	5.9	-2.2	3.5	1.3	0.0	-0.2	3.0	4.6	5.2	2.9	6.4	9.1
South Korea	9.3	3.2	6.3	2.3	4.1	2.8	4.2	3.8	3.1	2.7	2.0	1.3
China	8.0	7.3	8.0	0.3	0.9	-0.8	3.1	3.6	n.a.	1.9	1.5	1.9
Indonesia	4.9	3.4	3.7	3.8	11.5	11.9	6.1	n.a.	n.a.	5.3	4.9	4.2
Malaysia	8.3	0.4	4.2	1.5	1.4	1.8	3.1	3.7	3.5	9.4	8.3	7.7
Thailand	4.6	1.9	5.2	1.6	1.7	0.6	3.6	3.2	2.9	7.6	5.4	6.0
Philippines	4.4	3.2	4.6	4.3	6.1	3.1	11.1	11.1	11.4	11.3	0.4	3.8
Australia	2.8	2.7	3.8	4.5	4.4	3.0	6.3	6.7	6.3	-4.0	-2.4	-3.9

	Real GDP, % growth on previous year			Consumer prices, % growth on previous year			Unemployment rate, % of workforce			Current account balance, as % of GDP**		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002
South Africa	3.5	2.8	3.0	5.4	5.7	10.1	26.3	28.0	30.0	-0.4	-0.1	0.1
Israel	7.2	-0.7	-1.4	1.1	1.1	5.7	8.8	9.4	10.3	-1.7	-2.0	-2.1
Argentina	-0.8	-4.4	-10.9	-0.9	-1.1	25.9	15.1	17.4	19.7	-3.1	-1.7	8.3
Brazil	4.4	1.4	1.5	7.0	6.8	8.5	7.9	6.8	7.1	-4.2	-4.6	-1.7
Mexico	6.6	-0.3	0.9	9.5	6.4	5.0	2.2	2.5	2.7	-3.1	-2.9	-2.2
Chile	4.2	3.1	2.1	3.8	3.6	2.5	9.2	9.2	9.0	-1.4	-1.8	-0.9
Turkey	7.2	-7.4	7.8	54.9	54.4	45.0	6.6	8.5	10.6	-4.9	2.3	-1.0
Hungary	5.2	3.8	3.3	9.8	9.2	5.3	6.4	5.7	5.8	-2.8	-3.4	-4.1
Poland	4.0	1.0	1.3	10.1	5.5	1.9	14.0	16.2	17.7	-6.3	-3.9	-3.5
Czech Republic	3.3	3.1	2.0	3.9	4.7	1.8	8.8	8.1	7.3	-5.3	-5.7	-5.3

* Based on national statistical sources of corresponding countries, EUROSTAT agency and IMF as of April 15, 2003.

** + denotes a surplus, — denotes a deficit.

*** Austria, Belgium, United Kingdom, Germany, Greece, Denmark, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland, France and Sweden. Consumer prices are shown as the harmonised consumer price index. The current account balance is based on IMF data.

**** Consumer price growth rates do not take account of mortgage interest rates; unemployment rate is calculated according to ILO methodology.

***** Austria, Belgium, Germany, Greece, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland and France. Consumer prices are shown as the harmonised consumer price index. The current account balance is based on ECB data.

***** Consumer prices are shown as the harmonised consumer price index.

Table 30

MONEY SUPPLY (national definition, billion rubles)

Indicator	1.01.2002	1.04.2002	1.07.2002	1.10.2002	1.01.2003
Money supply (M2), total	1,602.6	1,562.4	1,751.1	1,846.6	2,119.6
— cash in circulation (M0)*	584.3	552.9	645.9	672.6	763.3
— non-cash funds	1,018.3	1,009.5	1,105.2	1,174.0	1,356.2

* Cash (1997 banknotes and coins) in circulation outside the banking system.

Table 31

AVERAGE MONTHLY RATES OF MONEY SUPPLY GROWTH IN 2002 (%)

Indicator	Q1	Q2	Q3	Q4	Full year
Money supply (M2), total	−0.8	3.9	1.8	4.7	2.4
— cash in circulation (M0)*	−1.8	5.3	1.4	4.3	2.3
— non-cash funds	−0.3	3.1	2.0	4.9	2.4

* Cash (1997 banknotes and coins) in circulation outside the banking system.

Table 32

M2 STRUCTURE

Indicator	1.01.2002		1.01.2003		Growth index for 2002
	billion rubles	%	billion rubles	%	
Money supply (M2), total	1,602.6	100.0	2,119.6	100.0	1.32
of which:					
— cash in circulation*	584.3	36.5	763.3	36.0	1.31
— non-cash funds	1,018.3	63.5	1,356.2	64.0	1.33
of which:					
— funds of non-financial institutions	571.4	35.7	707.3	33.4	1.24
— household deposits	446.9	27.9	648.9	30.6	1.45

* Cash (1997 banknotes and coins) in circulation outside the banking system.

Table 33

MONETARY BASE AND ITS STRUCTURE

Indicator	1.01.2002		1.01.2003		Growth index for 2002
	billion rubles	%	billion rubles	%	
Monetary base (broad money)	928.3	100.0	1,232.6	100.0	1.33
of which:					
— cash in circulation, including balances in tills of credit institutions*	623.5	67.2	813.9	66.0	1.31
— credit institutions' correspondent accounts with Bank of Russia**	144.5	15.6	169.7	13.8	1.17
— required reserves***	156.6	16.9	201.1	16.3	1.28
— credit institutions' deposits with Bank of Russia	3.7	0.4	47.4	3.8	12.81
— Bank of Russia obligations of reverse repurchase of securities	0	0	0.5	0.0	—

* Excluding cash in tills of Bank of Russia institutions.

** Ruble-denominated accounts, including balances on organised securities market and in ARCO correspondent account.

*** For ruble and foreign currency borrowed funds entered to accounts.

Table 34

CREDIT INSTITUTIONS' ANALYTICAL ACCOUNTS (million rubles)

	1.01.2002	1.01.2003	Change for 2002
Reserves	342,309.2	467,976.0	125,666.8
Foreign assets	539,393.2	593,766.8	54,373.6
Claims on general government	583,632.2	694,210.0	110,577.8
of which:			
— claims on regional and local governments	26,245.5	52,019.5	25,774.0
Claims on non-financial public-sector enterprises	79,302.1	121,296.1	41,994.0
Claims on non-financial private-sector enterprises and households	1,388,918.8	1,873,404.1	484,485.3
Claims on other financial institutions	22,487.1	32,570.0	10,082.9
Demand deposits	585,469.0	706,240.0	120,771.0
Time and savings deposits and foreign currency deposits	930,104.6	1,344,376.7	414,272.1
of which:			
— foreign currency deposits	520,006.1	721,823.3	201,817.2
Limited-access deposits	20,844.2	20,119.5	—724.7
Money market instruments	258,231.6	393,292.7	135,061.1
Foreign liabilities	314,998.6	394,219.2	79,220.6
General government deposits	67,939.4	65,684.8	—2,254.6
of which:			
— regional and local government deposits	42,258.8	35,279.2	—6,979.6
Obligations to monetary authorities	247,605.2	222,207.9	—25,397.3
Capital accounts	611,808.1	780,292.6	168,484.5
Other (balance)	—80,958.2	—143,210.5	—62,252.3

Table 35

MONETARY SURVEY (million rubles)

	1.01.2002	1.01.2003	Change for 2002
Net foreign assets of monetary authorities and credit institutions	1,100,831.0	1,580,033.7	479,202.7
Domestic credit	2,199,837.0	2,851,702.5	651,865.5
Net credit to general government	708,880.6	822,193.3	113,312.7
Claims on non-financial public-sector enterprises	79,382.0	121,354.1	41,972.1
Claims on non-financial private-sector enterprises and households	1,389,087.3	1,875,585.1	486,497.8
Claims on other financial institutions	22,487.1	32,570.0	10,082.9
Money	1,192,627.2	1,499,165.7	306,538.5
Quasi-money	930,106.3	1,344,405.9	414,299.6
Limited-access deposits	20,844.2	20,119.5	—724.7
Money market instruments	258,231.6	393,292.7	135,061.1
Capital accounts	854,120.0	1,145,024.0	290,904.0
Other (balance)	44,738.8	29,728.3	—15,010.5

Table 36

MAJOR INDICATORS OF RUSSIAN PAYMENT SYSTEM

	2001	2002
Number of payment system participants	5,931	5,829
of which:		
— Bank of Russia institutions	1,175	1,172
— credit institutions	1,323	1,331
of which:		
— settlement non-bank credit institutions	38	41
— branches of credit institutions	3,433	3,326
Number of additional offices of credit institutions (branches)	6,131	6,387
Total number of accounts opened by payment system participants (resident and non-resident) in Russian currency, million	254.1	271.4
of which:		
— individual accounts, million	250.2	267.2
— corporate accounts, million	3.9	4.2
Number of payments, thousand	633,436.0	737,886.8
of which:		
— payments effected through Bank of Russia payment system, thousand	283,195.7	350,710.8
— payments effected through private payment systems, thousand	350,240.3	387,176.0
Value of payments, billion rubles	106,649.1	130,093.8
of which:		
— payments effected through Bank of Russia payment system, billion rubles	63,271.8	76,343.2
— payments effected through private payment systems, billion rubles	43,377.3	53,750.6
Number of payments effected using various instruments of payment, thousand	743,599.3	872,210.3
of which:		
— payment orders, thousand	552,868.7	672,215.6
— payment requests and collection orders, thousand	11,563.7	14,907.2
— letters of credit, thousand	—	607.7
— cheques, thousand	1,313.8	990.3
— other instruments of payment, thousand	177,853.1	183,489.5
Value of payments effected using various instruments of payment, billion rubles	124,580.6	151,567.4
of which:		
— payment orders, billion rubles	107,944.8	137,303.7
— payment requests and collection orders, billion rubles	639.2	869.9
— letters of credit, billion rubles	—	60.5
— cheques, billion rubles	140.4	154.7
— other instruments of payment, billion rubles	15,856.2	13,178.6
Number of electronically conducted payments, thousand	394,767.9	533,280.6
Value of electronically conducted payments, billion rubles	80,415.6	109,305.9
Number of payments conducted on paper, thousand	238,668.1	204,606.2
Value of payments conducted on paper, billion rubles	26,233.5	20,787.9
Number of intraregional payments, thousand	586,436.1	671,349.1
Value of intraregional payments, billion rubles	91,508.1	109,384.2
Number of interregional payments, thousand	46,999.9	66,537.7
Value of interregional payments, billion rubles	15,141.0	20,709.6

Cont.

	2001	2002
Bank of Russia payment system		
Number of clients serviced, thousand	77,550	69,492
of which:		
— credit institutions	1,323	1,331
— branches of credit institutions	1,817	1,773
— clients other than credit institutions	74,410	66,388
of which:		
— Federal Treasury bodies	1,402	1,384
Number of payments, thousand	283,195.7	350,710.8
of which:		
— payments conducted through accounts of credit institutions (branches)	231,212.5	288,929.5
— payments conducted through accounts of clients other than credit institutions	47,848.9	57,453.5
of which:		
— payments conducted through Federal Treasury accounts	19,787.4	30,948.9
— payments conducted through accounts connected with financial and business activities of Bank of Russia institutions	4,134.3	4,327.8
Value of payments, billion rubles	63,271.8	76,343.2
of which:		
— payments conducted through accounts of credit institutions (branches)	47,566.2	60,685.8
— payments conducted through accounts of clients other than credit institutions	15,157.2	15,117.8
of which:		
— payments conducted through Federal Treasury accounts	11,269.5	11,070.6
— payments conducted through accounts connected with financial and business activities of Bank of Russia institutions	548.4	539.6
Number of electronic payments, thousand	249,225.0	325,111.6
Value of electronic payments, billion rubles	52,020.7	70,346.0
Number of Bank of Russia institutions participating in intraregional electronic settlements	1,135	1,138
Number of Bank of Russia institutions participating in interregional electronic settlements	1,031	1,083
Total number of clients participating in exchange of electronic documents	3,090	3,355
of which:		
— credit institutions (branches)	2,502	2,771
— clients other than credit institutions	588	584
of which:		
— Federal Treasury bodies	266	399
Number of payments effected on paper, thousand	33,970.7	25,599.2
Value of payments effected on paper, billion rubles	11,251.1	5,997.2
Average actual settlement time of intraregional payments effected on paper, days	1.1	1.1
Average actual settlement time of interregional payments effected on paper, days	4.7	4.8
Sum of settlement documents unpaid due to lack of funds in correspondent accounts (subaccounts) of credit institutions (branches), million rubles	10,240	8,512
of which:		
— credit institutions whose licence was revoked, million rubles	6,348	5,034
— operating credit institutions under control of ARCO, million rubles	3,791	3,478
— operating credit institutions not controlled by ARCO, million rubles	101	0.5

End

	2001	2002
Private payment systems		
Number of credit institutions that have correspondent relations with resident banks	1,221	1,253
Number of credit institutions that have correspondent relations with non-resident banks	225	182
Number of correspondent accounts opened by credit institutions in other credit institutions (branches),		
of which:		
— loro accounts	8,642	9,530
— nostro accounts	7,447	8,099
Number of credit institutions that have branches	483	482
Number of interaffiliate settlement accounts opened for settlements between divisions of one credit institution	16,701	14,397
Number of payments effected between divisions of one credit institution, thousand	95,467.3	115,613.6
Value of payments effected between divisions of one credit institution, billion rubles	9,591.0	12,132.9
Number of payments effected through credit institutions' correspondent accounts opened in other credit institutions (branches), thousand	12,641.6	17,280.9
Value of payments effected through credit institutions' correspondent accounts opened in other credit institutions (branches), billion rubles	7,509.7	10,290.8
Number of payments effected through settlement non-bank credit institutions, thousand	2,323.0	2,566.2
Value of payments effected through settlement non-bank credit institutions, billion rubles	628.2	748.4
Number of payments effected within one division of a credit institution, thousand	239,808.4	251,715.3
Value of payments effected within one division of a credit institution, billion rubles	25,648.4	30,578.5
Number of bank cards issued in Russia as of end of year, million	10.6	15.5
Total number of operations conducted with bank cards in Russia, million	190.7	281.2
Total value of operations conducted with bank cards in Russia, billion rubles	440.3	720.7

Table 37

SANCTIONS APPLIED TO CREDIT INSTITUTIONS IN 2002

No.	Description of sanctions	No. of banks
Preventive actions		
1	Notifying in writing management and/or board of directors (supervisory board) of credit institution about shortcomings in its work and recommending remedial actions	1,187
2	Calling a meeting	301
3	Other (recommendations to draw up a plan of remedial actions, increase control over reporting, make realistic assessment of credit risk, avoid misstatements in reports, etc.)	254
Coercive actions		
4	Fines	723*
	of which:	
4.1	finances for non-compliance with reserve requirements	445
4.2	finances for violation of other prudential standards	473
5	Imposing restrictions on individual banking operations conducted by credit institutions	131*
	of which:	
5.1	taking household savings on deposit	105
5.2	effecting settlements on behalf of legal entities involved in transfer of funds to budgets of all levels and government extrabudgetary funds	23
6	Prohibiting credit institutions from conducting individual banking operations	55*
	of which:	
6.1	taking household savings on deposit	28
6.2	other	52
7	Prescriptions	983*
	of which:	
7.1	prescription to comply with Bank of Russia reserve requirements	150
7.2	prescription to replace management	10
7.3	other	968
8	Prohibiting credit institutions from opening branches	83
9	Appointing provisional administrations to credit institutions	6
10	Revoking banking licence	26

* The number of credit institutions in points 4, 5, 6 and 7 differs from the amount of credit institutions in the respective sub-points because several coercive actions may be used against one bank.

Note.

As of January 1, 2003, the restriction on settlements on behalf of legal entities, such as the transfer of funds to budgets of all levels and government extrabudgetary funds was in effect with regard to four credit institutions.

As of January 1, 2003, of all operating credit institutions, only banks under the control of the government Agency for the Restructuring of Credit Organisations (ARCO) had a backlog of unfulfilled settlement documents on payments to budgets of all levels.

Table 38

MONITORING LIQUIDATION OF CREDIT INSTITUTIONS

Region	No. of licence revocation orders issued		No. of credit institutions struck off State register (due to licence revocation and liquidation)		To be liquidated	No. of liquidation decisions taken				No. of liquidation commissions set up (receivers and liquidators appointed)		No. of monitoring procedures instituted		No. of provisional administrators appointed		No. of balance sheets presented					
	total	in 2002	total	in 2002		total	of which decisions on forced liquidation	in 2002		total	in 2002	total	in 2002	total	in 2002	total	in 2002	interim liquidation balance sheets		liquidation balance sheets	
								total	of which decisions on forced liquidation									total	in 2002	total	in 2002
Republic of Adygheya	7	0	7	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Republic of Altai	8	0	6	2	2	2	2	1	1	2	1	0	0	0	0	2	0	0	0		
Altai Territory	17	0	14	6	3	3	3	0	0	3	0	0	0	0	0	1	0	2	2		
Amur Region	6	0	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Arkhangelsk Region	8	0	7	3	1	1	1	0	0	1	0	0	0	0	0	1	0	0	0		
Astrakhan Region	9	0	6	5	3	3	3	0	0	3	0	0	0	0	0	2	1	2	2		
Republic of Bashkortostan	18	1	12	0	6	6	5	1	1	6	1	0	0	0	0	3	0	2	2		
Belgorod Region	3	0	2	0	1	1	1	0	0	1	0	0	0	0	0	0	0	0	0		
Bryansk Region	7	0	5	2	2	2	1	0	0	2	0	0	0	0	0	2	0	0	0		
Republic of Buryatia	8	0	2	2	6	5	5	1	1	5	3	0	0	0	0	3	1	0	0		
Vladimir Region	4	0	2	2	2	2	2	0	0	2	0	0	0	0	0	2	0	0	0		
Volgograd Region	21	0	14	1	7	7	7	0	0	7	4	0	0	0	0	6	0	0	0		
Vologda Region	7	0	6	2	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1		
Voronezh Region	3	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Republic of Daghestan	62	0	1	0	61	61	60	2	2	50	16	0	0	0	0	3	1	12	12		
Jewish Autonomous Region	4	0	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Ivanovo Region	5	1	3	0	2	1	1	0	0	1	0	0	0	0	0	0	0	1	1		

Cont.

Region	No. of licence revocation orders issued		No. of credit institutions struck off State register (due to licence revocation and liquidation)		To be liquidated	No. of liquidation decisions taken				No. of liquidation commissions set up (receivers and liquidators appointed)		No. of monitoring procedures instituted		No. of provisional administrators appointed		No. of balance sheets presented			
						total	of which decisions on forced liquidation	in 2002								interim liquidation balance sheets		liquidation balance sheets	
	total	in 2002	total	in 2002				total	in 2002	total	in 2002	total	in 2002						
Republic of Ingushetia	3	0	1	0	2	2	2	0	0	2	0	0	0	0	0	0	0	0	0
Irkutsk Region	11	0	7	4	4	4	3	0	0	4	0	0	0	0	0	4	0	0	0
Kabardino-Balkar Republic	6	0	4	0	2	2	2	2	2	2	2	0	0	0	0	1	0	1	1
Kaliningrad Region	16	1	14	2	2	1	1	0	0	1	0	0	0	0	0	1	0	0	0
Republic of Kalmykia																			
Khalmg Tangch	10	0	5	1	5	5	4	0	0	5	1	0	0	0	0	5	0	0	0
Kaluga Region	9	0	8	0	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1
Kamchatka Region	5	0	4	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Karachai-Circassian Republic	7	0	6	1	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1
Republic of Karelia	5	0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Kemerovo Region	10	0	6	4	4	4	4	0	0	4	1	0	0	0	0	4	2	0	0
Kirov Region	8	0	4	0	4	4	0	0	0	4	0	0	0	0	0	2	0	2	1
Republic of Komi	9	0	9	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Kostroma Region	7	0	6	1	1	1	0	0	0	1	0	0	0	0	0	1	0	0	0
Krasnodar Territory	46	1	31	4	14	13	13	1	1	13	2	0	0	0	0	10	0	2	2
Krasnoyarsk Territory	18	0	17	2	1	1	1	0	0	1	0	0	0	0	0	1	1	0	0
Kurgan Region	4	0	3	1	1	1	1	0	0	1	1	0	0	0	0	1	0	0	0
Kursk Region	5	0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Leningrad Region	4	0	2	1	2	2	0	0	0	2	0	0	0	0	0	2	0	0	0
Lipetsk Region	5	0	4	2	2	2	2	0	0	2	2	0	0	0	0	2	1	0	0
Magadan Region	5	0	4	1	1	1	1	0	0	1	0	0	0	0	0	0	0	0	0

Region	No. of licence revocation orders issued		No. of credit institutions struck off State register (due to licence revocation and liquidation)		To be liquidated	No. of liquidation decisions taken				No. of liquidation commissions set up (receivers and liquidators appointed)		No. of monitoring procedures instituted		No. of provisional administrators appointed		No. of balance sheets presented			
						total	of which decisions on forced liquidation	in 2002								interim liquidation balance sheets		liquidation balance sheets	
	total	in 2002	total	in 2002				total	in 2002	total	in 2002	total	in 2002	total	in 2002				
Republic of Marii El	9	0	5	1	4	4	3	0	0	3	0	0	0	0	0	3	0	0	0
Republic of Mordovia	5	0	3	2	3	2	2	0	0	2	1	0	0	0	0	1	0	1	1
Moscow	501	20	252	70	242	226	222	57	56	182	64	11	10	10	10	48	33	65	57
Moscow Region	10	0	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Murmansk Region	9	0	8	6	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1
Nizhni Novgorod Region	11	0	10	4	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1
Novgorod Region	2	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Novosibirsk Region	21	0	18	2	3	3	2	0	0	3	0	0	0	0	0	2	0	1	1
Omsk Region	9	0	9	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Orenburg Region	15	0	14	3	1	1	1	0	0	1	1	0	0	0	0	1	0	0	0
Orel Region	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Penza Region	6	0	5	1	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1
Perm Region	9	0	8	5	1	1	1	0	0	1	0	0	0	0	0	1	0	0	0
Maritime Territory	15	0	9	3	5	5	3	0	0	5	0	0	0	0	0	3	0	1	1
Pskov Region	6	0	5	0	1	1	1	1	1	1	1	0	0	0	0	1	1	0	0
Rostov Region	31	0	24	1	6	6	5	0	0	6	1	0	0	0	0	3	0	1	1
Ryazan Region	4	0	2	0	2	1	1	0	0	1	0	0	0	0	0	1	0	0	0
Samara Region	17	0	12	4	5	5	5	0	0	5	0	0	0	0	0	2	0	3	3
St. Petersburg	20	0	15	5	5	5	5	1	1	5	2	0	0	0	0	3	2	1	1
Saratov Region	15	0	15	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Republic of Sakha (Yakutia)	21	0	9	6	12	12	8	2	2	12	2	0	0	0	0	9	1	2	2
Sakhalin Region	17	0	15	4	2	2	1	0	0	2	0	0	0	0	0	2	0	0	0

Region	No. of licence revocation orders issued		No. of credit institutions struck off State register (due to licence revocation and liquidation)		To be liquidated	No. of liquidation decisions taken				No. of liquidation commissions set up (receivers and liquidators appointed)		No. of monitoring procedures instituted		No. of provisional administrators appointed		No. of balance sheets presented				
						total	of which decisions on forced liquidation	in 2002								interim liquidation balance sheets		liquidation balance sheets		
	total	in 2002	total	in 2002				total	in 2002	total	in 2002	total	in 2002	total	in 2002					
Sverdlovsk Region	25	0	24	5	1	1	1	0	0	1	0	0	0	0	0	0	1	1	0	0
Republic of North Ossetia — Alania	3	0	2	0	1	1	1	0	0	1	0	0	0	0	0	0	0	0	1	1
Smolensk Region	7	0	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stavropol Territory	24	0	16	7	8	8	8	0	0	8	0	0	0	0	0	0	0	0	5	5
Tambov Region	3	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Republic of Tatarstan	17	0	9	2	8	8	8	0	0	8	2	0	0	0	0	5	1	4	4	
Tver Region	13	0	9	1	3	3	2	0	0	3	0	0	0	0	0	1	0	1	1	
Tomsk Region	13	0	13	1	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1	
Tula Region	5	0	4	1	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1	
Republic of Tyva	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Tyumen Region	33	2	25	11	8	8	8	2	2	8	2	0	0	0	0	1	0	5	3	
Udmurt Republic	11	0	7	1	4	4	4	0	0	4	1	0	0	0	0	1	0	3	3	
Ulyanovsk Region	12	0	10	3	2	2	2	0	0	2	0	0	0	0	0	2	0	0	0	
Khabarovsk Territory	15	0	6	2	9	9	9	0	0	9	0	0	0	0	0	6	2	3	3	
Republic of Khakassia	3	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Chelyabinsk Region	7	0	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Chechen Republic	18	0	18	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Chita Region	7	0	4	1	3	3	2	0	0	3	0	0	0	0	0	2	0	1	1	
Chuvash Republic	10	0	9	4	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1	
Yaroslavl Region	5	0	4	1	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1	
Total:	1,376	26	876	212	491	468	440	71	70	412	111	11	10	10	10	158	48	132	121	

Table 39

NOTE STRUCTURE OF 1997 BANK OF RUSSIA BANKNOTES IN CIRCULATION

Denomination, rubles	Total in circulation, million rubles		As % of 1.01.2002	% share	
	1.01.2002	1.01.2003		1.01.2002	1.01.2003
1,000	91.911	248,194.4	270	14.9	30.7
500	351,618.6	401,920.6	114.3	56.8	49.6
100	132,379.2	121,175.2	91.5	21.4	15
50	36,778.4	31,759.3	86.4	5.9	3.9
10	6,203.2	6,471.3	104.3	1	0.8
5	36	32.9	91.4	0	0
Total banknotes of 1997 issue	618,926.4	809,553.7	130.8	100	100

Table 40

STRUCTURE OF 1997 BANK OF RUSSIA COINS IN CIRCULATION*

Denomination	Total in circulation, million rubles		As % of 1.01.2002	% share	
	1.01.2002	1.01.2003		1.01.2002	1.01.2003
1 kopeck	27.9	34.6	124	0.5	0.5
5 kopecks	92.6	114.8	124	1.7	1.7
10 kopecks	390.9	516.8	132.2	7.1	7.4
50 kopecks	513	635.2	123.8	9.4	9.1
1 ruble	1,323.6	1,641.1	124	24.2	23.5
2 rubles	925.2	1,158.2	125.2	16.9	16.6
5 rubles	1,830.8	2,235.2	122.1	33.5	32
10 rubles	367.5	639	173.9	6.7	9.2
Total coins of 1997 issue	5,471.5	6,974.9	127.5	100	100

* Excluding coins made of precious metals.

Table 41

COMPREHENSIVE INTERNAL AUDIT INSPECTIONS OF BANK OF RUSSIA BRANCHES AND DIVISIONS IN 2002

	Total number as of 1.01.2002	Of which inspected in 2002	
		Number	% of total number
Regional branches (national banks)	78	29	37.2
Cash settlement centres and other participants in Bank of Russia settlement network	1,323	590	44.6
Interregional depositories	6	2	33.3
Banking schools (colleges) and training centres	14	7	50
Resort hotels and holiday centres	6	4	67
Other organisations accountable to Bank of Russia	12	5	42
Total:	1,440	637	44.2

Table 42

BANK OF RUSSIA STAKES IN RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

Organisation	Currency	Nominal value of Bank of Russia-owned shares		Bank of Russia % share as of 1.01.2003	
		1.01.2002	1.01.2003	in authorised capital	in voting capital
Moscow Narodny Bank, London*	British pound sterling	128,242,621.55	128,242,621.55	88.89	88.89
Eurobank, Paris*	euro	161,297,826.00	161,297,826.00	87.03	87.03
Ost-West Handelsbank, Frankfurt am Main**	—	671 shares	671 shares	51.62	51.62
Donau-bank, Vienna	euro	10,900,500.00	10,900,500.00	15.00	15.00
East-West United Bank, Luxembourg	euro	4,589,748.61	4,589,748.61	15.00	15.00
Bank for International Settlements, Basel***	gold franc	7,500,000.00	7,500,000.00	0.57	0.57
Interstate Bank, Moscow****	thousand rubles	10,000	10,000	50.00	50.00
Sberbank, Moscow	thousand rubles	605,693	605,693	60.57	63.76
Vneshtorgbank, Moscow	thousand rubles	42,117,403	—	—	—
Moscow Interbank Currency Exchange	thousand rubles	21,151	25,661	22.23	22.23
St. Petersburg Interbank Currency Exchange	thousand rubles	—	302	10.00	10.00
National Depository Centre, Moscow	thousand rubles	24,500	24,500	49.00	44.55

* Excluding the shares of «nominee» shareholders accounted for in the Bank of Russia balance sheet.

** Since 2000 the Bank of Russia stake in Ost-West Handelsbank has been represented by registered single shares without nominal value.

*** Gold franc is the accounting unit of the Bank for International Settlements. It is equal to US\$1.94149.

**** The stake of the Bank of Russia is represented by its contribution to the authorised capital of the bank.

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