

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



A N N U A L 1 9 9 9 R E P O R T



Approved by the Bank of Russia Board of Directors on May 13, 2000

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INTRODUCTION

The Report by the Central Bank of the Russian Federation (Bank of Russia) for 1999, submitted to the State Duma in accordance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), shows in a comprehensive manner how the Bank of Russia performs its functions. The analysis of the reasons why the Bank of Russia made one or another decision and the results of its work, provided in this Report in compliance with international practice, ensures transparency in the activities of the Bank of Russia and helps increase trust in the policy it pursues.

Russian Federation law proclaims that the main function of the Bank of Russia is to protect the value of the ruble and ensure its stability. This is the objective of the monetary and exchange rate policy implemented by the Bank of Russia and backed up by measures to strengthen and enhance the efficiency of the country's banking and payment systems and the system of foreign exchange regulation and control.

The monetary policy pursued in 1999 ensured the constant lowering of inflation and stabilised the situation in the domestic foreign exchange market in the conditions of the floating exchange rate regime and using the necessary foreign exchange regulation and control measures. Thus it encouraged positive expectations, which created favourable conditions for economic growth.

The past year was fundamentally different from the previous years in terms of the nature of economic processes and their realisation. It was not only a period of recovery from the aftermath of the financial and economic crisis of 1998, which undermined confidence in the Russian economy for both domestic and foreign investors, but also a time when new economic tendencies began to take shape and eventually brought about an obvious change for the better in the general macroeconomic situation.

Thanks to a balanced monetary policy pursued by the Bank of Russia, the ruble devaluation

of 1998 did not provoke spiralling inflation. Slower growth in domestic prices compared with the scale of devaluation increased the competitiveness of Russian products in the foreign and domestic markets, gave a strong impetus to domestic production and stimulated business activity in all sectors of economy.

These processes coincided with favourable external conditions for the Russian economy. Throughout 1999 the situation improved in the global markets for raw materials that make up a large part of Russian exports and that along with a significant contraction in imports resulted in large trade surplus.

The expansion of production and growth in sales inside the country and in foreign markets improved the financial condition of Russian enterprises. Their earnings increased and the cash component of their settlements expanded. A major result of the past year was also an end to the reduction in investment, a trend of the previous several years: for the first time in 10 years a positive investment dynamics was registered.

The improvement of the macroeconomic situation brought about a favourable change in the state of government finance. Throughout 1999 the budget situation was more or less stable thanks to improved tax collection and an increased share of cash in payments and settlements between economic agents and between economic agents and the budget.

At the same time, the Bank of Russia, guided by federal law, ensured the repayment of a considerable part of Russia's foreign debt, using its currency reserves, credited the federal budget interest-free and rescheduled on a long-term and non-market basis the Finance Ministry's debt to the Central Bank. On the one hand, all that contributed to the improvement of the budget situation, but on the other hand, the quality of the Bank of Russia's assets deteriorated.

It was extremely difficult to implement the monetary policy in 1999 because of persistent

uncertainty about how the macroeconomic situation would develop and the absence of agreement with foreign creditors, which in some periods of the year caused market volatility. In that situation the Bank of Russia constantly monitored the markets, quickly reacted to any change in the situation and improved the existing instruments of monetary policy and used new ones.

Vigorous efforts were made during the past year to help the banking sector recover. The restructuring of the banking system was conducted jointly by the Government and Bank of Russia. In accordance with the Law on the Restructuring of Credit Institutions, the principal restructuring functions were assigned to the Agency for Restructuring Credit Organisations (ARCO), which manages the government funds allocated for this purpose. The Bank of Russia took part in the restructuring of the banking system within the ambit of its powers. Under its control credit institutions drew up and implemented financial rehabilitation plans designed to restore their capital and restructure assets and liabilities. The Bank of Russia shored up the liquidity of solvent banks using standard mechanisms and against collateral. Restructuring measures were taken, banking licences revoked and problem banks transferred to the control of ARCO.

To strengthen the banking system, the Bank of Russia upgraded banking supervision and improved the relevant laws and regulations. Special attention was paid to the prevention of crisis situations. The Bank of Russia increased requirements for the stability of credit institutions and the banking system as a whole and that made it possible to preserve the viable core of the bank-

ing sector and lay the groundwork for the recovery and expansion of banking activity.

Just as in the previous years, in 1999 the Bank of Russia took steps to improve the functioning of the country's payment system, stimulate the use of non-cash settlements and ensure the provision of efficient, safe and reliable services to all participants in settlements. It accorded priority to the development and large-scale use in Russia of electronic settlements, which reduced payment times and improved the quality of settlement services provided to the economy. Of special importance for the Russian economy was the work done by the Bank of Russia to safeguard the banking system from possible technical failures connected with the millennium bug.

The recovery from the 1998 financial crisis, the prevention of a default on Russia's foreign debt and the expansion of the share of the Finance Ministry's long-term low-liquidity debt obligations in the Bank of Russia portfolio had a negative effect on its balance sheet and financial results. However, despite all these difficulties, the Bank of Russia managed to ensure that the money supply dynamics during the year corresponded to the economic conditions, kept inflation within its target limits, facilitated nascent economic growth and maintained the market equilibrium. Thus, it made a great contribution to the improvement of the economic situation in Russia.

The financial reports that follow reveal far better than in the previous years the operations conducted by the Bank of Russia and the financial results of its work and comply with international standards concerning the disclosure of information on the activities of central banks.

**ECONOMIC AND
FINANCIAL SITUATION
IN RUSSIA
IN 1999**



I.1. ECONOMIC SITUATION IN RUSSIA

The starting conditions for 1999 were determined by the financial and economic crisis of 1998. On the one hand, there were high inflationary expectations, a low standard of living, ruptured ties between various sectors of the economy and increased mutual distrust, including distrust of the official economic policy. On the other hand, a balanced monetary policy was pursued and favourable conditions arose for domestic production growth.

As economic agents used the benefits of the new conditions, while the macroeconomic policy yielded positive results, the negative trends of the previous year were overcome.

One of the principal manifestations of the improved economic situation was the slowing of the **inflation rate**. In 1999 inflation (CPI) ran at 36.5% against 84.4% in 1998 (December on December).

Throughout the year the consumer price index dynamics had a persistent tendency towards a slowdown: quarter by quarter inflation ran at the rate of 16.0%, 7.3%, 5.6% and 3.9%, respectively.

A moderate exchange rate dynamics last year had a constraining effect on price growth and inflation expectations.

As the inflation rate slowed down in 1999, real household income remained low.

At the same time, inflation was stimulated by such factors as the abolition from July 1, 1999, of VAT allowances for a wide range of consumer goods, the introduction of the sales tax

in many regions and a rapid rise in the price of petrol.

The CPI elasticity ratios for the inflation-determining factors in 1999 changed significantly compared with the previous year as a result of changes in the macroeconomic situation, such as production growth and change in the retail trade turnover structure in favour of domestically manufactured products. The consumer price index elasticity to the rate of change of the exchange rate decreased, a trend showing that price mechanisms became less dependent on the situation in the foreign exchange market, a sharp fall in imports being one of contributing factors.

Industrial prices in 1999 rose by 67.3%, which represents a substantial increase over their growth in 1998. Quarter by quarter, industrial producer prices went up by 17.2%, 11.4%, 14.4% and 12.0%, respectively. The excess of producer price growth over consumer price growth in 1999 was largely a compensatory reaction to a significant lagging of the PPI behind the CPI after the ruble devaluation in 1998.

The producer price correlation dynamics of large groups of products such as capital goods, intermediate goods and consumer goods changed during last year.

In the 1st quarter of 1999 the prices of consumer goods grew faster than other prices. While industrial producer prices as a whole rose by 17.2% in January—March 1999, capital goods prices went up by 16.6%, intermediate goods prices increased by 15.7% and consumer goods

prices soared by 20.5%. There were objective reasons for such a wide gap in growth rates in the prices of capital, intermediate and consumer goods. A drop in imports of consumer goods, caused by the devaluation, initially allowed light and food industry enterprises and some machine-building ones to fill the gap in the consumer market by not only increasing output and improving the quality of import-substituting products, but also by raising prices. In addition, price growth in these sectors was stimulated by a rise in the price of imported raw materials.

In the 2nd quarter the attempts to further raise consumer prices were countered by increased constraints on final consumer demand. Over that period the price of capital goods rose by 10.2%, intermediate goods 13.6% and consumer goods by just 5.1%.

By May a price mechanism of relocation of financial resources in industry in favour of intermediate goods producing enterprises had been formed. It became manifest in sporadic price upswings in export-oriented sectors, especially the oil-extracting and oil-refining industries and ferrous and non-ferrous metallurgy. The accelerated price growth in these sectors, particularly in August and September, was their reaction to the accumulated imbalances between domestic and world prices.

Before the financial crisis of 1998 such imbalances were not uncommon either at the exchange rate that had become established in the previous periods and its dynamics. However, they were not so acute because domestic prices (at the ruble's rate to the US dollar) had come much closer to world prices. An unprecedented devaluation of the ruble had changed the situation dramatically. It made the efficiency of exports and sales in the domestic market vastly different. These differences between financial results became even more pronounced in August and September 1999, causing price upsurges in the main export-oriented sectors. The accelerated price growth in the oil-extracting and oil-refining sectors in August and September was accompanied by producer price increases in industry. While from January to July the monthly PPI contracted from 106.9% to 103.1%, in August it rose to 104.7% and in September to 105.9%. Later, however, PPI growth rates be-

gan to slow down again as the discrepancies between domestic and world prices narrowed.

Overall, producer prices of capital goods last year rose by 57.6%, intermediate goods 79.5% and consumer goods 37.6% (December 1999 on December 1998).

Producer prices of investment in fixed capital last year increased by 46% and commercial freight transportation became 18.2% more expensive. At the same time, railway transport, which is a natural monopoly, raised prices by 9.9%.

The price dynamics in 1999 reflected changes in the macroeconomic situation and the emergence of new proportions in the reallocation processes.

Having ensured real growth in money supply, the Bank of Russia backed up positive production dynamics without letting inflation accelerate. Thus a sensible combination of economic growth and inflation rates was achieved.

A combination of favourable internal and external factors contributed to a growth in industrial production that Russia had not seen for 10 years. Favourable foreign trade conditions allowed Russia to expand exports and stimulate production in the export-oriented sectors, while a drop in imports and a rise in import prices, which exceeded domestic price growth, facilitated the expansion of import-substituting production capacity and accelerated growth in the industries oriented to domestic demand.

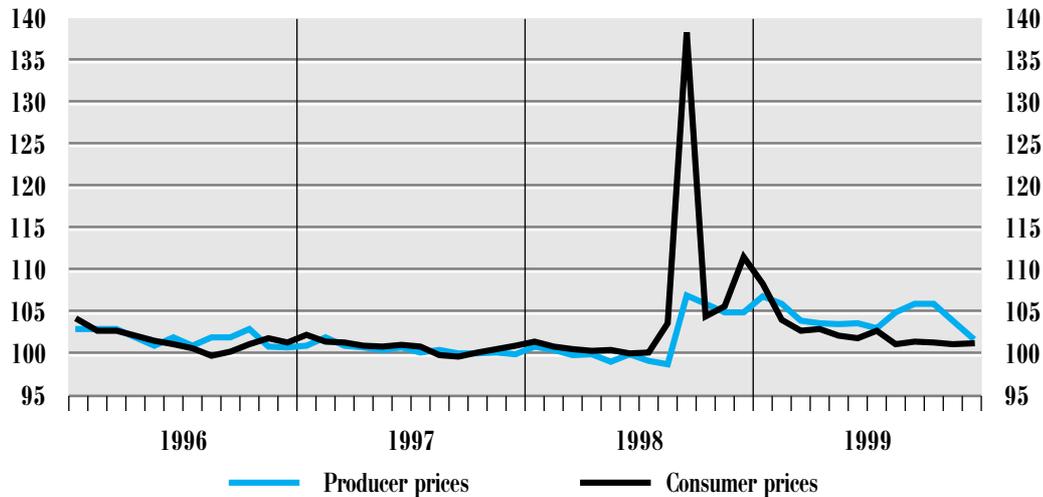
As a result, in the year under review GDP increased by 3.2% compared with 1998; in the manufacturing sector output grew by 6.6% and in the services sector by 1%. Despite such rapid rates of growth, the pre-crisis level of the production of goods and services had not been achieved: last year's GDP was 98.1% of the 1997 GDP.

The GDP growth in 1999 resulted from the expansion of industrial production by 28%, farm and timber industry production growth by 5%, a 7% growth in construction and 11% increase in transport and communications services. At the same time, contraction in trade and public catering services hampered the GDP growth.

Last year saw dramatic change in the activities of enterprises in many sectors; their business and investment activity intensified and financial conditions improved.

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

Chart 1



The growth in business activity resulted from the intensification of production. Labour productivity in 1999 increased by 1.9%, largely thanks to the more efficient use of fixed assets as a result of production capacities being better utilised.

Significant growth in output became possible because domestic producers managed to take advantage of a unique combination of favourable factors, such as objective preconditions for growth in deliveries inside the country and abroad and the results of the monetary policy, which laid the basis of macroeconomic stability.

Last year was a period of transition from a recovery to sustained growth in industrial production. While in the first half of 1999 a particularly rapid growth rate was posted by industries that registered the worst decline during the crisis, the latter half of the year saw growth in all industries.

Year-on-year industrial production in 1999 grew by 8.1% and Russian industry practically recovered to the 1995 production level. The most significant contribution to production growth was made by both export-oriented sectors, such as fuel industry (19%) and ferrous and non-ferrous metallurgy (9% and 8%, respectively) and sectors oriented to domestic consumption, such as machine-building (22%) and the food industry (9%).

The growth in production in 1999 was accompanied by favourable changes in the branch structure of industry. Significant growth in the output

of engineering products favourably impacted production in the metallurgy and petrochemical industries and contributed to production growth in the light and food industries. As a result, the role of the manufacturing branches in industrial production dynamics increased, while that of the mining industry declined. These structural changes were a positive sign, testifying to a re-orientation of domestic production to a final consumer.

Output grew mainly as a result of the use of previously under-utilised production capacities and did not provoke inflation growth.

According to a Bank of Russia estimate, capacity utilisation in the production of rolled ferrous metals increased by 12 percentage points and the level of capacity utilisation in this sector exceeded 70%, which is close to the maximum considering the moral obsolescence of equipment. Production capacity utilisation increased by 10—12 percentage points in the main segments of the chemical industry, 11—14 percentage points in the pulp-and-paper industry and 7—10 percentage points in the automotive industry.

However, a high level of wear and tear remained an obstacle to production growth. During the last 10 years the engineering sector saw practically no modernisation of its production assets and that has had an adverse effect on the level and quality of production and on the modernisation of machinery and equipment in the economy as a whole.

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

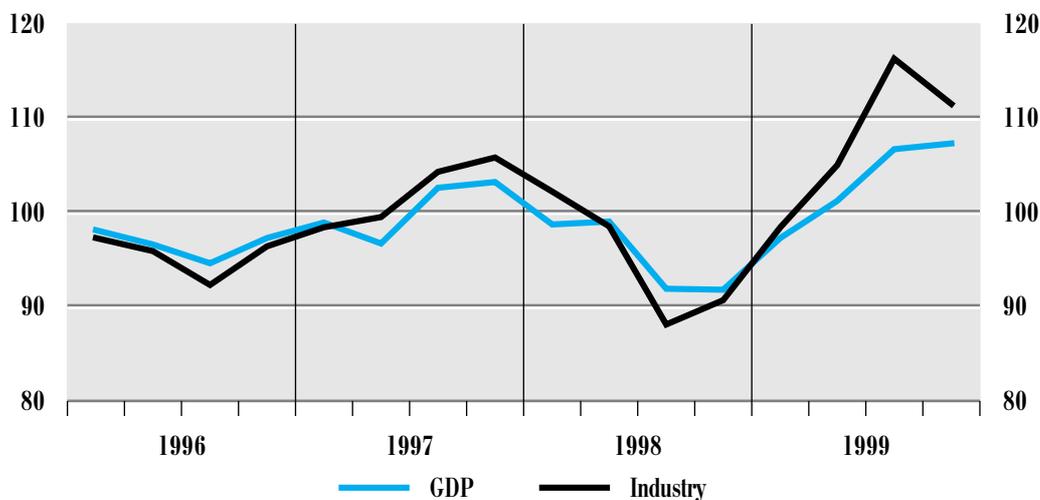


Chart 2

For the food industry, which is particularly sensitive to the consumer market situation, the post-crisis decline in food imports was a stimulus for growth, which has not affected the output of meat, dairy and fish products, however.

Agricultural production increased by 2.4% year on year, while the production of major livestock products and livestock population slightly declined.

Rapid growth in investment industries and the improved financial condition of enterprises were the main factors of expansion in construction. The volume of contractual work in 1999 expanded by 5.4% year on year, slightly exceeding the pre-crisis level.

As a result of growth in industrial production and increased activity in the construction industry, all kinds of transport companies increased their freight turnover.

Production growth in the export-oriented sectors and import-substituting industries in 1999 and a favourable price situation created by the ruble devaluation in 1998 considerably improved **the financial condition of enterprises.**

Overall profit (net of loss) of enterprises and organisations (excluding small businesses, banks, insurance companies and budget-financed organisations) in 1999 amounted to 576.9 billion rubles in current prices, which compares with a net loss of 19.3 billion rubles in 1998. Last year the share of profit-making companies expanded

by 10.8 percentage points to 55.6% as of January 1, 2000.

Industry with its profit of 427.9 billion rubles against 12.7 billion rubles in 1998 accounted for 74.2% of the financial result in the economy. Agriculture sharply reduced its loss to 2.0 billion rubles, or 5.4% of the 1998 level.

Year-on-year growth in profit resulted from the expansion of the production of goods and services and also a reduction in unit costs, because (annual average) growth in the value of cost components was slower than growth in the price of finished products. In the export-oriented industries production profitability grew mainly as a result of a rise in the ruble price of products delivered to foreign markets and a surge in world prices. In the non-ferrous metallurgy sector production profitability in the 2nd quarter of 1999 was 57.9%, which represents an increase of 43.6 percentage points over the 2nd quarter of 1998. The main factor of growth in production efficiency in the import-substituting sectors was a rise in the price of home-made products, which crowded out far more expensive imports from the domestic market. In the light industry the sum of profit exceeded the sum of loss throughout 1999, whereas in 1996—1998 the industry was loss-making as a whole.

Last year saw solvent demand for domestically manufactured products grow, while sales of imported goods and services fell. As a result, sales

HOUSEHOLD REAL DISPOSABLE CASH INCOME DYNAMICS
(as % of corresponding month of previous year)

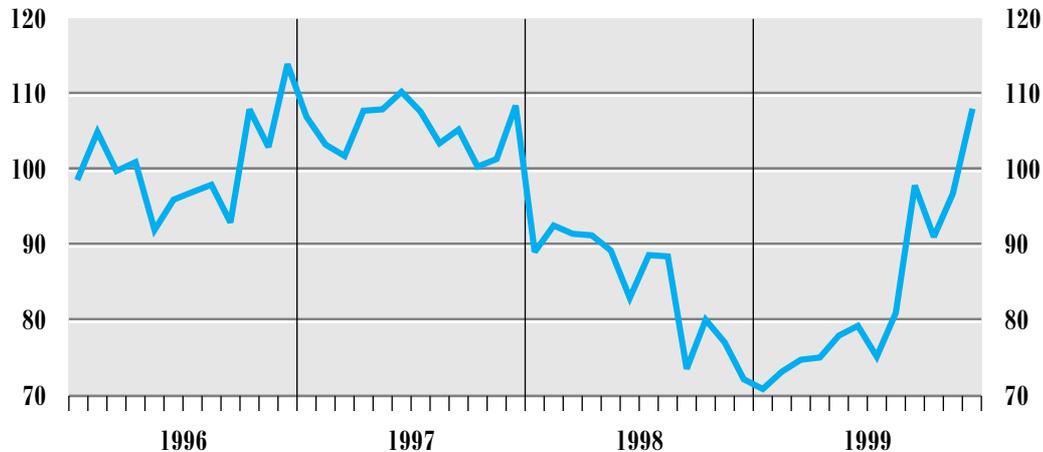


Chart 3

increased, the state of settlements improved and nonpayments decreased.

In December last year 89.4% of shipped products, finished work and delivered services of the major taxpayers and monopolies were paid for, which represents an increase of 13.3 percentage points over the same month of 1998. Accordingly, growth in debt on settlements with debtors slowed relative to the volume of shipped products, finished work and delivered services. Moreover, the share of overdue debt in total debt contracted in 1999. It was the first time since the beginning of reforms that nonpayments started to grow more slowly than overall debt. However, nonpayments still accounted for a large part of debt in 1999.

In 1999 receivables increased by 29.7% to 1,999.7 billion rubles as of January 1, 2000, while their overdue part expanded by 6.9% to 814.6 billion rubles. The share of large and medium-sized enterprises' nonpayments in overall receivables contracted over the year by 8.7 percentage points to 40.7%.

The working assets of large and medium-sized enterprises and organisations in 1999 grew faster than their short-term liabilities. As of January 1, 2000, the cover ratio (the ratio of working assets to short-term liabilities), which is an indicator of a company's solvency, rose by 8.6 percentage points year on year, to 114.7%. However, it was far below the standard 200% set by Russian Government Resolution No. 498, dated May 20, 1994, "On Some Measures to Enforce the Legis-

lation on Insolvency (Bankruptcy) of an Enterprise."

Late in 1999 a considerable portion of economic turnover was serviced by non-cash settlements. Nevertheless, the expansion of domestic and external demand for Russian products and increased economic efficiency in production improved the financial condition of enterprises and the state of payments and settlements. Increased profit was a factor of growth in investment, while the slowing of growth in nonpayments relative to the expansion of economic turnover, rise in monetary component in settlements and output growth through the more complete utilisation of production capacities were a factor of non-inflationary growth in the money supply in the economy.

As for demand's contribution to positive GDP dynamics, it resulted, above all, from a growth in net exports of goods and services and an increase in gross accumulation and expenditure on final consumption by the general government sector. As regards the structure of gross accumulation, its growth was ensured by increased investment in fixed capital, while stocks contracted. A low level of consumer demand contained production growth.

The improvement of production indicators in the key sectors of the economy contributed to growth in household nominal cash income, which in 1999 increased by 996.6 billion rubles year on year, or 56.9%, to 2,748 billion rubles. The ra-

tio of cash income to GDP in 1999 dropped by 4.5 percentage points year on year, to 60.5%.

At the same time, the standard of living remained low as real disposable income fell by 15.7% compared with 1998; real average month wage declined by 22.8% and real pension dropped by 39%.

The share of wage in household cash income contracted from 64.9% in 1998 to 64.2% and that of social transfers from 13.6% to 13.3%, while the share of other incomes expanded.

The drop in real cash income was accompanied by an increased income differentiation of the population. The share of people with cash incomes below the subsistence minimum increased from 23.8% of the total population in 1998 to 29.9% in 1999. The increased inequality in income distribution is also confirmed by the rise of the Gini coefficient (income concentration index) and the funds ratio, which increased from 13.4 times in 1998 to 13.9 times in 1999¹.

The growth of the nominal imputed average wage in 1999 was slower than the growth of the subsistence minimum of the able-bodied population. As a result, the ratio between these two indicators deteriorated from 189.4% in 1998 to 157.8% in 1999. The average monthly wage was below the subsistence wage in the farm sector, light industry, timber industry, retail trade, public catering, consumer services, education, culture, health, physical culture and social security.

As the gap in growth rates between the average nominal per capita income and subsistence minimum widened, the ratio between these two indicators deteriorated from 200.1% in 1998 to 172.2% in 1999.

As before, the lowest-income population group was 38.5 million pensioners, who accounted for 26.3% of the population. The average pension relative to the pensioner's subsistence minimum declined from 114.7% in 1998 to 70.1% in 1999. However, the situation had somewhat improved by the end of last year: while in January 1999 the

real average monthly pension was 44% below the January 1998 level, in December it was 5% below that level.

Total expenditures and savings (consumer expenses, compulsory payments, foreign exchange purchase, deposit growth and the purchase of bonds and other securities) in 1999 amounted to 2,693.9 billion rubles, an increase of 56.5% on 1998.

As was the case in 1998, consumer expenses in 1999 kept growing, while expenditures on foreign exchange purchase continued to decline. The share of household incomes spent on goods and services expanded from 77.4% in 1998 to 79% in 1999, while the share of household expenditures on foreign exchange purchase contracted from 12.2% to 8.3%. However, compared with 1998, the population's solvent demand for goods in 1999 declined as a result of a reduction in real disposable cash income: retail trade turnover decreased in comparable prices by 7.7%. The structure of expenditures on consumption changed: the share of expenditures on foodstuffs increased, while the share of expenditures on durables and services decreased. Foodstuffs accounted for 48.1% of retail trade turnover in 1999 and non-food consumer goods 51.9%. The share of paid services provided for the population in consumer expenses contracted by 3.7 percentage points to 17.9%.

The share of increment in cash on hand in cash income expanded by 0.3 percentage points compared with 1998, to 2%.

The government efforts to raise household income (wage indexation for public-sector workers, a rise in pensions and the reduction of arrears on wages and other payments) encouraged growth in household savings. Estimates show that the ratio of growth in total savings² to GDP in 1999 increased to 2.9% against 0.1% in 1998. The main source of growth in household savings was their increment in rubles.

Although organised ruble-denominated household savings grew throughout last year, their

¹ The Gini coefficient (income concentration index) characterises the extent of deviation of the actual volume of distribution of personal income from its even distribution line. When income distribution is even, the Gini coefficient tends towards 0; the higher the income differentiation of the population, the closer the coefficient is to 1.

Funds ratio is the ratio between average incomes within population groups or their shares in the overall income.

² Growth in household savings means a growth in cash and ruble and foreign-currency deposits and an increase in investment in securities. Growth in savings denominated in foreign currency is calculated without taking into account the difference in exchange rates.

share in the structure of cash income use remained small. In 1999 household savings in the form of deposits and securities made up 3.6% against 1.1% in 1998 and 2.2% in 1997.

The reduction of real cash income led to a 5.3% contraction in real-term household expenditure on final consumption. The share of household **expenditures on final consumption** in the structure of GDP utilisation contracted by 4 percentage points compared with 1998 to 50.4%.

Government expenditure on final consumption in 1999 also demonstrated positive dynamics. Its growth by 0.9% resulted from the state of government finance. Budget revenues relative to GDP increased over the previous year.

As before, expenditure on final consumption in 1999 made up the largest part of GDP. Nevertheless, compared to 1998 its share contracted by 8.6 percentage points to 68.6%.

Gross fixed capital formation increased by 2.4% year-on-year. The dynamics of gross fixed capital formation was impacted by the investment situation. The expansion of domestic and foreign market demand for Russian products created conditions for production expansion and growth in investment in fixed capital.

A rise in business activity in the economy, increased profits and economic agents' optimism were important factors of investment recovery. In 1999 investment in fixed assets grew for the first time since the beginning of reform (to 104.5%).

In the first half of last year investment in fixed capital continued to contract, but in the 3rd quarter the trend changed for the opposite and the yearly volume of investment exceeded the 1998 level. While 1998 saw a contraction in nominal investment volume compared with the previous year, in 1999 investment increased 1.6 times in nominal terms to 659.3 billion rubles.

At the same time, the increment in investment was not enough to raise it to the pre-crisis level of 1997. In real terms investment in fixed capital in 1999 made up about one-fifth of the 1990 level.

It should be noted that the share of active investment expanded significantly in the structure of investment: investment in machinery, equipment, tools and fittings made up 36.5% in 1999 against 29.8% in 1998, which testified to enterprises' increased interest in the technical retool-

ing of production and, in addition, stimulated the development of the domestic engineering sector.

Investment in fixed capital grew particularly rapidly in the timber, wood-working and pulp-and-paper industry, the non-ferrous metallurgy, machine-building and metal-working and medical and food industries. At the same time, these sectors registered a significant growth in output levels.

At the same time, last year saw several negative trends in the investment sphere.

One of these is that investment was mostly made in individual production units rather than in complex manufacturing lines, which are necessary for a more efficient output of high-quality competitive products.

Investment in fixed capital continued to decline in construction and this trend in a sector with a large share of morally and physically obsolete fixed assets complicated a pickup of investment activity in the economy as a whole.

Investment decline also continued in agriculture, creating a serious obstacle to the development of this sector.

As in the previous year, in 1999 enterprises' own funds accounted for more than half of the sources of financing of investment in fixed capital at large and medium-sized enterprises. Bank loans continued to play a very small part in financing investment in fixed capital, accounting for 4.3% in 1999 against 4.8% in 1998. The high risks involved in crediting enterprises remained one of the main reasons for low credit activity of banks.

Inventories in 1999 contracted more slowly than in 1998 (by 36.8 billion rubles against 50.6 billion rubles).

Net exports of goods and services in 1999 were impacted by a sharp fall in imports, which led to sustained trade and current account surpluses. The growth in the world price of commodities that make up the lion's share of Russian exports and the improved conditions of trade contributed to a recovery in exports dynamics and, as a consequence, further improved the country's balance of payments. Rapid growth rates in net exports increased the role of this factor in GDP dynamics. The share of net exports in the structure of GDP use expanded, compared with 1998, by 8.9 percentage points to 16.3%.

TOTAL NUMBER OF UNEMPLOYED (CALCULATED USING ILO METHODOLOGY)
(as % of Economically Active Population)

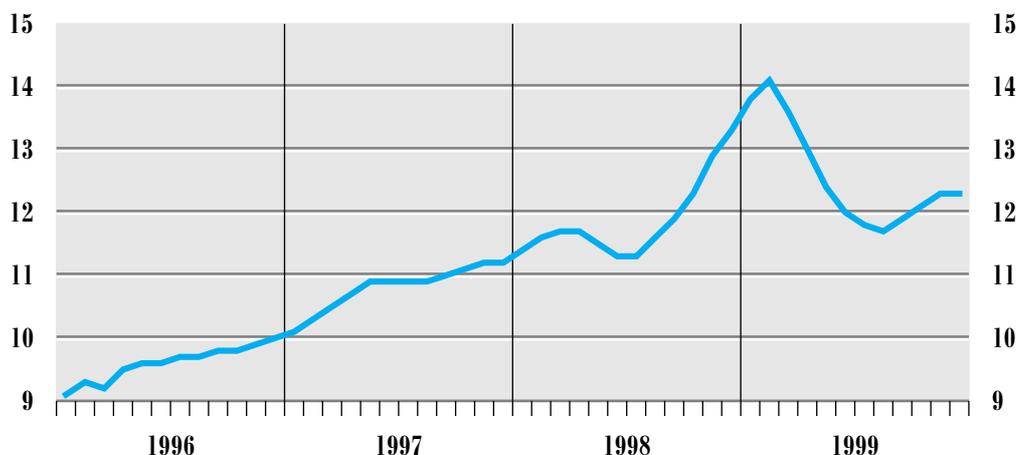


Chart 4

A rise in investment activity and growth in net exports brought about an increase in the share of gross savings in the structure of gross disposable income, which, according to preliminary data, expanded by 8–9 percentage points compared with 1998. At the same time, the structure of capital resource use changed as net lending to “the rest of the world” increased substantially.

The improvement of the economic situation in Russia in 1999 told on the **employment** situation. The total number of jobless in December 1999 decreased by 6.5% year on year to 9.1 million, which represents 12.3% of the economically active population against 13.3% in December 1998. The number of people employed in the economy over that period rose by 2.5% to 64.9 million.

For the first time in four years Russia’s economically active population in 1999 increased by 1 million even though depopulation, caused by increase in natural population decline and simultaneous decline in migration growth, amounted to 0.8 million.

The recovery and expansion of production in many sectors in 1999 required the recruitment of an additional workforce. The number of applications for workers made by enterprises to the government employment agencies grew considerably. By the end of the year under review the number of declared vacancies had increased 1.8 times year on year to 588,000.

It should be noted that the increase in the number of people employed in the economy

in 1999 largely resulted from growth in employment at small enterprises and a rise in the number of self-employed workers (private individuals doing business without registering as legal entities). A different employment situation was observed at large and medium-sized enterprises where the number of jobs decreased by 1.7% compared with 1998. At the same time, the average duration of a workday increased by 1.9%. The increase was particularly noticeable in the light industry, where the average workday became 14.1% longer and in the machine-building and metal-working branches, where it increased by 9.4%, that is in industries with the most rapid rates of production growth.

A rise in business activity in most sectors in 1999 and the efforts made by many large and medium-sized enterprises to cut surplus workforce led to a 45% reduction in forced under-employment (forced leaves without pay and work to shorter workweeks).

Despite a high unemployment rate in the country in 1999, the number of vacancies declared by enterprises grew significantly. On the one hand, job-seekers were not always qualified to take up these vacancies, on the other hand, working conditions offered in some trades (low wage and irregular wage payments) did not suit job-seekers.

In 1999 the Government Employment Authority stepped up its activity after the adoption of a federal programme to stimulate employment in 1998–2000 and Government Resolution

RUSSIA'S FOREIGN TRADE (billion US dollars)

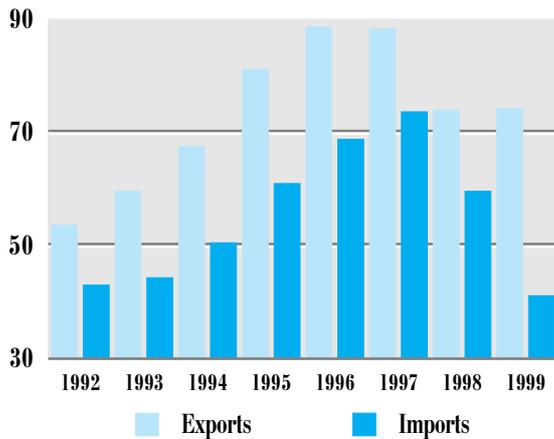


Chart 5

No. 659, dated June 22, 1999, "On Measures to Assist Employment." As a result, the number of people covered by public works rose by 39.3% and the number of people who received vocational training provided by the employment services increased by 13.7%.

The trend towards reducing the officially registered unemployed, which began in 1997, continued. The number of jobless registered with the offices of the Government Employment Authority in 1999 declined by 34.5% to 1.26 million.

At the same time, underfinancing did not permit the implementation of all measures provided for the Programme. As before, more than 45% of jobless registered with government employment agencies had been looking for work for more than a year. Arrears in unemployment benefits remained in some regions.

The jobless-vacancy ratio in December 1999 was 2.5 people per vacancy, as registered by the government employment agencies, but in some regions where the jobless-vacancy ratio was more than 100 people per vacancy, work was practically impossible to come by. In comparison: in December 1998 the jobless-vacancy ratio was 2.6 times higher — 6.6 people per vacancy.

So, Russia's many economic performance indicators in 1999 proved better than expected after the financial crisis of 1998. It was largely the improved foreign trade conditions that contributed to economic growth. At the same time, rapid expansion in the manufacturing sector demonstrated the existence of potential for further eco-

nomical transformation. The Bank of Russia believes that the results of import substitution could have been twice as good if low solvent demand and a high level of wear and tear of production assets had not restrained production growth.

Yet, the change of the main reproductive proportions during last year created a basis for further economic growth and the reduction of investment risk and made this country more attractive for investors.

The drastic changes that took place in **foreign trade** in 1999 became manifest in a more than twofold increase of the balance of trade and services surplus, which expanded from \$13.2 billion in 1998 to a post-reform high of \$32 billion.

The improvement of the balance of trade and services was facilitated by a significant drop in the import of goods (by 31.9%) and services (by 23.4%), which caused the trade surplus to rise and the balance of services deficit to contract.

The contraction of imports did not cause shortages in the domestic market. On the one hand, Russian importers managed to adapt themselves to the new situation, switching to cheaper imports. On the other hand, the increased competitiveness of Russian products in the domestic market created the necessary conditions for production growth at import-substituting enterprises. As a result, in 1999 Russia became less dependent on imports in supplying the needs of its population with consumer goods and foodstuffs.

The growth in the trade surplus also resulted from a gradual recovery of exports throughout 1999, which practically returned to the 1998 level owing to an exceptionally favourable foreign trade situation: in March 1999 the world market price of oil and petroleum products leapt up and in the second half of last year the price of natural gas began to surge.

The main reason for the improved conditions in the world oil market was OPEC's commitment to oil production quotas. As a result, the average price of Brent oil in 1999 was 40% above the 1998 average and the price of major petroleum products was up by 30%. At the same time, the average price of natural gas in the European market was 12% down from 1998. The situation improved in the world markets for other Russian export commodities, such as non-ferrous metals, some kinds of ferrous metals, chemicals and tim-

BRENT OIL PRICE DYNAMICS
(US dollar/barrel)

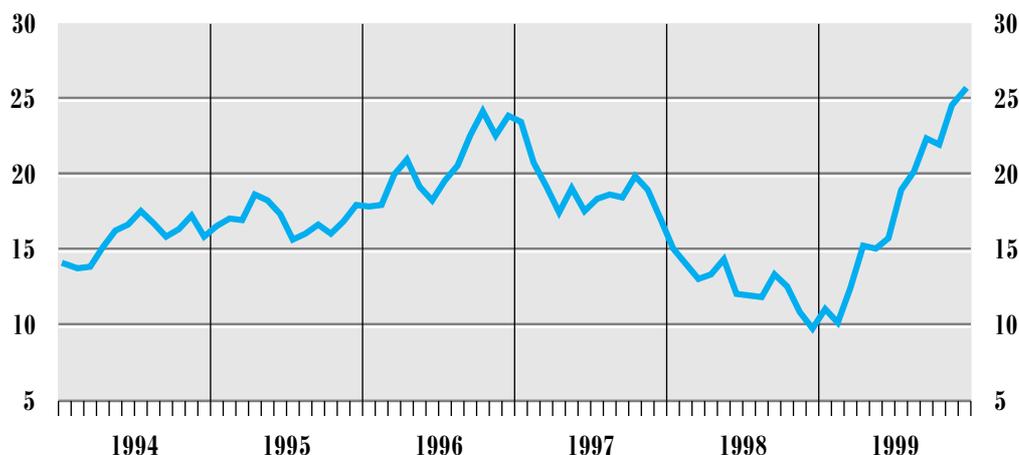


Chart 6

ber products, although the world market prices of most of these commodities were far below the 1998 level. Estimates show that the average level of world market prices of the commodities accounting for nearly 60% of the value of Russian exports (adjusted to their structure) in 1999 was 8% higher than in 1998.

Exports recovery was also the result of growth in export volumes, which in 1999 rose by an estimated 9% thanks to the increased competitiveness of Russian commodities in foreign markets and growth in foreign demand, especially as South East Asian countries recovered from the 1997—1998 crisis more quickly than expected.

One of the hurdles restraining the recovery of exports was that world market prices grew more rapidly than contract prices.

A more rapid recovery of exports in 1999 was hindered by anti-dumping procedures instituted against Russian producers and exports dynamics were also adversely impacted by a drop in exports to CIS countries, caused by the growing debt for energy supplied to these countries earlier and a return to the practice of establishing special conditions for energy payments.

The devaluation of the ruble in 1998 and world market price growth allowed Russian exporters to increase their ruble revenues and improved the financial condition of export-oriented enterprises. That led to a reduction in nonpayments in the economy, a contraction of barter arrangements and an increase in cash

settlements and created the necessary conditions for growth in domestic investment.

Since September 1998 export efficiency (the ratio of export revenues to exporters' expenses) for most products has far surpassed average profitability in industry.

A positive dynamics of world market prices, especially the energy prices, contributed to growth in export efficiency in 1999 despite the partial withholding of excess profits through customs duties.

At the same time, export efficiency of some products, such as metals, whose prices in the world market grew but at a slower pace, in 1999 just came near the border of profitability.

Foreign trade in 1999 remained a major source of budget revenues. Customs duties and excise taxes on imports and exports and tax and non-tax revenues from foreign trade ensured a large part of budget revenues.

However, the favourable foreign trade situation in 1999 was not used to a full extent from the viewpoint of increasing budget revenues, because the withholding of superprofits was incommensurate with growth in the so-called devaluation profit or contract prices.

The state of the capital account reflected the aftermath of the financial crisis of 1998. The ruble devaluation, a moratorium on a part of non-governmental foreign debt servicing, missed Soviet debt payments and the refusal to redeem domestic government bonds financed by foreign invest-

tors in 1998 could not fail to tarnish Russia's investment image. After the August 1998 crisis international rating agencies included Russia in the list of countries on the brink of default. Foreign investors keen on making speculative profit fled the Russian market.

Nevertheless, Russia coped with its immense difficulties and its major economic indicators improved as a result of a balanced monetary policy, the strategy of unconditional repayment of Russian government debt and the desire to tackle the backlog of debt problems by negotiation. It is very important that for all their problems, Russia's strategic partners continued to work in the Russian market.

Despite a sharp fall in foreign portfolio investments in Russia, the inflow of direct investment remained practically unchanged from 1998. There was also a change of strategy of foreign investors who switched to build enterprises in Russia using not only imported but also domestically produced raw materials. That was one of the positive results of 1999.

Net foreign exchange inflow through foreign trade channels created objective preconditions for ruble stabilisation and even its substantial strengthening in 1999. At the same time, the onerous foreign debt repayment obligations hampered this process.

Capital flight by foreign trade channels was gradually reduced in 1999 thanks to the use by the Bank of Russia of more effective regulation and controls and improvements in the macroeconomic situation.

Thus, the macroeconomic policy pursued in Russia and the improved world market conditions for major Russian exports brought about favourable changes in the foreign trade sector and the economy as a whole. However, the burden of foreign debt service and capital flight, which continued but on a smaller scale, did not allow this country to use to the full extent the favourable developments in foreign trade and increase foreign currency reserves to a commensurate level.

1.2. GOVERNMENT FINANCE AND DOMESTIC DEBT

Fiscal policy in 1999 was implemented in accordance with the 1999 Federal Budget Law and aimed at eliminating the consequences of the financial and economic crisis and ensuring fiscal stability through the adoption of a realistic budget, the unconditional fulfilment of budget obligations and expansion of the budget's revenues base.

According to the Finance Ministry's preliminary data, **federal budget revenues** in 1999 amounted to 611.7 billion rubles, or 129.1% of the federal budget revenues target set for that year and 115.3% of the federal budget revenues taking into account the task set by the Government for mobilising of additional revenues. Federal budget revenues to GDP are estimated at 13.4% against 12.1% in 1998, of which taxes and duties account for 11.2% and 9.4%.

The rate of growth in debt on taxes and duties to the federal budget in 1999 remained practically unchanged from the previous year. According to the Ministry of Taxes and Duties, the debt on taxes and duties to the federal budget in 1999 increased from 160.0 billion rubles to 246.7 billion rubles, or 54.2% (54.4% in 1998). Of the total amount of debt, the shortfall on payments to the federal budget amounted to 229.1 billion rubles (92.9%) and deferred payments totalled 17.6 billion rubles (7.1%).

The shortfall on VAT accounted for 70.6% (161.7 billion rubles) of the total shortfall on

payments to the federal budget, profit tax 14.8% (33.9 billion rubles) and excise duties 10.4% (23.8 billion rubles).

Chart 7 shows actual federal budget revenues, expenditures and deficit in 1999 month by month on an accrual basis.

According to the Finance Ministry's preliminary data, **federal budget expenditures** in 1999 amounted to 664.7 billion rubles, or 115.6% of the federal budget expenditures planned for 1999 and an estimated 14.6% of GDP.

Non-interest expenditures amounted to 502.1 billion rubles, or 75.5% of all federal budget expenditures, and government debt service expenditures 162.6 billion rubles, or 24.5%.

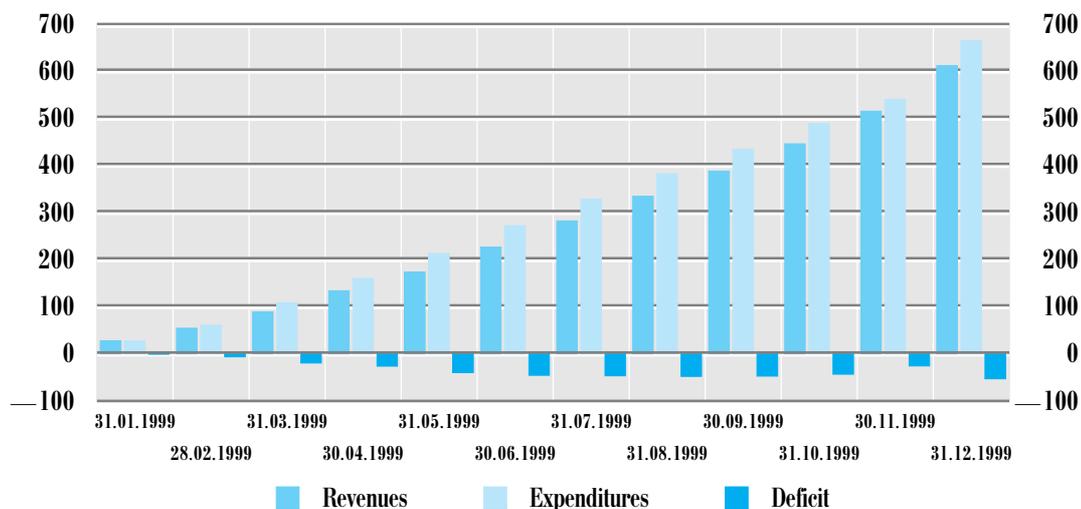
According to the Finance Ministry's preliminary data, foreign debt service expenditures accounted for 54.6% and domestic debt service expenditures 45.4% of total government debt service expenditures.

Charts 8 and 9 illustrate the structure of federal budget expenditures and dynamics of government debt service expenditures in 1999.

The **federal budget deficit** in 1999 amounted to 53.0 billion rubles, or an estimated 1.2% of GDP. In pursuance of the 1999 Federal Budget Law and Federal Law on Amendments to Article 102 of the 1999 Federal Budget Law, the federal budget deficit in 1999 was financed by the Finance Ministry by monetary borrowing from the Bank of Russia through the sale of federal loan

FEDERAL BUDGET REVENUES, EXPENDITURES AND DEFICIT (SURPLUS)
(billion rubles)

Chart 7



FEDERAL BUDGET EXPENDITURES
IN 1999 (%)

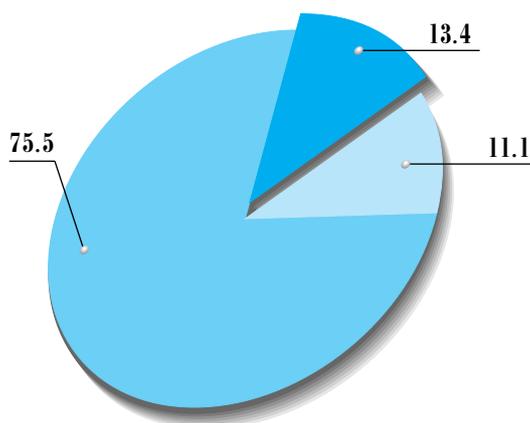


Chart 8

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

bonds under non-market conditions (without interest payment) and on a long-term basis (the bonds mature in the period from 2014 to 2023), on which the debt to the Bank of Russia amounted to 27,9 billion rubles as of January 1, 2000, and by borrowing in the 1st quarter of 1999 \$4.5 billion from Vneshekonombank at the expense of

foreign currency funds provided to this bank by the Bank of Russia.

In 1999 in pursuance of the 1999 Federal Budget Law and Federal Law on Urgent Measures in the Field of Tax and Budget Policy, government securities owned by the Bank of Russia and the Finance Ministry's other debt to the Central Bank were restructured on worse terms than those offered to other holders of government securities (at 2% interest per annum or interest-free and maturing mainly in the period from 2018 to 2029).

According to the Finance Ministry's preliminary data, Russian government domestic debt as of January 1, 2000, amounted to 583.6 billion rubles at par value, of which federal loan bonds made up 514.7 billion rubles, or 88.2%, Finance Ministry notes issued in the process of restructuring in 1994—1996 the debt on centralised credits to the agribusiness and other sectors and interest accrued on it amounted to 27.6 billion rubles, or 4.7%, short-term government bonds amounted to 7.4 billion rubles, or 1.3%; the debt owed by the fuel and energy sector and other sectors on centralised credits amounted to 4.2 billion rubles, or 0.7%; other debts came to 29.7 billion rubles, or 5.1%.

The structure of domestic government debt is shown in Chart 10.

The principal holder of government securities making up the government domestic debt is the Bank of Russia. The Finance Ministry's debt to

GOVERNMENT DEBT SERVICING EXPENDITURE DYNAMICS IN 1999
(billion rubles)

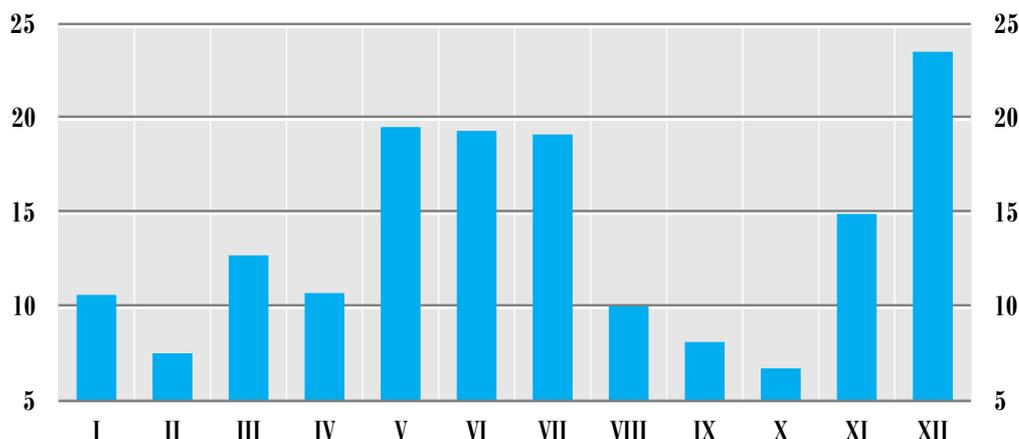


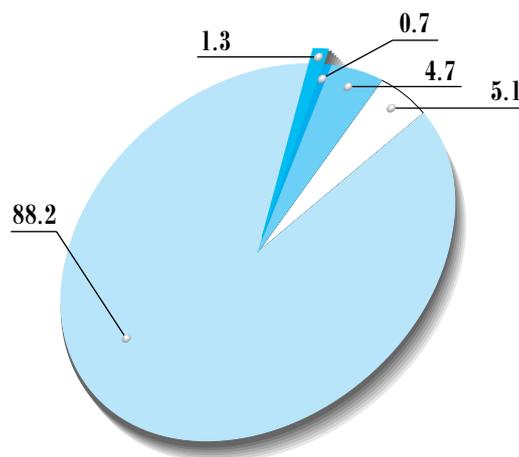
Chart 9

the Bank of Russia as of January 1, 2000, amounted to 339.0 billion rubles at the face value of the debt obligations, which represents 58.1% of Russia's domestic government debt. In addition, the debt on loans extended by Vneshekonombank to the Finance Ministry in foreign currency from Bank of Russia funds amounted to 174.1 billion rubles and the debt on the domestic government currency loan bonds amounted to 400 million rubles.

According to the Finance Ministry's preliminary data, revenues of the consolidated budgets of the constituent entities of the Russian Federation in 1999 amounted to 647.9 billion rubles, while expenditures stood at 648.9 billion rubles, leaving the deficit at 1.0 billion rubles.

Although federal budget revenues exceeded the planned target, the tax authorities must improve their performance, especially in the area of tax collection. It is necessary to pass the second part of the Tax Code and ensure its unconditional observance, reducing nonpayments in the economy and barter deals in settlements for shipped products (completed work and delivered services). Shortcomings in the implementation of the tax and budget policy adversely affect the effectiveness of the Bank of Russia's monetary regulation.

RUSSIAN GOVERNMENT DOMESTIC DEBT IN 1999 (%)



- Federal loans bonds
- Finance Ministry notes issued for restructuring debt on centralised loans and interest owed by agribusiness sector, organisations shipping supplies for Far North and other organisations
- Short-term government bonds
- Debt owed by fuel and energy companies and other sectors on centralised loans
- Other

Chart 10

1.3. RUSSIAN FINANCIAL MARKET

Throughout 1999 the financial market struggled to overcome the long-term after-effects of the August 1998 crisis. The foreign exchange market gradually stabilised, the novation of GKO and OFZ bonds was completed and the secondary government securities market reopened. Interbank lending operations resumed, the corporate stock market brightened up and a corporate bond market began to emerge.

At the same time, all year long there was a shortage of market instruments attractive for investors and issuers, market volumes were low compared with pre-crisis levels and the various sectors of the market were isolated from one another, making it impossible for the market to establish a single price of monetary resources and difficult for the Bank of Russia to implement its monetary policy.

INTERBANK LOAN MARKET

Stabilisation of the banking system and a rising level of banking liquidity were the factors that helped gradually activate interbank operations in the year under review. Low activity in the OFZ market and the measures taken to ensure the legality of operations conducted by banks in the foreign exchange market stimulated operations in the interbank lending market and their use in managing current liquidity. The limits of lending operations increased, market turnover expanded, money flows between various sectors of the money market started to stabilise and the corresponding cycles began to be-

come established in the dynamics of interbank loan rates. As of January 1, 2000, overall debt on ruble-denominated interbank loans, adjusted to inflation, more than doubled year-on-year, while overdue debt decreased nearly by half.

Lending rates in the interbank market were significantly lower than in other sectors of the financial market and there were no signs of rapprochement between yields. Maximum rates were registered at the beginning of the year (average monthly rates on ruble-denominated one-day loans ranged from 20% to 28% p.a.) and minimum rates of 7% to 9% were recorded in the middle of the year. The end of the year saw one-day loan rates slightly rise to 13–18% p.a.

The foreign exchange loan and deposit market remained a major segment of the interbank market. Over the year the debt on foreign currency loans and deposits grew by 21% and changes were noted in the credit relations between Russian and foreign banks. While at the beginning of last year non-resident banks were net creditors of Russian banks, by the end of 1999 nonresident banks borrowed as much as they lent. Yield on foreign currency deposits practically depended entirely on the rate dynamics in the world financial market, which registered a midyear rise in US dollar deposit rates.

FOREIGN EXCHANGE MARKET

The ruble exchange rate dynamics in 1999 was principally affected by fundamental economic de-

MONEY MARKET RATES IN 1999 (% p.a.)*

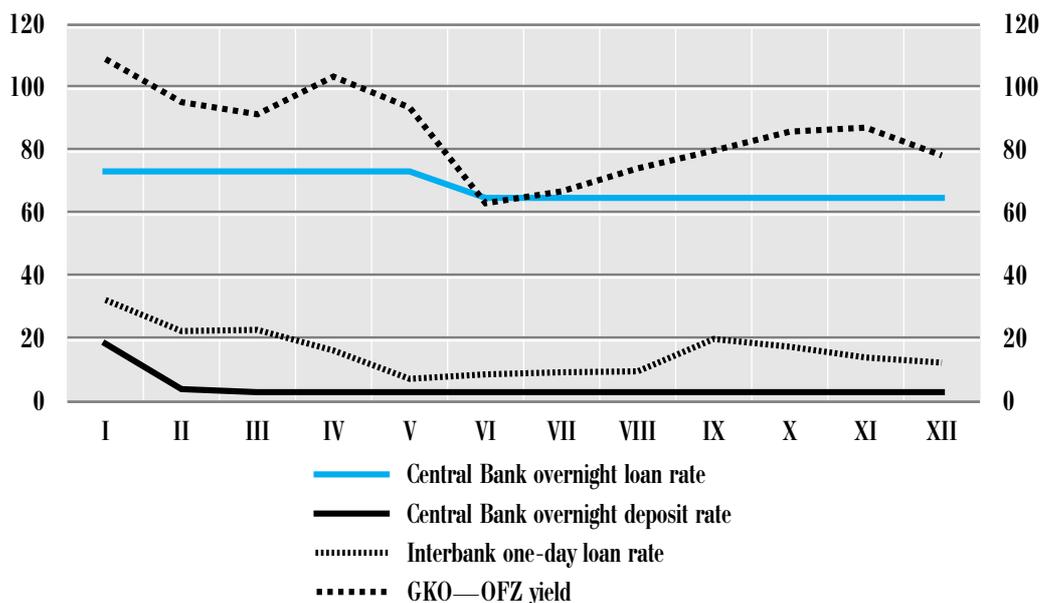


Chart 11

* Effective rates.

velopments, including foreign trade developments, such as a rise in the price of oil and Russia's terms of trade index, and also a number of institutional and political factors. A major role was played by the measures taken by the Bank of Russia to better organise the work of foreign exchange market participants. Under the combined impact of these factors the ruble rate dynamics in 1999 stabilised compared with August—December 1998.

The Bank of Russia made vigorous efforts to build a single foreign exchange market and the abolition of special trading sessions on the currency exchange and the introduction on June 29 of a single trading session (STS) marked a major step towards liberalising the domestic foreign exchange market and enhancing the liquidity and efficiency of its exchange sector.

As exchange traders gradually stepped up their activity in the period under review, in December 1999 the daily average cash turnover in the SELT on MICEX amounted to \$320.1 million, an increase of 73% on the same period of 1998.

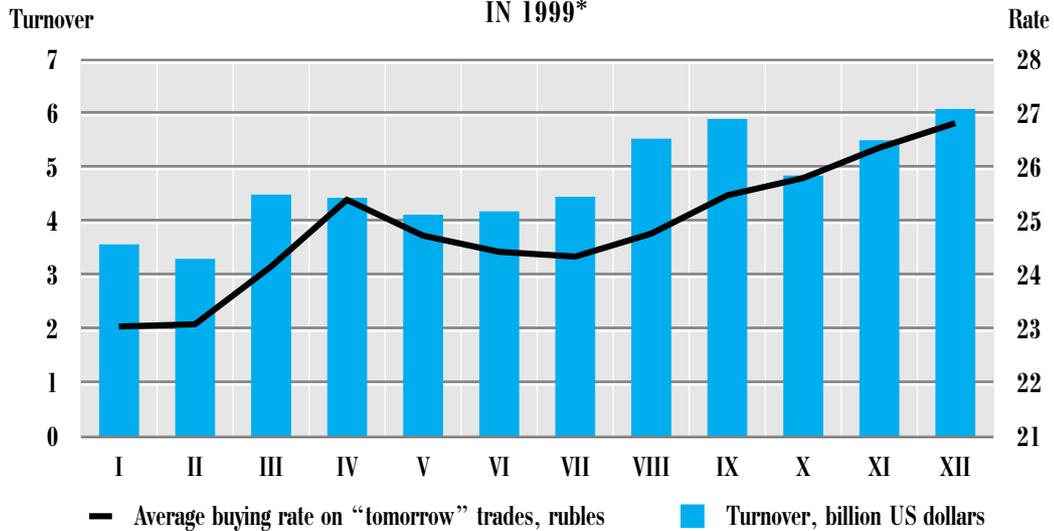
Substantial progress was made in restoring the over-the-counter segment of the interbank foreign exchange market, which was the principal market for banks before August 1998. As the crisis hit the financial market, direct interbank deals

became too risky, but as soon as it became clear which banks had survived the crisis, turnovers in this segment started to grow. In October the daily average turnover for 55 banks, the leading operators of the interbank foreign exchange market, amounted to \$310 million, whereas the exchange-based turnover for this group of banks was \$134 million.

Spot transactions in 1999 accounted for nearly 100% of conversion operations on the exchange. "Today" trade predominated, although during the year their share of trades in the SELT on MICEX gradually contracted (from 71—80% in January—March to 45—47% in October—December). The forward segment of the interbank foreign exchange market in the SELT on MICEX was only represented by occasional "spot-next" deals. The over-the-counter forward market virtually had come to a halt after its participants incurred heavy losses during the crisis.

In January 1999 the euro began to be traded at the afternoon trading session for rubles and US dollars in the SELT on MICEX. An impetus for the development of this segment of the foreign exchange market came from the Central Bank's decision to stop from September 1 trading in the European currencies replaced by the euro (German mark, French franc, Italian lira

**MOSCOW INTERBANK US DOLLAR MARKET CHARACTERISTICS
IN 1999***



* Based on results of trading in SELT on MICEX.

Chart 12

and Finnish markka) and introduce from October 1 a single trading session, at which exporters would be able to sell their euro earnings without first having to convert them into US dollars. The Bank of Russia regularly participated in euro trading at the STS to maintain the liquidity of that market. As a result, euro trading volume at the STS in December amounted to 66.5 million euros.

SECURITIES MARKET

GOVERNMENT SECURITIES. GKO—OFZ MARKET.

The situation in the government securities market in 1999 did not influence the entire financial market as dramatically as it did in the preceding period. Secondary trading in GKO—OFZ was resumed and novation of government bonds due before December 31, 1999, was carried out in accordance with the scheme approved by the government in December 1998. The Bank of Russia continued to regulate operations with C-type accounts, which came to be used to make the accounting of not only money but also securities owned by nonresidents.

As the level of liquidity of the government securities market was low, the behaviour of some market players who owned large blocks of government securities could provoke sharp swings in prices. Aware of this, the Bank of Russia decided to offer big nonresident investors the opportunity

to disaggregate from their portfolios securities owned by smaller investors in order to prevent price manipulation and obtain more information about the actual owners of securities. To this end, on December 15 nonresidents were granted the right to make depository securities and funds transfers without effecting purchase and sale deals.

When the principal stage of the novation was completed, market volume contracted from the pre-crisis level by 130 billion rubles to 250 billion rubles at par. From May 1 to December 1 market volume slightly contracted again, to 242 billion rubles, as a result of the redemption in June of GKO issued in the course of the novation. The principal distinction of the government securities market in 1999 compared with the pre-crisis period was the significant extension of bonds' average maturity. As a result, payments on government bonds were stretched over a longer period and the annual government debt-service expenditures were reduced accordingly.

Until March 1999 the GKO—OFZ market was dormant as far as medium- and long-term instruments were concerned. An additional factor of low market turnovers was the decision made by the Bank of Russia as soon as secondary trading resumed to limit yields to two refinancing rates in order to prevent a massive sell-off of GKO—OFZ in the surrounding of extreme uncertainty about real bond prices.

MAIN GKO—OFZ MARKET CHARACTERISTICS
IN 1999

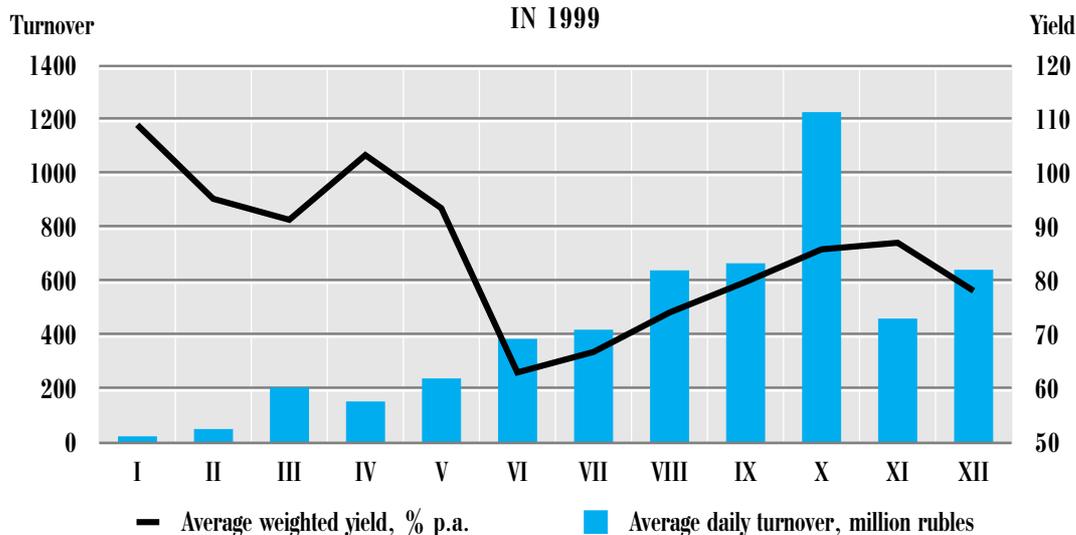


Chart 13

The structure of market participants in 1999 changed considerably. The institute of primary dealers was abolished and restrictions on repatriation caused the share of foreign market participants to expand from pre-crisis 30% to 40%. Since last autumn foreign investors have demonstrated more interest in using the opportunities given them to move their funds to the corporate market, investing in it a large part of the earnings they made in the GKO—OFZ market.

As the nature of market participants' operations changed, the need arose to improve the market's infrastructure. The Bank of Russia continued to modify the settlement and depository systems and the trading system, which enabled banks to implement inter-dealer repo transactions.

To monitor the movement of nonresidents' funds, the Bank of Russia established a procedure for effecting settlements on nonresidents' operations with securities using C-type accounts. This procedure allows nonresidents to use funds they earn from operations with government securities traded in the organised securities market (OSM) for the purchase of certain types of securities only and in accordance with a procedure established by the Bank of Russia. To restrict the use by authorised banks of nonresident funds in C-type accounts, the Bank of Russia required the authorised banks to make a deposit equivalent to such funds with OSM settlement centres.

OGSZ MARKET. By the beginning of 1999 the government savings loan bond (OGSZ) market was one of the few segments of the government securities market where the issuer continued to honour all obligations. No new OGSZ issues were placed. Of the 17 issues of outstanding OGSZ bonds as of January 1, 1999, by the end of the year there remained five issues with a coupon of 50% p.a. and total volume of 5 billion rubles at par. According to the Finance Ministry, OGSZ bondholders in 1999 were paid 20 billion rubles, of which 11.6 billion rubles went to redeem the bonds and 8.4 billion rubles to pay coupon income.

In the middle of the year the market situation was favourable enough for the issuer to place the last three OGSZ issues to the amount of 2 billion rubles at par. The average weighted auction price of all issues exceeded the minimum asked price which stood at 100.85—108.50% of par value not counting accrued coupon income (ACI).

In the secondary market there were no big OGSZ deals in the period under review as most of the participants who had bought large blocks of OGSZ bonds at low prices at the beginning of the year were set to keep them until the redemption date. As investor confidence in any government paper declined, the bid and offer prices of OGSZ without ACI at the beginning of the year were far below their face value. Later prices went up and exceeded the bonds' face value by several percentage points.

PRICES OF SOME RUSSIAN FOREIGN CURRENCY DEBT OBLIGATIONS
(as % of per value)

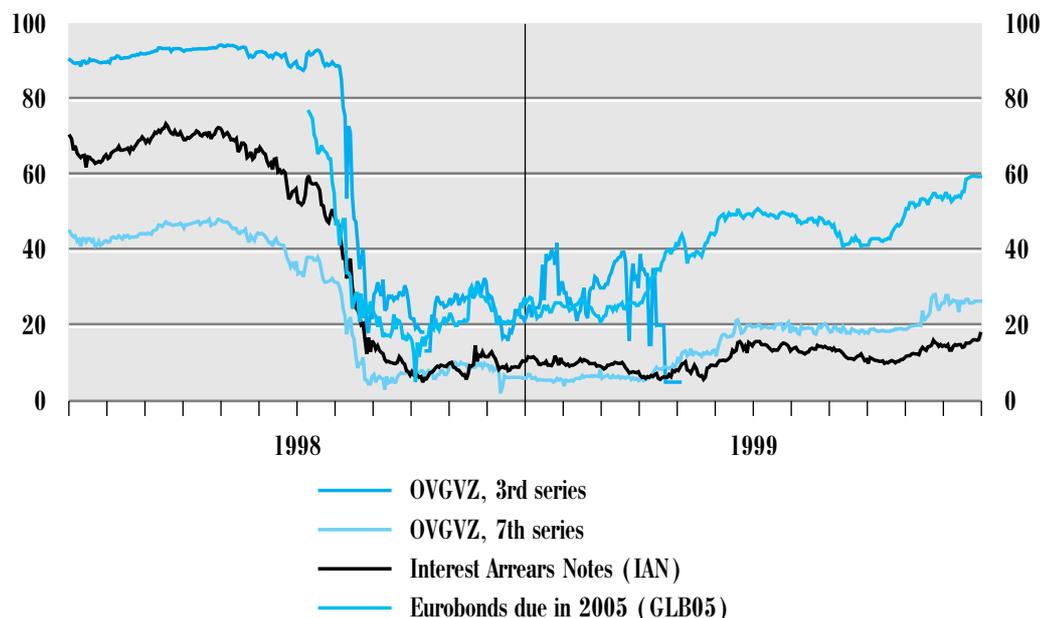


Chart 14

REGIONAL AND MUNICIPAL GOVERNMENT BOND MARKET. The regional and municipal government bond market on the whole registered a drop in issue volumes and exchange trade turnovers and a contraction and subsequent stabilisation of yields. The Finance Ministry in 1999 registered the conditions of issue and trade of securities of 14 regions, which represents a significant decline from 1998. At the same time, St. Petersburg reinforced its position as a major regional centre of the Russian sub-federal loan market.

In 1999 only Moscow, St. Petersburg, Chelyabinsk, the Chelyabinsk Region and the Republic of Buryatia continued to fulfil all their obligations to investors, while most of the regional issuers implemented debt restructuring programmes and relied largely on issuing new instruments.

RUSSIAN FOREIGN CURRENCY DEBT MARKET. In early 1999 there were the following outstanding foreign currency debt obligations of the Russian Federation in the market:

- government domestic foreign currency loan bonds (OVGVZ) of series 3 to 7 due in 1999—2011;
- Principal Notes, or PRINs, and Interest Arrears Notes, or IANs, which represent

Russia's Soviet-era principal debt and overdue interest to the London Club of commercial bank creditors;

- Russian eurobonds (7 issues) issued in 1996—1998 and due in 2001—2028;
- Finance Ministry bonds issued in the course of the GKO restructuring (2 issues).

In 1999 Russia did not place any new issues or make any additional bond placements in the world's financial markets. The secondary market for Russian foreign currency debt had a low level of liquidity.

Russian debt prices in 1999 gradually rose compared with the end of 1998 but fell short of the pre-crisis level. The main reason for slow growth was a downgrade assigned to Russia by international rating agencies in the autumn of 1998 to levels indicating that Russia's default on her debts was "very likely" and the resulting doubts about Russia's ability to honour her debt commitments on time and in full.

As the economic situation looked up during the year and the conditions of the restructuring of Russia's Soviet-era debts became clear, Russian debt prices began slowly to rise. By the end of 1999 Russian debt prices in the world's mar-

kets increased 3 to 5 times compared with the beginning of the year.

In 1999 Russia continued to service in full only the debt obligations it assumed after 1992 and at negotiations with its creditors asked them to restructure the Soviet-era debt by writing off a part thereof and rescheduling the remaining debt payments.

During the year under review Russia conducted intense negotiations with holders of the 3rd series of OVGZ bonds due on May 14 and other debt obligations representing the restructured Soviet-era debt in a bid to work out mutually acceptable debt restructuring conditions. Eventually, investors were offered the opportunity to exchange OVGZ of the 3rd series for new securities denominated in rubles and US dollars.

In the course of negotiations with the London Club of commercial bank creditors on the restructuring of PRINs and IANs, the sides gradually accommodated their positions but no agreement was reached in 1999.

As for coupon payments on all Russian eurobond issues, Russia met all its obligations on schedule.

SECURITIES ISSUED BY CREDIT INSTITUTIONS.

As the Russian banking system was being restructured, credit institutions in 1999 were actively engaged in issuing securities. Last year 373 joint-stock credit institutions, or 51% of the total, issued 55.66 billion rubles worth of shares against 9.95 billion rubles in 1998.

The sum of the registered issues related to an increase in the authorised capital of credit institutions in 1999 amounted to 50.17 billion rubles, or 90.2% of the total, against 7.7 billion rubles, or 77.4%, in 1998. The remainder 5.49 billion rubles were shares issued without increasing authorised capital as part of the re-organisation of credit institutions or consolidation and conversion of shares. Cash was the main source of payment for shares in 1999.

In pursuance of the Federal Law on the Restructuring of Credit Institutions, 12 joint-stock banks in 1999 were transferred to the control of the Agency for Restructuring Credit Organisations (ARCO), of which 10 issued 900.5 million rubles worth of shares.

The value of the bond issues completed by credit institutions in the year under review amounted to 851.7 million rubles at par, or 10 times the amount issued in 1998. It is mostly convertible bonds that were issued.

Last year 155 conditions of issue and circulation of savings certificates and certificates of deposit of credit institutions were registered (2.6 times the number registered in 1998), in accordance with which 143.92 billion rubles worth of savings certificates and certificates of deposit were issued. Most of these certificates (133.87 billion rubles) were issued by Moscow-based credit institutions. There was no demand for savings certificates in other regions.

CORPORATE SECURITIES MARKET. Throughout most of 1999 the stock market witnessed a tendency towards growth for its main indicators. Late in December the Russian Trading System (RTS) registered the year's maximum daily trade turnover (\$33.72 million) and the RTS-1 index hit the year's high of 177.71 points. At the same time, there were significant price fluctuations and brief outbursts of trading activity during the year, provoked by speculative operations.

The main factors of growth were the undervaluation of shares after the price fall caused by the 1998 crisis, improvements in the real sector and a bright outlook for the export-oriented issuers, which resulted from the continued growth in the price of oil and some other raw materials.

A new segment, the corporate bond market, appeared in the Russian stock market in 1999. Corporate bonds were issued by a handful of top Russian companies in a bid to attract nonresident funds from C-type accounts. In June a primary placement of bonds of the Russian oil company LUKoil began for the first time on the Moscow Interbank Currency Exchange (MICEX). By the end of last year corporate bonds of five other issuers had been placed: the gas company OAO Gazprom, Tyumen Oil Company (TNK), the diamond mining company ALROSA, Mostotrest and the Unified Energy System. Corporate bonds with a total face value of 11.4 billion rubles were floated in 1999.

All corporate bonds except ALROSA's discount bonds carry coupon with maturities ranging from 180 days to 5 years. The nominal value

INDUSTRIAL SHARE TRADE DYNAMICS IN 1999

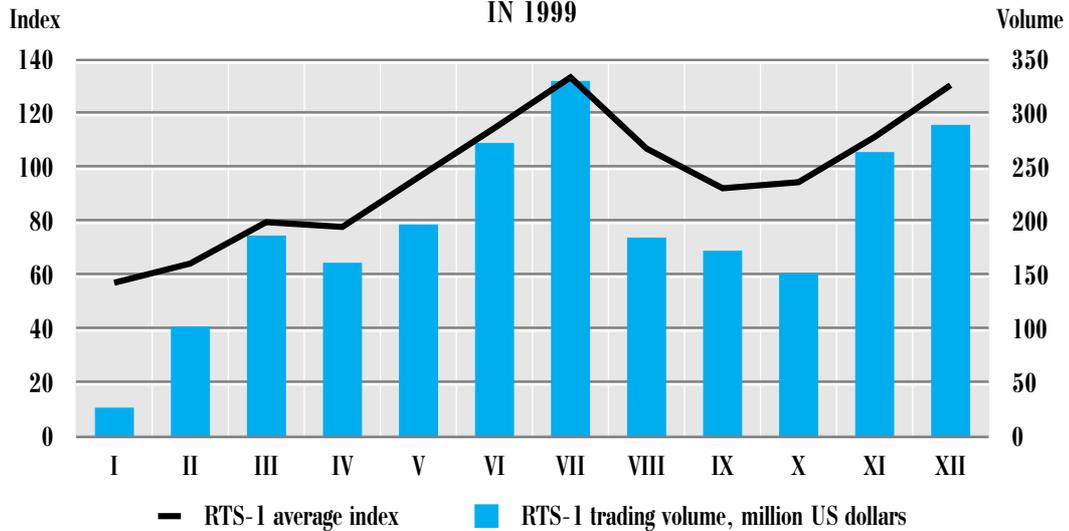


Chart 15

of the corporate bonds is expressed in rubles, but ruble payments on the coupon and the principal amount of a bond are index-linked to the change of the US dollar rate against the ruble at the moment of payment.

A secondary corporate bond market began to operate in the second half of last year, but demand was low despite a shortage of liquid financial instruments.

DERIVATIVES MARKET

The derivatives market in 1999 registered not only a drop in turnovers, but also major structural changes. Since the problem of settlements on overdue foreign exchange forward contracts remained unresolved, the over-the-counter foreign exchange forward market continued to stand still and forward deals on shares came to domi-

nate the market in terms of instruments. The regional structure of the market changed as the role of the trading floors of St. Petersburg (St. Petersburg Stock Exchange) and the Ural Region (Yekaterinburg Stock Exchange) increased. The futures contracts continued to be short-term in 1999: the longest term of futures contracts was three months and most of the contracts were concluded for one month.

Changes for the better were registered primarily in the exchange segment of the derivatives market where futures trading gained momentum. Nevertheless, during the year the futures market failed to recover to the pre-crisis level remaining much lower than in the first half of 1998. Further growth of the futures market was constrained by a shortage of underlying liquid instruments and the lack of a legal framework for derivatives transactions.

I.4. BALANCE OF PAYMENTS AND FOREIGN DEBT

CURRENT ACCOUNT

The current account surplus in 1999 amounted to \$25 billion, which is twice the post-reform absolute maximum registered in 1996.

The main reason for growth was a fall in imports, which resulted from the inflation being slower than the ruble devaluation in 1998.

An important contributing factor was a favourable dynamics of world prices of fuel and energy resources: thanks to growth in contract prices compared with 1998, the economy earned an additional \$2.4 billion from the sale of these commodities.

The current account surplus in relations with non-CIS countries amounted to \$23.4 billion against a deficit of \$500 million in 1998, while with CIS countries it was unchanged from the previous year's \$1.6 billion.

Foreign trade turnover slightly exceeded \$114 billion, which represents a drop of 14% from the previous year. Exports remained unchanged, while imports declined by almost one-third. As a result, the trade surplus amounted to \$35.3 billion, or doubled compared with the previous year.

Contract prices of Russian exports fell by 8% on average, but thanks to a growth in export volumes, the value of exports remained unchanged from the base period.

Contract prices of Russian imports fell by 18% but did not cause a rise in domestic demand for imported goods.

Exports of goods amounted to \$74.7 billion, of which exports to non-CIS countries amounted to \$62.4 billion, while exports to CIS countries reached \$12.2 billion. The price of goods exported to non-CIS countries rose by 6% and the price of goods exported to CIS countries fell by 23%. Fuel and energy, the principal Russian export commodities, demonstrated an extremely uneven price dynamics. In the 1st quarter the contract price of crude oil was at the lowest level in recent years, then it surged and in the 4th quarter exceeded the January—March level 2.5 times. The price of natural gas also had risen by the end of last year.

External demand was a factor that affected exports in different ways.

Economic growth in South East Asian countries caused exports to that region to double in volume.

At the same time, Russia's trading partners had imposed more than 80 restrictions on Russian imports, mostly anti-dumping sanctions.

As CIS importers were short of funds, this group of countries accounted for 16% of Russian exports against 21% in 1998.

Just as a year ago, Russia's leading trading partners in 1999 were Germany (9% of Russian exports), Ukraine and the United States (7% each) and Belorussia (5%).

Imports of goods amounted to \$39.4 billion, of which \$28.9 billion worth of goods were imported from non-CIS countries and \$10.4 billion from CIS countries. The price of imports from non-CIS countries fell by 34% and from CIS countries by 27%.

Imports declined as contract prices fell and volumes contracted by 16%.

A drop in real disposable income caused domestic consumer demand to shrink, especially the demand for imported goods.

The largest suppliers of imported goods to Russia were Germany (14% of Russian imports), Belorussia (11%) and the United States and Ukraine (8% each).

The balance of services had a deficit of \$3.3 billion, although in absolute terms it contracted by 13%. Exports decreased by 27% and imports by 23%.

International operations registered in the balance of payments under the items "Transport" and "Travel" accounted for more than two-thirds of the services trade turnover.

The tourist and private and business travel services provided to foreigners were estimated at \$3.7 billion, which represents a decrease of 43% from the base year. This set of dynamics principally resulted from the reduction of the dollar equivalent of nonresidents' personal expenses on their stay in Russia, which was only partly compensated by an increase in the number of foreigners travelling to Russia.

Transport service exports contracted by 4%.

The contraction of aggregate solvent demand of the economy found its expression in the dynamics of service imports.

Residents' expenditures posted under the item "Travel" declined by 21%, of which expenses on trips to non-CIS countries decreased by 29%.

Imports of transport services contracted by almost one-third as a result of a fall in imports of goods, gradual transition to cheaper types of transport and the increased import substitution in transport, which became manifest in the growth of transportation of import cargoes by domestic carriers.

The balance of wage in 1999 had a surplus of \$300 million for the first time in years after a deficit of \$200 million in 1998. The main reason is a moderate dynamics of nonresidents' wages

and salaries following the ruble devaluation, which reduced three times the dollar equivalent of the average wage in the sectors employing foreigners. The number of foreign workers fell by about 13%. The yearly amount of wages and salaries paid to foreign workers totalled \$200 million. Workers from CIS countries accounted for two-thirds of the sum.

At the same time, earnings of the Russians working abroad increased by 41% over the year and totalled \$400 million, which is attributable to both a growth in the number of Russians who emigrated to work in other countries and the qualification level of Russian emigrants.

The balance of income from investment had a deficit of \$7.8 billion against a deficit of \$11.6 billion last year.

The anticipated income stood at \$3.4 billion, or 15% less than in 1998, and, as was the case in the previous years, most of it was interest on loans extended by the former Soviet Union.

Payable income amounted to \$11.2 billion, a fall of 29%.

The government sector bore the brunt of the current debt-service payments and the amounts to be paid were divided almost equally between loans and securities. However, while interest payments on loans remained virtually unchanged from 1998, payments on portfolio investments decreased by 43% as a result of the reduction of income on ruble-denominated papers in dollar equivalent. Income paid on securities denominated in foreign currency increased by 10% over the year.

Current transfers in 1999 had a surplus of \$500 million against a deficit of \$400 million in 1998.

CAPITAL AND FINANCIAL ACCOUNT

CAPITAL ACCOUNT

The balance of operations that do not involve any counter-flows of economical values and are classified in the balance of payments as capital transfers (these are, principally, operations connected with migration) had a deficit of \$300 million, or roughly the same as in 1998.

The direction, intensity and value characteristics of the migration flows were affected by the

consequences of the financial and economic crisis of 1998. On the one hand, the number of emigrants slightly rose (by 1%), while that of immigrants declined significantly (by 26%). On the other hand, the dollar value of property and financial assets of emigrants had fallen sharply after the ruble devaluation, while the corresponding indicator for immigrants remained basically unchanged. The impact of the cost factor proved more significant and a reduction of deficit of the capital account was registered therefore.

As was the case in 1998, most of the migrants' transfers received (97%) were the transfers of migrants from CIS countries, while 64% of the transfers paid were Russian emigrants' transfers to non-CIS countries.

FINANCIAL ACCOUNT

The financial account in 1999 had a deficit of \$15.9 billion (not counting change in official international reserves). In 1998, investments from abroad exceeded residents' investments in foreign assets by \$3.0 billion.

Foreign liabilities

Foreign liabilities of the economy increased by \$1.3 billion against a rise of \$20.5 billion in 1998, which indicates that capital inflow to Russia had dwindled significantly.

At the same time, the decline in foreign investment was accompanied by encouraging changes in the structure of external financing from the viewpoint of balance of payments stability. Firstly, the growth in foreign liabilities was predominantly in the form of direct investment, whereas in 1998 the share of direct investment was no more than 14%. Secondly, previously the main recipient of resources was the government sector (72%) and such resources were mainly used to solve budget problems, in 1999 most of the resources went to the real economy.

The dynamics of foreign liabilities of the *government sector* was determined by the need to effect large-value payments on foreign debt at a time when international financial organisations failed to provide adequate financing and Russia had no chance of raising funds in the world capital markets. In 1998 the government sector's obligations to nonresidents grew by \$14.7 billion,

whereas in 1999 there was a growth of just \$800 million.

Nevertheless, last year Russia received \$2.7 billion in foreign loans, of which \$1.3 billion were untied loans (nearly \$900 million in loans from international financial organisations and a \$400-million loan from Japan's Bank for International Co-operation). No other financial instruments were used to attract foreign capital.

The restructuring of the GKO—OFZ bonds on which payments were frozen in August 1998 was practically completed. As a result of the novation nonresidents exchanged 99% of their portfolio, while the volume of new securities issued amounted to \$2.9 billion at par. Overall, as a result of the novation and other operations foreign liabilities in the form of GKO—OFZ increased by \$300 million.

The federal government paid \$9.6 billion on all categories of foreign debt (\$6.7 billion on the principal and \$2.9 billion as interest). Payments to the amount of \$4.6 billion were deferred after the signing of a framework agreement with the Paris Club of creditor nations on the restructuring of Russia's Soviet-era debt. It was mainly debt payments to the London Club of commercial bank creditors (\$1.8 billion) that were overdue.

Following the mass withdrawal of foreign capital from the *banking sector* in the second half of 1998, which amounted to \$8.3 billion, there was overall stability in 1999. Although nonresidents continued to repatriate funds invested in the banking sector, it was a residual process: liabilities to nonresidents declined by just \$900 million. However, while in the first half of 1999 banks experienced some difficulties (their overdue debt to nonresidents grew by nearly \$700 million), in July—December they not only effected all current payments, but also repaid a part of overdue debt to the amount of about \$400 million.

The inflow of foreign capital to the *non-financial enterprise sector* decreased almost four times at the expense of portfolio investment and loans. Direct investment, a sign of counterparties' long-term interest, remained almost unchanged from the previous year.

Investors (mainly US and German) preferred investing in the food industry, transport, trade and the fuel sector.

Foreign assets

The export of capital by residents remained unchanged from the previous year's \$17 billion, the leading capital exporters being non-financial enterprises (\$12.4 billion) and banks (\$3.5 billion).

A growth of \$1.3 billion in the foreign assets of the *government sector* signified, just as in the previous year, an accumulation of claims on unpaid interest on loans extended to foreign governments by the former USSR. Of the \$6.5 billion (the principal and interest) receivable according to schedule, nonresidents actually paid \$300 million and an additional \$400 million were paid on earlier overdue debt.

Former Soviet republics paid just \$40 million (they were expected to pay \$700 million) on loans extended by Russia.

Ukraine's debt to Russia was restructured under an intergovernmental agreement on mutual settlements relating to the division of the Black Sea fleet, ratified in June 1999: payments to the amount of \$1.2 billion were deferred and about \$1 billion were settled (counted as repayment of debt).

Foreign assets of the *banking sector* in 1999 grew by \$3.5 billion. Anticipating a devaluation of the ruble and lacking liquid ruble-denominated financial instruments, banks preferred investing in foreign assets. It should be noted that claims to nonresidents accumulated mainly in the form of growth in the balances of settlement accounts and short-term deposits: compared with the beginning of the year, the share of short-term financial instruments in banking assets expanded from 71% to 82%.

As of January 1, 2000, banks' claims to foreign counterparties amounted to \$12.7 billion, of which \$10.4 billion were short-term claims.

While at the beginning of the year under review the net international investment position of credit institutions was negative (—\$200 million), in the 1st quarter of the same year it turned positive and as of January 1, 2000, amounted to \$4.5 billion.

The growth of foreign assets of the *non-financial enterprise sector* in 1999 slowed a little (from \$16.5 billion in 1998 to \$12.4 billion) mainly as a result of the reduction of late receipt of export earnings and goods in payment of import advances.

Capital export in the form of direct and portfolio investment increased chiefly due to the improved situation in the world commodities markets, which allowed Russian fuel and energy companies to expand their participation in investment projects abroad.

Operations with foreign cash have always played an important part in Russia's balance of payments. According to a Bank of Russia estimate, there was a \$1.0 billion contraction of foreign cash in the non-banking sector (in 1998 foreign cash reserves contracted by \$800 million). This dynamics resulted from a fall in household real income and the consequences of the ruble devaluation, which led to a contraction of demand of all economic agents for foreign cash as a means of savings.

A current account surplus and foreign exchange controls in 1999 ensured an excess of foreign exchange supply over demand in the domestic market.

In line with its exchange rate policy, the Bank of Russia in 1999 was a net buyer of foreign exchange. At the same time, as foreign loans to the government sector dwindled, the Bank of Russia, in conformity with the federal law, spent a part of its foreign currency reserves to finance the government's foreign debt service payments.

In the year under review, as a result of the operations recorded in the balance of payments, Russia's foreign currency reserves increased by \$1.8 billion.

As of January 1, 2000, Russia's international reserves were estimated at \$12.5 billion, an amount that was enough to finance the import of goods and non-factor services for 2.9 months, which is practically consistent with international reserve adequacy standards and far surpassed the previous year's level (1.9 months).

FOREIGN DEBT

The debt owed by all residents to foreign counterparties as of January 1, 2000, was estimated at \$175.5 billion.

More than half the economy's foreign liabilities were inherited from the former USSR (\$97.7 billion), while 44% (\$77.9 billion) were liabilities that arose in the period of 1992—1999.

By the end of the year under review the government sector had accounted for 82% of foreign debt, the non-financial enterprise sector 12%, commercial banks 4% and the Bank of Russia 2%.

Over the year foreign liabilities decreased by \$10.5 billion, which is the combined effect of several different factors.

On the one hand, Russia made new borrowings to the amount of \$8.0 billion and another increase of \$4.8 billion in debt resulted from the accumulation of the debt on interest to the Paris and London Clubs and other categories of Soviet-era debt. On the other hand, foreign debt settlements, including operations in the secondary market, amounted to \$14.2 billion (in addition, the amount of interest paid is estimated at \$5.5 billion).

A \$9.1 billion decrease in debt is attributable to other factors, especially a slide of major foreign currencies against the US dollar.

For the first time since 1992 Russia registered a decline in its foreign debt. The government sector's debt decreased by \$7.9 billion, the Central Bank's debt declined by \$700 million and commercial banks reduced their debt by \$2.3 billion. At the same time, the non-financial enterprise sector's liabilities slightly rose (by \$400 million).

Despite a contraction of foreign debt in absolute terms, foreign debt relative to GDP, expressed in US dollars at the average annual nominal rate, rose sharply (from 59% to 96%) as a result of the 1998 devaluation of the ruble. For the net borrowers (the government sector and non-financial enterprise sector) that meant a significant increase in the debt-service burden. Pursuant to the federal law, the Bank of Russia serviced a large part of the government's foreign debt from its own resources.

Overall, Russia honoured its new government foreign debt commitments fully and on time, but occasionally missed payments on Soviet debt.

I.5. WORLD ECONOMY AND INTERNATIONAL FINANCIAL MARKETS

The international community in 1999 struggled to overcome the world financial crisis, stabilise the international monetary system, promote the development of financial markets, implement structural reforms, make the world economies more transparent, while liberalising trade and capital flow and intensifying the fight against poverty.

A long period of dynamic economic growth in the United States and a rapid economic pickup in crisis-hit Asian countries, Brazil and Russia improved the state of the world economy and financial markets. **The world GDP** in 1999 expanded at the rate of 3.3% against 2.5% in 1998, although its growth rate was slower than the average of the previous five years.

Economic growth in the United States (US GDP in 1999 expanded by 4.2% against 4.3% in 1998) continued amid low inflation, unprecedentedly high employment and a burgeoning budget surplus. Low inflation in the United States allowed the Federal Reserve System to pursue a policy encouraging high domestic demand.

In the EU countries GDP growth rates slowed down from 2.7% in 1998 to 2.3% in 1999 owing to a slowdown in the rates of growth in Germany, France and Britain. There was also a letup in growth in Western European countries that are not members of the EU.

Japan's financial and monetary policy aimed at pulling the economy out of deep recession that

hit the country in 1998. Although an economic growth of 0.9% was predicted for 1999 after a 2.5% decline in 1998, Japan's GDP last year grew by just 0.3%.

Economic recovery in the emerging markets was the consequence of more drastic structural reforms conducted amid a sharp fall in foreign capital influx after the financial crisis. Investor confidence and business activity quickly recovered in Asian and Latin American countries thanks to the stabilisation of the financial markets. The best performer among the crisis-stricken countries was South Korea, whose GDP in 1999 expanded by 10.7% after a 6.7% contraction in 1998.

In the transition economies GDP in 1999 rose by 2.4% after a decline of 0.7% in 1998. In Russia GDP contraction in 1998 gave way to growth in 1999. Economic growth rates accelerated in Trans-Caucasus and Central Asian countries, in Central and Eastern European countries economic growth slowed down, and Lithuania, Estonia and Croatia experienced a recession.

A rise in business activity in the world economy was accompanied by a growth in the price of oil, which returned to a long-term equilibrium after a fall in early 1999. The increased price of oil improved balances of payments and budgets of the oil-exporting countries, including Russia, many countries of the Middle and Near East and some African nations.

A major factor of accelerated economic growth in 1999 was the expansion of **domestic demand** in the industrialised nations by 3.8% against 2.7% in 1998, which mainly resulted from resumed growth in demand in Japan and the new industrial countries of Asia, where aggregate domestic demand in 1999 expanded by 0.6% and 8% after a contraction of 3.1% and 9%, respectively, in 1998. In most of other industrialised countries growth in domestic demand slowed down. To maintain rapid rates of economic growth amid deflation the Chinese authorities in 1999 took steps to stimulate domestic demand by allocating budget funds to the development of infrastructure, education and social security.

Expenditure on consumption in the industrialised nations rose by 3.9% in 1999 against 2.9% in 1998. The most rapid rate of growth was registered in the United States — 5.3% against 4.9% in 1998. In the euro-zone, growth in consumer spending slowed to 2.7% from 3.1% in 1998, while in Britain it accelerated from 3.2% to 4%. As a result, consumer spendings growth in the EU as a whole slowed to 2.9% from 3.1% in 1998. Asian countries saw consumer demand recover after the financial crisis. In Japan and the new industrial nations of Asia consumer expenditure in 1999 rose by 1.2% and 7.6%, respectively, after a fall of 0.5% and 4.2% in 1998.

Gross investment in fixed capital in the industrialised world in 1999 increased by 5.3% against 4.9% in 1998, with the highest rates of growth registered in Canada — 9.3% against 3.6% in 1998, and the United States — 8.2% against 10.5% in 1998. In the EU gross investment in fixed capital expanded in 1999 by 5.1% against 5.9% in 1998 and Japan registered a fall of 1% against a 7.4% contraction in 1998. More rapid rates of economic growth in the new industrial Asian nations were brought about by a resumption of growth in gross fixed capital investment in 1999 by 1% after a 9.3% decline in 1998.

INFLATION. Consumer price growth in the industrialised nations slowed from 1.5% in 1998 to 1.4% in 1999 and in developing countries from 10.1% to 6.5%. The economies in transformation registered an upsurge of inflation from 21.8% in 1998 to 43.7% in 1999.

Consumer prices in the United States in 1999 rose by 2.2% against 1.6% in 1998 as wage, household income and consumer expenditure increased, while the stock market became overheated and energy prices and Fed rates jumped. In Japan, consumer prices went down by 1.2% because of unemployment and the corresponding decline in consumer spending. In the EMU countries inflation rose from 0.8% in 1998 to 1.7% in 1999 as the world prices of industrial raw materials and fuel soared and consumer and business activity gradually recovered after the world financial crisis.

Consumer prices went down in 1999 in China (by 0.9%), Argentina (by 1.7%) and some other countries. In China deflation was caused by a contraction of consumer demand and a growth in the supply in the domestic market resulting from the expansion of production and reduction in the competitiveness of exports.

The Central and Eastern European countries managed to curb inflation within their programmes of integration in the European Economic and Monetary Union. In Hungary inflation in 1999 slowed to 10% from 14.3% in 1998, in Poland to 7.3% from 11.8% and in the Czech Republic to 2.1% from 10.6%. In Ukraine consumer prices rose by 22.7% against 10.6% in 1998 and in Belarus by 293.8% against 73.2%.

The unemployment rate in the industrialised nations in 1999 was down to 6.4% from 6.7% in 1998. The US jobless rate dropped from 4.5% in 1998 to 4.2%, in the EU from 9.7% to 8.9% and in the new industrial nations of Asia from 5.4% to 5.3%. Japan's unemployment rose from 4.1% in 1998 to 4.7% in 1999.

The aggregate deficit of the consolidated **budgets of the industrialised nations** contracted from 1.2% of GDP in 1998 to 1% of GDP in 1999. The US consolidated budget posted a surplus of 0.5% of GDP, whereas in 1998 there was a deficit of 0.1% of GDP. As the state of government finance in Japan continued to deteriorate, the deficit of the country's consolidated budget expanded from 4.3% to 7.1% of GDP. In the euro-zone the consolidated budget deficit shrank from 2.1% of GDP in 1998 to 1.2% in 1999 (the Maastricht agreements set a maximum of 3% for the consolidated budget deficit relative to their GDP). The average weighted consolidated bud-

get deficit of the industrialised nations grew from 4.5% to 5.1% of GDP, while transition economies managed to cut their consolidated budget deficit from 5.4% to 3.4% of GDP.

MONEY MARKETS. The FRS discount rate and the refinancing rates of the Bank of Japan and the European Central Bank (ECB) in early 1999 were 4.5%, 0.50% and 3%, respectively, but by the end of the year the United States had hiked its discount rate to 5%, the ECB had restored its refinancing rate to pre-April level, while the Bank of Japan rate remained unchanged.

In the United States, for the first time since the beginning of 1999 the federal funds rate on July 1 was raised by 0.25%. On November 16—18, the FRS raised the federal funds rate again by 0.5% to 5.5% and the discount rate by 0.25% to 5%. The FRS said the raise was necessary as the threat of the US economy overheating remained. Late in 1999 the rate on loans to prime borrowers was 8.25% against 7.75% at the beginning of the year.

In February the Bank of Japan launched a new monetary policy aimed at stabilising interest rates amid deflation. Although during the year market rates on short-term loans slipped from 0.25% to 0.15% and on loans to prime borrowers from 1.50% to 1.38%, the Bank of Japan refinancing rate remained unchanged at 0.50%.

The member-countries of the European Monetary Union on January 1 to 4, 1999, switched to non-cash payments and settlements in euros. At the insistence of Germany and some other euro-zone countries, the European Central Bank on April 8 cut the refinancing from 3% to 2.5%, explaining its decision by the need to create conditions for using to the fullest possible extent the economic potential of the EMS countries. In November, however, the refinancing rate was raised to 3% as “the risk of price instability increased.”

The Bank of England slashed the discount rate from 6.75% in November 1998 to 5.5% early in February 1999 in order to bring it closer to the ECB refinancing rate in line with plans for Britain’s convergence with the European Monetary Union and in June the Bank of England further cut the refinancing rate to 5% despite a weakening of the pound sterling against the dollar.

CURRENCY MARKETS. Rapid economic growth rates in the United States and improved government finance contributed to the dollar’s rise against the other major currencies in 1999.

In the first half of 1999, the Japanese yen fell against the dollar, causing concern in the United States. The US Treasury Secretary said the yen’s slide against the dollar was undesirable because it facilitated growth in Japanese exports to the United States and harmed the country’s balance of payments. In July the dollar weakened against the Japanese currency from 122 yen to 116 yen and by the end of the year the US currency had fallen to 102 yen.

Over the year the euro lost 17% of its value against the dollar. The euro’s dramatic decline against the US currency aggravated trade imbalances between the industrialised nations, which may further destabilise exchange rate relationships between major currencies. The euro’s weakness was, to a great extent, a reflection of the United States and Western Europe being in different phases of the economic cycle and a result of investor scepticism about sustained non-inflationary growth in Europe amid structural imbalances in the EU countries’ economies. As the euro slid against the dollar, pound sterling and yen in 1999, investment funds reduced their positions in the euro. Investors worried about low economic growth rates in the EMU countries compared with the United States, so the financial markets of South-East Asia, Latin America and Central and Eastern Europe recovering from the world financial crisis became increasingly attractive for them.

CAPITAL MARKETS. Last year saw an outflow of funds from the US financial market to Japan and South-East Asia as the US stockmarket was overheated. As a result, yields on US 30-year treasury bonds rose from 5.25% to 6.46%, 10-year bonds from 4.72% to 6.36%, 2-year bonds from 4.62% to 6.18% and corporate bonds from 4.62% to 7.40%.

In Japan, on the contrary, debt prices rose while yields fell. The trend resulted from an inflow of funds from the US financial market, a fall in household expenditures on consumption and increased expectations of improvements in the economic situation owing to the expansion of Japanese government allocations to the real

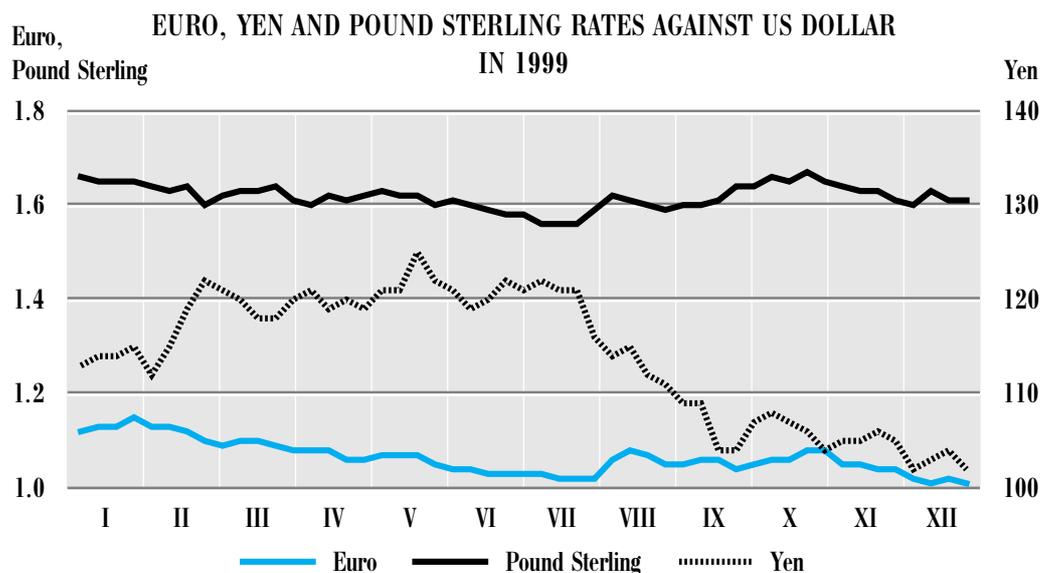


Chart 16

economy. In 1999 yield on Japanese government 30-year bonds fell from 1.82% to 1.72%, 10-year bonds from 2.02% to 1.72%, 2-year bonds from 0.86% to 0.47% and corporate bonds from 1.54% to 0.67%.

The euro's decline against the dollar and sluggish economic growth in the EMU countries caused the market price of euro-zone government and corporate securities to fall and their yields to rise. Yields on 10-year government bonds went up from 3.70% to 5.25%, 2-year bonds from 3.03% to 4.10% and corporate paper from 3.73% to 5.34%.

After a sharp fall in the issue of syndicated and bond loans in the world's capital markets in the second half of 1998, in the 1st quarter of 1999 the volume of syndicated lending continued to contract and its conditions continued to deteriorate, while the issuance of bond loans started to rise again in euros and in dollars, though it contracted in yen.

In 1998, 45% of the outstanding debt obligations in the world market and 57% of new bond issues were denominated in the US dollar. The introduction of the euro challenged the dollar's pre-eminence in the world bond market: from January to early December 1999 the issue of euro-denominated bonds exceeded the issue of dollar bonds and major borrowers preferred using the euro.

The volume of developing countries' bond borrowings in the international capital market in 1999 more than doubled compared with the pre-

vious year, exceeding \$30 billion, while bond borrowings of the transitional economies in the international capital markets amounted to \$11.1 billion.

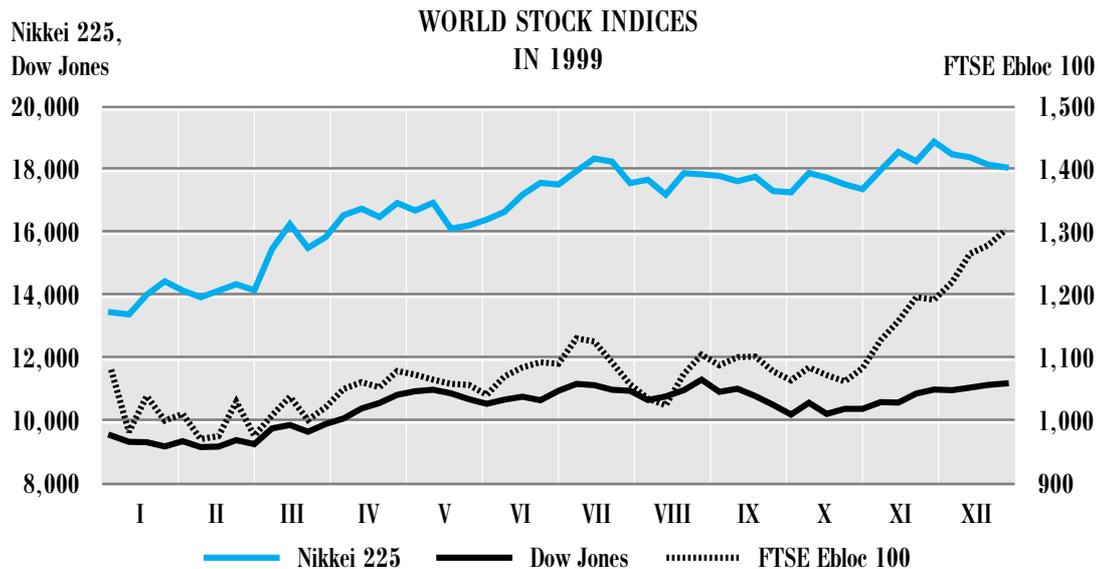
Six-month LIBOR rates in the international financial market in London fell from the previous year. The most significant drop in LIBOR rates was registered on euro loans (from 3.7% to 3%) and yen-denominated loans (from 0.7% to 0.2%). LIBOR rates on US dollar-denominated loans in 1999 slipped to 5.5% from 5.6% in 1998.

In Western Europe, the restructuring of companies, bank mergers following the creation of the EMU, increased export earnings of enterprises and growth in business and consumer activity caused European industrial share prices to rise. The FTSE Eurotop 300 index in 1999 gained 250 points, an increase of 20%.

The London and Frankfurt stock exchanges in March began to harmonise trading conditions within the framework of a programme to create a single European stock market at which the shares of 300 leading Western European companies would be listed. The Milan, Paris and Zurich exchanges formed an alliance and declared their readiness to join the London and Frankfurt exchanges.

Throughout 1999 the Japanese stock market indices kept rising as economic recession ended and exports started to grow in the South-East Asian and Latin American markets recovering from the crisis.

Chart 17



The aggregate capitalisation of Central and Eastern European stock markets in 1999 amounted to \$88 billion, half the figure registered in the boom year of 1997. However, in the second half of last year the indices of eight out of 13 Central and Eastern European stock exchanges started to rise. The most significant growth (by 25.2%) in exchange trade volume was registered in Romania in May 1999, although the daily average trade volume of the Romanian stockmarket was not more than \$1 million. The Czech stock market expanded on a fall in taxes, government financing of public works and recapitalisation of some banks prior to privatisation.

The recovery from the financial crisis sped up the rate of growth in **international trade**. The rates of export growth accelerated in the industrialised nations and slowed in the developing countries and economies in transition. Exports from these countries went primarily to the industrialised nations, whose imports in 1999 expanded by 7.4% year-on-year. The import of goods and services by the developing countries and transition economies in 1999 decreased year-on-year by 0.3% and 5.4%, respectively. As energy prices rose and exports of the crisis-hit Asian countries expanded, trade in goods grew more rapidly than trade in services.

The US dollar-denominated index of the **world market prices** of finished goods manufactured in the industrialised nations in 1999 fell by 1% af-

ter a drop of 1.2% in 1998; the average spot prices of Brent Blend, Dubai and W.T.I. went up by 38.7% after a 32.1% fall in 1998; raw material prices declined by 6.9% against 14.7%.

The rise in the price of oil in 1999 resulted from a drop in supply after OPEC decided to cut production quotas by 5%. The other contributing factors were transportation problems created by the NATO military operation in the Balkans, hurricanes in the Gulf of Mexico and North Sea, an earthquake in Turkey, the suspension of oil supplies by Iraq, a growth in the demand for fuel caused by a recovery from the aftermath of the world financial crisis, the continued rapid rates of economic growth in the United States, a rise in business activity in Western Europe and a production pickup in South-East Asian countries.

The non-ferrous metals price index had fallen by 50% by March 1999 compared with the January 1995 peak, but by November it had risen again, with the price of nickel going up by 55% and the prices of aluminium and copper by 30%. The price of nickel on the London Metal Exchange practically doubled in the period from December 1998 to December 1999 and reached the highest point since 1997 — \$7,900 per tonne.

Supply continued to exceed demand in the sugar, soyabean, cocoa and oil-seed markets in 1999, causing the world food price index to slip.

PRECIOUS METALS MARKETS. A 2% fall in the price of gold in the first half of 1999 was caused by a decline in demand in the jewel-making industry and reports that the National Bank of Switzerland was going to sell half its 2,600-tonne gold reserves, while the International Monetary Fund planned a sale of 300 tonnes out of its 3,200-tonne reserves to finance a programme for writing off developing countries' debt and Argentina planned to restructure its international reserves by selling antique coins. When the Bank of England auctioned 125 tonnes of gold in July and announced plans to sell 58% of its gold reserves, the price of gold slipped to \$252.85 per troy oz.

A rise in the price of gold in the second half of last year to \$289.9 per troy oz is attributable to the fact that in the first half of the year gold sales totalled just 19 tonnes and the European Central Bank announced its decision to restructure its international reserves and increase the gold quota in them from 15% to 35% in order to reconcile it with the quotas set by the EMU central banks. In addition, the EMU countries in September decided to limit gold sales to 400 tonnes during the next five years and not to increase gold leasing and futures contracts and options.

The world's platinum exports in 1999 contracted by 6% year-on-year. At the end of last year increased demand from computer manufacturers and a shortage of platinum led to a price rise of 30%, as a result of which from September to the end of the year the price of platinum had risen to \$456 per troy oz. In December 1999, the price of palladium went up to \$545 per troy oz, while in 1995 it was four times lower than the price of platinum. The rise in the price of palladium was spurred by unmet demand, which experts estimated at 100 tonnes in August 1999.

The current account balances of the industrialised nations changed dramatically. In 1993—1998 they posted an aggregate surplus which in 1998 amounted to \$43.1 billion, whereas in 1999 a deficit of \$133.7 billion was registered. The main reason for such a radical change was an unprecedented growth in the US current account deficit (from \$220.6 billion in 1998 to \$338.9 billion in 1999) and an increase in Great Britain's current account deficit from \$800 million in 1998 to \$19.5 billion in 1999. As a result of imports growth South Korea's current

account surplus contracted from \$40.2 billion to \$25 billion. The euro-zone countries and Japan registered a surplus in their current accounts.

The aggregate current account deficit of the developing nations contracted from \$89.9 billion in 1998 to \$32.7 billion in 1999, the aggregate current account deficit of Latin American countries decreased from \$88.6 billion in 1998 to \$54.2 billion in 1999 and that of the African states declined from \$20 billion to \$16.8 billion. The current account surplus of Asian countries contracted from \$48.9 billion to \$42.3 billion as a result of growth in their imports. As a result of a rise in the price of oil a current account deficit of \$34.6 billion registered by the developing oil-exporting countries in 1998 turned into a \$3.4 billion surplus in 1999. The current account surplus of the developing countries exporting finished goods grew from \$700 million in 1998 to \$1.7 billion in 1999. The current account deficit of the economies in transition decreased from \$24.8 billion in 1998 to \$5.3 billion in 1999, largely thanks to a significant expansion of Russia's current account surplus.

Foreign direct investment in 1999 increased by 25% to \$827 billion against \$660 billion in 1998, according to UN estimates. More than 70% of the total amount of foreign direct investment (\$609 billion) went to the industrialised nations. Just as in 1998, the major recipient of foreign direct investment was the United States and, among the EU countries, Sweden. The inflow of foreign direct investment in the developing countries in 1999 amounted to \$198 billion, an increase of 15% from 1998. Developing countries did not take long to regain their attractiveness for direct investors after the financial crisis of 1997—1998. Latin American countries accounted for nearly a half of foreign direct investment received by developing nations in 1999 (\$97 billion). The principal recipients of foreign investment in the developing world were China (\$40 billion) and Brazil (\$31 billion).

According to IMF data, net inflow of direct and portfolio investments in industrial shares in the developing countries increased from \$125 billion in 1998 to \$131 billion in 1999. Net inflow of direct and portfolio investments in industrial shares in the transition economies in 1999 amounted to \$24 billion against \$21.8 billion in 1998.



**BANK OF RUSSIA
ACTIVITIES**

II

II.1. MONETARY POLICY

II.1.1. AIMS AND RESULTS OF MONETARY POLICY

The objectives of the monetary policy for 1999 were formulated in the Bank of Russia's key policy document "Guidelines for the Single State Monetary Policy for 1999." The difficulty in setting guidelines for monetary regulation last year lay in the fact that on the one hand, the aftershocks of the ruble devaluation of 1998 were still effecting the economy, but on the other hand, new trends and interrelationships were beginning to emerge. Despite the problems of the post-crisis rehabilitation period and high inflation and devaluation expectations at the beginning of the year, it was decided that one of the ultimate goals of the monetary policy for 1999 should be lowering inflation to 30%. At the same time, the Bank of Russia was determined to keep economic recession within 1–3%. In 1999 the monetary policy was implemented in the conditions of a floating exchange rate regime. The principal purpose of the Bank of Russia's actions in the domestic foreign exchange market was to smooth sharp ruble rate fluctuations, caused by supply and demand, and to keep and increase international reserves. It was especially important, therefore, to control the money supply. That is why M2 growth constraints were considered an intermediate target. Yearly growth in money supply, corresponding to the forecast macroeconomic indicators, was set in the range of 18–26%.

The economic situation in the first half of the year created conditions for a review of pre-set quantitative parameters. As a result of production growth that began in the 1st quarter of the year, a favourable foreign trade situation and a reduction in capital outflow, the demand for

money started to grow by the end of the first half of the year. At the same time, as there was uncertainty in Russia's relations with international financial organisations and private creditors, the Russian government did not rule out that in the worst case yearly inflation may be as high as 50%.

However, thanks to a settlement with creditors, the monthly rates of growth in consumer prices slowed throughout the year. As a result, 1999 inflation ran at 36.5%, slightly exceeding the target set for the year.

The inflation dynamics was favourably affected by long-term factors created by the monetary policy pursued by the Bank of Russia and the measures taken by the government to regulate the growth rates in the prices of products (services) of the natural monopolies. On the other hand, some non-monetary factors beyond the control of the Bank of Russia, such as the abolition of some VAT allowances, the phasing in of sales tax in Russian regions and a rise in the price of petrol following an increase in world prices, had a negative effect on the inflation rate.

Intrayear unevenness in financing federal budget expenditures in some periods caused the expansion of liquidity of the banking system and growth in cash on hand, aggravating the situation in domestic foreign exchange market and stimulating inflation. In addition, as the government was short of federal budget funds to service the entire amount of its foreign debt obligations in 1999, it had to use the Central Bank's foreign exchange reserves, which was another stimulant of inflation.

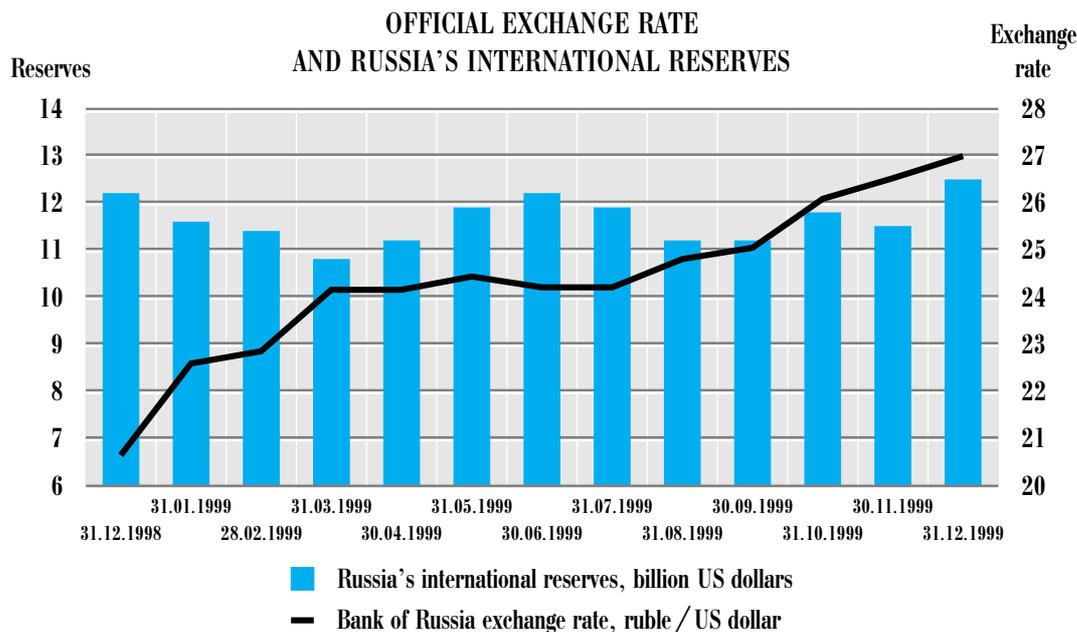


Chart 18

Last year was different from the previous years in the sense that in 1999 the exchange rate was not a monetary policy target. Using the floating exchange rate regime, the Bank of Russia prevented significant deviations of the ruble rate from a level corresponding to the fundamental macroeconomic parameters, sticking to the market method of shaping the ruble rate. At the same time, the use of foreign exchange regulation and control against illegal capital flight has a long-term effect on foreign exchange supply. Taking into consideration that inflation was no longer as dependent on the exchange rate as it used to be, although the latter still remained a factor of inflationary expectations, the stabilisation of the situation in the foreign exchange market encouraged positive expectation with regard to prospects for growth in consumer and producer prices and created favourable conditions for further economic growth. The Bank of Russia constantly monitored all processes in the foreign exchange market and quickly took action to smooth sharp fluctuations in the ruble rate, keep international reserves intact and ensure the servicing of Russia's foreign debts.

In 1999 the exchange rate of the ruble changed from 20.65 rubles to 27 rubles to the dollar, which means that adjusted for Russian and US inflation, the ruble gained 1.7% in value in real

terms. The strengthening of the ruble was accompanied by the general improvement of the balance of payments, which became manifest, among other things, in the fact that the country's international reserves were not only kept intact, but increased. This may be regarded as a confirmation of the correctness of the monetary and foreign exchange policy pursued in the year under review.

A balanced monetary policy pursued by the Bank of Russia in 1999 was moderately restrictive. A number of factors, such as industrial output growth amid underutilised production capacity, the expansion of the monetary component in settlements, the continued reduction of wage debt to public-sector workers, the improvement of the balance of trade and balance of payments and the situation in the foreign exchange market, caused the demand for money in 1999 to grow faster than expected.

The growth in the demand for money was mainly the result of the expansion of the production of goods and services. GDP growth of 3.2% in 1999 caused the demand for money to grow faster than the original projections based on a forecast of an economic recession of 1—3%.

The situation in the world's commodities markets and the state of Russia's balance of trade had a major effect on the demand for money last year.

CONSUMER PRICE AND M2 GROWTH RATES (%)

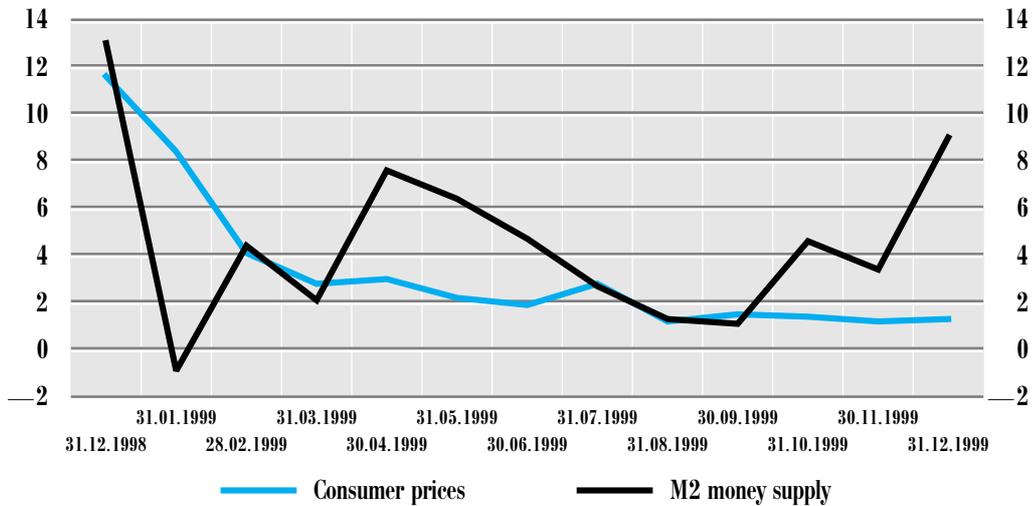


Chart 19

Growth in the world market prices of major Russian exports, which increased returns from exports, and a series of measures taken to improve control over the repatriation of export earnings led to a rapid increase of balances in correspondent accounts of corporate clients, mainly exporter enterprises.

Expansion of the monetary component in the settlements caused by production recovery and enhanced revenues of enterprises also contributed to growth in balances in the corporate accounts.

Growth in the demand for money made it possible to increase money supply without stimulating inflation. The M2 money supply in 1999 increased by 57.2%, by far exceeding the target set for the year. So, last year money supply expanded by more than 15% in real terms, whereas in 1998 it contracted by 30% in real terms.

As a result of the expansion of the share of funds in corporate current and settlement accounts in the total amount of the M2 money supply from 21.7% in 1998 to almost 30% in 1999 and a more rapid rate of growth in the highly liquid part of the money supply (cash and funds in corporate transaction accounts) compared with the previous year, money velocity accelerated a little. As of the end of 1999 it was 6.5, while a year earlier it was 6.0 (calculated by the M2 money supply, taking into account the adjusted GDP data).

Last year saw the first signs of greater involvement of banks with the real economy. However,

the expansion of lending to the real sector was hampered by high risks, including those arising from some unsolved legal and enforcement problems of bankruptcy procedures for debtor enterprises. An interest rate margin on banks' deposit and credit operations is a measure of risk involved in crediting the economy. Interest rates on ruble loans to enterprises and organisations declined from 44.6% to 31.4% p.a. and taking into account the producer price dynamics, moved into negative territory, stimulating demand for bank loans. The decline in deposit rates was more rapid and uneven. The average weighted rate on ruble-denominated household deposits for all terms decreased by more than half (from 25.2% to 10.4%), while the rate on 3- to 6-month deposits fell from 42.1% to 36.2%, guaranteeing real profit throughout the year. Overall, although interest rates tended to decline, banks retained high interest margins on lending and deposit operations, exceeding the previous year's level. At the same time, although the banking system had spare funds, most of which resulted from increases in corporate accounts, banks preferred investing in their foreign assets. In 1999 the foreign assets of Russian commercial banks increased by \$3.3 billion, or 35.1%, and most of them were kept in current accounts or in the form of short-term deposits with foreign banks.

The Bank of Russia increasingly paid attention to the analysis and regulation of the banking system's liquidity. Reserves were in high demand

with banks to some extent because of the need to effect a growing amount of clients' payments. A contribution to growth in the liquidity of the banking system was made by the Bank of Russia's purchases of foreign exchange in the market, designed to increase international reserves. To

sterilise the excess supply of spare reserves over the demand for them, the Bank of Russia actively used deposit operations and changed the required reserve ratios whenever the amount of spare liquidity became so large that it could put pressure on the foreign exchange market.

II.1.2. DYNAMICS OF MONETARY AND CREDIT INDICATORS

To accomplish the tasks of the monetary policy in 1999, the Bank of Russia controlled the formation of money supply and regulated liquidity of the banking system. Realising the favourable trends in the development of the Russian economy starting to emerge by the end of 1998, the Bank of Russia sought, taking into account the dynamics of the demand for funds, to ensure conditions for the consolidation of these trends and bring about a switch from the recovery to sustained economic growth.

It managed aggregate supply by regulating liquidity of the banking system and the size of the monetary base.

The monetary base, broad money, which includes cash in circulation and in the tills of credit institutions, required reserves and funds in credit institutions' correspondent accounts in the Bank of Russia, credit institutions' deposits with the Bank of Russia and Bank of Russia bonds with credit institutions, as of January 1, 2000, amounted to 425.8 billion rubles, which represents a growth of 64.9% year-on-year.

The expansion of monetary base in 1999 mainly resulted from Bank of Russia operations in the currency market and was manifest in the growth of net international reserves of the monetary authorities. Net international reserves in 1999 increased by \$5.4 billion, while net domestic assets contracted by 4%; the Central Bank's net credit to general government grew by 10.5%, of which net credit to the federal government rose by 16.1%. As limited federal budget options did not allow the government to borrow much in the domestic and foreign markets and from international financial organisations, the monetary financing of the federal budget deficit increased. The share of growth in the Bank of Russia's net credit to the federal government in the total financing of the federal budget deficit in 1999, calculated using the international definition, expanded to 65.8%.

The growth in gross credit to banks, which amounted to 11.0 billion rubles in 1999, mainly occurred in the first half of the year. In the second half of 1999 operations to refinance banks

were principally conducted in the form of one-day and intraday loans.

The share of balances in credit institutions' accounts in the Bank of Russia, which increased by 36.3 billion rubles, in base money in broad sense expanded significantly; their share in the monetary base also increased, from 12.6% to 16.2%. The share of required reserves in the monetary base expanded during the year from 8.1% to 15.2%, while the share of cash in circulation (including balances in the tills of credit institutions) contracted from 76.6% to 67.8%.

Aggregate reserves of credit institutions (cash in the tills of credit institutions, required reserves, balances in credit institutions' correspondent accounts with the Bank of Russia, including balances in the organised securities market (OSM) and credit institutions' deposits with the Bank of Russia) as of January 1, 2000, amounted to 159.3 billion rubles, a growth of 88.9 billion rubles, or 126.3%, year on year.

The monetary base in the broad definition expanded more rapidly than money supply, which is a pointer to a contraction of the money multiplier and inadequacy of the transmission possibilities of the banking system.

The contraction of the money multiplier also resulted from an increase in required reserve ratios and growth of the ratio of funds in credit institutions' correspondent accounts to bank deposits, a factor partly attributable to change in the structure of borrowed funds.

At the same time, as there are no preconditions yet for the improvement of the investment climate in Russia and for sustainable growth of investment in the real economy, the banking system can hardly be expected efficiently to perform its transmission functions in the formation of money supply. The credit channel of the transmission mechanism cannot be duly activated as long as lending to the real sector remains a highly risky business due to the unsolved legal and enforcement problems involved in the bankruptcy procedure applied to debtor enterprises, the absence of the necessary legal protection of the rights of owners, investors and creditors and inadequate

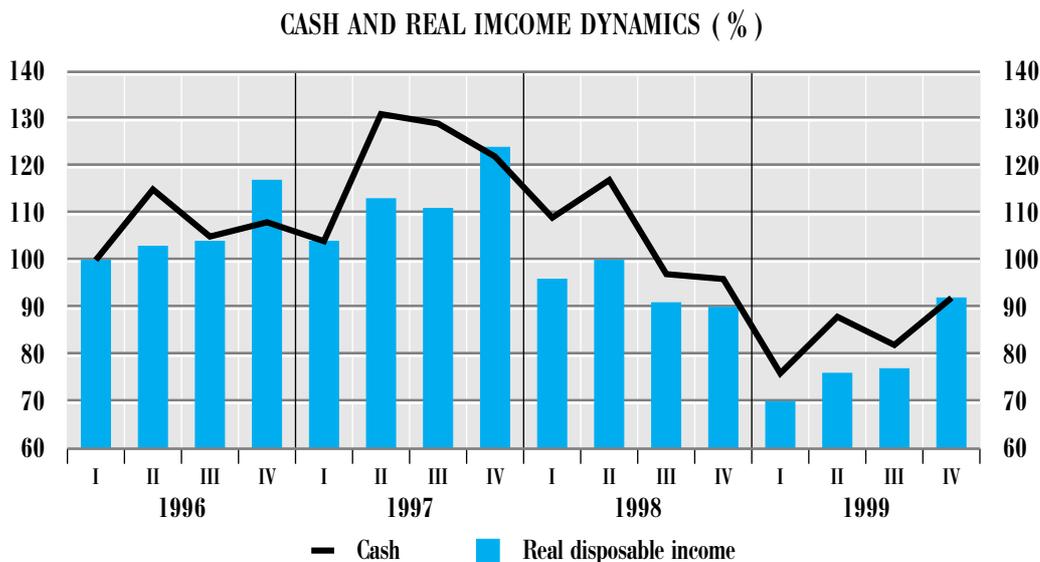


Chart 20

transparency of enterprises' finances for potential investors.

Money supply (M2) as of January 1, 2000, amounted to 704.7 billion rubles, an increase of 57.2% over the year. Money supply growth exceeded the intermediate target of the monetary policy for 1999 largely because the demand for money expanded due to such factors as industrial production and GDP growth in real terms, the increased value of exports to non-CIS countries amid the tightening of control over repatriation of foreign currency earnings, and the contraction of the scale of the debt-financed economy as a result of the reduction of the indebtedness of the government and enterprises. The most significant growth in money supply was registered in the 2nd and 4th quarters of 1999 when the money supply expanded by 20% and 18%, respectively. It was largely the result of the dynamics of cash in circulation. In April—June household income increased after a rise in pay for public-sector workers and partial repayment of the debt on wages and social benefits. The end of the year saw a short-term expansion of cash in circulation, which was dictated by the need to ensure the uninterrupted functioning of credit institutions as they prepared for operation in the year 2000. In January 2000 cash in circulation contracted by the same percentage.

As for growth in the money supply in 1999, which amounted to 256 billion rubles, an increase in the funds of non-financial enterprises and

organisations accounted for 45% of that growth, the expansion of cash in circulation accounted for 31% and growth in household deposits for 24%. The share of funds in the accounts of non-financial enterprises and organisations in the structure of money supply expanded from 26.5% to 33.3% over the year.

The total amount of funds in enterprises' bank accounts doubled (in real terms it increased by 45% over the year) mainly as a result of the ruble devaluation in 1998 and a rise in world energy prices, which predetermined change in the structure of domestic demand in favour of domestic goods and services, making Russian enterprises more competitive and considerably increasing their profits. According to the State Statistics Committee, or Goskomstat, enterprises and organisations in the key sectors of the economy in 1999 increased their profits three times over compared with 1998 (not counting losses).

The growth of incomes and funds in the accounts of enterprises and organisations, for its part, improved the state of payments and settlements, especially the structure of payments for products, creating conditions for further growth in the demand for ruble assets. According to Goskomstat data, the share of paid-for shipments in total shipments by the largest industrial enterprises expanded from 65% in November 1998 to 73% in November 1999. The cash component in total payments expanded by 8.6 percentage points and that of promissory notes by 4.1 percentage

STRUCTURE OF GROWTH IN BANKING SECTOR'S INTERNAL CREDIT (%)

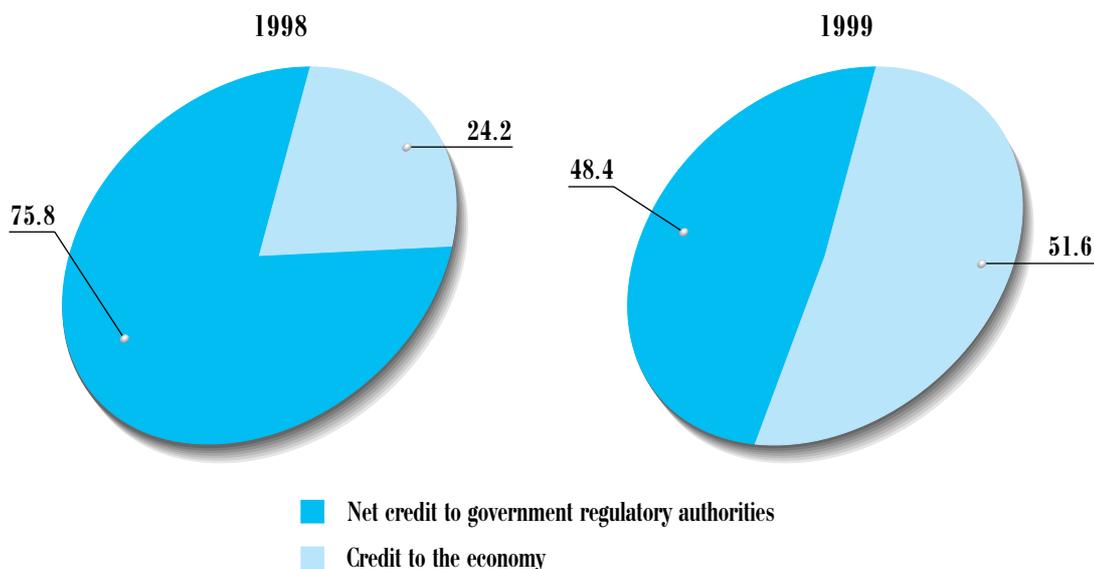


Chart 2.1

points, while the share of all other types of settlements contracted (settlements by netting decreased by 9.9 percentage points and those by barter declined by 0.9 percentage points).

Household funds, whose dynamics greatly depends on trends in the amount and structure of household incomes and expenditures, continued to dominate the structure of money supply. In 1999 real disposable income fell by nearly 15% year on year and the share of cash in the structure of household savings contracted by 4.1%.

Cash in circulation outside the banking system grew by 41.9% in 1999. Its real-term contraction in the second half of 1998 and 1st quarter of 1999 resulted from a drop in real disposable income after the August 1998 crisis. Amid harsh constraints on personal income growth, the cash dynamics was seriously affected by change in the structure of household income and savings use as people had to increase expenditure on consumption and cut expenditure on the purchase of foreign exchange. The share of household incomes used to buy goods and services expanded from 77.4% in 1998 to 79.0% in 1999, while the share of household expenditure on the purchase of foreign exchange contracted from 12.2% to 8.3%. The share of sales proceeds in total cash receipts by banks in 1999 increased by 3.9 percentage points year on year, to 46.6%.

The main source of money supply, taking into account foreign currency deposits, in 1999 was internal credit of the banking system. However, in the previous years the most important factor of money supply was the necessity of financing the federal budget deficit, while in 1999 a significant increase was registered in the part of the money supply that forms as a result of growth in bank loans to the non-financial sector. In 1998 the growth in net credit to the government sector and in banks' claims on the non-financial sector made up 75.8% and 24.4% of the domestic credit expansion, while in 1999 the respective shares were 48.4% and 50.1%. This dynamics resulted, to a great extent, from a contraction of government borrowings in the domestic financial market. In addition, although foreign currency loans accounted for a large portion of bank loans, ruble-denominated loans tended to grow at a faster rate. The total amount of banks' claims on non-financial enterprises in the government and private sectors increased by 189.4 billion rubles, or 50%, year on year.

Net credit of the banking system to the government in 1999 grew by 183.0 billion rubles (by 25.3%), or almost twice as little as in 1998, as the federal budget receipts increased and deficit in its international definition contracted from 4.9% of GDP in 1998 to 1.6% of GDP in 1999.

Yet another distinctive trend of 1999 was growth in net foreign assets of credit institutions,

which increased year on year from \$800 million to \$5.5 billion, which in ruble terms represents a growth of more than 130 billion rubles. Despite a drop in credit institutions' obligations to non-residents, resulting from partial debt repayment, the growth of gross foreign assets of credit institutions was more significant last year, which shows that banks still preferred making investments abroad as investment in the Russian

economy continued to involve high foreign exchange and credit risks.

Net foreign assets of the monetary authorities in 1999 increased by 73 billion rubles year on year thanks to a significant influx of foreign exchange to the country in 1999 as a result of a considerable improvement in the balance of trade and limited growth in net domestic assets.

II.1.3. MONETARY POLICY INSTRUMENTS

The choice by the Bank of Russia of monetary policy instruments to attain its objectives depended in large measure on the economic conditions of 1999. The weakening of the financial market by the 1998 crisis, mutual distrust of market participants, fewer possibilities for lending by credit institutions and, as a consequence, growth of balances in their correspondent accounts compelled the Bank of Russia to make more active use of the instruments to absorb excess liquidity. Specifically, the Central Bank changed the required reserve ratios and conducted deposit operations with banks. Its open-market operations in 1999 were virtually confined to operations in the foreign exchange market. The absence of a fully-fledged market for ruble-denominated government debt instruments led to a virtual halting of operations with them.

REQUIRED RESERVES

The required reserve ratios were changed in exceptional cases whenever it was necessary to ease pressure on the foreign exchange market and the ruble's rate.

In March 1999 the Bank of Russia Board of Directors took the decision to raise the reserve requirements for ruble-denominated corporate deposits and foreign currency corporate and household deposits from 5% to 7%. To encourage credit institutions to attract ruble funds to deposit, the Bank of Russia left unchanged at 5% the reserve requirement for ruble-denominated household deposits with all credit institutions, including the Savings Bank, or Sberbank.

As the growth of balances in credit institutions' correspondent accounts with the Bank of Russia continued, the Bank of Russia in June 1999 raised from 7% to 8.5% the reserve requirements for ruble-denominated corporate deposits and corporate and household deposits in foreign currency and increased from 5% to 5.5% the required reserve ratio for ruble-denominated household deposits.

Throughout last year the Bank of Russia worked to improve the methodology of reserve re-

quirements, specifying, for instance, the composition of the required reserve base and adding to the Bank of Russia Provision No. 37, dated March 30, 1996, "On the Required Reserves of Credit Institutions Deposited with the Central Bank of the Russian Federation" Section 8, entitled "The Specifics of Depositing Required Reserves with the Bank of Russia by Credit Institutions under the Administration of the Agency for Restructuring Credit Institutions." Changes and amendments were made in the 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."

Thanks to the measures described above, the amount of required reserves deposited by credit institutions with the Bank of Russia in 1999 increased by 43.8 billion rubles, or 3.1 times, of which the required reserves for ruble-denominated deposits rose 2.9 times and for foreign currency deposits 3.5 times. As for the structure of the required reserves, its dynamics remained unchanged from 1998: the share of reserves on ruble-denominated deposits contracted from 60% at the beginning of the year to 55% at the end, while the share of reserves on foreign currency deposits expanded from 40% to 45%.

The Bank of Russia and its regional branches in 1999 made sure that credit institutions deposited all required reserves in time. The regional branches of the Bank of Russia regularly inspected credit institutions to make sure that they complied with the reserve requirements, calculated correctly the amount of the required reserves to be deposited with the Bank of Russia and presented accurate reports. A total of 6,130 inspections were conducted during the year.

Most of the credit institutions deposited the required reserves with the Bank of Russia fully and on time. Credit institutions that underpaid to the required reserves made up 3.4% of the total number of operating credit institutions.

Credit institutions that underpaid to the required reserves in 1999 were fined a total of 69.7 million rubles.

REFINANCING OF BANKS

The Bank of Russia refinanced banks in 1999 by extending loans to them to finance their measures to enhance financial stability and also granted intraday and overnight loans. In 1999 it continued to announce twice a week (Monday and Thursday) Lombard credit auctions for a term of 7 calendar days. However, the lack of demand from banks amid considerable liquidity of the banking system forced the Bank of Russia to cancel such auctions.

Overall debt on Bank of Russia loans as of January 1, 2000, amounted to 15.7 billion rubles, an increase of 6.5 billion rubles, or 70.7%, year on year.

Pursuant to the decisions of the Bank of Russia Board of Directors, five banks received 6.9 billion rubles in loans to increase their financial stability and maintain their liquidity during the first half of 1999.

Under another decision of the Bank of Russia Board of Directors, questions related to lending loans to individual economic sectors and banks to increase their financial stability have not been discussed since June 30, 1999.

By January 1, 2000, General credit agreements to extend intraday, overnight and Lombard loans in accordance with Bank of Russia Provision No. 19-P, dated March 6, 1998 (with changes and amendments) had been signed with 44 banks in Moscow, the Moscow Region and St. Petersburg, including agreements signed with four banks in 1999. More than 20 banks put up 5 billion rubles worth of government securities as collateral with the Bank of Russia to avoid delays in settlements.

In the first half of 1999 the Bank of Russia Lombard List included government securities received in the course of the novation and new adjustments were factored in for the government securities included in the Bank of Russia Lombard List.

To reduce its risks on loans and ensure their repayment, the Bank of Russia in November 1999 issued instructions tightening requirements for banks and allowing the Central Bank to satisfy its claims to the failing borrower banks by debiting correspondent sub-accounts of the branches of such banks.

Along with operations to refinance banks, the Bank of Russia in 1999 took steps to ensure repayment of the loans extended to enterprises in some sectors in 1992—1994 in accordance with the decisions of the Government Commission on Financial and Monetary Policy. As of January 1, 2000, debt on such loans, interest included, amounted to 2.0 billion rubles.

Under the 1999 Federal Budget Law and 2000 Federal Budget Law, bad debts on centralised credits and interest on them are to be restructured as part of domestic government debt.

The Bank of Russia conducted operations to buy promissory notes from banks that transferred their obligations on household deposits to the Savings Bank, Sberbank. As of January 1, 2000, agreements were signed with eight banks, while the debt on banks' notes acquired by the Bank of Russia totalled 6.3 billion rubles.

DEPOSIT OPERATIONS

To regulate spare liquidity of the banking system, the Bank of Russia in 1999 actively conducted deposit operations with resident banks, streamlining the practice of attracting deposits.

Since a large amount of liquidity of the banking system is concentrated in the Moscow Region, the Bank of Russia in 1999 conducted deposit operations with resident banks in that region and with banks in other regions that had branches in Moscow, using the Reuters Dealing System. To accelerate settlements on deposit transactions, regional banks could transfer funds to deposits with the Bank of Russia from a correspondent sub-account of the Moscow Branch, opened in a division of the Bank of Russia settlement network. General agreements on deposit operations in rubles, using the Reuters Dealing System, were concluded in 1999 with 139 banks in 10 regions.

From March 24, 1999, the Bank of Russia expanded the range of deposit operations and began to attract funds from resident banks for a longer fixed term of 3 months. From August 9 the Bank of Russia began to conduct deposit operations with the spot value date, such as spot-next, spot-1 week and spot-2 weeks (the structure of deposits is shown in Chart 22). Such deposit operations were necessary, on the one hand, to enable the Bank of Russia to more accurately fore-

TERM STRUCTURE
OF BANK DEPOSITS WITH
BANK OF RUSSIA (%)

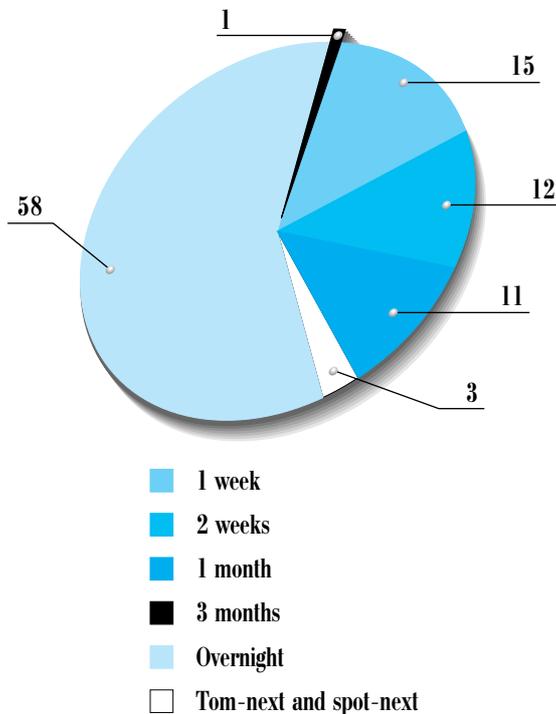


Chart 22

cast the banking system's liquidity on a daily, weekly and fortnightly basis; on the other hand, they offered counterparty banks a wider choice of deposit operations with different value dates.

In November the Bank of Russia resumed deposit auctions, in which regional banks participated along with Moscow banks. Three auctions were held on November 10 and on December 9 where 1-week, 2-week and 1-month deposits were sold and in which 60 banks from 33 regions took part.

INTEREST RATE POLICY

Interest rates on Bank of Russia operations were one of the instruments of the monetary policy used by the Central Bank in 1999.

The Bank of Russia regulated interest rates on loan and deposit operations, taking into account the real state of the economy, inflation dynamics and the situation in the various segments of the money market, and its aim was to encourage and consolidate the emerging favourable trends.

Last year saw interest rates in the money market slide and price dynamics slow down. The refinancing rate has a key role to play in the system of interest rates set by the Bank of Russia. Any change of the refinancing rate shows economic agents how the Bank of Russia evaluates the general inflation trend and thus affects their expectations and interest rates in the economy.

The Bank of Russia refinancing rate is a kind of upper limit of interest rates in the money market, which has an indirect effect on interest rates dynamics. The Bank of Russia also regulates interest-rate levels and structure by setting interest rates on the loan and deposit operations it conducts.

At the beginning of 1999 the refinancing and overnight rates set in 1998 were in effect, 60% p.a. and 55% p.a., respectively. In June 1999 the Bank of Russia Board of Directors cut the refinancing rate by 5 percentage points to 55%, while the Bank of Russia Monetary Policy Committee reduced the overnight rate from 55% to 50%. The move reflected a slowdown in inflation and a fall in interbank interest rates and at the same time was a factor of further decline in inflationary expectations.

Interest rates on loans extended in accordance with the decision of the Bank of Russia Board of Directors were set by the Board.

Deposit rates set by the Bank of Russia in 1999 varied from 0.6% p.a. to 28% p.a., depending on the state of the interbank market and the type of deposit operation. The average weighted interest rate on Bank of Russia deposits attracted from January 1, 1999, to December 31, 1999, taking into account the deposit auctions, amounted to 17.35% p.a.

BANK OF RUSSIA POLICY IN SECURITIES MARKET

The Bank of Russia did not conduct any operations with GKO—OFZ in the secondary market in 1999. Its aim was to help the Finance Ministry restore the government securities market and investor confidence in it.

Secondary trading in permanent-income federal loan bonds (OFZ-PD) due after December 31, 1999, resumed in January 1999 and the Bank of Russia began to accept applications from

SHORT-TERM INTEREST RATES IN 1999 (%)

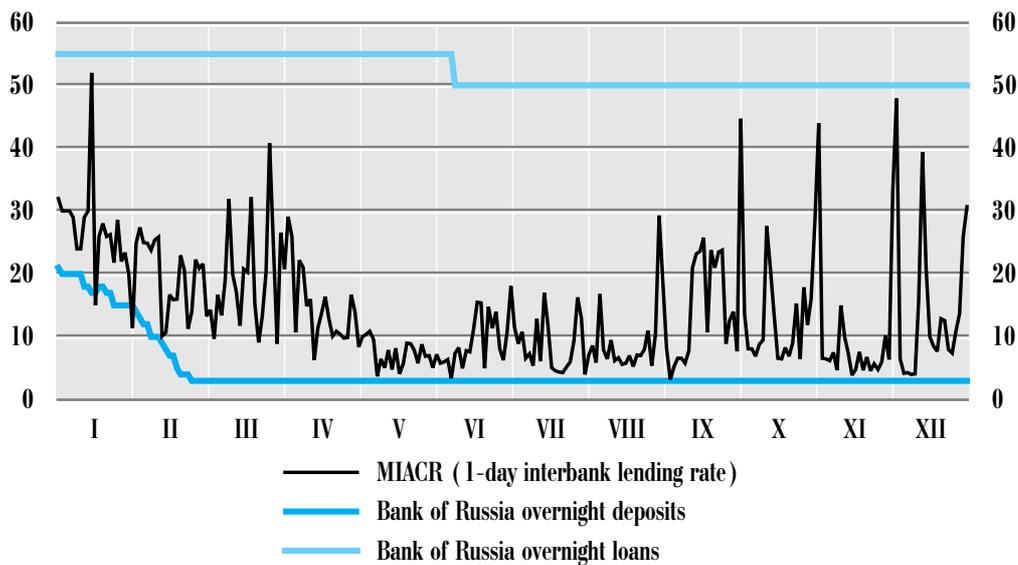


Chart 23

investors for participation in the novation. On April 30 the novation of government securities was completed: in its course Russian bondholders exchanged 95% of the securities subject to novation and foreign bondholders exchanged 88.5% of the bonds.

Early in October the Finance Ministry announced that the novation would be extended for GKO—OFZ holders who did not take part in it in January—April 1999. That announcement was followed by Government Resolution No. 1904-r, dated November 20, which extended the term of the novation until December 27, 1999. The total amount of GKO—OFZ restructured in December exceeded 11 billion rubles at par.

Within the framework of the novation for non-residents in the GKO—OFZ market the Bank of Russia from April 1999 conducted foreign exchange sales to authorised banks acting on their own behalf on the instruction of nonresidents and for their own account. A total of \$50 million of foreign exchange was offered at each trading session, while the exchange rate was set on the basis of the official rate at the previous session adjusted for factor of 1.1. Six currency auctions were held for nonresidents in 1999.

Along with the decision to extend the term of the GKO—OFZ novation, the Government passed Resolution No. 1272, dated November 20, 1999, “On Foreign Investments in the Russian

Economy Using Funds in Nonresidents’ C-Type Accounts,” which made two requirements for investment projects financed with funds from C-type accounts: such projects should contribute to the development of Russian export-oriented production capacity and investments should be medium- or long-term.

In the middle of December, 1999 the Finance Ministry made the decision to offer foreign investors in the GKO—OFZ market five GKO issues with maturities from April to November 2000 and a total par value of 12 billion rubles. Bonds of Issue No. 21134 with a total value of 2.5 billion rubles at par placed at an auction held on December 17 were intended for nonresidents with funds in transit accounts. Bonds of other issues could be purchased by any foreign investors who had funds in C-type accounts. The specific of the GKO offerings was that the funds received from their redemption were entered to nonresidents’ C-type conversion accounts, which means that they could be repatriated by foreign participants right after the redemption of the bonds.

Aware of the attractiveness of these bonds for foreign investors, the Finance Ministry said on the eve of the auction that it would float the bond issues at minimal interest rates. As a result, the highest bid prices at the auction exceeded the bonds’ face value. The successful placement of the first three GKO issues allowed the Finance

GKO—OFZ MARKET STRUCTURE BY TYPE OF SECURITY IN 1999
(billion rubles)

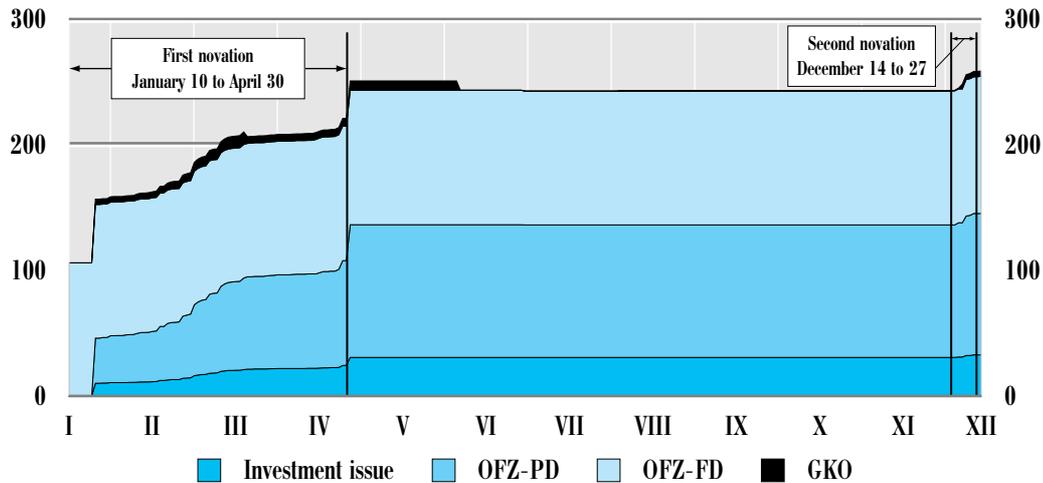


Chart 24

Ministry to refrain from holding two more auctions.

BANK OF RUSSIA BONDS. As of January 1, 1999, there were four issues of outstanding Bank of Russia bonds (OBR) with a total value of 2.3 billion rubles at par. In January the Bank of Russia redeemed two issues and made an additional placement of bonds issued in 1998, bringing the total value of outstanding OBR by the end of January to 2.6 billion rubles at par. Average monthly yield fell from 50.8% in December 1998 to 32.7% in January and 18.3% in February when the two last OBR issues were redeemed.

The placement of new issues was suspended as the legal basis of the Bank of Russia issuing its own bonds was questioned. However, the Federal Law on Amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Federal Law on the Securities Market that came into force on July 8, 1999, allowed the Bank of Russia to issue its own bonds until December 31, 1999. The question of taxing Bank of Russia bond issues remained unresolved.

The new law set the maximum value of all outstanding Bank of Russia bond issues as the difference between the largest possible amount of credit institutions' required reserves, which accounts for 20% of commercial banks' liabilities, and the sum of commercial banks' required reserves in the Bank of Russia. In pursuance of that

law, the Government in the middle of October passed a resolution regulating the procedure for issuing OBR bonds.

Late in October the Bank of Russia Board of Directors decided to float three OBR issues with 3-, 4- and 5-month maturities and a par value of 2 billion rubles each. The bonds were to be placed through public offering in the period from November 24 to December 14. However, the registration of the issues was postponed several times and it was only on November 27 that the Finance Ministry registered the Bank of Russia bond issues, giving the Bank of Russia a tax deferment.

On December 14, the Bank of Russia held auctions to place the three OBR issues with a par value of 2 billion rubles each, but the auctions were eventually declared invalid as the participants' bid rate exceeded the rates on other Bank of Russia instruments. Since Bank of Russia bonds have the advantage of being risk-proof and have a secondary market, interest rates on them should be lower. Banks were not particularly enthusiastic about these bonds because a limit was set on the period during which the Bank of Russia could issue OBR and the bonds' fate in 2000 was not clear. When determining an acceptable OBR auction yield, the potential investors also took into account fairly high yields (about 50%) on short-term OFZ in the secondary market. In the meantime, the aim pursued by the Bank of Russia in issuing its bonds was not to raise funds at any cost,

but offer the market an instrument for managing the current banking liquidity.

REPO OPERATIONS. To restore and give a boost to the interbank lending market and ensure more effective distribution of liquidity of the banking system, the Bank of Russia worked out a mechanism to conclude inter-dealer repo deals for a term of 1 day and 2 days. The differences between the new mechanism and the one used in 1996—1998 are as follows: firstly, the new mechanism made it possible to conduct trades

between dealers, whereas previously repo transactions were concluded with the Bank of Russia only; secondly, the return of funds and the execution of the second part of a repo deal by market participants are guaranteed by the conclusion of the corresponding substitute deals with the Bank of Russia.

At present, however, as there is a ruble glut in the banking system, financially stable banks usually do not need short-term loans. Therefore, the inter-dealer repo mechanism offered by the Bank of Russia has not gained ground.

II.2. FOREIGN EXCHANGE POLICY IMPLEMENTATION

II.2.1. EXCHANGE RATE POLICY AND RESERVE MANAGEMENT

EXCHANGE RATE POLICY. In accordance with the Guidelines for the Single State Monetary Policy for 1999, the Bank of Russia in 1999 pursued a policy based on a floating exchange rate. Implementing this policy, the Bank of Russia sought to accomplish the following two interrelated tasks:

- to replenish international reserves;
- to prevent sharp fluctuations of the ruble rate.

The floating exchange-rate regime allowed the Bank of Russia flexibly to react to changes in the foreign trade situation, such as a rise in the world price of oil and gas. These changes brought about improvements in the Russian balance of payments and increased foreign currency sales by exporters, which the Bank of Russia used to increase foreign exchange reserves in the most favourable periods of the year. As a result, stability or even slight growth in international reserves at a time when large sums were spent from them to service the government foreign debt had a reassuring effect on market participants with regard to further ruble rate dynamics and reduced speculative tendencies in the foreign exchange market.

Bank of Russia interventions in the domestic foreign exchange market were the principal exchange rate policy instrument in 1999. In addition, to regulate foreign exchange supply and demand, the Bank of Russia changed reserve requirements for credit institutions and attracted banks' funds to deposits, which was especially important in the year under review when foreign

exchange reserves were limited and had to be mobilised to meet the government's foreign debt obligations.

All these instruments of the exchange rate policy were used in combination with foreign exchange regulation and control measures implemented by the Bank of Russia to regulate the situation in the domestic foreign exchange market. Specifically, to counter illegal capital flight resident legal entities were required to open ruble deposits with authorised banks, equalling the amount of funds transferred for the purchase of foreign exchange when making advance payments for imports, while some other measures were taken.

As a result of a balanced monetary and foreign exchange policy pursued by the Bank of Russia, the overall situation in the domestic foreign exchange market in 1999 was stable, just as the exchange rate of the ruble. That allowed the government to contain inflationary expectations and reduce the attractiveness of foreign exchange as an investment asset. At the same time, the monetary policy pursued had a direct inhibiting effect on inflation and, consequently, this reflected on the state of the foreign exchange market. As a result, all these measures in 1999 prevented the unwinding of the inflation and devaluation spiral.

The stabilisation of the ruble rate was also facilitated by a fall in importers' demand for foreign exchange, caused by the continuing effect of the profound devaluation of the ruble in 1998

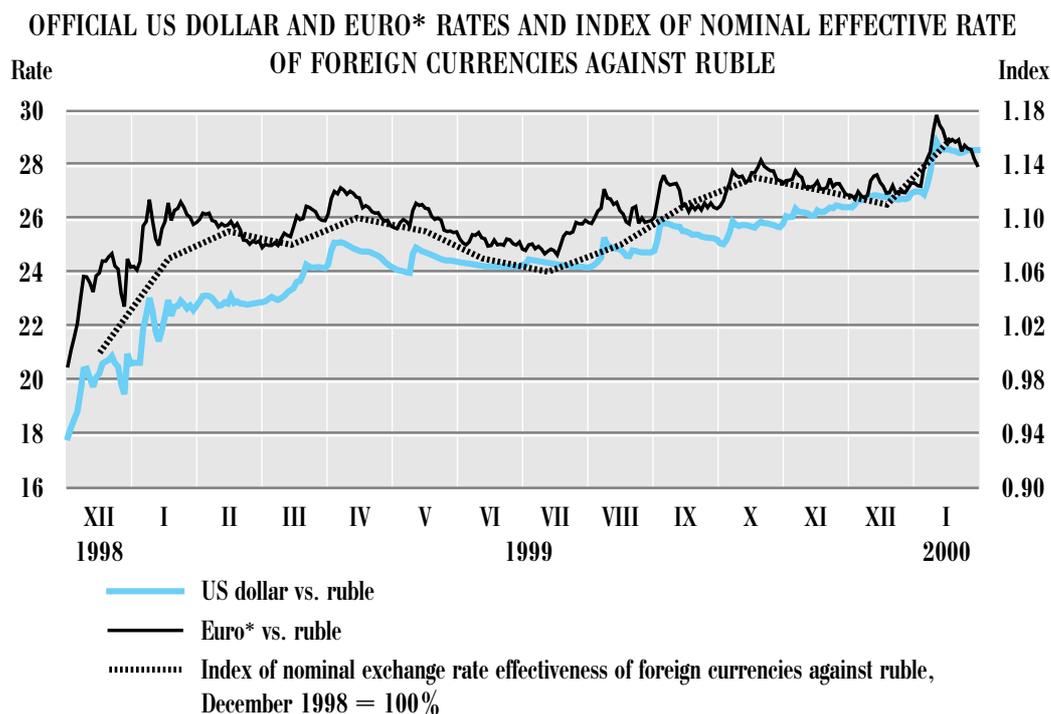


Chart 25

* December 1998: official ecu rate vs. ruble.

against the background of a tight monetary policy and a related recovery of import-substituting industrial production.

The official US dollar rate against the ruble in 1999 rose by 31%, from 20.65 rubles to 27.00 rubles. The single European currency, the euro, gained 13% in value against the ruble, from 24.09 rubles to 27.20 rubles, owing to its decline against the US dollar.

The nominal effective rate¹ of foreign currencies against the ruble, which characterises the nominal change of the aggregate currency rate of Russia's leading trading partners, in 1999 rose by just 11% year on year, which is primarily the result of the rapid rates of currency devaluation in the CIS countries, which account for large shares of Russia's foreign trade turnover.

In real terms (taking into account consumer price changes) the ruble strengthened against the dollar by 2% and against the euro by 19% in 1999. The real effective rate of the ruble² in 1999 increased

by 14% year on year after a 43% fall in 1998. The real-term rally of the Russian currency is the natural result of the drastic ruble devaluation in 1998, but the extent of the rally does not yet allow one to speak about any negative effect of the trend on the country's foreign trade competitiveness. By some economic criteria, such as purchasing power parity and the efficiency of major Russian exports, the ruble remained substantially undervalued. This is the main reason why Russia registered an unprecedentedly large trade surplus in 1999.

Growth in the inflow of foreign exchange to the domestic market was a natural result of foreign trade. Over the year the supply of foreign exchange far surpassed demand, enabling the Bank of Russia to purchase substantial amounts of foreign currency. In 1999 the Bank of Russia bought in the domestic market over \$6.4 billion more foreign exchange than it sold. Most of the net purchases of foreign exchange were made in the 2nd and 4th quarters of the year.

¹ This index is calculated as a weighted mean of the exchange rates of Russia's leading trading partners. Exchange rate indices of some currencies are calculated on the basis of the average monthly rates of these currencies against the ruble, with the shares of the corresponding countries in Russia's foreign trade being used as weights.

² This index is calculated as a weighted mean of the indices of the real exchange rates of Russia's leading partners, with the shares of the corresponding countries in Russia's foreign trade being used as weights.

RUBLE'S REAL EXCHANGE RATE INDICES
 (for some currencies January 1, 1999 = 1,
 for real effective rate December 1998 = 1)

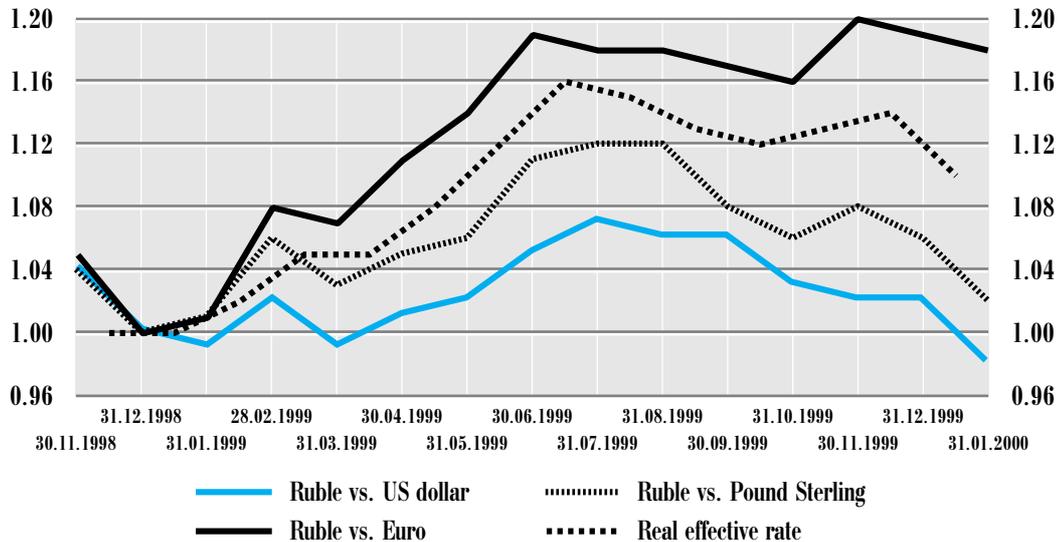


Chart 26

By the end of 1999 Russia's international reserves had amounted to \$12.5 billion (\$12.2 billion as of the beginning of the year) despite the financing of foreign debt payments. It should be borne in mind that during the year under review the Bank of Russia excluded foreign currency assets deposited in Russia's overseas banks from the reserve assets.

The Bank of Russia implemented its exchange rate policy in difficult conditions, especially in the 1st quarter of 1999 when demand for foreign exchange rose sharply several times. On the whole, the 1st quarter was characterised by an unfavourable foreign trade situation for Russia and speculative expectations of a ruble devaluation. Pressure on the ruble increased particularly in the first half of January and the second half of March. To preserve international reserves and dampen demand for foreign exchange, the Bank of Russia used primarily the instruments of monetary policy.

The liquidity that put pressure on the ruble in January was by and large sterilised by the Bank of Russia by attracting these funds to deposits. In the subsequent period (from mid-January to March 10) the exchange rate steadied close to 23 rubles to the dollar thanks to a moderately tight monetary policy pursued by the Bank of Russia.

Additional factors of growth in the demand for foreign exchange in the latter half of March were transfers to the financial market of considerable funds from the redemption of GKO and coupon payments on OFZ and also the escalation of international tension and the worsening of prospects for Russia's relations with international financial organisations. The Bank of Russia managed to stabilise the situation, however, mainly by sterilising excess liquidity with an increase in reserve requirements for credit institutions.

Thanks to its policy, the Bank of Russia in the difficult conditions of the 1st quarter succeeded in restoring a part of the foreign exchange reserves that were used for foreign debt payments.

There were several factors behind the stabilisation and gradual improvement of the situation in the foreign exchange market late in March and in the subsequent months: the world price of oil began to rise and the macroeconomic situation in Russia started to look up largely as a result of the monetary policy pursued. A positive psychological impact on the foreign exchange market was exerted by progress at the negotiations with the IMF, which ended in Russia getting in July 1999 the Fund's money that went to pay the debt on earlier loans.

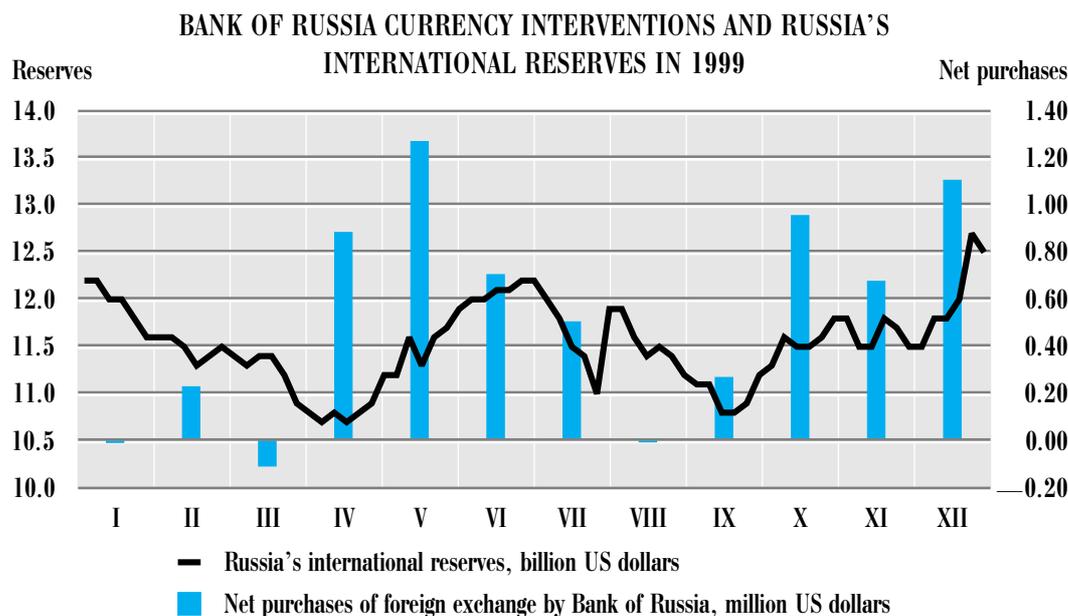


Chart 27

The effect of the Bank of Russia's exchange rate policy depended to a great extent on the development of the institutional structure of the market. In the first six months of 1999 the Bank of Russia attached paramount importance to the maintenance of ruble stability at the special trading sessions on the authorised currency exchanges, refraining from conducting large-scale currency interventions as a means of smoothing exchange rate fluctuations in other sectors of the foreign exchange market. The difference between the dollar rate at the special trading sessions and other sectors of the foreign exchange market increased occasionally as demand for currency grew. The dollar rate outside the special trading sessions, especially in tomorrow trades on MICEX, fluctuated far more widely than at the special trading sessions, but it is the dollar rate in tomorrow trades that was regarded by economic agents as an indicator of the real price of the Russian currency.

The achieved macroeconomic stability and gradual recovery of the domestic foreign exchange market allowed the Bank of Russia to lift restrictions on foreign exchange purchases at the special trading sessions and introduce from June 29, 1999, a single trading session (STS), which united the Moscow and regional exchange trading floors. When the special trading session was abolished in favour of the STS on the authorised

currency exchanges, the difference between the average weighted dollar rate in today and tomorrow trades practically disappeared and the Russian foreign exchange market acquired a new degree of stability.

From the middle of May to early August the US dollar rate against the ruble changed within a narrow range and the general tendency was towards a stronger ruble in nominal terms. In April—July the Bank of Russia bought heavily in the foreign exchange market, using the increase in the inflow of foreign currency, registered in the 2nd quarter for several years in a row, for replenishing international reserves. The May and August outbursts of demand for foreign exchange were provoked by government resignations and were quickly localised by efficient actions of the Bank of Russia in the foreign exchange market.

In the period from early autumn to the end of the year under review the implementation of the exchange rate policy by the Bank of Russia was complicated by the deterioration of the international situation, which sharply reduced Russia's chances for getting foreign loans and had the corresponding negative psychological effect on the market. Hence the sharp rises of the dollar rate in early September and early October. A key role in keeping the situation in the foreign exchange market under control was played by the monetary policy pursued by the Bank of Russia, which en-

sured a slowdown in the inflation rate and macroeconomic stability in general. It is very important that in that particular period the foreign trade situation continued to change for the better and trade conditions improved noticeably for Russia.

As a result of the effect of several objective factors and the realisation of the chosen exchange rate model the supply of foreign exchange in September—December 1999 exceeded demand. The Bank of Russia replenished official foreign exchange reserves, keeping the situation under control and preventing excessive fluctuations of the ruble rate. In the 4th quarter the ruble exchange rate dynamics became more even and predictable and the foreign exchange market registered a persistent tendency towards slow growth of the dollar rate.

The experience of implementing a floating exchange rate policy in 1999 showed that this policy may pay off in the present conditions. The ruble rate dynamics on the whole corresponded to the change of the economic situation and reflected the state of Russia's balance of payments. The sharp fluctuations of the exchange rate in the domestic foreign exchange market, caused by political and other developments rather than some fundamental economic processes, were promptly evened out by the Bank of Russia. A moderate rally of the ruble in real terms was quite justified and only marginally compensated the excessive devaluation of the Russian currency in the second half of 1998 and early 1999.

MANAGEMENT OF FOREIGN EXCHANGE RESERVES. The Bank of Russia in 1999 managed foreign exchange reserves taking into account the real situation with Russia's international liquidity and guided by the Main Principles of Managing the Bank of Russia Foreign Exchange Reserves, approved by the Bank of Russia Board of Directors.

The main objective of reserve management was to ensure an optimal combination of safety, liquidity and profitability of reserve assets. The Bank of

Russia tackled this task by actively diversifying investment and hedging risk by means of operations in international currency and financial markets. Credit risk was additionally limited by an admissible minimum credit ratings of counterparties and operating limits set by the Bank of Russia Monetary Policy Committee. Reserves were only invested in safe and highly liquid instruments such as US treasury bills and bonds.

The main factors that determined the specific nature of the task of managing reserves in 1999 were a relatively low level of these reserves, the spending of considerable amounts of reserves on government foreign debt service, seasonal volatility in the domestic foreign exchange market, a large amount of Bank of Russia obligations to the IMF (denominated in SDR), Russia's sharply deteriorated position as a borrower of foreign loans compared with the previous years and the general worsening of the international political situation. At the same time, thanks to a floating exchange rate policy, pressure on the Bank of Russia quickly to mobilise large amounts in US dollars for massive currency interventions in the domestic market eased compared with the period when a "currency band" exchange rate policy was implemented.

The management of reserve assets was based on the portfolio approach, which required dividing all funds into operating and investment portfolios¹. The normative ratio of risk to anticipated reward for risks assumed by the Bank of Russia in the process of managing reserves was determined by yield benchmarks for each portfolio (yields on corresponding standard portfolios actually formed by the market). During the year the Bank of Russia also made efforts to improve the methods of analysing and managing reserve portfolios in order to more comprehensively calculate foreign exchange risks.

Within 1999 the Bank of Russia foreign exchange reserves changed from \$6.5 billion² to \$8.1 billion. Reserves were mostly used to finance Russia's foreign debt payments and conduct currency interventions whenever the situation in the

¹ Funds in the investment portfolio are invested in relatively longer-term and, consequently, more profitable instruments of the international capital market (mainly US and German government bonds), whereas funds in the operating portfolio fulfil the task of guaranteeing the Bank of Russia liquidity for current operations, particularly those conducted to stabilise the ruble rate in the domestic foreign exchange market.

² According to data as of the 1st day of each month.

domestic foreign exchange market became destabilised. Reserves were replenished through purchases in the domestic currency market. As a result, even though the Bank of Russia excluded currency funds deposited in Russia's overseas banks, its foreign exchange reserves increased from \$7.7 billion to \$8.0 billion. Gold in the reserve assets of the Bank of Russia in 1999 fluctuated in

value from \$3.8 billion to \$4.5 billion (calculated at the constant price of \$300 per troy oz) as the Bank of Russia bought gold in the domestic precious metals market and transacted trades in the international market, but the overall result for the year was a decrease from \$4.4 billion to \$3.9 billion. Russia's international reserves in 1999 expanded from \$12.2 billion to \$12.5 billion.

II.2.2. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

Exercising its powers as the main authority of foreign exchange regulation and one of the authorities of foreign exchange control in Russia, bestowed upon it by the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control, the Bank of Russia, implementing the single state monetary policy, stepped up its activity in upgrading the legislative and regulatory framework for foreign exchange regulation and enhancing the efficiency of foreign exchange control over currency operations conducted by residents and nonresidents. Elaborating foreign exchange control and regulation measures, the Bank of Russia took into consideration the state of the economy and its financial sector and some external factors, such as the improvement of world market conditions for major Russian export commodities and the decline in imports as the result of the ruble devaluation after August 1998.

Its main efforts in the sphere of foreign exchange regulation and foreign exchange control in the conditions of a floating exchange rate policy were aimed at balancing supply and demand in the domestic foreign exchange market, ensuring a stable flow of currency earnings from exports to the foreign exchange market and preventing their concealment and, at the same time, reducing the scale of illegal capital outflow.

From 1998 to 1999 the supply of currency export earnings to the domestic foreign exchange markets as a result of compulsory sales increased by \$15.5 billion. An important role in enhancing the supply of foreign exchange to the domestic market was played by the raising from January 1, 1999, of the share of export currency earnings subject to compulsory sales from 50% to 75% under the Federal Law No. 192-FZ, dated December 29, 1998, "On Budget and Tax Policy Priorities." The flow of export currency receipts to the domestic foreign exchange market steadily increased last year (from a monthly average of \$2.7 billion in January—February to \$3.6 billion in June—October and to \$4.3 billion in Novem-

ber—December 1999) thanks to a rise in the world price of oil, which began in late March. The effect of that objective factor was intensified by foreign exchange control measures taken by the Bank of Russia to ensure that export currency earnings were returned to Russia fully and in time and to prevent their concealment abroad, which is one of the channels of illegal capital outflow.

The Bank of Russia and State Customs Committee, or GTK, controlled residents' export operations within the framework of the system of customs and banking control, based on the analysis of correspondence between the value of commodities moved across the border and the payments received from nonresidents within the time limits set for current operations by the law. The system of customs and banking control covered all foreign trade transactions that involved the export of goods from Russia and settlements on which were effected between residents and nonresidents in foreign currencies. According to the GTK, the customs and banking control system in 1999 covered exporters' foreign exchange operations to the amount of \$47.7 billion, or two-thirds of Russian merchandise exports. The sum roughly equals that registered in 1998.

The system of customs and banking control over export operations and the tightening of controls by regional Bank of Russia institutions and customs authorities to ensure full and timely repatriation of currency receipts in 1999 made it possible to reduce non-repatriation of export currency earnings to 3% of exports covered by the system against 5% in 1998, according to the GTK.

As the inflow of foreign capital investment and credit to Russia ebbed, the Bank of Russia in 1999 focused its efforts on elaborating rules and regulations to curb unjustified demand for foreign exchange in the domestic foreign exchange market from authorised banks' clients and reduce the scale of capital flight by fictitious import contracts. The most significant foreign exchange regulations adopted were as follows: resident legal entities were required to open ruble deposits with

authorised banks to the amount equalling that transferred for the purchase of foreign exchange in making advance payments for goods in order to scale down the practice of transferring foreign exchange abroad by fictitious import contracts; a temporary ban was imposed on conversion operations with nonresidents' ruble funds on foreign banks' correspondent accounts opened with authorised banks and resident legal entities were required to re-sell in the domestic foreign exchange market advance payments returned to them after being transferred to nonresidents at the expense of the funds bought in the domestic foreign exchange market.

Taking into consideration that the most significant amounts of foreign exchange flee from the country as a result of fictitious transactions, especially those concluded with counterparties registered in offshore zones, the Bank of Russia paid special attention to this problem. In February 1999, it worked out and put in operation a mechanism requiring the authorised banks to monitor their clients' operations involving currency transfers abroad by contracts requiring scrutiny by foreign exchange controllers and in July the Bank of Russia created an automated database for such transactions. In compliance with Bank of Russia Order No. OD-350, dated September 17, 1999, such data was sent on a monthly basis to the Federal Authority for Foreign Exchange and Export Control for inspection. In addition, in November 1999 the Bank of Russia implemented the requirement to meet obligations on loans between residents and nonresidents in the currency in which these loans were extended.

The need to find a cardinal solution to the problem of foreign currency flight to offshore zones required amending the applicable legislation. The Federal Law No. 126-FZ, dated July 5, 1999, on Amending Article 28 of the Federal Law on Banks and Banking Activities granted the Bank of Russia the right to introduce the procedure for establishing correspondent relations by credit institutions with banks registered in the offshore zones of foreign countries. To implement this law, the Bank of Russia took additional regulatory measures requiring credit institutions to create reserves for operations with residents of offshore zones to the amount of no less than 50% of the balance in the separate accounts opened for the

balance-sheet accounts in which the corresponding operations with nonresidents are recorded. A special procedure was set for authorised banks to establish correspondent relations with offshore banks, based on the long-term credit rating of foreign banks and the size of their own capital.

As a result, average monthly amounts of foreign exchange bought by authorised banks at the instruction of their clients in the domestic foreign exchange market and transferred to offshore zones decreased by half in the second half of the year compared with the first.

Foreign exchange regulations were backed up by control over residents' import operations by the Bank of Russia and the State Customs Committee within the framework of the customs and banking control system. This system ensures control over the timeliness of the arrival of goods paid for in advance, since advance payments are used by dishonest traders as a means of illegally taking out capital from the country.

In 1999 the system of customs and banking control covered foreign trade transactions to bring in goods to the country in the customs regimes "put in free circulation" and "re-import," on which settlements wholly or partially were effected in foreign currency (except goods brought in from CIS countries). The sum of operations covered by this imports control system amounted to \$16.7 billion, or 55% of the total amount of Russian merchandise imports registered by Russian customs authorities.

The measures taken improved the structure of payments for imported goods and services. In early 1999 the share of advance payments in the total sum of transfers made from resident corporate entities' special transit currency accounts to pay for imported goods and services exceeded 50%, in the 2nd quarter it contracted to 20—25% and in July it declined to 10—15% and remained at that level until the end of the year. So, by the end of the year residents paid for a large part of imports after the imported goods were brought into the country, which, by and large, conforms with generally accepted international practice. At the same time, the change in the structure of payments for imports had no effect on import volumes.

Overall, as a result of the comprehensive foreign exchange regulation and foreign exchange control measures taken by the Bank of Russia,

unsanctioned capital outflow abroad, calculated using balance of payments data as the sum of non-delivered export currency earnings, non-delivered goods and services paid for in advance and half of “net errors and omissions,” in 1999 decreased by about one-third compared with 1998.

Working out foreign exchange regulation and foreign exchange control measures, the Bank of Russia bore in mind that they should not have a negative effect on the businesses of law-abiding entrepreneurs. In April 1999, for example, a decision was taken to allow importers not to make ruble deposits when buying foreign exchange for advance payments provided that they used internationally accepted instruments of guarantees, such as opening irrevocable letters of credit, concluding agreements to insure against the risk of non-return of foreign exchange transferred under import contracts and obtaining guarantees of first-class foreign banks as security for nonresidents’ contractual obligations and promissory notes issued by nonresidents and guaranteed by foreign banks with high safety ratings.

The improvement of the situation in the domestic foreign exchange market, along with the first signs of favourable macroeconomic changes and the reduction of inflationary expectations, enabled the Bank of Russia late in June 1999 to begin to organise exchange trading in foreign currency at the Single Trading Session and thus lift the foreign exchange restrictions previously imposed on trading participants.

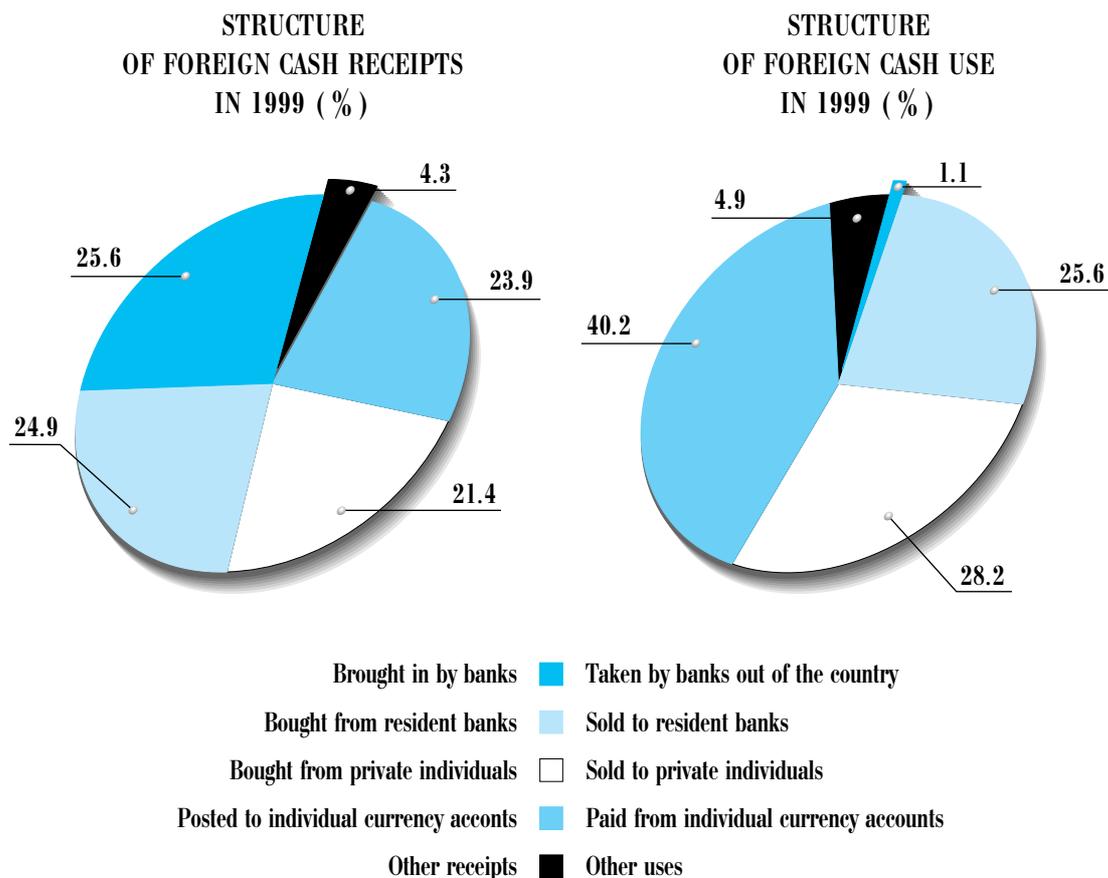
Success in countering capital outflow in the future will depend on the improvement of the legislative framework that will make it possible to switch from the current system of subsequent foreign exchange control to a system of preliminary control over foreign exchange operations. The Bank of Russia believes that it is necessary to build an effective legal mechanism empowering the authorised banks to suspend operations on clients’ transactions with signs that make them subject to mandatory control and requiring them to pass information on such transactions to a federal authority designated by the Government of the Russian Federation. Implementing this approach, the Bank of Russia actively participated in drafting a package of laws amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control, Federal Law on the State Regu-

lation of Foreign Trade Activities and the Civil Code of the Russian Federation. These draft laws were approved by the government and late in November 1999 submitted to the State Duma.

Household demand for foreign exchange is a latent form of capital flight. A fall in household demand for cash dollars after the population incurred heavy losses from the financial crisis of August—September 1998 had a decisive effect on the state of the foreign cash market in 1999. Net imports (the balance of imports and exports) of foreign cash by authorised banks amounted to \$8 billion against \$15.7 billion in 1998. While the average monthly amount of foreign cash brought into the country by authorised banks in the first half of 1999, estimated at \$500 million, changed little from the 4th quarter of 1998, household demand for foreign cash in the second half of 1999 increased so that the average monthly amount of foreign cash brought into the country by authorised banks rose by 80%. Yet, that amount was almost half the amount registered before the 1998 crisis and 3.5 times less than in 1997.

Performing its functions as an authority of foreign exchange control, the Bank of Russia and its regional branches monitored compliance by authorised banks with the foreign exchange legislation and checked how they fulfilled their functions as agents of foreign exchange control over foreign exchange operations of their clients. In 1999 Bank of Russia regional branches conducted about 66,000 inspections of credit institutions and other organisations, or 25% more than in 1998. A total of 4,900 directions to take corrective action on the violations discovered were sent after inspections. Authorised banks were fined a total of 36 million rubles. After targeted inspections conducted to check how authorised banks and their clients complied with the foreign exchange legislation, 28 authorised banks were penalised by being temporarily restricted in their rights to conduct foreign exchange purchase and sale operations in the domestic foreign exchange market.

Control over foreign exchange operations connected with capital flow was implemented by licensing most of the operations of this kind. In 1999 the Bank of Russia and its regional branches issued about 1,400 permits to conduct foreign



Charts 28, 29

exchange operations connected with capital flow to and out of Russia to the amount of nearly \$6.5 billion as compared with 1,300 permits to the amount of \$17.3 billion issued in 1998. The contraction of the volume of licensed operations was largely the result of a fall in the influx to Russia of financial loans from nonresidents with terms of more than 180 days. Controlling the taking of banking capital out of the country, the Bank of Russia in 1999 issued four permits to authorised banks to transfer a total of \$7 million in foreign

currency as contributions to authorised capital of credit institutions abroad.

To improve the investment climate in Russia, the Bank of Russia eased the procedure for attracting foreign capital to the Russian economy, lifting from October 1999 all restrictions on foreign investment contributed to residents' authorised capital. In addition, foreign exchange operations such as transfers of foreign exchange by nonresidents to residents as donations and gifts no longer required Bank of Russia permission.

II.3. RUSSIA'S PAYMENT SYSTEM

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

In 1999, just as in the previous years, the activities of the Bank of Russia were aimed at improving the work of the Russian payment system, expanding the role of non-cash settlements, introducing advanced technology and methods of transmitting payment data and guaranteeing the provision of efficient and reliable services to all settling participants.

As of January 1, 2000, 1,190 Bank of Russia institutions and 1,396 credit institutions with 3,923 branches were participants in the Russian payment system.

The sum of payments effected by the Russian payment system last year almost doubled.

The growth in payments volume resulted from a stabilisation of the economic situation in the country, industrial production growth, a rise in business activity of enterprises, increased budget financing, improved client solvency and continuing inflation.

In the period under review the volume structure of payments effected through different settlement systems changed a little compared with 1998. In 1999 payments effected through the Bank of Russia settlement network accounted for 60.8% of all payments against 59.0% in 1998 and payments effected through the settlement systems of credit institutions made up 39.2% against 41.0% in 1998.

Payments effected through credit institutions' correspondent accounts opened with other credit institutions in 1999 accounted for 7.3% of all payments against 9.1% in 1998. At the same time, in volume these payments in 1999 increased 1.5 times compared with 1998.

In terms of volume, payments effected through credit institutions' correspondent accounts opened with other credit institutions did not increase much because quite a number of credit institutions were liquidated and their correspondent accounts were closed (the number of correspondent accounts decreased from 43,100 to 37,100, or by 13.9%). At the same time, the stabilisation of the financial condition of credit institutions led to the resumption of operations in the interbank market.

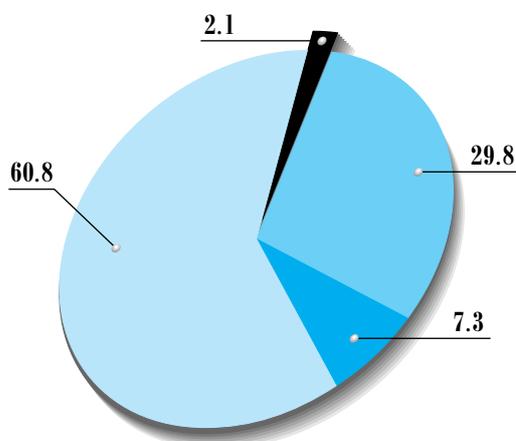
Payments through intrabank settlement systems in 1999 accounted for 29.8% of all payments against 31.7% in 1998, while in volume they expanded 1.8 times.

The volume of payments effected through intrabank settlement systems grew more slowly than that of payments in general because the number of branches of credit institutions had decreased. The consolidation of correspondent accounts at the level of credit institutions' head offices or regional branches of large credit institutions had a favourable effect on the dynamics of payments effected through intrabank settlement systems. As a result of the consolidation of accounts conducted by credit institutions in the year under review 206 correspondent sub-accounts of their branches were closed in Bank of Russia institutions, of which 182 were correspondent sub-accounts of Sberbank branches.

Payments effected through settlement non-bank credit institutions in 1999 accounted for 2.1% of total payments volume against 0.2% in 1998 and payments also grew by amount.

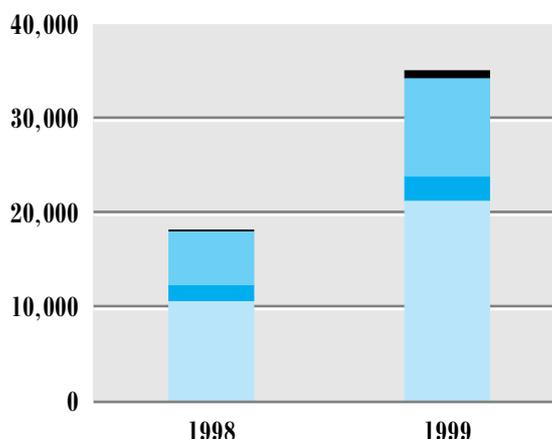
The increase in the amount of payments effected through the settlement non-bank credit

STRUCTURE OF PAYMENTS EFFECTED THROUGH VARIOUS SETTLEMENT SYSTEMS IN 1999 (by sum, %)



- Payments effected through the Bank of Russia settlement network
- Payments effected through correspondent accounts opened by credit institutions with one another
- Payments effected through intrabank settlement systems
- Payments effected through settlement non-bank credit institutions

VOLUME DYNAMICS OF PAYMENTS EFFECTED THROUGH VARIOUS SETTLEMENT SYSTEMS (billion rubles)



Charts 30, 31

institutions resulted from the creation of three new such institutions and growth in the number of corporate settling participants that were not credit institutions.

No small role in the retention and even slight expansion of the share of payments implemented through the Bank of Russia settlement system in the total amount of payments was played by the efficiency of that system, the widespread use of electronic payments and shorter payment times. The amount of payments made through the Bank of Russia settlement system last year doubled.

For instance, there was an increase in 1999 in the amount of payments effected through the Bank of Russia settlement network by Sberbank branches: such payments grew 2.4 times by amount and 1.4 times in number year on year. The reason is that many clients of credit institutions that could not withstand the effects of the August 1998 crisis and ensure the timeliness of settlements, switched over to Sberbank branches.

At the same time, Bank of Russia institutions in the year under review saw a drop in the number of their customer credit institutions, branches and clients other than credit institutions (there are special cases in which the law allows the Bank

of Russia to provide services to such clients). The decline was largely the result of credit institutions and branches of credit institutions being liquidated and a changeover of budget-financed organisations for servicing to the local federal treasury institutions.

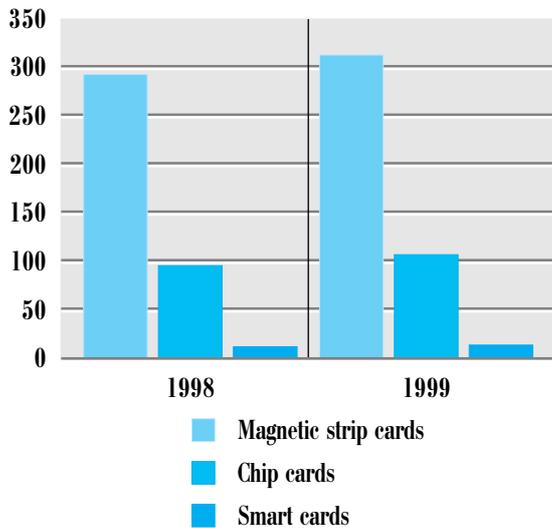
While at the beginning of 1999 Bank of Russia institutions provided cash settlement services to 1,590 credit institutions and 2,930 branches of credit institutions and 684 liquidation commissions, on January 1, 2000, they provided such services to 1,396 credit institutions, 2,412 branches of credit institutions and 660 liquidation commissions. Due to liquidation, 874 correspondent accounts of credit institutions and sub-accounts of branches of credit institutions, or 19.6% of the total number of correspondent accounts, were closed.

The structure of non-cash payments was dominated in terms of forms of settlements by payment orders, which accounted for more than 95% of all cash payments. Compared with 1998, the share of payment orders in all non-cash payments expanded by about 5%.

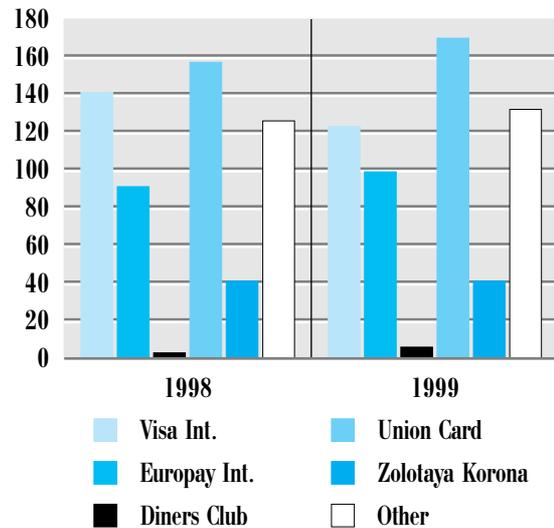
The share of payments for collection, which include settlements by payment orders, payment instructions and orders for collection, in 1999 was

Charts 32, 33

NUMBER OF CARD ISSUING OR ACQUIRING CREDIT INSTITUTIONS



NUMBER OF CARD ISSUING CREDIT INSTITUTIONS BY PAYMENT SYSTEM



about 4% of non-cash payments, a contraction of more than 50% from the previous year.

One of the means of reducing cash turnover and accelerating settlement times is the development of payment systems using bank cards.

Last year the Bank of Russia continued to build a legislative framework for regulation of the issuance and acquiring of bank cards by credit institutions, to elaborate settlement and accounting rules for bank card operations and establish the procedure for issuing prepaid financial products by credit institutions and distributing payment cards and prepaid financial products of other issuers.

As of January 1, 2000, there were 371 credit institutions in Russia that performed issuance and acquiring of bank cards, of which 333 issued and 319 acquired bank cards.

The number of bank cards of all kinds, including international cards, in 1999 exceeded 5 million and it is constantly growing as more and more cards are issued to workers and employees whose wages and salaries are transferred to their bank accounts.

The growth in the number of credit institutions issuing and acquiring magnetic strip cards has been accompanied by a rise in the number of credit institutions issuing or acquiring chip cards, which are more reliable instruments from the viewpoint of safety of non-cash settlements.

Chip cards also have the advantage of not requiring checking their holders' solvency to be checked in real time, which makes it possible to introduce them in regions with underdeveloped telecommunications infrastructures and greatly reduce the cost of servicing card settlements.

One of the priorities of the Bank of Russia in 1999 was the development and introduction all over Russia of electronic settlements, which reduce payment times and guarantee a high quality of services provided to the financial system and real economy.

Thanks to wider use of electronic technologies, the structure of payments effected through the Bank of Russia settlement network continued to change for the better in the year under review. By the end of last year 73 Bank of Russia regional branches (national banks) conducted an exchange of electronic documents with 2,408 credit institutions and their branches, which represents 63.2% of all (3,808) credit institutions serviced by Bank of Russia institutions and an increase of almost 150% over 1998. In addition, work was carried out last year to make the federal treasury authorities participants in the exchange of electronic documents with Bank of Russia institutions.

That allowed the Bank of Russia in 1999 to streamline the network of its institutions, closing seven cash settlement centres.

The number of payments effected through the Bank of Russia settlement network in 1999 increased by 16.6% year on year.

The share of payments effected by the Bank of Russia electronically, without using paper, expanded by number from 66.5% in 1998 to 73.8% in 1999.

The share of payments effected on paper, such as postal and telegraphic transfers, and electronically but accompanied by payment documents on paper contracted by number from 33.5% in 1998 to 26.2% in 1999.

The share of telegraphic payments in the total number of payments decreased from 0.7% in 1998 to 0.4% in 1999 and the share of postal payments also contracted, from 4.1% to 2.2%, respectively.

In 1999 the Bank of Russia took steps to increase the number of its institutions participating in the electronic payment system.

The system of interregional electronic settlements operated in 75 out of 79 Bank of Russia regional branches (national banks) as of January 1, 2000, which represents 95% of the total against 84% a year ago. Eighty-six Bank of Russia institutions were hooked up to the interregional electronic settlement system in 1999. By the end of the year under review the interregional electronic settlement system embraced 794 out of 1,190 Bank of Russia institutions, or 67% of the total against 53% as of January 1, 1999.

The intraregional electronic settlement system as of January 1, 2000, operated in 75 Bank of Russia regional branches (national banks), embracing 1,115 Bank of Russia institutions, or 94% of the total against 90% as of January 1, 1999.

Different technologies of processing payments effectuated through the Bank of Russia settlement network were used in the Bank of Russia regional branches (national banks). Fifty-two Bank of Russia regional branches (national banks) used a centralised system of processing payments, in which information on payments is processed in one computer centre of a Bank of Russia regional institution; 45 of them executed payments in a continuous mode and seven used a session-by-session mode. In 27 Bank of Russia regional branches (national banks) the processing of payments was decentralised.

To ensure the timely completion of settlements, credit institutions in Moscow and St. Pe-

**STRUCTURE OF PAYMENTS
EFFECTED THROUGH BANK OF RUSSIA
SETTLEMENT SYSTEM BY TECHNOLOGY
(in terms of numbers)**

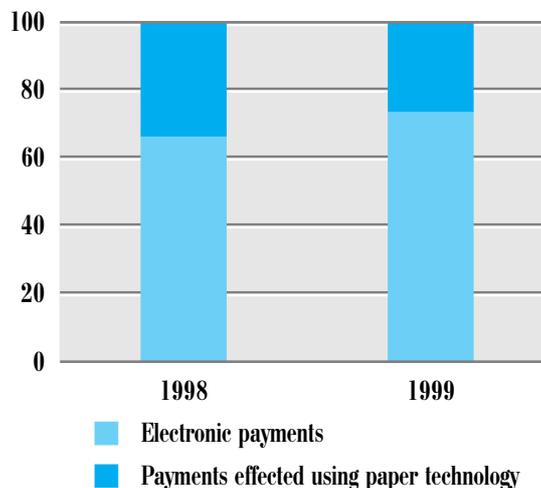


Chart 34

tersburg last year were granted the right to use intraday and overnight loans, which allowed them to quickly effect payment of settlement documents without waiting for funds to be entered to correspondent accounts. When there was a shortage of funds in credit institutions' correspondent accounts at the end of the business day, the payment of settlement documents was effectuated with overnight loans extended by the Bank of Russia.

Bank of Russia institutions in 1999 kept to the settlement time limits and carried out a number of measures to reduce them.

The Bank of Russia in the year under review increased control over the timeliness of the execution of payments by credit institutions.

The share of credit institutions which had unpaid settlement documents because of a shortage of funds in their correspondent accounts in 1999 contracted from 18.1% to 11.7% of the total number of credit institutions. As of January 1, 2000, credit institutions that had their licences revoked accounted for 75.5% of the sum of unpaid settlement documents, while a year ago such credit institutions accounted for 62.6% of the total sum of settlement documents unpaid because of the absence of funds in correspondent accounts.

In line with its pricing policy, adopted within the framework of the Development Strategy for the Russian Payment System, the Bank of Russia

on January 1, 1998, began to charge a fee for its settlement services. The ultimate objective of that move was to cover all the costs involved in the conduct of settlement operations by the Bank of Russia. Taking into consideration the international practice of charging fees for such services and existing rates and to avoid an abrupt change in the structure of payments carried out through different payment systems, the Bank of Russia decided to raise charges to cover the costs of settlement services stage by stage.

It planned to raise fees in the second half of 1999, but taking into account the financial condition of many credit institutions and its other clients hit by the August 1998 crisis, the Bank of Russia decided to put off the first stage of fees rise until 2000—2001.

The decision by the Bank of Russia to receive full reimbursement of its expenses on the mainte-

nance and development of its payment system was prompted by a change in legislation concerning the charging of fees for the conduct of operations on tax payments and budget funds. The Tax Code of the Russian Federation, which came into effect on January 1, 1999, stipulated that no fee should be charged for operations to transfer and collect taxes. Taking into consideration the volume of such operations, the Bank of Russia's expenses in regard to them will not be compensated and may account for about 50% of all costs.

In 2000 the Bank of Russia plans to continue to enhance the reliability and efficiency of its settlement systems. Specifically, it will go on taking steps to broaden the range of its clients participating in the exchange of electronic documents and offer them the opportunity to effect electronic payments on the basis of not only payment instructions, but also other settlement documents.

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

The informatisation development in the Bank of Russia is part of the general strategy to develop the Russian payment system. To build an advanced technical infrastructure of the payment system, the Bank of Russia in 1999 carried out a lot of work to develop and modernise the software and hardware systems used in its institutions, increase the reliability and safety of automated banking systems, expand computer information networks, upgrade the unified banking telecommunications system and develop life-support engineering systems for them.

To this end, the Bank of Russia designed comprehensive infrastructures for standard automated banking systems to enable regions to switch to a centralised processing of payment documents and use a paperless technology of exchanging documents.

To create a single telecommunications space for the transmission and processing of electronic banking documents in the Russian payment system, the Bank of Russia in 1999 continued to build a Unified Telecommunications Banking Network (UTBN). The UTBN is being developed as an aggregate of regional segments allowing the Bank of Russia regional institutions to exchange information with one another within a region (republic) while being linked by a trunk component and the UTBN central node in Moscow. Both ground and satellite communications channels will be used. The UTBN is being built as a corporate departmental system integrating various services and guaranteeing the transmission of data by the protocols Frame Relay, X.25 and IP.

The main objectives in building the UTBN are to create a single telecommunications space for the processing and transmission of electronic banking documents all over Russia and ensure full control and unified management of all mechanisms and stages of the transmission and processing of electronic banking communications.

The UTBN has been put together by designing, building and integrating all existing sub-sys-

tems, such as primary communications networks, the satellite communications system, the integrated data transmission system, the departmental telephone network and engineering support systems (the systems of guaranteed continuous energy supply, air conditioning and technological grounding).

Experimentally the Finance Ministry has been linked up to the resources of the Bank of Russia UTBN and the first stage of the experimental zone has been built in the Krasnoyarsk Territory.

Work has continued to build link-up lines from regional UTBN centres to territorial and republic communications enterprises and link-up lines from UTBN segments of the cash settlement centres to district communications centres to receive leased communications channels; to connect city telephone exchanges with those of the Bank of Russia and guarantee direct routing to the payment system's clients.

As of the end of 1999, primary networks had been completed in 45 Bank of Russia regional institutions, while in 27 regions primary networks need to be modernised to adapt them to digital channels.

In the period under review the Bank of Russia continued to build its departmental telephone communications system (DTS) with a single numbering plan, incorporating the telephone networks of the Bank of Russia central office and regional institutions. In 1999 the Bank of Russia DTS network was expanded to include 38 regional institutions.

As part of the effort to upgrade its communications system, the Bank of Russia in 1999 continued to modernise the control systems for the allotted satellite communications networks Bankir-1, Bankir-2, Bankir-3 (DVR) and Sokol-Bankir. At the end of 1999 the satellite communications system included more than 600 stations.

Efforts continued to build and expand an advanced electronic mail system as a transportation medium for electronic payments and document

electronic mail for the provision of information to the Central Bank. In the period under review 16 regional mail systems were put into operation and a postal server of the UTBN Central Node was given a test run. The mail system of the Bank of Russia central office was modernised.

Considerable efforts were made to upgrade the Bank of Russia telecommunications and information resources management system (TIRMS).

The Bank of Russia in 1999 reconstructed and repaired technological premises, developed engineering and technical support systems for the Bank of Russia technological centres, especially the systems guaranteeing uninterrupted energy supply of equipment in the regional segments of the UTBN, climate control systems for UTBN premises and computer centres, and installed structured cable systems.

II.3.3. MEASURES TAKEN BY BANK OF RUSSIA TO ENSURE FUNCTIONING OF RUSSIA'S PAYMENT SYSTEM UNDER CONDITIONS OF 2000

The Bank of Russia had worked on the year 2000 problem (Y2K) since 1997, but last year the work was particularly important and intensive. That year the Bank of Russia prepared its own information systems for Y2K, monitored the efforts made in this area by credit institutions, drew up emergency plans and provided information support for and co-ordinated the efforts of the Russian banking community to prepare for Y2K.

Particular attention was paid to preparing the standard soft- and hardware outfits for operating information systems of crucial importance for the Bank of Russia, such as the electronic non-cash settlement system, current reporting and accounting, cash issue operations, and control over operations relating to the execution of budgets at all levels, reporting by credit institutions and operations in the foreign exchange market.

The operational stability of the Bank of Russia soft- and hardware depended on how well its following components were prepared for Y2K:

- hardware systems;
- telecommunications systems;
- information security and protection facilities;
- applied software systems.

After the stock-taking and testing of the computer systems used in the Bank of Russia some of their components were modernised and replaced: 13% of components of RISC servers, 23% of components of servers and workstations and 13% of components of peripheral copying equipment. Following developers' recommendations, the Bank of Russia modernised software for the most critical systems in its regional institutions and organisations.

As a result of singling out standard soft- and hardware outfits from a multitude of software systems used, it became possible to reduce the number of applied software systems under surveillance, from the viewpoint of their readiness for Y2K from 4,812 to 635. All the 635 critical soft-

ware systems were subjected to a single procedure to prepare them for Y2K, which included their testing, modification and acceptance trials. Information on the results of acceptance trials and modified software versions were quickly made known to the Bank of Russia regional institutions and divisions concerned.

To check the readiness for Y2K of the applied software used in the electronic non-cash settlement system, the operating network (intraregional and interregional settlements) on October 9 and 10, 1999, was subjected to comprehensive testing, which included simulating Y2K conditions. The testing involved 1,190 subdivisions of the Bank of Russia settlement network in all regions and 90% of all credit institutions, including the largest ones. The two-day trial runs also included the testing of telecommunications, information security and system-important software. The results of the tests showed that the Bank of Russia settlement system was ready for Y2K.

From 1998 the Bank of Russia constantly monitored the preparations of Russian credit institutions for Y2K. Bank of Russia Instruction No. 362-U, dated September 28, 1998, regulated and divided into five stages all surveillance activities of Bank of Russia regional branches with regard to regional credit institutions. In its Letter No. 244-T, dated August 16, 1999, the Bank of Russia ordered its regional branches to intensify supervision of credit institutions' preparations for Y2K and declared their heads personally responsible for the job.

Control by regional branches over the provision of credit institutions with up-to-date software versions, received on a centralised basis or developed in the regional branches, was an important aspect of this work.

Regional branches organised and conducted throughout the country numerous inspections of credit institutions with regard to their readiness for Y2K.

To ensure that the Bank of Russia entered the year 2000 without any problems caused by some extraordinary circumstances, the regional branches and organisations of the Bank of Russia elaborated and brought into action, in accordance with the methodological recommendations approved and distributed on a centralised basis, “Emergency Plans of Action with Regard to Y2K for Critical Information Systems of the Bank of Russia.”

These plans provided for backup measures and alternative means of ensuring the normal processing of information in 2000 in the event of unforeseen computer system failures or snags in the work of informatisation computer centres. Plans for duplicated software systems were sent by developers for commissioning in the Bank of Russia regional divisions.

Throughout the period under review the Bank of Russia co-ordinated the activities of and provided information support for all those involved in preparations for Y2K. Working groups were formed in all its regional branches to direct the efforts to tackle the Y2K problem.

Representatives of the regional and other divisions of the Bank of Russia were supplied with a lot of methodological material and the necessary information was released on the Bank of Russia web-site. In addition, the regional branches and organisations of the Bank of Russia made monthly reports on progress in preparing software and hardware outfits for Y2K.

To complete the transition of its divisions and regional branches and organisations to work in the year 2000, an emergency centre was set up in the Bank of Russia to supervise the completion of the preparation of all computer, telecommunications and support systems of the Bank of Russia for work in the year 2000 and their operation in the early days of the year.

At the final stage of the work the Bank of Russia released information and updates to Russian and foreign mass media on the progress it made in tackling the Y2K problem. The exchange of information with other countries and international organisations concerned with Y2K problem in banking broadened. The Bank of Russia opened a round-the-clock multi-channel telephone hot line for its clients and the general public to contact with concerns about the Y2K problem from December 31, 1999, to January 5, 2000.

As the information and telecommunications systems switched to operation in the year 2000, the Bank of Russia emergency centre was in constant contact with the emergency centre of the Government commission on Y2K problem.

On the first business day of 2000 the Bank of Russia resumed its full-scale work as planned and there were no failures in the operation of any information or telecommunications systems in the Bank of Russia network or the banking sector as a whole.

II.4. BANKING REGULATION AND SUPERVISION

II.4.1. RUSSIAN BANKING SYSTEM: GENERAL STATE AND TRENDS

The year under review was a period of intense work to rehabilitate the banking sector. In accordance with a document entitled “On Measures to Restructure the Banking System of the Russian Federation,” approved by the Government’s presidium and Bank of Russia Board of Directors, this problem was tackled by creating conditions that would enable banks to restore their capital and restructure their assets and liabilities on their own, putting banks under the control of the Agency for Restructuring Credit Organisations (ARCO) in pursuance of the applicable legislation and upgrading and tightening supervisory rules and regulations.

The creation of favourable conditions for the recapitalisation of banks and the revocation of licences from banks with negative capital made it possible to lay the groundwork for growth in banking capital, the more rapid restoration of banking activity and the expansion of the share of financially stable and profit-making banks. The implementation of this task made it necessary to tighten requirements for the soundness of credit institutions and the banking sector as a whole.

The solution of the most acute problems involved in overcoming the consequences of the banking crisis made it possible by and large to restore the ability of the banking system to provide a basic range of services and to preserve the viable nucleus of the banking sector.

Last year saw a rapid recovery of the scale of banking activity. The assets¹ of the banking system (in current prices) increased over that period by 539 billion rubles, or 51.5%; the resource base of credit institutions expanded; the funds attracted by banks from enterprises and organisations² rose over the year by 66.7%. The share of funds in corporate accounts in aggregate banking liabilities expanded over the year from 27.1% to 29.8% (the respective pre-crisis ratio was 18.9%).

The beginning of 1999 saw a growth in household deposits with banks. From January 1, 1999, to January 1, 2000, ruble-denominated household deposits with banks increased by 43.1% in rubles and household deposits in foreign currency rose by 61.9%. At the same time, the share of household deposits in aggregate banking liabilities in 1999 contracted from 19.1% to 18.7%. The growth in household deposits with banks was largely the result of the Sberbank’s activity: the share of the Savings Bank in total household deposits with banks expanded from 74.2% as of January 1, 1999, to 76.3% as of January 1, 2000. In value terms household deposits with Sberbank increased from 148.3 billion to 226.6 billion rubles.

The amount of debt obligations issued by banks in 1999 increased 2.3 times and their share in total banking liabilities expanded from 4.8% as of January 1, 1999, to 7.3% as of January 1,

¹ Aggregate assets of operating credit institutions (form 101, excluding Vneshekonombank) with balancing of individual accounts.

² Including funds attracted from nonresident legal entities.

**DYNAMICS OF AGGREGATE CAPITAL AND ASSETS
OF OPERATING CREDIT INSTITUTIONS IN 1999**
(January 1, 1999 = 100%)

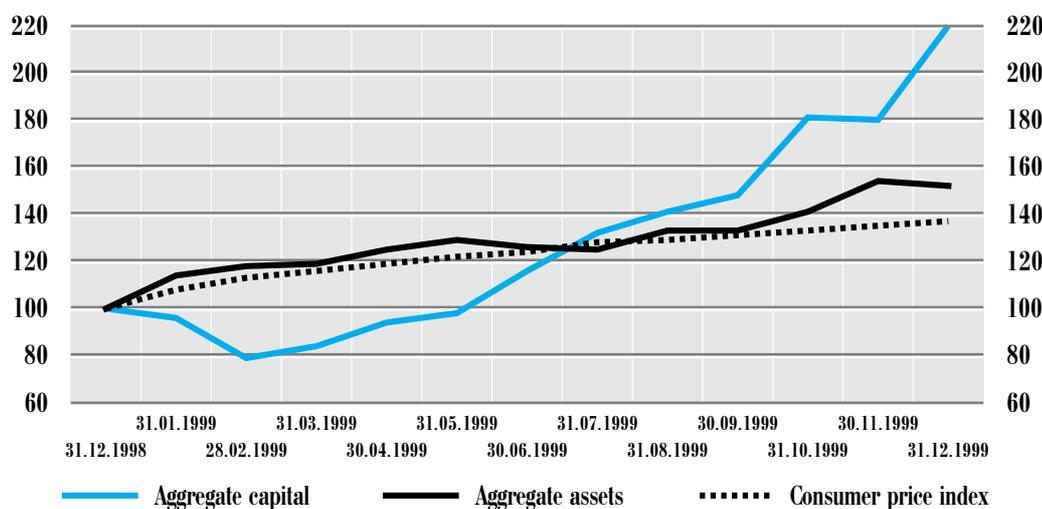


Chart 35

2000, exceeding the respective pre-crisis level (5.6% as of August 1, 1998).

Change in the structure of banking activity was largely predetermined by economic developments and the situation in the financial markets.

As inflation stabilised, credit institutions began increasingly to replace their foreign currency assets with ruble assets. As a result, the share of foreign currency assets in total banking assets in 1999 gradually decreased from 56% as of January 1, 1999, to 49% as of January 1, 2000. At the same time, it was larger than the pre-crisis 30.4% registered as of August 1, 1998.

The interbank loan market in 1999 began to demonstrate a tendency towards a pickup in volumes. After a sharp fall at the end of 1998, ruble-denominated interbank loans in 1999 started to grow in volume and by the end of last year their volume had expanded 2.7 times. At the same time, a significant reduction (by 39.7% since the beginning of the year) in foreign currency loans from nonresident banks caused the share of interbank loans in total banking liabilities to contract from 18.7% to 10.9%.

The dynamics and structure of banking assets in 1999 were largely determined by banks' desire to reduce risks and a lack of profitable and safe areas for investment.

Loans remained the banks' principal investment even though high risks in the economy contained the expansion of credit operations in 1999: the proportion of loans in aggregate banking assets contracted over the year from 42.2% to 39.5%.

A simultaneous contraction by 4% was registered in the number of loans¹ extended to the real sector in foreign currency, because the devaluation of the ruble made the service of such loans difficult. At the same time, growth in the ruble resources of banks contributed to the expansion of credit to the real economy in the national currency: in 1999 commercial banks' ruble-denominated loans to the real economy increased 2.5 times (2.1 times from August 1, 1998) and as of January 1, 2000, amounted to 239.6 billion rubles.

The overall situation with credit to the real sector remains difficult. The share of loans to the real economy in total banking assets contracted from 32.2% as of January 1, 1999, to 29.6% as of January 1, 2000.

According to banks' data, the share of overdue debt on loans to the real sector in 1999 declined from 11.7% to 6.5%, a drop from the pre-crisis level of 6.9% registered as of August 1, 1998. The share of overdue debt on foreign cur-

¹ Including loans to nonresident legal entities.

rency loans to the real economy contracted from 10.9% as of January 1, 1999, to 8.9% as of January 1, 2000 (6.5% as of August 1, 1998).

The share of banks' investments in securities in aggregate banking assets declined last year from 25.4% to 20.1%, mainly due to a reduction in banks' investments in ruble-denominated government securities. Low liquidity of the government securities market throughout 1999 discouraged credit institutions from using it as a short-term source of income or as a means of managing liquidity. In 1999 commercial banks' ruble investments in government securities declined from 76.6 billion rubles to 62.8 billion rubles, or 18%, while their share in ruble assets contracted from 16.7% to 7.8% (22.8% as of August 1, 1998).

At the same time, credit institutions were still interested in operations with Russia's debt obligations denominated in foreign currency. In 1999 their investments in foreign currency government debt instruments increased from \$5.0 billion to \$5.6 billion, or 12%, but the share of these debt instruments in aggregate banking assets remained practically unchanged at 9.5% as of January 1, 2000, against 9.8% as of January 1, 1999. The growth in investments mainly resulted from an increase in liquidity and growth in the price of Russian eurobonds caused by investor optimism about the outcome of Russia's negotiations with creditors.

As the government securities market stagnated, operations to discount promissory notes, especially ruble-denominated notes, gained acceptance. In 1999 the amount of promissory notes discounted by banks rose from 61.6 billion rubles to 65.8 billion rubles, or 6.8%, although their share in aggregate banking assets slightly contracted, from 5.9% to 4.1%. Meanwhile, investments in ruble-denominated promissory notes increased from 45.0 billion rubles as of January 1, 1999, to 54.0 billion rubles as of January 1, 2000, or by 20%.

The creation by the Bank of Russia of favourable conditions for the recapitalisation of banks allowed the latter to increase their own funds (capital). Credit institutions were granted the right to pay increases to authorised capital with foreign exchange and bank buildings, and a procedure was set for converting a credit institution's obligations into a stake in its authorised capital

and paying up authorised capital with government securities (permanent-income federal loan bonds, or OFZ-PD). By the end of 1999 aggregate capital of operating banks had increased from its minimum of 60.5 billion rubles, registered on March 1, 1999, by 107.7 billion rubles, or 2.8 times, making up 141% of the pre-crisis level. Aggregate banking capital relative to GDP expanded over the year from 2.9% to 3.8%.

The growth factors of banking capital in the period from March to December 1999 were the increase of capital by operating credit institutions (1,018 banks increased their capital by a total of 117 billion rubles) and the revocation of licences by the Bank of Russia from banks with negative capital (106 banks had a negative capital of 13 billion rubles). The principal source of increase in own funds (capital) for operating credit institutions was participants' contributions to authorised capital, which totalled 68.9 billion rubles.

Favourable trends were registered in indicators of financial stability of banks.

The main reason for a drop in the number of problem credit institutions in 1999 (from 480 to 199) and a contraction of their share in aggregate banking assets from 45.5% to 14.6%, in household deposits from 13.9% to 4.6% and in attracted interbank loans from 77.9% to 47.1% was the revocation of licences by the Bank of Russia from problem credit institutions, including from a number of large banks.

A favourable trend of 1999 was a rise in the number of profit-making banks, from 1,113 as of January 1, 1999, to 1,216 as of January 1, 2000, and the expansion of their share of total banks from 75% to 90%. At the same time, despite a decline in the number of loss-making banks, from 350 to 127, their aggregate current loss in 1999 exceeded the aggregate current profit of profit-making banks by 3.8 billion rubles. Taking into account the accumulated financial results, the banking system as of January 1, 2000, had a loss of 34.5 billion rubles against a loss of 30.5 billion rubles as of January 1, 1999. So, profitability remained a serious problem for some credit institutions.

Despite the improvements in the activities of credit institutions described above, one should not overestimate the results of the past year from the viewpoint of consolidation of the fundamental

STRUCTURE OF BANKING LIABILITIES (%)

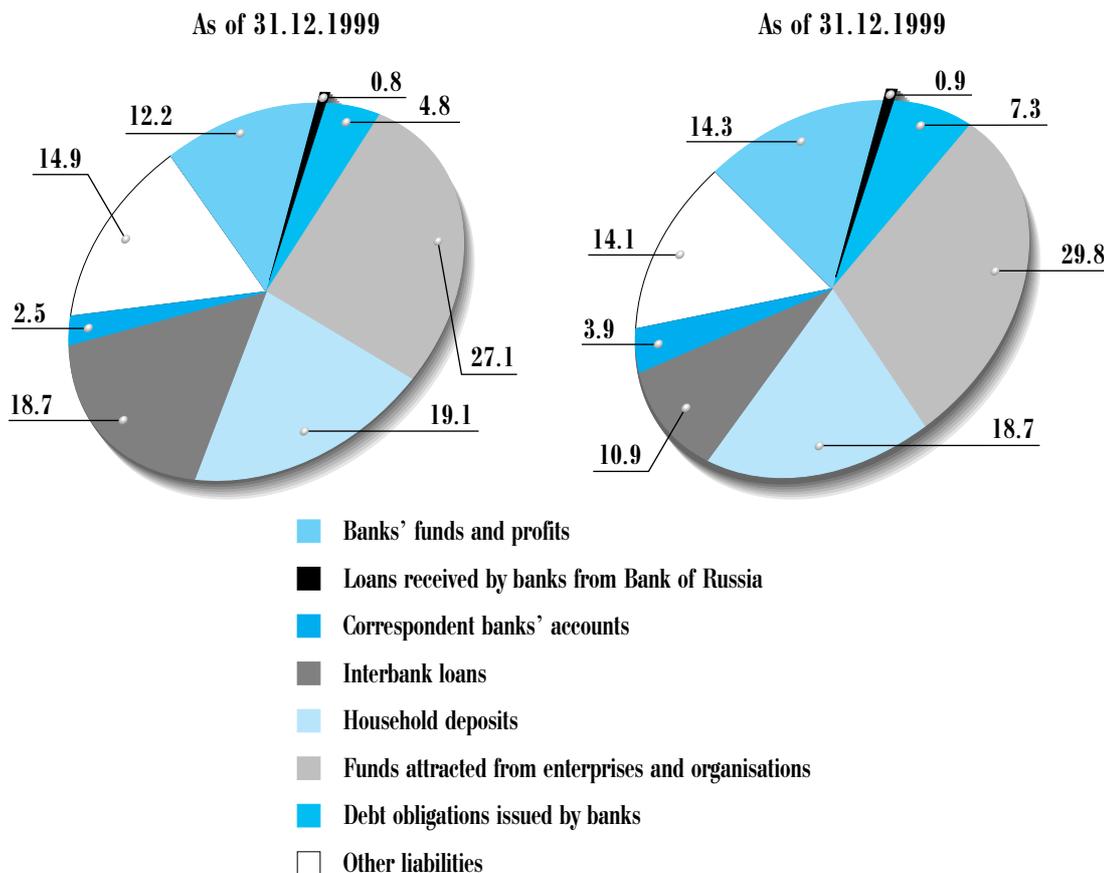


Chart 36

aspects of banking. As some indicators show, the banking system has not yet recovered to pre-crisis levels.

Aggregate assets and loans of the banking system in real terms (adjusted for inflation and change in the ruble rate) as of January 1, 2000, were a little over 70% and own funds (capital) of the banking system 58% of the pre-crisis level (August 1, 1998). Overall, the Russian banking system is still undercapitalised by international standards.

Geographical differences in the development of the banking system and, consequently, the differences in the extent to which different regions are provided with banking services pose a serious problem.

All economic regions may be divided into three groups in terms of the effect of the crisis on credit institutions and the extent of their recovery from its consequences. The first (most successful) group comprises the Northern, Volga-Vyatka and Ural

economic regions, where problem credit institutions are few, while the scale of banking activity has practically recovered to pre-crisis levels.

The regions in the second group (moderate), the North-Western, Volga, Central and Baltic economic regions, have also experienced a slight scaling down of banking activity and decline in investment in real economy, but credit institutions in these regions have run into some problems. The West Siberian economic region may be included in the group of regions whose banking systems fare well.

The group of regions where the state of credit institutions is the worst includes the North Caucasus, East Siberian, Central-Black Soil and Far Eastern economic regions. Banking activity has declined dramatically in these regions and/or the share of problem credit institutions is large in aggregate assets there.

Regions also differ considerably from the viewpoint of the range of banking services provided to

STRUCTURE OF BANKING ASSETS (%)

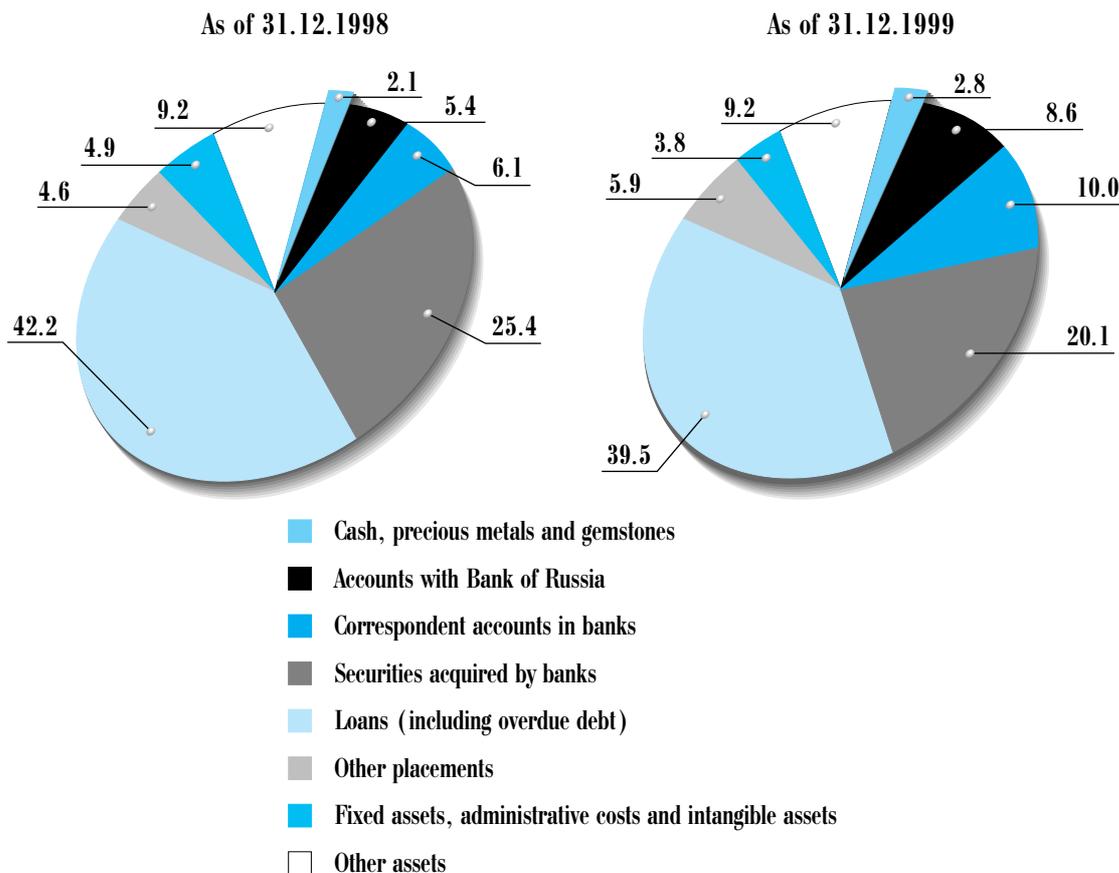


Chart 37

economy¹. In this sense they may be divided into three groups as of January 1, 2000: there are three regions with a broad range of banking services, seven regions with a medium range of banking services and two regions with a small range of banking services.

The three regions with the broadest range of banking services were as of January 1, 2000, the Central, North-Western and Baltic economic regions. The ratio of loans and assets of the regional

credit institutions (including bank branches in other regions) to regional GDP was more than twice the average national ratio.

Among the regions with a small range of banking services are the Northern and East Siberian economic regions. However, while in the Northern economic region the banking situation, especially the level of lending to the economy, improved in 1999, in East Siberia things have changed much for the worse.

¹ The extent to which a region is provided with banking services is judged by the ratio between the main aggregate indicators of banking activity in the region (the number of credit institutions, volume of assets, loans to real economy and household deposits) and its social and economic indicators (regional GDP, population and per capita income).

II.4.2. REGULATION OF CREDIT INSTITUTIONS

II.4.2.1. UPGRADING THE LEGISLATIVE AND REGULATORY FRAMEWORK

FOR THE ACTIVITIES OF CREDIT INSTITUTIONS

Creating conditions for the efficient operation of the banking system was the Bank of Russia's priority in 1999.

To create favourable conditions for growth in banks' capital, the Bank of Russia lifted the ban on using foreign exchange as payment to authorised capital of credit institutions. Participants (shareholders) were granted the right to pay increases in authorised capital of credit institutions with tangible assets such as bank buildings and a procedure was set for converting a credit institution's obligations into participation in its authorised capital and paying up authorised capital with government securities (OFZ-PD).

At the same time, the Bank of Russia established a procedure to verify the legality of payment of authorised capital of credit institutions at the expense of private individuals and made amendments to Instruction No. 75-I, dated July 23, 1998, "On the Procedure to Apply Federal Laws Regulating the Procedure for Registering Credit Institutions and Licensing Banking Activities," which provided for, among other things, additional requirements for the financial condition of the founders (members) and set criteria for evaluating credit institutions' business plans by the Bank of Russia.

The coming into force of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Federal Law on the Restructuring of Credit Institutions, which were drafted with active participation of the Bank of Russia, was a major step forward in building a legislative and regulatory framework for the restructuring of the banking system. It created a favourable legal environment and significantly broadened the powers of the Bank of Russia and its regional branches in regulating and supervising credit institutions. It is very important that the law specified the instances in which the supervision authority or the Agency for Restructuring Credit Organisations (ARCO) would automatically take measures in respect to a problem credit institution.

The Federal Law on the Restructuring of Credit Organisations granted ARCO the necessary powers to restructure credit institutions and specified the conditions under which a restructured credit institution may be given financial aid. According to the joint statement made by the Government and Central Bank on the economic policy in 1999, ARCO bears exclusive responsibility for the restructuring of the banks receiving government funds for recapitalisation. The Bank of Russia supports banks' liquidity using standard mechanisms only (Lombard, overnight and intraday loans and repo operations) provided there is ample collateral and the bank is solvent.

The Bank of Russia issued a set of regulatory documents stipulating the enforcement procedure of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Federal Law on the Restructuring of Credit Institutions. Specifically, it established the procedure for financial rehabilitation and reorganisation of credit institutions and the procedure for supervising the implementation of bankruptcy-prevention measures by credit institutions. The Bank of Russia also established the procedure for appointing a temporary administration, its functions and term of office and the procedure for considering by the Bank of Russia a temporary administration's request to impose a moratorium on creditors' claims. Changes and amendments were made in the applicable documents regulating the revocation of banking licences and a mechanism to control the liquidation of a credit institution was established.

There arose a need in the course of restructuring credit institutions to amend some applicable laws, especially the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Federal Law on Banks and Banking Activities. Amendments to these laws were drafted by the Bank of Russia in collaboration with the Government and they were submitted to the State Duma for approval.

- The changes they provide for are as follows:
- granting the Bank of Russia the right to set a minimum amount of authorised capital and a limit on the size and structure of the non-monetary part of a credit institution's authorised capital;
 - qualifying a fall of the capital adequacy ratio below 2% as an additional indication of bankruptcy of a credit institution;
 - introducing the term "affiliated persons" as a separate definition for the purposes of banking legislation;
 - specifying the grounds for invalidating a transaction;
 - specifying the range of persons who may be held responsible for the debts of a credit institution declared bankrupt;
 - changing the procedure for obtaining Bank of Russia permission for the purchase of shares of a credit institution, reducing the percentage of shares requiring such permission from 20% to 5%, and reducing the percentage of shares requiring notification of the Bank of Russia from 5% to 1%;
 - prohibiting senior executives from holding jobs concurrently in several credit institutions and establishing qualification and business reputation requirements for candidates nominated for senior positions in a credit institution;
 - establishing a procedure for acquiring shares of credit institutions that would prevent infiltration of credit institutions by dishonest investors;
 - granting the Bank of Russia the right to make decisions on reducing the authorised capital of a credit institution to the level of its own funds (capital).

In 1999 the Bank of Russia made vigorous efforts to upgrade banking regulation, continuing to put into practice the prudential banking standards recommended by the Basle Committee on Banking Regulation and Supervisory Practices and building a system of transparent financial reporting by banks in accordance with international accounting standards.

To ensure that the conditions and practices of the loan loss provisioning meet to a fuller extent the task of stabilising credit institutions, the Bank of Russia made amendments to its Instruction

No. 62a, dated June 30, 1997, "On the Procedure for Creating and Using Loan Loss Reserves," allowing banks to classify restructured loans with collateral of different quality as belonging to lower risk groups, depending on the real risk level as it is evaluated by the bank.

Important decisions were made to enhance market risk management. To this end capital adequacy requirements were established for credit institutions to cover interest, stock and currency risks. To minimise the effect of currency risk on the financial condition of banks, the Bank of Russia tightened requirements for open currency positions (OCP). Specifically, it set separate limits on balance-sheet, off-balance sheet and net OCP.

In 1999 the Bank of Russia continued the methodological work to improve the supervision of credit institutions on the basis of consolidated reporting. To enhance control over the risks assumed by banking groups when consolidating their own risks and the risks of their subsidiaries and affiliates, the Bank of Russia established the procedure for using reports by group members other than credit institutions in compiling consolidated reports by credit institutions, allowing parent credit institutions within a banking group to compile consolidated reports on the entire range of participants and to include in them the reports of non-credit institutions and establishing the procedure for reconciling non-credit institutions' indicators with the financial reports of banks. In addition, the Bank of Russia in 1999 carried out work to put consolidated reporting in compliance with international standards.

To minimise the country risk in operations with nonresidents, the Bank of Russia established the procedure for creating a reserve for operations with residents of offshore zones.

To enable its regional branches to increase control over the timeliness of compulsory payments to budgets of all levels and government extra-budgetary funds, implemented by credit institutions, the Bank of Russia established a procedure for penalising dilatory credit institutions. Specifically, a credit institution that has failed to meet the above requirements may be prohibited from effecting settlements at the instruction of corporate clients with respect to transferring

funds to the budgets of all levels and government extra-budgetary funds for a term of up to six months.

The optimisation of financial reporting by credit institutions made it possible to cancel beginning from the reporting as of October 1, 1999, the following reports by credit institutions to the Bank of Russia: an aggregate balance-sheet re-

port, aggregate profit and loss report, data on the movement of a loan loss reserve, data on the restructured (rescheduled) debt on loans owed by clients and banks, data on loans extended to shareholders (participants), data on loans extended to insiders, data on subsidiary and affiliated enterprises and organisations and data on the activities of a bank.

II.4.2.2. BANKING SUPERVISION AND INSPECTION OF CREDIT INSTITUTIONS

The principal approaches and methods of supervision and inspection in 1999 were dictated by the need to enhance requirements to the financial stability of credit institutions as they resumed their banking activities and recovered from the aftermath of the financial crisis.

Before August 1, 1999, credit institutions were subject to a special regulation regime, enacted by the Bank of Russia for the crisis period, which included the calculation of economic standards in absolute terms, a number of changes in the calculation of some economic standards and a special enforcement procedure. That regime enabled banks that were hit by the crisis but had good chances for a recovery to adapt themselves to the changed conditions of banking.

Beginning from the reporting as of August 1, 1999 (from July 2, 1999, as far as the limits of open currency positions were concerned), Bank of Russia regional branches supervised credit institutions that operated under a special regulation regime in accordance with the general procedure, which included the use of sanctions for failure to comply with the required ratios and limits of open currency positions. At the same time, the decisions to use this or that disciplinary measure were made by Bank of Russia regional branches taking into account the documentary confirmation of a credit institution's intention to take the necessary steps to increase its own funds, including the increase of authorised capital, by the end of 1999.

Going by the credit institutions' reports, the Bank of Russia in 1999 discovered the following principal violations:

- non-compliance with one or several required ratios (943 credit institutions);
- inaccurate reporting (789 credit institutions);
- late reporting and late publication of reports in the general press (746 credit institutions);
- non-compliance with the loan loss provisioning procedure (376 credit institutions).

After their reports had been analysed, violator banks were promptly subjected to commensurate sanctions: some credit institutions were restricted or banned from conducting specific banking operations, others were not allowed to open branches and still others were ordered to take corrective action and comply with the economic standards set by the Bank of Russia. In some cases, bank managers were invited to meetings to discuss the shortcomings discovered in their work and ways to eliminate them.

In addition to analysing the financial condition of banks and using sanctions against them, the Bank of Russia constantly evaluated the real financial condition of credit institutions, identified the situations that threatened the interests of creditors and depositors, monitored compliance with the applicable legislation and Bank of Russia regulations and assessed the state of bank management, internal control and accuracy of reports submitted to the Bank of Russia by conducting inspections.

In the year under review 5,134 inspections of credit institutions and their branches were held; of these, 1,113 were comprehensive inspections, a substantial increase on the previous years.

At an interregional level 13 large credit institutions and their branches were inspected by several regional branches of the Bank of Russia at a time.

To tighten control over foreign exchange operations conducted by credit institutions and reduce capital flight, the Bank of Russia last year increased the number of inspections to more than 1,200. Inspections were conducted to verify banks' compliance with foreign exchange legislation and the analysis of their results was used to substantiate the need promptly to make changes in Bank of Russia instructions in the field of foreign exchange regulation and control.

To implement its monetary policy in general and regulate the money supply in particular and to maintain overall liquidity of the banking system, the Bank of Russia constantly checked the correctness of calculation by credit institutions of the required reserve to be deposited with the Central Bank and accuracy of the submitted data. More than 1,500 checks-ups were conducted for this purpose.

In pursuance of the Russian President's Order No. 194-RP, dated June 17, 1999, "On Urgent Measures to Solve the Year 2000 Problem in the Russian Federation" and decisions of the Bank of Russia Board of Directors, inspections were conducted in the second half of 1999 to ascertain the readiness of soft- and hardware and information

systems of credit institutions and their branches. Random stand testing of the crucial applied software products and other systems with regard to Y2K was conducted in 20 largest credit institutions and their branches.

The inspections of credit institutions and their branches revealed more than 43,000 violations of applicable legislation and Bank of Russia regulations (the nature of the violations discovered is shown in the chart below).

The main reasons for the violations were inadequate control by management over the activities of the structural subdivisions and a low standard of inspections conducted by the internal control divisions. Inspections revealed that credit institutions failed to take adequate action on inspection results to ensure themselves against excessive concentration of risks and prevent delays in effecting settlements and payments. There was widespread mismanagement of assets and liabilities, which in many cases were not matched in terms of maturity.

Corresponding actions were taken with respect to the credit institutions which banking inspections found guilty of committing violations.

II.4.2.3. REGISTRATION AND LICENSING OF BANKING ACTIVITIES

The total number of credit institutions registered by the Bank of Russia in 1999 declined from 2,481 to 2,376, a fall of 4.2%), while the number of licensed operating credit institutions decreased by 127, from 1,476 to 1,349, or by 8.6%.

By region, the greatest number of credit institutions decreased in East Siberia (16%), the North Caucasus (11%), the Urals and Far East (10% each) and Moscow (9.8%).

At the same time, seven new credit institutions were registered last year, four banks and three non-bank credit institutions. Out of the newly-created licensed banks three were 100% foreign-owned.

Last year saw the reorganisation of credit institutions continue. During the year 12 banks merged with other banks, with eight of them

becoming branches of other banks, while 79 banks were reorganised (77 of them were transformed from limited liability companies into joint-stock companies). As a result, the structure of the banking system in terms of organisation and legal status of the banks changed and the share of credit institutions in the form of joint-stock companies expanded to 54.2% as of January 1, 2000 against 47.5% as of the beginning of 1999.

As of January 1, 2000, 1,264 credit institutions, or 93.7% of the total, had the right to take household savings to deposit against 93% a year ago; 669 credit institutions, or 49.6%, had the right to conduct banking operations in rubles and in foreign currency against 43% at the beginning of last year; 242 credit institutions, or 17.9% had a general licence against

**STRUCTURE OF VIOLATIONS DETECTED
AS A RESULT OF INSPECTION OF CREDIT INSTITUTIONS
IN 1999 (%)**

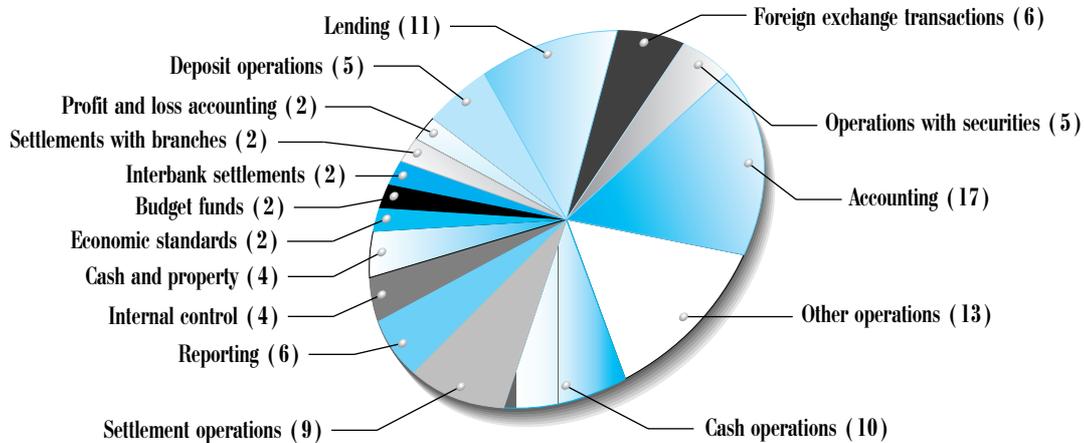


Chart 38

17.8% a year ago; and 152 credit institutions, or 11.3% had the right to conduct operations with precious metals against 9.2% as of January 1, 1999. These figures show that credit institutions continued to acquire a universal character, carrying out an ever broadening range of banking operations.

As a result of the measures taken by credit institutions, their shareholders and partners to overcome the adverse consequences of the August 1998 crisis, the aggregate authorised capital of operating credit institutions in 1999 increased 2.1 times to 111.1 billion rubles as of January 1, 2000. Over the year 484 credit institutions, or 35.9% of the total, increased their authorised capital; of these, 245 Moscow-based credit institutions increased their authorised capital by 45.8 billion rubles, which makes up 78.2% of aggregate increment.

The credit institutions in the Ural region increased their capital by 2 billion rubles as compared to 0.3 billion in 1998, those in the North-Western region by 1.4 billion rubles against 0.3 billion in the previous year.

Significant changes were registered in the structure of authorised capital in terms of amount: the share of credit institutions with registered authorised capital in excess of 20 million rubles expanded over the year from 28% to 40%.

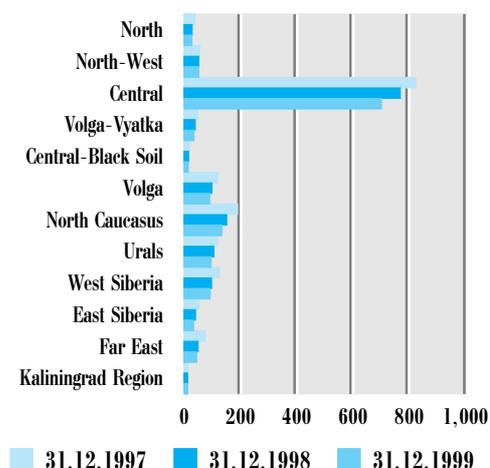
The year under review saw the expansion of foreign capital participation in the Russian bank-

ing system. As the number of credit institutions with foreign stakes declined from 142 to 133, the number of credit institutions with foreign interest exceeding 50% rose from 30 to 32, while foreign investment in the authorised capital of Russian banks increased over the year by 8.6 billion rubles, or 3.6 times, and as of January 1, 2000, amounted to 11.9 billion rubles. Nonresidents' share of the aggregate authorised capital of operating credit institutions expanded from 6.35% as of January 1, 1999, to 10.71% as of January 1, 2000. The largest contributors to the authorised capital of Russian banks are nonresidents from Austria, the United States, Germany and Japan.

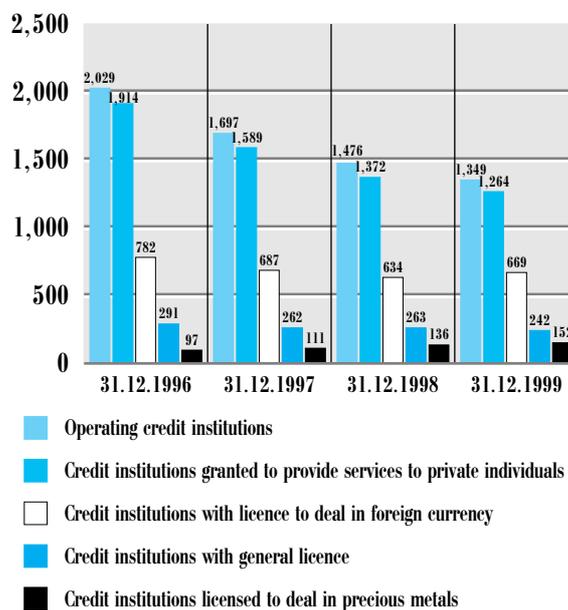
Credit institutions with foreign interest are located in 28 Russian regions and territories; 90 such credit institutions, or 67.7% of the total, are located in Moscow and the Moscow Region and seven in St. Petersburg and the Tyumen Region.

The branch network of credit institutions continued to undergo a drastic reorganisation. The tendency towards decline in the number of branches of credit institutions, which was registered in 1997—1998, continued in 1999, so by January 1, 2000, the total number of branches had fallen by 530, or 11.9%, to 3,923. The drop was largely the result of the revocation of licences from some banks and the implementation of austerity measures and

NUMBER OF OPERATING CREDIT INSTITUTIONS BY REGION



NUMBER AND TYPE OF BANKING LICENCES GRANTED TO CREDIT INSTITUTIONS



Charts 39, 40

organisational streamlining by credit institutions. The right to open internal divisions, including additional offices conducting banking operations, served as an alternative to maintaining more expensive branches at a time when workloads were shrinking. As a result, in 1999 184 credit institutions struck off from the State Register 768 of their branches, or 17.2% of the total, of which 163, or 8.8%, were Sberbank branches. At the same time, 123 credit institutions that expanded the scope of their activity entered 333 new branches in the State Register.

The drive to cut costs told on the representative offices of credit institutions, whose number over the year declined by 182, or 8.5%.

Throughout 1999 the Bank of Russia kept the State Register of Credit Institutions and regularly published relevant information in its official bulletins and on web-site.

II.4.2.4. RESTRUCTURING OF BANKING SYSTEM AND FINANCIAL REHABILITATION OF BANKS

A major objective of the Bank of Russia's activities in 1999 was to provide a legal framework to regulate the procedure for implementing the provisions of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and the Federal Law on the Restructuring of Credit Institutions, which included measures on the prevention of insolvency (bankruptcy) of credit institutions, the restructuring, the revocation of banking licences, control over the winding up of credit institutions and the organisation of quali-

fication examinations for heads of temporary administrations and receivers.

As a result of the bankruptcy-prevention measures taken by the regional branches of the Bank of Russia in 1999 the number of problem banks started to decline. The number of credit institutions required to draw up financial rehabilitation plans was reduced from 320 in 1998 to 259 in 1999.

The number of credit institutions that showed symptoms of insolvency (bankruptcy) and/or had to be liquidated pursuant to paragraph 4 of Article 90 and paragraph 4 of Article 99 of the Civil

**NUMBER OF CREDIT INSTITUTIONS
REGISTERED BY BANK OF RUSSIA
IN 1995—1999**

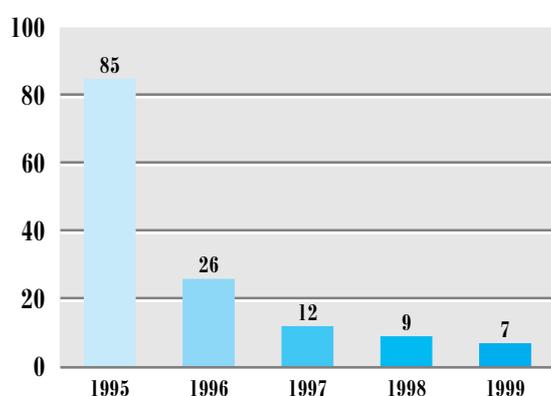


Chart 4.1

Code of the Russian Federation decreased over the year from 149 to 78.

In 1999 the Bank of Russia took steps to reduce the number of credit institutions with own funds (capital) smaller than their registered authorised capital. As a result, the number was cut from 301, or 20.4% of all credit institutions operating as of January 1, 1999, to 91, or 6.7% as of January 1, 2000.

To protect the legitimate interests of creditors (depositors) of credit institutions, the Bank of Russia appointed temporary administrations to credit institutions and controlled their activities. In 1999 temporary administrations were appointed to eight credit institutions.

The Bank of Russia in 1999 co-operated with the Agency for Restructuring Credit Organisations (ARCO) in identifying the grounds, drafting and submitting proposals to ARCO for the transfer of credit institutions under its control, establishing the procedure for imposing a moratorium on creditors' claims and monitoring compliance with it and the procedure for transferring banks under ARCO's

control, and making expert assessments of restructuring plans of credit institutions and monitoring their implementation. Last year 11 credit institutions were transferred to the control of ARCO. As of January 1, 2000, ARCO implemented measures to restructure 20 credit institutions.

The procedure for imposing a moratorium on creditors' claims in pursuance of the Federal Law on the Restructuring of Credit Institutions and Federal Law on Insolvency (Bankruptcy) of Credit Institutions was applied against seven banks, such as SBS-AGRO, Rossiisky Kredit, Bank Voronezh, Dalrybbank, Kuzbassprombank, Progressprombank and Tveruniversalbank.

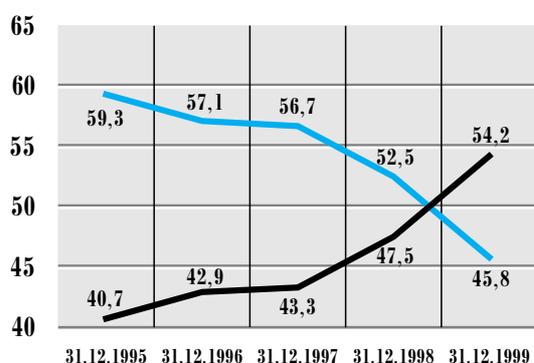
The Bank of Russia completed the implementation of its Board of Directors' decision of September 1, 1998, "On Measures to Protect Household Deposits in Banks" on the transfer to Sberbank of some commercial banks' obligations on household deposits.

To rehabilitate the banking system, the Bank of Russia in 1999 recalled (cancelled) banking licences from 130 credit institutions. The largest number of licences was revoked from credit institutions registered in Moscow (70). With regard to 12 credit institutions the licence revocation procedure was halted as these institutions carried out financial rehabilitation measures.

To safeguard the rights and legitimate interests of creditors and depositors in 1999 the Bank of Russia took steps to enhance the efficiency of liquidation procedures. For this purpose, its regional branches filed for bankruptcy of credit institutions with arbitration courts, supervised the winding up of credit institutions and approved the appointment of liquidation commissions and intermediate and liquidation balance sheets. As of January 1, 2000, it was decided to liquidate 916 credit institutions, or 89.7% of all credit institutions slated for liqui-

Indicator	1.01.1998— 17.08.1998	17.08.1998— 1.01.1999	1.01.1999— 1.01.2000
No. of credit institutions which had their banking licences revoked	138	91	130
Share of balance sheet value of credit institutions that had their licences revoked in aggregate balance sheet value of registered credit institutions, %	1,44	5,94	9,47

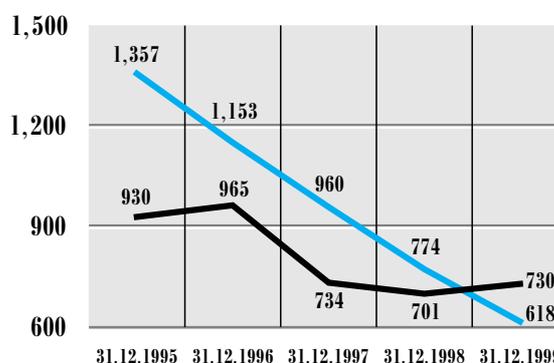
CHANGE OF STRUCTURE OF BANKING SYSTEM BY TYPE AND LEGAL STATUS OF INSTITUTION (as % of total operating credit institutions)*



— Limited liability companies (limited liability partnerships) — Joint-stock companies

* Registered by the Bank of Russia.

DYNAMICS IN NUMBER OF OPERATING CREDIT INSTITUTIONS IN 1995—1999 (by type of organisation and legal status)*



Charts 42, 43

liquidation (867, or 86.3%, as of January 1, 1999); liquidation commissions or receivers were appointed to 768 credit institutions (702 as of January 1, 1999); 312 intermediate liquidation balance sheets and 148 liquidation balance sheets were presented (248 and 38, respectively, as of January 1, 1999).

The measures taken by the Bank of Russia to improve the systems of control over the liquidation procedures and the activities of receivers and liquidation commissions helped increase the funds that went to meet creditors' claims. Eighty-two out of

100 credit institutions struck off the Register in 1999 made payments to creditors and five credit institutions (5%) repaid all their debts to creditors.

To enhance the efficiency of liquidation procedures the Bank of Russia conducts qualification examinations of temporary administrators and receivers and has organised the training of candidates for the job in educational institutions under the programmes prepared by the Bank of Russia. The Bank of Russia decided to issue 166 receivers' diplomas and issued 10 diplomas of temporary administrators.

II.4.2.5. BANK AUDIT

As of January 1, 2000, there were 156 audit firms and self-employed auditors with the right to audit banks. Of these, 126 audit firms (auditors) had the term of their licences extended until the Government decided the number of licence fees on the terms stated in Bank of Russia Letters No. 311-T, dated November 4, 1998, "On Extending the Term of Bank Audit Licences" and No. 222-T, dated July 29, 1999, "On Some Issues of Licensing Audit Activities."

Pursuant to the requirement of the Federal Law on Banks and Banking Activities credit institutions should be audited once a year, audits

for 1998 were conducted in 1,374 credit institutions which as of January 1, 1999, had banking licences. There was no audit in 103 credit institutions (about 7% of the total), of which 85 had had their banking licences revoked and 18 had no money to pay for the audit.

Audits for 1998 confirmed the accuracy of accounting reports of 1,371 credit institutions, of which 249 credit institutions (one out of every five institutions audited) had the accuracy of their reports confirmed after making amendments to them. Auditors did not confirm the accuracy of reports of three credit institutions, of which two credit institutions received a negative auditor's

ACCURACY STRUCTURE
OF BANK REPORTS (%)

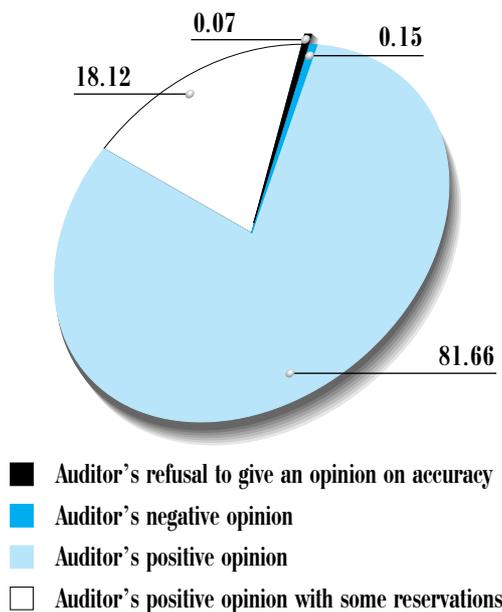


Chart 44

opinion and with regard to one the audit firm refused to give its opinion about the accuracy of its reports.

In the year under review the Bank of Russia regional branches conducted comprehensive and systemic control over the performance of mandatory annual audits and their quality and supervised the activities of the local audit firms and self-employed auditors providing bank audit services. This work was facilitated by co-operation between the Bank of Russia regional branches located where the audit firms they supervised were registered and the Bank of Russia regional branches located where the credit institutions audited by those firms were registered. This co-operation allowed supervisors to receive more complete information about the quality of audits and about complaints about the work of individual audit firms (auditors).

Fulfilling the Bank of Russia Order No. 02-102, dated July 15, 1994, the Bank of Russia Central Auditor Certifying and Licensing Commission (CACLC) in 1999 focused on certifying bank auditors. It issued certificates to 136 auditors and extended the terms of qualification certificates of 83 auditors.

As of January 1, 2000, 665 auditors had qualification certificates granting them the right to audit banks. Most of them (70%) were employees of

audit firms, 19% specialists with credit institutions, 8% university teachers and 3% other.

Steps were taken in the year under review to raise the standard of certification for the right to audit banks. New centres were opened to train and certify bank auditors thanks to the participation of the Russian Economic Academy's G. V. Plekhanov Financial Institute. By its decision of December 28, 1999 (protocol No. 7), the CACLC approved the procedure for organising and conducting qualification examinations for the right to conduct bank audit, designed to improve the standard of qualification examinations and the process of summing up their results. In addition, representatives of the supervisory departments of Bank of Russia regional branches were included in the examination commissions of the training centres.

The Bank of Russia Expert Committee on Bank Audit, set up in accordance with Bank of Russia Order No. OD-24, dated January 20, 1998, in 1999 continued to work out bank audit standards and methodologies recommended for use in auditing. At its meetings it considered issues relating to supervision of audit firms by the professional community and a concept of harmonisation of the Audit Rules (Standards) approved by the Russian President's Commission on Auditing for use in auditing banks, Draft Bank Audit Rules (Standards) No. 2 "Detailed Report" and the concept of "Control over the Quality of Audit and Criteria for Evaluating the Bank Audit Performance of Audit Firms."

The Sixth National Bank Audit Day was held in St. Petersburg in May 1999 to discuss the role of bank audit in enhancing the efficiency of banks' anti-crisis strategies. The participants in the forum noted that the Bank of Russia supervisory bodies tightened requirements for the standard of performance of audit firms and self-employed auditors in auditing banks, pointed out closer contacts between banking supervision authorities and external auditors and emphasised the need to further improve the legal framework of bank audit.

In the year under review the Bank of Russia, wishing to promote co-ordination of efforts in the field of bank audit, continued to co-operate with the Finance Ministry's CACLC, the Commission on Auditing under the President of the Russian Federation, the European Commission within the framework of the TACIS programme and other organisations.

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

As Russia recovered from the financial and economic crisis, budget problems affected the activities of the Bank of Russia and were tackled with its participation. In accordance with the Federal Law on Budget and Tax Policy Priorities, the 1999 Federal Budget Law, the Federal Law on Amendments to Article 102 of the 1999 Federal Budget Law and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia in 1999 financed the federal budget deficit by buying interest-free federal loan bonds at the initial public offering and provided foreign exchange to Vneshekonombank for crediting the Finance Ministry with the aim of effecting settlements on the government's foreign debt. The Finance Ministry in 1999 restructured a part of government securities owned by the Bank of Russia on non-market terms. In 1999 Russia continued the transition to federal budget execution through the federal treasury institutions.

The Finance Ministry's debt to the Bank of Russia on interest-free federal loan bonds, acquired by the Bank of Russia in pursuance of Article 3 of the 1999 Federal Budget Law and due in 2014 to 2023 amounted to 27.9 billion rubles as of January 1, 2000.

To ensure that Russia does not miss its foreign debt payments, the Finance Ministry, guided by the 1999 Federal Budget Law and Federal Law on Amendments to Article 102 of the 1999 Fed-

eral Budget Law, in the first half of last year borrowed \$4.5 billion in Vneshekonombank loans provided to the latter by the Bank of Russia. The Foreign Ministry's debt on Vneshekonombank loans extended in foreign currency at the expense of the Bank of Russia amounted to 174.1 billion rubles as of January 1, 2000.

Of the Finance Ministry's total debt of 339.0 billion rubles, at the face value of the debt obligations, provided by the Bank of Russia under the 1999 Federal Budget Law and the Federal Law on Budget and Tax Policy Priorities, a debt of 217.2 billion rubles was restructured. The following debt instruments were restructured into federal loan fixed coupon bonds in 1999:

- 203.8 billion rubles of short-term government bonds and federal loan bonds;
- 5.1 billion rubles of Finance Ministry notes owned by the Bank of Russia as of January 1, 1999, due on August 31, 1999, and December 25—26, 1999;
- 5.7 billion rubles of Finance Ministry's debt to the Bank of Russia on operations in the organised securities market;
- 200 million rubles of the Russian Federation part of the former Soviet Union's domestic government debt;
- 2.4 billion rubles of CIS countries' debt on technical credits, including the debt on interstate settlements and debt resulting from offsetting economic agents' mutual claims in-

side Russia and between Russia and other CIS countries.

As a result of the restructuring, a large part of the federal loan bonds on the Bank of Russia balance sheet are mainly due in the period of 2018 to 2029 and have a non-market interest rate of 2% p. a. or are interest-free.

In pursuance of the 1999 Federal Budget Law, the transition to the execution of the federal budget through the federal treasury institutions continued.

At present in all Russian constituent entities, except the Republic of Bashkortostan and Republic of Tatarstan, the federal treasury institutions conduct operations on federal budget revenue accounts and in all Russian constituent entities, except the Republic of Tatarstan, on federal budget accounts.

The federal treasury authorities in 1999 transferred accounts from credit institutions and Sberbank branches to Bank of Russia institutions. As of January 1, 2000, they opened nearly 64% of federal budget revenue accounts and federal budget accounts in Bank of Russia institutions, 34.9% in Sberbank institutions and 1.1% in other credit institutions.

Budget-funded organisations and institutions in 1999 continued to transfer their accounts to the federal treasury authorities. According to data available as of January 1, 2000, 89.4% of budget-funded organisations and enterprises and organisations receiving funds from the federal budget switched to servicing by the federal treasury institutions.

In 1999 customs authorities began to transfer their accounts to the federal treasury institutions (in the Ryazan and Ulyanovsk Regions), while customs authorities in the Chuvash Republic, the Maritime Territory and the Bryansk, Irkutsk, Lipetsk and Smolensk Regions are now transferring their accounts to the federal treasury institutions.

Last year some constituent entities of the Russian Federation began to execute their budgets and local budgets through the federal treasury institutions.

The transfer of budget-funded organisations to servicing by the federal treasury institutions will make it possible to accelerate the transfer of federal funds to final users, establish preliminary control over the use of federal budget funds for

the purposes they were allocated for and concentrate federal budget funds in accounts with the Bank of Russia system.

Bank of Russia institutions continued jointly with the federal treasury institutions to broaden the use of electronic documents between federal treasury and Bank of Russia institutions.

According to data available as of January 1, 2000, 181 federal treasury institutions, or 8.1% of the total, were connected to the electronic document interchange system of the Bank of Russia, of which 123, or 68.0%, were connected in 1999.

To centralise the accounting of and optimise the flow of federal budget revenues and funds, the Finance Ministry has elaborated jointly with the Bank of Russia a concept of a single Finance Ministry federal treasury account for federal budget revenues and funds, which has been approved by the Government.

If realised, the concept will help:

- reduce the time revenues from taxpayers take to reach their users;
- have daily information on federal budget revenues and expenditures;
- accelerate the management of federal budget funds by keeping them in one account of the Finance Ministry's Main Federal Treasury Department with the Bank of Russia;
- speed up the federal budget funds turnover and reduce the federal budget needs in borrowings;
- considerably reduce the risk of losing federal budget funds in accounts with credit institutions.

The functioning of the federal treasury system using a single Finance Ministry federal treasury federal budget revenue and federal budget funds account is a basically new technology of executing the federal budget. The main advantages of this technology are as follows:

- centralisation of federal budget revenues and expenditures in one Finance Ministry federal treasury account opened for the Main Federal Treasury Department;
- centralisation of operations to keep the revenues of budgets of different levels in one account opened for the federal treasury department, their distribution between budgets of different levels and the execution of federal budget expenditures at the level of the federal treasury department;

- recording on a daily basis in the Federal Treasury Ledger federal budget revenue and expenditure operations conducted at the level of the federal treasury department.

The advantages connected with the introduction of a single Finance Ministry federal treasury account for federal budget revenues and funds along with the possibilities of preliminary and current control over the use of funds for the purposes they were allocated for, create realistic conditions for the efficient management and proper use of federal budget funds by all those involved in the budget process.

Since the financial and economic crisis led to a significant contraction of liquidity of credit institutions and many of them failed to effect payments for their clients because of the lack of funds in correspondent accounts, the Bank of Russia in 1999 took steps to ensure that credit institutions fulfilled in time their clients' payment instructions, including instructions to make payments to the budgets of all levels and government extra-budgetary funds.

During that period the Bank of Russia conducted more than 1,200 inspections in practically every region to make sure that credit institutions handled payment documents without delay. Credit institutions that failed to eliminate the shortcomings or stop the operations that created a real threat to creditors' (depositors') interests, had their licences revoked by the Bank of Russia.

Credit institutions that failed to transfer in time funds to budgets of all levels and government extra-budgetary funds at the instruction of taxpayers and had a backlog of delayed transfers on their correspondent account for three consecutive business days or more, were penalised by the Bank of Russia pursuant to Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) by being restricted for up to six months in effecting settlements on behalf of their clients related to the transfer of funds to budgets of all levels and government extra-budgetary funds. In 1999 this sanction was used against 47 credit institutions.

II.6. CASH ISSUE MANAGEMENT

The efforts of the Bank of Russia in cash issue management in 1999 aimed to improve the standard of cash services provided to clients, guarantee the safekeeping of valuables and co-ordinate the work of its regional branches and Central Depository in supplying Bank of Russia institutions with banknotes and coins of the 1997 issue and removing worn and redeemed currency.

The amount of cash of the 1997 issue in circulation in 1999 expanded by 92,186.1 million rubles, or 46.9%, while household cash income rose by 56.9%, according to Goskomstat's preliminary data. Consumer prices in the goods and services sector increased by 36.5% in 1999. The expansion of cash in circulation had no significant impact on inflation growth but met the needs of the economy and population in money.

As of January 1, 2000, there were 288,560.2 million rubles in circulation, of which there were 285,319.4 million rubles of banknotes and 3,240.8 million rubles of coins. Banknotes accounted for 98.9% and coins 1.1% of total cash.

As consumer prices rose, the note structure of the money supply changed in favour of large-denomination banknotes. The share of 500-ruble banknotes expanded by 17.4 percentage points from January 1, 1999, to January 1, 2000, while that of 10- and 50-ruble banknotes contracted by 8.1 points.

Monitoring the note structure of cash in circulation, the Bank of Russia constantly made sure that it met the needs of cash turnover, forecasted and organised the production of banknotes and

coins, saw to it that they were regularly brought to all regions in the required amounts and denominations and created reserves to meet the needs of the economy and population in cash. There were no failures in paying out cash by Bank of Russia institutions at the fault of the Bank of Russia in 1999.

In 1999 Bank of Russia banknotes of the 1993 issue (including their 1994 modifications) and 1995 issue and USSR and Bank of Russia coins of 1961—1996 issues (and also USSR 1-kopeck, 2-kopeck and 3-kopeck coins minted before 1961) were exchanged for currency of the 1997 issue. A total of 1,406.6 million rubles in old currency were offered for exchange in the period under review. As of January 1, 2000, 1,237.4 million rubles, or 0.9% of the amount of cash that was in circulation as of January 1, 1998 (by the beginning of re-denomination of the Russian currency) were not offered for exchange.

According to Bank of Russia regional branches, as of January 1, 2000, Bank of Russia institutions provided cash services to 117,004 clients, including 95,926 budget-funded organisations (34,547 of these had working accounts with federal treasury institutions), 1,303 federal treasury institutions, 6,166 credit institutions and their divisions (including 1,763 branches of credit institutions that had no correspondent sub-accounts in cash settlement centres and additional offices of credit institutions or their branches) and 13,609 other organisations, enterprises and institutions.

Compared with 1998, the number of credit institutions and their divisions and other organisations relying for cash services on Bank of Russia institutions declined by 13.5% and 26.7%, respectively. At the same time, the total number of budget-funded organisations provided with cash services by Bank of Russia institutions grew by 5.5% and budget-funded organisations with working accounts with federal treasury authorities by 9.5%. There were no delays in providing cash services to clients in Bank of Russia institutions.

There were cash counting offices in 608 Bank of Russia institutions in the year under review and in 203 of these institutions cash was counted on a team basis.

Bank of Russia institutions and credit institutions were provided with methodological and organisational support and improved their cash issue practices, and work continued to collect and systematise data on cash issue management in Bank of Russia regional branches.

In 1999 the Bank of Russia improved the procedure for cash issue regulation, giving the right to grant issue permits to the heads of cash settlement centres. If there were funds in clients' accounts, a cash turnover limit should not serve as a restriction on supplying clients' needs in cash. Cash would be paid out to clients after writing off

CURRENCY IN CIRCULATION AS OF BEGINNING OF YEAR (million rubles)*

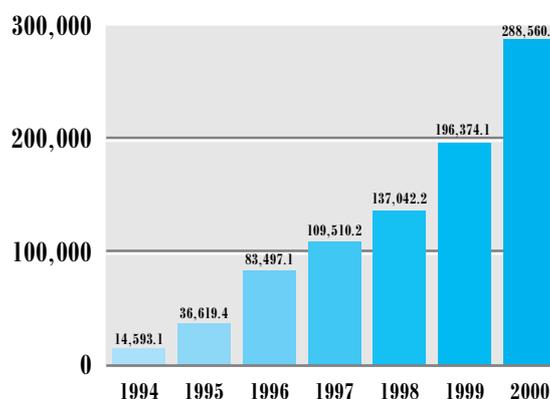


Chart 45

* In new nominal value.

an equivalent sum from clients' correspondent accounts (sub-accounts), settlement (current) accounts and other accounts.

Cash operators in Bank of Russia institutions in the year under review committed 8,300 errors (shortages and overages and deficient and counterfeit banknotes) totalling 237,855.44 rubles. Compared with 1998, the number of cash errors declined by 49.9% while the sum of errors increased by 18.6%. In addition,

SHARE OF INDIVIDUAL BANKNOTES OF 1997 ISSUE IN CIRCULATION AS OF DECEMBER 31, 1999 (%)

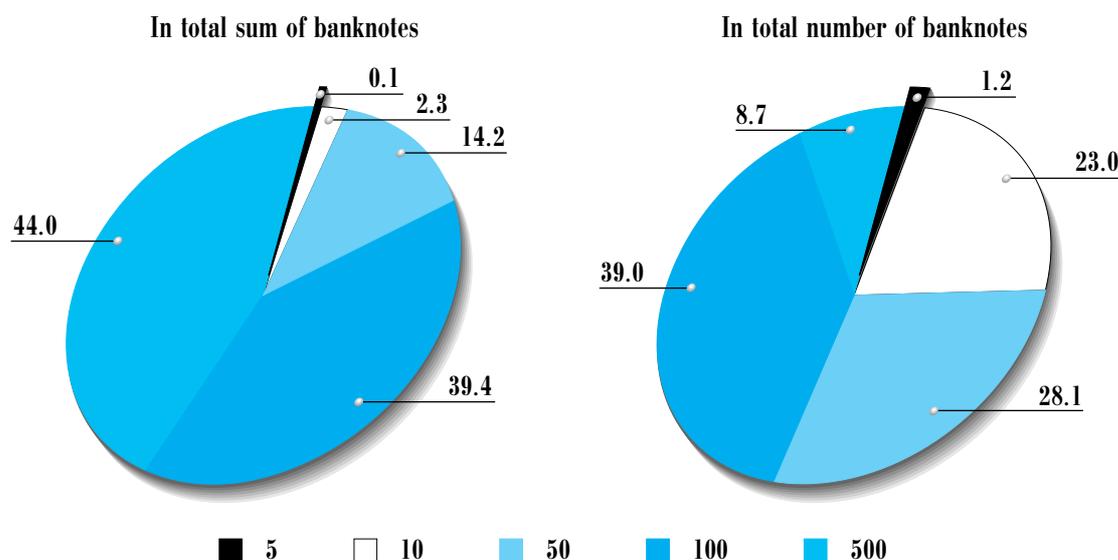
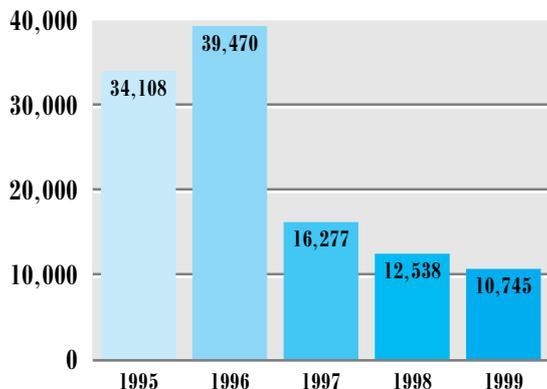


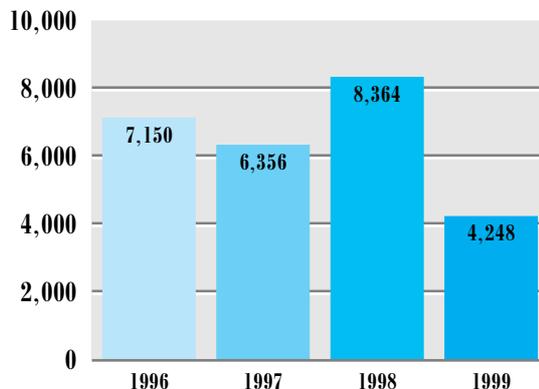
Chart 46

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



Charts 47, 48

DYNAMICS OF DETECTION OF COUNTERFEIT FOREIGN BANKNOTES (number of notes)



DETECTION OF COUNTERFEIT FOREIGN BANKNOTES IN BANKING SYSTEM IN 1999 (%)

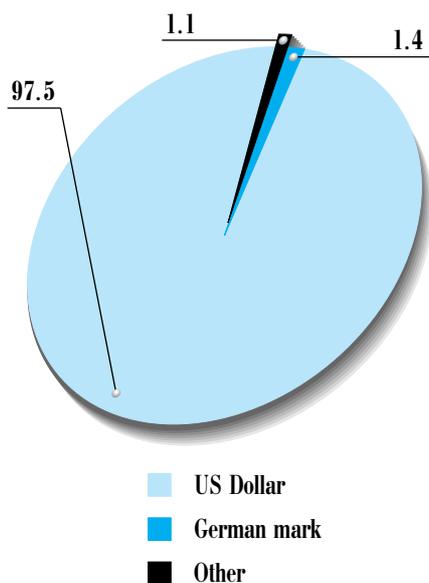


Chart 49

tion, two shortages of banknotes worth a total 4,100,000 rubles were discovered in Bank of Russia depositories.

The Bank of Russia continued to supply its institutions with automated and mechanised cash processing facilities, including cash counting and sorting machines capable of controlling the authenticity of banknotes by means of character recognition. A new generation of cash counting and

sorting machines began to be installed in Bank of Russia institutions.

Bank of Russia institutions were also supplied with technical facilities capable of mechanising and automating operations to store, move and make the accounting of banknotes and coins in depositories and cash departments.

Measures were carried out in 1999 to clean up cash turnover and prevent counterfeiting. In the period under review Bank of Russia institutions conducted 1,124,065 expert analyses of Bank of Russia notes and 8,385 expert analyses of foreign banknotes.

Early in 1999 the most frequently forged banknote was the 10-ruble banknote and by the end of the year the 100-ruble banknote. In 1998—1999 no printed counterfeit banknotes were discovered. The most frequently forged Bank of Russia coin is the 5-ruble coin.

The number of counterfeit Bank of Russia notes detected and passed to the Ministry of the Interior authorities in 1999 amounted to 10,745, or 85.7% of the 1998 level. Of the counterfeit Bank of Russia currency discovered in the year under review 85.0% were banknotes and coins of the 1997 issue and 15.0% old banknotes. Counterfeit banknotes and old coins were detected in Bank of Russia institutions when people brought currency to exchange it for money of the 1997 issue.

In 1999 Bank of Russia institutions and credit institutions detected and passed to the Interior Ministry authorities 4,248 counterfeit foreign banknotes, or 50.8% of the number detected in

1998. The decline is the result of Interior Ministry operations which help detect a large number of counterfeit banknotes before they are sold.

The most frequently forged foreign banknote was, as in the previous year, the US dollar, which accounted for 97.5% of all counterfeit foreign banknotes. Counterfeit 100-dollar bills accounted for 84.5% of all forged US currency and 50-dollar bills accounted for 8.4%.

Most of the forged dollars are of low quality and can be easily detected by the eye.

The Bank of Russia regularly informed credit institutions about new types of counterfeit banknotes and explained how they should be detected.

To conduct expert analysis of Bank of Russia coins, the Bank of Russia in 1999 supplied its institutions with the manual "The Fundamentals of Expert Analysis of Currency. Part 2. Coins."

In 1999 the Bank of Russia issued 39 commemorative coins, of which 29 were made of silver, nine of gold and one of a copper-nickel alloy.

In the year under review credit institutions intensified the distribution of commemorative coins in the domestic market. Shortly after August 1998 Sberbank remained practically the only distributor of coins, whereas in 1999 coins were distributed by nearly 30 credit institutions in Russian regions.

II.7. INTERNATIONAL CO-OPERATION

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

Special attention was paid to relations with the **International Monetary Fund (IMF)**, **International Bank for Reconstruction and Development (IBRD)**, **Bank for International Settlements (BIS)** and other international financial and economic organisations.

The Bank of Russia took part in the Russian Government's negotiations with the IMF to agree with the Fund Russia's economic programme for 1999—2000. In July the IMF decided to allot loans to Russia, but this country received only a \$640-million part of the facility agreed with IMF.

The Bank of Russia continued discussions with the IMF on the further development of monetary and international liquidity statistics. It was noted that the main task was that of making these statistics more transparent and improving its quality in compliance with international standards and requirements. The IMF worked out additional requirements in this field, which found their expression in the second edition of the Special Data Dissemination Standard.

The IMF also adopted the good practice code on transparency in monetary and financial policy. Russia is one of the countries that have agreed to allow its information dissemination practices to be evaluated with present-day requirements and the subsequent publication of evaluation results. The Bank of Russia organised on its own a preliminary evaluation of the existing practice of disseminating data on its activities and the discussion of evaluation results with IMF specialists. Issues related to transparency in the activities of

central banks were discussed in December at a regional consultative meeting organised by the IMF and Bank of Russia. IMF experts agreed that the Bank of Russia pursued a fairly transparent monetary policy.

An important stage in the Bank of Russia's co-operation with the IMF and IBRD were meetings of the Interim Committee of the IMF Board of Governors (Bank of Russia Chairman was the Governor from the Russian Federation) and the IMF and IBRD Development Committee, held in April, and the annual meeting of the IMF and IBRD Boards of Governors, held in Washington in September, which discussed ways to prevent financial crises and strengthen the architecture of the international financial system.

Bank of Russia top executives regularly participate in the meetings of central bankers of the BIS shareholder countries which discuss the most crucial issues of monetary policy, banking supervision, financial crisis prevention, etc. The Bank of Russia participates in the work of BIS committees and commissions, in which working consultations are held on these and other issues relating to central banking.

The BIS is a counterparty of the Bank of Russia on some operations in the international foreign exchange market.

Bank of Russia representatives participated in the meetings of the working groups of the **Basle Committee on Banking Supervision**, which discussed issues related to new capital adequacy requirements and assessment of the implementation

of the Core Principles of Effective Banking Supervision.

The Bank of Russia took part in drafting reports on the Russian projects of the **European Bank for Reconstruction and Development (EBRD)**, in which the Governor from the Russian Federation was until April the Bank of Russia Chairman. Russian representatives discussed with the EBRD the possibility of re-allocation for the needs of the restructuring of the Russian banking system a part of the funds provided by the EBRD to Russia for the development of the financial sector within the framework of the Financial Institutions Development Project.

In 1999 the Inter-Agency Co-ordinating Committee (ICC), set up to assist the development of banking in Russia, including co-ordination of actions with the IBRD, IMF, EBRD and EC in this field, began its work. ICC meetings were convened by the Bank of Russia in March, June and December.

The Bank of Russia continued its efforts to assist the **International Bank for Economic Co-operation (IBEC)** and **International Investment Bank (IIB)** in restoring their role of regional financial and investment institutions. Bank of Russia representatives took part in the meetings of the IBEC and IIB Councils in May and November.

The Bank of Russia was instrumental in launching the **Black Sea Bank for Trade and Development (BSBTD)**, which was set up to finance trade and investment projects in the region. The official opening of the BSBTD took place in June with the participation of Bank of Russia representatives. In addition, the Bank of Russia Chairman was elected a member of the Central Asia, Black Sea and Balkan Central Bankers Club.

Proposals for a co-operation strategy between Russia and the Inter-American Development Bank and Asian Development Bank were drafted by the Bank of Russia for the State Duma, Finance Ministry, Ministry of Foreign Affairs and Economics Ministry. It is becoming increasingly important for Russia to participate in these regional banks as the reform of the IMF has begun and the Fund's loan programmes are being slashed.

The Bank of Russia took part in the creation in December of a forum of the finance ministers

and central bankers of the **Group of 20** leading countries of the world, which would study the vulnerability problems of the financial system caused by globalisation and work out recommendations on ways to tackle them.

The Bank of Russia Chairman took part in the **Group of 7** meetings of finance ministers and central bankers, held in Washington in April and September, while the Bank of Russia participated in preparations for a **Group of 8** summit in Cologne in June, took part in working out proposals on the implementation of the Cologne summit's decisions and participated in preparations for a new **Group of 8** meeting in Okinawa, Japan, in 2000.

The Bank of Russia strengthened its ties with the **Organisation for Economic Co-operation and Development (OECD)** and confirmed its readiness to provide the necessary information for publication in the OECD monthly statistical bulletin Main Economic Indicators: Selected Transition Economies and agreed the related issues.

In October the Bank of Russia took part in a special meeting of the OECD Committee on Financial Markets, which discussed the issue of granting Russia the observer status.

The Bank of Russia participated in the negotiations on Russia's admission to the **World Trade Organisation (WTO)**. In October the Russian Government approved and passed to the WTO its initial proposals on terms of access to foreign services, including financial services, and their providers to the Russian market. These proposals were subsequently discussed with a number of WTO member-countries.

Bank of Russia representatives participated in the work of the **Russia-EU Co-operation Committee** and its subcommittees on trade and industry and finance and economics. The Bank of Russia took part in consultations with EU representatives on issues related to the introduction of a single European currency, the euro, in most of the EU member-countries. In April a Bank of Russia delegation visited the European Central Bank (ECB) to hold consultations on issues related to the introduction of the euro and other matters. The Bank of Russia participated in drafting report "The Single European Currency, the Euro, and Russia's National Interests" for the Russian Government.

The Bank of Russia continued to co-operate with representatives of the EU Commission on the implementation of the European banking consulting service project, which had been carried out since 1996 within the framework of the EU TACIS programme. In April the Bank of

Russia prepared its proposals on the strategy of relations between Russia and the EU and in September it prepared proposals for the Russian Economics Ministry on the draft indicative programme for EU-TACIS technical assistance for 2000—2003.

II.7.2. CO-OPERATION BETWEEN BANK OF RUSSIA AND FOREIGN COUNTRIES AND CENTRAL BANKS

The Bank of Russia co-operated with foreign countries and central banks in several areas:

- on a bilateral basis;
- within the framework of the Russia-Belarus Union;
- under the Treaty between the Russian Federation, Republic of Belarus, Republic of Kazakhstan and Kyrgyz Republic on the Deepening of Integration in the Economic and Humanitarian Field, dated March 29, 1996;
- within the framework of the Commonwealth of Independent States (CIS).

Special emphasis was laid on payment and settlement relations.

The Bank of Russia regularly set the official rates of the national currencies of CIS countries. The exchange rates of the national currencies of Belarus, Kazakhstan and Ukraine, Russia's leading trading partners, were set daily on the basis of their quotations in the Russian over-the-counter interbank market, while the rates of other CIS currencies were set monthly on the basis of the rates set by the national banks of issue.

In interstate and interbank settlements with CIS countries the emphasis was made on the upgrading of the system of mutual settlements. A small share of cash settlements, extensive use of barter and mutual nonpayments remained the main problems. Settlements continued to be effected in hard currency, while the national currencies were seldom used. The Bank of Russia therefore made efforts to resolve these problems and create conditions encouraging the use of the Russian ruble and other CIS currencies in servicing trade turnover.

The Bank of Russia closely co-operated with the National Bank of the Republic of Belarus within the framework of the Russia-Belarus Union to implement a bilateral agreement to create equal conditions for economic agents and the protocol to it, dated December 25, 1998. A series of bilateral agreements was signed to harmonise the regulatory framework governing

the activities of the central banks and banking systems of the two countries. These agreements included the agreement on co-operation in supervision of credit institutions and the agreement on the use of the applicable charts of accounts and accounting standards in the banking systems of Russia and Belarus.

On November 17 the Bank of Russia and National Bank of the Republic of Belarus founded the Interbank Monetary Council, which should draft an interstate agreement on the introduction of a common currency and the creation of a single issuing centre and create conditions for its implementation. The Council held its first meeting in Tula in December. After the signing of the Union State Treaty by the presidents of Russia and Belarus on December 8, the Interbank Monetary Council began to implement the provisions of the Treaty relating to the competence of the central banks of the two countries.

The Bank of Russia took part in the drafting of an agreement on the customs union and single economic environment between Belarus, Kazakhstan, Kirghizia, Russia and Tajikistan, which was signed on February 26. The agreement provides for measures aimed at guaranteeing financial and other services by their national providers.

The Bank of Russia participated in drafting by CIS countries of a protocol on amending the April 15, 1994 Agreement on the Creation of a Free Trade Zone, signed by CIS heads of state on April 2. At the same time, proposals on the implementation of the Agreement were drafted for submission to the CIS authorities.

The Bank of Russia vigorously promoted the activities of the Interstate Bank (IB), which has 10 CIS countries as its members. Russia holds a 50% stake in the bank's authorised capital and the Bank of Russia Chairman is the Chairman of the Board of the Interstate Bank. According to preliminary information, the IB began to improve its performance in the latter half of 1999 after changes had been made in its management and the Bank of Russia had rendered assistance to it.

In relations with other countries the Bank of Russia was guided by the principle of gradually adopting the universally accepted forms of settlements.

Special attention was devoted to the relations with China, because the system of settlements with that country, elaborated in Soviet times and de-

signed to service bilateral trade on a centralised basis, no longer fitted in the market relations between the two countries and had to be overhauled.

The Bank of Russia also maintained ties with the central banks of Vietnam, Libya, Chile and Syria, discussing with them payment and settlement relations and other co-operation issues.

II.8. DEVELOPMENT OF BANK OF RUSSIA SYSTEM AND ENHANCEMENT OF ITS EFFICIENCY

II.8.1. UPGRADING OF BANK OF RUSSIA ORGANISATIONAL STRUCTURE AND CONTROL OVER ITS REGIONAL INSTITUTIONS

ORGANISATIONAL STRUCTURE OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION

The Bank of Russia in 1999 made purposeful efforts to improve the organisational structure and cut administrative costs.

This became clear, above all, in the steps taken to reduce the staff of the Central Bank system.

Overall, the number of employees in the Bank of Russia system was cut by 14.1%, or 15,308, of whom 13,507 were retrenched on a centralised basis, and as of the beginning of 2000 the number of Bank of Russia employees totalled 82,048.

Staff cut-backs affected all Bank of Russia structures, while the staff of the regional institutions and cash settlement centres was cut by 10,533, or 15.5%.

The optimisation of staff levels of regional institutions was accompanied by a functional restructuring, which made it possible to cut 4,029 jobs, or 14.3%.

Six cash settlement centres were closed in 1999 within the framework of the programme to optimise the Bank of Russia settlement network.

During the year under review the number of employees in the Bank of Russia settlement system decreased by 6,504, or 16.2%, of whom 6,457 employees were made redundant. The staff of these structures was reduced using the Bank of Russia methodology of calculating an optimal number of employees. This methodology took into

account the use of new highly efficient cash related technology and the improved skills of employees, which made it possible to cut their number by 2,009, or 21.5% of all employees working in the Bank of Russia cash settlement centres.

The structure of the Bank of Russia head office underwent some changes. Although the number of departments in the head office apparatus remained unchanged at 29 as of January 1, 2000, a number of new departments were set up on the basis of those that operated at the beginning of the year but were abolished during the year.

To build an up-to-date, reliable and efficient payment system in Russia, matching international standards and effecting settlement operations in time, a Department of Payment Systems and Settlements was set up on the basis of the Department of Methodology and Organisation of Settlements and given new functions to accomplish the tasks assigned to it.

To concentrate related functions performed by the Department for Licensing Banking and Auditing Activities and the Department for Control of Credit Organisations' Activities in the Financial Markets in one structure of the head office, these two departments were disbanded and a new one, the Department for Licensing Banking and Auditing Activities, was set up on their basis. Some functions of the Department for Control of Credit Organisations' Activities in the Financial Markets were transferred to the Prudential Banking Supervision Department and Consolidated Economic Department.

To centralise the development of automation and unify the management of complex multifunctional automated Bank of Russia systems, an Information Systems Department was set up on the basis of the Informatization Department and Telecommunications Department.

To intensify regulatory and analytical work and combine inspection with supervision of credit institutions and their compliance with foreign exchange legislation, the Department of Foreign Exchange Regulation and Foreign Exchange Control was dissolved and two other departments, the Department of Foreign Exchange Regulation and Department of Foreign Exchange Control, were set up in its place. The Department of Foreign Exchange Control took over from the Credit Organisations Inspection Department the function of conducting inspections to verify compliance by authorised banks with foreign exchange legislation.

To implement a single personnel policy, raise the skills of and promote employees and prevent the overlapping of functions a Personnel Department was set up on the basis of the Personnel Division of the Administrative Department and Personnel Training Department.

To upgrade, improve and enhance the efficiency of the management of the Bank of Russia institutions a Department for Regional Institutions of the Bank of Russia was set up.

As a result of structural changes and staff cut-backs the head office as of January 1, 2000, had 2,254 employees, that is 358 employees or 13.7% fewer.

In the Bank of Russia system as a whole, employees who managed cash turnover at the beginning of 2000 accounted for 19.38% of the total, specialists in accounting and settlements 19.24%, specialists in informatization and telecommunications 8.57%, supervisors, including foreign exchange controllers, 4.8%, and economists and researchers 3.14%.

CONTROL OVER ACTIVITIES OF BANK OF RUSSIA REGIONAL INSTITUTIONS

In the year under review the Bank of Russia controlled the activities of regional institutions in all areas of banking. However, special attention was paid to organising and co-ordinating economic

activities in the regional institutions of the Bank of Russia.

The regional institutions participated in the implementation of the single state monetary policy, controlled the formation of required reserves and compliance by credit institutions with the ratios set for them, assessed their financial position, took steps to normalise cash turnover, made sure that the settlement system ran without a hitch and introduced electronic payments.

The necessary condition of efficiency of the Bank of Russia regional institutions in these areas was the analysis of economic developments in the regions in close co-operation with the governments of the constituent entities of the Russian Federation and municipal authorities.

The regional institutions of the Bank of Russia regularly supplied the regional and municipal authorities with economic projections and analysis relating to their respective regions, while they also released information, analysed and forecasted monetary and credit developments and issued banking statistical bulletins.

To discuss the main development problems and ways to ensure the stability of credit institutions in the regions various forms of co-operation with credit institutions were used, such as conferences, meetings of the banking clubs and bank managers' councils.

Exchange of information on violations of foreign exchange and tax legislation and joint inspections regulated by jointly drafted rules were effective forms of co-operation between Bank of Russia regional institutions and regional government agencies (foreign exchange control, tax, financial and customs authorities).

The Bank of Russia actively explained its monetary policy, regularly published material on topical financial and banking problems in various periodicals and prepared press releases. It provided methodological aid to regional government authorities in applying Bank of Russia rules and regulations.

The information provided by regional institutions of the Bank of Russia was used in monitoring social and economic developments in the regions and on its basis governments of the constituent entities of the Russian Federation and municipal authorities made decisions to increase control over cash turnover and prevent and combat

tax violations involving cash turnover outside the banks and violations of foreign exchange and tax legislation.

Monitoring enterprises was one of the new activities of Bank of Russia regional institutions. It was, in effect, the beginning of a fundamentally new activity for the Bank of Russia, which, however, is common practice for the central banks of the world's leading countries.

The objectives of enterprise monitoring are as follows:

- to evaluate systemic risks arising in the banking system mainly under the impact of structural changes in the real economy;
- to evaluate the efficiency of the monetary policy pursued, taking into account general economic developments in the country as a whole and in each region;
- to analyse and forecast the economic situation on the basis of the assessment of the financial condition of enterprises, change in demand and supply at micro-level and the impact of these processes on the investment environment.

The results of enterprise monitoring are used to help the Central Bank in performing its principal functions, such as:

- the analysis and projection of macro- and micro-economic situation;

- supervision of credit institutions;

- upgrading the banking system.

Even now the results of enterprise monitoring have helped improve the system of general economic analysis evolved in recent years.

To minimise the expenses involved in the maintenance of the system, the Bank of Russia in the year under review constantly controlled its regional branches to make sure they kept to their budgets and approved staff levels. Additional measures were taken to regulate the powers of the regional Bank of Russia executives in recruiting staff, setting upper limits on each branch's staff and wage levels.

Throughout the year under review the Bank of Russia made persistent efforts to cut the cost of maintaining its institutions and organisations.

In 1999 it approved a new budget structure, increasing the number of budget items and describing them in greater detail and introduced the practice of quarterly planning and budget allocations to Bank of Russia institutions and organisations. Allocations were made on a priority basis to finance the Central Bank's principal functions such as organising cash turnover and ensuring the timeliness of settlements.

These measures made it possible to exercise more effective control over the spending of funds for their allocated purposes.

II.8.2. STAFFING AND PERSONNEL TRAINING

As a result of the staff-slimming and optimisation of the organisational structure in 1999 the number of senior executive and specialist positions in the Bank of Russia system was cut by 13.2%, while the actual number of senior executives and specialists declined by 11.6%.

The manning level of senior executive and specialist positions rose to 97.9%.

The ratio of executives and specialists with a higher and specialised secondary education expanded by 2% to 93.9% for the system as a whole. Employees with a higher education made up 61.1% of all executives and specialists, an increase of 3.8% on the previous year.

The improvement is the result of personnel training at institutions of higher education and banking schools. The number of university students amounted to 5,400 and banking school students sent by Bank of Russia regional branches to receive training and re-training totalled 4,500.

The share of executives and specialists with a length of service of less than three years decreased by 8.4%, while the percentage of employees with a stint of three years and more grew by 6.9%.

The number of new employees taken on by the Bank of Russia in 1999 declined by 3.5 times, while the number of those who quit increased by 2.5 times.

In the year under review personnel management was conducted in accordance with the Bank of Russia Personnel Management Programme for 1998—2000 and aimed to improve the job motivation system, continue the personnel evaluation practice and improve the skills and enhance the managerial competence of executives and specialists.

To improve the qualification of personnel and enhance the efficiency of structural subdivisions,

standard qualification requirements for all employee positions were worked out in accordance with the Bank of Russia Board of Directors' decision of April 2, 1999.

A major component of personnel management in 1999 was guaranteeing employees the opportunity to improve their skills. Personnel training was upgraded to tailor it to the qualification needs of specific positions.

To optimise the use of funds, most of the training was provided on a centralised basis in the Bank of Russia banking schools and training centres where 4,700 specialists received advanced training and 269 people were re-trained.

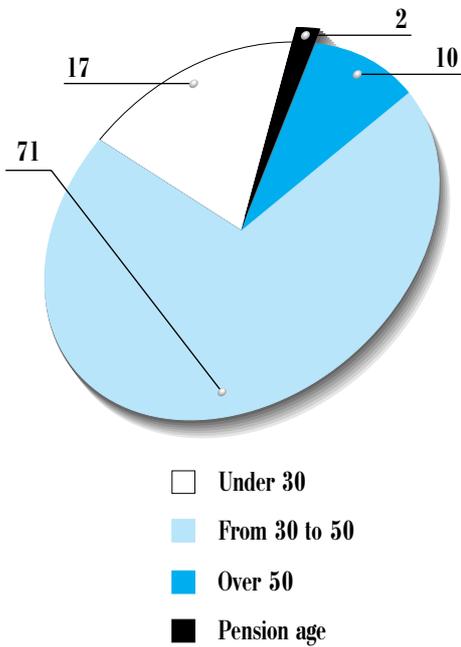
More than 1,100 specialists received training in the certified training centres in new information technology, communications, information security and safety and cash issue operations. More than 20,000 people received training through all training programmes.

To implement additional training programmes for Bank of Russia personnel, more than 50 training plans and programmes were drawn up and 75 teaching aids and manuals were issued.

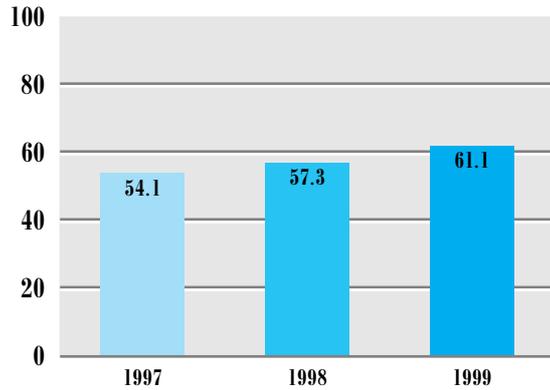
Databases of methodological materials, teaching aids and catalogues are being created at banking schools and training centres to facilitate access to them for specialists in training and in the workplace. Such databases are located in the REMART server and in the reference and information divisions of the banking schools.

The Bank of Russia has continued to study international banking practices. In September 1999, EU/IMF TACIS Project Bank of Russia Personnel Training was completed. Launched in 1994, it provided training for 3,300 specialists. The Bank of Russia has also continued to promote bilateral co-operation with its leading partners. In 1999 more than

AGE STRUCTURE OF BANK OF RUSSIA PERSONNEL (%)

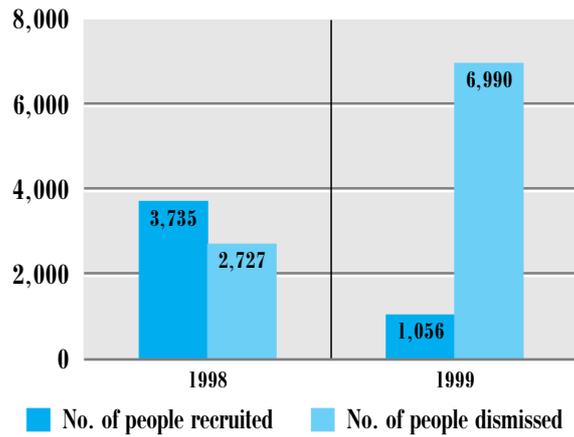


SHARE OF SPECIALISTS WITH HIGHER EDUCATION (%)



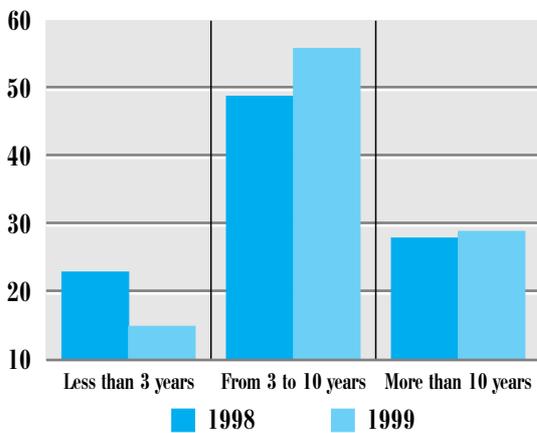
Charts 50, 51

COMPARATIVE DATA ON NUMBER OF RECRUITED AND DISMISSED BANK OF RUSSIA EXECUTIVES AND SPECIALISTS



Charts 52, 53

COMPARATIVE DATA ON LENGTH OF SERVICE IN BANKING SYSTEM (%)



100 educational events were held with the participation of foreign central banks and interna-

tional organisations, in which 586 Bank of Russia specialists took part.

Last year the Bank of Russia continued to implement its programme for eight CIS central (national) banks, which gave 109 top executives and specialists the opportunity to study the Bank of Russia's expertise in the main areas of its activity.

II.8.3. BANK OF RUSSIA ACTIVITIES AIMED AT IMPROVING BANKING LEGISLATION. SUITS AND CLAIMS MANAGEMENT IN BANK OF RUSSIA INSTITUTIONS

BANK OF RUSSIA ACTIVITIES AIMED AT IMPROVING BANKING LEGISLATION

The Bank of Russia in 1999 was active in refining and upgrading the banking legislation, co-operating in this effort with the Federal Assembly (Russian parliament), the President, the Government and other authorities with the power to initiate legislation.

Bank of Russia specialists took part in drafting laws and made comments on individual draft federal laws and federal government regulations pursuant to part 7 of Article 6 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). The Bank of Russia also issued rules and regulations within the purview of the law.

Carrying out this work, the Bank of Russia consistently implemented measures provided for by the Economic Policy Statement of the Russian Government and Central Bank for 1999 and their letter on the development policy for the purposes of the SAL-3 loan, approved by Russian Federation Government Resolution No. 829, dated July 19, 1999, and a policy document entitled "On Measures to Restructure the Banking System of the Russian Federation," approved by the Bank of Russia Board of Directors on November 17, 1998, and by the presidium of the Russian government on November 21, 1998.

The economic and financial crisis in Russia, which came to a head in August 1998, and the crisis of the banking system it provoked pushed to the fore the task of creating a legislative framework for the restructuring of the country's credit institutions with the aim of restoring the banking system.

Building upon the international experience in restoring banks' solvency, the Russian government drafted in collaboration with Bank of Russia specialists the Federal Law on the Restructuring of Credit Institutions, which provided for a series of measures aimed at overcoming the financial instability of credit institutions, restor-

ing their solvency and initiating bankruptcy proceedings against credit institutions.

To implement individual clauses of the Law, amendments were made to Article 11 of the Federal Law on Banks and Banking Activities, which regulated the procedure for forming the authorised capital of a credit institution. Amendments were also made to Article 8 of the Federal Law on Amending the Law on Banks and Banking Activities, concerning the regulation of some banking operations conducted by the state corporation called the Agency for Restructuring Credit Organisations (ARCO).

The Federal Law on Insolvency (Bankruptcy) of Credit Institutions came into force in 1999, establishing the procedure for and conditions of implementing bankruptcy-prevention measures with regard to credit institutions and explaining the specifics of the procedure for declaring credit institutions insolvent (bankrupt) and liquidating them by initiating bankruptcy proceedings.

The Bank of Russia was also actively involved in drafting the Federal Law on Amending the Federal Law on Banks and Banking Activities, the Federal Law on Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and the Federal Law on Amending Article 73 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

These draft laws aimed to augment the responsibility of credit institutions and their founders (partners) for the performance of credit institutions, ensure that the data on their financial condition was more objective, improve supervision of banking groups and increase control over the deals transacted by credit institutions.

To guarantee the implementation of the Federal Law on the Restructuring of Credit Institutions and Federal Law on Insolvency (Bankruptcy) of Credit Institutions, the Bank of Russia issued a number of regulatory rules establishing the procedure for appointing, suspending and terminating

the activity of a credit institution's temporary administration, the procedure for performing its functions, the scope of qualifying requirements and the procedure for granting Bank of Russia qualification certificates to heads of temporary administration and receivers and streamlining some procedures for restructuring credit institutions.

In 1999 Russia passed a Federal Law "On the Protection of Competition in the Financial Services Market," which regulates the relations arising from the transactions effected in the markets for banking services, securities, insurance and other financial services and affecting competition between the professional participants in these markets. The law stipulates that the official policy to promote competition and implement anti-trust regulation in the banking services market is to be pursued by the Central Bank of the Russian Federation in collaboration with the federal anti-trust agency.

To increase foreign exchange control and control over capital outflow, Russia passed with the active participation of the Bank of Russia the Federal Law on Amending Article 28 of the Federal Law on Banks and Banking Activities, which established a special legal regime for credit institutions establishing correspondent relations with foreign banks registered in offshore zones of foreign countries, and the Federal Law on Amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control, which introduced a new procedure for resident individuals taking foreign exchange out of Russia.

In addition to the aforementioned amendments to the federal laws, the Bank of Russia issued a series of regulations, such as Instruction No. 634-U, dated August 26, 1999, setting the procedure for establishing correspondent relations by authorised banks with foreign banks, and Instruction No. 500-U, dated February 12, 1999, designed to enhance foreign exchange control exercised by authorised banks with the power to exercise such control and augment responsibility for compliance with foreign exchange legislation.

In all, the Bank of Russia issued more than 70 regulatory rules and over 100 amendments to previous instructions and regulations.

It also paid considerable attention in its legislative activity to upgrading the prudential standards regulating the activities of credit institutions, the way they conducted credit and deposit

operations and operations with securities, the effectuation of settlements, the expanded use of electronic documents in conducting settlement operations and improving the accounting practices in credit institutions.

SUITS AND CLAIMS MANAGEMENT IN BANK OF RUSSIA INSTITUTIONS

In 1999 Bank of Russia institutions were involved in court proceedings concerning 84 cases of insolvency (bankruptcy) of credit institutions.

Applying sanctions envisaged by Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Bank of Russia regional branches made 1,712 claims against credit institutions to the amount of 75.769 million rubles and filed 188 suits for a total of 52.550 million rubles, more than 90% of which were met.

Twenty-eight suits and claims to the amount of 412.017 million rubles were filed by Bank of Russia regional branches in connection with the conduct of banking operations. All of them were resolved satisfactorily.

Bank of Russia institutions in 1999 had 175 property and non-property claims made against them to the amount of 250.847 million rubles and 1,101 suits brought against them to the amount of 663.503 million rubles and \$1.225 million, of which 17 claims for 44.235 million rubles and 134 suits for 72.850 million rubles were met.

A large number of disputes in 1999 arose from the petitions by tax authorities to recognise the Bank of Russia and its institutions as taxpayers and collect taxes from them. Judging by the justification of the claims received, the tax authorities made them on the basis of their interpretation of Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which exempts the Bank of Russia and its institutions from taxation.

In all, tax authorities made 115 claims and filed 103 suits to the amount of 123.212 million rubles, of which 39 claims and suits to the amount of 7.364 million rubles were met.

In 1999 courts heard 234 cases arising from labour disputes, of which 150 suits contained a demand to reinstate an employee to his or her job. Bank of Russia institutions were involved in such court hearings due to the appeals made against

management by former employees dismissed in massive staff cutbacks in 1999.

Fifteen of the 150 suits demanding reinstatement of dismissed employees were won.

In 1999 Bank of Russia regional branches filed a total of 68 complaints and made 105 appeals against court decisions concerning suits brought against them.

II.8.4. BANK OF RUSSIA INTERNAL AUDIT

The activities undertaken by divisions of the Bank of Russia Chief Auditor's Service in the year under review aimed at organising internal control over the institutions and organisations accountable to the Bank of Russia to make sure that they complied with the rules of financial and other operations and rendered their accounts and financial reports accurate and that management coped with the tasks and duties assigned to the Bank of Russia.

In 1999 comprehensive audits of documents were conducted in 38 regional branches and 1,189 cash settlement centres, regional informatization centres, interregional depositories, banking schools and training centres and other Bank of Russia-controlled organisations. Practically all audit plans for 1999 were fulfilled. The audits focused on the state of accounts and reports and compliance with Bank of Russia regulatory rules and federal legislation in conducting operations with foreign exchange and securities and maintaining relations with commercial banks.

Compared with 1998, Bank of Russia internal auditors paid more attention to thematic checks in individual areas of banking activity and the work of Bank of Russia regional and central management. The number of inspections in 1999 doubled and 1,003 thematic checks were conducted, of which 154 concerned the work of managerial structures.

Inspectors paid particular attention to cash issue management and the safekeeping of valu-

ables, the spending of funds on capital construction and repairs, car maintenance expenses, compliance with staffing levels and remuneration schemes and the supervision of commercial banks.

Audit and thematic inspection results were discussed with Bank of Russia central and regional management and measures were taken on auditors' reports to eliminate and prevent repeat violations and shortcomings. Audit and inspection data were generalised and final reports were sent to the lower-level structures and were also discussed at meetings with senior executives and chief accountants of these structures and used in refining Bank of Russia rules and regulations.

Measures were taken in the year under review to improve the forms and methods of conducting internal audit and harmonising them with national and international audit standards.

Taking into consideration the recommendations of the external auditor, the Bank of Russia in 1999 made changes in the organisational structure of the Internal Audit and Inspections Department to ensure that its staff conducted comprehensive audits of jurisdictional organisations whenever necessary (at least once every three years) and conducted annual thematic inspections of each jurisdictional organisation not subjected to a comprehensive audit. The Department reinforced the structure responsible for constant monitoring of information on how the Bank of Russia system functioned.

II.8.5. BANK OF RUSSIA PARTICIPATION IN CAPITAL OF RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia participates in the authorised capital of credit institutions and other organisations.

It attaches special significance to its participation in the capital of the open-end joint-stock companies Sberbank, in which the Bank of Russia holds a 57.66% interest, and Vneshtorgbank, in which the Central Bank owns a 99.91% stake. Both banks are systemically important to the Russian banking system. In its relations with Sberbank, Vneshtorgbank and other organisations in which it holds a stake, the Bank of Russia is guided by the applicable legislation, as its representatives hold seats on their supervisory boards.

Sberbank in 1999 did everything to preserve its reputation as a reliable retail bank and, at the same time, expanded its range of operations with corporate customers.

To this end, it made considerable effort to promote its more competitive banking products in the market, stopped accepting funds for deposits that were not in demand with individual savers, continued the socially-oriented practice of paying higher interest rates to some population groups and went on carrying out a programme to protect household deposits in financially-troubled banks.

To work out a medium-term development strategy for Sberbank, the Bank of Russia in 1999 collaborated with the Finance Ministry in compiling an audit specification of Sberbank with the participation of international auditors in order to determine the bank's priorities after the year 2001.

Measures were taken in 1999 to rehabilitate **Vneshtorgbank** and expand its capital base. Twice during the year additional shares were issued to increase its authorised capital.

That allowed Vneshtorgbank to strengthen its positions considerably. By the end of the year its own funds corresponded to international capital

adequacy standards and the bank expanded its presence in the domestic market, increasing the number of its branches in Russia, and stepped up its activity in the plastic cards market.

Both Sberbank and Vneshtorgbank ended the year in profit.

The Bank of Russia participated in the authorised capital of the **Moscow Interbank Currency Exchange (MICEX)**, a closed-end joint-stock company, because the latter had an essential role to play in organising the foreign exchange market and organised government securities market, facilitating the implementation of the Bank of Russia's monetary policy.

In 1999 steps were taken to expand the range of operations conducted by MICEX. In conjunction with MICEX, the Bank of Russia created a legal basis for conducting inter-dealer repo operations. Progress in implementing this project was repeatedly discussed at meetings of the MICEX Council, which were attended by Bank of Russia representatives.

In 1999 MICEX's authorised capital was increased by capitalising the dividend due to shareholders for 1998. By the end of the year under review the Central Bank's stake in MICEX's authorised capital also grew, to 9.204%, as the Bank of Russia bought up the shares sold by other MICEX shareholders.

The Bank of Russia is a co-founder of the **National Depository Centre**, a non-commercial partnership created to provide depository services for the trading system of the organised government securities market and assist the members of the partnership and their clients in conducting operations in the securities market.

As of January 1, 2000, the Central Bank's stake in the authorised capital of the National Depository Centre amounted to 25.5%.

The Bank of Russia has the following **subsidiaries abroad (Russian overseas banks)**: Moscow Narodny Bank (London), Ost-West Handelsbank (Frankfurt am Main), Eurobank (Banque Commercial pour l'Europe du Nord)

(Paris), Donau-Bank (Vienna) and East-West United Bank (Luxembourg). In accordance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia is a shareholder of the Russian overseas banks and makes the necessary decisions with regard to their activity in compliance with the host countries' legislation. The overall interest held by the Bank of Russia in the authorised capital of the Russian overseas banks exceeded \$1 billion at the end of 1999.

The Russian overseas banks act as intermediaries between the Russian and western financial markets, providing the entire range of banking services, including extending credits to Russian and western foreign trade banks and companies and providing settlement and other document services, using advanced banking techniques.

During the year under review the Russian overseas banks had to continue to overcome the negative consequences of the financial crisis of 1998, which caused them losses and devalued their assets on operations with Russian borrowers. In that situation and taking into consideration recommendations of the local supervisory authorities, the Russian overseas banks requested aid from the Bank of Russia mainly in the form of restructuring its deposits on new terms.

In 1999 Russian overseas banks had not yet overcome all the adverse after-effects of the 1998 financial crisis in Russia.

The aim of the Bank of Russia in managing the Russian overseas banks was to co-ordinate their short- and medium-term development strategies and help them adapt themselves to the new conditions of competition in the financial markets. It increased control over the quality of risk management and budget discipline, paying special attention to administrative cost cutting of these banks.

Last year the equity capital of the London-based Moscow Narodny Bank was restructured by reducing the face value of each share, which changed the Bank of Russia interest in its capital.

During 1999 the Russian overseas banks made efforts to improve the structure of their assets in order to increase liquidity and restore profitability. Unable to expand profitable operations, they continued to provide basic services, such as financing trade, conducting document, settlement and other low-risk operations that required a minimum of borrowed funds. At the same time, Russian overseas banks optimised their financial flows.

As a result of their efforts, the Russian overseas banks in 1999 started to restore their profitability.

In the year under review the Russian overseas banks were inspected by local audit firms and the international audit company PriceWaterhouseCoopers.



**FINANCIAL REPORTS
AS OF JANUARY 1, 2000**



INTRODUCTION

Financial reports reflect the operations conducted by the Bank of Russia to fulfil its principal aims and functions established by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

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

- to protect the value of the ruble and maintain price stability, including the purchasing power of the ruble and the exchange rate against foreign currencies;
- to develop and strengthen the Russian banking system;
- to guarantee the efficient and uninterrupted functioning of the settlement system.

The Consolidated Balance Sheet and Profit and Loss Account presented below reflect the financial condition of the Bank of Russia as

of January 1, 2000 and the results of its performance in 1999.

A balanced monetary and exchange rate policy pursued by the Bank of Russia in 1999 allowed it to reverse the negative trends caused by the 1998 crisis and helped the recovery of the Russian economy. It became possible to significantly slow down the rate of inflation, strengthen somewhat the ruble in real terms, preserve international reserves and honour foreign-debt obligations. Measures were continued to protect the interests of depositors of problem banks. The Y2K problem caused no failures in the operation of the settlement system and the banking system as a whole. The impact of economic environment on the Central Bank's financial reports is described in detail in Note 2 to the Bank of Russia Financial Reports as of January 1, 2000.

CONSOLIDATED BALANCE SHEET
AS OF JANUARY 1, 2000

(million rubles)

	Note	1999	1998
ASSETS			
1. Precious metals		58,265	40,841
2. Foreign currency funds and securities placed with nonresidents	3	236,268	158,920
3. Loans and deposits, of which:	4	195,640	69,207
3.1. to resident credit institutions		15,712	9,347
3.2. for foreign debt-service		174,127	49,925
4. Securities, of which:	5	288,661	235,335
4.1. Russian government securities		240,410	202,466
5. Other assets, of which:	6	64,185	56,237
5.1. fixed assets		37,023	27,825
Total assets		843,019	560,540
LIABILITIES			
1. Cash in circulation		289,798	199,018
2. Funds in accounts with Bank of Russia, of which:	7	245,421	116,656
2.1. Russian government funds		50,167	32,903
2.2. funds of resident credit institutions		147,264	64,068
3. Float	8	12,003	4,717
4. Other liabilities, of which:	9	143,953	122,036
4.1. IMF loan		79,900	70,182
5. Capital, of which:		151,844	118,113
5.1. authorised capital		3	3
5.2. reserves and funds		179,373	145,939
5.3. 1998 losses		(27,532)	(27,829)
Total liabilities		843,019	560,540

Bank of Russia Chairman

V.V. Gerashchenko

Bank of Russia Chief Accountant

L.I. Gudenko

PROFIT AND LOSS ACCOUNT

		<i>(million rubles)</i>	
	Note	1999	1998
INCOME			
Interest income on loans and deposits	11	4,399	4,072
Income from operations with securities	12	9,900	12,809
Income from operations with precious metals		33,721	12,069
Dividend received from shares		260	224
Other income	13	6,561	6,153
Total income		54,841	35,327
EXPENSES			
Interest expenses on loans and deposits	14	7,489	1,774
Banknote and coin expenses	15	1,550	1,930
Expenses on operations with precious metals		1,603	9
Net expenses on provisions	16	19,486	12,537
Other operating expenses	17	12,415	10,383
Staff expenses	18	11,113	8,601
Depreciation of securities		—	27,922
Total expenses		53,656	63,156
Financial result: profit/(loss)		1,185	(27,829)

CAPITAL, FUNDS AND DISTRIBUTION OF PROFIT

(million rubles)

	Authorised capital	Reserve fund	Accumulated exchange rate differences	Social assets	Depreciation of fixed assets	Other funds	Losses for 1998	Distribution of profit for 1999	Total
Balance as of January 1, 1999	3	9,717	126,806	617	8,556	243	(27,829)	—	118,113
Profit for the year								1,185	1,185
Distribution of profit for 1999:									
Transferred to federal budget								(593)	(593)
Allocated to funds				295				(295)	—
Allocated to cover losses for 1998							297	(297)	—
Accumulated exchange-rate differences			25,781						25,781
Allocated to funds		7,519		7	154				7,680
Used at funds' expense		(11)		(128)	(143)	(40)			(322)
Balance as of January 1, 2000	3	17,225	152,587	791	8,567	203	(27,532)	—	151,844



NOTES TO FINANCIAL REPORTS

AS OF JANUARY 1, 2000

1. ACCOUNTING AND REPORTING PRINCIPLES

The Bank of Russia keeps accounts and compiles financial reports in accordance 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 pursuant to the aforementioned federal laws.

(a) Principles of accounting policy

The accounting is carried out in accordance with the principle of making the accounting of the balance-sheet items at initial cost from the moment the assets were acquired or liabilities arose. The principles of revaluation of individual assets and liabilities are spelled out below.

(b) Principle of compiling financial reports

Financial reports are compiled on the basis of the balance-sheet data of the Bank of Russia, including its regional branches and organisations that make up the Bank of Russia system.

Financial reports are compiled without data on credit institutions and other organisations in Russia and abroad, in which the Bank of Russia has investments in authorised capital (see Note 5).

These financial reports are compiled in millions of Russian rubles.

Figures in brackets indicate negative values.

(c) Precious metals

Precious metals are shown at purchase price. Gold deposited in unallocated accounts is included in the category "Foreign currency funds and securities placed with nonresidents."

(d) Foreign currency assets and liabilities

Foreign currency assets and liabilities are shown in Russian rubles at the Bank of Russia official exchange rates of the foreign currencies as of the date of compiling the balance sheet. Foreign currency assets and liabilities are revalued daily at the Bank of Russia official rates. Income and expenses on foreign currency operations conducted by the Bank of Russia are shown on the balance sheet in rubles at the official exchange rate as of the date of their receipt or payment.

Unrealised exchange rate differences arising in the revaluation of assets and liabilities when the official exchange rates of foreign currencies against the Russian ruble change are included in the balance account "Accumulated exchange rate differences" and are not included in the profit and loss account. Realised exchange rate differences are included in Bank of Russia income or expenses.

The official rates used for recalculating foreign currency assets and liabilities as of December 31, 1999, were as follows: 27.00 rubles to the US dollar (in 1998 it was 20.65 rubles to the US dollar) and 13.92 rubles to the German mark (in 1998 it was 12.346 rubles to the German mark).

Bank of Russia debt on the loan received from the International Monetary Fund in July 1998 in SDR (Special Drawing Rights) as of January 1, 2000, is shown in the balance sheet in rubles at the December 31, 1999, rate of 37.05 rubles to 1 SDR (in 1998 the rate was 24.7854 to 1 SDR).

(e) Securities

In pursuance of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia may buy and sell in the open market government securities issued by the Ministry

of Finance. In addition, in the cases stipulated by the federal budget law, the Bank of Russia may buy government securities from the Finance Ministry at their primary placement. The following principles were used in the accounting of investments in government securities:

- listed government securities (unrestructured GKO/OFZ) are discounted at the market price as of August 14, 1998;
- unlisted government securities (GKO/OFZ) are shown at the acquisition (restructuring) price;
- Finance Ministry promissory notes are discounted at the acquisition price.

In addition, the following discount principles are used with regard to other securities in the Bank of Russia portfolio:

- foreign government securities are discounted at the acquisition price;
- promissory notes issued by credit institutions are discounted at the acquisition price;
- securities on the principal debt (principal notes, or PRINs) and debt on interest (interest arrears notes, or IANs) are discounted at their market price as of December 31, 1999.

(f) Investment

Bank of Russia investments in authorised capital of credit and other institutions, situated in Russia and abroad, are discounted at the acquisition price.

(g) Loans to credit institutions

Extending loans to banks in 1999, the Bank of Russia was guided by the targets of the single state monetary policy and the 1999 Economic Policy Statement of the Government and Central Bank. The loans were granted in accordance with the decisions of the Bank of Russia Board of Directors and Bank of Russia regulations.

Loans to banks are entered as part of the principal debt, while loan loss provisions are entered as part of other Bank of Russia liabilities.

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

To cover possible losses from individual active operations, the Bank of Russia Board of Directors, guided by universally accepted banking practice, took the decision to create provisions for probable losses from loans extended to banks and other active operations in rubles and foreign currency. The level of the provisions created shows how the Bank of Russia evaluates risks involved in its individual operations.

(i) Fixed assets

Fixed assets are entered in financial reports at the residual value (the acquisition price adjusted for revaluation minus depreciation).

Bank of Russia fixed assets are revalued in accordance with Russian Government resolutions.

Depreciation charges are calculated in accordance with the rate of depreciation. The main annual rates of depreciation, used in accordance with the Soviet Government's Resolution No. 1072, dated October 22, 1990, "On Standard Rates of Depreciation for the Complete Restoration of Fixed Assets in the Soviet Economy," are as follows:

	%
Buildings	1.2—3
Equipment, including computers, furniture, transport, etc.	5—20

(j) Currency in circulation

The Bank of Russia is the sole issuer of currency and organiser of its circulation. The banknotes and coins issued are shown in the balance sheet at nominal value.

(k) Capital and reserves and distribution of profit

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia has an authorised capital of 3 million rubles.

Article 26 of the Law requires the Bank of Russia to transfer to the federal budget 50 per cent of its actually received balance profit for the year after the approval of the Bank of Russia annual report by its Board of Directors. The remaining profit of the Bank of Russia is transferred according to the decision of the Board of Directors to reserves and various funds.

The reserve fund is formed in accordance with the Provision on the Procedure for Creating and Using the Bank of Russia Reserve Fund and designed to cover possible losses from Bank of Russia operations. To replenish the reserve fund in 1999, the Bank of Russia used its own funds that were previously intended for the purchase of fixed assets and for capital construction and were included in "Other liabilities."

The social fund is set up in accordance with the Provision on the Procedure for Creating and Using the Bank of Russia Social Fund and designed to cover expenses on social programmes.

(l) Recognition of Bank of Russia income and expenses

Income and expenses are shown in the profit and loss account on a cash basis, that is, after income was actually received and expenses used.

2. IMPACT OF ECONOMIC ENVIRONMENT ON BANK OF RUSSIA FINANCIAL REPORTS

The efforts made by the Bank of Russia to overcome the after-effects of the financial crisis of 1998, facilitate economic recovery and restore confidence in the government's economic policy told on the Central Bank's financial performance in 1999 and the main indicators of its financial reports.

The major negative factors that affected the financial condition of the Bank of Russia in 1999 were connected with the continued use of Bank of Russia funds in tackling budget problems, because it was the Bank of Russia that bore the brunt of servicing Russia's foreign debt and restoring the country's financial market.

Loans were extended to the Finance Ministry in pursuance of Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999 and Federal Law No. 129-FZ, dated July 5, 1999, on Amending Article 102 of the 1999 Federal Budget Law (the Bank of Russia bought from the Finance Ministry interest-free 32.7 billion rubles worth of permanent-coupon federal loan bonds at their primary placement and transferred \$4.5 billion to Vneshekonombank).

The Finance Ministry in 1999 failed to pay the principal and interest to the Bank of Russia on the debt it accumulated as a result of borrowing from Vneshekonombank foreign-currency funds provided by the Bank of Russia in 1998—1999 to enable the Finance Ministry to service Russia's foreign debt. That led to a significant increase in the Finance Ministry's debt to the Bank of Russia and adversely impacted the latter's financial results.

In addition, in accordance with Articles 95 and 96 of the 1999 Federal Budget Law, interest payments were suspended from January 1, 1999, on the government securities owned by the Bank of Russia until their exchange for federal loan bonds had been completed. In December 1999, the Central Bank's government securities portfolio was restructured on the conditions set by the 1999 Federal Budget Law. As a result, pursuant to Article 96 of the Law, a part of government securities in the Bank of Russia portfolio were exchanged for permanent coupon federal loan bonds paying 2% p.a. beginning from 2000 and due in 2018—2029. Of all the holders of government securities that were to be exchanged for new bonds, the Bank of Russia was offered the least favourable conditions. Yield on the paper for which the government securities were exchanged is negative in real terms and this has an adverse long-term effect on the formation of the Bank of Russia capital base.

The disastrous consequences of the 1998 crisis affected the Bank of Russia balance sheet mainly because of a sharp increase in the Finance Ministry's debt to the Central Bank after the Finance Ministry had stopped fulfilling its obligations. The Finance Ministry's debt to the Bank of Russia continued to grow in 1999. So, although the Bank of Russia ended last year with a profit, the situation will take years to improve and its amelioration will depend on long-term general economic processes. Despite the difficult situation, the Bank of Russia managed to fulfil its task of reducing inflation, stabilising the domestic currency, shoring up the country's payment and banking systems and preventing Russia's default on foreign debt.

To be able to efficiently fulfil all its functions in the future, the Bank of Russia will have to restore its capital base. To this end, it is necessary:

- to convert low-liquidity long-term government securities in the Bank of Russia portfolio into marketable papers;
- consistently to work towards raising income from the services provided to customers by the payment system.

3. FOREIGN CURRENCY FUNDS AND SECURITIES PLACED WITH NONRESIDENTS

	<i>(million rubles)</i>	
	1999	1998
Foreign government securities	162,155	103,674
Loans extended and deposits with Bank of Russia subsidiaries abroad	35,485	40,081
Balances in correspondent accounts and deposits with nonresident banks	38,628	15,165
Total	236,268	158,920

Foreign government securities are principally US treasury bills and German government bonds. They are highly liquid assets of the Bank of Russia.

Loans extended and deposits with Bank of Russia subsidiaries abroad are long-term investments designed to maintain financial stability of these banks.

4. LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	1999	1998
Funds provided for foreign government debt service	174,127	49,925
Loans and deposits with resident banks in foreign currency	5,405	9,253
Loans extended to resident banks in rubles	15,712	9,347
Other	396	682
Total	195,640	69,207

Under Federal Law No. 36-FZ, dated February 22, 1999, "On the Federal Budget for 1999" (Article 102), the Bank of Russia provided foreign currency funds to Vneshekonombank for servicing and repaying the Russian foreign debt in 1999.

Loans extended to resident banks in rubles and foreign currency deposits with resident banks are funds provided to Russian credit institutions to maintain their liquidity, increase their financial stability and carry out financial rehabilitation measures.

5. SECURITIES

	<i>(million rubles)</i>	
	1999	1998
Russian government securities		
Unlisted government securities (unrestructured GKO/OFZ)	195,004	88,713
Government securities (GKO/OFZ) quoted as of August 14, 1998	17,671	82,316
Finance Ministry promissory notes	27,370	31,218
Other	365	219
Total	240,410	202,466
Credit institutions' promissory notes acquired by Bank of Russia	6,279	4,308
Securities (PRINs and IANs)	4,825	1,473
	11,104	5,781
Shares issued by bank and other organisations (Bank of Russia participation)	37,147	27,088
Total	288,661	235,335

Russian government securities are explained in Note 10.

In accordance with the decisions of the Bank of Russia Board of Directors, made in compliance with Article 79 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), to guarantee protection of depositors' interests, the Bank of Russia acquired banks' promissory notes from Sberbank, which paid out household deposits.

Securities on the principal debt (PRINs) and interest arrears notes (IANs) were acquired by Bank of Russia from its overseas banks in 1997 as a result of the restructuring of the former Soviet Union's debt to foreign commercial banks and financial institutions within the framework of the London Club. PRINs are due on December 15, 2020, and IANs on December 15, 2015.

These are Bank of Russia investments in the shares of Russian and foreign banks:

(million rubles)

Name of bank	Sum of investment (at the acquisition price)	% share of authorised capital at par value
Vneshtorgbank	22,321	99.9
Sberbank	1,099	57.7
Moscow Narodny Bank, London*	6,278	88.9
Eurobank, Paris	3,469	77.8
Ost-West Handelsbank, Frankfurt am Main*	1,541	82.0
Donau Bank, Vienna**	970	49.0
East-West United Bank, Luxembourg	408	49.0
Total	36,086	

* In regard to these banks the Bank of Russia signed comfort letters assuming the obligation to maintain their stability and liquidity.

** The remaining 51% of shares are owned by Vneshtorgbank.

In accordance with the decisions of the Bank of Russia Board of Directors, the Bank of Russia share in Vneshtorgbank's authorised capital in 1999 was increased by 21,500 million rubles.

6. OTHER ASSETS

	<i>(million rubles)</i>	
	1999	1998
Fixed assets		
Buildings	20,862	18,180
Equipment, including computers, furniture, transport, etc.	16,161	9,645
	37,023	27,825
Incomplete construction projects	6,098	5,478
Investments in government securities at the expense of additional pension benefits for Bank of Russia employees	4,120	4,120
Bank of Russia correspondent accounts	3,955	105
Bank of Russia interest claims	2,139	—
Settlements with suppliers, contractors and buyers	2,125	2,152
Settlements with CIS banks	1,619	3,890
Cash in tills	1,608	1,625
Sundry settlements with Finance Ministry	42	5,708
Other	5,456	5,334
	27,162	28,412
Total	64,185	56,237

The increase in investment in incomplete construction projects mainly results from building valuable safekeeping systems, telecommunications networks and security systems for the maintenance and development of the payment system. An estimated 7,000 million rubles will be needed to complete these projects in 2000—2001.

The Bank of Russia opened correspondent accounts with Vneshtorgbank mainly in order to enter funds of the Finance Ministry and State Customs Committee.

The item “Settlements with CIS banks” shows the balance of mutual claims on CIS interstate settlements for 1992—1993.

FIXED ASSETS

Structure of fixed assets

	Book value <i>(million rubles)</i>	
	1999	1998
Buildings and other structures	22,467	19,579
Transport facilities	1,251	1,107
Computer facilities, office equipment and furniture	6,165	4,486
Information and data processing systems	3,219	1,846
Equipment	7,004	4,686
Intangible assets	1,253	778
Other	1,193	978
Total	42,552	33,460

The item "Transport facilities" includes the cost of special vehicles used to transport cash and banking documents.

The item "Equipment" includes the cost of cash processing equipment, engineering security systems and similar equipment.

The item "Intangible assets" includes the cost of software products used in settlements, accounting and reporting.

Fixed assets flow

	<i>(million rubles)</i>
Fixed assets value	
Balance as of January 1, 1999	33,460
Inflow	10,477
Outflow	(1,385)
Balance as of January 1, 2000	42,552
Accumulated depreciation	
Balance as of January 1, 1999	3,893
Depreciation expenses	1,671
Depreciation expenses on retired fixed assets	(35)
Balance as of January 1, 2000	5,529
Balance value as of January 1, 2000	37,023

7. FUNDS IN ACCOUNTS WITH BANK OF RUSSIA

	<i>(million rubles)</i>	
	1999	1998
Russian Government's accounts	50,167	32,903
Credit institutions' funds in correspondent accounts	75,420	38,512
Required reserves deposited with Bank of Russia	64,577	20,803
Credit institutions' deposits with Bank of Russia	3,707	4,656
Other	51,550	19,782
Total	245,421	116,656

In compliance with Article 23 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia conducts operations without charging commission with the federal budget and government extra-budgetary funds and regional and local budgets.

The item "Credit institutions' deposits" includes the balances of funds taken on deposit from banks that signed with the Bank of Russia a General agreement on conducting ruble deposit operations using the Reuters Dealing system and from banks that participated in deposit auctions.

The item "Other" includes the balances of regional and local budget accounts, government extra-budgetary funds and funds of other Bank of Russia customers.

8. FLOAT

	<i>(million rubles)</i>	
	1999	1998
Float	12,003	4,717

This item shows float in the Bank of Russia payment system.

9. OTHER LIABILITIES

	<i>(million rubles)</i>	
	1999	1998
IMF loan	79,900	70,182
Other liabilities		
Bank of Russia provisions (see Note 1(h))	32,023	12,537
Deferred incomes from credit operations	15,601	14,621
Deferred yields from government securities	6,629	6,001
Additional pension benefits for Bank of Russia employees	5,092	5,119
Ruble-denominated Bank of Russia bonds	—	2,280
Other	4,708	11,296
Total	143,953	122,036

The IMF loan is a SDR3,600 million loan received by the Bank of Russia in 1998. A part of this loan, SDR768.43 million, was transferred in 1998 to the Finance Ministry. In 1999 the Bank of Russia repaid SDR675.02 million of a loan due in 1999—2000. The principal debt is to be repaid on a quarterly basis in equal instalments beginning from 2001 up to 2003. The interest rate is the same as on all borrowings from the IMF.

The item “Bank of Russia provisions” includes 15,610 million rubles of provisions created in 1998—1999 for credit operations, 6,906 million rubles of provisions created for operations with foreign exchange, 5,807 million rubles of provisions created for promissory notes repurchased from banks and 3,700 million rubles of provisions created for other active operations (see Note 16).

Deferred incomes from credit operations are mainly the debt on interest accrued on the centralised loans granted in 1992—1994, which were converted into domestic government debt in the form of Finance Ministry notes in accordance with the Federal Law No. 46-FZ, dated April 24, 1995, “On the Restructuring of Debt on Centralised Loans and Accrued Interest Owed by Agribusiness Organisations and Organisations Delivering (Storing and Selling) Products (Goods) to the Far North and Other Territories with the Same Status” (see Note 5 “Securities”).

Deferred yields from government securities mainly include overdue interest on 1,009 million rubles worth of Finance Ministry notes due on December 25—26, 1998, and accrued coupon income of 4,959 million rubles on OFZ-PD, which the Finance Ministry should have paid the Bank of Russia on March 15, 1998.

Pursuant to Article 89 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia in 1996 created a fund for additional pension benefits. The fund was created taking into account the fact that the Bank of Russia employees are not civil servants and therefore are not entitled to the guarantees provided for civil servants and also the accepted practices of central banks the world over.

10. RELATIONS BETWEEN BANK OF RUSSIA AND MINISTRY OF FINANCE

In 1999 the Bank of Russia was guided in its relations with the Finance Ministry by Federal Law No. 192-FZ, dated December 29, 1998, on Fiscal Policy Priorities, Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999, Federal Law No. 129-FZ, dated July 5, 1999, on Amending Article 102 of the Federal Law on the Federal Budget for 1999, and Federal Law No. 65-FZ, dated April 26, 1995, on the Central Bank of the Russian Federation (Bank of Russia) insofar as they concerned the restructuring of the Finance Ministry's principal debt to the Bank of Russia, providing the Finance Ministry via Vneshekonombank with foreign currency funds to service Russia's foreign debt and the acquisition of OFZ-PD.

In 1999 the Finance Ministry and the Bank of Russia, guided by Articles 93, 95, 96 and 101 of the Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999 and Article 1 of the Federal Law No. 192-FZ, dated December 29, 1998, on Fiscal Policy Priorities, restructured a total of 169,389 million rubles of debt.

The Finance Ministry's overall ruble-denominated debt to the Bank of Russia is as follows:

	<i>(million rubles)</i>	
	1999	1998
Russian government debt obligations	244,621	206,794
Bank of Russia funds transferred to Vneshekonombank as loans to Finance Ministry for repayment of foreign government debt	174,127	47,860
CIS countries' debt on interest for loans and on interstate settlements	2,801	5,196
Finance Ministry's debt on other Bank of Russia loans	69	69
Debt on operations in organised securities market	42	5,708
Domestic government debt of former USSR	—	191
Total	421,660	265,818

Debt obligations of the Russian Federation

	<i>(million rubles)</i>	
	1999	1998
Debt obligations resulting from restructuring of government securities and other debt owed by Finance Ministry to Bank of Russia	169,389	—
Debt obligations not restructured in 1999 and subject to restructuring in 2000 under Federal Law on Federal Budget for 2000	18,376	—
Debt obligations acquired by Bank of Russia in 1999 in compliance with Article 3 of Federal Law on Federal Budget for 1999	27,860	—
Finance Ministry's promissory notes	27,370	31,218
Internal state foreign currency loan bonds	355	210
Other debt obligations	1,271	175,366
Total	244,621	206,794

The terms and conditions of the restructuring of the Finance Ministry's debt to the Bank of Russia are shown in this table:

Federal Law	Finance Ministry's debt restructured into OFZ-PD	Amount of debt (million rubles)	OFZ-PD redemption periods	OFZ-PD interest payment conditions
point 3 of Article 1 of Federal Law No. 192-FZ, dated December 29, 1998, on Fiscal Policy Priorities	Finance Ministry's debt to Bank of Russia on operations in organised securities market	5,666	from November 6, 2009, to November 6, 2010	interest is paid from 2000 twice a year at rate of 5% p.a.
Article 93 of Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999	former USSR's domestic government debt assumed by Russia	191	December 1, 2015	zero interest rate
Article 95 of Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999	debt on Finance Ministry notes in Bank of Russia portfolio	4,004	from February 25, 2013, to December 15, 2018	interest of 2% p.a. is paid beginning from 2000
Article 96 of Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999	debt on government securities owned by Bank of Russia	157,133	from January 17, 2018, to December 29, 2029	interest of 2% p.a. is paid beginning from 2000
Article 101 of Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999	debt on CIS technical loans and interstate settlements and debt on domestic Russian and interstate offsets of mutual claims of economic agents	2,395	from December 28, 2000, to December 28, 2009	zero interest rate
Total		169,389		

Debt obligations acquired by Bank of Russia

Under Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999 and Federal Law No. 65-FZ, dated April 26, 1995, on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia in 1999 purchased government securities from the Finance Ministry at their primary placement and as of January 1, 2000, debt on these papers amounted to 27,860 million rubles.

Promissory notes issued and guaranteed by federal government

The Finance Ministry's debt to the Bank of Russia on promissory notes totalled 27,370 million rubles as of January 1, 2000. The total amount of the Finance Ministry's notes in the Bank of Russia portfolio includes:

- Finance Ministry notes issued to the Bank of Russia as debt on centralised loans and interest on them were converted into domestic government debt in 1994—1996 in pursuance of federal laws;
- Finance Ministry notes of the APK series.

Finance Ministry's debt to Bank of Russia on operations in organised securities market

The remainder of the Finance Ministry's debt on operations in the organised securities market to the amount of 42 million rubles is to be restructured in accordance with Article 114 of Federal Law No. 227-FZ, dated December 31, 1999, on the Federal Budget for 2000, into OFZ-PD due in 2008 and an interest of 2% p.a. to be paid beginning from 2001.

Domestic government debt of former USSR

Under Article 93 of Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999, domestic government debt of the former USSR in 1999 was converted into interest-free OFZ-PD due in 2015.

CIS countries' debt on interest on loans and on interstate settlements

As of January 1, 2000, debt of the CIS countries on interest on technical loans amounted to 2,475 million rubles and on interstate settlements 326 million rubles.

Finance Ministry debt to Bank of Russia on funds provided by Bank of Russia to Vneshekonombank

The Finance Ministry's debt to the Bank of Russia on the funds provided by the Bank of Russia to Vneshekonombank in compliance with Federal Law No. 192-FZ, dated December 29, 1998, on Fiscal Policy Priorities, Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999, and Federal Law No. 129-FZ, dated July 5, 1999, on Amending Article 102 of the Federal Law on the Federal Budget for 1999, amounted to 174,127 million rubles as of January 1, 2000.

11. INTEREST INCOMES ON LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	1999	1998
On loans and deposits in foreign currency	2,843	1,300
On loans extended to credit institutions in rubles	1,520	2,764
Other	36	8
Total	4,399	4,072

12. INCOMES FROM OPERATIONS WITH SECURITIES

	<i>(million rubles)</i>	
	1999	1998
Incomes from operations with foreign currency securities	9,803	4,388
Incomes from operations with Russia's ruble-denominated debt instruments	89	8,352
Other	8	69
Total	9,990	12,809

13. OTHER INCOMES

	<i>(million rubles)</i>	
	1999	1998
Incomes from change in market value of PRINs and IANs	2,783	—
Realised exchange rate difference	2,072	—
Incomes from hedging currency risks on forthcoming interest payments	232	—
Fees for settlement services provided by Bank of Russia	184	188
Fines and penalties received	144	85
Indemnity of telegraphic and other expenses by customers	98	137
Incomes of previous years discovered in the year under review	65	1,506
Other	983	4,237
Total	6,561	6,153

14. INTEREST EXPENSES ON LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	1999	1998
On loan received from IMF	4,037	975
On deposits of banks	3,141	799
Other	311	—
Total	7,489	1,774

15. BANKNOTE AND COIN EXPENSES

	<i>(million rubles)</i>	
	1999	1998
Banknote and coin expenses	1,550	1,930
Total	1,550	1,930

This item includes expenses involved in manufacturing and destroying banknotes and coins, protecting them against counterfeiting and acquiring and delivering packing and other materials necessary for the technical processing of cash.

16. NET EXPENSES ON PROVISIONS

	<i>(million rubles)</i>	
	1999	1998
Provisions for loans to banks	8,299	7,311
Provisions for foreign currency assets	6,848	58
Provisions for other active operations with banks	2,840	—
Provisions for promissory notes repurchased from banks	1,499	4,308
Provisions for debt owed by CIS countries	—	860
Total	19,486	12,537

17. OTHER OPERATING EXPENSES

	<i>(million rubles)</i>	
	1999	1998
Expenses on operations with securities	3,942	1,023
Depreciation expenses	1,892	1,582
Expenses on operations with foreign exchange	1,579	110
Repair of fixed assets and low-cost and high-wear articles	1,055	1,393
Postal, telegraphic and telephone expenses and expenses on leasing of communications lines and channels	931	756
Expenses on security	671	527
Expenses on maintenance of computers and hardware and software maintenance services	473	329
Expenses on delivery of banking documents and valuables	470	524
Expenses on maintenance of buildings and other structures	391	354
Other	1,011	3,785
Total	12,415	10,383

18. STAFF EXPENSES

	<i>(million rubles)</i>	
	1999	1998
Wages and salaries	8,106	6,391
Allocations to extra-budgetary funds	3,007	2,210
Total	11,113	8,601

The average number of Bank of Russia employees in 1999 amounted to 88,369 and their monthly pay averaged 7,377 rubles.



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**Auditors' Report by the Independent Audit Firm PricewaterhouseCoopers
 on the Accuracy of Financial Reports
 of the Central Bank of the Russian Federation,
 Compiled in Compliance with the Requirements of Russian Legislation
 on the Results of Performance for the Year Ended December 31, 1999**

CONCLUSION

1 We have conducted an audit of the financial reports of the Central Bank of the Russian Federation (hereinafter referred to as the Bank of Russia), including the Consolidated Balance Sheet as of January 1, 2000, Profit and Loss Account and Statement of Capital, Funds and Profit Distribution, compiled for the year ended December 31, 1999, and related notes contained in Section III of the Annual Report (pp. 182 to 216) written by the Bank of Russia in pursuance of Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) (hereinafter referred to as the financial reports).

The Principles of Compiling Financial Reports

- 2 The financial reports of the Bank of Russia were compiled by Bank of Russia management in compliance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Federal Law on Accounting and Bank of Russia Accounting Rules No. 66, dated September 18, 1997. The reports compiled in pursuance of the said legislation and Rules differ from those compiled in accordance with the International Accounting Standards, especially as far as asset evaluation, recognition of liabilities and income and capital calculation are concerned.
- 3 The Russian Federation in 1999 continued to experience serious financial and economic difficulties, caused by the economic and financial crisis of 1998, which on August 17 culminated in the Russian Government and Bank of Russia announcing a default on a large part of domestic and foreign debt, seen mostly in government securities. These problems and their impact on the financial condition of the Bank of Russia are described in detail in Note 2 to the financial reports. In 1999 the debt owed by the Ministry of Finance of the Russian Federation to the Bank of Russia increased significantly, while the Ministry's ability to service its debts was limited by budget restraints.

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¹ As in the original text. In this edition this corresponds to pages 117 to 136.



The Bank of Russia may improve the quality of its assets and turn in a stable profit-making performance with the purpose of strengthening its capital base and thus will be able to carry out all its duties if it fulfils a number of conditions, such as:

- improving the structure of its balance sheet by replacing illiquid and unprofitable assets in the form of Finance Ministry debt obligations with liquid and profit-bearing assets;
- covering Bank of Russia current expenses involved in providing services to customers by charging them fees for the services they receive.

The financial reports have been compiled on the assumption of ongoing activity and improved government finance.

The Duties of Management and of the Audit Firm

- 4 Bank of Russia management is responsible for accounting, compiling financial reports and making an accurate presentation of the financial condition of the Bank of Russia. It is also responsible for the safe keeping of Bank of Russia assets and, consequently, must take the necessary measures to prevent abuses and violations of the law and accounting rules. This requires establishing acceptable procedures and internal control systems and ensuring their proper functioning. Our duty is to pronounce on the basis of an audit an independent opinion on the accuracy of these reports in all their substantial aspects.

The Principles of Compiling the Auditors' Report

- 5 We conducted the audit in pursuance of the Provisional Audit Rules approved by the Russian Federation President's Decree No. 2263, dated December 22, 1993, Audit Standards approved by the Audit Commission under the Russian Federation President and international and intra-firm audit standards. According to the said Rules and standards, the audit was planned and conducted so that the auditors could become quite convinced that the financial reports contained no significant distortions. The audit included a spot check of numerical data and explanatory notes contained in the financial reports. In addition, it included an assessment of the accounting practices and major calculations made by Bank of Russia management and an evaluation of the general presentation of financial reports with the purpose of ascertaining their conformity with Russian Federation laws. We believe that taking into consideration the limitation of the amount of our work described in paragraph 6 of this Report, the audit we conducted allows us to give an opinion about the accuracy of the financial reports.

Limitation of the Amount of Work of the Audit Firm

- 6 The amount of our work and the Auditors' Report were limited with regard to some operations and items of the Balance Sheet access to which was limited by the Federal Law on State Secrecy. In pursuance of State Duma Resolution No. 4664-II GD, dated November 30, 1999, these operations and Balance Sheet items were audited by the Audit Chamber of the Russian Federation. The said operations and items include precious metals, operations conducted by the Field Institutions Department, foreign currency funds and securities placed with nonresidents (partially) and some other operations aggregating 65,052 million rubles in assets and 12,008 million rubles in liabilities and also income totalling 37,546 million rubles and expenditure totalling 2,988 million rubles.

*Auditor's Report*

- 7 We believe that leaving aside any adjustments that might have been necessary had the amount of our work not been limited as paragraph 6 of this Report indicates, the financial reports of the Bank of Russia are accurate in the sense that they are compiled so that they reflect in all their substantial aspects the assets and liabilities of the Bank of Russia as of January 1, 2000, and the financial results of its performance for 1999 in compliance with the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Federal Law on Accounting and also Bank of Russia Accounting Rules No. 66, dated September 18, 1997.
- 8 We have also examined other information contained in the Bank of Russia Annual Report, which is not a part of the financial reports as paragraph I of this Report stipulates (except sub-sections I.4 and II.1, which were examined by another audit firm). We have not discovered anything that might testify to any discrepancies between all substantial aspects of other information contained in the Annual Report and the financial reports of the Bank of Russia.

A. V. Bolshakov,
Director,
ZAO PricewaterhouseCoopers Audit,

Moscow, Russia
May 15, 2000



THE AUDIT CHAMBER
OF THE RUSSIAN FEDERATION

AUDITOR

121901 Moscow, GSP-2, 2 Zubovskaya St.

May 12, 2000

No. 06-171

To the attention of
V. V. Gerashchenko,
Chairman of the
Central Bank of the
Russian Federation

Dear Viktor Vladimirovich,

The Audit Chamber of the Russian Federation has audited the accounts and operations of the Bank of Russia covered by the Federal Law on State Secrecy in the period from January 1, 1999, to January 1, 2000.

The audit was conducted in pursuance of point 4 of Resolution No. 4664-II GD of the State Duma of the Federal Assembly of the Russian Federation, dated November 30, 1999, "On the Auditor of the Central Bank of the Russian Federation for the Annual Report of the Central Bank for 1999."

Please find enclosed here a report on the results of the audit, which is to be included in the Bank of Russia Annual Report.

Enclosure: 10 pages.

E. V. Mitrofanova

Approved
by the Collegium
of the Audit Chamber
of the Russian Federation
Protocol No. 17 (209)
dated May 12, 2000

REPORT
on the Results of an Audit of the Accounts and Operations
of the Bank of Russia Covered by the Federal Law on State Secrecy
in the Period from January 1, 1999, to January 1, 2000

The Audit Chamber of the Russian Federation has audited the accounts and operations of the Bank of Russia covered by the Federal Law on State Secrecy in the period from January 1, 1999, to January 1, 2000.

The audit was conducted in pursuance of point 4 of Resolution No. 4664-II GD of the State Duma of the Federal Assembly of the Russian Federation, dated November 30, 1999, "On the Auditor of the Central Bank of the Russian Federation for the Annual Report of the Central Bank for 1999" and the Audit Chamber's Plan for 2000 (point 3.1.3), drawn up as part of the programme for auditing the accounts and operations of the Bank of Russia, covered by the Federal Law on State Secrecy, in the period from January 1, 1999 to January 1, 2000, approved by the Audit Chamber's Collegium on January 14, 2000, paragraph 12 of Protocol No. 1 (193).

The Bank of Russia presented to the Audit Chamber and Auditor of the Bank of Russia Annual Report for 1999 a balance sheet delimiting the competence of the Audit Chamber and the Auditor of the Bank of Russia Annual Report for 1999 with regard to confirming the amounts recorded in the Bank of Russia balance and off-balance accounts for 1999. The collation of the documents presented to the Audit Chamber and the Bank of Russia Auditor showed that the Bank of Russia balance sheet insofar as the audited amounts recorded in its balance and off-balance accounts were concerned had been covered by the audit completely.

The Bank of Russia is responsible for the adequacy of the information presented within the competence of the Auditor of the Bank of Russia Annual Report and within the competence of the Audit Chamber.

It is the duty of the Audit Chamber to make a report based on the results of the audit of the Bank of Russia financial reports covered by the Federal Law on State Secrecy.

Bank of Russia management is responsible for the compiling and presentation of the aforementioned reports and documents and the financial reports and documents on the basis of which the consolidated annual accounts are confirmed and accounts, Bank of Russia operations and financial reports and documents are classified as covered by the Federal Law on State Secrecy.

The audit was planned and conducted in collaboration with the Auditor of the Bank of Russia Annual Report PriceWaterhouseCoopers, a closed-end audit firm, on the basis of and strictly in compliance with the following laws:

- Federal Law on the Central Bank of the Russian Federation (Bank of Russia);
- Federal Law on the Audit Chamber of the Russian Federation;
- Federal Law on State Secrecy.

Conducting the audit, we relied upon the results of the previous audits conducted by the Audit Chamber to confirm Bank of Russia Annual Reports for 1995, 1996, 1997 and 1998.

The audit included documentary confirmation of a selective basis of the figures contained in the financial reports.

The audit was planned and conducted with the aim of ascertaining with a fair amount of confidence the accuracy of Bank of Russia financial reports, the legality and substantiation of operations conducted by the Bank of Russia on the audited accounts and the correctness of their accounting.

It should be borne in mind, however, that since it is the Bank of Russia that determines its own accounting policies, the legality of its operations and the correctness of their recording in accounts were appraised on the basis of their compliance with the Bank of Russia normative documents.

The Audit Chamber confirms the following data of the Bank of Russia consolidated balance sheet:

Assets		(million rubles)
1.	Precious metals	58,265
2.	Foreign currency funds and securities placed with nonresidents	6,405
3.	Loans and deposits, of which:	52
3.1.	loans to resident credit institutions	16
4.	Securities, of which:	81
4.1.	Russian government securities	81
5.	Other assets, of which:	249
5.1.	fixed assets	148
TOTAL		65,052

Liabilities		(million rubles)
2.	Funds in accounts with Bank of Russia	11,672
2.1.	Funds in Russian government's accounts	437
2.2.	Funds in resident credit institutions' accounts	2
3.	Float	—483
4.	Other liabilities	815
5.	Capital	4
5.2.	reserves and funds	4
TOTAL		12,008

This balance sheet data was obtained by consolidating Bank of Russia balance accounts covered by the Federal Law on State Secrecy, using the Bank of Russia methodology of consolidating the Bank of Russia balance sheet for 1999. This balance sheet data is presented in the form of a balance sheet published by the Bank of Russia in the general press and is not regarded by the Bank of Russia as falling into the category of information covered by the Federal Law on State Secrecy.

The Audit Chamber has confirmed the balance sheet data on off-balance accounts of the Bank of Russia balance sheet with regard to the amounts covered by the Federal Law on State Secrecy.

Off-balance accounts covering the period from January 1 up to December 31, 1999, indicate that — banknotes and coins of the 1997 issue to the amount of 92,186.1 million rubles were issued; — banknotes of old issues (at new par value) and worn banknotes of the current issue totalling 1,406.6 million rubles were withdrawn.

So, the amount of currency in circulation in that period increased by 90,779.5 million rubles.

The amount given in the item “Currency in circulation” of the Bank of Russia consolidated balance sheet as of January 1, 1999, is 199,018 million rubles.

So, the estimated amount in the item “Currency in circulation” of the Bank of Russia consolidated balance sheet as of January 1, 2000, is 289,798 million rubles.

The Audit Chamber confirms the Bank of Russia financial results with regard to the income and expenses on operations covered by the Federal Law on State Secrecy, which are as follows:

Item	Symbol	Million rubles
1. Bank' income		
1. Overdue income received on loans		
3. Overdue interest received from:		
Federally-owned commercial organisations	11306	26
5. Interest received on open accounts		
In nonresident banks	11503	314
6. Interest received on deposits (if deposits are provided for by agreement), including overnight deposits, and on other placements		
In nonresident banks	11603	16
2. Income received from operations with securities		
4. Exchange rate income from resale and redemption of securities		
Russian government securities	12401	3,466
7. Other income		
3. Other income received		
From operations with precious metals	17305	33,721
Total income	19999	37,546
2. Bank's expenses		
1. Interest paid on loans taken		
1. Interest paid on fixed-term loans taken		
Interest paid on loans to international financial organisations	21105	311
4. Expenses on operations with securities (account No. 70203)		
2. Expenses on operations with securities		

Item	Symbol	Million rubles
Expenses on other operations with securities	24203	768
5. Expenses on operations with foreign exchange and other currency valuables (account No. 70205, 70203)		
1. Expenses on operations with foreign exchange and other currency valuables		
On other operations	25103	3
6. Staff expenses		
1. Staff expenses		
Imputed remuneration, including bonus salaries and other payments	26101	167
Charges on payroll: payments to government and other funds in pursuance of applicable legislation	26103	19
Expenses involved in staff redeployment in cases and amounts established by federal law	26104	1
2. Expenses on social benefits		
Annual social allowances paid to employees	26201	34
Charges on annual social allowances and other social benefits	26202	4
Holiday bonus payments	26203	3
Employees' meal subsidies	26213	1
Financing of other social needs	26214	3
9. Other expenses		
3. Other operating expenses		
Printing and other expenses on manufacture, purchase and mailing of blank forms, including strict accounting forms, magnetic carriers and paper	29304	3
Postal, telegraphic and telephone expenses and communication line rental fees	29306	5
Depreciation deductions (wear) on fixed assets, of which:	29307	7
Category 2	29309	5
Category 3	29310	2
on low-cost and high-wear articles	29313	1
on intangible assets	29314	2
Repair of fixed assets and low-cost and high-wear articles	29316	12
Expenses on security	29318	17
Expenses on uniform and working clothes	29319	1
Travel expenses	29322	2
Payment of state tax and legal costs related to bank's activities	29327	1

Item	Symbol	Million rubles
Transport expenses except those related to cost of valuables	29328	1
Expenses on maintenance of computers, equipment and other machinery (except automobiles)	29331	2
Expenses on technical support for software systems put into operation and computer services	29332	14
4. Other expenses		
On operations with precious metals	29404	1,603
Total expenses	29999	2,988

The Audit Chamber compared (by stock-taking) the data on the amount of precious metals and their actual amount in the interregional depositories of the Bank of Russia Central Depository as of January 1, 2000.

A blanket inspection of the places where precious metals were kept (boxes, packages and bars) did not reveal any discrepancies with the accounting records.

An inspection of the storage facilities where coins made of precious metals were kept did not reveal any significant discrepancies with the accounting records.

In the course of the inspection bar and rolled gold, bar palladium and bar platinum were test weighed and bar silver was test weighed by sample method.

The test weighing revealed no weight differences, no defective metal was discovered and no discrepancies with the accounting records were found.

The test counting of coins revealed no differences.

The overall results of the audit confirm that the synthetic and analytical accounting data on precious metals and coins made of precious metals match their actual amounts kept in the Bank of Russia depositories.

The overall results of the audit show that the audited financial reports of the Bank of Russia as far as the information covered by the Federal Law on State Secrecy is concerned have been compiled in compliance with Bank of Russia regulatory rules. The audit did not reveal any distortions or errors in reports or any discrepancies in synthetic and analytical accounting that could have affected the accuracy of these reports in accordance with the accounting policies adopted by the Bank of Russia.

It should be noted, however, that in compliance with the applicable legislation, the Bank of Russia determines its accounting policy itself.

The Audit Chamber believes that some of the accounting procedures established by the Bank of Russia distort its financial reports.

1

The Audit Chamber believes that the accounting policies adopted by the Central Bank of the Russian Federation for operations with precious metals (accounting at the historical price) do not accurately reflect the real state of its assets and lead to a significant distortion of the total of its balance sheet.

2

The procedure for consolidating the Bank of Russia balance sheet, established by the Bank of Russia itself, as far as the accounting of precious metals is concerned, distorts the actual state of the item of the consolidated balance sheet "Precious metals."

Taking into consideration that the Bank of Russia carries out the accounting of precious metals at the historical price, the balance sheet value of precious metals in the Bank of Russia assets amounts to 62,460 million rubles. However, the amount given in the item of the consolidated balance sheet “Precious metals” is 58,265 million rubles. The remaining amount of the value of precious metals, recorded, according to the Bank of Russia balance sheet, in first-order balance sheet account No. 323 “Deposits and other funds placed with nonresident banks” is recorded under the item of the Bank of Russia consolidated balance sheet “Foreign currency funds and securities placed with nonresidents.”

At the same time, precious metals placed with nonresidents as amounts in correspondent accounts with nonresident banks are included in the consolidated balance sheet section “Precious metals.”

3

The expenses relating to bonus payments to employees, subsidised meals, etc., are included entirely in the item “Expenditure” of the Field Institutions Department, whereas in accordance with the fundamental accounting principles, they should have been financed from the funds created from Bank of Russia profits.

4

The Field Institutions Department has sums in freely convertible currency on deposit in its nostro correspondent accounts with nonresident banks as of the accounting date. Meanwhile, this deposit operation is not on the list of operations contained in Statute of the Field Institutions Department and therefore runs counter to the aims, functions and tasks of the Department.

Auditor of the Audit Chamber of the Russian Federation

E.V. Mitrofanova

ADDENDA

IV

A LIST OF MAJOR MEASURES IMPLEMENTED BY BANK OF RUSSIA IN 1999 IN PURSUANCE OF SINGLE STATE MONETARY POLICY

I. MONETARY POLICY INSTRUMENTS (REQUIRED RESERVES, INTEREST RATE POLICY, REFINANCING OF BANKS, BANK OF RUSSIA DEPOSIT OPERATIONS AND OPEN MARKET OPERATIONS)

REQUIRED RESERVES. The Bank of Russia in 1999 raised twice the required reserves ratio while implementing an extraordinary regulation of the amount of the required reserves deposited by credit institutions with the Bank of Russia.

In March the Bank of Russia raised from 5% to 7% the reserve requirements for ruble-denominated corporate deposits and foreign currency-denominated corporate and household deposits, while keeping the required reserve ratio for ruble-denominated household deposits unchanged at 5% (Bank of Russia Instruction No. 514-U, dated March 19, 1999).

In June the Bank of Russia increased the required reserve ratios for ruble-denominated corporate deposits and foreign currency-denominated corporate and household deposits from 7% to 8.5% and hiked the required reserve ratio for ruble-denominated deposits from 5% to 5.5% (Bank of Russia Instruction No. 573-U, dated June 9, 1999).

To improve the methodology of depositing required reserves, the Bank of Russia amended its Provision No. 37, dated March 30, 1996, "On the Required Reserves of Credit Institutions Deposited with the Central Bank of the Russian Federation" (Bank of Russia Instruction No. 516-U, dated March 19, 1999, and Instruction No. 684-U, dated November 26, 1999) and Bank of Russia Instructions No. 481-U, dated January 11, 1999, No. 515-U, dated March 19, 1999, and

No. 685-U, dated November 26, 1999, "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."

INTEREST RATES. In 1999 the Bank of Russia set the following interest rates: from the beginning of the year the refinancing rate of 60% p.a., set in 1998, was in effect (Bank of Russia Instruction No. 298-U, dated July 24, 1998); in June 1999 the Bank of Russia Board of Directors made the decision to cut the refinancing rate from 60% to 55% p.a. (Bank of Russia Instruction No. 574-U, dated June 9, 1999).

The overnight interest rate was announced by the Bank of Russia daily. Interest rates on loans granted by the Bank of Russia in support of the measures to increase financial stability and maintain liquidity of banks were set by the Bank of Russia Board of Directors.

REFINANCING OF BANKS. The Bank of Russia in 1999 took the following steps to upgrade the bank refinancing mechanism:

- expanded its Lombard list by including in it government securities received as a result of the novation (Instruction No. 544-U, April 15, 1999);
- new adjustments were factored in for government securities included in the Bank of Rus-

- sia Lombard list (Instruction No. 545-U, dated April 15, 1999);
 - requirements were tightened for banks which obtained Bank of Russia loans in accordance with Bank of Russia Provision No. 36, dated March 13, 1996, and Provision No. 19-P, dated March 6, 1998 (Instruction No. 688-U, dated November 26, 1999, and Instruction No. 689-U, dated November 26, 1999);
 - the procedure was improved for charging and making the accounting of interest on Bank of Russia loans (Instructions No. 655-U, dated October 4, 1999, and No. 711-U, No. 712-U and No. 713-U, dated December 27, 1999);
 - issued Interim Provision No. 74-P, dated April 13, 1999, “On the Procedure for Extending Collateralised Bank of Russia Credit to Agent Banks Financing Agricultural Producers and Agribusiness Enterprises in Pursuance of Russian Government Resolutions.”
- In addition to refinancing banks, the Bank of Russia made efforts to get back the loans it extended in 1992—1994 to enterprises in the agribusiness, fuel and energy sector, timber, light and textile industries, trade and other sectors pursuant to the decisions of the Government Financial and Monetary Policy Commission.

In pursuance of Article 100 of the Federal Law No. 36-FZ, dated February 22, 1999, on the Federal Budget for 1999, the Bank of Russia issued jointly with the Finance Ministry:

- Provision No. 74n/94-P, dated November 9, 1999, on the Restructuring of Debt on Centralised Credits and Interest on Them into Russian Government Domestic Debt;
- Provision No. 73n/95-P, dated November 9, 1999, on Repayment to Banks of the Debt on Centralised Credits and Interest on Them Repaid to the Central Bank of the Russian Federation without Payments Being Made by Borrower Organisations.

DEPOSIT OPERATIONS. To improve the methodology of conducting deposit operations by the Bank of Russia, the latter took the following steps:

- issued 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;

- issued Order No. OD-30, dated February 2, 1999, on Organising the Conduct of Deposit Operations by the Bank of Russia;
- amended 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 (Instructions No. 494-U, dated February 2, 1999, No. 498-U, dated February 8, 1999, No. 686-U, dated November 26, 1999, and No. 714-U, dated December 27, 1999);
- sent its regional branches Letter No. 13-3-3/2019, dated October 4, 1999, “On Conducting Deposit Operations with Banks in Russian Federation Currency;”
- in accordance with the decisions of the Bank of Russia Monetary Policy Committee, broadened the list of fixed-term deposit operations to include 3-month, spot-next, spot-a-week and spot-2 weeks operations;
- issued Directives No. 308-T, dated November 3, 1999, and No. 330-T, dated December 2, 1999, in connection with the holding of deposit auctions with resident banks, including regional banks.

OPEN MARKET OPERATIONS. The Bank of Russia implemented a series of measures as part of open market operations.

It collaborated with the Finance Ministry in implementing Russian Government Resolution No. 1787-r, dated December 12, 1998, on the Novation of Government Securities.

The Bank of Russia issued the principal acts regulating operations conducted by foreign investors using funds in C-type accounts: Provision No. 68-P, dated March 23, 1999, “On the Specifics of Nonresident Transactions with Ruble-Denominated Russian Securities and Conversion Transactions” and Instruction No. 79-I, dated March 23, 1999, “On Nonresidents’ Special C-Type Accounts”.

This year the holders of the investment issue of permanent-income federal loan bonds (OFZ-PD 25030) received a number of additional uses for their bonds. The Bank of Russia issued Instruction No. 571-U, dated June 8, 1999, “On the Procedure to Pay for the Shares (Stakes) of Credit Institutions with Permanent-Income

Federal Loan Bonds,” which allowed residents to use this OFZ issue as payment to authorised capital of credit institutions. Bank of Russia Instruction No. 658-U, dated October 6, 1999, provided the same opportunity to nonresidents.

The Bank of Russia issued Provision No. 69-P “On the Procedure for Periodic Sale by Bank of Russia of Foreign Exchange to Banks Authorised to Open and Keep Special C-Type Accounts and Acting on Their Own Behalf on the Instruction of Nonresident Investors and for the Latter’s Own Account.”

By its Instruction No. 638-U, dated September 15, 1999, “On Settlements by Authorised Banks on Nonresident Operations in the Organised Securities Market,” the Bank of Russia made authorised banks when trading is closed and/or after redemption (coupon payment) transfer funds in the amounts equalling their obligations to nonresidents to guarantee accounts opened anew in the OSM. This requirement made

it impossible for banks to use nonresident funds at their discretion.

Bank of Russia Instruction No. 663-U, dated October 14, 1999, established the procedure for funds transfer and depository transfer of securities to nonresidents’ C-type accounts without conducting purchase and sale transactions. Such transfers were made on December 15, 1999.

In 1999 the Bank of Russia continued to phase in an inter-dealer repo market. In accordance with its Instructions No. 639-U, dated September 17, 1999, “On Amending the Provision on the Servicing and Circulation of the Couponless Short-Term Government Bond Issues” and No. 640-U, dated September 17, 1999, “On Conducting Inter-Dealer Repo Operations with GKO—OFZ,” from October 1, 1999, GKO—OFZ market dealers with a three-month record of financial stability were granted the right to conclude 1-day and 2-day repo deals with government securities.

2. RELATIONS WITH FEDERAL BUDGET

The Bank of Russia in 1999 financed the federal budget deficit in compliance with the 1999 Federal Budget Law and its amended Article 102 by buying interest-free permanent-income federal loan bonds at their primary placement. The bonds, on which the Finance Ministry’s debt to the Bank of Russia amounted to 27.9 billion rubles as of January 1, 2000, are to be redeemed within 10 years beginning from 2014. In addition, to help the Russian government service its foreign debt in time, the Bank of Russia, in compliance with the 1999 Federal Budget Law and amended Article 102 of this Law, transferred to Vneshekonombank in the first half of 1999 \$4.5 billion as credit to the Finance Ministry.

The Finance Ministry’s debt on loans granted to it by Vneshekonombank out of the foreign currency funds provided by the Bank of Russia totalled 174.1 billion rubles as of January 1, 2000.

Under the 1999 Federal Budget Law and Federal Law on Fiscal Policy Priorities, 217.2 billion

rubles of the Finance Ministry’s 339.0 billion-ruble debt to the Bank of Russia was restructured. The debt and debt instruments restructured into permanent-income federal loan bonds in 1999 are as follows:

- 203.8 billion rubles of short-term government bonds and federal loan bonds;
- 5.1 billion rubles in Finance Ministry’s promissory notes owned by the Bank of Russia as of January 1, 1999, due on August 31, 1999, and December 25—26, 1999;
- 5.7 billion rubles of the Finance Ministry’s debt to the Bank of Russia on operations in the organised securities market;
- 200 million rubles of the former USSR’s domestic government debt succeeded by Russia;
- 2.4 billion rubles of debt owed by CIS countries on technical credits, including the debt on interstate settlements and the debt that resulted from the offset of mutual claims between economic agents inside Russia and between economic agents in Russia and other CIS countries.

As a result of the restructuring, a large part of federal loan bonds on the Bank of Russia balance

sheet are due from 2018 to 2029 and have a non-market yield of 2% p.a. or bear no interest at all.

3. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

To improve the system of foreign exchange regulation and foreign exchange control, the Bank of Russia implemented the following measures in the year under review:

- created a mechanism to enable authorised banks to control their clients' operations that involve funds transfers abroad under contracts requiring close scrutiny (Bank of Russia Instruction No. 500-U, dated February 12, 1999, "On Increasing Foreign Exchange Control by Authorised Banks over the Clients' Foreign Exchange Operations and on the Procedure for Using Sanctions Against Authorised Banks for Violation of Foreign Exchange Legislation"). A database was created for such contracts (Bank of Russia Instruction No. 83-I, dated June 28, 1999, "On the Procedure for Conducting Foreign Exchange Operations by Authorised Banks and Providing Information with the Purpose of Meeting the Requirements of Bank of Russia Instruction No. 500-U, dated February 12, 1999, 'On Increasing Foreign Exchange Control by Authorised Banks over the Clients' Foreign Exchange Operations and on the Procedure for Using Sanctions Against Authorised Banks for Violation of Foreign Exchange Legislation'.");
- to counter capital flight, the Bank of Russia took the following measures:
 - resident legal entities were required to make ruble deposits equalling the amount of funds they transferred for the purchase of foreign exchange in advance payment of imports (Bank of Russia Instruction No. 519-U, dated March 22, 1999, "On the Procedure for Purchasing with Rubles Foreign Exchange by Resident Legal Entities in the Russian Foreign Exchange Market to Effect Payments under Contracts for Imports of Goods to the Russian Federation");
 - a temporary ban was imposed on conversion of nonresidents' ruble funds in foreign banks' correspondent accounts opened with authorised banks (Bank of Russia Instruction No. 533-U, dated April 5, 1999, "On Amending Bank of Russia Instruction No. 16, dated July 16, 1993, on the Procedure for Opening and Keeping Nonresidents' Ruble Accounts by Authorised Banks");
 - a resident legal entity that was returned an advance payment was required to resell it if that payment was made in foreign exchange bought with rubles in the domestic foreign exchange market (Bank of Russia Instruction No. 581-U, dated June 18, 1999, "On Amending Bank of Russia Instruction No. 383-U, dated October 20, 1998, 'On the Procedure for Conducting Foreign Exchange Purchase and Resale Operations by Resident Legal Entities in the Russian Foreign Exchange Market'.");
 - a requirement was imposed that obligations between residents and nonresidents to repay loans should be fulfilled in the currency in which these loans were extended (Bank of Russia Provision No. 93-P, dated October 14, 1999, "On the Procedure for Conducting Certain Foreign Exchange Operations");
- Federal Law No. 126-FZ, dated July 5, 1999, "On Amending Article 28 of the Federal Law on Banks and Banking Activities," required credit institutions to create reserves for operations with residents of offshore zones, which should make up at least 50% of the balance in the separate working accounts opened for the balance accounts kept to record the corresponding operations with nonresidents (Bank of Russia Instruction No. 606-U, dated July 13, 1999, "On Creating Reserves for

Russian Credit Institutions' Operations with Residents of Offshore Zones"), while the Bank of Russia established the procedure for establishing correspondent relations with offshore banks by authorised banks, taking into account the long-term creditworthiness and own capital ratings of foreign banks (Bank of Russia Instruction No. 634-U, dated August 26, 1999, "On the Procedure for Establishing Correspondent Relations by Authorised Banks with Nonresident Banks Registered in the Countries and Territories that Provide

Tax Benefits and/or Do Not Require the Disclosure or Provision of Information in Conducting Financial Operations (Offshore Zones");

- residents that are not credit institutions were declared free to attract (return) foreign investments to their authorised capital (Bank of Russia Instruction No. 660-U, dated October 8, 1999, "On the Procedure for Conducting Foreign Exchange Operations Related to Attracting and Returning Foreign Investments").

A LIST OF MAJOR ACTIONS UNDERTAKEN TO UPGRADE THE BANKING SYSTEM

MEASURES TO IMPROVE THE PROCEDURE FOR REGULATING CREDIT INSTITUTIONS

The Bank of Russia in 1999 continued to work consistently towards harmonising national banking supervision practices with international practices and standards of the Basle Committee on Banking Regulation and Supervisory Practices.

To cushion the negative effect of the financial crisis on the Russian banking system and strengthen the capital base of credit institutions the Bank of Russia issued a number of regulations expanding the range of the sources of payment of authorised capital of credit institutions. Specifically, the Bank of Russia:

- lifted the ban on making payments to authorised capital of credit institutions in foreign currency and established the procedure to pay for the shares (stakes) of credit institutions in foreign currency (Bank of Russia Instruction No. 513-U, dated March 19, 1999);
- established the procedure for credit institutions in the form of joint-stock companies allowing a debtor credit institution to replace, with creditor's consent, an obligation arising from a bank account agreement, bank deposit agreement, loan agreement, credit agreement, etc., with an obligation in the form of the credit institution's bond convertible into its shares (Bank of Russia Instruction No. 527-U, dated March 25, 1999, "On the Procedure for Replacing an Obligation of a Debtor Credit Institution with an Obligation in the Form of its Bond Convertible into its Shares");
- permitted payment of authorised capital of credit institutions with federal loan bonds is-

sued in pursuance of Russian Government Resolution No. 1787-r, dated December 12, 1998, "On the Novation of Government Securities" and Provision No. 258 "On the Procedure for the Novation of the Couponless Short-Term Government Bonds and Permanent- and Variable-Income Federal Loan Bonds Due Before December 31, 1999, and Issued Before the August 17, 1998 Statement of the Government and Central Bank of the Russian Federation by Exchanging Them with Owners' Consent for New Obligations and Partial Cash Payment," approved by the Finance Ministry and Bank of Russia on December 21, 1998, and No. 375-T (with subsequent changes and amendments) (Bank of Russia Instruction No. 571-U, dated June 8, 1999, "On the Procedure to Pay for the Shares (Stakes) of Credit Institutions with Permanent-Income Federal Loan Bonds").

The Bank of Russia established the procedure for verifying the legality of payment of authorised capital of credit institutions with private individuals' funds (Bank of Russia Provision No. 72-P, dated March 26, 1999, "On Acquisition by Private Individuals of Stakes (Shares) in the Authorised Capital of a Credit Institution").

Bank of Russia Instruction No. 658-U, dated October 6, 1999, allowed nonresidents to use funds in C-type accounts to pay for the shares of credit institutions at their primary placement.

To improve the regulation of credit risks assumed by credit institutions, Bank of Russia Instruction No. 62a, dated June 30, 1997, "On the

Procedure for Creating and Using Loan Loss Reserves” was amended as follows:

- credit institutions were granted the right to relegate restructured loans to lower risk groups regardless of the quality of their collateral (Bank of Russia Instruction No. 507-U, dated March 5, 1999);
- loans restructured in accordance with indemnity agreements or as a result of an assignment of right to claims or novation, including loans restructured into third-person bills, fell into the category of bad loans (Instruction No. 605-U, dated July 1, 1999).

Crucial decisions were made to improve the regulation of market risks. Specifically, Bank of Russia Provision No. 89-P, dated September 24, 1999, “On the Procedure for Calculating Market Risks by Credit Institutions,” established capital adequacy requirements for credit institutions to cover interest rate, stock market and currency risks.

Bank of Russia Instruction No. 623-U, dated August 5, 1999, introduced a separate open currency position calculation for balance, off-balance and net positions. It stipulated that none of the aforementioned currency positions for each currency or the (balancing) open currency position in rubles should exceed 10% of the authorised bank’s own funds (capital).

Bank of Russia Instruction No. 548-U, dated April 26, 1999, created a mechanism to include irrevocable claims for guarantee and obligations on irrevocable guarantees in the calculation of open currency positions. The Instruction also allowed commercial banks to exclude from the requirements taken into account in calculating the open currency position the currency position on capital corresponding to the amount of foreign currency funds received as payment to authorised capital.

In 1999 the Bank of Russia continued to do methodological work to upgrade supervision of credit institutions on the basis of their consolidated reports. It enforced Provision No. 85-P, dated August 5, 1999, “On the Procedure for Using Data Reported by Non-Credit Institution Members of a Group in Consolidated Reports by Credit Institutions,” allowing a parent credit institution in a banking group to compile consolidated reports on all group members, including in it the data reported by non-credit institutions, and

establishing the procedure for reconciling non-credit institutions’ indicators with financial reports of the banks.

To upgrade its policy on compiling and presenting consolidated reports by credit institutions and on the supervision of banks on a consolidated basis and to bring the existing practices into conformity with international standards, the Bank of Russia made amendments to its Provision No. 29-P, dated May 12, 1998 (Bank of Russia Instruction No. 624-U, dated August 5, 1999).

It specified the procedure for calculating highly liquid and liquid assets of credit institutions (Bank of Russia Instructions No. 635-U, dated September 1, 1999, and No. 671-U, dated November 2, 1999), excluding from liquid assets Russian issuers’ demand notes and notes with terms up to 30 days, specifying the calculation of demand liabilities and liabilities with terms up to 30 days (with regard to paid letters of credit) and including in the calculation of high liquidity assets funds on daylight and overnight deposits with banks of the industrialised nations.

The Bank of Russia tightened sanctions against the banks failing to pay taxes. To guarantee the timely transfer of funds to budgets of all levels and government extra-budgetary funds, the Bank of Russia issued Operating Instruction No. 182-T, dated June 18, 1999, “On the Application of Individual Provisions of Bank of Russia Instruction No. 59, Dated March 31, 1997,” establishing the procedure for using sanctions against credit institutions failing to transfer in time on the instruction of their clients funds to budgets of all levels and government extra-budgetary funds and having a backlog of unpaid settlement documents for three consecutive business days or more.

Operating Instruction No. 292-T, dated October 8, 1999, “On the Use of Sanctions Against Credit Institutions Failing to Transfer in Time Funds to Budgets of All Levels and Government Extra-budgetary Funds,” enhanced control by the Bank of Russia regional branches over the timeliness of compulsory payment transfers to budgets of all levels and to government extra-budgetary funds.

Steps were taken to ease the banks’ burden of reporting to the Central Bank. To optimise financial reports presented by banks to the Bank of

Russia, the latter issued Instruction No. 598-U, dated July 5, 1999, cancelling (beginning from the reports as of October 1, 1999) eight reporting forms.

The Bank of Russia also made amendments to the applicable methodological recommendations on inspection of credit institutions, sending the following documents to its regional branches:

- a new version of “Methodological Recommendations on the Inspection of Operations Conducted by Credit Institutions with Precious Metals” (Letter No. 224-T, dated July 30, 1999);
- Letter No. 234-T, dated August 4, 1999, “On Amending Methodological Recommendations on the Inspection of the Loan Portfolio of a Credit Institution.”

The Bank of Russia also sent its regional branches elucidations on conducting inspections (Bank of Russia Letters No. 94-T, dated March 16, 1999, and No. 223-T, dated July 30, 1999).

Bank of Russia Instructions No. 558-U, dated May 18, 1999, and No. 589-U, dated June 28, 1999, amended Bank of Russia Instruction No. 75-I, dated July 23, 1998, “On the Procedure for Applying the Federal Laws Regulating the Procedure for Registering Credit Institutions and Licensing Banking Activities,” establishing, among other things, additional requirements for the financial condition of the founders (partners) of credit institutions and setting criteria for evaluation by the Bank of Russia of credit institutions’ business plans.

THE RESTRUCTURING AND FINANCIAL REHABILITATION OF THE BANKING SYSTEM

To implement the provisions of the Federal Laws on Insolvency (Bankruptcy) of Credit Institutions and on the Restructuring of Credit Institutions, the Bank of Russia issued regulatory documents in the following areas.

Bankruptcy-Prevention Measures

Instruction No. 84-I, dated July 12, 1999, “On the Procedure for Implementing Measures to Prevent Insolvency (Bankruptcy) of Credit Institutions” established the procedure for carrying out measures to financially rehabilitate or reorganise credit institutions, which they may do on their own or on the Bank of Russia prescription. The Instruction also established the procedure to control the implementation of bankruptcy-prevention measures by credit institutions.

Provision No. 76-P, dated May 14, 1999, “On the Temporary Administration of a Credit Institution” explained in which cases such administration may be appointed, spelled out its functions, determined its term of office, described the main requirements to the head and members of a temporary administration and es-

tablished the procedure for compiling its budget, reporting its activities and terminating its office.

Provision No. 87-P, dated August 20, 1999, “On the Temporary Administration of a Credit Institution, Appointed in the Period of its Examination in Compliance with the Federal Law on the Restructuring of Credit Institutions” specified the particularities of the appointment of a temporary administration in such periods and established the procedure for conducting and ending its activities.

Bank of Russia Instruction No. 620-U, dated August 4, 1999, established the procedure for submitting to the Bank of Russia a report on unsatisfied monetary claims of individual creditors and failure to effect mandatory payments due to a shortage or lack of funds in correspondent accounts of credit institutions.

Provision No. 81-P, dated July 14, 1999, established the procedure for considering by the Bank of Russia a request by the temporary administration of a credit institution to impose a moratorium on the satisfaction of creditors’ claims on a credit institution.

Revocation of Banking Licence

Instruction No. 541-U, dated April 13, 1999, amended Bank of Russia Provision No. 24-P, dated April 10, 1998, "On the Procedure for Considering by the Bank of Russia a Request by a Bank of Russia Regional Branch to Revoke Banking Licence from a Credit Institution" as the power to file such requests was granted to temporary administrations of credit institutions.

Instruction No. 542-U, dated April 13, 1999, "On the Procedure for Considering by the Bank of Russia a Request to Revoke Banking Licence from a Credit Institution" established the procedure for examining in the Bank of Russia and its regional branches requests from persons indicated in sub-points 1, 2, 4 and 5 of Point 1 of Article 35 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, to revoke banking licence from a credit institution with signs of bankruptcy and also petitions from arbitration court judges to present a statement substantiating the revocation of banking licence from a credit institution, which should be sent to the Bank of Russia in the cases stipulated by points 2 and 3 of Article 35 of the said Federal Law.

Instruction No. 136-T, dated April 23, 1999, "On the Procedure for Initiating the Revocation of Licences from Credit Institutions in Pursuance of Points 5, 6 and 7 of Article 20 of the Federal Law on Banks and Banking Activities" brings the grounds and procedure for licence revocation into conformity with Articles 11, 12, 13, 35 and 36 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions.

Control over Liquidation of Credit Institutions

Provision No. 73-P, dated March 29, 1999, "On the Authorised Representatives of the Central Bank of the Russian Federation (Bank of Russia) in Credit Institutions" establishes the procedure for control over a credit institution af-

ter its banking licence was revoked and spells out the rights and duties of an authorised representative in fulfilling his functions.

Provision No. 75-P, dated April 26, 1999, "On the Procedure for Opening and Keeping Foreign Currency Correspondent Accounts of Liquidation Commissions (Receivers, Liquidators) of Credit Institutions by Authorised Banks" is designed to settle relations arising from the fulfilment by the Bank of Russia of its functions pursuant to Point 5 of Article 4 and Section 10 of Federal Law No. 65-FZ, dated April 26, 1995, on the Central Bank of the Russian Federation (Bank of Russia).

Instruction No. 509-U, dated March 10, 1999, "On Amending Bank of Russia Provision No. 264, dated April 2, 1996, on the Revocation of Banking Licence from Banks and Other Credit Institutions in the Russian Federation" regulates the procedure for liquidating credit institutions after the revocation of their banking licence.

Instruction No. 528-U, dated March 25, 1999, "On Amending Provision No. 264, dated April 2, 1996, on the Revocation of Banking Licence from Banks and Other Credit Institutions in the Russian Federation" establishes the procedure and deadlines for filing an application to an arbitration court to declare a credit institution bankrupt.

Certification of Heads of Temporary Administrations and Receivers

Under Article 6 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, a number of documents regulating the procedure for certifying heads of temporary administrations and receivers by the Bank of Russia (Provision No. 83-P, dated July 21, 1999, Instruction No. 608-U, dated July 15, 1999 and Instruction No. 126-T, dated April 12, 1999) were issued.

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Table 1

DYNAMICS OF KEY MACROECONOMIC INDICATORS (as % of previous year)

	1997	1998	1999
Gross domestic product	100.9	95.1	103.2
of which:			
Production of goods	100.3	92.6	106.6
including:			
industry	102.0	94.8	108.0
agriculture and forestry	102.5	81.5	102.3
construction	93.6	93.5	105.4
other manufacturing sectors	83.6	92.6	98.2
Production of services	101.5	97.5	101.0
of which:			
transport and communications	98.1	96.6	109.5
trade and public catering	105.4	94.5	96.7
other market services	102.2	99.5	100.5
non-market services	98.6	100.4	100.5
GDP deflator index, times	1.14	1.14	1.63
Consumer price index (December against December of previous year), times	1.110	1.844	1.365
Labour productivity	103.0	96.5	101.9
Fixed capital investment	95.0	93.3	104.5
Retail trade turnover	103.8	96.7	92.3
Unemployment rate calculated using ILO methodology, as % of economically active population, year's average	10.8	11.9	12.4

Note: Tables 1—8 contain Goskomstat data and Bank of Russia calculations (as of May 15, 2000); Tables 9—13 contain Bank of Russia calculations based on data reported by State Customs Committee (as of May 15, 2000).

Table 2

GDP STRUCTURE IN BASIC PRICES (%)*

	1997	1998	1999
Gross domestic product	100.0	100.0	100.0
of which:			
Production of goods	43.0	42.2	44.9
of which:			
industry	28.3	29.0	31.9
agriculture and forestry	6.2	5.6	6.7
construction	7.9	7.1	5.9
other manufacturing sectors	0.6	0.6	0.4
Production of services	57.0	57.8	55.1
of which:			
transport and communications	12.0	11.0	10.1
trade and public catering	17.4	18.9	22.0
other market services	12.3	12.5	11.4
non-market services	15.3	15.4	11.6

* Unlike GDP in market prices, GDP in basic prices does not include food taxes, but includes food subsidies. Data in basic prices are cited without excluding indirectly measured services of financial intermediation.

*Table 3***STRUCTURE OF GDP CALCULATED BY INCOME USE METHOD IN CURRENT MARKET PRICES (%)**

	1997	1998	1999
GDP calculated by income use method	100.0	100.0	100.0
Expenditure on final consumption	74.8	77.2	68.6
of which:			
by households	50.0	54.4	50.4
by government and non-profit organisations servicing households	24.8	22.8	18.2
Gross accumulation of fixed assets (including net purchase of valuables)	19.1	17.3	15.8
Change in stock of tangible working assets	3.2	-1.9	-0.7
Net exports of goods and services	2.9	7.4	16.3

*Table 4***GDP STRUCTURE BY SOURCE OF INCOME (%)**

	1997	1998	1999
GDP	100.0	100.0	100.0
of which:			
wages & salaries	50.0	47.6	42.3
net taxes on production and imports	14.5	14.2	14.6
gross profit and gross mixed income	35.5	38.2	43.1

Table 5

BALANCE OF HOUSEHOLD CASH INCOME AND EXPENDITURE IN RUSSIA (million rubles)

	1998	1999	1999 as % of 1998
Cash income	1,751,410.6	2,748,027.2	156.9
Wages & salaries	1,135,869.9	1,764,935.5	155.4
% share	64.9	64.2	
Social transfers	237,675.9	365,586.7	153.8
% share	13.6	13.3	
Income from entrepreneurial activities	248,682.2	391,558.5	157.5
% share	14.2	14.2	
Property income	97,070.6	201,214.2	207.3
% share	5.5	7.3	
Other incomes	32,112.0	24,732.3	77.0
% share	1.8	0.9	
Cash expenditures	1,488,049.2	2,369,116.2	159.2
Consumer expenditures	1,355,199.6	2,170,738.6	160.2
% share	91.1	91.6	
Taxes and other expenditures	132,849.6	198,377.6	149.3
% share	8.9	8.4	
Growth in savings at banks and cash in hand, purchase of foreign exchange	263,361.4	378,911.0	143.9
Organized savings	19,861.1	97,960.0	493.2
% share	7.5	25.9	
Purchase of foreign exchange	213,645.0	226,857.3	106.2
% share	81.1	59.9	
Cash in hand	29,855.3	54,093.7	181.2
% share	11.3	14.3	
For reference:			
Share of cash income, %			
consumer expenditures	77.4	79.0	
organized savings	1.1	3.6	
purchase of foreign exchange	12.2	8.3	
cash	1.7	2.0	
taxes and other payments	7.6	7.2	
Disposable cash income	1,643,550.5	2,571,844.3	156.5
% share of			
consumer expenditures	82.5	84.4	
organized savings	1.2	3.8	
foreign exchange purchases	13.0	8.8	
cash	1.8	2.1	

Table 6

INCOME DIFFERENTIATION OF POPULATION

	1996	1997	1998	1999
Funds ratio (times)*	13.0	13.5	13.4	13.9
Gini coefficient (units)**	0.375	0.381	0.379	0.394

* The funds ratio is the ratio between average incomes inside the population groups compared or their shares in total income.

** The Gini coefficient (income concentration index) shows the extent of deflection of actual income distribution from even distribution. In even distribution the Gini coefficient tends to 0; the more society is polarised, the closer the Gini coefficient is to 1.

Table 7

PROFITABILITY OF INDIVIDUAL SECTORS OF ECONOMY (%)

	1998				1999		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total	6.8	2.3	6.2	15.2	20.4	19.0	22.8
Industry	11.7	7.6	10.7	23.7	27.6	25.2	27.9
Of which:							
power engineering	22.0	7.2	0.1	17.1	23.6	8.2	1.7
fuel sector	17.3	11.1	14.0	31.0	39.0	38.8	66.9
ferrous metallurgy	5.8	3.2	16.0	17.1	24.3	27.9	30.5
non-ferrous metallurgy	14.3	14.3	44.1	62.7	64.6	57.9	62.3
chemical and petrochemical industry	-0.6	1.0	4.1	23.4	23.5	26.8	23.4
machine-building and metal-working	6.5	9.4	5.8	16.9	20.0	21.1	15.3
timber, wood-working and pulp-and-paper industry	-2.8	-6.4	0.6	20.7	34.0	26.4	23.3
building materials	-1.9	3.7	7.5	3.2	3.7	10.2	13.0
light industry	2.4	-5.6	-5.6	7.4	9.9	8.8	8.2
food industry	10.1	10.5	16.7	22.6	20.2	16.2	15.7
Agriculture	-31.4	-31.8	-16.1	-27.2	-20.6	-16.2	18.0
Transport	6.1	-0.2	4.4	17.1	19.9	17.0	16.5
Communications	24.9	22.0	23.8	33.2	30.7	34.9	40.5
Construction	2.0	6.2	7.7	4.9	5.3	9.2	10.3
Trade and public catering	29.1	19.4	22.9	38.0	32.9	33.6	28.0
of which:							
foreign trade	114.6	79.1	90.5	141.3	97.1	135.3	94.5
Housing and communal services	-11.1	-18.1	-22.3	-14.0	-10.4	-18.8	-22.1

Table 8

**STATE OF SETTLEMENTS FOR SHIPPED PRODUCTS (WORK FULFILLED AND SERVICES PROVIDED)
OF MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES**

	December 1998		December 1999	
	million rubles	structure of payments, %	million rubles	structure of payments, %
Volume of shipped products	150,053		247,189	
of which:				
paid-for products	114,184	100.0	220,880	100.0
of which:				
— paid for with money	49,872	43.7	102,916	46.6
— paid for with promissory notes	13,383	11.7	43,494	19.7
— paid for with securities	500	0.4	180	0.1
— by assignment of rights of claims on pecuniary obligations	1,515	1.3	5,187	2.3
— netting of claims	32,948	28.9	47,252	21.4
— direct commodity exchange (barter)	7,885	6.9	10,849	4.9
— other forms of settlements	8,081	7.1	11,001	5.0

Table 9

RUSSIA'S FOREIGN TRADE

	Billion US dollars						As % of previous year				
	1994	1995	1996	1997	1998	1999*	1995	1996	1997	1998	1999*
With all countries											
Turnover	101.9	124.9	131.1	138.1	114.8	102.0	122.5	105.0	105.3	83.1	88.8
Exports	63.3	78.2	85.1	85.0	71.3	71.8	123.6	108.8	99.9	83.8	100.8
Imports	38.7	46.7	46.0	53.0	43.5	30.2	120.8	98.6	115.2	82.1	69.3
With non-CIS Countries											
Turnover	77.5	96.8	100.7	107.2	89.9	83.0	124.8	104.0	106.5	83.8	92.3
Exports	49.2	63.7	69.2	68.4	57.6	61.1	129.4	108.7	98.8	84.2	106.1
Imports	28.3	33.1	31.5	38.8	32.3	21.8	116.8	95.1	123.2	83.2	67.7
With CIS Countries											
Turnover	24.4	28.1	30.4	30.9	24.9	19.0	115.3	108.3	101.4	80.7	76.4
Exports	14.1	14.5	15.9	16.6	13.7	10.7	103.2	109.4	104.6	82.1	78.3
Imports	10.3	13.6	14.5	14.2	11.3	8.3	131.7	107.0	97.8	79.1	74.1

* Calculated on the basis of data for 1st—4th quarters of 1999.

Table 10

RUSSIAN EXPORTS TO MAJOR TRADING PARTNERS

	Structure, %						Rate of growth, as % of previous year				
	1994	1995	1996	1997	1998	1999*	1995	1996	1997	1998	1999*
Total	100	100	100	100	100	100	124	109	100	84	101
OECD countries	52.3	50.3	48.2	56.9	58.2	59.5	119	104	118	86	102
EU countries	35.2	33.6	32.1	32.9	32.6	33.6	118	104	102	83	104
CIS countries	22.3	18.6	18.7	19.5	19.2	14.8	103	109	105	82	78
Central and Eastern European countries	11.8	13.7	14.8	15.7	14.6	14.8	143	118	106	78	106
Baltic countries	2.7	2.9	3.1	3.7	3.2	3.6	136	116	117	72	125
Germany	8.6	7.9	7.9	7.7	8.0	8.5	115	108	97	88	108
US	5.3	5.5	5.7	5.3	7.2	6.5	128	112	93	114	92
Ukraine	10.6	9.1	8.9	8.5	7.8	6.4	107	106	96	77	86
Belarus	4.9	3.8	4.1	5.5	6.5	5.2	95	120	133	99	81
China	4.5	4.3	5.5	4.7	4.4	5.0	119	140	84	80	110
Italy	4.4	4.3	3.3	4.2	4.5	4.9	122	84	126	90	115
Netherlands	3.7	4.1	3.9	5.4	5.5	4.9	136	104	137	87	89
Switzerland	5.9	4.5	4.4	4.2	4.4	4.8	95	106	95	88	107
Great Britain	5.8	3.9	3.8	3.3	4.2	4.0	83	105	89	104	96
Poland	1.8	2.2	2.5	3.0	3.1	3.7	149	126	118	87	120
Finland	3.1	3.1	3.1	3.3	2.9	3.4	122	110	105	75	115
Japan	3.5	4.1	3.4	3.5	3.1	3.1	141	92	101	74	97
Turkey	1.6	2.1	2.0	2.3	2.7	2.3	164	103	118	98	84
Kazakhstan	3.5	3.3	3.0	2.9	2.7	1.8	116	100	97	77	65
France	2.0	1.9	1.9	1.9	2.0	1.7	123	105	102	90	83
Other	30.9	35.9	36.6	34.5	31.1	33.7	144	111	94	75	110

* Calculated on the basis of data for 1st—4th quarters of 1999.

Table 11

RUSSIAN IMPORTS FROM MAJOR TRADING PARTNERS

	Structure, %						Rate of growth, as % of previous year				
	1994	1995	1996	1997	1998	1999*	1995	1996	1997	1998	1999*
Total	100.0	100.0	100.0	100.0	100.0	100.0	121.0	99.0	115.0	82.0	69.0
OECD countries	52.0	49.7	47.0	58.0	58.7	55.9	115.0	93.0	142.0	83.0	65.0
EU countries	39.8	38.4	34.5	36.9	36.1	37.5	117.0	88.0	123.0	80.0	71.0
CIS countries	26.7	29.1	31.6	26.8	25.9	26.2	132.0	107.0	98.0	79.0	74.0
Central and Eastern European countries	10.3	11.0	8.6	10.1	8.9	7.1	128.0	77.0	134.0	72.0	55.0
Baltic countries	1.7	2.2	1.4	1.9	1.6	1.0	155.0	61.0	162.0	67.0	44.0
Germany	14.7	13.9	11.3	12.5	12.6	14.2	114.0	80.0	128.0	83.0	76.0
Belarus	5.4	4.5	6.6	9.0	10.5	10.6	100.0	145.0	158.0	95.0	71.0
Ukraine	11.4	14.2	13.7	7.5	7.5	8.1	150.0	95.0	63.0	82.0	77.0
US	5.4	5.7	6.3	7.7	9.5	7.8	128.0	110.0	140.0	101.0	58.0
France	2.6	2.3	2.8	3.0	3.7	4.2	107.0	118.0	126.0	100.0	74.0
Kazakhstan	5.2	5.7	6.6	5.2	4.3	4.0	134.0	114.0	90.0	69.0	74.0
Italy	4.1	4.0	5.1	5.0	4.2	3.9	116.0	126.0	113.0	69.0	64.0
Finland	4.2	4.4	3.6	3.5	3.3	3.1	125.0	82.0	112.0	77.0	66.0
China	2.5	1.9	2.2	2.4	2.7	2.9	91.0	116.0	126.0	92.0	77.0
Great Britain	2.3	2.4	2.5	2.8	2.8	2.3	123.0	103.0	131.0	82.0	54.0
Netherlands	4.2	3.5	2.2	2.3	2.1	2.2	102.0	61.0	119.0	76.0	75.0
Poland	2.4	2.8	2.0	2.6	2.4	2.0	140.0	70.0	146.0	77.0	58.0
Sweden	0.8	1.2	1.2	1.6	1.6	1.6	176.0	102.0	156.0	80.0	68.0
Japan	2.9	1.6	2.1	1.9	1.9	1.5	68.0	128.0	101.0	83.0	56.0
Republic of Korea	1.1	1.1	1.7	1.6	2.3	1.0	117.0	159.0	105.0	121.0	31.0
Other	30.9	31.0	30.2	31.5	28.7	30.7	121.0	96.0	120.0	75.0	73.0

* Calculated on the basis of data for 1st—4th quarters of 1999.

Table 12

COMMODITY STRUCTURE OF RUSSIAN EXPORTS*

	Structure, %						Rate of growth, as % of previous year				
	1994	1995	1996	1997	1998	1999**	1995	1996	1997	1998	1999**
Total	100.0	100.0	100.0	100.0	100.0	100.0	119.0	109.0	99.0	83.0	101.0
Mineral products	44.1	41.7	47.8	48.3	42.7	44.6	112	124	100	73	106
Of which:											
Mineral fuel	43.1	40.4	46.8	47.4	41.5	43.8	111	126	100	73	107
Of which:											
oil	17.9	16.5	18.4	17.0	14.2	19.7	109	121	91	69	140
natural gas	16.4	15.2	17.2	19.5	19.4	16.1	110	123	112	83	84
Metals and metal products	17.8	20.3	19.8	20.8	22.1	20.2	136	106	103	88	93
Machinery, equipment and transport vehicles	8.8	10.1	9.7	10.2	11.0	10.8	137	103	104	89	99
Chemicals and rubber	8.7	9.9	8.6	8.2	8.4	8.3	136	94	94	85	101
Gemstones, precious metals and articles made of them	10.2	7.1	4.7	3.9	6.5	6.4	83	72	81	137	101
Timber and pulp-and-paper products	4.1	5.7	4.3	4.4	5.1	5.3	165	81	100	97	104
Foodstuffs and agricultural raw materials (except textile)	2.2	1.8	2.1	1.8	1.8	1.1	97	124	83	84	64
Textiles, textile products and footwear	2.1	1.5	1.1	1.0	1.1	1.0	85	81	92	88	95
Raw leather, furs and leather and fur goods	0.6	0.4	0.4	0.5	0.6	0.3	82	118	106	97	50
Other goods	1.4	1.3	1.5	1.0	0.8	1.9	113	124	63	72	224

* Not counting data on exports to Belarus.

** Calculated on the basis of data for 1st—4th quarters of 1999.

Table 13

COMMODITY STRUCTURE OF RUSSIAN IMPORTS*

	Structure, %						Rate of growth, as % of previous year				
	1994	1995	1996	1997	1998	1999**	1995	1996	1997	1998	1999**
Total	100.0	100.0	100.0	100.0	100.0	100.0	117.0	95.0	112.0	81.0	69.0
Machinery, equipment and transport vehicles	35.2	32.9	31.8	35.1	35.7	32.3	110	92	124	82	62
Foodstuffs and agricultural raw materials (except textile)	27.7	30.2	26.0	26.3	26.3	28.4	128	82	114	81	74
Chemicals and rubber	9.9	10.7	14.7	14.5	15.2	16.5	126	130	111	85	74
Metals and metal products	6.5	7.5	8.7	6.9	6.8	7.2	134	110	88	81	72
Textile, textile products and footwear	7.9	5.2	4.6	4.0	3.3	4.3	77	84	98	65	90
Mineral products	6.5	6.1	5.7	5.5	5.1	4.2	109	89	107	76	57
Of which:											
mineral fuel	3.6	3.8	4.0	3.9	3.6	2.7	124	100	109	76	51
Timber and pulp-and-paper products	1.5	2.4	3.4	3.6	3.9	3.5	188	136	120	88	62
Raw leather, furs and leather and fur goods	0.5	0.3	0.3	0.3	0.2	0.2	73	103	104	62	59
Gemstones, precious metals and articles made of them	0.2	0.9	1.3	0.2	0.1	0.1	492	135	18	30	119
Other goods	4.0	3.8	3.5	3.5	3.2	3.1	112	88	112	74	66

* Not counting data on imports from Belarus.

** Calculated on the basis of data for 1st—4th quarters of 1999.

Table 14

STRUCTURE OF RUSSIAN GOVERNMENT DOMESTIC DEBT (according to Finance Ministry's data, million rubles)

	As of 31.12.1999	% share as of 31.12.1999
Russian government domestic debt	583,638	100.00
Of which:		
1. Russian government debt instruments (total)	529,766	90.77
Including:		
— permanent-income federal loan bonds	402,213	68.92
— fixed-income federal loan bonds	112,430	19.26
— short-term government bonds	7,432	1.27
— state savings loan	4,879	0.84
— non-market loan bonds	2,690	0.46
— variable coupon-income federal loan bonds	42	0.01
— RSFSR government loan of 1991*	80	0.01
2. Finance Ministry promissory notes (total)	27,562	4.72
of which:		
— Finance Ministry notes issued during restructuring debt on centralised credits and interest charged on agribusiness organisations, and organisations delivering goods to the Far North	21,962	3.76
— debt of agribusiness sector restructured into Finance Ministry notes	3,360	0.58
— Finance Ministry notes on other debts	1,750	0.30
— Finance Ministry notes issued to restructure debt owed by textile mills in Ivanovo Region on unpaid interest on centralised loans	490	0.08
3. Guaranteed notes to Agroprombank	494	0.08
4. Government guarantees issued	820	0.14
5. 1990 targeted loan	3,207	0.55
6. Government loan of 1992	138	0.02
7. Targeted deposits and car cheques	2,376	0.41
8. Debt owed by enterprises in fuel and energy sector and other sectors	4,181	0.72
9. Debt on centralised credits and interest on them owed by agribusiness organisations of Chelyabinsk Region and power-engineering joint-stock company Cherkeigessrtoi	94	0.02
10. Credit agreements and contracts	15,000	2.57
In addition:		
— Finance Ministry's debt to Vneshekonombank on foreign currency loans granted from Bank of Russia funds to service Russian government foreign debt	174,127	

* Including Finance Ministry's debt to Bank of Russia on loans granted to cover the Russian republic's budget debt accumulated as of December 1, 1990.

Table 15

FINANCE MINISTRY'S DEBT TO BANK OF RUSSIA AS OF JANUARY 1, 2000 (million rubles)

	At the acquisition price of debt instruments	At par value of debt instruments
Total debt	421,660	513,493
Of which:		
I. Debt denominated in Russian currency	247,178	339,011
II. Debt denominated in foreign currency	174,482	174,482
Of total debt:		
1. Russian government debt obligations	244,621	336,454
of which:		
— Russian government debt obligations in the form of government securities	216,896	306,698
— Finance Ministry's promissory notes	27,370	29,401
— internal state foreign currency loan bonds	355	355
2. CIS countries' debt on interest on technical loans and interstate settlements	2,801	2,801
3. Finance Ministry's debt on Bank of Russia loans extended to cover Russian republic's budget debt accumulated as of December 1, 1990 and written-off debt on loans to banks	69	69
4. Debt on operations in organised securities market	42	42
5. Bank of Russia funds provided to Vneshekonombank to credit Finance Ministry's foreign debt service	174,127	174,127

Table 16

RUSSIA'S BALANCE OF PAYMENTS FOR 1999 (analytical presentation, million US dollars)

	Q1	Q2	Q3	Q4	1999	For reference: 1998
Current account	4,716	4,406	5,628	10,239	24,990	1,037
Balance of trade	6,531	6,886	9,204	12,681	35,302	17,097
<i>Exports</i>	<i>15,538</i>	<i>16,953</i>	<i>18,651</i>	<i>23,521</i>	<i>74,663</i>	<i>74,888</i>
<i>Imports</i>	<i>-9,007</i>	<i>-10,067</i>	<i>-9,447</i>	<i>-10,840</i>	<i>-39,361</i>	<i>-57,791</i>
Balance of services	-681	-757	-890	-1,014	-3,342	-3,851
<i>Exports</i>	<i>1,784</i>	<i>2,292</i>	<i>2,600</i>	<i>2,408</i>	<i>9,083</i>	<i>12,371</i>
<i>Imports</i>	<i>-2,465</i>	<i>-3,049</i>	<i>-3,490</i>	<i>-3,422</i>	<i>-12,425</i>	<i>-16,222</i>
Balance of wage	63	67	62	68	260	-164
Balance of investment incomes (interest, dividends)	-1,148	-1,866	-2,955	-1,795	-7,764	-11,637
<i>Receivable from nonresidents</i>	<i>2,166</i>	<i>600</i>	<i>299</i>	<i>344</i>	<i>3,409</i>	<i>4,000</i>
of which by government sector	1,987	331	109	59	2,485	2,575
<i>Payable to nonresidents</i>	<i>-3,314</i>	<i>-2,466</i>	<i>-3,253</i>	<i>-2,139</i>	<i>-11,173</i>	<i>-15,637</i>
of which by government sector	-2,806	-1,812	-2,719	-1,687	-9,023	-12,443
Balance of current transfers	-48	76	206	300	534	-409
Capital and financial account	-4,957	-1,266	-5,696	-4,313	-16,231	2,622
Capital account (capital transfers)	-97	-33	-81	-122	-333	-382
Financial account (except reserve assets)	-4,860	-1,233	-5,615	-4,191	-15,899	3,004
Liabilities ("+" means growth, "-" decrease)	1,854	6	75	-648	1,288	20,473
<i>Government sector operations</i>	<i>1,200</i>	<i>-1,064</i>	<i>811</i>	<i>-132</i>	<i>814</i>	<i>14,652</i>
Portfolio investment	142	-533	-414	-101	-906	8,273
<i>Ruble-denominated securities (GKO—OFZ)</i>	<i>-528</i>	<i>651</i>	<i>-91</i>	<i>245</i>	<i>277</i>	<i>-362</i>
<i>Foreign currency-denominated securities</i>	<i>670</i>	<i>-1,184</i>	<i>-323</i>	<i>-346</i>	<i>-1,183</i>	<i>8,635</i>
federal eurobonds	82	-187	35	-117	-186	4,897
local governments' eurobonds	30	-73	-57	-41	-140	534
bonds issued under agreement with London Club	424	-427	308	-473	-168	919
bonds involved in GKO—OFZ restructuring	-63	77	-627	296	-317	2,144
Finance Ministry's internal state foreign currency loan bonds (OVGVZ)	196	-374	18	-12	-172	-190
other	0	-200	0	0	-200	330

End

	Q1	Q2	Q3	Q4	1999	For reference: 1998
Loans	-1,273	-1,141	3,231	-928	-110	1,860
used	414	339	1,197	796	2,746	6,654
repaid (on schedule)	-1,867	-1,793	-1,979	-1,946	-7,585	-7,214
deferred	180	313	4,013	222	4,728	2,420
Overdue debt	2,237	752	-2,014	880	1,855	4,307
Other liabilities	94	-143	8	17	-24	212
<i>Central Bank operations (with regard to IMF loans)</i>	0	0	-454	-464	-917	3,781
<i>Banks' operations</i>	-12	-38	-932	131	-851	-6,262
<i>Other sectors' operations</i>	666	1,108	650	-183	2,242	8,302
Direct investment	476	646	553	720	2,396	2,500
Portfolio investment	-38	239	-41	18	179	831
Loans	123	145	90	-697	-338	4,649
Trade loans and advances	105	77	48	-224	6	322
Other liabilities	0	0	0	0	0	0
Assets, except reserve assets ("+" means decrease, "-" growth)	-6,714	-1,239	-5,689	-3,543	-17,186	-17,469
<i>Government sector operations</i>	<i>-1,865</i>	<i>23</i>	<i>519</i>	<i>35</i>	<i>-1,289</i>	<i>-1,478</i>
Loans	2,156	2,136	259	28	4,578	5,679
Overdue debt	-4,048	-1,205	-225	-191	-5,669	-7,137
Other assets	27	-908	485	198	-198	-21
<i>Banks' operations</i>	<i>-1,328</i>	<i>-941</i>	<i>-936</i>	<i>-294</i>	<i>-3,499</i>	<i>485</i>
<i>Other sectors' operations</i>	<i>-3,521</i>	<i>-322</i>	<i>-5,272</i>	<i>-3,284</i>	<i>-12,399</i>	<i>-16,476</i>
Direct and portfolio investment	-326	-636	-579	-567	-2,108	-1,060
Foreign cash	191	972	-369	164	958	843
Trade loans and advances	-2,049	751	-3,073	-1,330	-5,701	-6,883
Non-receipt of foreign currency earnings	-873	-267	-620	-564	-2,323	-4,622
Non-delivery of goods and services against import advances	-300	-1,135	-634	-990	-3,060	-4,257
Other assets	-165	-6	3	4	-164	-496
Net errors and omissions	-728	-1,529	-1,024	-3,700	-6,981	-8,963
Change in currency reserves ("+" means decrease, "-" growth)	969	-1,611	1,091	-2,227	-1,778	5,305

Table 17

**CONSOLIDATED INTERNATIONAL INVESTMENT POSITION OF RUSSIAN CREDIT INSTITUTIONS (EXCLUDING VNESHEKONOMBANK)
AS OF DECEMBER 31, 1998 AND DECEMBER 31, 1999 (million US dollars)***

	Balance as of 31.12.1998	Change as a result of operations	Change as a result of revaluation	Other changes**	Total change	Balance as of 31.12.1999
Assets	10,100	3,351	—344	—368	2,639	12,737
Direct investment abroad	351	—23	—27	—11	—61	291
Participation in capital and reinvested income	241	—4	—26	—11	—41	201
Other capital	110	—19	—1	0	—20	90
Portfolio investment	1,196	—283	—154	—31	—469	728
Participation in capital	16	—5	—1	—5	—11	5
Debt securities	1,180	—279	—153	—26	—457	723
long-term	638	109	—123	—43	—57	581
short-term	542	—388	—30	17	—400	142
Other investment	8,552	3,657	—163	—326	3,168	11,718
Foreign cash and deposits	5,344	3,890	—90	—38	3,762	9,103
Foreign cash in tills	559	221	—7	—2	212	769
Current accounts and deposits	4,786	3,669	—84	—36	3,550	8,334
long-term	424	—127	—1	0	—128	296
short-term	4,361	3,797	—83	—36	3,678	8,038
Loans	2,864	—404	—53	—249	—705	2,159
long-term	1,462	—80	—13	—232	—324	1,138
short-term	1,402	—324	—39	—18	—381	1,021
Overdue debt	43	41	—1	175	215	258
Other assets	301	130	—20	—213	—103	198
long-term	4	7	0	0	6	10
short-term	298	123	—19	—213	—110	188

End

	Balance as of 31.12.1998	Change as a result of operations	Change as a result of revaluation	Other changes**	Total change	Balance as of 31.12.1999
Liabilities	10,279	—1,135	—219	—703	—2,056	8,222
Direct investment in Russia	373	465	—251	144	358	731
Participation in capital and reinvested income	373	440	—247	—2	191	564
Other capital	0	25	—5	147	167	167
Portfolio investment	387	—41	—25	—47	—114	274
Participation in capital	36	20	—19	4	4	40
Debt securities	351	—61	—6	—51	—118	234
long-term	38	14	—3	0	12	49
short-term	313	—75	—4	—51	—129	185
Other investment	9,518	—1,559	58	—800	—2,301	7,217
Current accounts and deposits	3,608	156	—100	—183	—127	3,481
long-term	912	—334	—14	189	—159	753
short-term	2,696	490	—87	—371	32	2,728
Loans	4,995	—1,924	—43	—290	—2,256	2,740
long-term	1,776	—85	—27	—228	—341	1,436
short-term	3,219	—1,839	—15	—61	—1,915	1,304
Overdue debt	695	337	—2	—223	112	806
Other liabilities	221	—128	203	—104	—30	190
long-term	4	89	—1	0	88	93
short-term	216	—217	203	—104	—118	98
Net international investment position	—178	4,486	—125	334	4,695	4,515

* “Plus” indicates net increase in assets or liabilities, “minus” net decrease. This use of the symbol differs from how it is used in balance of payments statistics.

** Taking into account the assets and liabilities of credit institutions which had their banking licence revoked in the period under review.

Table 18

RUSSIAN RESIDENTS' FOREIGN DEBT IN 1999 (billion US dollars)

	31.12.1998	31.12.1999
Foreign debt, total	186.1	175.6
Government sector	152.1	144.2
Federal Government	149.8	142.2
New Russian debt	51.7	44.5
Debt of former USSR	98.1	97.7
Local governments	2.3	2.0
Bank of Russia	4.1	3.4
Credit institutions (without capital participation)	10.0	7.7
Loans	5.0	2.9
current accounts and deposits	3.7	3.5
debt securities	0.4	0.2
other debt	1.0	1.1
Non-financial enterprises (without capital participation)	19.8	20.2
Financial loans	15.5	14.8
debt on financial leasing	1.3	1.5
loans received by direct investment enterprises	3.0	3.8

Note:

1. This Table is based on data provided by Finance Ministry, Bank of Russia and Goskomstat.
2. Securities are evaluated at par.

Table 19

STRUCTURE OF FOREIGN INVESTMENT IN RUSSIA IN 1999 (billion US dollars)*

Type of investment	1999					For reference: 1998
	Q1	Q2	Q3	Q4	year on year	
Direct	0.6	0.8	0.7	0.8	2.9	2.8
Portfolio	0.1	-0.4	-0.4	-0.1	-0.8	8.9
Other	1.1	-0.4	-0.2	-1.4	-0.8	8.8
Total	1.9	0.0	0.1	-0.6	1.3	20.5

* Net growth in obligations to nonresidents.

Note:

“—” means decrease in residents' foreign liabilities.

Table 20

DYNAMICS OF RUSSIAN DEBT TO IMF AND IBRD IN 1999 (billion US dollars)

Credit mechanism	Debt as of 31.12.1998	Received in period under review	Repaid in period under review	Exchange rate differences*	Debt as of 31.12.1999
IMF loans	19.3	0.6	4.2	-0.5	15.2
systemic transformation facility, 1993—1994	2.7	0	0.5	-0.1	2.1
stand-by loan, 1995—1996	5.5	0	2.8	-0.1	2.5
extended fund facility, 1996—1998	7.2	0	0	-0.2	7
compensatory and contingency financing facility, 1998**	3	0	0	-0.1	3
supplemental reserve facility, 1998**	1	0	0.9	-0.0	0
stand-by loan, 1999	0	0.6	0	+0.0	0.6
IBRD loans	6.3	0.5	0.1	0	6.7

* Exchange rate differences arise from change in currencies of loans against US dollar.

** Debt serviced by Bank of Russia.

Table 2.1

OUTSTANDING RUSSIAN GOVERNMENT FOREIGN CURRENCY DEBT INSTRUMENTS AS OF DECEMBER 31, 1999

Date of issue*	Maturity date	Currency	Volume at par in original currency, million units of currency	Coupon rate, % p.a.
Finance Ministry Eurobonds (7 issues)				
27.11.1996	27.11.01	USD	1,000.00	9.25
25.03.1997	25.03.04	DEM	2,000.00	9
26.06.1997	26.06.07	USD	2,400.00	10
31.03.1998	31.03.05	DEM	1,250.00	9.375
6.05.1998	30.04.03	ITL	750,000.00	9
10.06.1998	10.06.03	USD	1,250.00	11.75
24.06.1998	26.06.28	USD	2,500.00	12.75
Finance Ministry bonds issued in restructuring of GKO (2 issues)				
24.07.1998	25.07.05	USD	2,969.00	8.75
24.07.1998	24.07.18	USD	3,466.70	11
Finance Ministry OVGYZ (3rd, 4th, 5th, 6th, 7th series)**				
14.05.1993	14.05.99	USD	1,322.00	3
14.05.1993	14.05.03	USD	3,462.00	3
14.05.1993	14.05.08	USD	2,837.00	3
14.05.1996	14.05.06	USD	1,750.00	3
14.05.1996	14.05.11	USD	1,750.00	3
Vneshekonombank Soviet-era debt obligations issued to restructure debt to London Club (6 issues)				
Interest arrears notes (IAN) (1 issue)				
2.12.1997	15.12.15	USD	6,787.00	6.90625***
Restructured loans (PRIN) (5 issues)				
2.12.1997	15.12.20	USD	20,385.80	6.90625***
2.12.1997	15.12.20	DEM	2,625.10	4.3125***
2.12.1997	15.12.20	JPY	29,662.90	1.09375***
2.12.1997	15.12.20	CHF	140.70	2.6875***
2.12.1997	15.12.20	EUR	72.30	4.3125***

* Date of issue shall be the first date of securities' issue.

** Obligations of the 3rd series are overdue.

*** Floating interest rate bonds (LIBOR rate on 6-month loans in corresponding currency plus 13—16% p.a., according to Reuters agency).

Source: Ministry of Finance of Russian Federation.

Table 22

**STRUCTURE OF RUSSIAN RESIDENTS' INVESTMENTS IN FOREIGN ASSETS (EXCEPT RESERVE ASSETS) IN 1999
(billion US dollars)***

Type of investment	1999					For reference: 1998
	Q1	Q2	Q3	Q4	Year's total	
Direct	0.4	0.6	0.6	0.6	2.1	1.0
Portfolio	0.0	0.2	-0.3	-0.2	-0.3	0.3
Other	6.3	0.5	5.4	3.1	15.3	16.0
Total	6.7	1.2	5.7	3.5	17.2	17.3

* Net increase in residents' foreign assets.

Note:

"—" means decrease in residents' foreign assets.

Table 23

BALANCE OF FOREIGN EXCHANGE MOVEMENT IN 1999 (billion dollars)

	1999					For reference: 1998
	Q1	Q2	Q3	Q4	Year's total	
1. Total foreign exchange brought into Russia	2.5	1.9	3.9	3.4	11.7	20.7
by banking sector	1.9	1.1	2.8	2.6	8.3	16.2
by immigrants	0.1	0.1	0.1	0.1	0.4	0.8
by tourists	0.5	0.6	1	0.6	2.7	3.2
by unregistered trade channels	0	0	0.1	0.1	0.2	0.5
2. Total foreign exchange taken out of Russia	2.6	2.9	3.5	3.6	12.6	21.6
by banking sector	0.1	0.1	0.1	0.1	0.4	0.4
by emigrants	0.1	0.1	0.1	0.1	0.4	0.7
by tourists	0.9	1.3	1.6	1.5	5.3	6.2
by unregistered trade channels	1.3	1.2	1.4	1.5	5.4	12.4
other	0.3	0.3	0.3	0.3	1.2	2
3. Total increase (+)/decrease (-) in foreign cash held by residents	-0.1	-1	-0.4	-0.1	-0.9	-0.9
in banking sector	0.1	0	0	0	0.1	-0.1
in non-financial enterprise and household sector	-0.2	-1	-0.4	-0.2	-1	-0.8

Source:

State Customs Committee, consolidated data of authorised banks and Bank of Russia estimate.

Table 24

DYNAMICS OF RUSSIA'S INTERNATIONAL RESERVES IN 1999 (million dollars)

Indicator	Balance as of												
	1998	1999											
	31.12	31.01	28.02	31.03	30.04	31.05	30.06	31.07	31.08	30.09	31.10	30.11	31.12
Reserve assets (including Finance Ministry assets)	12,223.0	11,620.0	11,436.7	10,765.0	11,168.4	11,936.8	12,152.0	11,920.6	11,231.0	11,212.1	11,751.6	11,504.1	12,455.5
Foreign exchange assets	7,801.4	7,078.2	7,284.2	6,678.6	7,074.3	8,033.7	8,188.2	7,826.9	6,823.8	6,633.5	7,080.9	7,598.5	8,457.2
Monetary gold*	4,421.6	4,542.6	4,152.5	4,086.3	4,094.1	3,903.1	3,963.8	4,093.7	4,407.2	4,578.6	4,670.8	3,905.6	3,998.3

* Gold is evaluated at \$300 per troy oz.

Table 25

KEY ECONOMIC DEVELOPMENT INDICATORS OF CIS COUNTRIES IN 1999

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kirghizia	Moldova	Russia	Tajikistan	Turkmenia	Ukraine
Main Macroeconomic Indicators											
Gross domestic product (as % of previous year)	107.4	103.3	103.4	103.0	101.7	103.6	98.3	103.2	103.7	116.0	99.6
Industrial output (as % of previous year)	103.5	105.2	109.7	104.8	102.2	98.3	91.0	108.1	105.0	116.1	104.3
Retail trade (as % of previous year)	113.3	107.7	109.7	104.6	103.7	100.9	72.2	92.3*	104.0	140.0	97.0
Consumer price index	91.5	100.6	393.7	119.2	108.3	135.9	139.0	136.5	126.3	121.1	122.7
Officially registered unemployed as % of economically active population	1.2	11.6	2.1	5.0	3.9	3.0	—	1.7	—	—	4.3
Central (national) bank official rate (refinancing rate), %											
— December 1998	14	39	48	40	25	32.91	—	60	41	30	74.2
— December 1999	10	43	120	27	18	55.07	—	55	14.3	27	45
Official exchange rate set by central (national) bank, units of national currency against US dollar											
— as of December 31, 1998	3,890	522.03	107,000	1.8000	83.8	29.3759	8.3226	20.65	985	5,200	3.43
— as of December 31, 1999	4,373	523.8	320,000	1.9300	138.22	45.4293	11.5902	27.0	1,436	5,200	5.22
against Russian ruble											
— as of December 31, 1998	188.38	24.73	5,100	0.0861	4.26	1.4784	0.3955	—	49.6	254.0	0.20
— as of December 31, 1999	161.96	19.0	11,870	0.0702	5.13	1.7002	0.4183	—	53.19	189	0.19
Money supply in national currency (% rate of growth as of beginning of year)	15.25	36.6	195.1	9.6	83.4	33.9	33.33	57.2	36.6	23.6	40.7

End

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kirghizia	Moldova	Russia	Tajikistan	Turkmenia	Ukraine
Main Financial Market Indicators (as of end of year)											
Interbank lending rate in national currency	20.50	40.5	65.8	25.0	6.79	48.13	32.71	11.8	26.5	—	53.4
Yield on government debt instruments	17.83	49.94	115.3	12.50	15.38	55.07	33.89	78.30	84.65	27	—
Interest rate on loans in national currency											
— short-term loans	19.8	38.3	99.8	26.4	21.1	53.37	36.54	32.1	23.19	11.0	61.5
— long-term loans	19.7	22.7	34.7	23.0	20.3	26.80	31.88	32.0	31.87	12.3	52.7
Interest rate on household deposits in national currency											
— short-term deposits	9.4	32.3	89.4	13.8	13.4	40.17	26.91	8.5	24	26.7	36.3
— long-term deposits	10.1	28.8	110.9	2.0	13.0	40.26	24.05	83.0	30	25.6	59.7
No. of registered commercial banks											
— as of December 31, 1998	79	31	37	43	71	23	20	2,451	19	67	214
— as of December 31, 1999	70	32	36	37	55	23	17	2,342	19	13	203

* Retail trade turnover.

Note.

The refinancing rate in Kirghizia is set on the basis of average weighted yield on 3-month government notes and in Georgia at credit auctions.

Interbank rates are calculated on the basis of 90-day loans in Azerbaijan, loans with terms up to 15 days in Armenia, overnight loans in Belarus, Kazakhstan and Ukraine; loans with terms up to 30 days in Kirghizia and loans with terms over 3 months in Moldova.

Yields on government debt instruments are set on the basis of 1-month bonds in Azerbaijan, 91-day bonds in Armenia, 6- to 12-month bonds in Belarus, 28-day bonds in Georgia, 3-month bonds in Kazakhstan and 182-day bonds in Moldova.

This table has been compiled on the basis of data provided by CIS central (national) banks.

Table 26

GDP AND INFLATION IN INDUSTRIALISED NATIONS, DEVELOPING COUNTRIES AND TRANSITIONAL ECONOMIES

	GDP growth as % of previous year		Inflation rate*, %	
	1998	1999	1998	1999
Total	2.5	3.3
Industrialised nations	2.4	3.1	1.5	1.4
Group of Seven	2.5	2.8	1.3	1.5
United States	4.3	4.2	1.6	2.2
Japan	-2.5	0.3	0.6	-0.3
Germany	2.2	1.5	0.6	0.7
France	3.4	2.7	0.7	0.6
Italy	1.5	1.4	1.7	1.7
Great Britain	2.2	2.0	2.7	2.3
Canada	3.1	4.2	1.0	1.7
Other industrialised nations	2.0	4.6	2.4	1.3
Of which:				
New industrial countries of Asia	-2.3	7.7	4.5	...
European Union	2.7	2.3	1.4	1.4
Euro zone	2.8	2.3	1.2	1.2
Developing countries	3.2	3.8	10.1	6.5
Asia	3.8	6.0	7.6	2.5
China	7.8	7.1	-0.8	-1.4
India	4.7	6.8	13.2	5.0
ASEAN-4**	-9.5	2.5
Africa	3.1	2.3	9.2	11.0
Middle and Near East	2.7	0.7	26.0	20.3
Latin America	2.1	0.1	9.8	8.8
Brazil	-0.1	0.5	3.2	4.9
Countries in transition	-0.7	2.4	21.8	43.7
Central and Eastern Europe	1.8	1.4	18.7	20.5
Excluding Belarus and Ukraine	2.0	1.5	17.0	11.0
Caucasus and Central Asia	2.3	4.4	13.1	15.5

* Consumer price growth.

** Indonesia, Malaysia, Thailand and the Philippines.

Source: World Economic Outlook, International Monetary Fund, April 2000.

Table 27

WORLD TRADE IN GOODS AND SERVICES (growth % as of previous year)

	1998	1999
Total	4.2	4.6
Imports		
Industrialised nations	5.5	7.4
Developing countries	0.4	0.3
Economies in transition	2.9	−5.4
Exports		
Industrialised nations	3.7	4.4
Developing countries	4.5	1.7
Economies in transition	6.3	3.9
World market prices (US dollars)		
Oil	−32.1	38.7
Raw materials	−14.7	−6.9

Source: World Economic Outlook, International Monetary Fund, April 2000.

Table 28

LIBOR RATES ON 6-MONTH INTERBANK LOANS IN INTERNATIONAL CAPITAL MARKET IN LONDON (%)

	1998	1999
In US dollars	5.6	5.5
In yen	0.7	0.2
In euros	3.7	3.0

Source: World Economic Outlook, International Monetary Fund, April 2000.

Table 29

MONEY SUPPLY (national definition, billion rubles)

Indicators	31.12.1998	31.03.1999	30.06.1999	31.09.1999	31.12.1999
Money supply (M2), total	448.4	473.8	567.7	597.4	704.7
cash in circulation*	187.8	174.1	216.4	212.8	266.5
non-cash funds	260.5	299.6	351.3	384.6	438.1

* Cash in circulation outside the banking system.

Table 30

AVERAGE MONTHLY RATES OF MONEY SUPPLY GROWTH IN 1999 (%)

Indicators	Q1	Q2	Q3	Q4	Year's total
Money supply (M2), total	1.9	6.2	1.7	5.7	3.8
cash in circulation*	-2.5	7.5	-0.6	7.8	3.0
non-cash funds	4.8	5.4	3.1	4.4	4.4

* Cash in circulation outside the banking system.

Table 31

MONEY SUPPLY STRUCTURE (M2)

Indicators	As of 31.12.1998		As of 31.12.1999		Growth index for 1999
	billion rubles	%	billion rubles	%	
Money supply (M2), total	448.4	100.0	704.7	100.0	1.57
Of which:					
cash in circulation	187.8	41.9	266.5	37.8	1.42
non-cash funds	260.5	58.1	438.1	62.2	1.68
of which:					
funds of non-financial organisations	118.7	26.5	234.9	33.3	1.98
household deposits	141.8	31.6	203.2	28.8	1.43

* Cash in circulation outside the banking system.

Table 32

MONETARY BASE AND ITS STRUCTURE

	As of 31.12.1998		As of 31.12.1999		Growth index for 1999
	billion rubles	%	billion rubles	%	
Monetary base (in broad definition)	258.2	100.0	425.8	100.0	1.65
Of which:					
cash in circulation including cash balances in tills of credit institutions*	197.9	76.6	288.6	67.8	1.46
credit institutions' correspondent accounts with Bank of Russia**	32.6	12.6	68.9	16.2	2.11
required reserves***	20.8	8.1	64.6	15.2	3.10
credit institutions' deposits with Bank of Russia	4.7	1.8	3.7	0.9	0.80
Bank of Russia bonds held by credit institutions	2.3	0.9	0	0	—

* Not counting cash in Bank of Russia tills.

** Ruble accounts, including cash balances in organised securities market and in ARCO correspondent account.

*** For ruble-denominated and foreign currency funds borrowed.

Table 33

ANALYTICAL ACCOUNTS OF CREDIT INSTITUTIONS (million rubles)

	31.12.1998	31.12.1999	Change for 1999
Reserves	67,762.90	160,017.30	92,254.40
Foreign assets	219,593.00	370,651.30	151,058.30
Claims on general government:	259,401.60	437,675.20	178,273.60
Of which:			
claims on regional and local governments	24,445.60	19,870.50	—4,575.10
Claims on non-financial Public enterprises	33,078.80	46,901.20	13,822.40
Claims on non-financial private enterprises and households	345,962.60	521,644.80	175,682.20
Claims on other financial institutions	7,270.70	13,060.20	5,789.50
Demand deposits	149,470.70	249,673.70	100,203.00
Time and savings deposits and foreign currency deposits	283,996.10	456,527.80	172,531.70
Of which:			
foreign currency deposits	190,872.70	290,212.90	99,340.20
Limited-access deposits	22,595.10	10,223.60	—12,371.50
Money market instruments	43,311.90	107,817.20	64,505.30
Foreign liabilities	203,136.80	222,626.60	19,489.80
General government deposits	20,676.50	28,671.80	7,995.30
Of which:			
deposits of regional and local governments	10,148.20	15,626.80	5,478.60
Obligations to monetary authorities	71,893.60	200,121.40	128,227.80
Capital accounts	157,594.70	293,199.40	135,604.70
Other (balance)	—19,605.70	—18,911.60	694.1

Table 34

MONETARY SURVEY (million rubles)

	31.12.1998	31.12.1999	Change for 1999
Net foreign assets of monetary authorities and credit institutions	—98,769.40	105,848.40	204,617.80
Domestic credit	1,109,108.40	1,487,198.20	378,089.80
Net credit to General government	722,234.60	905,162.50	182,927.90
Claims on non-financial state-owned enterprises	33,228.40	47,014.90	13,786.50
Claims on non-financial private enterprises and households	346,374.70	521,960.60	175,585.90
Claims on other financial institutions	7,270.70	13,060.20	5,789.50
Money	342,816.80	526,771.80	183,955.00
Quasi-money	285,823.70	458,102.70	172,279.00
Limited-access deposits	22,595.10	10,223.60	—12,371.50
Money market instruments	43,311.90	107,817.20	64,505.30
Capital accounts	275,707.60	445,043.20	169,335.60
Other (balance)	40,084.00	45,088.20	5,004.20

Table 35

FOREIGN CASH OPERATIONS BY RUSSIAN AUTHORISED BANKS IN 1999* (billion US dollars)

Indicator	1999					For reference: 1998
	Q1	Q2	Q3	Q4	Year's total	
Total foreign currency received	7.8	5.9	9.4	9.6	32.6	55.1
Of which:						
brought to Russia by banks and entered to cash accounts	1.9	1.1	2.8	2.6	8.4	16.1
bought from resident banks	1.8	1.3	2.6	2.5	8.1	11.9
bought from private individuals and received for conversion**	1.6	1.7	1.8	1.8	7.0	15.3
received from private individuals for entering to their currency accounts**	2.2	1.6	1.7	2.3	7.8	10.3
Total foreign currency spent:	7.7	6.0	9.3	9.5	32.5	55.2
Of which:						
taken out of Russia by banks and written down from cash accounts	0.1	0.1	0.1	0.1	0.4	0.4
sold to resident banks	1.8	1.3	2.7	2.6	8.3	12.0
sold to private individuals and paid out from conversion**	2.1	1.9	2.6	2.6	9.2	19.8
paid out to private individuals from their currency accounts**	3.5	2.3	3.4	3.8	13.0	21.4

* According to data reported in form 601, except foreign exchange operations relating to interbranch turnover.

** These data comprise operations with resident and nonresident private individuals.

Table 36

BALANCE OF FOREIGN EXCHANGE OPERATIONS BY RESIDENT AND NONRESIDENT INDIVIDUALS IN 1999
(billion US dollars)

	1999					For reference: 1998
	Q1	Q2	Q3	Q4	Year's total	
Bought by private individuals and received from conversion	2.1	1.9	2.6	2.6	9.2	19.8
Withdrawn by private individuals from their currency accounts	3.5	2.3	3.4	3.8	13.0	21.4
Total	5.6	4.2	6.0	6.4	22.2	41.2
Sold by private individuals and passed for conversion	1.6	1.7	1.8	1.8	7.0	15.3
Entered by individuals to their foreign currency accounts	2.2	1.6	1.7	2.3	7.8	10.3
Total	3.8	3.3	3.5	4.1	14.8	25.6
Net household operations	1.7	1.0	2.5	2.3	7.5	15.6

Table 37

**STRUCTURE OF LICENCES AND PERMITS TO CONDUCT FOREIGN EXCHANGE OPERATIONS RELATED TO CAPITAL FLOW,
ISSUED BY BANK OF RUSSIA AND ITS REGIONAL BRANCHES (Registered in Electronic Database for 1999)**

	No. of permits issued	Sum of permitted payments, billion US dollars	For reference: 1998	
			No. of permits issued	Sum of permitted payments, billion US dollars
Permits to invest funds abroad, total	873	3.47	723	3.36
Of which:				
direct and portfolio investments	30	0.27	56	0.01
commercial (trade) loans	769	2.36	604	1.17
Permits to raise funds from abroad, total	352	2.76	429	9.22
Of which:				
direct and portfolio investments	9	0.06	51	0.60
financial loans	230	1.92	247	8.20
Permits providing for funds movement under certain conditions, total	161	0.22	192	4.74
Of which:				
guarantees and warranties	11	0.21	34	4.45

Table 38

REHABILITATION OF CREDIT INSTITUTIONS BY BANK OF RUSSIA REGIONAL BRANCHES

Region	No. of credit institutions ordered in 1999 to present financial rehabilitation plans		Of which under Article 4 of Federal Law No. 40-FZ of February 25, 1999, on Insolvency (Bankruptcy) of Credit Institutions								No. of credit institutions that presented financial rehabilitation plans in 1999		No. of credit institutions whose financial rehabilitation plans were approved and their implementation was monitored		No. of credit institutions which had licences revoked because of unsatisfactory financial condition in 1999 (p. 6 of Art. 20)		No. of credit institutions placed under control of ARCO		No. of credit institutions to which temporary administrations were appointed in 1999		No. of credit institutions that decided to reduce authorised capital in 1999
			of these in connection with:																		
			repeated non-fulfilment during last 6 months of individual creditors' monetary claims and (or) non-effectuation of mandatory payments within 3 days due to lack or shortage of funds in credit institution's correspondent accounts	non-fulfilment of creditors' monetary claims and (or) non-effectuation of mandatory payments for more than 3 days due to lack or shortage of funds in credit institution's correspondent accounts	absolute decrease by more than 20% of own funds (capital) from its 12-month maximum amount and simultaneous violation of any Bank of Russia compulsory standards	violation of capital adequacy ratio set by Bank of Russia	violation by more than 10% of current liquidity ratio	total	of which: in accordance with inquiries made in 1998	of which: at credit institution's initiative (without an inquiry from Bank of Russia regional branches)											
2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19				
Republic of Adygeia	2	0	0	0	0	0	0	0	0	0	1	2	0	0	0	0	0	0			
Altai Territory	2	2	0	0	2	0	0	2	0	2	1	1	1	0	0	0	0	1			
Amur Region	3	3	0	1	1	0	1	3	0	0	3	3	3	1	0	1	1	0			
Arkhangelsk Region	0	0	0	0	0	0	0	1	0	1	0	0	0	1	0	0	0	0			
Astrakhan Region	0	0	0	0	0	0	0	1	0	1	0	0	0	1	0	0	0	0			
Republic of Bashkortostan	4	4	2	1	3	1	2	4	4	0	4	5	3	1	0	0	0	0			
Belgorod Region	2	1	0	0	1	0	0	2	1	0	1	2	2	0	0	0	0	0			
Republic of Buryatia	3	1	0	0	0	0	1	4	1	2	1	2	2	2	0	0	0	0			
Vladimir Region	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0			
Vologda Region	0	0	0	0	0	0	0	1	0	1	0	1	1	0	0	0	0	1			

Cont.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Voronezh Region	0	0	0	0	0	0	0	3	3	0	2	1	1	0	1	1	1	1
Republic of Daghestan	19	18	2	6	15	6	11	11	0	0	10	4	4	7	0	0	0	1
Ivanovo Region	1	0	0	0	0	0	0	1	1	0	1	1	1	1	0	0	0	1
Ingush Republic	1	1	0	0	0	1	0	1	1	0	1	1	1	0	0	0	0	0
Irkutsk Region	1	1	0	0	0	0	1	1	0	0	0	0	0	2	0	0	0	0
Kabardino-Balkar Republic	3	3	0	0	3	0	3	3	1	0	3	3	3	0	0	0	0	0
Kaliningrad Region	0	0	0	0	0	0	0	2	2	0	1	2	2	0	1	0	0	2
Republic of Kalmykia	0	0	0	0	0	0	0	1	1	0	1	1	1	1	0	0	0	0
Kaluga Region	1	1	1	0	0	0	1	1	1	1	0	2	1	0	0	0	0	0
Kamchatka Region	1	1	0	1	0	0	1	2	0	1	1	2	2	0	0	0	0	0
Karachai-Cherkess Republic	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Kemerovo Region	1	1	0	1	0	0	0	2	0	0	1	1	0	1	1	1	1	3
Kirov Region	0	0	0	0	0	0	0	1	1	0	1	1	1	0	1	0	0	1
Republic of Komi	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Kostroma Region	2	2	2	2	2	2	2	3	1	2	2	3	3	0	0	0	0	2
Krasnodar Territory	3	3	1	0	0	0	3	3	1	1	1	15	3	3	0	0	0	0
Krasnoyarsk Territory	2	2	0	1	0	0	1	2	0	0	0	2	1	2	0	0	0	0
Kurgan Region	1	0	0	0	0	0	0	1	0	0	1	1	0	1	0	0	0	0
Leningrad Region	2	1	0	0	1	1	1	2	0	0	2	2	2	0	0	0	0	0
Lipetsk Region	1	0	0	0	0	0	0	2	0	1	1	2	2	0	0	0	0	0
Magadan Region	2	2	0	0	0	1	2	2	0	0	1	2	2	0	0	0	0	0
Republic of Mordovia	0	0	0	0	0	0	0	2	0	2	2	2	2	1	0	0	0	1
Moscow	96	94	4	42	56	32	44	144	62	16	102	76	50	67	3	1	1	7
Moscow Region	10	10	1	1	5	1	7	10	0	2	2	10	10	1	0	0	0	2
Nizhni Novgorod Region	4	3	0	3	0	0	3	4	0	0	4	4	4	1	0	0	0	1
Novgorod Region	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0
Novosibirsk Region	1	0	0	0	0	0	0	1	0	0	1	1	1	1	0	0	0	0
Omsk Region	2	0	0	0	0	0	0	2	0	0	2	2	2	0	0	0	0	1
Orenburg Region	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Penza Region	1	0	0	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0
Perm Region	2	2	1	0	1	0	0	2	1	0	2	0	0	1	0	0	0	0
Primorsky Territory	1	1	0	1	0	0	0	5	4	0	2	2	1	1	1	1	1	1

End

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Pskov Region	2	2	0	0	2	0	0	2	0	1	2	1	1	0	0	0	0	0
Rostov Region	4	2	0	0	2	0	0	4	1	1	7	5	2	0	0	1	0	1
Ryazan Region	1	0	0	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0
Samara Region	2	2	1	1	2	1	2	4	1	2	2	4	3	1	1	0	0	2
St. Petersburg	12	12	2	2	7	2	8	14	5	0	11	6	6	2	0	0	0	2
Saratov Region	6	6	0	1	3	1	5	5	0	0	5	7	5	1	0	0	0	1
Republic of Sakha (Yakutia)	3	0	0	1	1	0	0	7	4	0	4	4	3	2	0	0	0	1
Sakhalin Region	1	1	0	1	0	0	0	1	0	0	1	1	1	0	0	0	0	1
Sverdlovsk Region	13	12	4	4	9	6	5	11	0	1	11	8	8	3	0	0	0	1
Republic of North Ossetia — Alania	3	2	0	0	0	1	1	2	1	0	0	2	2	0				
Stavropol Territory	7	4	1	4	4	0	4	6	0	1	6	5	5	0	0	0	0	0
Tambov Region	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	0
Republic of Tatarstan	8	8	1	1	7	2	4	11	3	1	0	10	9	2	0	0	0	1
Tver Region	7	3	2	2	2	1	3	7	0	0	1	6	6	0	0	2	2	0
Tomsk Region	1	1	0	1	0	0	1	2	1	0	2	3	2	0	0	0	0	0
Tula Region	1	0	0	0	0	0	0	2	1	0	2	2	2	0	0	0	0	1
Republic of Tyva	1	1	0	0	1	0	1	1	0	0	1	0	0	0	0	0	0	0
Tyumen Region	6	3	0	0	1	1	1	10	4	0	6	14	11	2	0	0	0	1
Udmurt Republic	0	0	0	0	0	0	0	5	3	2	3	7	4	2	1	0	0	1
Ulyanovsk Region	1	0	0	0	0	0	0	1	0	0	1	1	1	0	0	0	0	0
Khabarovsk Territory	2	1	0	0	0	0	1	2	1	0	2	0	0	0	0	0	0	0
Chelyabinsk Region	0	0	0	0	0	0	0	1	1	0	0	1	1	0	1	0	0	1
Chuvash Republic	2	2	0	0	0	0	2	2	0	0	4	4	2	1	0	0	0	0
Yaroslavl Region	2	0	0	0	0	0	0	2	0	0	2	2	2	1	0	0	0	0
Total	259	21	25	78	131	60	122	336	113	42	234	254	188	116	11	8	7	41

Table 39

CONTROL OVER LIQUIDATION OF CREDIT INSTITUTIONS

Region	No. of licences revoked*		Deleted from State Register		To be liquidated	Liquidation decisions taken				No. of liquidation commissions set up (receivers and liquidators appointed)		Surveillance procedures initiated		Heads of temporary administrations appointed		Liquidation balance sheets approved				
	total	in 1999	total	in 1999		total	of which subjected to compulsory liquidation		in 1999	of which subjected to compulsory liquidation	total	in 1999	total	in 1999	total	in 1999	intermediate		final	
							total	in 1999									total	in 1999	total	in 1999
Republic of Adygeia	7	0	1	1	6	6	6	0	0	6	2	0	0	0	0	2	1	4	4	
Republic of Altai	8	0	2	1	6	6	4	1	1	6	2	0	0	0	0	4	2	1	1	
Altai Territory	17	0	1	1	16	16	16	4	4	16	7	0	0	0	0	6	3	3	3	
Amur Region	6	1	1	0	5	5	5	1	1	5	1	0	0	0	0	2	2	2	2	
Arkhangelsk Region	8	0	2	0	6	6	6	4	4	6	4	0	0	0	0	3	2	1	1	
Astrakhan Region	9	1	0	0	9	9	5	4	4	8	4	0	0	0	0	2	0	0	0	
Republic of Bashkortostan	17	1	4	2	13	13	12	3	3	13	4	0	0	0	0	7	4	4	4	
Belgorod Region	3	0	0	0	3	3	3	0	0	3	0	0	0	0	0	0	0	1	1	
Bryansk Region	7	0	2	0	5	5	4	0	0	5	0	0	0	0	0	4	1	0	0	
Republic of Buryatia	8	3	0	0	8	5	4	2	2	5	2	0	0	0	0	2	2	0	0	
Vladimir Region	4	0	0	0	4	4	4	1	1	4	1	0	0	0	0	2	2	0	0	
Volgograd Region	21	0	8	2	13	13	13	3	3	13	6	0	0	0	0	7	4	2	1	
Vologda Region	7	0	4	1	3	3	3	0	0	3	0	0	0	0	0	2	0	0	0	
Voronezh Region	3	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Republic of Daghestan	61	7	0	0	61	51	45	14	11	18	3	0	0	0	0	1	1	0	0	
Jewish Autonomous Region	4	0	2	1	2	2	2	1	1	2	1	0	0	0	0	2	2	1	1	
Ivanovo Region	4	1	0	0	4	4	4	1	1	4	1	0	0	0	0	2	0	1	1	
Republic of Ingushetia	3	2	0	0	3	3	3	2	2	1	0	0	0	0	0	0	0	0	0	
Irkutsk Region	11	2	0	0	11	11	7	5	3	11	7	2	2	1	1	5	1	1	1	
Kabardino-Balkar Republic	6	0	1	0	5	4	3	1	1	4	1	0	0	0	0	3	0	0	0	
Kaliningrad Region	15	0	4	2	11	11	9	0	0	11	0	0	0	0	0	2	2	5	5	
Republic of Kalmykia	10	1	2	1	8	7	6	3	3	7	3	1	1	1	1	5	2	0	0	

Cont.

Region	No. of licences revoked*		Deleted from State Register		To be liquidated	Liquidation decisions taken				No. of liquidation commissions set up (receivers and liquidators appointed)		Surveillance procedures initiated		Heads of temporary administrations appointed		Liquidation balance sheets approved					
	total	in 1999	total	in 1999		total	of which subjected to compulsory liquidation		in 1999	of which subjected to compulsory liquidation		total	in 1999	total	in 1999	total	in 1999	intermediate		final	
							total	in 1999		total	in 1999							total	in 1999	total	in 1999
Kaluga Region	9	1	2	1	7	7	7	1	1	7	2	0	0	0	0	1	1	3	3		
Kamchatka Region	5	0	2	1	3	2	1	1	1	2	1	0	0	0	0	1	0	1	1		
Karachai-Cherkess Republic	7	1	4	1	3	3	3	2	2	3	2	0									
Republic of Karelia	5	0	2	0	3	3	3	1	1	3	1	0	0	0	0	1	1	0	0		
Kemerovo Region	8	1	0	0	8	7	7	1	1	7	2	0	0	0	0	6	3	0	0		
Kirov Region	8	0	1	1	7	7	1	1	1	7	1	0	0	0	0	7	1	0	0		
Republic of Komi	9	1	5	3	4	4	4	3	3	4	3	0	0	0	0	2	2	1	1		
Kostroma Region	7	0	1	1	6	6	3	0	0	6	0	0	0	0	0	6	3	0	0		
Krasnodar Territory	45	3	10	3	35	34	33	4	4	34	11	0	0	0	0	19	6	5	5		
Krasnoyarsk Territory	17	2	10	8	7	5	5	1	1	5	1	1	1	1	1	2	2	3	3		
Kurgan Region	4	1	1	0	3	3	3	1	1	3	1	0	0	0	0	2	1	0	0		
Kursk Region	5	0	2	0	3	3	1	1	1	3	2	0	0	0	0	1	1	0	0		
Leningrad Region	4	0	0	0	4	4	2	0	0	4	0	0	0	0	0	3	1	0	0		
Lipetsk Region	6	0	1	0	5	5	4	1	1	5	2	0	0	0	0	2	0	0	0		
Magadan Region	5	0	2	0	3	3	3	1	1	3	1	0	0	0	0	1	0	0	0		
Republic of Marii El	9	0	2	0	7	7	7	0	0	7	0	0	0	0	0	7	1	0	0		
Republic of Mordovia	5	1	0	0	5	4	3	0	0	4	0	0	0	0	0	2	1	1	1		
Moscow	428	70	49	29	380	295	289	57	57	186	65	9	8	5	4	31	20	54	51		
Moscow Region	18	1	4	0	14	12	12	5	5	10	4	1	1	1	1	4	3	1	1		
Murmansk Region	9	0	1	1	8	8	7	0	0	8	0	0	0	0	0	7	5	1	1		
Nizhni Novgorod Region	11	1	0	0	11	11	10	3	3	11	4	0	0	0	0	5	3	2	2		
Novgorod Region	2	0	0	0	2	2	1	0	0	2	1	0	0	0	0	1	1	1	1		
Novosibirsk Region	21	1	5	3	16	16	13	5	5	16	7	0	0	0	0	7	4	4	4		
Omsk Region	9	0	3	2	6	6	6	1	1	6	1	0	0	0	0	4	4	1	1		
Orenburg Region	15	0	3	0	12	12	6	2	2	12	3	0	0	0	0	8	1	4	4		
Orel Region	1	0	0	0	1	1	1	0	0	1	0	0	0	0	0	0	0	1	1		
Penza Region	6	1	1	0	5	4	1	3	1	4	3	0	0	0	0	3	1	0	0		

Region	No. of licences revoked*		Deleted from State Register		To be liquidated	Liquidation decisions taken				No. of liquidation commissions set up (receivers and liquidators appointed)		Surveillance procedures initiated		Heads of temporary administrations appointed		Liquidation balance sheets approved					
	total	in 1999	total	in 1999		total	of which subjected to compulsory liquidation		in 1999	of which subjected to compulsory liquidation		total	in 1999	total	in 1999	total	in 1999	intermediate		final	
							total	in 1999		total	in 1999							total	in 1999	total	in 1999
Perm Region	9	1	0	0	9	9	8	2	2	9	2	0	0	0	0	5	4	0	0		
Primorsky Territory	15	1	0	0	15	13	10	3	3	12	3	1	1	1	1	4	2	1	1		
Pskov Region	6	0	4	2	2	2	1	0	0	2	0	0	0	0	0	1	0	1	0		
Rostov Region	31	0	15	1	16	15	14	5	5	15	5	0	0	0	0	4	4	4	4		
Ryazan Region	3	0	1	1	2	2	2	1	1	2	1	0	0	0	0	0	0	1	1		
Samara Region	17	1	3	2	14	13	13	2	2	13	3	1	1	1	1	12	3	1	1		
St. Petersburg	18	2	4	1	14	13	11	2	2	13	3	0	0	0	0	3	1	1	1		
Saratov Region	15	1	9	5	6	6	6	4	4	6	4	0	0	0	0	4	4	2	2		
Republic of Sakha (Yakutia)	20	2	1	0	20	18	8	8	6	18	9	3	3	3	3	12	5	2	2		
Sakhalin Region	17	0	2	0	15	15	9	1	1	15	2	0	0	0	0	10	0	4	4		
Sverdlovsk Region	25	3	10	6	15	14	13	10	10	14	10	0	0	0	0	2	0	3	3		
Republic of North Ossetia — Alania	3	0	0	0	3	2	2	0	0	2	0	0	0	0	0	0	0	2	2		
Smolensk Region	7	0	4	1	3	3	0	0	0	3	0	0	0	0	0	1	0	2	2		
Stavropol Territory	24	3	2	1	22	21	19	2	2	21	3	1	1	0	0	4	3	2	2		
Tambov Region	3	0	1	0	2	2	2	0	0	2	0	0	0	0	0	0	0	2	2		
Republic of Tatarstan	17	2	5	1	12	12	9	4	4	12	4	0	0	0	0	5	1	0	0		
Tver Region	13	1	4	2	9	7	6	3	2	7	3	0	0	0	0	3	1	0	0		
Tomsk Region	13	0	6	2	8	8	8	2	2	8	2	0	0	0	0	5	4	1	1		
Tula Region	5	1	1	1	4	4	3	4	3	4	4	0	0	0	0	1	1	0	0		
Republic of Tyva	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Tyumen Region	31	3	4	2	27	27	26	12	12	26	11	0	0	0	0	6	3	5	4		
Udmurt Republic	11	2	2	0	9	8	8	5	5	8	5	1	1	1	1	5	2	1	1		
Ulyanovsk Region	12	0	3	2	9	9	9	5	5	9	6	0	0	0	0	7	2	1	0		
Khabarovsk Territory	15	1	1	0	14	13	11	2	2	13	3	0	0	0	0	9	5	0	0		
Republic of Khakassia	3	0	0	0	3	3	3	0	0	3	0	0	0	0	0	1	0	2	2		
Chelyabinsk Region	7	0	5	2	2	2	2	0	0	2	0	0	0	0	0	1	0	1	1		
Chechen Republic	18	0	18	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		

End

Region	No. of licences revoked*		Deleted from State Register		To be liquidated	Liquidation decisions taken				No. of liquidation commissions set up (receivers and liquidators appointed)		Surveillance procedures initiated		Heads of temporary administrations appointed		Liquidation balance sheets approved				
	total	in 1999	total	in 1999		total	of which subjected to compulsory liquidation		total	in 1999	total	in 1999	total	in 1999	total	in 1999	intermediate		final	
							in 1999	in 1999									total	in 1999	total	in 1999
Chita Region	7	0	1	0	6	6	5	2	2	6	2	0	0	0	0	2	1	0	0	
Chuvash Republic	9	1	2	2	7	6	6	2	2	6	3	1	1	1	1	4	2	0	0	
Yaroslavl Region	5	1	2	0	3	3	3	1	1	3	1	0	0	0	0	3	1	0	0	
Total	1,297	130	258	100	1,042	917	817	227	216	768	256	22	21	16	15	312	148	148	141	

* Data on number of credit institutions that had their licences revoked include credit institutions with regard to which licence revocation procedures were suspended.

Table 40

NOTE STRUCTURE OF BANK OF RUSSIA 1997 BANKNOTES IN CIRCULATION

Denomination, rubles	Total in circulation, million rubles		As % of 31.12.1998	% share	
	as of 31.12.1998	as of 31.12.1999		as of 31.12.1998	as of 31.12.1999
500	51,438.90	125,527.60	244.0	26.6	44
100	94,390.70	112,456.10	119.1	48.7	39.4
50	39,770.30	40,507.30	101.9	20.5	14.2
10	7,897.10	6,657.70	84.3	4.1	2.3
5	220.7	170.7	77.3	0.1	0.1
Total banknotes in circulation	193,717.70	285,319.40	147.3	100.0	100.0

Table 41

STRUCTURE OF BANK OF RUSSIA 1997 COINS IN CIRCULATION (by denomination)*

Denomination	Total in circulation, million rubles		As % of 31.12.1998	% share	
	as of 31.12.1998	as of 31.12.1999		as of 31.12.1998	as of 31.12.1999
1 kopeck	8.5	15.3	180.0	0.3	0.5
5 kopecks	33.2	55.5	167.2	1.2	1.7
10 kopecks	114.2	196.5	172.1	4.3	6.1
50 kopecks	252.5	329.1	130.3	9.5	10.1
1 ruble	603.0	818.4	135.7	22.7	25.3
2 rubles	469.0	514.3	109.7	17.7	15.9
5 rubles	1,175.70	1,310.10	111.4	44.3	40.4
Total coins of 1997 issue	2,656.10	3,239.20	122.0	100.0	100.0

* Excluding coins made of precious metals.

Table 42

MAIN CHARACTERISTICS OF BANK OF RUSSIA EXECUTIVES AND SPECIALISTS (%)

Characteristics	Bank of Russia system		Of which:									
			Regional Branches (National Banks)		Cash settlement centres		Central office staff		organisations		banking schools	
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
Staffing level	95.7	97.9	95.9	98.0	98.3	98.7	83.2	90.6	94.9	97.8	98.7	98.7
Specialists with higher and specialised secondary education	92.2	93.9	95.0	95.5	91.8	94.4	92.6	95.5	85.1	88.0	96.5	95.3
Specialists with higher education	57.3	61.1	74.9	76.4	38.6	43.9	83.8	87.2	53.4	56.4	76.7	76.3
Work record of less than 3 years	23.0	14.6	24.5	16.2	8.9	5.7	28.0	19.6	55.8	32.9	22.2	13.7
Work record of 10 years and more	27.6	29.1	25.4	26.2	36.0	39.3	24.0	24.9	10.7	10.3	37.7	33.2
Under 30 years of age	23.3	21.1	21.3	19.0	27.4	25.4	24.0	22.8	17.7	15.7	15.9	13.3
Over 50	13.7	14.1	15.1	15.5	8.5	9.3	23.1	24.1	18.8	19.2	35.6	23.2
Pension age	3.2	2.3	3.4	2.3	2.3	1.4	6.5	4.9	3.7	3.4	7.3	6.0
Quittance	4.7	13.7	2.7	11.4	3.2	15.3	5.7	17.1	7.8	14.7	10.8	14.5
Of which:												
resignations	2.5	4.0	2.2	3.4	2.7	3.5	3.4	7.5	2.5	5.1	5.5	6.6

Table 43

BANK OF RUSSIA STAKES IN AUTHORISED CAPITAL OF RUSSIAN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS (thousand rubles)

Name of organisation	Sum of Bank of Russia shares (stakes) as of 31.12.1998 (at par value)	Sum of Bank of Russia shares (stakes) as of 31.12.1999 (at par value)	% share of Bank of Russia participation in authorised capital as of 31.12.1999	% share of Bank of Russia participation in voting capital as of 31.12.1999
Sberbank	432,500.2	432,500.25	57.66	61.78
Vneshtorgbank	617,403.0	22,117,403.0	99.91	99.91
MICEX	7,371.0	10,623.0	9.204	9.204
National Depository Centre	12,750.0	12,750.0	25.5	29.32

Table 44

BANK OF RUSSIA STAKES IN AUTHORISED CAPITAL OF RUSSIAN OVERSEAS BANKS AS OF DECEMBER 31, 1999

Bank	Currency	Nominal value of voting shares owned by Bank of Russia as of 31.12.1998	Nominal value of voting shares owned by Bank of Russia as of 31.12.1999	% share of Bank of Russia participation in authorised capital as of 31.12.1999	Bank of Russia % share of voting capital as of 31.12.1999
Ost-West Handelsbank, Frankfurt am Main	German marks	106,600,000.00	106,600,000.00	82.0	82.0
Eurobank, Paris*	French francs	945,852,903.40	945,852,903.40	77.8	77.8
Moscow Narodny Bank, London*	British pounds	480,309,444.00	128,242,621.55	88.9	88.9
Donau Bank, Vienna	Austrian schillings	490,000,000.00	490,000,000.00	49.0	49.0
East-West United Bank, Luxembourg	Luxembourg francs euros	605,000,000.00	14,997,558.25	49.0	49.0

* Excluding nominal shareholders' shares accounted for in Bank of Russia balance sheet.

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