

MOSCOW Financial Weekly

For the weeks ending April 30 and May 8, 2003
Treasury Attache's office, U.S. Embassy Moscow

Highlights

- CBR issues draft regulations for comment on website, publishes regulation on criteria for financial assessment of bank owners.

Key Economic Indicators

Indicators	Level	% chg 1 week	% chg since Jan. 1
Ruble/\$ (MICEX) UTS	R31.1029	0.00	-2.14
Monetary Base*	R1011.1 bln	2.25%	7.53**
CPI	NA	NA	6.2
International Reserves*	\$59.9 bln	2.74	25.58
RTS Index (end of week)	418.21	-0.99	16.47%
Refinancing rate	18	0	-3

*For week prior

** % chg from the abnormally high seasonal level at the end of the year.

Economic Developments

According to data of the Central Bank of Russia, the **trade surplus in March** was \$5.6 billion, featuring exports of \$11.3 billion, an increase of 41.4% y-o-y. Exports grew due to higher oil prices, but also due to increasing volumes. In addition, non-mineral exports increased more than 10% y-o-y in the first quarter of 2003, mainly due to higher exports in machinery equipment. These positive trends also seem to be reflected in the new Moscow Narodny Bank's Manufacturing Purchasing Managers Index, which rose to a seasonally adjusted 51.8 in April, indicating increased expectations for production and new orders. While imports were \$5.7 billion in March, an increase of 27% y-o-y, due to a stronger ruble, this is not now a threat to the balance of payments, given export performance and strong capital account inflows.

Goskomstat revised **GDP data for 1996-2000**, leaving figures for 2001 and 2002 unchanged. The revisions include new data on retail trade and services, as well as new data from the balance of payments. The change was rather significant for 1999 and 2000, with GDP increasing by 1 percentage point each year -- from 5.4% to 6.4% in 1999 and 9.0% to 10.0% in 2000.

For the weeks ending April 30 and May 8, 2003

Banking sector

On May 7, the **CBR** published on its web-site the new regulation "On the procedure and criteria for assessing the financial standing of legal entities - founders (participants) of credit organizations" (218-P), which had been registered by the Ministry of Justice a few days earlier. The document concerns all banks that are legal entities except budget institutions, credit organizations and individual entrepreneurs. According to the regulation, the CBR will consider a principal shareholder's financial standing unsatisfactory if it does not fulfill the obligations stipulated in the bank charter, reports the same financials for an extended period, or does not have real assets.

There are also **three draft regulations** posted on the CBR's web-site for discussion by the banking community: 1) on loan provisioning, 2) on criteria for admittance to the deposit insurance system, and 3) on procedures for inspecting credit organizations by CBR representatives. (We mentioned the posting of the deposit insurance regulations in our previous weekly.) Comments on the latter two drafts will be accepted through May 15. The regulations attempt to move "from form to substance," with the proposals for inspections calling for "reasoned judgment" by CBR officials.

Increased foreign borrowing by Russian companies and banks may lead to deterioration of the economic situation in the country, according to Konstantin Korischenko, CBR Deputy Chairman. He suggested that the GOR might consider legal measures to limit such borrowing, thus supporting Deputy Finance Minister Sergey Kolotukhin's statement made at the recent EBRD forum in Tashkent (see Bond section below). The tension in exchange rate policy resulting from this higher borrowing can be resolved either by appreciation of the ruble or through inflation. The consequences of either choice are well known: inflation hurts the populace as a whole, while ruble appreciation reduces the competitiveness of export-oriented industries. The influx of foreign currency makes it difficult for the GOR and the CBR to resolve this dilemma, Korischenko explained. He also pointed to another related problem: corporates' liabilities are increasing, while quality of their use of the funds remains questionable. Today a company with a capital of \$1 million may, under certain circumstances, borrow up to \$100 million, which makes Russia's financial system more fragile, Korischenko said.

The MDM Group announced that it launched a \$75-million re-opening of its Regulation S three-year Eurobonds that mature on December 16, 2005. These bonds were priced to generate a YTM of 8.774%. The total size of the issue reached \$200 million. MDM Bank is the borrower, MDM Holding GmbH, the Group's parent company, is the guarantor and CSFB is the lead manager.

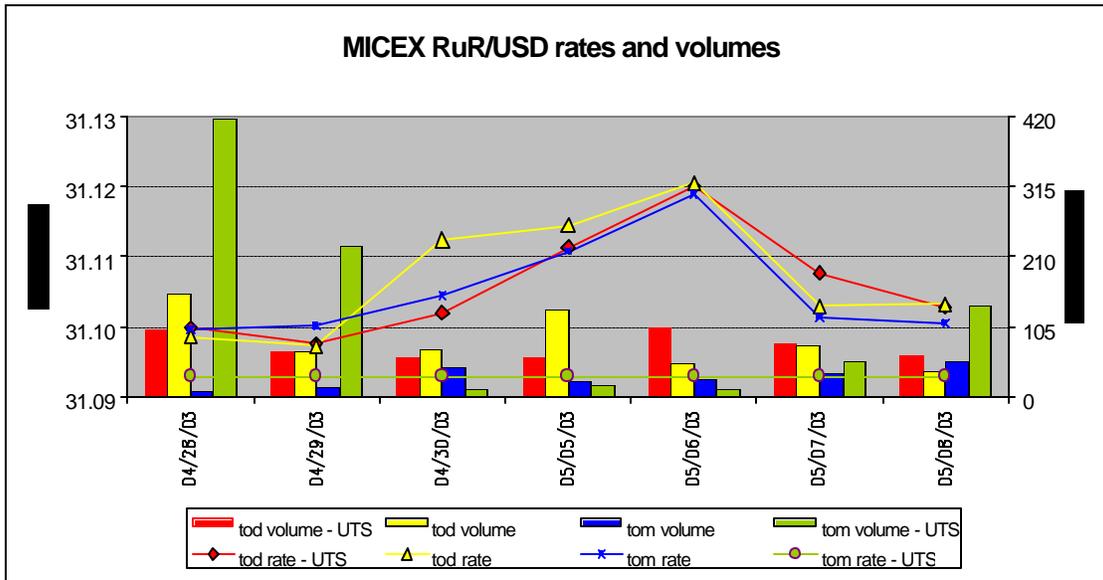
Uralsibotsbank (Yekaterinburg) has changed name to MDM-Bank-Ural. Bank Chairman Andrey Zuzin said that the CBR issued a new banking license to the bank on April 30.

Financial markets

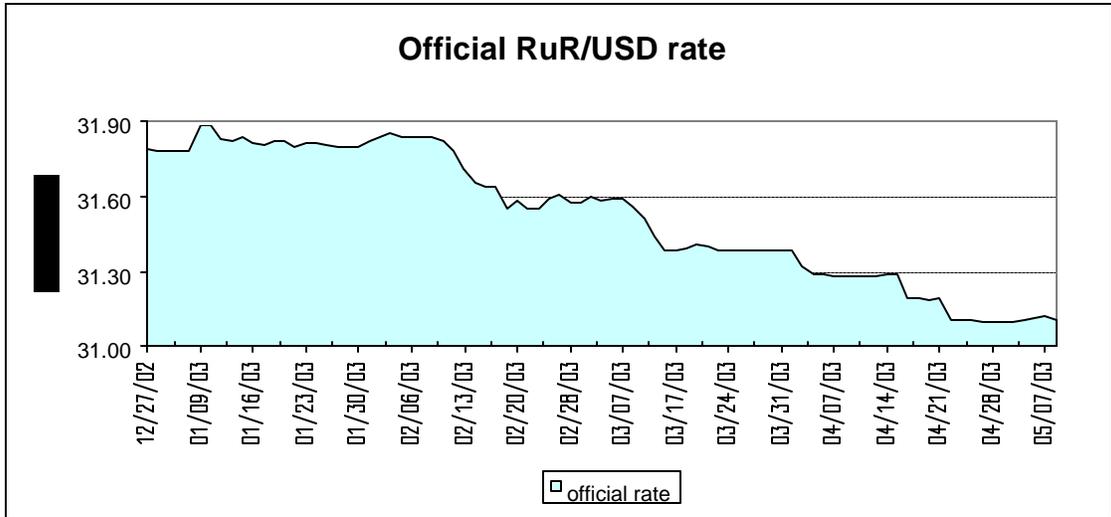
Forex Market

During the period April 28 - May 11, which included two long holiday weekends, the ruble/dollar exchange rate remained very stable, once again only because the CBR maintained its "limiting" bid at the same level, R31.10/\$. In the first two days of this period, typical end-of-month ruble strain put downward pressure on the dollar, but the CBR bought up the excess supply of dollars. On April 30, ruble liquidity surged and the dollar started slowly strengthening against the ruble. However, as a result of sharp depreciation of the dollar on international markets on May 6, the next day it fell against the ruble also, and ended the period back at the CBR's support level.

Over the past two weeks, the dollar strengthened by a negligible 0.01%, closing in the UTS on May 8 at R31.1029/\$. MICEX trade volumes for the period were \$536.56 million and \$877.70 million, \$592.41 million and \$211.63 million for the morning (UTS) "tod" and "tom" sessions, and afternoon "tod" and "tom" sessions, respectively.

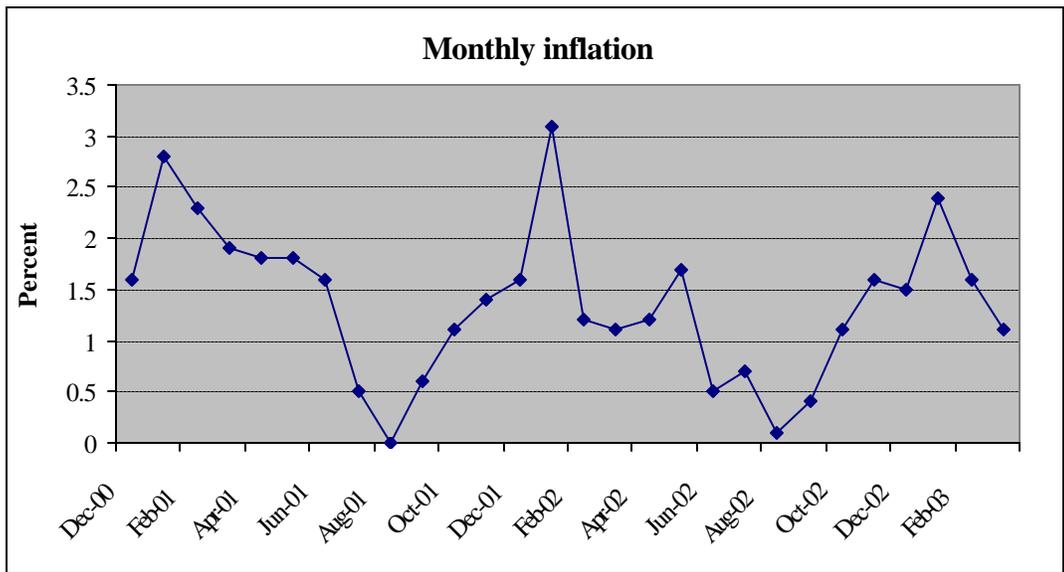


For the weeks ending April 30 and May 8, 2003



Prices

According to Goskomstat statistics, inflation was 1% in April, compared to 1.2% in April 2002. During the first four months of the year, prices increased by 6.2%; however, the monthly inflation rate in April was the lowest since the beginning of the year. The government's forecast for annual inflation in 2003 is 12%, but with annualized inflation running at 14.6%, most observers expect that the GOR will be unable to meet its target because of continuing inflationary pressures in the economy.



For the weeks ending April 30 and May 8, 2003

Eurobonds

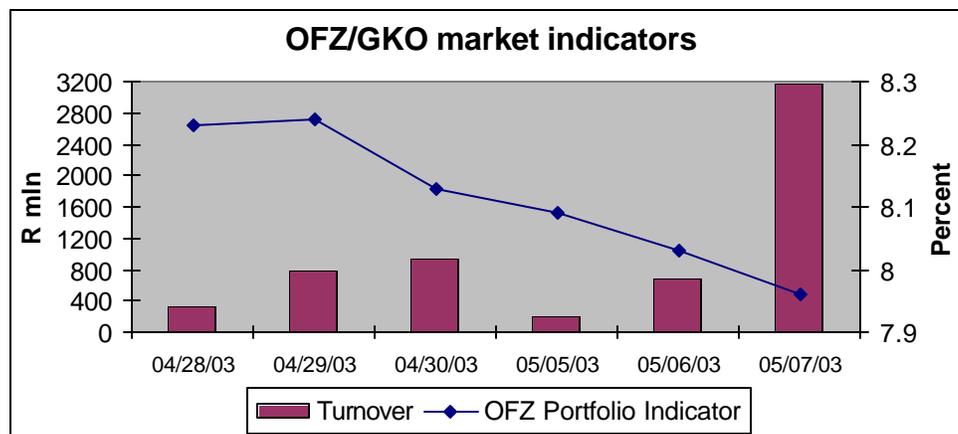
The Russian Eurobonds market experienced a nice rally the week of May 5 with continued news of stable, high oil prices and continuing demand from domestic market participants. The spreads of the long-term issues narrowed, with the most liquid Euro-30 bonds reaching a new maximum of 93% of par.

At the EBRD annual forum in Tashkent, Deputy Finance Minister Sergey Kolotukhin announced that the government may consider imposing limitations on the volume of external corporate borrowing. Last year, Russian companies issued a total of \$5.5 billion of Eurobonds; during the first 4 months of 2003 the corresponding figure is already \$3.5 billion. The government is concerned that uncontrolled corporate borrowing and substantial increase in debt might force the rating agencies to postpone an upgrade of Russia's sovereign rating to investment grade. According to the Ministry, the domestic market is able to satisfy the borrowing needs of business. Also, MinFin maintains that corporate Eurobonds, along with oil prices, are two of the main inflationary factors that are beyond the control of the government, which continues to be concerned over higher-than-planned price growth and ruble appreciation. (See the Prices section above).

Interest/Bond Market

Bonds/Bills

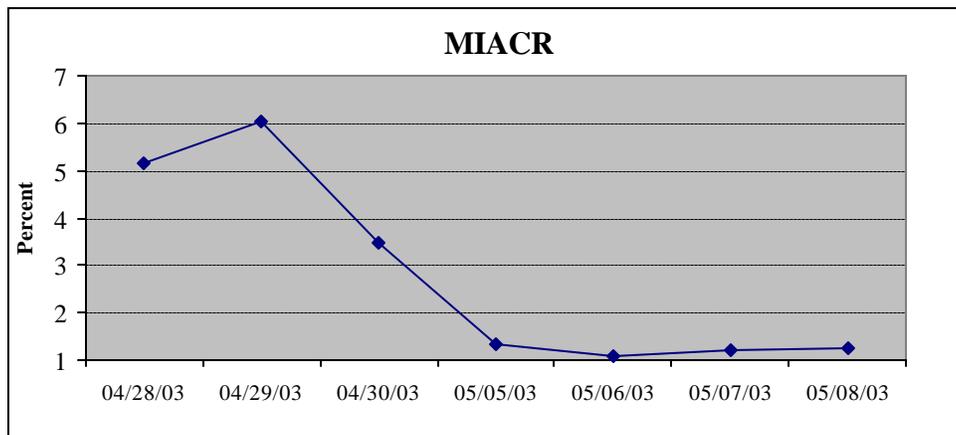
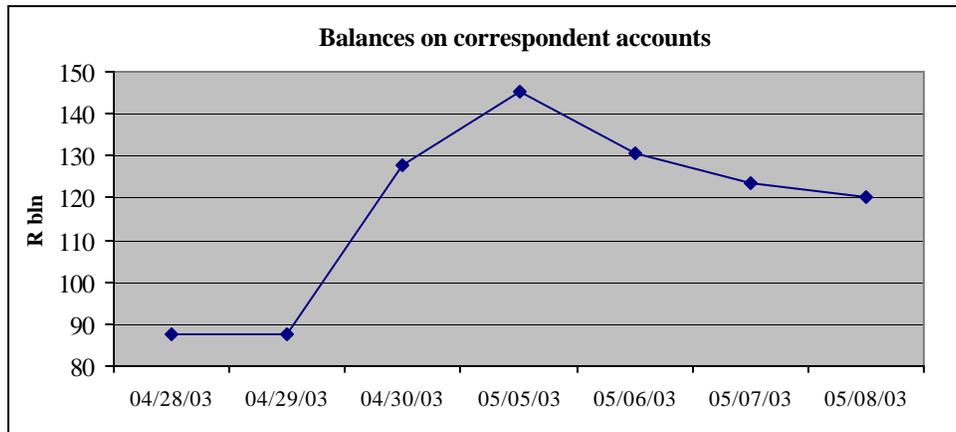
During the period observed the activity of the players was relatively low. An auction of OFZs held on Wednesday, May 7, was quite successful, with the demand considerably exceeding the supply (nine billion vs. five billion). The money entered the secondary market, causing sharper decreases in yields than had been experienced in the last week in April. Shorter-term paper was most in demand. Overall, yields decreased by approximately 50 basis points, with the abundant supply of rubles still affecting the market.



For the weeks ending April 30 and May 8, 2003

Overnight rates

Overnight rates notched up at the end of April, but immediately dropped to their normal low levels of 1-2% during the first working day in May. The balances on banks' correspondent accounts increased substantially at the beginning of the month and remained at very high levels throughout the week, with average daily balances standing at R130 billion.



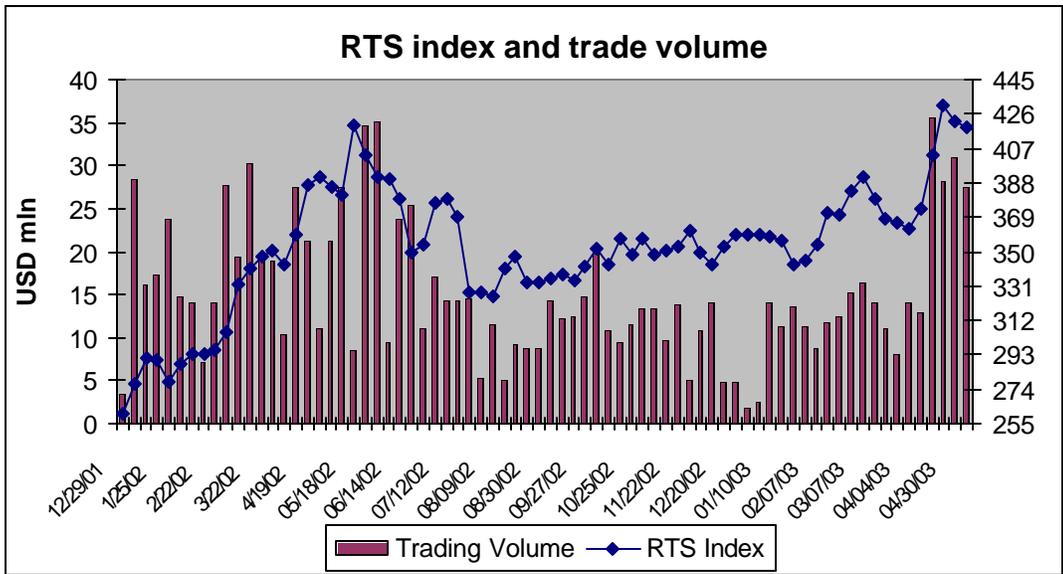
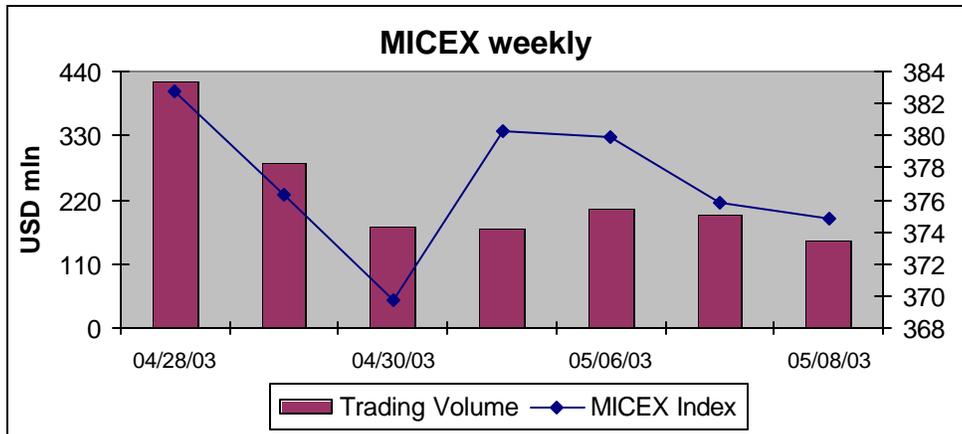
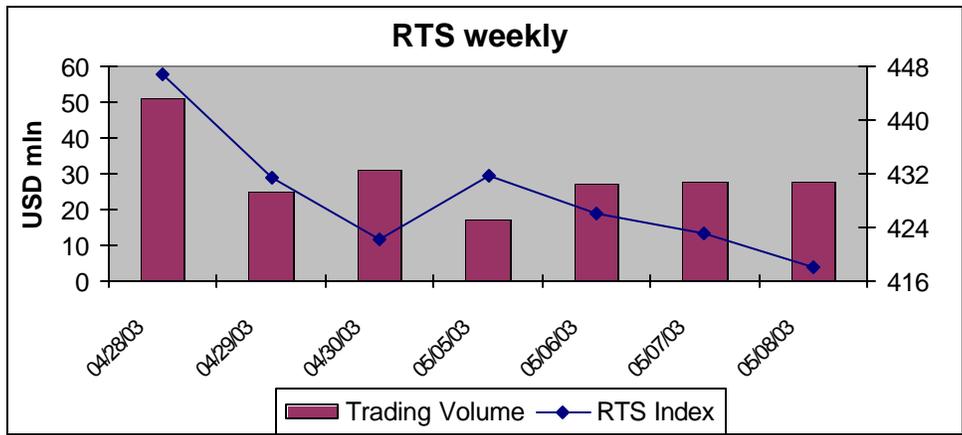
Stock Market

After an impressive two weeks of growth, the RTS index experienced downward pressure during the past two short weeks. During the three-day week of April 28, the index fell by 1.86%. Volumes remained at average levels during the slide, which started on Tuesday. Last week the pace of the downward drift slowed. The RTS index actually started the week up on positive foreign news, but during the following sessions continuously fell, ending the week at 418 on moderate volumes. Non-oil shares, such as Mosenergo and Norilsk Nickel, were among the leaders for last week. The RTS index lost approximately 1% for the week in dollar terms.

For the weeks ending April 30 and May 8, 2003

MOSCOW FINANCIAL WEEKLY

-7-

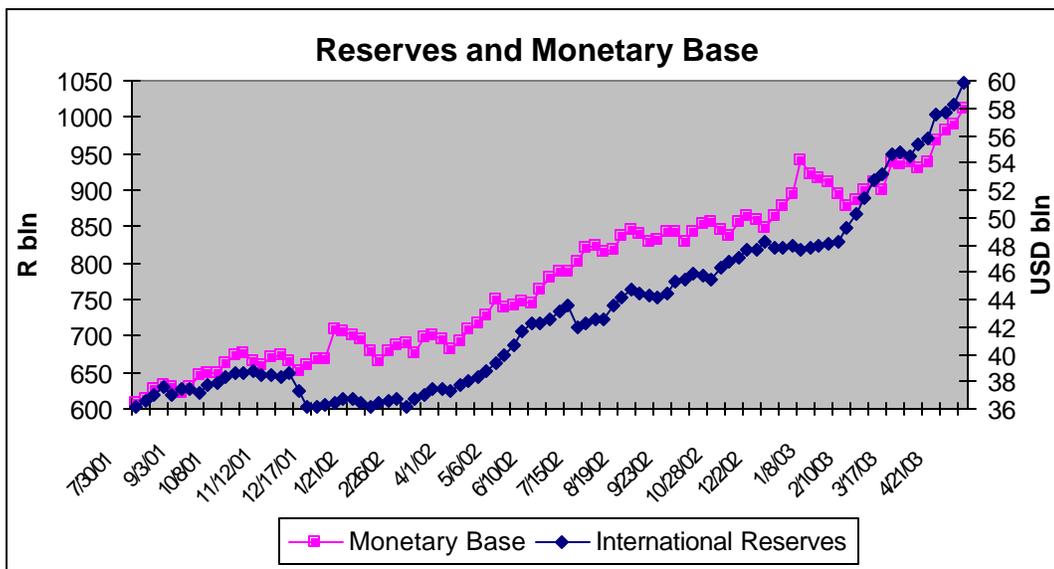


For the weeks ending April 30 and May 8, 2003

International Reserves and Monetary Base

The growth in the CBR's international reserves slowed during the week ending April 25, rising by \$600 million. However, the rapid pace of growth resumed the following week, with reserves going up by as much as \$1.6 billion and reaching a new historic high of \$59.9 billion on May 2.

The monetary base rose continuously during the two-week period. It pierced through the R1000 level and, as of May 5, it was up to R1011.1 billion, which is R22.2 billion higher than the previous week. Base money is already R70.8 billion higher than it was in the beginning of the year.



EXPLANATORY NOTES

1. **EXCHANGE RATES**: SELT - "System of Electronic Lot (currency) trading" -- a computer based OTC-style trading system organized by the Moscow Interbank Currency Exchange (MICEX). MICEX Unified Trading Session (UTS) is the one in which exporters have to sell 50% of the repatriated currency. UTS "tom" weighted average as of 11:30 becomes the "official" exchange rate for the next day. "\$-tod" price is the price of the dollar with same day delivery. "\$-tom" is the price of the dollar with delivery on the next day. Minimum lot size for each of the dollar instruments is \$100,000. Average price is quoted as the weighted average of all actual deals entered into the system by various banks.

2. **INTEREST RATES**: Moscow InterBank Actual Credit Rate is calculated as the average-weighted rate on the volume of actual transactions in interbank loans by commercial banks.

3. STOCK INDICES: The RTS index is the only official indicator of the Russian Trading System. It is calculated every 30 minutes of the RTS trade session, starting at 12:00. It comprises 60 shares of 35 leading companies. These shares are included in so-called Category "A" listings. The index indicates over-the-counter stock prices. The index represents the ratio of the total market capitalization of the shares of the companies selected for the index to the total market capitalization of the same shares as of the initial date multiplied by the index value as of the initial date (31 December 1997) using a base of 100 beginning September 1, 1995. The ruble-adjusted index is a derivative of the main dollar index, using the same base. The MICEX index is calculated by the stock section of the Moscow Interbank Currency Exchange and is based on the price fluctuations of 17 shares of the MICEX's first and second listings.

4. INTERNATIONAL RESERVES OF THE RUSSIAN FEDERATION represent the amount of reserve assets of the Bank of Russia and Finance Ministry. Those reserve assets are comprised of monetary gold, special drawing rights, the reserve position in the IMF and other liquid foreign assets. The latter include short-term deposits in non-resident and resident banks, balances in current accounts, foreign government securities, repo agreements with these securities made with non-residents, and other liquid assets (accrued interest on these assets is not included). Monetary gold is evaluated at a floating rate, revised periodically, but not always reported immediately. Foreign currency assets are converted into U.S. dollars on the basis of the cross rates of foreign currencies to the dollar, calculated using the official rates of the ruble to these foreign currencies, as set by the CBR.

5. MONETARY BASE (M1) is comprised of cash and reserves of commercial banks on deposit in the CBR. It is the basic part of the money supply (M2).

6. LOMBARD CREDITS, distributed through auctions, are aimed to provide liquidity to the banking sector. These credits are extended to banks on the basis of collateral.