

Moscow Financial Weekly

For the week ending July 25, 2003
Treasury Attache's office, U.S. Embassy Moscow

Highlights

- National Banking Council approves CBR divestiture of overseas banks
- RTS recovers on absence of new YUKOS news and Sibneft dividend

Key Economic Indicators

Indicators	Level	% chg 1 week	% chg since Jan. 1
Ruble/\$ (MICEX) UTS	R30.3227	-0.37	-4.60
Monetary Base*	R1177.6 bln	0.26	25.24**
CPI	NA		
International Reserves*	\$63.8 bln	-1.39	33.75
RTS Index (end of week)	460.68	5.37	28.30
Refinancing rate	18	0	-3

*For week prior

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

Economic Developments

Banking sector

On July 22, the National Banking Council (NBC), chaired by Deputy Prime Minister and Finance Minister Aleksey Kudrin, discussed the issue of CBR participation in the capital of its foreign daughters, or "**Roszagranbanks**". (They are Moscow Narodny Bank, BCEN-Eurobank, Ost-West Handelsbank AG, East-West United bank and Donau Bank.) The NBC approved the CBR's proposal to divest its holdings in the Roszagranbanks. The valuations must be completed by November 2003, and when they are done, the CBR should submit an individual detailed divestiture plan for each separate Roszagranbank. Only a few weeks earlier, Aleksey Ulyukhaev, First Deputy Finance Minister and a member of the NBC, expressed confidence that Moscow Narodny Bank and BCEN-Eurobank (where the CBR has its biggest stakes, at 88.89% and 87.03%, respectively) would be sold by the end of 2003, but refrained from comments on the other three.

The last preliminary hearing of the **Vneshtorgbank** suit against the CBR took place in the Moscow court of arbitration on July 22. VTB wants to void the deal concluded in

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1993 with the CBR and Moscow Narodny Bank (MNB). MNB could not get loans repaid that it had made in the late 1980s, under a government program of fishing fleet modernization, so the CBR decided to support it financially. Since the law did not allow it to do so directly, the CBR placed two deposits worth a total of \$100 million at VTB (owned by the CBR at that time) and VTB passed these funds to MNB. Since then these loans have been rescheduled many times but are not repaid yet. A hearing on the merits is scheduled for September 1. This court case may further complicate the planned divestiture of MNB.

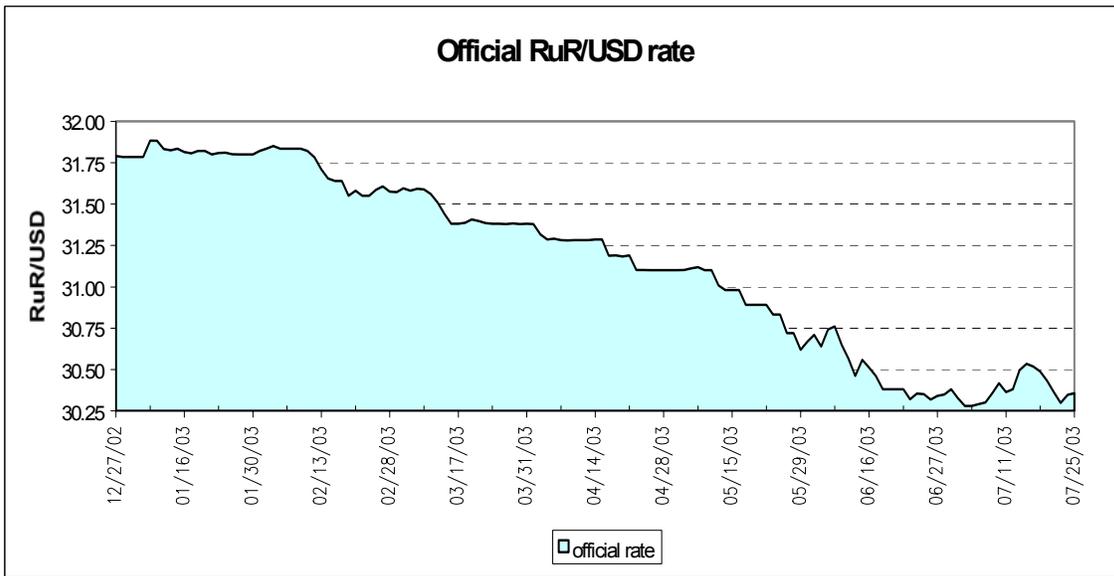
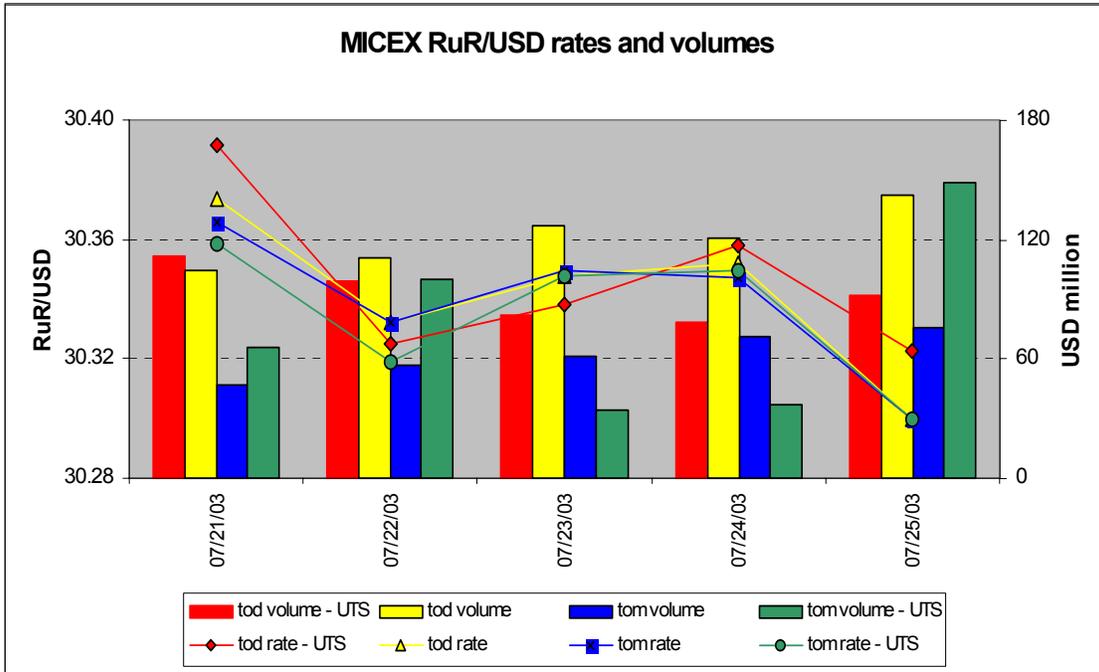
Vadim Kleiner, a member of the **Sberbank** Supervisory Board representing minority shareholders, will appeal the ruling of Moscow city court that his statements regarding abuses by Sberbank management are contrary to facts and defame the business reputation of the bank. Kleiner said he would go straight to the federal court, bypassing the city level. In December 2002, Kleiner publicly accused Sberbank of losing \$780 million due to lending to larger clients at 18% p.a., when market mid-term loan rate was 25% p.a. He also spoke about excessive personnel expenses, claiming that staff could be cut by 30%, which would save Sberbank another \$350 million. Finally, Kleiner said that Sberbank had given loans to a number of its top managers worth in total \$160 million at 5% p.a., which reduced profits by \$50 million. Kleiner insists that the information published was drawn from open sources that were available to any shareholder.

Financial markets

Forex Market

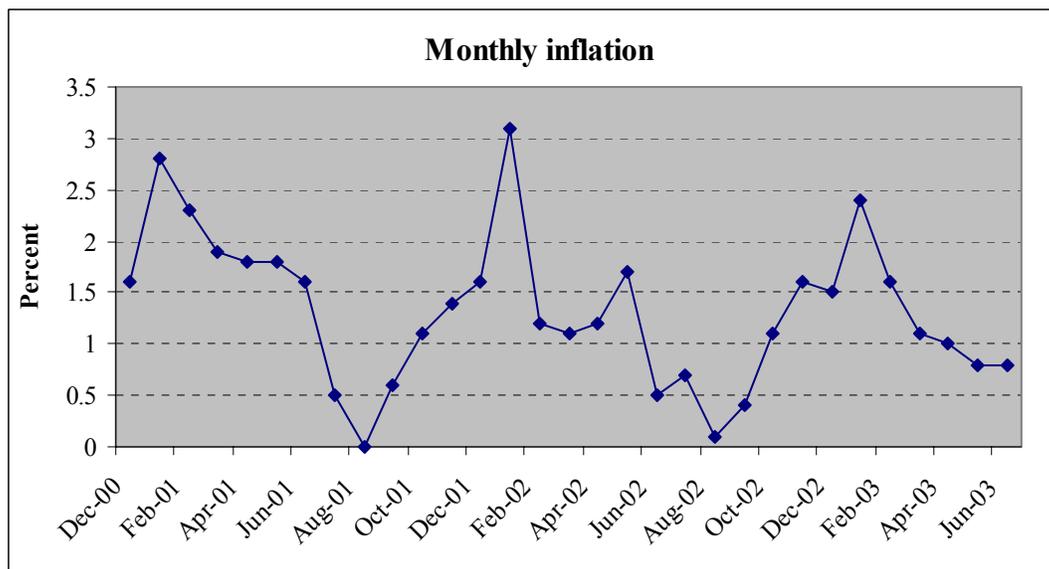
The dollar continued to weaken against the ruble at the beginning of the week, driven by the dynamics of its movement against the euro. It recovered somewhat in the middle of the week on increased ruble balances in correspondent accounts, but turned downwards again on Friday on fears of end-of-month ruble shortage.

For the week, the dollar firmed 0.37% against the ruble, closing in the UTS "tod" on Friday at R30.3227/\$. MICEX trade volumes were \$462.24 million and \$383.66 million, \$604.67 million and \$310.13 million for the UTS "tod" and "tom" sessions, and SELT "tod" and "tom" sessions, respectively.



Prices

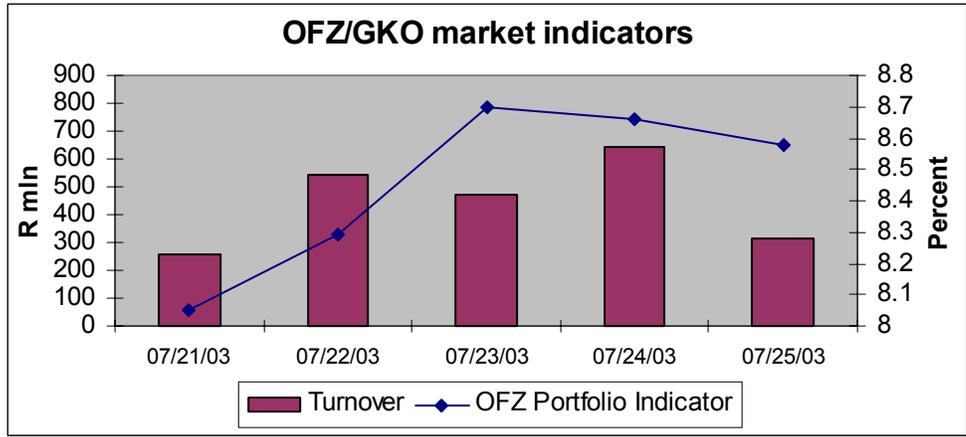
The Deputy Minister of the Economic Development and Trade Arkadii Dvorkovich has forecasted that inflation will total 0.5-0.6% in July. He also optimistically commented that the inflation for the year could be lower than the planned 12%.

Eurobonds

Most Russian Eurobond issues ended the week down again, but the market stabilized somewhat last week, as compared to previous weeks when the trend had been strongly negative. A major factor affecting the market was the increase in U.S. Treasuries. Factors that had considerably affected the market previously -- such as the volume of international reserves, the situation in other emerging markets, and the price of oil -- played a lesser role.

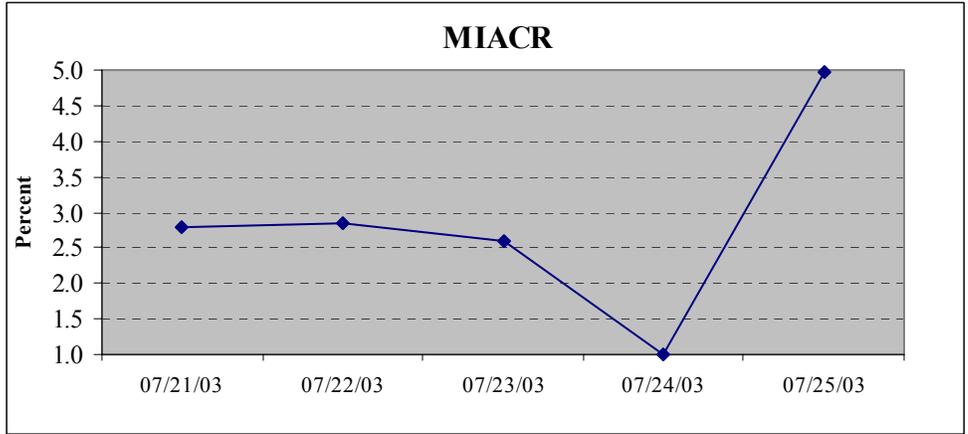
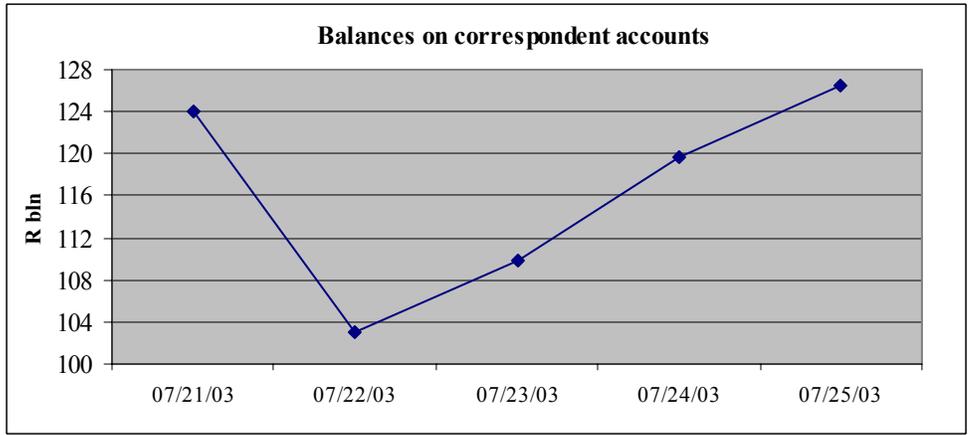
Interest/Bond Market*Bonds/Bills*

The situation on the secondary OFZ/GKO market was rather stable last week compared to the week before, when prices first fell sharply and then recovered. Trading activity still remains quite low, with market players preferring to stay on the sidelines in the absence of a clear-cut trend. On Wednesday, the Finance Ministry redeemed a GKO issue and paid out coupons on five OFZ issues. In general, though, the money entering the market was not able to support the prices of most issues. In the second half of the week, trading activity remained low. Many market players chose to keep OFZs in their portfolios despite the expected ruble shortage.



Overnight rates

The quantity of rubles fell last week, due to the obligatory VAT payments banks made for their clients. Balances dropped to R103.1 billion on Tuesday -- the lowest level seen since the middle of May. By the end of the week, overnight ruble interbank loan rates were up to 12-13% p.a., driven by expectations of tighter ruble liquidity.

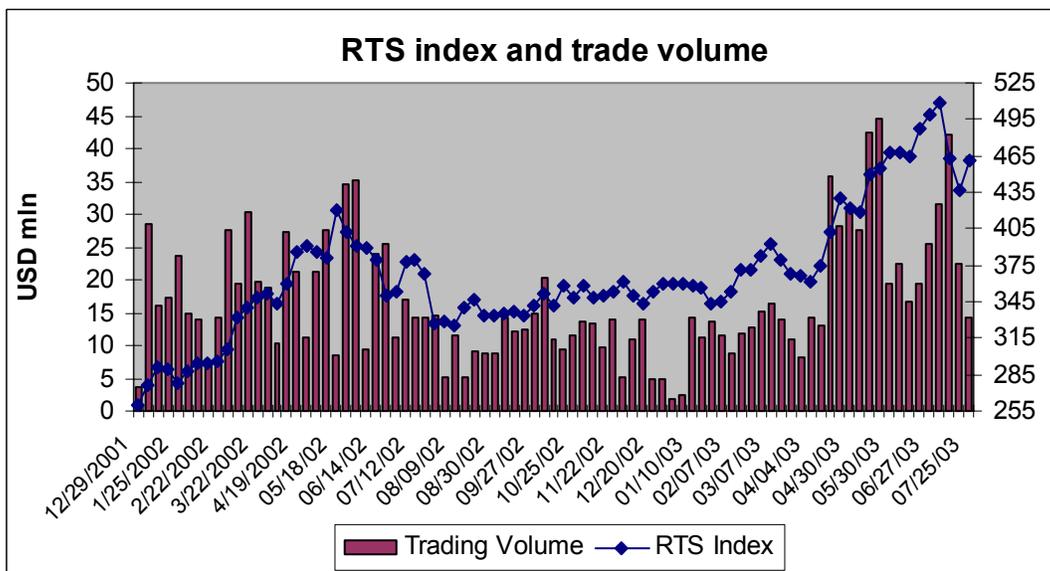
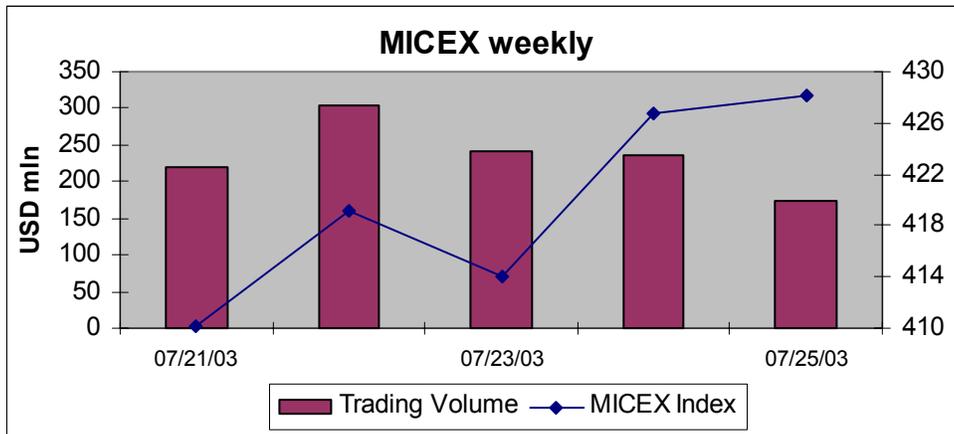


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Stock Market

The Russian stock market's performance this week allowed it to almost fully recover from the previous week's slide. Last week, no negative news came from the YUKOS investigation, and so the tension in the market with respect to this situation was somewhat relieved. Besides, prices of most liquid shares had fallen to attractive enough levels to become "buy" candidates. For the week, the RTS index was up by 5.08%. The leaders of the week were Norilsk Nickel shares, supported by higher world nickel prices (up by 16.3%); Sibneft shares, which were pushed up by the news about rather high periodic dividends (up by 14.8%); and Mosenergo, up by 12.1% after a sharp fall earlier in the month.

Sibneft's Board of Directors has approved dividends for the first half of 2003 in the amount of 21 cents per share, which exceed the dividends paid in 2002. The news pulled the shares of the company up last week after a sharp drop caused by the situation with the YUKOS. At the same time, Sibneft has announced that it plans to finish the merger with YUKOS by the end of the year.

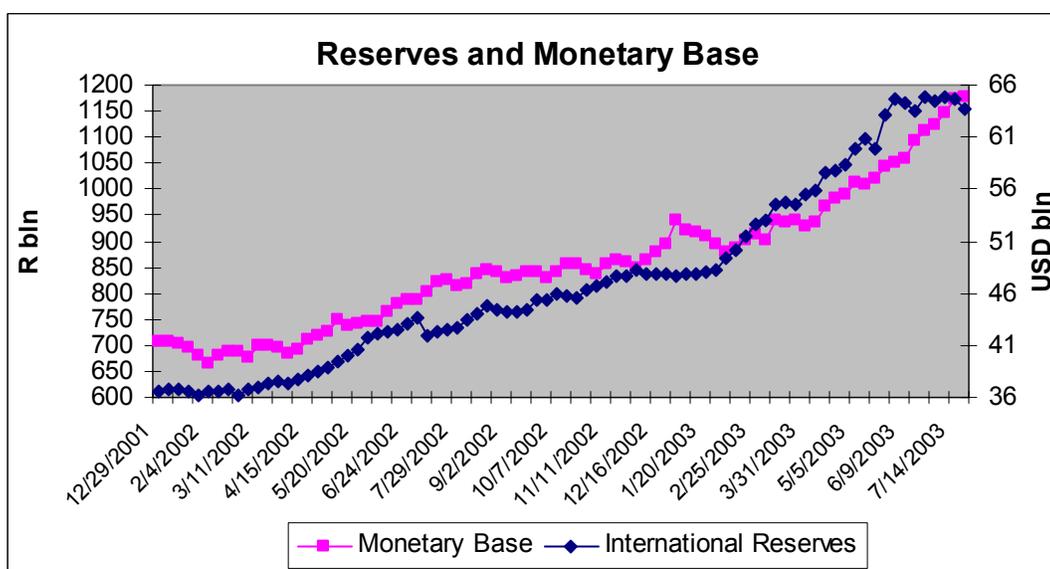


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International Reserves and Monetary Base

The international reserves of the CBR decreased for the second week in a row and totaled \$63.8 billion as of July 18 -- \$900 million lower (1.4%) than the previous week. This outflow was primarily due to Central Bank interventions to calm exchange markets in the wake of domestic political tensions surrounding the Yukos situation and expectations for lower repatriation of hard currency revenues by exporters.

The monetary base continued to grow, reaching R1177.6 billion by July 21. This represents a rather modest growth of 0.26% for the week.



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.