

The Macroeconomic Development of Russia in 2000-2001

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1. The Economic Situation up to the End of 2000

Russia entered 2000 experiencing an obvious revitalization of the economy, which has been further exploited. *With regard to the majority of the most important social and economic indicators, the results for 2000 (see Table 1) were significantly better than those for the previous year.*

The growth in GDP and industrial production was accompanied by a notable improvement in the financial condition of real sector enterprises. For the first time since reforms commenced, a trend developed whereby investments in fixed assets grew (primarily at the expense of enterprises' own funds) at rates exceeding those of GDP and industrial production.

The money income of the population and consumption were characterized by growth, though they have not reached the pre-crisis level, while unemployment decreased.

There was continuous financial stability primarily due to a big federal budget surplus, as well as the adequate utilization of monetary policy instruments. The positive

balance of foreign trade and the balance of payments of the current accounts were large. By the end of 2000, the level of gold and foreign exchange reserves grew more than twofold from the beginning of the year and was the highest for the entire reform period.

The positive trends in 2000, that proved considerably better than those predicted by most economists were determined by a combination of two factors. First of all, *world oil prices* (a record for the last ten years), which proved *significantly higher* than expected. Secondly, *a presidential election campaign that was carried out and completed much earlier than initially planned.* This brought about a considerable improvement in the general social and political situation in the country (especially taking into account a more constructive relationship with the State Duma) and an earlier start on the implementation of the government's long-term economic strategy, as well as facilitating a responsible financial and monetary policy, which had a favorable impact on the economy.

Table1: Basic Indicators of Social and Economic Development
 in the Russian Federation

	1998	1999	2000
Gross domestic product	95.1	103.5	108.3
Consumer price index, % for the period average monthly growth	184.4 5.2	136.5 2.6	120.2 1.4
Industrial manufacturer price index, % for the period average monthly growth	123.2 1.8	167.3 4.4	131.6 2.3
Industrial produce	94.8	108.1	109.0
Agricultural produce	86.8	104.1	105.0
Investments in fixed assets	88.0	105.3	117.4
Population's real disposable money incomes	83.7	86.4	109.1
Retail trade turnover	96.7	92.3	108.9
Volume of paid services to population	98.8	107.5	105.7
Unemployment, % to economically active population (at the end of the period) total officially registered	13.3 2.6	12.2 1.7	9.6 1.4
Exports USD billion %	74.6 84.4	75.9 101.3	105.2 138.9
Imports USD billion %	59.8 81.1	39.6 68.3	44.2 111.9

Source: hereinafter, unless otherwise specified, actual data as provided by Goskomstat of Russia; estimates and forecasts by author

At the same time, the positive trends in the economy have not yet become fundamental or stable.

The effect of the economic growth associated with the post-crisis (of August 1998) reduction of production expenses and ruble devaluation is gradually fading, in particular, that of the replacement of imports (the most acute phase of import replacement requiring insignificant investments is already over). Combined with the "base effect" (in the second half of 1999, the dynamics of GDP and industrial production exceeded those of the first half), this caused slower rates of growth towards the end of 2000. The inflation "background" remained elevated, while low transmission capacity in the banking system and the lack of financial "transparency" of enterprises did not allow the effective transformation of the ever increasing volume of money supply into working assets in the real sector.

The physical volume of *GDP* produced in 2000 grew by a total of 8.3% over the 1999 level.

The major factor governing the growth in production in 2000 was domestic end demand (both consumer and investment). Unlike the previous year, import replacement

and export played a less tangible role in the dynamics of production:

The drop in the monthly growth rates of industrial production and investments in fixed assets has had a significant influence on the suspension of the growth in monthly GDP excluding seasonal and calendar factors in September-December.

The *industrial production* index for 2000 amounted to 109% over 1999.

All major industries surpassed their 1999 production level. The highest rates of production growth were seen in light industry, ferrous and non-ferrous metallurgy, machine-building and metal-processing, the chemical and petrochemical industry, as well as in the timber, wood-processing, and pulp-and-paper industry (see Table 3). In general, the greatest production dynamics were seen in processing rather than in fuel and raw-material industries.

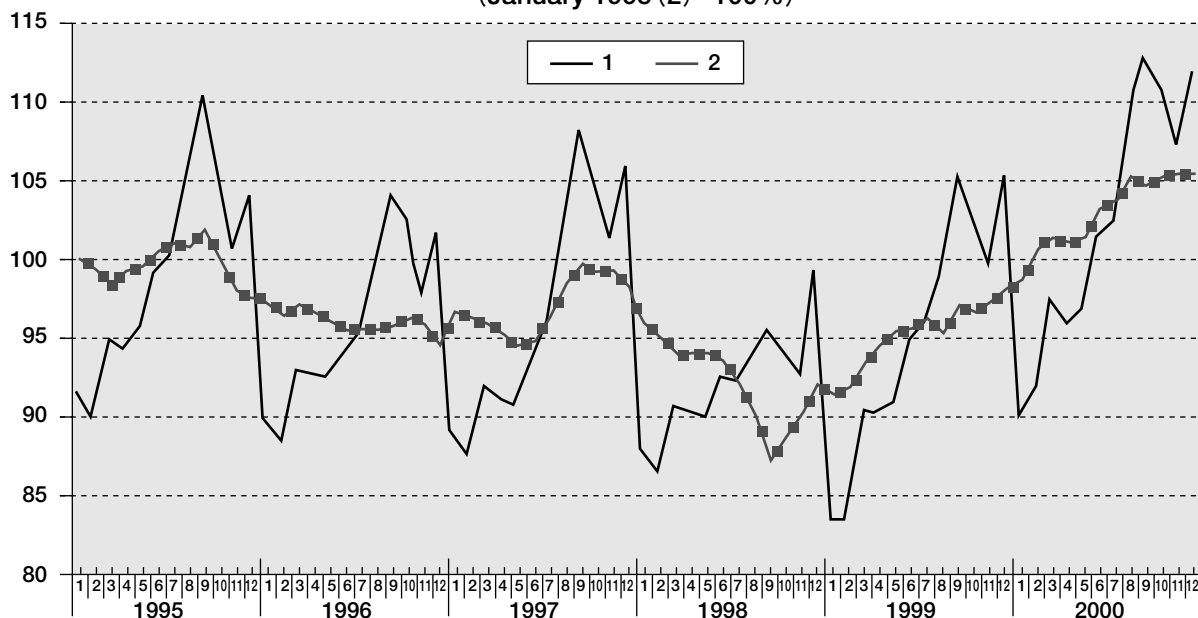
The following factors contributed to production growth:

- somewhat greater domestic demand for intermediate goods (ferrous and non-ferrous metallurgy, the chemical and petrochemical industry);
- greater domestic demand for investment goods

Table2: Dynamics of GDP Disposal

	1998	1999	2000
Gross domestic product	-4.9	3.5	8.3
Domestic demand	-8.3	-1.5	9.4
End consumption expenditures:	-2.1	-2.2	7.5
of households	-3.2	-3.8	9.6
of state organizations	0.6	3.0	1.5
Gross accumulation	-29.9	1.7	18.0
Net export	111.0	69.1	1.3
Export	1.9	9.4	8.7
Import	-13.6	-8.8	13.5

Figure 1: The dynamics of GDP
excluding seasonal and calendar factors (2) and including them (1)
(January 1995 (2) –100%)



- (machine-building, construction materials);
- a gradual increase in the real disposable incomes of the population (the light and food industry);
- the expansion of exports (in physical volumes) in a number of industries (chemical and petrochemical, metallurgy, oil production);
- improved budget funding of state orders.

At the same time, the population's limited actual demand with ability to pay (real incomes amount to around 80% of the 1997 level), the still insufficient investments in fixed assets, and the high depreciation rate of the active part of fixed assets have all hampered further output.

In particular (according to the monthly basic enterprise polls conducted by the Government Center for Economic Conjunction), the highest rate of worn out equipment was noticed in the chemical and petrochemical industry - more than 80% - as well as in machine-building, construction materials, and light industries - over 70%.

The export-oriented industries - fuel, metals, and

timber - had (at a high rate of deterioration of machinery and equipment - over 60%) the highest rate of utilization of production capacities (up to 75%). This indicates that equipment is at critical load, under which conditions no further increase in production is practicable, even in the case of higher demand, without an accelerated commissioning of new equipment (especially in oil refining where the rate of deterioration of machinery and equipment is more than 70%).

The lowest rate of deterioration of machinery and equipment was observed in the food industry which, at the same time, had one of the lowest rates of production capacity utilization. Therefore, the food industry is capable of significantly increasing production, should there be the requisite demand.

Since September, under the impact of a considerable decrease in the efficiency of the above-mentioned post-crisis positive factors, monthly, seasonally "clean" industrial production has ceased to grow.

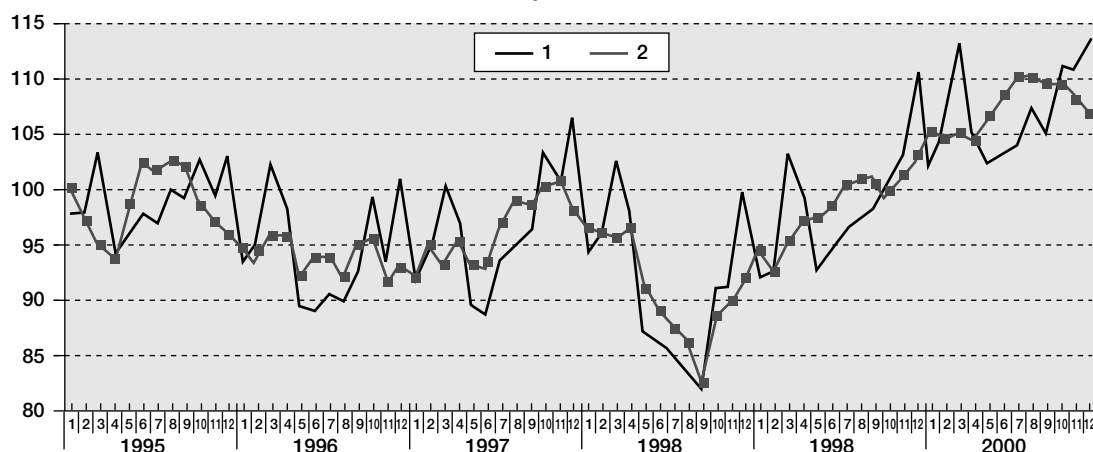
Table3: Industrial Production Indexes

(% over the previous year)

	1998	1999	2000
Entire industry*	94.8	108.1	109.0
including:			
Electric power generation	98.0	100.2	101.8
Fuel industry	98.0	102.4	105.0
Oil extracting	99.0	100.4	105.9
Refining	93.0	102.5	103.0
Gas	100.8	104.1	104.8
Coal	95.0	108.8	104.0
Ferrous metallurgy	92.0	114.4	115.6
Non-ferrous metallurgy	95.0	108.5	111.3
Chemical and petrochemical industry	93.0	121.7	114.3
Machine-building and metal-processing	93.0	115.9	115.5
Timber, wood-processing, and pulp-and-paper industry	99.6	117.2	109.5
Construction materials industry	94.0	107.7	107.6
Light industry	89.0	120.1	122.0
Food industry	98.0	107.5	107.1

* including estimates of informal activity

Figure 2: The dynamics of industrial production excluding seasonal and calendar factors (2) and including them (1) (January 1995–100%)



Over January–October 2000, the rate of *inflation* decreased twofold compared with the same period in 1999. Consumer prices grew by 16.5% and producer prices by 28.8% (compared with 33.2% and 57.6%, respectively, over nine months in 1999).

But in total for 2000, the rate of growth of consumer prices reached 20.2%, which was a little higher than earlier estimated (18–20%). From October–December, the monthly rate of inflation exceeded 1.5% and was even higher at the beginning of 2001.

The higher inflation rate was caused by an accelerated ruble emission that accompanied Bank of Russia transactions in the foreign exchange market, which were aimed at harnessing the excessive ruble appreciation.

However, prices grew at considerably lower rates than the money supply (the M2 aggregate has increased by 62.4% totally for the 2000 year). The depreciation of the real ruble exchange rate (more than 11% to the dollar over 12 months) and the substantial increase in the share of cash payments in the real sector (the share of products of major Russian taxpayers and monopolies paid for by monetary means grew from January–December by more than 20 points, to a total of approximately 70%) had a negative impact on price dynamics.

The volume of *investments in fixed assets* grew in total by 17.4% in 2000, in comparison with the previous year. Investment activity was boosted by the improved financial condition of enterprises and a trend towards the reduction of barter payments.

At the same time, the revival in the investment sphere followed the increase in enterprises' profits. Therefore, investments were a consequence rather than cause of economic growth. The utilization of idle production capacities required no significant investments of capital and the level of investments that existed at the time proved sufficient for an increase in production.

According to our calculations, in the second half of 2000, the growth of the monthly dynamics of investments to fixed capital (excluding seasonal and calendar factors) ground to halt.

In terms of total economic growth for 2000, the

situation in the *labor market* was improving. Total unemployment decreased from the beginning of the year by more than 1.5 million, down to 7.35 million as of late December, or 10.2% of the economically active population. Labor demand by enterprises (declared to the state employment agency) has grown by almost 1.3 times since the beginning of the year.

The *federal budget revenues* over January–December 2000 amounted to 16.2% of GDP, according to the Ministry of Finance.

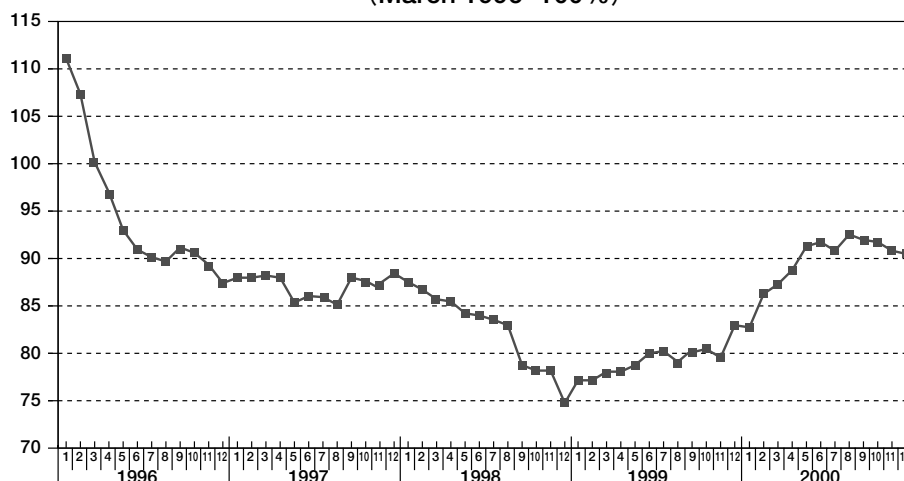
Conducive to the substantial increase in revenues were the favorable foreign economic situation, improved financial condition of enterprises and production growth, as well as the implementation of administrative measures.

The funding of *federal budget expenditures* over January–December 2000 amounted to 13.7% of GDP. Public debt servicing expenses made up 18% of total amount expenditure, 6.5 points lower than the 1999 level. In expenditure structure, the size of the majority of big expenditure articles increased as a result of lower public debt servicing expenses.

The *federal budget surplus* over the 12 months of 2000 reached 2.5% of GDP compared with a deficit of 1.1% of GDP for 1999; the value of the primary surplus was 5% of GDP compared with 2.5%, respectively. The maintenance of the budget surplus allowed the government to withstand the public debt servicing burden even in the absence of IMF loans and ease inflationary pressure on the economy.

The main factors governing Russia's *foreign economic activity* situation in 2000 were favorable conjuncture in world raw-material markets and a certain real ruble appreciation: the real effective ruble rate calculated on the basis of a "basket" of the currencies of Russia's major trade partners strengthened by 17% over twelve months and was at mid-1995 levels by the end of 2000, though substantially lower than the pre-crisis level. However, taking into account that before the crisis the ruble rate was set artificially high, the time reserve of Russian enterprises for a qualitative rise in their competitive ability is not very big.

Figure 3: The dynamics of investments to the fixed capital excluding seasonal and calendar factors (March 1996–100%)



The foreign trade balance over January-December 2000 reached US\$ 61 billion. The foreign trade balance was at its highest level since the beginning of the reforms. Also fairly high was current account surplus (in 2000, it was estimated to be around US\$ 46 billion), which allows the maintenance of stability in the foreign exchange market.

The price volume of exports continued to grow at rates higher than those for 1999 (38.9% over January-December 2000, whereas their physical volumes have grown by approximately 10%).

The volume of imports, which dropped sharply following the ruble devaluation, has started to increase gradually, responding to the rise in personal incomes and ruble appreciation in 2000. The lower rates of growth of the price volume of imports (11.6% over twelve months) as compared with the dynamics of their physical volume (approximately 26%) were primarily associated with lower world prices for Russian imports and a shift towards imports of cheaper goods.

2. Possible Economic Development Scenario for 2001

The functioning of the Russian economy in 2001 will be governed by the following three groups of factors.

First of all, the range of possible economic parameters will be determined to a considerable extent by the *results of 2000 and the development trends that have taken shape, especially over the past few months*; specifically, by the high 2000 “basis” and simultaneously a gradual exhaustion of the positive growth factors that developed in the post-crisis period.

Secondly, a lot will depend on *how efficient a policy will be pursued by the Russian government*. To be more specific, how successful the implementation of the priority measures outlined in the Government Action Plan for 2000-2001 will be, including the measures for the improvement of the investment and business climate, protection of the rights of property owners and investors, the

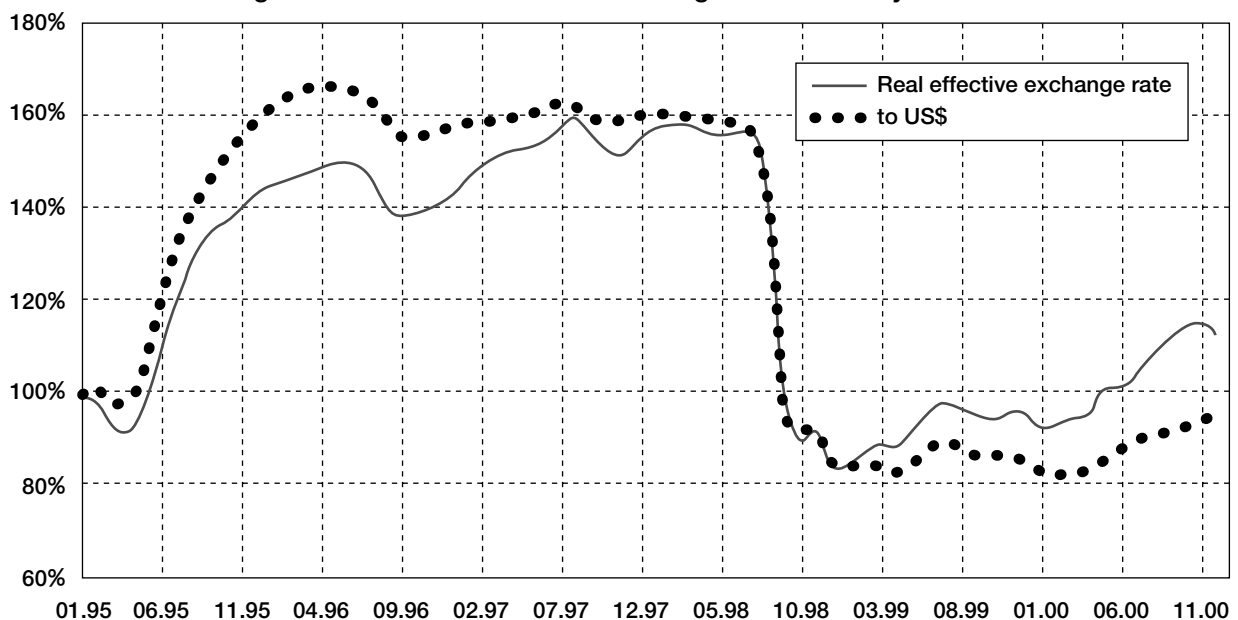
establishment of “transparency” in the operation of enterprises (based on international accounting standards), the restructuring of natural monopolies, social policy (especially support targeted at the most needy areas of the population), tax reform, and the continuation of a responsible budget and monetary policy. Dependent on all of this will be the ability to develop the positive trends of 1999-2000 and, above all, to “turn on” additional sources of economic growth.

Thirdly, a lot will also depend on *foreign economic conjuncture, especially on world oil market prices*.

The dynamics of oil prices do not follow any clear-cut patterns and are, therefore, hardly subject to accurate forecasting. Over the past 20 years, the contract prices of “Urals” grade oil have varied from US\$ 10 to US\$ 34 per barrel. Calculations demonstrate that, given 2001 conditions, a pretty favorable price zone for the Russian economy starts at US\$ 23-US\$ 24, whereas a very unfavorable one is below US\$ 18-US\$ 19 per barrel. In the former case, the foreign economic conditions determining the state of the balance of payments, budget (taking into account the foreign debt servicing problem), and enterprises’ finances are comparable with the conditions for 2000, though inevitably a little worse; in the latter, they can hardly create grounds for dynamic development (in 2001, Russia's dependence on foreign economic factors will remain pretty high).

In connection with this, I think *the agreement factor for the rescheduling of external state debt and obtaining new international credits* will have no independent significance. In many respects, a solution to this problem will be defined by the financial state of the country in 2001 (especially by its dependence on foreign economic conjuncture). Under favourable conditions, Russia will be able to cover its external debt (like it did in 2000); under less than desirable circumstances, it will not. But in the latter case, the use of international financial help (and the Paris Club's solution to rescheduling

Figure 4: Indexes of ruble real exchange rates (January 1995–100%)



external debt) becomes a lot more probable.

The impact of other factors seems to be largely insignificant. In particular, the *socio-political factor*, so important for Russia in previous years of the reforms, has lost its acuteness with the election of Vladimir Putin as President of the Russian Federation and the new distribution of forces in the State Duma (with which the government can now find fairly acceptable solutions, though based on compromises and not always fast enough).

According to my calculations, the parameters of economic development in 2001 are most likely to be within the following two options of the scenario.

Option I assumes a favorable combination of the above-mentioned factors: an active and timely implementation of the planned domestic economic policy measures and a foreign economic conjuncture favorable to Russia (the annual average "Urals" price in this option is upwards of US\$ 23 per barrel). This will provide for sufficiently high rates of economic growth in 2001 (see Table 4), though, even in the favorable option, somewhat lower than those for 2000, due to the special features mentioned above.

GDP in this scenario will grow by 5-6% over that of the previous year. At the same time, further impetus will be given to the trend that took shape in 2000, whereby there is a shift in the structure of GDP in favor of domestic demand. Moreover, due to the oppositely direction of export and import dynamics, net exports in 2001 will decline.

The volume of *industrial production* will grow a little higher than GDP, by 6-7%. In the first option, significantly higher rates of production growth than those for the entire industry are expected, in the sectors oriented towards end demand, especially in the light industry,

machine-building and metal-processing, and the manufacture of construction materials. As a result, further impetus will be given to the trend towards a shift in the structure of industrial production, towards processing industries.

A qualitatively different economic growth pattern under the conditions of the inevitably lesser impact of positive post-crisis factors, must be ensured primarily through investments in fixed assets, the dynamics of which are significantly ahead of those of GDP and industrial production. The first option estimates an 11-12% investment growth, which will enable a more active process when commissioning production capacities.

The profits of real sector enterprises will remain the primary source of investment. At the same time, the reduction of the tax burden on manufacturers in 2001 is estimated to increase the investment potential of enterprises by at least 100 billion rubles. Simultaneously, somewhat higher banking investment activity can be expected in the real sector in the first option.

The implementation of measures aimed at the development of a favorable investment climate in Russia provides for a 1.2-1.3-time growth of foreign direct investment compared with the 2000 estimate. In the first option, certain reserves can also be attributed to a slight slowdown in capital flight: from 9% of GDP in 2000 to 7-8% in 2001.

In the industry-specific structure of investment, the majority is estimated to be made up of the fuel sector-related industries (one characteristic of which, as has been mentioned earlier, is the critical load on worn-out equipment). This sector is expected to see substantial growth in foreign direct and portfolio investments, as well as an increase in foreign borrowed funds. Simultaneously, ruble appreciation, which is estimated to continue a little further, will be conducive to a relative reduction in the

Table 4: Basic Indicators of the Forecast of Social and Economic Development of the Russian Federation

(growth, % over the previous year)

	2000	2001 forecast		
		Option I	Option II	Official forecast factored into the federal budget
Gross domestic product	7.7	5-6	2-3	4.0
Inflation (consumer price growth)				
December vs. December	20.2	14-16	20-22	12
average monthly growth	1.4	1.1-1.2	1.5-1.7	1.0
Industrial produce	9.0	6-7	3-4	4.5
Investments in fixed assets	17.4	11-12	6-7	7.0
Population's real disposable money incomes	9.1	9-10	4-5	5.0
Retail trade turnover	8.9	7-8	3-4	5.0
Volume of paid services to population	5.7	6-7	2-3	4.5
Unemployment, % of economically active population (average for the period)				
total	10.5	10.7	12.5	10.7
officially registered	1.5	1.7	2.0	1.9
Exports, USD billion	105.2	98-100	78-80	85.2
Imports, USD billion	44.2	48-50	43-45	45.6

prices of imported high-tech investment products, which will create the conditions for the development of new investment-intensive hydrocarbon deposits. A significant growth in investment is also expected to be caused by an increase in aggregate demand in the transportation industry, housing construction, and market services.

In the first option, inflation rate is estimated to be decreased to 14-16% in 2001. This is primarily determined by a deficit-free budget and a restrictive monetary policy. The rates of growth of money supply will be slowed down through the reduction of foreign exchange revenue and corresponding ruble interventions by the Bank of Russia. The monetary aggregate (M2) is estimated to grow in this option by approximately 40% (as opposed to 62.4% in 2000); this is going to take place under a strong demand for cash necessitated, among other things, by a reduction in the share of non-monetary payments in the economy. The ruble appreciation will facilitate a decrease in inflation, as it will be accompanied by reduced costs in processing industries due to lower expenses for imported raw materials and components, as well as stronger competition, considering that imports will grow.

Personal incomes and consumption will grow at rates exceeding the dynamics of GDP, which corresponds with a structural shift towards growth in domestic demand. In the first scenario, the real disposable incomes of the population will grow by 9-10%, whereas the growth in retail trade turnover and the volume of paid services to the population (due to higher propensity to save) will be somewhat lower: an increase of 7-8% and 6-7%, respectively. The growth of real personal incomes combined with a redistribution of social aid in favor of low-income groups will result in a certain reduction in the level of poverty and the disparity in incomes and consumption.

The level of *unemployment* (both total and officially registered) will be somewhat higher in 2001 even in the first option. The expected significant labor supply will not be completely engaged in production, even if there are fairly high rates of economic growth.

Substantial changes will take place in the dynamics of the indicators characterizing *foreign economic relations*. If there is a stronger ruble, certain technological and structural export restrictions, and a slight deterioration of the foreign economic situation in 2001, exports will decrease compared with 2000, even in the first scenario (by 2.5-4.5%). Imports, on the other hand, will grow (by 12-16% compared with 2000) at rates considerably exceeding the dynamics of GDP, the contributing factors being ruble appreciation, the technological re-equipment requirements of the growing economy, and the growth in the disposable incomes of the population and enterprises.

The volume of the foreign trade surplus under these conditions is lower than that for 2000 but still pretty high: around US\$ 50 billion in the first option, while the current account surplus is around US\$ 37-38 billion.

Option II assumes an unfavorable combination of factors: behind-schedule implementation of the Government Action Plan and a foreign economic conjuncture unfavorable towards Russia (the annual average "Urals" price in this option being less than US\$

18 per barrel). Under these conditions, there will be a much stronger "pressure" caused by the results for 2000 (that of the high "basis" and the above-mentioned negative trends that have taken shape over the past few months).

The resulting rates of economic growth are considerably lower in this scenario: a 2-3% GDP growth over 2000 and a 3-4 % growth in industrial production. The second option will also see an absolute decline in exports and a rise in domestic demand (though higher than GDP in general, the rates will be more moderate than in the first scenario). From industrial sectors, industries oriented on the manufacture of final products will be developing more dynamically, but these changes in the production structure are not as dramatic as in the first option.

Due to more modest indicators of the financial situation of enterprises and a less favorable investment climate, the growth rates of investments in fixed assets will be substantially lower (within 6-7%), which will prohibit any tangible progress in the commissioning of new production capacities. This option is unlikely to stimulate investment activity in the banking system or reduce the scale of capital flight.

In the second option, inflation rates will be substantially higher: 20-22% up on December 2000. With a much worse foreign economic situation, pressure on the ruble will start anew (money accumulated by commercial banks will flow to the foreign exchange market rather than into production) resulting in the reversal of the trend that has taken shape in ruble exchange rate dynamics. In addition, the less dynamic economic growth and the less successful re-moneterization of the economy will cause an increase in inflationary pressure on the money supply. At the same time, even in this option, no sharp ruble devaluation or excessively high rates of inflation should be expected (unlike in August-September 1998). The ruble to dollar rate was overvalued then (in relation to the purchasing power parity), whereas now it is still undervalued, despite the ruble appreciation of 1999-2000. Also, substantial gold and foreign exchange reserves were accumulated by the Bank of Russia in 2000 and, in the event of a zero federal budget deficit and a restrictive monetary policy, the situation will not get out of control.

Due to higher inflation and lower rates of economic growth, the dynamics of the indicators characterizing the living standards of the population are considerably more modest in the second option: the rates of growth of real incomes and consumption of goods and services by the population are lower and the unemployment level is higher.

Affected by an unfavorable foreign economic situation, exports will decrease considerably (by 22-24%). Imports, as in the first option, will grow but at more modest rates (within 5%). The volume of the positive foreign trade balance will decrease to approximately US\$ 35 and the current account surplus to US\$ 22-23 billion.

The *official scenario* factored into the federal budget for 2001 is within the parameters of the above two options (favorable and unfavorable). In general, it is neither overly optimistic, nor overly pessimistic. Rather, it can be described as moderately conservative.

In terms of economic growth indicators, the official scenario is somewhat modest. The rate of GDP growth (4% over 2000) corresponds with the average value within the range set by the unfavorable and favorable scenarios. The growth rates of industrial production (by 4.5%), investments in fixed assets (by 7%), real incomes and consumption of goods and services by the population (by approximately 5%) indicated in the official scenario are closer to the second, unfavorable option. The same holds true for the dynamics of the indicators characterizing foreign economic relations (the scenario estimates are based on the annual average price of "Urals" grade oil of US\$ 21 per barrel). In general, the actual dynamics of the said indicators in 2001 are pretty much likely to exceed those built into the official scenario.

At the same time, the inflation indicator of the official scenario is more optimistic than that of the first, favorable scenario (12%). This indicator seems to be the least realistic of all the macroeconomic parameters of the official scenario. More appropriate for a moderate, most likely option, would be an inflation rate of 16-18%.

The results of the Russian economy in the first quarter, which recently announced, allow possible results for 2001 to be forecasted with a high degree of certainty.

At the beginning of this year, it was observed that many important macro-economic indicators were improving as in the last months of the previous year.

Seasonally and calendar adjusted GDP dynamics showed a tendency towards slight growth in the first quarter (0.7%, according to an estimate by the Ministry of Economic Development and Trade) after 4 months stagnation.

After a reduction in industrial production in the fourth quarter (by 2%), seasonally and calendar adjusted production showed a tendency towards growth in the first quarter (by 1.9%).

Quarterly GDP increased by 4.2% between the first quarter of last year and the same period of this year according to an estimate by the Ministry of Economic Development and Trade, and quarterly production increased by 3.3%.

On the other hand, there are no grounds for making assumptions about the sustainability of this renewed economic growth. The positive tendency in evidence from the beginning of this year is still fragile, especially on the basis of the unstable dynamics of important seasonally and calendar adjusted indicators of domestic demand (capital investment and household consumption).

The direct impact of the factors that caused intensive growth after the crisis (depreciation of the Ruble, low prices and fees for the services of natural monopolies, low labor costs, high international oil prices, etc.) has practically disappeared, while mechanisms for stable, long-term economic growth are still in the process of forming.

One can spot positive aspects in domestic economic policy at the beginning of 2000, such as responsible fiscal and financial-credit policies, changes in customs regulations and a certain reduction in the tax burden on the real sector of the economy. The government prepared a series of bills aimed at the improvement of the business climate in Russia.

However, no obvious progress has been made in the various fields of domestic policy, particularly in structural reform. For example, developments in natural monopoly reform concepts proceed very slowly, there are no evident positive results in the reform of the banking sector and housing-utility reform is also progressing slowly. This has a suppressing effect on economic development, including the improvement of the investment climate of the country.

In the first quarter of this year, foreign trade conditions seemed to be favorable enough, although they began to worsen compared with 2000 (especially from March). The monthly average price of 'URALS' oil was 25 dollars per barrel in January and February, and 21.6 dollars in March, while it was 26.8 dollars per barrel in 2000 on average. The annual average price of 'URALS' oil can be estimated at approximately 21-22 dollars per barrel during this year, which is closer to the favorable forecast scenario explained before. At the same time, one should note the continued favorable pace of growth in the physical volume of exports.

On the other hand, the necessity of paying the full extent of foreign debt (in the circumstances that price conjuncture is worse than the favorable scenario) limits economic development (in particular, for budget expenditure on the domestic economy).

An analysis of all the basic factors that should affect economic development in 2001 shows that macro-economic parameters are at a somewhat higher level than those of the unfavorable scenario (forecasted with stagnation in terms of the 'adjusted' dynamics), while many of them are slightly higher.

GDP growth over 2000 can be forecasted at approximately 4%, industrial production at 4.5%, capital investment at 6%, real disposable income of population at 5.5%, and turnover of retail sales and consumer services at 5% and 4.5% respectively.

Due to the above-mentioned reasons, the volume of exports can be forecasted at near the first scenario – 96 billion dollars, while imports are forecasted at 48 billion dollars, with the continuing noticeable appreciation of the ruble in real terms. At the same time, net exports will also be near the first scenario.

The dynamics of inflation in the first quarter (the inflation rate of consumer prices compared with December 2000 was 7.1%, with a gradual decrease in 'inflation potential') reconfirm my first (more likely) forecast of 16-18% in total for 2001.