

Banking and stock exchange. Finance. Economics

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OFFICIAL ITEMS

On May 28, the Ministry of Economic Development and Trade submitted to the government just another version of the macroeconomic forecast for 2004-2007, from which it follows that doubling of Russia's GDP by 2010 would be impossible

Instead of growth rates of 7.2% required for doubling GDP, Russia will show only 6.6% in 2004 and even lower rates in the next years. High prices for oil will be of no help: export capacities are running dry, the government is not in a hurry to make decisions about new pipelines, and officials make no attempts to change the structure of the economy. It is interesting that only a couple of days ago when the President reminded of the necessity to double GDP by 2010 in his message to the Federal Assembly, the head of the Ministry of Economic Development and Trade G.Gref called the task realizable and explained that only inactivity of officials could become an obstacle. Meanwhile, it is Gref-led ministry that is responsible for the structure of the economy.

The new version of the forecast is already the third one since the beginning of the year and the last one, as the head of a macroeconomic forecasting department A.Klepach assures. It is hardly believable: last year the Ministry of Economic Development and Trade revised the forecast 5 times at the least and the last year's situation is repeated for the time being. In March, G.Gref attempted to prove that the growth would make only 5.2% in 2004, 5.8% - in 2005, and the increase to 6.1% would be possible with an average annual price for Urals oil at \$24 per barrel. However, his arguments had little force to the Premier M.Fradkov and the head of the government's staff D.Kozak. So, in April G.Gref had to give publicity to new figures: GDP's growth would make 6.4% in 2004 and 6.2% in 2005. The forecast was revised after the world oil agencies had upgraded forecasts for oil prices. This allowed the Ministry of Economic Development and Trade to reconsider the price of Urals oil stated in the forecast: from \$25.5 per barrel to \$27.5 per barrel in 2004 and from \$24 to \$26 per barrel in the next years. As a result, growth rates of GDP in the second version of the forecast increased by almost 1%.

However, prices for oil continued going up (the barrel of Russian Urals cost \$34.27 on May 28) and the Ministry of Economic Development and Trade had to upgrade the forecast again. An average price of Urals oil in the last document makes already \$29 per barrel in 2004 and the tendency remains unchanged for the next three years: \$26 per barrel in 2005, \$25 - in 2006, and \$24 - in 2007.

However, the rise in the price for oil in the new forecast entails no considerable growth of GDP. The Ministry of Economic Development and Trade increased the forecast for growth rates only by 0.2% - to 6.6%.

Even lower growth rates are expected in 2005 to 2007: 5.8%, 5.6%, and 5.7%, respectively. These figures are much lower than 7.2-8% per year required for doubling GDP. However, "they are the upper limit" under the present-day structure of the economy, the head of a macroeconomic forecasting department at the Ministry of Economic Development and Trade A.Klepach emphasizes.

"The forecast for slowdown in growth rates results from the fact that a rush in the oil sector will run out. There is a problem of export capacities. Besides, the pressure of import will grow stronger. As a result, every percent of the industrial growth will come more difficult," A.Klepach explains. "Under the present-day tendencies, we will be in no position to secure doubling of GDP," the official admits. "We need drastic changes in the economic policy on the whole."

It is interesting that last week G.Gref considered doubling of GDP a realizable task. Soon after the President V.Putin had read out his message to the Federal Assembly, G.Gref stated that "either inactivity or insufficient activity of officials could hamper to perform the task." "Even a fall in prices for oil to \$18-20 per barrel is not terrible" compared with officials' inactivity, Gref explained. Judging from the fact that GDP is not doubled in the forecast of the Ministry of Economic Development and Trade, Gref-led ministry has made sure of officials' inactivity.

A.Klepach gives the following fact as an example of inactivity. Export of oil to China by the pipeline Angarsk-Dazin would give a considerable growth of GDP.

However, the government has been unable to make a decision concerning the route of the pipeline since May 2003. Decisions about the construction of liquefied gas manufacturing plants are delayed. "Almost every branch of industry faces the similar problems," A.Klepach says. The business complains about the inactivity of officials too. For example, Transneft president S.Veinstock reminds once again that it has become close to impossible to increase the export, which gives a considerable percent of GDP, without making decisions on new export routes by the Russian government.

If responsibility for decisions concerning the pipeline to China lies not with Gref's ministry, the Ministry of Economic Development and Trade should raise claims for faults in the structure of the economy first of all to itself. Everybody has lately been giving their views on how to reduce the dependence on export of raw materials: from the President to the business. Following the President, the

Premier suggests paying special attention to "points of growth" (when a separate industry or a company is stimulated with the help of tax and non-tax methods). Experts think the amnesty of capital will be helpful. The Chamber of Trade and Commerce suggests giving the CBR's gold and currency reserves to investments. It is up to the government to choose among the suggestions and start doing something at last.

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BANKS AND EXCHANGES

Sberbank of Russia and the Canadian state-owned export crediting agency Export Development Canada (EDC) signed in Moscow a memorandum of mutual understanding with the view of consolidating the cooperation and coordinating efforts aimed at supporting the import of Canadian goods and services to Russia

As a result of cooperation of Sberbank of Russia and EDC, Sberbank's corporate customers will get financial encouragement of import of goods and services from Canada.

The agreement signed by EDC and Sberbank establishes long-term relationships between the two institutions and builds the basis for making financial agreements, mutual promotion of services provided by each party in Canada and Russia, and exchange of information about future projects and programs. EDC is a Canadian state-owned financial institution aimed at

rendering services of commercial financing with the view of encouraging Canadian exporters and investors on more than 200 markets.

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Georgia's TBC-Bank, which assets make more than a fourth of assets of Georgian banks, is planning to set up an affiliated bank in Moscow until the end of the year, the bank's president V.Butskhrikidze informed

45% of shares of TBC-Bank belong to Soros Investment Capital, 10% - to IFC, and 10% - to the German investment fund DEG.

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On May 28, the Central Bank of Russia summed up results of the takeover of Sodbusinessbank. No traces of embezzlement have been found in the bank for the present

On May 28, the CBR first deputy chair A.Kozlov told a news conference about results of the penetration of the interim administration into the building of Sodbusinessbank occurred the day before. The efforts turned to advantage: a certain Zhuchkov, who was wanted by the militia "for economic crimes," was arrested together

with the bank's security.

As for Sodbusinessbank, according to A.Kozlov, the CBR got into touch with the bank's former managers. They will continue managing the bank's employees to further the bank's liquidation. According to A.Kozlov, everything what is going on is not "the struggle among commercial

clans," but "the work of the state with unprincipled persons."

According to A.Kozlov, the responsibility for the situation in Sodbusinessbank will lie with the deputy chair of the bank's board V.Krutov who granted powers of attorney to represent the bank's interests to all persons arrested in the building of Sodbusinessbank, "This deputy chair will remain on our black list, anyway." Last week, the official promised to include all managers of Sodbusinessbank into the black list. However, now the rest of managers (excluding V.Krutov) have an opportunity to prove themselves in the right by means of cooperating with the interim administration.

The loss of property was not found at the moment of penetration of the interim administration into the bank, A.Kozlov shared his impression. According to him, it is now impossible to determine the exact amount of the bank's assets.

None of real owners of Sodbusinessbank has shown up yet, A.Kozlov stated. The future of the bank will be decided in an arbitration court which first sitting is scheduled for June 24. According to the CBR's first deputy chair, Sodbusinessbank will be winded up by the court what will make him glad. However, if the bank falls short of funds, the bank will go through a procedure in bankruptcy. In this case, its creditors and depositors will receive money later on and not in full volume.

After analyzing the situation in Sodbusinessbank, the CBR will submit a number of legislative initiatives for consideration of the government and the State Duma, A.Kozlov stated. He mentioned a prompt approval of a new wording of the law on bankruptcy of lending agencies, approval of the law "On Corruption," and inclusion of an

article on counteracting interim administrations into the Criminal Code.

The order of giving out property to holders of safe-deposit boxes in Sodbusinessbank will be determined early this week. The remaining depositors will have to wait for their money for about a year at best, Gazeta thinks. The first meeting of a group of depositors with the interim administration took place on May 28. The new governing body of the bank promised to hold consultations for Sodbusinessbank's customers. For example, "a hot line" of the interim administration started working on May 28. The bank's employees answer all the questions from 10 am till 5.30 pm (telephone - 777-5551).

According to Izvestia, the bank's depositors may hope for the best. The CBR asked the Finance Ministry's insurance supervision department about insurance companies which had obtained credits from Sodbusinessbank and was answered that "the mentioned companies had no borrowing needs according to the line of their activity." So, after the CBR rejects "schemed" deposits, real depositors who placed their savings on deposit will most likely get their money back in full volume and, possibly, with interests. The CBR makes no forecasts for funds of juridical persons (mainly, not large Moscow-based companies).

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EVENTS

The president of the Investment Bank of Kuban, the citizen of Cyprus M.Thucydides kidnapped on May 7 was released by officers of a joint criminal investigation group of the Public Prosecutor's Office, the Federal Security Service Department for the Krasnodar Krai, the Department for Combating Organized Crime, and the Central Internal Affairs Department

The Vice President of the Investment Bank of Kuban A.Yudin reported about the disappearance of Mikhail Thucydides to the Central Internal Affairs Department for Krasnodar on May 7, in the evening. Only officers of the criminal investigation department and the bank's employees were informed about the incident for a while. The Cyprian business, who did not speak Russian, had no bodyguards, and lived in Nicosia and Krasnodar, was officially declared missing on the fifth day.

Investment Bank of Kuban was established in 1999. 75% of the bank's capitals are money of the Cyprian Investment Bank and 25% - capitals of the European Bank

for Reconstruction and Development. According to Kommersant's information, the bank did not invest money in large projects and was engaged mainly in investment support of local agricultural companies. Mr.Thucydides was in charge of the bank's activities in Krasnodar. Nobody has seen the other members of the bank's board, also citizens of Cyprus, on Kuban since the foundation of the bank.

"We can tell now that Mr.Thucydides was kidnapped and held in the suburbs of Krasnodar by criminals who held him to ransom of many millions," Kommersant quoted K.Zaporozhets, the deputy prosecutor of the Central district of Krasnodar, as saying.

On May 27, a released Cyprian banker was interrogated as a victim. He came to work already on May 28.

The Public Prosecutor's Office gives no details about the circumstances of the kidnapping. Mr.Zaporozhets refers to the secrecy of investigation. It is known that criminal proceedings were instituted against one of arrested criminals. "M.Thucydides is an adult," the public prosecutor says. "He understands he will have to take the security into his service. As for versions, we are examining a version of a contract crime: the banker was kidnapped by order of some of his partners or rivals. It is now

impossible to disprove or confirm the version." Investment Bank of Kuban refused any comments.

FINANCE

Strengthening of the real effective ruble rate in 2004 will make not more than 7%, the Ministry of Economic Development and Trade forecasts

The estimate is based on the CBR's forecast, the head of a macroeconomic forecasting department at the Ministry of Economic Development and Trade A.Klepach told a news conference. "This is a very strict target considering that strengthening of the real effective rate of the ruble made, according to preliminary estimates, already 5.9% within five months of this year," he said. According to forecasts, strengthening of the real effective ruble rate will reduce to 3.5% in 2005 and make about 5% in 2006.

Rates of strengthening will keep somewhat lower than 5% in the future.

CREDITS AND INVESTMENTS

In March 2004, Anadolu Cam Investment B.V., a Dutch branch of the Turkish Anadolu Cam, bought 98% of shares of Pokrovsky Glass Works from Norum (one of the EBRD's venture funds), the EBRD informs. After that, Anadolu Cam made a request to the EBRD to finance the completion of the plant's reconstruction and the launch of the second workshop started with the participation of Norum

According to the EBRD's information, the project is estimated at \$37.5 million, about \$20 million of which Anadolu Cam is hoping to obtain from the bank. The project was submitted for preliminary consideration. A final decision on granting a credit will be made at a meeting of the EBRD's board of directors scheduled for July 6.

According to Anadolu Cam's representative in Russia V.Dolgov, the company is planning to modernize the furnace currently operating at Pokrovsky Glass Works and build a new furnace. Investments are estimated at about \$25 million. The plant's capacity will make 600 million

glass packing units annually. The plant will produce bottles in accordance with the NNPB technology (lightweight bottles).

CORPORATE NEWS

Richard Weden who had worked as general director and vice president of American Express in Russia for nine years retired on a pension. Jonathan Knaus took over the post of the head of ZAO American Express International Services

Jonathan Knaus has been living in Russia since 1991. He started working in American Express in 1999. Knaus worked as finance director till 2003 and as director for business development in 2003-2004.

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\$15 billion can be paid for M&S chain

One of most famous clothes store chains - British Marks and Spencer (M&S) can be acquired by famous investor billionaire Philip Green. Revival Acquisitions owned by Green is ready to pay \$15 billion for M&S. Last year, earnings of M&S grew 9.6% and amounted to \$12.7 billion and profit increased 2.5 times and stood at \$756 million. Last week, the company reported that in the first quarter of this year, its sales grew 1.8%, however, against the same period of last year they are down 0.4%.

Last week, Philip Green, who owns Arcadia and Bhs chains competing with M&S, confirmed that he will probably suggest acquiring the company. Shares of M&S, which financial position has been unstable over the last few years, immediately soared 19%, as a result, its market capitalization climbed to \$14.3 billion on Thursday and to \$14.9 billion on Friday. Green hired Merrill Lynch and Goldman Sachs to be consultants for the transaction that can become one of largest acquisitions in Europe this year.

Its financing will require about 10 billion pounds sterling - history of Great Britain knows few such offers. The consortium of five banks, including HBOS, offered funding. This consortium took part in a few other Green's acquisitions - Royal Bank of Scotland and Barclays Capital. Probably 600 million pounds sterling will be paid from Green's personal savings (Green's fortune is estimated at 3 billion pounds sterling). Revival Acquisitions said that both cash and shares will be offered for M&S. The statement says that in the course of the transaction, the new company will be created, which will place shares on the exchange.

Green reported that he was going to have talks with M&S board of directors to secure its support. Green tried

to buy M&S four years ago first, but he had to give up this idea. He explained that the press negatively reacted to that attempt. This time, he will probably have to persuade law enforcement bodies that this transaction is reasonable.

Green's acquisition of M&S can become a turning point in the history of the chain, which has been facing difficulties lately. For dozens of years, M&S has been top supplier of clothes for the British middle class - however, currently, it has to compete with such companies as Tesco.

This is not the first time when Green helps trading chains overcome crises. Since he bought Bhs for 200 million pounds four years ago, its value has increased five times.

According to analysts, even if Green fails to buy M&S, the company will face large scope transformation - management and suppliers are very likely to change. Last Wednesday, Roger Homes, CEO of M&S spoke about necessity of changes.

The group's reform started a few years ago. To keep its 330 shops in Great Britain, it had to sell its overseas subdivisions. In 2001, the company sold 220 stores Brooks Brothers in the U.S. and Retail Brand Alliance in Asia, and 18 M&S stores in France - Galeries Lafayette. In 2003, the group refused selling Kings Super Markets chain of American Gristede's. (FT materials used.)

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ECONOMY

Russian economy continued growing steadily in May, bank analysts who took part in Vedomosti's consensus-poll say

Growth rates will go down slightly compared with April. However, an obvious slowdown will be based on a statistical effect.

Annual growth rates of almost all economic activities will be not so high in May as they were in April, participants of the forecast think. However, the slowdown is of a purely statistical character, because it is the result of a rapid economic growth a year ago, Troika Dialogue economist-in-chief E.Gavrilenkov says.

Results of April and May eliminate apprehensions of suspension of the industrial growth expressed by the Minister of Economic Development G.Gref a month and a half ago, A.Moiseev at Renaissance Capital emphasizes. A favorable state of the world economy, as well as high prices for oil and ferrous metals facilitate a rapid growth of Russian export, Morgan Stanley economist A.Khaliulin says. According to E.Gavrilenkov, annual indexes of growth are likely to go up in the next months. However, the effect will be purely statistical, because the economy slowed down in summer 2003, he adds.

In May, prices for Urals oil were very high - about \$35 per barrel. However, this will hardly stop the tendency towards a gradual slowdown in growth rates of oil production, D.Panov at Chelindbank thinks. According to A.Khaliulin's forecast, an annual growth of oil production will reduce to 9.2% in May from 10% in April. Besides, a calendar factor will have effect on the index of industrial production - there are less working days in May 2004 compared with May 2003, Panov adds.

The poll held by the Institute of Transitional Economics in May is also evidence of a slight slowdown in the growth of industrial output compared with April. Nevertheless, the share of companies which reported the increase in production was higher by 6% than the share of companies which reported the decrease. However, respondents of the Institute of Transitional Economics forecast that growth rates of the demand for their products in summer will be slower than growth rates of the output. Probably, this is the result of a rapid rise in producer's prices - 30% of companies examined by the Institute of Transitional Economics raised their sale prices and 40% of companies are planning a price rise in summer (only 3% of companies cut prices). Industrial prices will continue going up in summer, S.Zakharov at Zerich Capital is sure. The price rise is favored by high prices for energy supplies and metals on the world market, with domestic

prices following them, the head of an information and analytical service of MICEX O.Kuznetsov agrees.

This will not prevent the CBR from curbing consumer inflation, ING Bank economist Y.Tseplyaeva says. According to her, the basic inflation has been keeping within 0.8% per month for already several months what allows to hit the target of 10% per year. The government succeeded in restraining the growth of energy tariffs, A.Khaliulin adds and forecasts that an annual index of price rise for services will slow down in May to +16.4% from +17.9% in April. The general index will decrease as a result.

The only thing that can retard the Russian growth in the nearest months is an increase in interest rates on world and domestic markets, the head of an analytical department at Bank of Moscow K.Tremasov says. The value of foreign borrowings will go up due to an expected rise in rates of the U.S. Fed. In Russia, a rise of interest rates on short-term credits results from the shortage of money caused by the CBR's control over the growth of the ruble rate. According to O.Kuznetsov, companies placed only 4.8 billion rubles worth of bonds (almost by 5 times less than a month before) in May just because of the shortage of bank liquidity. "If rates of long-term credits go up following rates of short-term credits, investments and the economic growth may slow down," A.Moiseev states.

However, the afore-mentioned scenario does not look too threatening, K.Tremasov believes. "Weakening of an investment demand will be made up by the expansion of consumer demand which beats all forecasts now and depends on rates of strengthening of the ruble and not on interest rates," he says. According to results of the poll held by Vedomosti, an annual growth of income of the population will speed up in May compared with April. As a result, the consumer demand will increase rapidly boosting the production. So, for the time being, leading growth rates of import have no negative effect on national producers on a large scale, Panov agrees.

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Last week, prosecutor general of New York state Eliot Spitzer filed a suit against former chairman of NYSE board of directors Richard Grasso demanding that he should return \$100 million of pension allowance that he had received

Grasso, in his turn, said he wasn't only going to defend his right for this money, but would also appeal to the court that the \$48 million bonus, which he voluntarily refused in 2003, should be paid to him.

As we remember, in mid-September of last year, NYSE board of directors approved package of pension allowance to Grasso to the sum of \$139.5 million and bonus of \$48 million. However, outraged at the amount of payments, the group of exchange traders initiated Grasso's dismissal, which took place on September 18. As a good will gesture, Grasso declined the bonus. Still, in January, prosecutor of New York state Eliot Spitzer, who became famous after widely discussed investigations of corporate frauds, demanded that exchange top management should look into legality of such payments.

As the NYSE didn't react properly, last Monday, Spitzer filed a lawsuit against Richard Grasso demanding that he should return NYSE \$100 million. The prosecutor decided that Grasso received his payments illegitimately: the meeting of the board of directors was held without agenda being preliminarily announced. Thus, when the question about payments to the exchange head was discussed in September 2003, it came as a surprise for most board members and some members of the compensation committee didn't vote at all.

Next day, Richard Grasso published an irate letter in The Wall Street Journal, in which he called actions of prosecutor Spitzer politically motivated and threatened that he would file a suit against the NYSE and demand that \$48 million, which he had declined, should be paid to him. Dan Webb, NYSE lawyer, said, "If Richard Grasso files a suit, he is certain to lose. The fact that he himself declined bonus in September 2003 completely deprives him of all rights to receive it now."

However, Grasso's statement is rather political than practical, especially since he wants to donate the money to charity funds, if he wins. The point is that up until now, Eliot Spitzer has managed to make his victims settle conflicts outside court by paying fines. For example, in May 2002, Spitzer threatened investment banks Merrill Lynch and Credit Suisse First Boston with criminal persecution for distorting market recommendations in favor of corporate clients and made them pay penalty of \$100 million each. In April 2003, he made ten largest U.S. investment banks, including Citigroup, JP Morgan Chase, and Goldman Sachs Group, pay \$1.4 billion for dropping the case about the clash of interests between their investment and analytical subdivisions. Citigroup paid the most - \$400 million. In September 2003, the prosecutor general started large-scope campaign aimed at combating fraud in mutual funds: managing company Alliance Capital Management paid \$250 million in fines and compensations; Bank of America Corp. and FleetBoston

Financial Corp. - \$375 million and \$300 million respectively. According to the prosecutor general, suits against the following companies are being prepared: Janus Capital Group Inc., Marsh & McLennan Cos., Strong Capital Management, and Bank One Corp.

Grasso publicly voiced accusations of the prosecutor general, which have long been discussed on Wall Street: prosecutor's notorious corporate investigations provoked by the bankruptcy of the energy major Enron in December 2001 have political motives behind them. Eliot Spitzer is doing his best to improve his rating in the hope that in 2006 he can be elected New York state governor. Unexpected opposition of Richard Grasso who, unlike companies, is not afraid that a lawsuit will stain his reputation, can damage the election campaign of ambitious prosecutor.



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