

2.1 BASIC SOCIOECONOMIC INDICATORS

By its socioeconomic status, Leningrad Oblast conclusively ranks among the most advanced in Russia. Regional authorities have made good use of the region's favorable geopolitical position, developed transportation networks, diversified industry, rich raw-material and resource potential, and high-capacity domestic market. In the meantime, such factors as implementation and application of innovative developments and technologies, favorable investment climate, and a policy of information transparency, enabled the region to become one of the most economically developed federal subjects.

In-house resource base, large-scale production modernization and continuous extension of the existent product range are contributing to successful industrial development. What is more, the government provides support for the projects aimed at further expansion of production and for new local businesses being started for producing goods otherwise being imported from abroad or from other regions of Russia. The dynamics of basic indicators of Leningrad Oblast socioeconomic development is summarized in Table 2.1.

Table 2.1 Basic socioeconomic development indicators, Leningrad Oblast, %

Indicators	2004 to 2003	2005 to 2003	January-June 2006 to January-June 2005
Index of industrial production	123.2	130.5	130.5
of which: manufacturing sector	124.1	133.4	135.3
Agricultural production, farms of all types	98.6	108.0	97.6
Investment in fixed capital, total	121.0	117.1	170.0
Foreign investment	67.1	148.0	147.2
Volume of construction works performed	114.7	117.0	208.4
Commissioning of residential buildings	115.0	120.0	88.2
Retail trade turnover	134.4	164.0	107.4
Chargeable services for population	102.5	109.0	102.0
Catering turnover	174.5	225.0	118.1
Foreign trade turnover	160.0	210.6	114.5
Balance (profit less loss) of large and medium-sized enterprises	210.0	240.0	103.4
Real monetary income	129.0	141.6	124.3
Average monthly nominal accrued wages	122.1	157.4	121.5
Overdue of wages (by the end of the period)	39.1	11.9	49.6

2.1.1 Gross regional product and its structure

The main indicator of successful regional development is ever-growing value of gross regional product (GRP). Over the period 2002-2005, the GRP value actually doubled, exceeding 200 billion rubles in 2005 (see Fig. 2.1). The improvement was essentially driven by favorable investment climate created in the region, as well as by dynamic construction of new enterprises (including those with foreign capital) currently determining the future of a whole range of regional industries. While in 2003 per capita GRP was 79.6 thousand rubles, in 2005 it increased to nearly 122 thousand. GRP structure is changing as well, with the share of the service sector steadily growing.

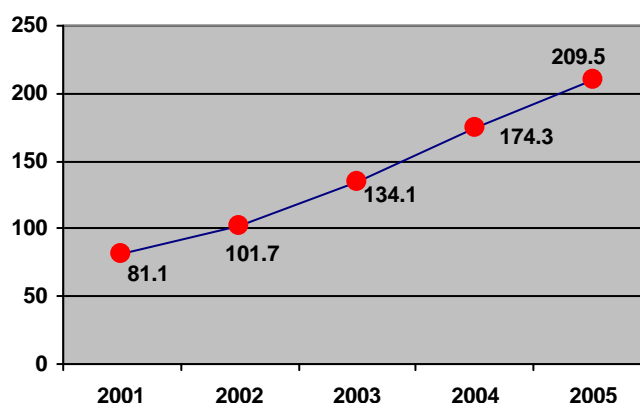


Fig. 2.1 The gross regional product, billion rubles

Industry and transport are the main sectors of Leningrad Oblast economy, making the largest contribution to the total gross regional product.

2.1.2 Industry

Industry employs every third of working-age population and lays the foundation of economic potential of Leningrad Oblast.

The regional industry is well diversified. The following staple industries traditionally hold strong positions: power industry and fuel industry, engineering and metal-working, chemical and petrochemical industry, non-ferrous and ferrous metallurgy, woodworking industry and pulp and paper production, food products, building materials industry, light industry, etc.

The core of industrial production is represented by more than 360 large and medium-sized enterprises, over 3% of which employ more than 3000 people.

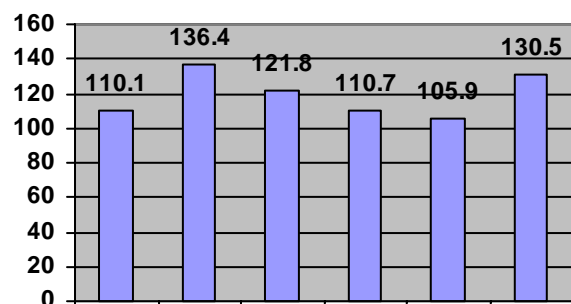


Fig. 2.2 Dynamics of industrial production index, %

The dynamics of industrial production index represents a stable growth trend, given that the requirements of domestic and foreign markets are strict enough: 2001 - 110.1%, 2002 - 136.4%, 2003 - 121.8%, 2004 - 110.7%, January-December 2005 - 105.9% (see Fig. 2.2). In 2005, the industrial output of Leningrad Oblast came to 200.5 billion rubles.

During a two-year period, total industrial output increased 1.3 times. Specifically, industrial production in manufacturing sector went up 1.3 times, in electric power, natural gas, and water supply generation and distribution rose 1.2 times. In 2006, industrial production was developing at a higher rate – the index of industrial production over the first six months came to 130.5% compared with the respective period of the previous year, and positive trends were observed in all major industrial sectors. The secret of such rate of industrial growth should be attributed

to considerable domestic and foreign investments in creation of new enterprises, as well as reconstruction and modernization of existing plants.

2.1.3 Transportation network

Due to geographical and geopolitical situation of Leningrad Oblast, transport sector development is one of the priorities of the region's economic policy. Leningrad Oblast is located at the intersection of sea, railroad, river, highway, air, and pipeline communication lines; at the "crossroads" of national and global transportation corridors, and in the focus of interests of three world-leading centers of economic development: North America, Western Europe and Eastern Asia. As a natural communications "bridge" between Europe and Asia, Leningrad Oblast is achieving a status of major international traffic and technological centre. The following factors contribute to this unique position:

- the Russian Federation has a direct and free access to the Baltic Sea;
- the maritime and immediate land frontier with the European Union (EU) lies within the region's bounds;
- the Oblast territory is crossed by a range of officially recognized traffic arteries, including some of the most important international communication lines – for example, the 9-th intermodal transport corridor (the International Transport Corridor "North-South");
- the use of traffic communications and transportation network objects encourages development of the most economically efficient export-import routes, including such strategically important as those for oil, petrochemicals, coal, wood and timber cargo, metal, chemicals freight, etc.;
- availability of unoccupied, ready-for-development areas (including coastal zones), suitable for construction of new and upgrading of old traffic communications and large objects of transportation network;
- availability of qualified personnel, along with sufficiently developed industrial and agricultural sector, and rich raw materials base;
- favorable investment climate in the region, which provides considerable inflow of domestic and foreign investment in manufacturing sector of economy.

The future of Leningrad Oblast lies in high technology express roads, connecting Central Russia with Northern Europe, and powerful harbor systems that would turn the region into the major commercial center of the Baltic Sea.

Leningrad Oblast has a developed transportation infrastructure. In terms of the length of motor roads in general use it is the 12th-largest region in Russia, in terms of the roads density – the 16th. The density of hard surface motor roads is 108 km per 1 thousand sq.km. The railway and inland waterways systems density is nearly 6 and 2.5 times as high as the average national rate, respectively. Railway lines density amounts to 32 km. per 1 thousand sq.km. Leningrad oblast has a total of 3000 km. of railroads (of which 30% are electrified). Four divisions of Oktyabrskaya railroad enable people from any town or municipal area of the region to travel not only to Saint-Petersburg, but to all other Russian cities as well. The freight shipments by the rail transport represent over 100 mln. tons a year.

Sustainable development of transport sector is encouraged by industrial output enhancement, as well as by the growth of investment activity and effective home demand. Over the period 2004-2005, the total volume of services provided by large and middle-sized transport organizations increased 5.5 times (in actual prices). The total cargo by motor transport (including individual entrepreneurs), pipelines and inland waterways increased in 1.3 times (during the first six months of the year 2006 this indicator grew by 4.5% in comparison to the same period a year ago); the total volume of freight transferred by stevedore companies in charge of managing port terminals of the Gulf of Finland grew 3.2 times (over the first six months 2006 – by 17.3%).

The region serves as a focal point of international transport networks, which has implications for Leningrad Oblast to become a major transit center of universal importance. According to OECD estimates, starting from the year 2010, the volume of container traffic will have a 20-22% annual growth rate. A considerable increase in the flow of container traffic via Leningrad Oblast is determined by development of European-Asian international transport corridors.

2.1.4 Agricultural sector

The agricultural sector of Leningrad Oblast is represented by 270 agricultural enterprises: 6097 farms, 369.3 thousand personal subsidiary plots, 609.1 thousand of horticultural farms and 166.6 thousand truck farms; 148 enterprises of food and processing industries, 6 provender mills, 130 fishing and fish-breeding farms.

A whole range of initiatives to help rural economy is implemented in Leningrad Oblast. These include: government subsidies for grain production and extension of land under grain crops, assigning means to replenish a regional leasing pool designed for providing agricultural sector with state-of-the-art farming equipment. The pool value is currently 90 million rubles.

Investments made into overhaul and technical re-equipment of technological processes and into preservation of material resources enabled a three-fold increase of poultry production over the period of 1999-2005: from 40 up to 120 thousand tons.

2.1.5 Science and innovations

Leningrad Oblast has a solid technological and innovations potential. The region territory is home to more than 40 state academic and industry institutes and scientific centers, studying such relevant research topics as:

- nuclear energy and energy saving;
- nuclear physics;
- applied chemistry;
- biology and medicine;
- farming;
- instrument engineering, including laser and radar engineering;
- fish-breeding;
- environmental activities;
- spatial, industrial and housing development, engineering infrastructure design.

Research activities of scientists working in Leningrad Oblast are highly-regarded throughout Russia.

2.1.6 Population and employment statistics

Demographic trends

According to the long-term forecast of socioeconomic development of Leningrad Oblast, drawn-up in 2006, demographic situation is one of the key problems of the region, as well as of the Russian Federation as a whole. Regional government has considered and approved a conception of demographic development of the region (later referred as "the Conception") for the period up to 2010. The Conception is a system of goals and priority measures to be taken by regional and municipal government in the medium-term perspective in order to control social and demographic trends.

Although main population indicators such as birth and death rates have slightly improved recently, they are still behind figures of previous years and fall short of desirable future as well. By the end of 2005, natality in Leningrad Oblast decreased by 40% as compared to the baby boom in 1983 (see Fig. 2.3). In 2005, birth rate amounted to 7.8 persons per 1 thousand. According to statistical estimates, failing drastic measures to regulate

demographic policy, by the year 2010 working-age population of Leningrad Oblast could shrink by 20-25 thousand, and by 2015 – by 80-85 thousand. On the whole, the total population loss by 2015 would exceed 140 thousand.

In order to rectify the situation, the analysis of the main reasons of the demographic plight has been conducted, and suggestions for improvements made:

- in terms of natality stabilization and promotion and family-friendly policies, regional authorities intend to increase social status of young families;
- improving households' well-being, living standards and quality of life is a high priority;
- in terms of migration control, the plan is to create conditions for attraction of immigrants from the Baltic region and the Commonwealth of Independent States (CIS), and reducing the manpower drain to the enterprises of Saint-Petersburg.

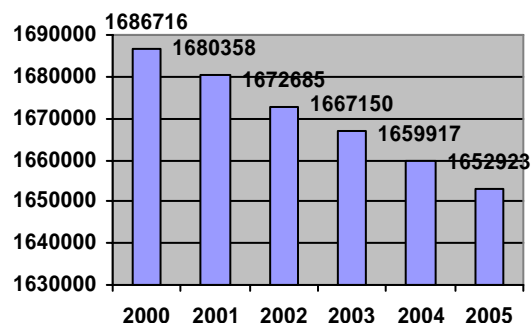


Fig. 2.3 Population dynamics, Leningrad Oblast, pers.

The scheme of the Conception implementation stipulates for consolidation and co-ordination of activities between legislative and executive authorities at every level. A new regional program aimed at improving demographic situation in the medium-term perspective is supposed to be developed and launched soon. While working out plans of economic development it is extremely important to be aware of the implications for demographic situation. In addition, the Conception involves conducting a communications campaign focused on popularizing the goals and objectives of regional demographic policy.

At the end of December 2005, the governor's decree was issued approving the Conception implementation plan for 2006-2008, describing particular measures, naming the persons in charge, and specifying schedule time and amount of financing.

Employment, earnings and community service

The main objective of sustainable economic growth of Leningrad Oblast is a continued improvement of living standards and quality of life of every society group. A significant increase is being observed in the level of real disposable monetary incomes, over the last two years this figure grew by 40%, while during the first six months 2006 – by 24.3%, indicating that the growth of population incomes outstrip inflation rate.

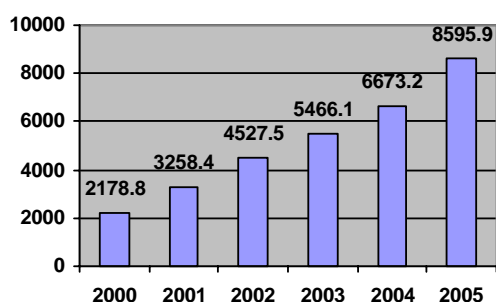


Fig. 2.4 Average nominal wages per month, rub.

Wages dynamics in Leningrad Oblast suggests a steady growth pattern. The pronounced upward trend is ensured both by high level of remuneration in organizations deploying their production facilities on the territory of the region as a result of investment projects implementation, and by the active policy of regional government towards increasing labor rates and dealing with wage arrears. During a two-year period, average monthly nominal accrued wages per employee increased in 1.6 times, during the first six months 2006 – by 21.5% (see Fig. 2.4).

The region has no arrears of pensions (since 1999), maternity and child support payments (since 2002). The proportion of population with income below subsistence minimum level dropped from 36.8% in 2003 down to 21.2% in 2005 and 19.6% in the second quarter 2006.

The government attends to the population's need to improve quality of life and enhance welfare services. Social support sector operates in the framework of targeted financing based on social development programs, and should secure state guarantees of providing community services, improving their quality, efficiency, and availability; enhancing material and technical base of public-service institutions, and optimizing the district network of the latter.

The social welfare system of Leningrad Oblast builds upon such principles as targeting, differentiated approach, and integrated character of the serviced being provided. New organizations as well as new forms and types of community services keep proliferating. A network of institutions serving senior citizens, disabled persons, and families with children shows speedy development. Community members receive monthly cash grants; in-kind benefits also remain.

2.1.7 Investment

One of the priorities of the government's economic policy is to create healthy environment to raise funds and promote investment process. Investment policy of Leningrad Oblast covers the following areas:

- development of regional investment legislation, tax and administrative law base to support business;
- creation of a climate of information transparency;
- formation of a specified market infrastructure, providing conditions for investment process;
- businesses reorganization in order to increase their investment attractiveness.

Leningrad Oblast is one of the most promising regions of Russia. The factors contributing to the region's competitive strength are its unique geopolitical position, rich natural resources reserves, great industrial, scientific, technological and intellectual potential, as well as current legislation aimed at creating investor-friendly legal and information environment for business activities.

Intensive economic growth, continuing already for several years, has turned Leningrad Oblast into a field of special interests of foreign as well as domestic investors. The reason for it is industrial output enhancement, high performance of the region's manufacturing sector, and effectiveness of the investment policy pursued by Leningrad Oblast government. Given these conditions, information transparency becomes one of the most important factors, enabling Leningrad Oblast to rank among the leading regions of Russia in terms of investment attraction.

Those investors who carry out their projects within the bounds of Leningrad Oblast are provided with all necessary information and transparency of business activities; they are given a guarantee of legal protection, and have a right to tax benefits.

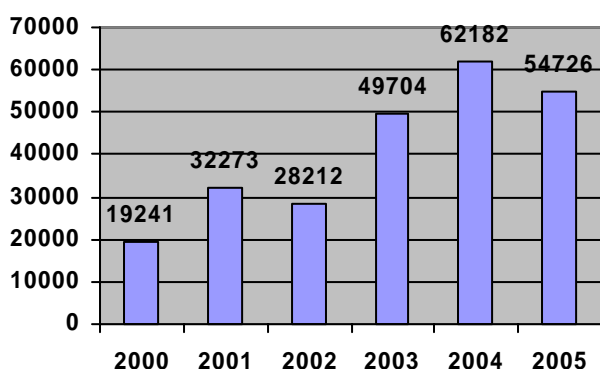


Fig. 2.5 Investment in fixed capital, Leningrad Oblast, mln. rub.

Favorable investment climate of the region stimulates direct foreign investments, contributing to sustainable development of economy and social infrastructure of the region. Over 2004-2005, **the total volume of investment in fixed capital** increased by 20%, while the level of foreign investments grew by 50% (see Fig. 2.5). Given generally positive dynamics over the five-year period, some years were marked by a drop in investments. In the first quarter 2006, the total volume of investment in fixed capital made from all

funding sources was 21.4 billion rubles (1.7 times as high as in January-March 2005).

Investment in industrial and transport development accounts for the greatest proportion of the total figure. Along with new enterprises construction, many of the plants already in place are being overhauled and modernized. The full range of task programs of capital development carried out in the region allows for construction of vitally important social establishments. As of the first two quarters 2006, investments in fixed capital and foreign investments seemed to follow the same positive pattern (the figures grew by 70% and 50%, respectively, in comparison to the same period last year).

Overall, during the period 2003-2006, dozens of investment project were implemented, and more than 30 new industrial plants were set to work in Leningrad Oblast. Total cost of project investments attracted over a three-year period amount to a huge sum of nearly 100 billion rubles. More than 8.000 new jobs has been created in the region over the last three years, owing to the start-up process.

As of 1 July, 2006, total foreign capital accumulated in the Leningrad Oblast economy was \$1.6 billion. Figure 2.6 shows changes observed in the total level of foreign investment (the aggregate figure encompasses direct, portfolio, and other kinds of investment). Entrepreneurs investing in Leningrad Oblast come from many countries, the regional authorities seeking to divide them between different districts, in order to provide for as uniform development of municipal areas as possible. Main countries-investors are Denmark (29%), Finland (21%), the Netherlands (10%), and USA (9%).

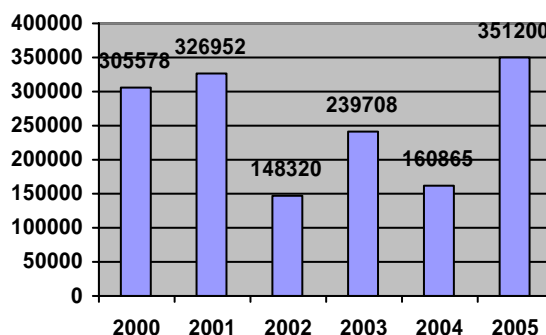


Fig. 2.6 Total cost of foreign investment, thousand dollars

2.1.8 Foreign economic activity

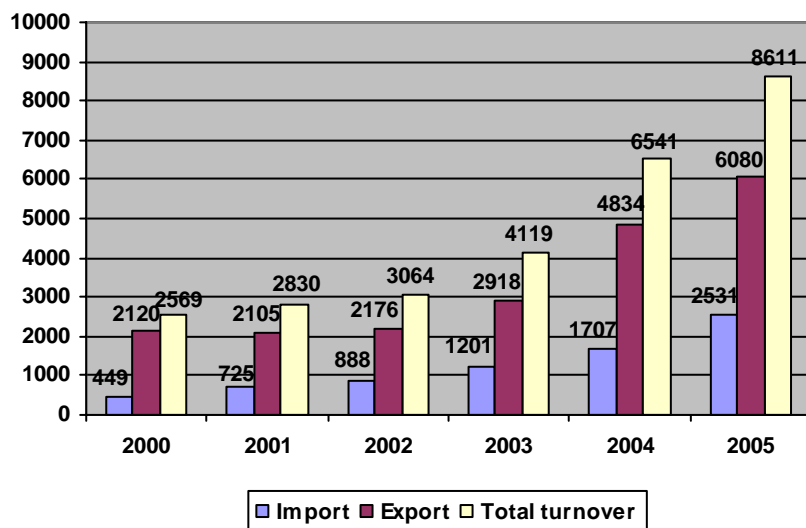


Fig. 2.7 Foreign trade dynamics, mln. dollars

period last year. As for the value of export, it was 2.1 times as high as that of import. In terms of the commodity composition, export trade is dominated by mineral products, key imports being engineering supplies.

Equally of interest is the turnover distribution by countries — business partners of Leningrad Oblast. The UK accounts for the largest proportion of export (34.3% of the

Effective foreign commerce policy pursued by the government of Leningrad Oblast contributes significantly to the region's economic development. Year by year, foreign trade turnover increases, and a favorable trade balance is generated. In 2005, foreign trade turnover, as well as the value of export and import, was 2.1 times as high as that in 2003 (see Fig. 2.7).

Over January-June 2006, foreign trade turnover of Leningrad Oblast amounted to \$4.8 billion, growing by 14.5% in comparison to the same

total cost of export in 2005), being followed by Switzerland (29.6%), the Netherlands (13.2%), Finland (7.8%), and Estonia (4.1%) (see Fig. 2.8). In terms of import, the leading countries are: Germany (16.6% of the total cost of import in 2005), Finland (10.1%), the USA (7.6 %), Italy (6.4%), the UK (4.5%), Brazil (4.4%), and Spain (4.2%).

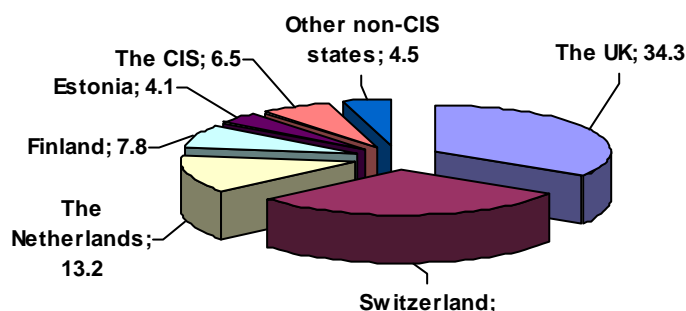


Fig. 2.8 Export geography in 2005, %

Non-CIS states account for the largest proportion (44.9%) of import turnover, the leaders being: Germany (16.6%), Finland (10.1%), the USA (7.6%), Italy (6.4%), the UK (4.5%), Brazil (4.4%), and Spain (4.2%) (see Fig. 2.9).

According to statistics for the year 2005, import trade is dominated by engineering products, accounting for 37.6% of the total value of goods being imported into Leningrad Oblast, and foodstuffs (33.4%). Chemical industry supplies account for 2.8% of the total imports, yet this category of import has the highest growth rate — amounting to 47% in 2005.

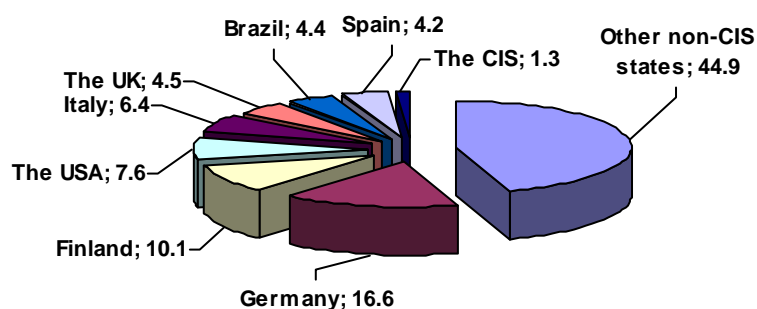


Fig. 2.9 Import geography in 2005, %