

4.1 BASIC SOCIOECONOMIC INDICATORS

Industry, agriculture, trade and public catering, transportation and communications are key sectors of Pskov Oblast economy. The change of basic indicators of socioeconomic situation in Pskov Oblast over the first six months 2006 is given in Table 4.1.

Table 4.1 Socioeconomic situation in Pskov Oblast, six months' figures

	2006 (first six months)	The 1st six months 2006 to the 1st six months 2005, %
Companies' turnover (in actual prices), mln. rubles	46 490	117
Index of industrial production ¹⁾	x	104
Commissioning of residential buildings, total floor area, thousand sq. m.	25	97
Agricultural output, mln. rubles	2769	99.6
The total volume of commercial freight shipments by large and medium-sized motor transport enterprises, mln. tons	140	98
Retail turnover, mln. rubles	15 251	113
Chargeable services rendered to population, mln. rubles	4055	100,6
The absolute number of registered unemployed (at the end of the period), thousand people	11.6	103
Average nominal monthly nominal accrued per capita wages, rubles	6284 ²	120 ³
Consumer Price Index	x	107.0 ⁴

1) Aggregate figure for mining operations; manufacturing industry; electric power, natural gas and water supply generation and distribution.

2) Statistics for January-May 2006

3) January-May 2006 to January-May 2005, %

4) June 2006 to December 2005, %

Geographical situation of Pskov Oblast as border territory resulted in a new line of business activity concerned with cargo handling procedures, custom formalities, freight storage and distribution services, as almost one sixth of Russian export-import transportation is carried out via Pskov Oblast.

4.1.1 Gross regional product and its makeup

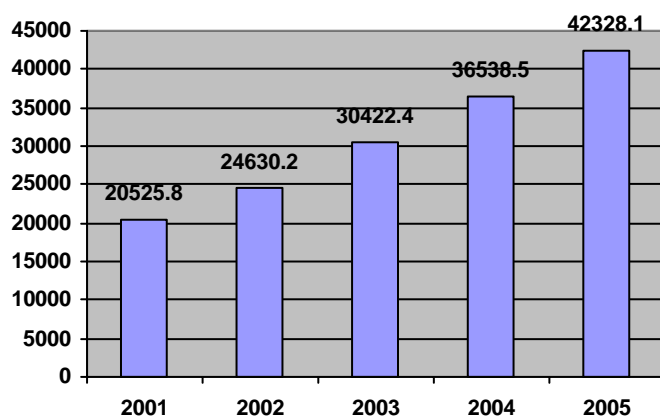


Fig. 4.1 The gross regional product, thousand rubles

In recent years, Pskov Oblast gross regional product (GRP) has been growing. According to preliminary estimates, in 2005 the GRP was 42.3 mln. rubles and in 2004 - 36.5 mln. rubles, indicating a 8.3% increase in comparison with 2003 (see Fig. 4.1).

Looking at sectoral composition, the gross regional product is dominated by trade and public catering (20.6%) and industry (19.2), followed by transportation and communications (16.7%), agriculture and forestry (12.6%) and construction (5%) (see Fig. 4.2).

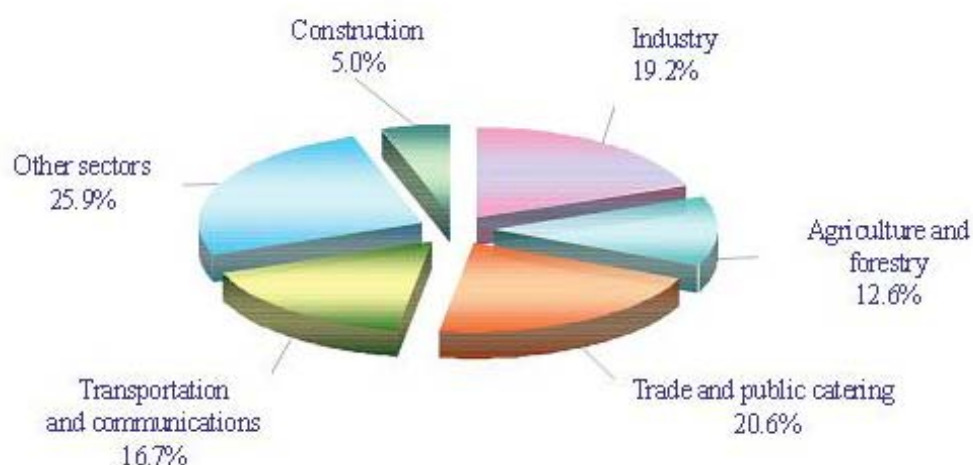


Fig. 4.2 The structure of gross regional product of Pskov Oblast, %

Over the last three years, the GRP makeup has changed dramatically, as affected by an increase in the proportion of services sector (such industries as trade and public catering, logistics and merchandising, chargeable community services, etc.) and a drop in that of productive industries.

4.1.2 Industrial potential



Industry plays a significant part in the economy of Pskov Oblast. There are over one and a half thousand organizations (plants) delivering industrial products which account for nearly one fifth of the region's gross regional product.

Pskov Oblast staple industries are: food industry, mechanical engineering and metal working, and power industry. These sectors constitute 75.8% of the total volume of industrial production (see Fig. 4.3).

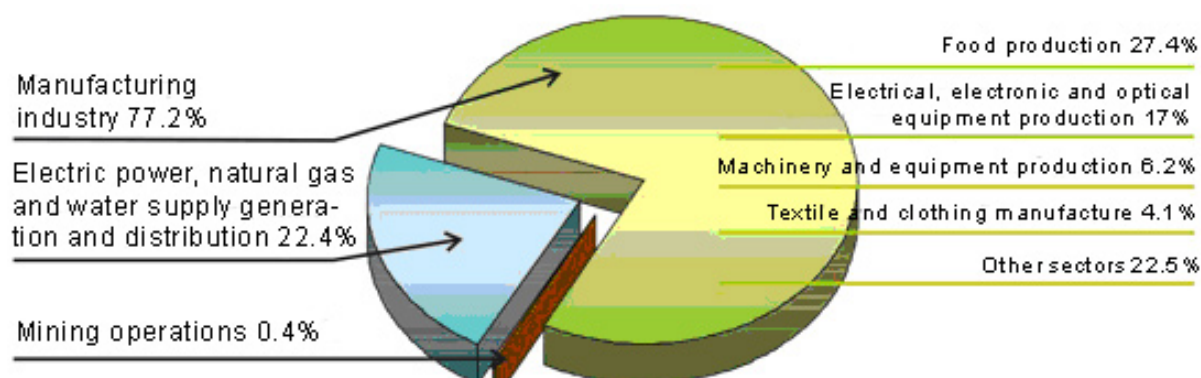


Fig. 4.3 The structure of Pskov Oblast industrial production, %

Fuel and energy sector

Pskov Oblast energy sector possesses surplus capacity. Electric-power industry accounts for 14.9% of the total industrial production. As of 1 January 2005, the number of regional power plants amounted to 108. 44 of them (i.e. 41% of the total quantity) generated electricity, while the other 64 operated in standby mode.

During the period 1998-2005, fuel and energy sector output dropped from 2.24 down to 1.5 bln. kilowatt-hour.

Mechanical engineering and metal-working industry

Mechanical engineering and metal-working is a key high-tech industry of the region. The industry accounts for 30.6% of the total industrial production and is represented by over 400 plants, more than 50 of which are large-scale enterprises. Average payroll headcount in mechanical engineering and metal-working sector is 23 thousand employees, accounting for 43% of the total industry employment in the region.

A number of regional enterprises use unique manufacturing technologies. Certain kinds of goods are not produced elsewhere in Russia. In 2004, the output in the sector was 7.1 bln. rub., the index of physical volume of industrial production grew by 105% compared with 2003.

Food industry

Food industry accounts for 30.3% of the total industrial production. The sector is dominated by meat-processing plants.

Light industry

The sector includes more than one hundred enterprises. Their output accounts for 5% of the total industrial production of the region. Light industry employs over 13% of the total industry employment in the region.

Wood-chemical sector

Woodlands cover nearly 2450 thousand hectares of land, which is about 40% of total Pskov Oblast area. Total forest resources approximate to 250 mln. cubic meters (coniferous wood - 45%, birch wood - 35%). Available stock enables to harvest 3.5 mln. cubic meters of timber annually (30% of which are conifers). However, what is actually exploited represents only 25-30% of the potential scope, which indicates far-reaching opportunities for the business. Pskov Oblast wood-chemical sector consists of two industries: timber industry (logging, woodworking, pulp and paper production) and chemical and petrochemical industry.

Construction

In 2005, construction firms of all ownership forms built 846 dwelling houses of 95.9 thousand sq. meters total floor area. As of 1 January 2006, the volume of orders (contracts) stood at 107.7 mln. rubles, which, given the current capacity utilization rate, can hardly provide a production program for a period a little more than one month. Key figures of the building sector performance are given in Table 4.2.

Table 4.2 Building sector performance (in actual prices of the corresponding years)

	2000	2001	2002	2003	2004	2005
Volume of building contracts works performed, mln. rubles	1696.3	1842.8	2047.5	2812.1	3255.9	3399.6
Percentage of the previous year (in comparable prices)	102	82	91	112	94	94.3

4.1.3 Transportation network

PSKOV OBLAST TRANSPORT NETWORK MAP

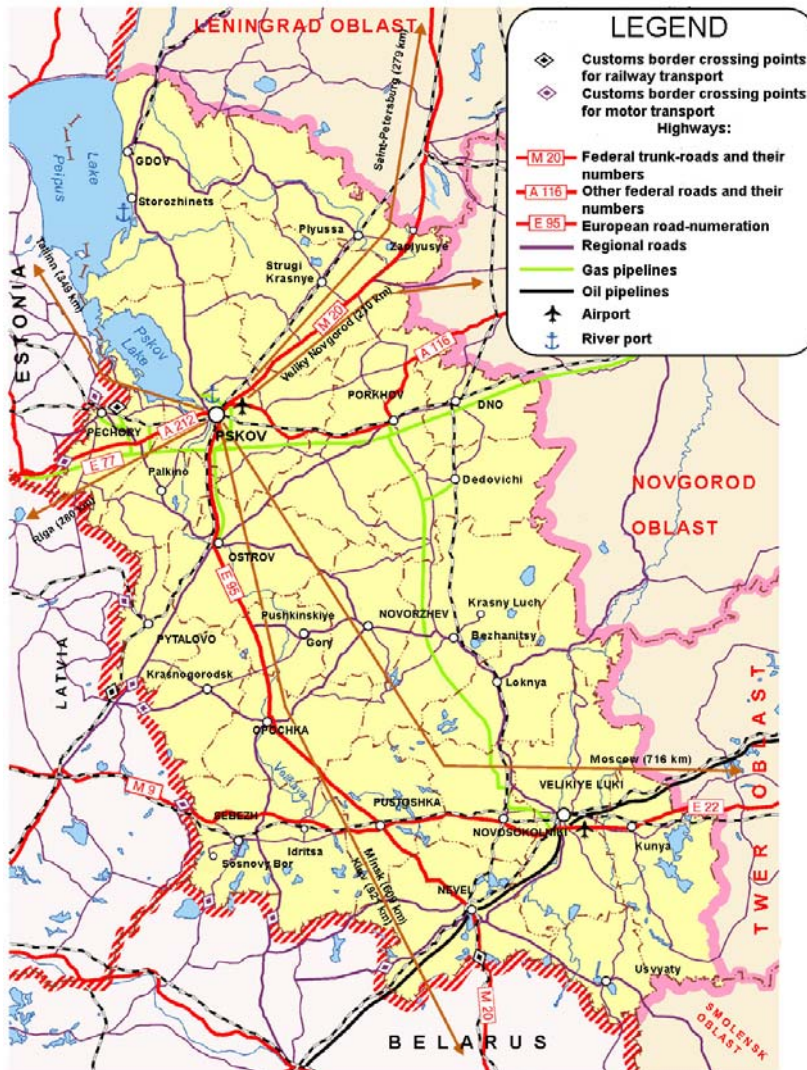


Fig. 4.4 Pskov Oblast transport network map

and railway border crossing points. The further development of transportation network is one of the priorities of Pskov Oblast, both because of the region's unique geographical location (a common border with three countries) and because of the pattern of freight flow distribution (the oblast runs the passage of over 10% of the total transportation volume in Russia). The tasks set in this context involve updating the old traffic arteries and engineering the new ones (see Fig. 4.4).

The fact that following the USSR dissolution administrative borders of Pskov Oblast with Estonia, Latvia and Byelorussia were upgraded to the rank of national Russian frontiers, became a powerful factor of the region's development as a transport corridor for the flow of export goods from the Russian Federation to the Western Europe and a passage of import goods in the opposite direction. The export-import flow of goods through Pskov Oblast accounts for nearly 15% of the total national figure. Annually, about 300 thousand domestic and foreign transport vehicles engaged in international shipping operations drive through Pskov Oblast.

The main feature of Pskov Oblast economic and geographical situation consists in its near-border location. Pskov Oblast serves as a link connecting large Russian market with the markets of European countries. The region's administrative center, the city of Pskov, is located within nearly the same distance from Saint-Petersburg (283 km), Tallinn (280 km) and Riga (260 km).

The region has a developed transportation infrastructure. Motorways and railway system connects Pskov Oblast with Moscow, Saint-Petersburg, Lvov, Odessa, and capital cities of the Baltic region, ports of Murmansk, Kaliningrad and Leningrad Oblast. The effective length of railway lines in general use is 1100 km, and that of hard surface motor roads is 9900 km. Pskov city accommodates an international airport for medium-size passenger and cargo aircrafts with up to 250 tons all-up-weight. Cross-border freight flow is regulated by customs authorities; there are motor

4.1.4 Agricultural sector

Agricultural sector is an important element of the region's economy. One third of the population lives in rural areas; agricultural enterprises employ about 19 thousand people.

Pskov Oblast is home to more than 300 agricultural enterprises of different business forms, 1459 peasant (farming) holdings and over 130 thousand personal subsidiary plots.

Per capita agricultural output is steadily above national average (for example, in 2004 it was 28.7% higher).

4.1.5 Population and employment statistics

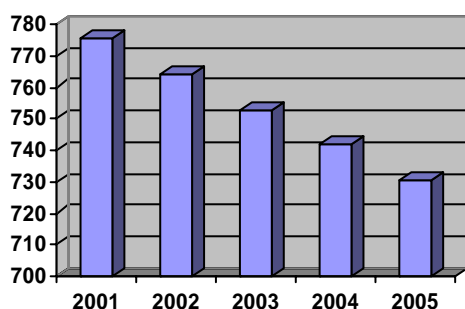


Fig. 4.5 Average annual population size, Pskov Oblast, thousand people

Demographic trends

Since the early 90s the region has been experiencing a period of demographic crisis. In comparison with national average ratios, Pskov Oblast has a higher death rate and a lower birth rate.

The population size tends to be declining (see Fig. 4.5). Whereas according to 1979 population census the total resident population of Pskov Oblast was 850.9 thousand people, by the end of 2005 the number decreased to only 730.7 thousand. This had obvious negative influence on such indexes as the level of economic activity and, therefore, employment rate.

Employment trends

By the end of 2005, economically active population of Pskov Oblast amounted to 359.2 thousand people, or 48.8 % of total population of the region. Of them 329.5 thousand (91.7%) are employed. 11377 people (3.2 % of the economically active population or 2.6 % of the working age population) are officially registered as unemployed.

The largest part of working population is employed in large and medium-sized enterprises. In 2005, such enterprises employed 186.8 thousand permanent employees (without dual jobholders), or 56.7% of the total employment headcount.

4.1.6 Investment



THE PSKOV OBLAST

LAW

of 12 October 2005 No. 473-O3

On Tax Benefits and State Support for Investment Activity in Pskov Oblast

Passed by the regional House of Delegates on 29 September, 2005

The subject regulated by the present act is the forms, conditions and procedures of granting tax concessions and providing government support for investors carrying out investment activity on the Pskov Oblast territory.

Attracting investments in the Pskov Oblast economy is one of the regional policy priorities. In recent years, the region's investment policy has been noted for increased efficiency. The policy seeks to create conditions for improving investment climate, to create attractive image of Pskov Oblast as a lucrative investment choice, to enhance its investment opportunities, to engage businesses from other countries and regions.

In this connection, there has been drawn up and adopted a landmark Pskov Oblast Law of 12 October 2005 No. 473-O3 "On

Tax Benefits and State Support for Investment Activity in Pskov Oblast". The act is primarily aimed at creating favorable environment for the development of competitive business guided by strict requirements of the world market and at improving financial circumstances of the region's manufacturing sector.

One of the major favorable factors determining investment climate in Pskov Oblast is its convenient geographical location resulting from proximity to large Russian industrial centers (Saint-Petersburg and Moscow), Western Europe states and Baltic region capitals (two countries of the Baltic region share a national boundary with Pskov Oblast).

Pskov Oblast enjoys a number of competitive advantages which create the necessary prerequisites for attracting investments in the region's economy. The main competitive strengths are:

- advantageous geographical situation (motorways and railway system which connect the region with the cities of Moscow and Saint-Petersburg, with the ports of Murmansk and Kaliningrad);
- developed transportation network;
- proximity to the Baltic Sea,; common borders with three countries, including the EU members (Latvia, Estonia);
- advanced customs infrastructure;
- legislation support for investment activity (vesting investors with guaranteed rights; preferential tax treatment for investors);
- availability of qualified personnel; high educational level of the population.

Investment in fixed capital

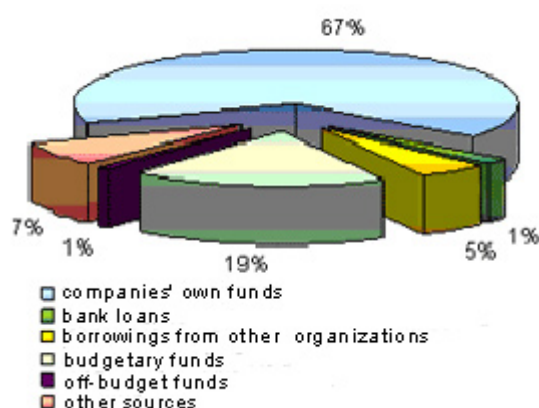


Fig. 4.6 Key sources of investment, %

Companies' own funds were in 2005 the major source of investments into the region's economy accounting for 2.7 bln. rubles, or 67% of the total investment capital. Depreciation reserves accounted for 15.7% of the total investment capital. Budgetary funds constituted 19% of the total figure, bank loans and borrowings from other organizations – 1% and 5%, respectively (see Fig. 4.6).

In 2005, non-financial investments in all sectors of the region's economy stood at 5649.7 mln. rubles. Fixed capital investments made by large and medium-sized enterprises for economic and social sectors development amounted to 4026.7 mln. rubles, which constitutes 87.4 % of the 2004 level.

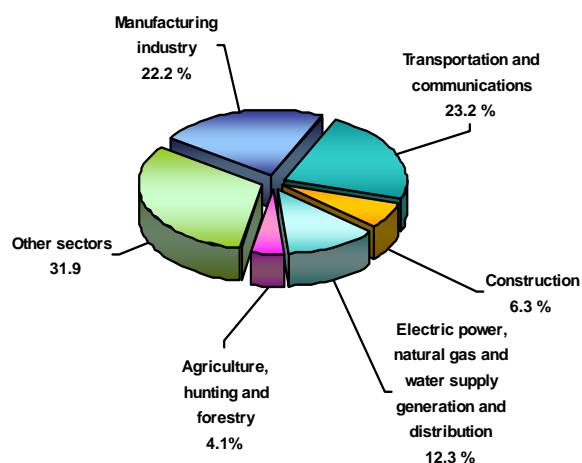


Fig. 4.7 Investments in fixed capital by kind of economic activity, %

Looking at investments breakdown by sector, the year (2005) saw no significant changes. Investors preferred industries providing market and non-market services. The trend is mainly determined by modern communications systems and new forms of trade developing in the region.

The volume of investments in fixed capital by kind of economic activity is represented by the following chart (see Fig. 4.7).

Foreign investment dynamics

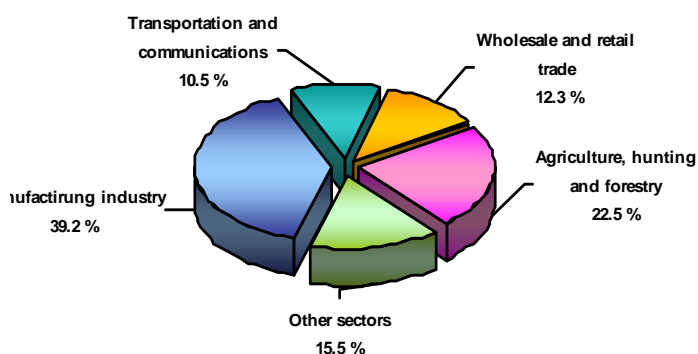


Fig. 4.8 Foreign investments by kind of economic activity, %

Foreign capital investments play an important part in the growth of investment activity.

Total foreign capital accumulated in the Pskov Oblast economy by the end of 2005 amounted to \$38.5 mln. The value of foreign investments made during 2005 was \$9163,3 thousand. The most significant increase (87.7%) was observed in direct investments, the majority (63.7%) of which being fixed asset investments. The main countries-investors in terms of total capital accumulated are: the USA, Latvia, Estonia, Sweden, the UK, Germany and

Italy. The volume of foreign investments by kind of economic activity is represented by the following chart (see Fig. 4.8).

4.1.7 Foreign economic activity

Foreign-trade activity of Pskov Oblast is noted for continuing growth of the foreign trade volume. In 2005, foreign trade turnover of the region increased by 31% (compared with 2004) to stand at \$733.0 mln. (see Fig. 4.9). Balance of trade surplus amounted to \$73.4 mln. According to the summary statistics for 2005, Pskov Oblast is an export-oriented region, with export accounting for nearly 55% of the total turnover.

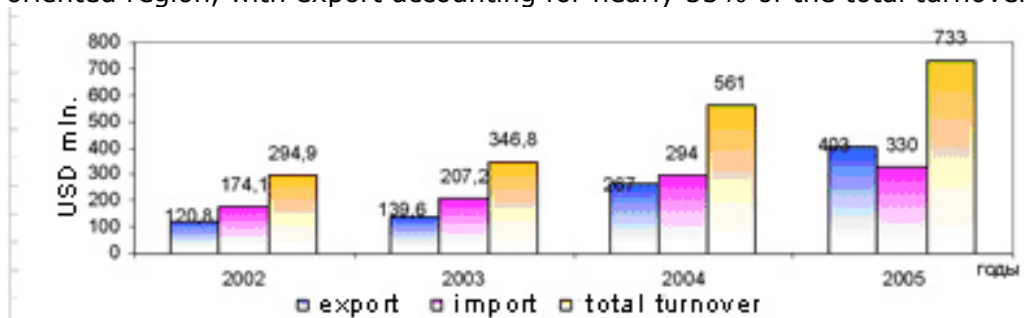


Fig. 4.9 Pskov Oblast foreign trade turnover, 2001-2005

Pskov Oblast co-operates with many countries. As before, the region's foreign trade is dominated by non-CIS countries. Key business partners of the region over the course of 2005 traditionally were: among non-CIS countries – Estonia (35.5%), Latvia (10.8%), Germany (9.4%), the Netherlands (9.4%), Italy (4.1%), and Finland (1.8%); among member-countries of the CIS – Ukraine and the Republic of Belarus.

Looking at commodity composition, export trade is dominated by raw materials. The main revenue-earning exports are petrochemicals, ferrous metallurgy products, timber and wood manufactures. Other articles of export are engineering products, foodstuffs, ferrous and non-ferrous metals, etc.

The growth trend persists also in imports. In 2005, the total import of goods in Pskov Oblast increased by 12% to stand at \$329.8 mln. (see Fig. 4.9). Importation from the

CIS-countries dropped down to \$3.5 mln. (57% of the 2004 level) while that from non-CIS states increased to stand at \$326.3 mln. (indicating 13% growth in comparison with 2004). Import trade is dominated by engineering products (accounting for 34.5% of the total volume).