

5.1 BASIC SOCIOECONOMIC INDICATORS

St. Petersburg belongs to the group of Russian regions enjoying higher than average level of economic development. In 2005, the city experienced a continued growth of main indicators of economic and social development. The reporting period was noted for a steady pace of consumer market growth, which largely contributed to the persistence of positive trends in general economic situation. The pattern of change of basic indicators of St. Petersburg socioeconomic development for the year 2005 is summarized in Table 5.1.

Table 5.1 Basic indicators of socioeconomic situation, St. Petersburg, 2005

Indicator name	Unit of measurement	January-December 2005
Companies' turnover	bln. rub.	1 556.6
	percentage of the year 2004 (in current prices)	118.0
The volume (output) of manufacturing plants' factory shipments	bln. rub.	353.5
	percentage of the year 2004 (in current prices)	109.1
Retail trade turnover	bln. rub.	246.1
	percentage of the year 2004 (in current prices)	112.9
Chargeable services rendered to population	bln. rub.	124.1
	percentage of the year 2004 (in current prices)	101.2
The volume of serviced provided by transport organizations	bln. rub.	100.2
	percentage of the year 2004 (in current prices)	127.5
The volume of communications services	bln. rub.	53.3
	percentage of the year 2004 (in current prices)	127.0
Commissioning of residential buildings	thousand sq. m.	2 273.4
	percentage of the year 2004	111.9
The volume of investment in fixed capital	bln. rub.	154.1
	percentage of the year 2004 (in current prices)	109.7
The volume of foreign investments	USD mln.	1 417.1
	percentage of the year 2004	143.9
Real disposable money income	percentage of the year 2004	114.3
The absolute number of registered unemployed	thousand people	19.4
	percentage of the same period 2004	97.2
Resident population size (as of 1 January 2006)	thousand people	4 580.6
	percentage of the year 2004	99.6
For reference:		
Consumer price index, goods and services (percentage of December 2004)	%	112.0
Index of industrial production	percentage of the year 2004	104.2

5.1.1 Gross Regional Product and its Structure

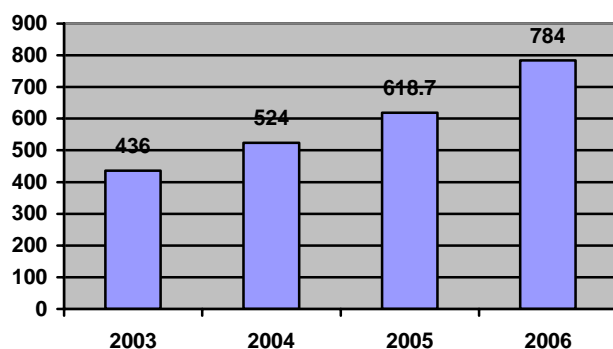


Fig. 5.1 The gross regional product, billion rubles

The year 2005 demonstrated a continuing growth of St. Petersburg economy.

The gross regional product increased by 8.4% compared with 2004 to stand at 618.7 bln. rubles (nearly 3% of the Russian GDP) (see Fig. 5.1).

According to St. Petersburg Socioeconomic Development Program for 2005-2008, the GRP is expected to grow from 524 bln. rub. in 2004 up to 964-1040 bln. rub. in 2008.

The Program differentiates between two development scenarios - the first, "inertial", involving a decline in Russian economy competitiveness, and the second, "innovation-intensive", depending on government carrying out a favorable investment policy. According to both variants, the GRP structure by 2008 is expected to change dramatically: the proportion of industry will fall, and that of services sector will significantly increase.

Looking at the 2005 GRP structure, industry accounted for 25.4%, trade and public catering - 20%, transport and communications - 11.8%, construction - for 8.1%. Other sectors and net indirect taxes contributed 28.6% and 6.1%, respectively (see Fig. 5.2).

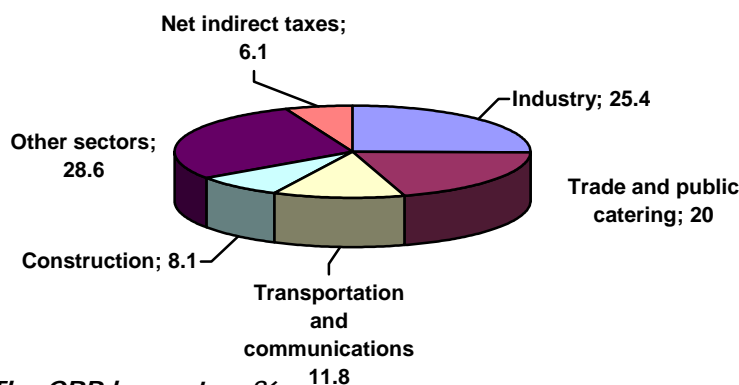
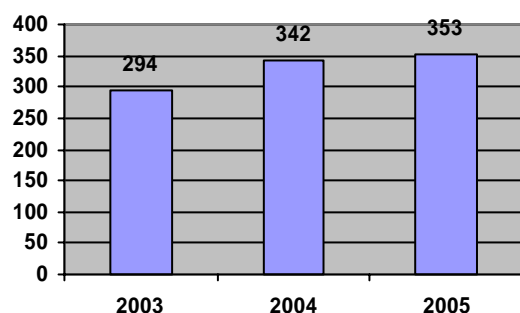


Fig. 5.2 The GRP by sector, %

5.1.2 Industry

Industry is the leading sector of St. Petersburg economy: it accounts for more than one fourth of the gross regional product and employs almost one fourth of the city's working population.

Industrial enterprises are the main source of St. Petersburg budget revenues, providing over one third of regional tax revenues. Therefore, the industrial sector performance largely determines the actual scope for solving the city's socioeconomic problems.



In 2005, industrial output in St. Petersburg was 353 bln. rub., indicating a 4.2% increase in comparison with the last year's figure (see Fig. 5.3).

Industrial enterprises play an important part in satisfying public demand for durable goods,

foodstuff and medicines, as well as in providing other sectors of the economy with manufacturing and technical products.

Fig. 5.3 Industrial output, in actual prices, bln. rub.

Manufacturing industry employs over 18% of the total working population of St. Petersburg. Enterprises of the sector account for nearly 20% of the regional budget tax revenues.

Financial and economic activities of industrial enterprises significantly influence on the level of budget revenues and employment opportunities of the citizens.

Manufacturing plants, which in January-June 2006 accounted for about 88% of total goods dispatched of the industrial sector, define the nature and significance of industry for the city economy (see Fig. 5.4).

Over the first six months 2006, shipped products of St. Petersburg manufacturing plants was 173.0 bln. rubles (the figure grew by 10.0% in comparison with the same period last year).

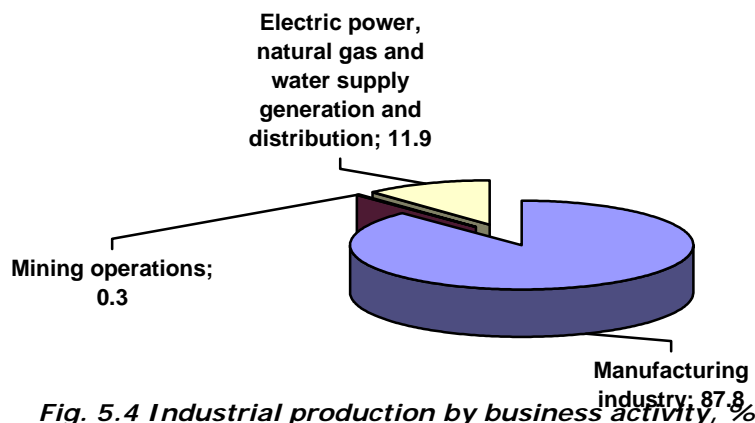


Fig. 5.4 Industrial production by business activity, %

More than three fourths of total shipped products are accounted for by the plants manufacturing foodstuff, beverages, machines and equipment, and metallurgical products.

The main task of the city government industrial policy within the next few years will be to create economic conditions contributing to achievement and sustention of steady industrial growth.

5.1.3 Transportation



The city transport potential development largely depends on the factors of advantageous geopolitical situation being harnessed to the full - and with the highest possible efficiency. St. Petersburg has two airports and five railway stations. Regional air routes stretch from the Atlantic to the Pacific Ocean and cover over 80 cities of the world. The city has a sea port (a commercial and a passenger one) and a river port. St. Petersburg sea port is one of the largest in Russia. It is a dynamically developing, advanced multifunctional waterfront installation of universal

importance, the largest transport nodal point in the north-west of the Russian Federation. Convenient geographical location - the port is situated on the Neva delta islands, in the eastern part of the Baltic Sea - is conducive to significant reduction of shipping and transit costs and other expenses. The port is connected with the sea by means of the Maritime channel stretching for 27 nautical miles. Navigation here continues all the year round. St. Petersburg is connected with other world ports by means of 18 scheduled service lines. Furthermore, it is a large transit center. A number of major traffic flows - such as the European motorway E-18, which links Scandinavia and the central part of Russia - pass through the city.

One of the goals for St. Petersburg socioeconomic and urban-planning development is to improve the “external” transport sector, which includes railway, sea, river and air modes of transport, and regional highways as well. The General Plan Concept is focused on making the most of the city transport potential and on enhancing its status of federal traffic center that can successfully compete with other transportation networks of the Baltic region. The concept places great emphasis on the development of St. Petersburg port facilities and reconstruction of the harbor area. The plan considers constructing a bypass railway line with a view to take transit freight traffic outside the bounds of St. Petersburg. The issues of high priority are the development of public transport and the predominance of the latter over the private one (82% and 18% of the total volume of traffic, respectively), given that by 2015 the density of city passenger traffic is expected to rise by 12% (up to 3400 mln. passengers per year).

The total volume of freight shipments by St. Petersburg transport enterprises (without railway transport) increased by 6.1% compared with January-September 2005 to stand at 74.5 mln. tons. The volume of freight shipments by sea transport grew by 40.7%, by motor and pipeline transportation - by 40.6% and 6.3%, respectively. As for inland waterways, the volume of freight traffic dropped by 25.3%, and air transport experienced a decline of 6.3%. The total freight turnover (without railway transport) decreased by 0.5% compared with January-September 2005 to stand at 39.1 bln. ton-kilometers.



5.1.4 Science and innovations

St. Petersburg is a large center of academic, industrial and university science. There are the scientific center of the Russian Academy of Sciences and 320 research institutions which can generate research and technological advances in different fields, such as: hydrogen energy, microsystems, nano- and biotechnology, new substances and other critical areas of technological developments. The city's scientific potential has the following features:

- availability of unique schools of thought , highly skilled research, engineering and operational personnel capable of maintaining leadership in scientific and technological developments and taking a full part in prestigious international projects implementation;
- an opportunity to combine advanced areas of pure, general fundamental science with the special-purpose nature of applied research and development focused on the specific outcomes;
- an opportunity to maintain a fast pace of knowledge generation as reflected in regular renewal of subjects of inquiry, continuous update of development targets and production technologies; constructive and design solutions; information flows, etc.

St. Petersburg innovation infrastructure has the following working components: innovation and technological centers,

- technoparks,
- funds of innovation activity support,
- innovation and investment complexes of high schools.

St. Petersburg High Schools are able to fulfill the task of staffing support for innovation processes. St. Petersburg is the largest education and research center in Russia, comprising nearly 15% of the national academic potential.

The city initiated a development of innovation sector of higher education. It is St. Petersburg institutions that first started to train professionally qualified specialists majoring in the profession "Innovation management". The city colleges and universities are involved in the President's management training program.

The innovation institutions use almost every possible means of innovation activity funding: federal and regional programs, foreign grants, venture investment, industrial enterprises' assets.

The contribution of the sector "Science and Science Service" to the gross value added is increasing, though remains relatively small: in 1995, the proportion was 2.0%, and in 2004 - 3.4%.

5.1.5 Population and Employment Statistics

Demographic trends

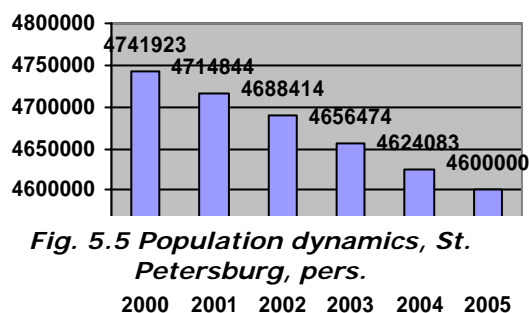


Fig. 5.5 Population dynamics, St. Petersburg, pers.

St. Petersburg population continues to decline (see Fig. 5.5). As of 1 January 2006, the resident population of St. Petersburg was 4 581 thousand people. The main factor contributing to the resident population decline is natural population loss.

The trend of the resident population shrinkage is expected to persist within the next four years.

According to the first ("inertial") forecast version, the rate of natural population loss in 2006-2008 will stand at 6.8-7.0%; according to the second ("innovation-intensive") scenario, - 5.5-6.6%. The resident population number by 2008 is expected to amount to

4502 and 4515.6 thousand people, respectively.

The critical tasks of St. Petersburg demographic policy are the following:

- Pronatalist policy: economic support for families with children (granting maternity and child support pay, family allowances, subsidies and low-interest credits for improving housing conditions of families with children, tax benefits for families with children), family institution support (popularizing family values, creating economic incentives for official marriage registration), employment rights protection for parents and expectant mothers.
- Reducing mortality rate among the working-age population, especially among men; reducing accident, injury and poisoning deaths.

Employment trends

The trend of employment headcount increase in St. Petersburg is persistent (see Fig. 5.6), which, above all, should be attributed to the influx of investments and high-tech jobs creation.

Still, it should be noted that, starting from 2006, the proportion of working-age population is expected to fall, while the rate of population ageing is supposed to experience a dramatic increase.

By the end of September 2006, the number of jobless people searching for a job registered in public employment office was 36.8 thousand; 15.5

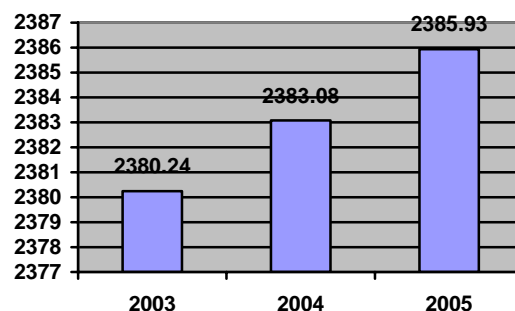


Fig. 5.6 Total employment headcount in St. Petersburg economy (thousand people)

thousand (42%) of them had a status of officially unemployed. Over January-September 2006, the absolute number of registered unemployed dropped by 20%. The registered unemployment rate in St. Petersburg stood at 0.6%.

St. Petersburg labor market situation in 2006 remained unbalanced: labor demand outstripped supply by 86 thousand people, or by nearly 4% of the total working population. In addition to the numerical gap, there is also a disparity between labor demand and labor supply in terms of professional skills.

The city authorities together with employers and the St. Petersburg Office of the Federal Placement Service are making efforts to achieve labor market equilibrium.

About 40% of the total investments (188.7 bln. rubles) attracted in 2006 are used not only to create 25 thousand well-paid jobs, but also to upgrade inefficient jobs while dismissing 15 thousand workers. At the same time, 25 thousand legal aliens, 55 thousand “pendulum” labor migrants and over 230 thousand senior persons (older than working age) are being engaged. The number of people in secondary employment is more than 140 thousand. 45 thousand jobless people want to work, are available to work, and are actively seeking employment.

On 3 October 2006, the city government approved the St. Petersburg Labor Market Development Program for 2006-2015. The Program suggests:

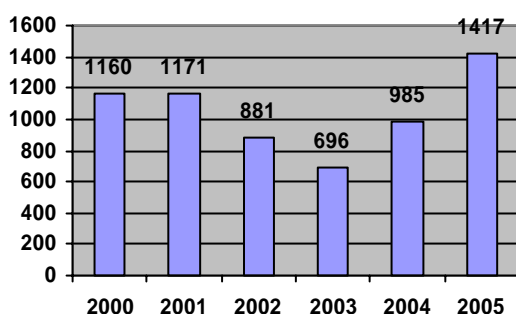
- creating conditions for ensuring necessary employment headcount and increasing the population's working capacity in order to meet the requirements of the economy;
- increasing labor productivity and efficiency;
- optimizing the skill pattern of professional training;
- improving St. Petersburg labor market infrastructure and the mechanism of its operation and development.

5.1.6 Investment

St. Petersburg investment policy is guided by the following principles:

- friendly investor relations;
- presumption of investors' integrity;
- balance of public and private interests;
- openness and availability of all necessary investor information;
- transparency and clearness of the investment process;
- equality of investors' rights and uniformity of the public procedures;
- objectivity and economic common sense in decision-making;
- invariability of the made decisions;
- mutual responsibility of the city and investors.

According to the findings of the survey of Russian regions' investment attractiveness conducted by the largest Russian independent rating agency Expert RA, St. Petersburg have been given the first award in the main nomination “For the lowest investment risk” for two years on end (2005-2006). The lead is provided by minimum level of social risk and a very low level of economic and financial risks. In terms of investment potential, St. Petersburg ranks the second (after Moscow) among Russian regions, accounting for 6.4% of the total national investment potential.



**Fig. 5.7 Foreign investments,
mln. USD**

In January-November 2006, the total volume of investment in fixed capital in St. Petersburg increased by 7% compared to the same period last year to stand at 132.5 bln. rubles.

In 2005, the total volume of foreign investments in non-financial sector of the city economy grew by 43.9% in comparison with 2004 to stand at \$417.1 mln., reaching the highest level over the recent years (see Fig. 5.7).

Looking at a breakdown by kind of business activity, foreign investments in manufacturing industry accounted for 67.3% (\$953.4 mln.) of the aggregate figure.

The largest countries-investors are: the USA (19.4% of the total volume of foreign investment), Cyprus (15%; the most part of it is represented by the capital coming back from the offshore area) and Finland (10.5%) (see Fig. 5.8).

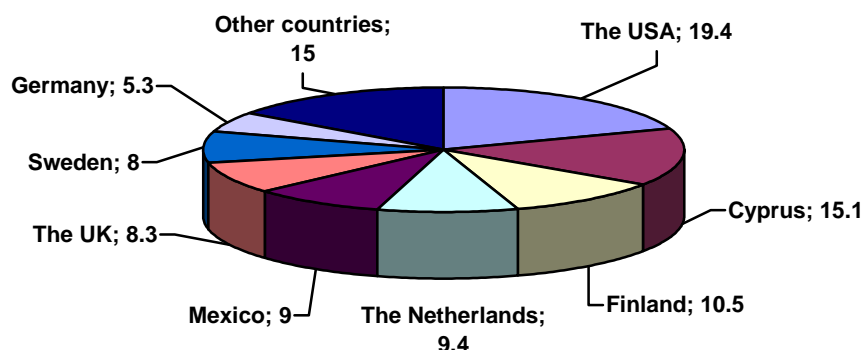


Fig. 5.8

Major Main countries investing in St. Petersburg economy in 2005, %

5.1.7 Foreign Economic Activity

The development of external economic links is aimed at attracting of foreign investments in the city economy, increasing the gross regional product (among other things, by means of trade, economic, scientific, technological, environmental, etc. co-operation with foreign partners), and promoting the goods produced by St. Petersburg enterprises in the world markets.

In 2005, St. Petersburg foreign trade turnover accounted for 3.8% of the total volume of foreign trade in Russia and for more than 38% of the North-Western Region figure.

Foreign trade turnover grew by 29% compared with 2004 to stand at \$14.1 bln. As in 2004, in terms of import St. Petersburg was the first among north-western regions (\$9170.3 bln.) and in terms of export the second (\$4884.4 bln.), after Leningrad Oblast. The growth of the turnover is a result of increases in both physical volume and average cost of goods.

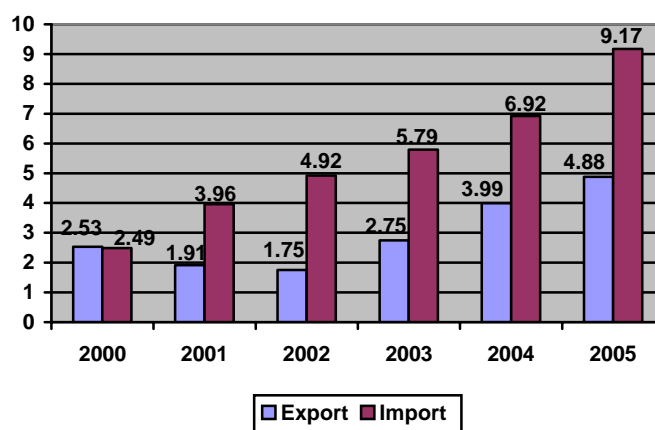


Fig. 5.9 Foreign trade dynamics, St. Petersburg, \$ bln.

The total cost of export rose by 22.3%, and that of import - by 32.6% (see Fig. 5.9). The balance of trade deficit is \$4.3 bln. Although export trade has been steadily growing for the last two years, unfavorable balance of trade has been increasing as well.

The proportion of CIS and non-CIS countries remained the same as in 2004: 94% and 6% of the turnover, respectively. As for the trade with non-CIS countries, the main growth was observed in the import sector, while the trade with countries-members of the CIS grew owing to an increase in export component.

In 2005, St. Petersburg engaged in trade with 172 countries (10 are CIS members). Key business partners of St. Petersburg are China, Germany, Finland, and the USA (see Fig. 5.10).

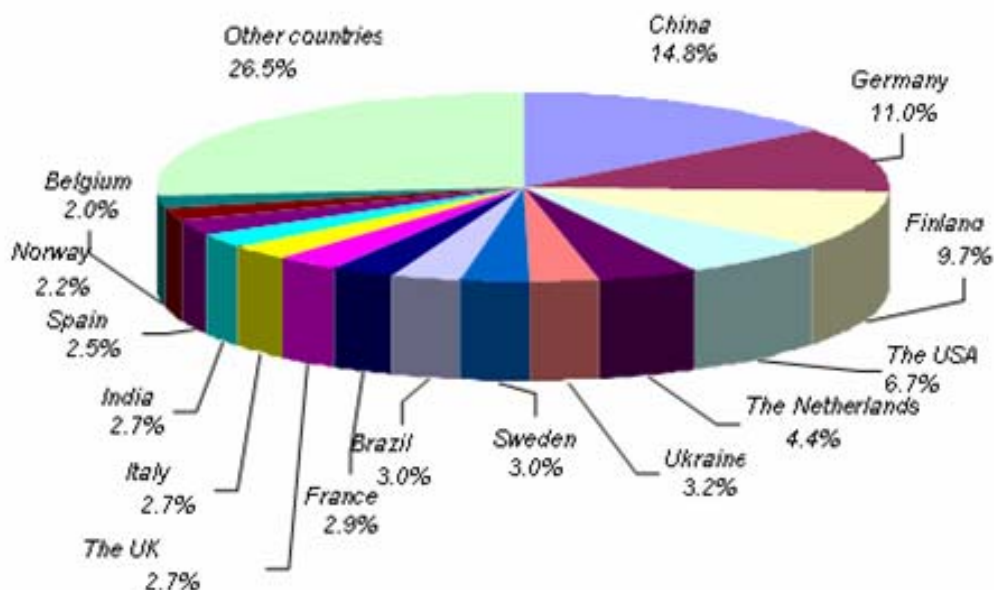


Fig. 5.10 Key business partners of St. Petersburg in 2005

Export growth in 2005 was primarily connected with an increase in physical volume of supplies. The ratio between CIS and non-CIS countries is 89:11. In comparison with 2004, the proportion of non-CIS countries declined, while that of CIS-countries, respectively, increased by 2%. Traditionally, the most active partners among the countries-members of the CIS are Ukraine and Kazakhstan. China stands out among non-CIS countries (almost 86% of export supplies from St. Petersburg to China were shipped by sea). A notable growth was observed in export to the Netherlands, the USA, Sweden, and the UK.

Export commodity structure underwent a significant change: machinery, equipment and transport facilities now account for the largest part (40%) of the export; and the proportion of ferrous and non-ferrous metals and the products made of them decreased to 31%.

The main factor contributing to the growth of the cost of import for all product categories (except for foodstuffs and furs) was an increase in physical volume of trade. Non-CIS countries account for 97% of the import. The largest import supplies come from Germany (13%), Finland (11%), China (10%), the USA (8%), and Brazil (5%).

Import commodity structure hasn't changed. Import is dominated by foodstuffs (33%), engineering products (32%) and chemical manufactures (15%).