

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Putin's Addresses Economy, Social Programs**

- Russian President Vladimir PUTIN today gave his annual state of the nation address to a joint session of parliament in the Kremlin's Marble Hall, focusing on efforts to strengthen the economy and boost citizens' standard of living and confidence in the state. He pledged to increase efficiency, transparency and clarity in state policy that could increase citizens' confidence in the government. PUTIN made a plea for structural reforms in the economy, warning that without them the nation could sink into stagnation. He said that instead of developing its manufacturing base, the country was becoming even more dependent on exports of raw materials, and too much wealth was being accrued through the redistribution of state resources rather than production. Economic reforms have lagged behind political power reforms in PUTIN's first year. His biggest economic achievement the passing of a 13 percent flat tax, meant to deter Russians from evading tax payments. PUTIN called for more reforms to be implemented to attract more investors. "Russian entrepreneurs continue to invest in the country's economy with caution," while bureaucrats, "continue to put pressure on business, squeezing business initiative and activity." PUTIN called for land reform and cutting bureaucracy.

PUTIN cautioned that the standard of living in Russia remains, "extremely low." He called for greater "transparency and clarity" in the areas of medical care and education. He said that state could no longer afford to fully finance these areas, which in theory are supposed to be free for all citizens. PUTIN said every citizen, "should know precisely what he has a right to receive for free from federal

authorities, what from regional ones, and what he has to pay for himself."

PUTIN lightly touched on NATO and plans to continue European integration. He briefly mentioned the war in Chechnya, calling for a moment of silence to honor fallen federal troops. PUTIN said that the military had achieved its goals and are withdrawing from the area. However, he noted, "The threat of more crimes being carried out remains extreme." The President called for restoring state structures in Chechnya.

#### **Putin Forms State Investigative Committee**

- Russian President Vladimir PUTIN has called for the formation of a State Investigative Committee to be formed by taking the investigative committee out of the Interior Ministry and giving it investigative powers enjoyed by the Tax Police, Federal Security Service (FSB), and Prosecutor General's Office. Those ministries are against the move, claiming if they lost their investigative powers *it would* (and) undermine their bureaucratic weight. Defense Minister Sergei IVANOV and Interior Minister Boris GRYZLOV have held talks with PUTIN about these changes. The Interior Ministry's investigative committee already investigates 90 percent of all crimes committed in Russia, The Moscow Times reported.

In addition to losing its investigative committee, the Interior Ministry troops may soon be shifted to fill military police positions. The military police would enforce law and order at

the Defense Ministry and FSB as well as at other federal bodies. The newspaper reported that deputy chairman of the State Duma's Defense Committee Vladimir VOLKOV tried twice since 1997 to pass a law setting up an independent military force that would report directly to the President. It is unclear at this time whether the military police would answer directly to the Defense Minister or the Kremlin. The Defense Ministry is against the measure, as it wants to create a similar force within its own ranks.

**Comment:** With this planned restructuring, PUTIN appears to have concluded that the current law enforcement organs are too corrupt to reform. He has therefore decided to create a new structure. Unfortunately, the new structures will be seeded with the same elements he seeks to eliminate. This undoubtedly will lead to new rivalries and insecurities among the ministries and law enforcement agencies affected by this change. The heavily bureaucratic environment of the Moscow power ministries will no doubt recall the traditional Russian approach of the purge as each scramble for a piece of the new pie. This new institution still remains a concept. How it will play out, who will enforce it, and how it will affect the various agencies it affects remains unclear. This reshuffling of the deck may be too little, too late to deal with corruption, which is too rampant and part of government system to fix. After ten years, a complex set of relationships between the government, oligarchs, and organized crime has developed and the line between these three elements is unclear at best. With the power of seemingly unlimited cash at its disposal and little or no checks and balance in place, the task may be beyond any practical solution other than a degree of containment.

### Economy

<p><b>Ruble = 28.87/\$1.00 (NY rate)</b>  <b>Ruble = 28.88/\$1.00 (CB rate)</b>  <b>Ruble = 25.81/1 euro (CB rate)</b></p>
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### **Foreign Debt Totals \$144 Billion**

• Russian Deputy Prime Minister Alexei KUDRIN said in an interview with Komsomolskaya Pravda Russia's total foreign debt equaled \$144 billion as of January 1<sup>st</sup>. KUDRIN, who also serves as Finance Minister, said hearty economic conditions in 2000 had eased pressure on the budget, but things looked to be tougher this year. "Now our task is to

live according to our means during a less positive year, and 2001 looks to be one such year," KUDRIN said. He reiterated forecasts in the 2001 budget of four percent growth in gross domestic product and annual inflation of 12-14 percent. KUDRIN said also that the ruble would remain within the parameters set for it in the budget at 30.00 per dollar. "The (exchange rate) will be stable and stimulate economic growth," he said.

### Business

#### **Gazprom Ousts Gusinsky From NTV Board**

• A Moscow court has overturned its earlier decision to bar an *NTV* extraordinary shareholders' meetings called for by state-controlled *Gazprom*, just hours before the meeting. *Gazprom* claims that it has become a majority shareholder in *NTV*, after a court froze a 19 percent stake held by GUSINSKY which was used as collateral for *Gazprom* loans. At the meeting *Gazprom* ousted *Media Most* chairman Vladimir GUSINSKY and General Director Yevgeny KISELYOV from the *NTV* board, stuffing the board with *Gazprom* supporters. *Media Most* spokesman Dmitry OSTALSKY said the meeting could have "no legal consequences." "We believe this meeting is illegal and will continue to behave as such," KISELYOV said. He added that authorities had intimidated the judge to reverse his decision and that Russian President Vladimir PUTIN was responsible. The case has been widely seen as a test for PUTIN's tolerance of criticism. GUSINSKY's backers say he is the only one of Russia's powerful business "oligarchs" to face the state's wrath, singled out because *NTV* refused to stifle its criticism of PUTIN. *NTV* journalists issued a statement, "Today's shareholders' meeting, called by *Gazprom-Media*, is illegal. We understand that the final aim of the meeting, like all of the actions of the authorities against *NTV*, is to establish full political control over us. We have no doubt that Vladimir PUTIN, as before, knows full well what is going on and is thus responsible for the consequences." The *NTV* board takeover is a severe blow to press freedom and will affect *Media Most's* other publications, radio shows, and TV programs.

#### **Gazprom Sold Assets To Itera**

• *Gazprom* in 1999 sold a controlling stake in subsidiary *Rospan International* to its rival, *Itera Holding*, for \$300 in cash and \$141 million in debt