

Prospects of development of Russian share market during an epoch of globalization

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The Russian share market marks its 15-th anniversary. During this time it has revived from nonexistence, has gone through a terrible shock of 1998 and its rebirth again. All the activity of Russia is concentrated around two main stock exchange of the country: RTS and MICEX. Now MICEX takes the 17-th place in the World by volume of its operations and is comparable with the Shanghai stock exchange. The share market of Russia is still rather imperfect, and this imperfection – in many respects is a fruit of defects of the Russian economy as a whole, and its close dependence on the World prices for oil and gas. How will develop the Russian market up to 2012? It is impossible to answer this question definitely, it is possible only to try to assume with greater or smaller reliability.

Institutional changes of Russian stock market. Stock market is an important mechanism of market economy. It provides an opportunity for attracting investments and for redistribution of capital. By means of this market in mature economics many important macroeconomic problems are solved, including the problem of economic growth. In Russia stock market is just beginning to draw near to carry into effect its macroeconomic functions.

At the first ten-year of its development (1989-1998) Russian stock market had been working for an implementation of political task - privatization. During privatization in the foreground were put first of all political not economic tasks. So the emerging stock market was shaped in a proper way.

In 1989-1990 Russia astonished the World with huge number of Exchanges. At that time there were 686 Exchanges - more than in the rest World. As for Stock Exchanges, their number was about 150 (Mirkin 2002, p. 89)¹. Financial crisis of 1998 put Russian security market in relative “order”.

At beginning of the first ten-year of 21-th century only 15 Exchanges had licenses for stock activities. Four of them were in Moscow; in twos were in Saint Petersburg, Novosibirsk and Yekaterinburg; in ones were in Kazan, Cheliabinsk, Saratow, and Vladivostok (Lanskov. 2005. p. 157)².

Now the most activity of Russian stock market with state and corporative papers, derivatives and foreign currency is taking place at 4 Stock Exchanges: MICEX, RTS, SESP, and SPCE. And in this process two Stock Exchanges from Saint Petersburg are inexorably losing their positions on the market and whole the Russian stock market is migrating to Moscow rather quickly.

So practically whole the activity of Russian stock market is concentrated at two stock exchanges. First of all it is a **Moscow interbank currency exchange (MICEX)**.

The MISEX was founded in January, 1992. During 15 years it managed to be-

come a center of the Russian stock market. Now the MISEX is the largest stock exchange in Russia, the CIS countries, Central and the East Europe.

Now at the MISEX trading participates more than 400 banks and financial companies and other members of the share market. The share of the Moscow Interbank Stock Exchange in Russian share market was exceeded 80 %.

The index of the Moscow Interbank Stock Exchange was established on 22nd September, 1997.

By results of 2006 the total volume of operations on the stock exchange was almost \$2 billion, that is 2 times more, than in 2005, and 25 times more, than in 1999 and almost 700 times above the level of 1992.

At the end 2006 the MISEX achieved the 17-th place in the world by a turnover of shares, and took the position near the Shanghai stock exchange, the National stock exchange of India and Stock exchange of San-Paulo (Brazil).

Now the Group of the MISEX gives its clients an opportunity to conclude transactions with various financial instruments: with currencies, shares, bonds, derivatives, etc.

In 1992 at the Stock exchange transactions were committed with only one financial instrument – with a pair "dollar/ruble"; but in December, 2006 – with more than 1000 instruments: with shares, bonds, equities, term contracts and currency pairs. If in 1992 at the Stock exchange worked only 32 organizations-professional members, then at the beginning of 2007 - 54 times more.

At the beginning of 2007 at the MISEX were traded shares of 193 companies, and stock exchange essentially conceded by this parameter even to average stock exchanges of Central and the East Europe, let alone the Shanghai stock exchange.

On 1.01.2007 at stock exchange worked 265 thousand investors (year earlier - 134 thousand), including 24 thousand legal persons, more than 230 thousand private investors, about 2 thousand non-residents and almost 8 thousand institutional investors.

The second large-scale Stock Exchange is a **Russian Trading System (RTS)**, which in contrast to MICEX belongs to professional association, and trading here is organized upon a model of American trading system NASDAQ.

A distinctive feature of trading process at RTS is a trading with big lots in American dollars. This feature of trading made its result that is expressed in **RTS Index (RTSI)**, the main stock reference-point for the Western portfolio investors, whose practical interests are quite satisfied by this Index.

But the problem of RTS - is a continuous sinking of the share of its activities at the Russian stock market. There is a rumor among the participants of the Russian stock market that in the visible future it will be only one stock exchange in Russia - MICEX. But at any rate RTSI still remains the leading index of Russian stock market both in the World and Russia.

In 2006 the rivalry between the MISEX and RTS was over. If in December 2005 the parity of the volumes of transactions with shares at the MISEX and RTS was close to 2 : 1, then in the summer 2006 - it exceeded 20 : 1.

The leadership of the MICEX is provided first of all with help of "blue chips". About 75% of turnover with liquid papers are committed at MICEX, 20% - with help of OTB transactions and only 5% - at RTS.

Significant backlog of liquidity of RTS was not reflected in perception of an index of RTS (RTSI) by participants of the market. An index of MICEX still takes only the

second position by its importance for investors from Russia and abroad. Analysts often do not mention an index of the MICEX in their daily reviews at all. Thus the low liquidity of RTS makes its index unique one. Now papers of about 50 companies enter into its base of calculation, but the situation when daily transactions at RTS were made with more than half of these companies, is rather rare.

Such paradox speaks the psychological factor: everybody have got used to RTSI. The RTS was the first stock exchange in Russia, and the MICEX began to operate in economy only after the crisis of 1998. Besides this with the help of RTSI it is possible to track the development of the Russian share market since 1995.

But it is not the only reason. Low liquidity of RTSI excites very few people. RTSI has many other advantages. One of them is a convenience for foreign investors. It is paradoxical, but in opinion of many foreign participants the MICEX still remains a stock exchange number 2 in Russia. Besides the prices at RTS and its index calculates in dollars not in rubles.

One more advantage of RTS: it is the market of derivatives which RTS develops very quickly, and actually completely monopolizes it today. With start of futures and options there was an opportunity to trade with RTSI. Now it is not only the indicator, but also the financial instrument.

By its liquidity the future of RTSI reached the 4th place among all the instruments of Russian stock market and in the nearest couple of years it can occupy the first place. The MICEX repeatedly promised to start a section of derivatives but constantly postponed. Now it is a question of summer of 2007.

At the same time PIFs (Join-Stock Investment Funds) are basically guided by an index of the MISEX. So, in 2006 10 of 13 Russian index funds were orientated themselves at the Moscow Interbank Stock Exchange, and, these 10 funds were the largest ones.

The Structure of Russian Stock Market. The structure of sectors of the Russian economy in the share market is presented in table 1. The first place (about 65 %) has oil-and-gas sector. On the second place - metallurgical complex. On the third - telecommunications. On the fourth - electric power industry, and on the fifth - bank sector.

Table 1. Sectors of the Russian economy in the share market (in %)

	12/31/2002	12/30/2003	12/30/2004	12/25/2005
Oil-and-gas sector	73,1	63,0	61,5	64,3
Electric power industry	8,1	9,9	10,2	5,2
Metallurgical complex	6,4	11,2	7,9	11,7
Telecommunications	4,0	9,1	11,4	7,8
Banks	3,5	2,7	4,3	5,0
Consumer sector	2,9	1,5	1,6	2,2
Mechanical engineering	1,2	1,3	1,2	1,1
Transport	0,5	0,5	0,8	0,6
The chemical and petrochemical industry	0,4	0,8	1,1	1,5
Capitalization of the market (billion dollars)	109	192	238	539

The investment company FIM Securities has divided Russian market of shares by four echelons: from “blue chips” to “junk” ones (see table 2).

Table 2. Classification of the Modern Russian Market of Shares

Sector	Blue chips (16 shares)	2-d echelon (52 shares)	3-d echelon (84 shares)
Oil and gas	Gazprom, LUKOIL, Surgutneftegaz, Rosneft, Tatneft	TNK, Transneft, Megionneftegaz, Orenburgneft, Bashneft, RITEK.	Sidanko, Slavneft, Udmurtneft, Var'eganneftegaz, Sahalinmorneftegaz, ONAKO and others.
Telecoms	MTS, AFK Sistema, VympelKomm	Rostelekom, Uralsvaziinform, VolgaTelecom, Golden Telecom, Zentrtelecom, Sibirtelekom, UTK, MGTS, Severo-Zapadnyi-Telekom, Dalsviaz.	Bashinformsviaz.
Metallurgy	Nornikel, NLMK, Evraz, Mechel, Severstal.	Nizhnetagilsky metkombinat, WSMPO-Avisma, Magnitogorsk metkombinat, Libedinsky GOK, ZSMK.	Cheliabinsky metkombinat, Michalovsky GOK, WMZ, SUAL, Stoylensky GOK and others.
Energetics	RAO UESR	Mosenergo, Lenenergo, Kuzbasenergo, Irkutskenergo.	Krasnoyarskenergo, Kolenergo, Sverdlovenergo, Yakutskenergo, Stavropol hydro-electric power station, Saratowenergo and others.
Chemistry	-	Nizhnekamskneftechim, Uralkalyi, Kazanorgsintez and others.	Silvinit, Togliaty azot, Akron, Novosibirsk plant of chimkontsentrat and others.
Mechanical engineering	-	AvtoVaz, Severstal-Avto, Irkut, OMZ, Kamaz, Silovye mashiny.	Ufimsky NPO, GAZ, NPO «Saturn», RKK building «Energy», UAZ, Kazan helicopter plant and others.
Others	Sberbank	Aeroflot, DVMP, «Open Investments », RBC.	Primorskoye morskoye parochodstvo, Rambler, UralSib, Novoship, Kondopoga and others.

“Blue chips ” are shares of companies with capitalization and receipts of more than \$2,5 billion and free float is more than \$500 million; the spread between buy and sell quotation must be less than 2,5 % and papers must enter to indexes of MSCI. Issuers must have ADR or GDR.

Shares of the second echelon are the papers of companies with capitalization from \$500 million till \$2,5 billion; with free float between \$100 and \$500 million; the spread between buy and sell quotation must be 2,5 - 10 %.

Shares of the third echelon are the papers of companies with capitalization from \$100 million till \$500 million; with free float between \$25 and 100 million; the spread between buy and sell quotation must be 10 - 25 %.

Shares of the fourth (junk) echelon are the papers of companies with capitalization less than \$100 million; with free float less than \$25; the spread between buy and sell quotation must be more than 25 %.

Growth of the share market. The Russian share market grows very fast. So, in October 2006 the total cost of the Russian shares has reached \$1 billion.

Last 10 years the main segment of the share market was an underestimated raw sector of economy, and, first of all, an oil-and-gas complex. However today backlog of relative cost of shares (P/E) practically does not exist any more. Such largest companies as Gazprom, LUKOIL, Russian Open Society “UES of Russia” , “Norilsk nickel”, Surgutneftegaz and the Savings Bank (Sberbank) have predetermined the growth of capitali-

zation of the country. Today their share in the market is more than half of its costs – about 55%.

With such a structure it is impossible to wait for essential growth of the market in the nearest 5-10 years. In oil-and-gas sector, metallurgy, telecommunication already there are few reserves of growth. The Russian mechanical engineering with rare exception - is noncompetitive. Strong backlog in capitalization of financial, and including - bank sector is still kept. But in the long term liquid and perspective parts of the given sectors can be absorbed by the foreign companies quite easily.

At the Russian stock market the shares of banks and financial groups were presented very poorly until now. Except of shares of the Sberbank, in circulation at the stock market have an essential share only papers of bank “Vozrozhdenie” and Bank of Moscow.

Accommodation of shares of the Sberbank and WTB (expected receipts will make in the sum nearby \$13 billion) can become a turning-point in an output of bank institutes on the share market. However as a whole, without cardinal structural economic reforms, the nearest ten years market capitalization will change only slightly.

In September, 2006 the capitalization of the World stock market was about \$45 billion. And the capitalization of the Russian stock market – was about \$1 billion. All papers were in circulation, mainly at two stock exchanges, at RTS and at MISEX. The share of other Russian stock exchanges can be neglected.

Certainly, last years the price of shares grew not only in Russia. Since October 2003 till October, 2006 growth of capitalization in the world stock market has made 60 %. Thus the Russian market grew almost in 7 times more quickly (400 %). In the Europe capitalization grew more quickly only in Ukraine (2000 %), Romania (650 %), Bulgaria (575 %), Croatia (440 %). However on volume of capitalization these countries in the sum make only 10 % of cost of the Russian share market.

Today the Russian stock market develops very quickly. The reasons and conditions of fast growth of the Russian stock market are connected with dynamic growth of the economy, a favorable conjuncture of the world raw markets (oil, metals). One more reason – the increase of trust to Russia, its economy and the market by international investors. However, the part of the factors supporting growth of the Russian market last years, now basically is settled and now it is required to find reserves and to provide action of other factors.

Now the oil companies - the basic engine of the Russian share market last years - are fairly estimated by the market, and the potential of growth of quotations of their shares is limited. At the same time greater prospects of growth have the Russian companies that focused on internal demand.

Now more than 150 Russian companies have declared their readiness within the nearest several years to realize program of IPO, and also at the Russian market. Now it is necessary to make a following step - to develop an infrastructure of primary accommodations, in particular for the small and average companies. The Moscow Interbank Stock Exchange creates for this purpose special sector for the innovative and fast-growing companies (IFGK), and a stock exchange of RTS - the project "Start".

In December, 2006 a number of leading Russian analysts have expressed opinion that per 2007 the Russian share market will develop dynamically, and the index of RTS by the end of year will reach 2150-2250 items.

The most perspective sectors of the share market the nearest years will be oil, gas, electric power industry, and also bank sector, telecommunications and retail.

The dynamics of RTSI. From the 9/1/1995 The *National Association of Stock Market Participants (NAUFOR)* begins to calculate RTSI - index of most liquid shares that belongs to the listing of RTS. At the beginning only 12 shares were in calculation. But later their number was increased constantly.

From 1998 RTSI is calculating on the basis of all the shares that enter in the quotation lists of the first and of the second level of Russian Trading System.

After default of 1998 the Russian stock market was in amorphous state till 2000. Experts from the “Troyka-Dialog” investment bank has called this period “the time of sobering ” but more exactly it may be called “ the time of the morning-after ”.

The development of events from 2000 till our days is estimating by Russian experts less unanimously. Of course the “maturing” of our stock market and his formation as a genuine sector of the economy is only beginning. But simultaneously we have a notion that Russia has rather modest abilities, and first of all at the field financial economy. That’s why Russian stock market began to migrate to the West. And now about 70 % of Russian share market is distributed on Western trade grounds. In this process some role was played by opposition between FFMS and the participants of stock market.

From the 15 March 2006 two “blue chips” were incorporated in RTS Index: “Gazprom” and MTS. Now specific weight in RTSI of “Gazprom” is 15 %, MTS - 5,7 %, Sberbank - 12,7 %.

The dynamic of RTSI is demonstrated on the figure 1.

5/24/2005 - the beginning of the RTSI rally; during this day RTSI is increased by 3,36 % and reached very closely to the mark of **670** points. Russian brokers noted visible demand from the West, but did not forecast the long-term increasing of the stock market. But the reality crossed out the boldest prognosis.

6/23/2005 - RTSI overcomes the level of **700** points. The analytics meanwhile decided that optimism of investors was enough only for some weeks.

8/2/2005 - RTSI reaches the level of 791,07 points and overcomes its historical level of 4/12/2004 (785,52 points). This event has increased optimism of Russian analytics, some of them dare to predict that to the end of 2005 RTSI can reach 1000 points.

8/5/2005 - RTSI overcomes the level of **800** points. The old prognosis of 750-850 points at the end of 2005 Russian analytics rise to 900-950 points.

9/2/2005 - RTSI overcomes the level of **900** points. The most of analytics predict the correction in some days, but all of them agree that it will not be deep. And the most bold of them tell about 1200 point at the end of 2005.

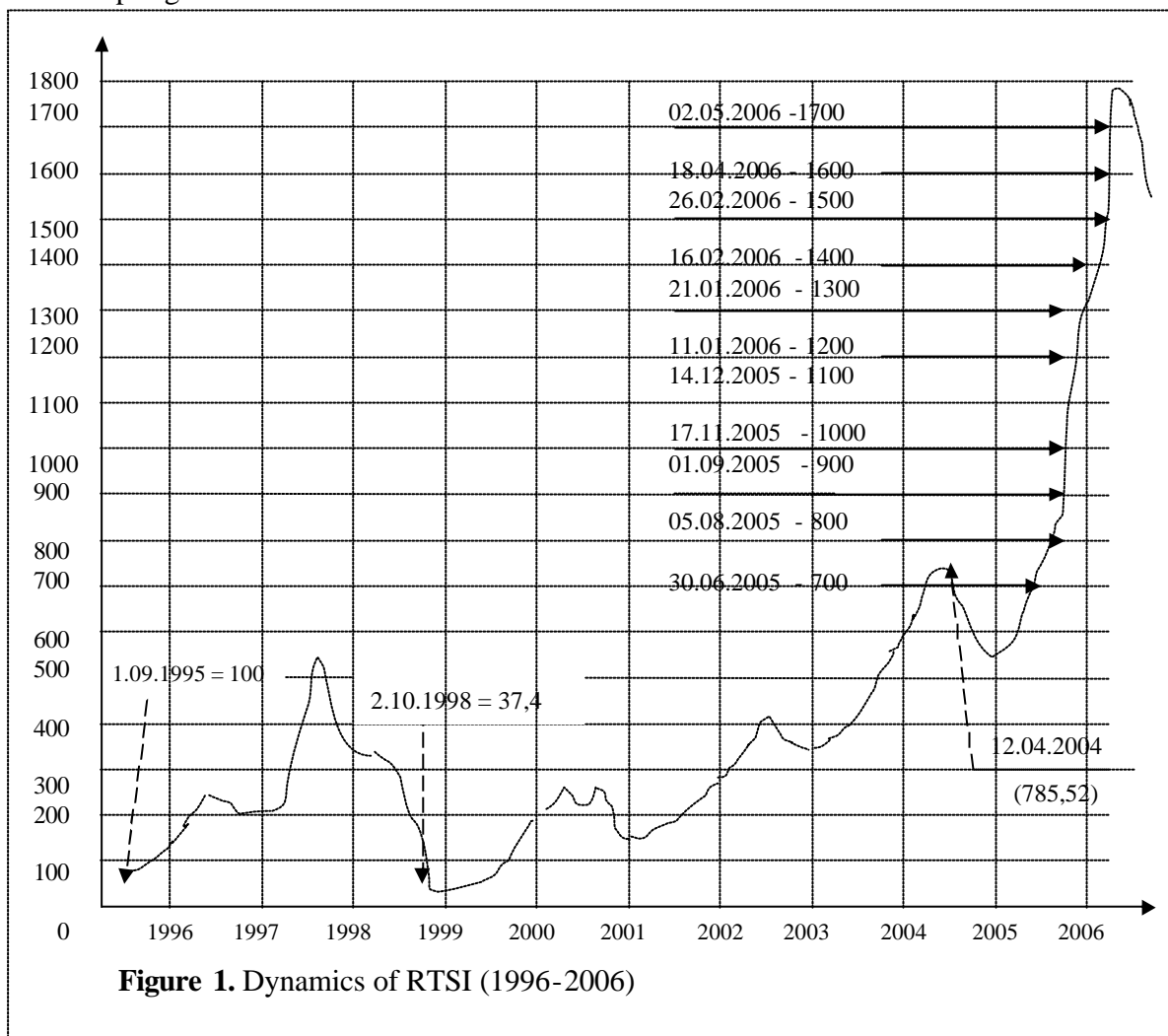
9/30/2005 – RTSI overcomes the level of **1000 points**. Thus, during period of 10 years (from 9/1/1995) RTS Index was risen 10 times as much. It is interesting than stock indexes of developed countries had passed the way from 100 to 1000 points more slowly. For example, NASDAQ Composite that first appeared in 1980 was risen 10 times as much in 15 years and 4 months. And S&P 500 - in 16 years and 4 months; Dow Jones Average - in 58 years.

12/14/2005 - RTSI overcomes the level of **1100** points.

1/11/2006 - RTSI overcomes the level of **1200** points.

1/20/2006 - RTSI overcomes the level of **1300** points. Thus, during less than 2 weeks Russian stock market “ fulfilled the plan ” for all the year 2006.

2/17/2006 - RTSI overcomes the level of **1400** points. Thus, from the beginning of the year 2006 Russian stock indexes has risen at 25 % and analytics advise their clients to diminish the quantity of shares in their portfolios because they expect the fell of quotations in spring.



2/26/2006 - RTSI overcomes the level of **1500** points. Thus, during the whole 2005 RTSI has risen 83 %, and during the 2 months of 2006 - 33 %. Analytics think that the stock market will be in fine condition about 2 or 3 months in the future, till American FRS raises its discount rate till 5 %. Analytics from "Alfa-Bank" think that at the end of 2006 RTSI will be equal about 1700 points.

4/18/2006 - RTSI overcomes the level of **1600** points. And the foreign investors set the fashion in this rally. They inflate raw material prices and sink in money Russian stock market.

5/2/2006 - RTSI overcomes the level of **1700** points and during some moments was even at the level of 1795 points. Thus, from the beginning of the year the rise was more than 50 %. Analytics from "UralSib-Bank" raised their prognosis to the end of 2006 year till 2100 points. Analytics from another bank were more cautious (table 2).

A very strong correction began from 6 to 12 may of 2006. During these days

RTSI lost 4,7 %, and fell from 1765,35 till 1681,07 points. The first sellers were foreigners. Then native players joined to them.

5/14/2006 - RTSI fell till 1589,46 points and lost (comparing with the pick of 10 may - 1795 points) 12 %. Through whole the World the wave of selling was rolling. Brokers sold gold, oil, shares of companies of developing markets. For the beginning of the panic three threats were enough: acceleration of inflation, rise of discount rates and diminishing demand for oil.

5/18/2006 - RTSI fell less than 1500 points and lost almost 20 % of its weight during two weeks. Thick clouds thicken over Russian stock market.

The week from 15 to 20 may 2006 (13,7 % of falling) was the worst in the history of Russian stock market from November 2003 (arrest of Michael Khodorkowski). It took only one an hour to down RTSI from 1540 till 1480. Nervousness in the USA instantly throws at other markets: Indian, Indonesian, Japanese ones. The European markets were more stable to these events. In absolute expression RTSI newer fell so strong. But further events show that the falling is continuing.

Table 2. The Prognosis of some Investment Banks about RTSI at the end of 2006

1	Deutsche UFG	1450
2	UBS	1700
3	Alfa-Bank	1700
4	Aton	1653
5	Bank of Moscow	1580
6	BKS	1500-1550
7	Renaissance Capital	1750
8	Troyka-Dialog	1800
9	UralSib	2100
	The real figure at the 12/31/2006	1921,92

Source: Vedomosti. May 12, 2006. B-5

The week from 5 to 6/10/2006 was ended with another fiasco (11-12 % of falling) to 1360 points.

On June, 13th, 2006 the RTSI has stopped on a mark **1234,82** points, and then has started to grow. On November, 30th, 2006 it was closed at a level of 1776,68 points, having overcome a May maximum (on May, 10th, 2006 - **1795** points) for the first time.

If in 2005 growth of RTSI has made 83 %, in 2006 - 71 %. Thus the market has gone through significant correction from the beginning of May, 2006 - up to 30 %. In the beginning of December the index has crossed a mark of **1800** points. Year 2006 has come to its end at the mark of **1921,92** points. Thus, nobody from analysts did manage to guess a parameter of an index on the end of 2006 fairly well (table 2).

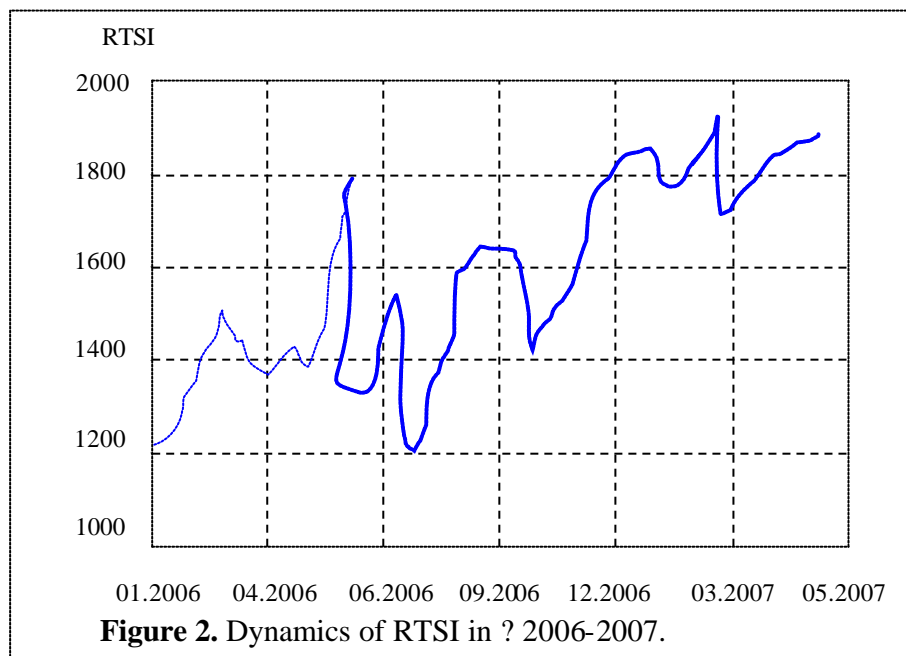
On February, 27th, 2007 there was another “black Tuesday” at world stock exchanges. Firstly the Chinese market has failed almost on 9,5 %, then recession was threw to the Europe, and further - to the USA where index Dow Jones has lost 3,29 % during a day.

Within a week the global markets have lost \$3,3 trillion of its capitalization - from the share markets has disappeared the value which created in the autumn 2006. Many indexes have returned to parameters of September-November, 2006. It was the most serious

correction since 2001-2002. The share markets of Philippines, Brazil, Turkey, Mexico, India and Russia have suffered most seriously. During 5 days of correction RTSI has fallen by 11,8 % from its historical maximum of 1970 items.

At the same time the situation differed radically from situation of 1997. Then recession at the Asian stock exchanges has caused simultaneous falling demand and the world oil prices fall down to \$11-12 for barrel. After that there was a default in Russia.

The collapse in the Chinese share market became maximal for 10 years. However danger of inflating of a bubble in the Chinese share market was obvious already for a long time. For half a year the Chinese share indexes have grown twice, and the ratio of capitalization of the market to cumulative profit has exceeded 30. The scale of falling of the global financial markets has appeared rather unexpected, considering, that on the share market of China is only 2 % of world capitalization. The Chinese share market traditionally represented itself as silent harbor for investors.



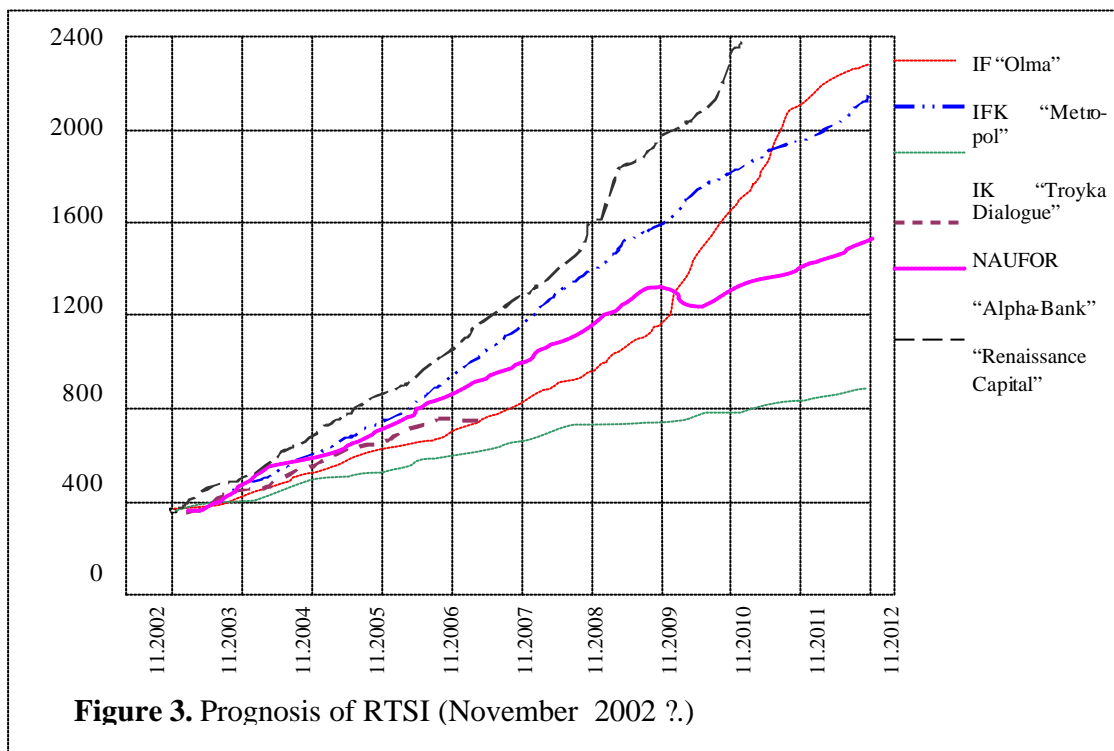
On March, 13th, 2007 world share indexes showed a new serious falling from the beginning of 2007. Index Dow Jones has fallen by 1,97 %, NASDAQ - by 2,15 %, S&P - by 2,04 %, NIKKEI - by 2,92 %, and RTS - by 3,7 %. This second from the beginning 2007 visible falling of the Russian indexes has forced experts to speak about global crisis in the share market. Decrease in rates of growth at mortgage market was caused by serious fears of slowdown of American economy and did a withdrawal by investors their means from the share markets.

On March, 9th, 2007 the index of RTS has reached a new maximum - **1973,83** points, completely having restored the lost positions, and on April, 13th has exceeded a mark **2000**. However some Russian analysts expect (Expert 2007, p. 25)³, that in 2007 the Russian share market will grow by slowest tempo since 2003 (figure 2).

Now RTSI reflects not so much the condition of Russian conjuncture but rather the conjuncture of principal consumers of fuel and raw materials: the USA, West Europe, China, Japan and India. In connection with this is significant revelation of investment

guru Warren Buffet, who do not advise to invest in Russian stock market, comparing the situation here with attempts of Cinderella to outrun the time: “ When the fest is beginning the punch flows in rivers, but you know very well that in midnight all will be turn into pumpkin and mice ”.

The forecast of the Russian market up to 2012 (Rynok 2005. p. 28-29)⁴. In November, 2002 analysts of 6 companies have made the forecast of development of RTSI (Rynok 2002. p. 28)⁵. In 3 years the index of RTS has grown in 2,5 times. Nobody from analysts did assume such optimistic scenario (figure 3).



In November, 2005 magazine “Rynok tsennykh bumag” has asked former participants of forecasting to give new answers about the future of the share market. From six previous participants (investment firm “Olma”, IFK “Metropol”, IK “Troyka Dialogue”, NAUFOR, “Alpha-bank” and “Renaissance the Capital”) first four participants have taken part in new interrogation.

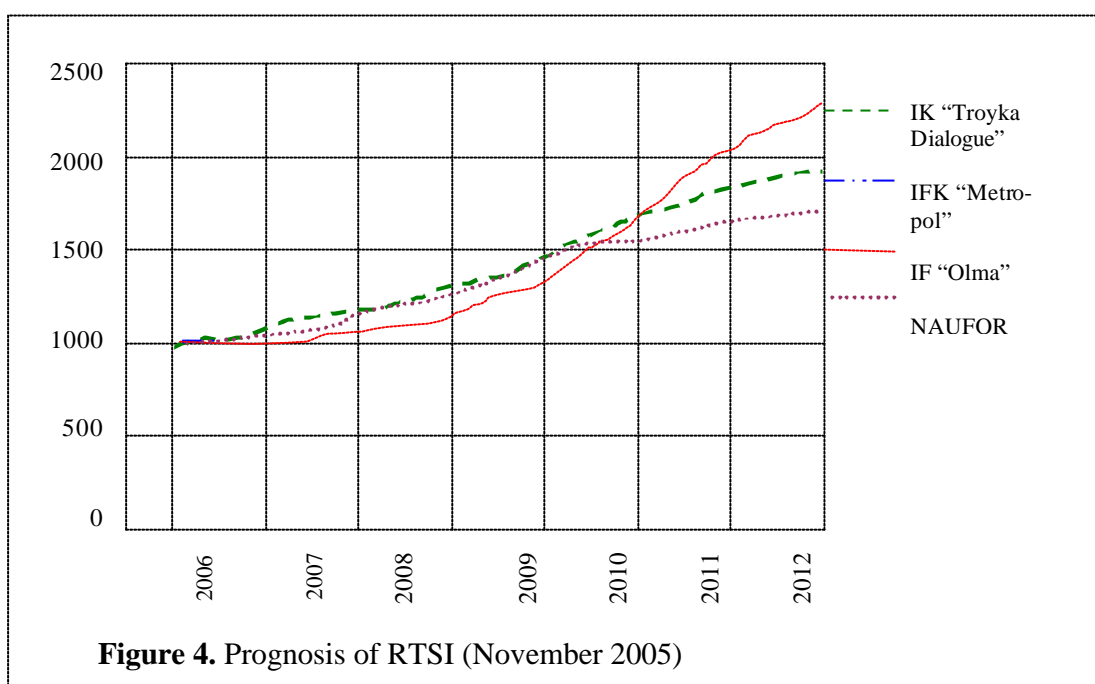
Representative of “Olma” has recognized, that for 2002-2005 the RTSI has noticeably exceeded predicted parameters. Representative IFK “Metropol” has cautiously noted, that in 2012 the RTSI will be higher than in year 2000. The representative from “Troyka Dialogue” has declared, that the share market will aggressively grow during 2006 and 2007, and in 2008 will be braked, because of presidential elections of Russia. After that the market will stably grow and will reach **2500** points in year 2015.

Representative from NAUFOR also adhered to conservative forecasts, speaking about “preservation of volatility of an index during year of 2006 within the limits of 900-1100 points”, that has appeared to be considerably below the real parameters. Forecasts of four participants of interrogation are represented at figure 4. They also remain rather cautious: two analysts forecast that in 2012 RTSI will be between 2100 and 2300, and at

two remained - within the limits of 1700-1900 (the last forecast has coincided with RTSI in September-December, 2006).

Russian investment ratings. The positive movements on Russian stock market consolidate its international position. In October 2003 Russia the first time in her history received sovereign investment level by version of international agency Moody's (Baa3).

Another well-known agency - Standard and Poor's demonstrate more conservative ratings. In January 2004 S&P raised sovereign rating of Russia to the one step under investment-level (BB +), but in January 2005 S&P gave Russia minimal investment-level (BBB-), and at 12/15/2005 it raised the rating up to BBB.



In September, 2006 (Expert 2006. p. 54)⁶ the credit rating of Russia is raised up to ??? + by obligations in a foreign currency and up to ? - by ruble debts. Rating ??? + puts Russia in group with such countries as Hungary, Poland, the republic of South Africa and Thailand (Table 3).

The way which has been passed by Russia during these years, - a trajectory of the Russian risk - looks quite convincingly in comparison with other developing countries including exporters of oil.

In 1977 Venezuela, having a credit rating at level ???, in 1983 has fallen down to level ??, than in 2005 was default of the government, after which in 2006 the country has managed to get up to the level ?-.

A series of sovereign defaults has shaken Indonesia in 1999, 2000 and 2002. At present time the country cannot overcome level ?- . The case of Pakistan is even more difficult. After a sovereign default in 1999 the rating of this country is still within the limits of category B. The Similar situation is in Argentina. And India, Brazil and Philippines cannot fall outside the limits a speculative category.

Table 3. Sovereign credit ratings of some countries (for September, 2006)

Rating	The countries
???	Singapore
??	Hong Kong, Slovenia
?? -	Taiwan
A	China, Lithuania, Slovakia, Chile, Estonia, South Korea
? -	Israel, Latvia, Malaysia, Czechia
??? +	Hungary, Poland, Russia, Thailand, the Republic of South Africa
???	Bulgaria, Mexico, Croatia
??? -	Kazakhstan, Romania
?? +	India
??	Brazil
B +	Georgia
B	Argentina

Market of IPO in 2006. A stable growth of world market of IPO in 2006 in many respects has occurred due to developing countries. And the share of East European countries, including Russia, is about ¼ of the all-European volume.

The general volume of accommodations in 2006 has made \$237 billion, 38 % more, than in 2005. The first place in this list is occupied by American companies.

Year 2006 became the best for Europe for the last 6 years - the volume of accommodations reached \$107 billion. It was not possible to beat the record of year 2000 (\$132,5 billion), but results of 2005 are exceeded on 45 %. In many respects it was done owing to the countries of the East Europe, including Russia. The companies from this region have placed the shares for a total sum \$22,1 billion that is 22 % from the all-European volume. Growth of volumes of East-European IPO should be kept also in 2007.

The record of 2006, established on volume IPO has not added much securities to the world share market. On the one hand, by attraction of capital the companies have beaten the record of six-years prescription. But, on the other hand, shares on \$150,1 billion have disappeared from stock exchanges. While the Russian companies place papers in London, and Chinese - in Hong Kong, global funds redeem the public companies in the USA and in the Europe.

Stars of primary accommodations became the Chinese and Russian companies: Chineses have lead accommodation on \$49,4 billion in 114 transactions, and Russians - \$15,3 billion in 12 transactions. The largest bank of China – Industrial and Commercial Bank of China has established a world record on volume of IPO - \$21,9 billion. Previous record was done in 1998, when Japanese NNT Mobile (now NTT DoCoMo) has involved \$18,1 billion. "Rosneft" with its \$10,7 billion has occupied 3rd place.

It has changed an alignment of forces among leading stock exchanges of the world. NYSE for the first time has conceded a rank of the leader on volume IPO (\$41,2 billion) to the London and Hong Kong stock exchanges. LSE became a leader (\$51,2 billion) and in many respects owing to IPO-s by Russian companies: the companies of continental China accommodate the most part of their shares in Hong Kong. On NYSE in 2006 companies have involved \$29,2 billion.

While the companies from developing countries became public ones, there was a return process in the developed markets, first of all American and British. The stock market of the USA has lost \$55,8 billion of its capital. On NYSE 66 companies have involved \$28,5 billion with help of IPO, but 13 companies took their shares from listing (\$67,3 billion). The size of stock capital of the British companies have been reduced by

\$8,4 billion, Netherlands - by \$7 billion.

The principal cause of transformation of the public companies in private ones - is their repayment by funds of direct investments. Despite of increase of interest rates by leading central banks, money is cheap enough, risks are low, and liquidity is high. It allows the funds of direct investments to borrow without problems on purchases of the companies. In 2006 they have declared purchases on \$700 billion - twice more, than in 2005.

The event testifies about different level of a maturity of the markets. In the USA and the Great Britain funds of direct investments became a dominating force. They can see advantages there where the public markets cannot see them. But China and Russia have just started to realize the real force of the markets of the capital. In Russia the funds of direct investments invest in the private companies. Today Russia by the size of the companies lags behind the USA about 30 years; therefore the opportunities for new Russian IPO are huge. Only in 2007 their volume can make from \$15 up to \$25 billion

The boom of Russian IPO attracts investment banks. According to Thomson Financial, among book-runners (they collect applications of investment bankers) the first position on volume of the means involved by emitters in 2006 took Dresdner Kleinwort, and Morgan Stanley was slightly lagged behind (see table 4).

Table 4. The investment banks spending IPO in Russia in 2006

	Thomson Financial			Dealogic		
	Place	Volume of issue (\$ billion)	Number of transactions	Place	Volume of issue (\$ billion)	Number of transactions
Dresdner Kleinwort	1	3,09	3	2	1,62	3
Morgan Stanley	2	2,96	3	1	1,68	4
ABN AMRO Rothschild	3	2,66	1	3	1,19	1
JP Morgan	3	2,66	1	3	1,19	1
Deutsche Bank	5	1,16	5	5	1,16	5
The Renaissance the Capital	6	0,96	3	6	0,96	3
Credit Suisse	7	0,78	3	7	0,93	4
Goldman Sachs	8	0,35	1	9	0,35	1
Three dialogue	9	0,34	2	10	0,33	4
Nomura	10	0,14	1	-	-	-
UBS	10	0,14	1	-	-	-
MDM-bank	12	0,07	1	-	-	-
The Savings Bank	-	-	-	8	0,75	1

These two banks together with ABN AMRO Rothschild and J.P.Morgan have organized IPO of "Rosneft" that allowed to leave another competitors far behind them. However, there is also other opinion about ranking of foreign investment banks in Russia. According to Dealogic, leadership belongs to Morgan Stanley. A difference is in methodology of estimation. Thomson Financial considers only IPO, lead by companies nominally registered in Russia (therefore in its list of 12 transactions), and Dealogic - including the Russian companies nominally registered abroad (17 transactions on \$16 billion). Dealogic also does not consider the shares which were sold during IPO to strategic investors (first of all its concerns IPO of "Rosneft"), and has included in the list the Sberbank as book-runner of retail tranche IPO of the oil company.

There is an opinion that in 2007 to the Russian companies cannot to involve by

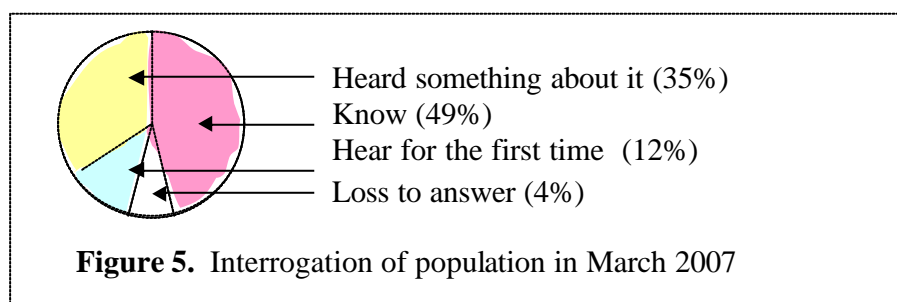
IPO more money, than in 2006. Then a wave of accommodations will be down to a level 2005. Such conclusions are done by analysts Citigroup who in the review of prospects of IPO published 11/13/2006 approve: though the Russian companies may be the best in developing markets, their agiotage sales today is in many respects aspiration to avoid risks of elections of 2008.

Research Made in Russia, presented 11/13/2006 by marketing division of Citigroup: Citigroup Global Markets (CGM), is the first release of a constant analytical product which the company addresses to the clients - to investors Citigroup all over the world. The review is devoted to the hottest theme in the share market - Russian IPO. Citigroup comes to a sad conclusion for the Russian owners: though in 2007 will be record number of the Russian primary accommodations of the shares, but gathering, expected by owners of the companies will be lower, than in 2006.

According to data of the review, 16 large IPO in 2006 have collected in the sum about \$20 billion – these data include accommodation of papers of “Rosneft”. For year 2007 32 accommodations of the companies of the same level are planned: among them IPO the Sberbank, WTB, GAS, “Itera”, “Kuzbassrazrezugol”, “Svyazinvest”, Magnitogorsk, “Evrokhim”. However the sum which, in opinion of Citigroup, will finance on IPO the share markets, will not exceed \$18,4 billion. And for 2008 of analytics expect sharp decrease in number of accommodations and their gathering: 18 accommodations and \$ 4,7 billion gathering.

CGM explains simply a decrease in popularity of primary accommodation of shares: by 2008 political risks and macroeconomic risks of falling of the prices for oil will sharply grow. Estimations of CGM about the size of an agiotage at IPO in 2006-2007, which caused by aspiration of proprietors to finish accommodation till 2007, are conservative enough.

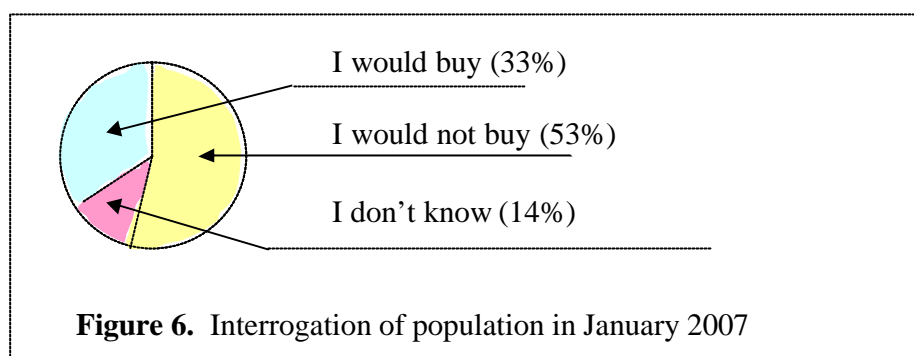
The attitude of the Russian population to the share market can be tracked on the basis of polls. We shall look at some of them. They are based on the interrogations of Fund “Public opinion”, which were published by magazine “Kommersant-Dengi”.



In March, 2007 to 1500 respondents have suggested to answer a following question: whether “you know, heard, or hear now for the first time expression securities”?

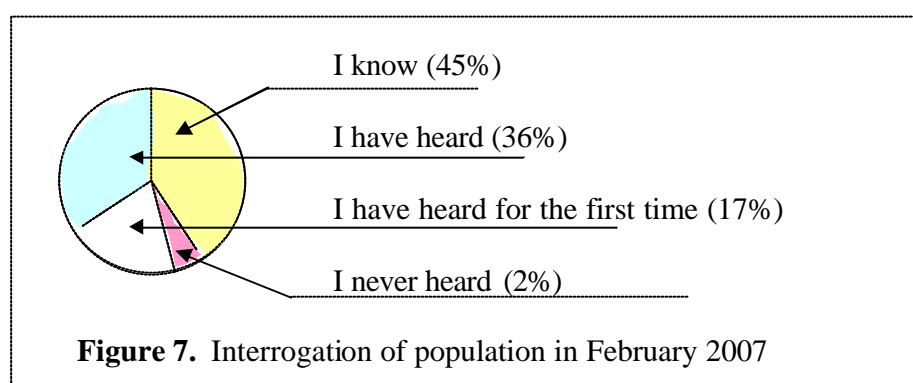
As follows from answers, 49 % of the population know expression "securities", 35 % heard something about it, 12% hear about it for the first time, and 4 % were at a loss to answer (figure 5).

In January, 2007 the question has been offered to 1500 respondents: “If you were allowed with financial opportunities, you would buy (would buy still if you already have) or would not buy the shares of some Russian company?”



As follows from results of the interrogation, overwhelming quantity interrogated (53 %) have answered this question negatively (Kommersant-Dengi 2007. p. 8)⁷. 14% were not defined with the answer, and only 33 % would buy securities if financial opportunities (see figure 6) have allowed.

In February, 2007 on a question “ Do you know, heard or now for the first time hear a word “dividends””? 1500 respondents have answered as follows.



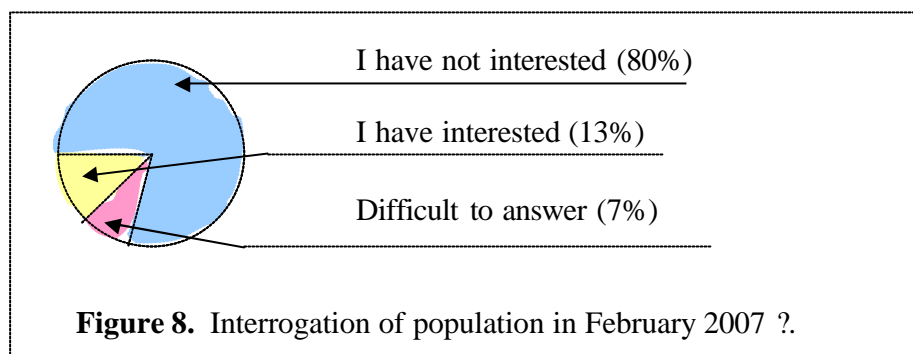
As follows from results of interrogation, 45 % of respondents know the mining of the word “dividends” (Kommersant-Dengi 2007, 14)⁸, 36 % heard this word, 17 % never heard and 2 % could not answer a question definitely (see figure 7).

On a question set in February, 2007: “Has you interested or not the information about release by the Sberbank of additional shares for sale to private persons”, 1500 respondents have answered as follows.

As follows from results of interrogation (Kommersant-Dengi 2007, 10)⁹, the attitude of 87 % of the population was indifferent to this action, and only 13 % have shown to it some interest (figure 8).

Two largest world companies that engaged marketing researches: ACNielsen and GJK have carried out researches of consumer behavior. The first company have interrogated about 1000 Internet-users in 42 countries, and the second company – some “ordinary” inhabitants from Central and the East Europe (14 countries).

According to ACNielsen Russians are marvellously assured of the future: 67 % of them believes, that in the nearest 12 months their financial condition remains “excellent” or “good”. In China, Portugal, South Korea and Japan such respondents are only 21-31 %; on Taiwan and in France - 39-40 %.



Only 5 % of the interrogated Russians have informed, that after payment of the most necessary and essential charges (without taking into account repayment of debts) they have not money any more. In the USA and Portugal such figure was 22 %, in Britain, Canada, the Netherlands and France - from 15 % to 19 %. From 42 countries only in Indonesia, Spain and Thailand it has appeared to be less poor the Internet-users, than in Russia.

Russians use their free money not like consumers of other countries (see table 5.). On readiness to spend means for clothes (70 %) Russia has overtaken all the countries of the world. There are not equal to Russians by purchases of new technological devices (51 %).

Table 5. On what available assets are spent

% that answered "yes" (the number of such answers was not limited)							
	Russia	China	India	Germany	USA	Philippines	Poland
Entertainments outside home	47	32	31	24	28	24	37
Clothes	70	39	28	34	25	30	46
IT-technologies	51	44	32	37	17	27	30
Repair of an apartment	38	25	38	26	24	19	48
Holiday	37	41	37	41	24	25	31
Payment of debts	33	18	34	17	42	44	34
Savings, purchase of securities	38	53	87	54	58	86	36

However it is necessary to consider, that the audience of the Internet is not a numerous circle of well provided young men, therefore results of interrogation are uncharacteristic for Russia as a whole.

Research by GfK company, which interrogated "ordinary" citizens, has yielded similar results. A share of the people holding their means in bank and a using insurer service in Russia is almost at the lowest level. And the cause is not in the lack of money; for example, 44 % of interrogated say that they have an opportunity to postpone their means at least for a year. But, as it was found out, citizens simply do not consider attractive purchase of shares and bonds and investments into the real estate. "For last 15 years people saw some defaults and hurry up all to spend, while money was not eaten with inflation".

The securities market of Russia has the promising future. It is not necessary to expect, that this future will be exclusively favorable and joyful. One is absolutely clear - the Russian share market promises to be a dynamical segment of the World economy where it will be interesting to work to professionals.

¹ Mirkin Y.M. (2002). Rynok tsennykh bumag v Rossii. Moscow.

² Lanskov P.M. (2005). Mekhanizm regulirovaniya finansovogo rynka i yego infrastruktury. Moscow.

³ Expert.(2007). 10, 25.

⁴ Rynok tsennykh bumag. (2005). 21, 28-29.

⁵ Rynok tsennykh bumag. (2002). 22. 28.

⁶ Expert (2006). 33, 54.

⁷ Kommersant-Dengi. (2007). 5, 8.

⁸ Kommersant-Dengi. (2007). 8, 14.

⁹ Kommersant-Dengi. (2007). 10, 10.