

12. Trade policy. Following removal of all import subsidies at the end of 1993, major steps were taken to eliminate export quotas in 1994. Export quotas were removed as of July 1, with the important exception of oil, for which quotas were also lifted as of end-December. At the same time, the Government introduced an export contract registration system for the same 'strategic' exports, ostensibly aimed at preventing under-invoicing of export contracts. Simultaneously, export duties were lowered on some key exports (eg. aluminum and oil) and eliminated for some commodities. The Government has explicitly stated it will not use import tariffs for domestic protection despite increasing pressures from Russian suppliers. However, revision of the import tariff schedule did involve upward revision of rates, with average import duties raised from 8 to 12.5 percent as of July, 1994. By end-1995 all export taxes are to be eliminated. The Government has indicated its intent to further rationalize tariffs over the coming year. However, at the local level some oblast governments continue to interfere in price formation, including by restricting trade across internal boundaries. The challenge facing the government in the next few years will be to resist pressures for protectionist measures by export industries. These industries are caught between growing import competition (from exchange rate appreciation) and rising production costs following the removal of export quotas. The Government's decision to join the GATT will help in resisting such pressures.

13. Financial sector. There are over 2000 independent commercial banks in Russia today, almost all created within the last few years. Among the new banks, there are as many as 100 that appear to be evolving into real banking institutions. While the volume of their operations is still small, they are growing at an unprecedented rate and are involved in profitable and genuine banking activities. As the privatization program has removed restrictions on the participation of financial institutions in privatization, the investment activity of banks has grown.

14. These rapid developments place greater priority on strengthening the capacity of the Central Bank of Russia to monitor commercial banks and ensure prudential regulations are enforced. The government has established a commission on securities and capital markets, although capacity to monitor capital markets remains quite limited. Government support of technical assistance to commercial banks will help enhance banking skills and application of prudential regulations. Supporting linkages between capital market development and enterprise privatization will be another priority policy area for