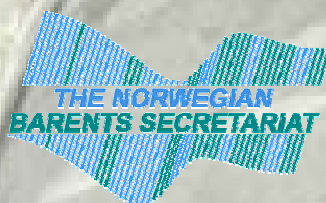


**Barents Review:**

# The Economic Development in the Murmansk Region 2007

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## Foreword

This report is mainly a guide to understand the economic situation in the Murmansk Region. The data the report is based on is primarily statistics from 2006, though there are cases of newer information with numbers from early 2007.

The reason for writing this report is the lack of available information on this area. The information accessible is either hard to find or too old to be of any value. There are for example few internet pages that provide updated statistics in English relating to the Murmansk Region. However, information does exist. The Murmansk Regional Statistics Office publishes various types of statistics at the end of each year. The only problem is that it is written in Russian and very hard to discover without having an indication of where to look for it.

The Norwegian Barents Secretariat follows closely the developments in the Barents Region. In this context, updated information about a key region like Murmansk is instrumental. Murmansk Region is a very present and attractive area for both businesses as well as private persons. With the upcoming situation connected to oil and gas potentials, an overview of the economic situation will be of high importance. The gigantic Shtokman field will have its LNG plant in Teriberka, 100 km north-east of Murmansk. One can only imagine what consequences this project will have for the local community and the region as a whole.

The report is divided into five main sections with a clear dismemberment of underlying paragraphs. The text belonging to the tables and graphs are more an explanation to make it easier to understand rather than an analysis of the situation. In the end there is a short summary of the situation with an insight of the region's prognosis and future challenges. Think of this report as an opportunity for launching a debate with the superior goal of having a yearly updated report that is easy to access and with the ambition of providing right numbers.

We will take the opportunity to thank Liv-Kari Kroken and Bjørn Celius in DNB NOR Monchebank for contributing with necessary information and being helpful in organising meetings in Murmansk. We would like to express gratitude to Murmansk Regional Administration and in particular Evgeny Alexeev, Head of the Foreign Division, and Sergey Semenov, First Deputy of the Head of Regional Economic Development Department for their patience and willingness in answering questions.

Kirkenes, 9<sup>th</sup> of January 2008



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Intern Researcher

# 1

## Introduction



### The Russian Economy

It is important to be aware that the economic distribution between the metropolitan areas and the outlying regions has created an imbalanced situation. Cities like Moscow and St. Petersburg are prime movers in the economic development while other cities and regions have fallen behind.<sup>1</sup> It is vital to consider this issue when analysing Russian statistics on a national level: a major part of the figures is affected by the big cities and they are this not correct for the country as a whole

#### History

Since the collapse of the Soviet Union in 1991, Russia has tried to develop a market economy and has privatized industry in an attempt to boost economic growth. In October 1991, Yeltsin announced that Russia would proceed with radical, market-oriented reform along the lines of "shock therapy", as recommended by the United States and the IMF. However, this policy resulted in economic collapse, with millions being plunged into poverty and corruption and crime spreading rapidly.<sup>2</sup> Before, for nearly sixty-two years, the Russian economy and that of the rest of the Soviet Union operated on the basis of a centrally planned economy

where the government had the power to control most of the country's industry.

In the third quarter of 1998, Russia experienced a financial crisis combining a currency crisis, a debt crisis and a banking crisis. The crisis was clearly related to the earlier Asian calamity that had sent shock waves across the global financial markets.<sup>3</sup> It is however clear that the crisis had deeper structural causes, namely excessive public sector debt and the Russian government's failure to address continuous budget deficits.

The crisis lowered Russians' living standards with direct impacts on the population, who lost their savings and had an income decrease corresponding to one third of earlier earnings. Poverty became a national problem with after effects lasting until 2003.<sup>4</sup> Today's situation is quite different. The Russian economy has grown past pre-reform levels of the 1990's, and can be characterised as one of the world's fastest growing economies.

#### Type of Economy

The Russian economy is a "natural resource economy", where growth remains heavily reliant on raw material exports. However

<sup>1</sup> Russian Prospects – political and economic scenarios. Copenhagen Institute for Futures Studies.

<sup>2</sup> Wikipedia.org, 2008

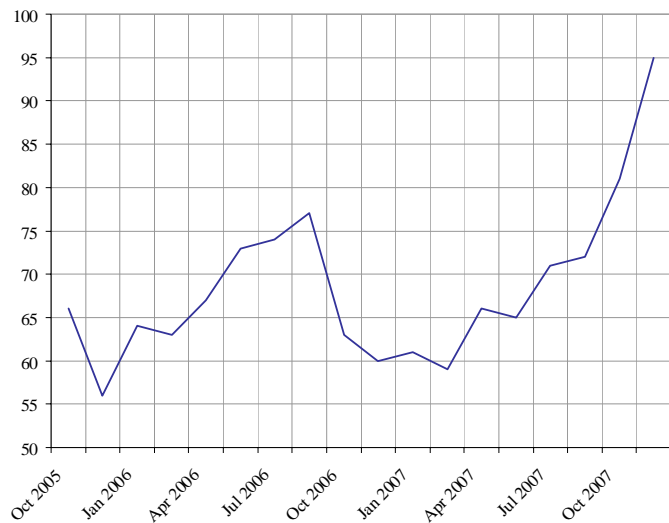
<sup>3</sup> The financial crisis in Russia, Bank of Finland, BOFIT (1999, No. 11).

<sup>4</sup> Referring to an interview with the finance department at DnB NOR Monchebank.

growth can also be attributed to a sharp increase in investments and construction, high rates of manufacturing activity and sustainable trade growth. But oil, natural gas, metals, and timber still account for more than 80% of exports and 32% of government revenues, leaving the country vulnerable to fluctuations in world prices.<sup>5</sup>

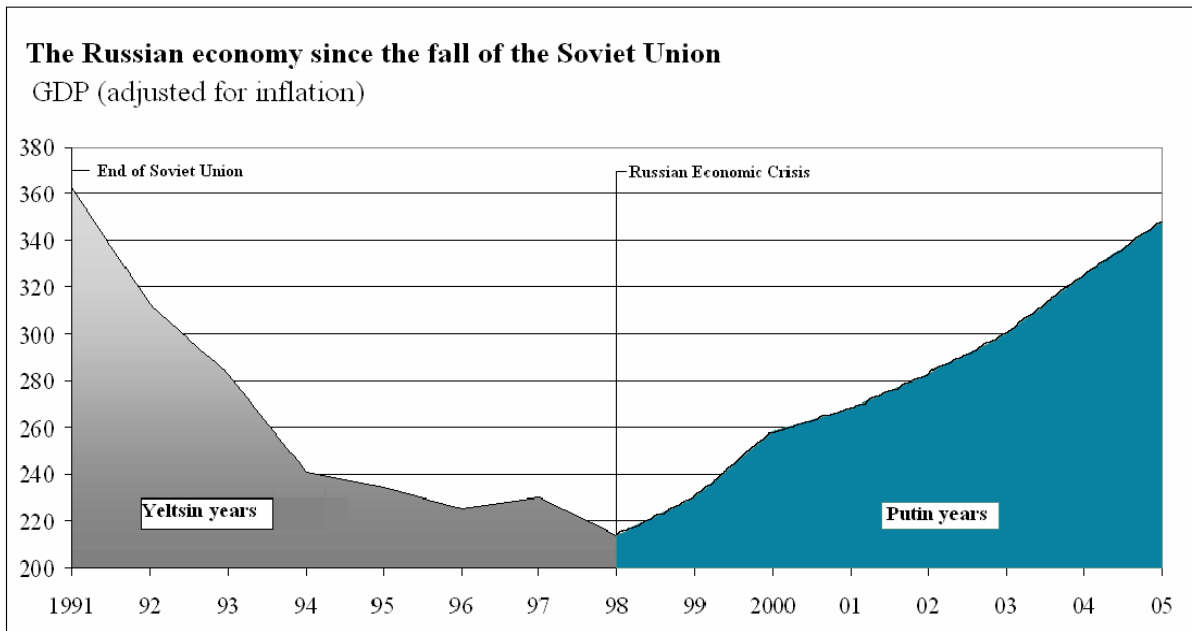
When raw material prices are high, the country enjoys large export revenues, which cause large inflows of foreign currency into the economy. This may increase wages, and labour will start to move to the primary industries from other industries, looking for higher wages. In economic theory, this phenomena is referred to as the “*resource movement effect of the Dutch disease*”. In result the economy will focus on the production and export of raw materials. This may work very well in the short term. However, when prices of raw materials fall in the world market, the

**Oil Prices, 2005 - 2007 (USD per Barrel)**



Source: [http://upload.wikimedia.org/wikipedia/en/2/28/Oil\\_Prices\\_Short\\_Term.png](http://upload.wikimedia.org/wikipedia/en/2/28/Oil_Prices_Short_Term.png)

Despite Russia’s recent success, some seem to indicate that serious problems still persist. Examples of this is that the manufacturing base is dilapidated and must be replaced or modernised if the country is to achieve broad-based economy growth.<sup>7</sup>



Source: World Bank

country could face problems and may have to start accumulating foreign debt.<sup>6</sup>

**Monetary and fiscal Policy**

After the financial crisis in 1998, fiscal policy increasingly became a tool for promoting stabilisation and long-term

<sup>5</sup> Index Mundi, Russia Economy Profile 2007

<sup>6</sup> New conditions for growth in Russia. Bank of Finland, BOFIT (2007 No.7)

<sup>7</sup> The World Factbook, October 2007

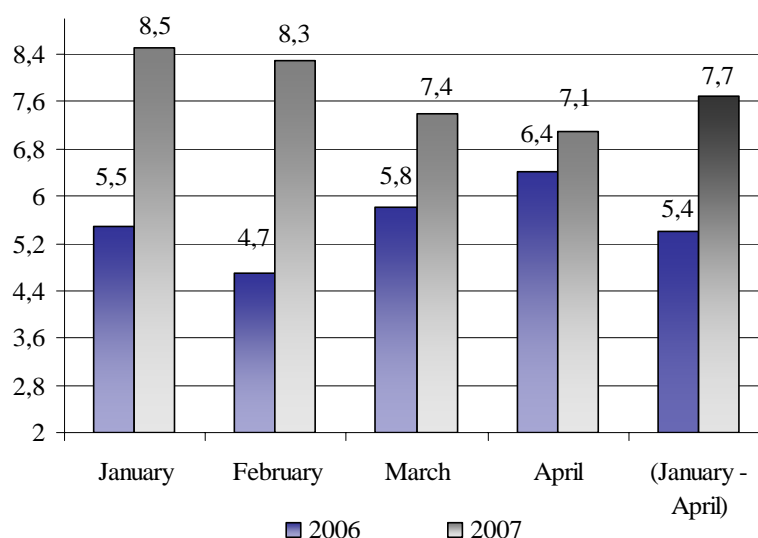
growth. On 1 January 2001, Russia introduced a new tax system with a low income tax rate and a moderate corporate tax rate, in the hope of improving the economic situation. The income tax rate is a flat 13 per cent, and the top corporate tax rate is 24 per cent. Other taxes include value-added tax (VAT), property tax, and a transport tax. In the most recent year, overall tax revenue as a percentage of GDP was 36.1 per cent.<sup>8</sup>

Increasing Federal income by taxes as well as increased control over the natural resources sector and moderate spending has been central in Russia's successful fiscal policy since Putin came to power. In this respect the Stabilisation Fund has played an important role in supporting economic growth. It was established in 2004 by the government to balance the budget in case of a fall in oil prices. The Fund has contributed to economic growth by absorbing excess liquidity, thus reducing inflationary pressures and building confidence in the Russian economy by insulating the economy from volatility of raw material export earnings. To avoid excessive inflation the fund is invested abroad only.<sup>9</sup>

### The Economic Future

Russia has been through a distinctly different economic periods during the presidential periods of Boris Yeltsin and Vladimir Putin. In perspective, the economic situation under Yeltsin's leadership has been seen as a period of failing economy and social welfare, while the period under Putin is related to growth that most of the nation's population has benefited from. 2 March 2008 is the date

**Real GDP %**



Source: DnB NOR Monchebank, Economic Review, June 2007

when a new era will start for the Russian Federation. Vladimir Putin's period as president is over, and the person who is most likely to step into his position is Dmitrij Medvedev. Only time will tell if Medvedev's presidency will bring continued economic growth or if he will stumble in the many subdued but inescapable challenges of the Russian economy.

<sup>8</sup> Index of Economic Freedom

<sup>9</sup>

[http://en.wikipedia.org/wiki/Stabilization\\_fund\\_of\\_the\\_Russian\\_Federation](http://en.wikipedia.org/wiki/Stabilization_fund_of_the_Russian_Federation), 2008

## The Murmansk Region

The Murmansk Region is divided into 5 districts and includes 16 towns/cities. They consider themselves to be the best developed region of the Russian North from an economic viewpoint. The regional centre is the city of Murmansk, located 1967 km north of Moscow. Murmansk has the western Russia's largest ice-free port and is the main base for the country's fishing industry. The major industrial centres are Murmansk, Apatity, Kandalaksha, Monchegorsk, Kirovsk, Olenegorsk Nickel and Sapoljarny.

The region ranks high in terms of natural resources where the trade output consists mainly of mineral production and processing, nonferrous metallurgy, fishing and fish processing, electricity production and transportation services. The large oil and gas resources discovered on the shelf in the Barents Sea, including the massive Shtokman field, will have a remarkable impact on the future economy of the region.

The region has two airports: the Murmashi international airport near Murmansk and Khibiny airport close to Apatity and Kirovsk. The Murmansk Regions' marine transport is the element that most affects their share of the Russian economy. The 2006 figures account for 41.20% of the national level, meaning there has been an increase of 5.3% from 2005.<sup>10</sup> There is no doubt that the ice-free port of Murmansk plays a particularly important role in marine transportation in Russia.



Source: *The World Factbook*

<sup>10</sup> Murmansk Region in figures. Murmansk Regional Body of State Statistics Service, 2006



### **The Murmansk Region divided into districts and cities**

**Districts:** Kovador, Kola, Lovozero, Pechenga, Terski

**Cities:** Apatity, Kandalaksha, Kirovsk, Monchegorsk, Olenegorsk, Polyarny Zori

**Zatoes:** Polyarny, Skalisty, Severomorsk, Ostrovnoy, Snezhnogorsk, Zaozarsk, Vidyaevo

# 2

## Murmansk Region in the Economy of Russia



### Synopsis

This chapter considers the Murmansk Region's position in the economy of Russia, and puts the situation into perspective. In other words, it shows how the region works as part of the country. The issues that will be dealt with are mainly based on a table that shows different statistics measuring the regional level against the national level.

One of the methods of measuring the macroeconomic situation is to compare the Gross Regional Product (GRP) with the Gross Domestic Product (GDP). This is a measure of total consumer spending, business spending, government procurements and net export.

## Murmansk Region in the Economy of Russia

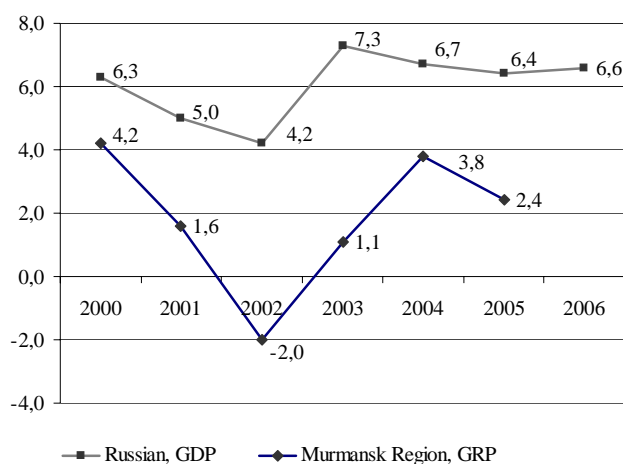
It is important to take into account the Murmansk Region's position in the Russian economy when analysing the economic growth in the area. Though the region only accounts for 0.6 % of the total Russian population there are some areas that have a direct influence on the country's economy.

### GRP in the Murmansk Region

In 2005, the GRP in the Murmansk Region at current prices was 141.9 billion roubles. At the same time, the federal GDP was 38 745 trillion roubles.

<sup>11</sup> By dividing the GRP with the GDP we find that the Murmansk Region accounts for approximately 0.4% of the total Russian Economy in 2005. The Murmansk Region is rich minerals and ore and mining and quarrying constitute approximately 1/5 of the region's GRP. Manufacturing accounts for a almost 1/3 of GRP. If one takes into consideration the fact that most manufacturing in the regions can be attributed to processing of minerals and ore, Natural resources related heavy industry accounts for almost 1/2 of the regions GRP. The Murmansk Region is also a significant energy producer and the production and

### GDP vs. GRP growth



Source: Murmansk Regional Body of State Statistics Service, 2007 and the World Factbook

distribution of electricity, together with gas and water supply adds another 16 % to GRP.

When we compare the country's growth with the Murmansk Region's growth, we identify a common trend. Though the Murmansk Region has not had the same growth as we see on the national level, the rise and fall tendency has been approximately the same. Looking at the growth comparison in the graph above, we can see that the fall in the GRP has been steeper than in GDP during

### Gross regional product, at current basic prices, bln rubles

	2000	2001	2002	2003	2004	2005	2006
<b>GRP</b>	57,1	57,6	68,4	80,6	125	141,9	

Source: Murmansk Regional Body of State Statistics Service, 2007

### Consumer price indexes for the goods and service market

from December to December of the previous year %

	2000	2001	2002	2003	2004	2005	2006
<b>Total of goods and services</b>	<b>121,9</b>	<b>122,6</b>	<b>122,4</b>	<b>113,9</b>	<b>110,8</b>	<b>111</b>	<b>108,8</b>
Food and alcoholic beverages	115,7	116,5	114,4	112,5	111,7	109,9	109,7
Non-food goods	120,7	117,1	116,7	112,9	104,9	103,2	105,3
<del>Market services rendered to population</del>	143,1	152,3	153,3	119	116,9	122,4	111,1

Source: Murmansk Regional Body of State Statistics Service, 2007

<sup>11</sup> www.indexmundi.com

## Murmansk Region in the Economy of Russia in 2006

	Russia	Murmansk Region	Share of Murmansk Region in the Economy of Russia	The difference in % from 2005 to 2006	
				Russia	Murmansk
<b>GDP (trillion)/ GRP(billion)</b>	<b>38745</b>	<b>141,9</b>	<b>0,4 %</b>		
Area (Thsd. Km2)	17098,20	144,90	0,80		
Number of Population at the end of the year ('000 pers)	142221,00	864,60	0,60	99,60	99,10
Natural Increase/Decrease ('000 pers) per 1000 population, pers	-687,10	-2,50			
Per 1000 population	-4,80	-2,90			
Migration Increase/Decrease ( '000 pers)	154,50	-5,10			
Employed in the Economy, mln pers.	67,00	0,45	0,70	100,30	99,99
Unemployed officiaally registrated in a department of employment ('000 pers)	1742,00	17,60	1,00	95,20	90,30
All Pensioners, mln. Pers	38,30	0,24		100,00	100,50
Population money incomes per month, roubles	9947,00	12565,70		110,20	110,80
Average monthly wages and salaries per one employer, roubles	10634,00	15162,00		113,30	111,80
Average monthly granted pensions, roubles	2842,00	3833,60		102,70	103,30
Mining and Quarrying	3637,00	29,50	0,80	102,30	101,40
Manufacturing	10256,00	54,70	0,50	104,20	103,00
Electricity, gas and water supply	1865,00	26,20	1,40	104,20	103,00
Agriculturl output, bln roubles	1711,30	2,00	0,10	103,60	109,60
Transportation of cargoes by transport for genral use, mln.tons	3220,90	35,10	1,10	105,30	101,70
Marine Transport, mln.tons	16,00	6,60	41,20	94,10	96,60
Investments in fixed capital, bln roubles	4580,50	24,50	0,50	113,70	112,60
Retail trade turnover, bln. Roubles	8690,30	53,10	0,60	113,90	109,00
Paid services rendered to the population, bln.roubles	2798,80	27,70	1,00	107,60	107,10
Foreign trade turnover organizations, bln.US dollars	468,60	2,70	0,60	126,90	153,90
Export of goods	303,90	2,60	0,90	124,70	164,00
Import of goods	164,70	0,20	0,10	131,30	78,90
Index of consumer prices for goods and services				109,00	108,80
Index of prices for industrial goods from producers				110,40	155,20

Source: Murmansk Regional Body of Federal State Statistics Service 2007

two periods of falling growth. In the period from 2002 to 2003 is marked by a parallel rise in both GRP and GDP.

### Consumer price indexes and inflation

The consumer price indexes for the goods and service market tells us how the prices have changed in the Murmansk Region. The average trend shows that the consumer prices had an increase of around 15% per year until 2003. From 2003 to 2006 the yearly increase was a bit lower amounting to around 10%. This compares well to the inflation in the country in general.

### Employment

The number of people registered as employed in the Russian economy is 67 million with an official registered unemployment of 1.74 million. The share of employed population in the Murmansk Region amounts to 0.7% of the total employed population in the country. At the same time the region's unemployed population accounts for 1.0% of the national unemployed population. In reflection to the number of people living in the Murmansk Region, these numbers do not differ strongly from the expected, though the number of unemployed may seem to be a bit high compared to the fact that the regions only holds 0.6% of the population. The Murmansk Region distinguishes itself on the officially registered rate of unemployment. They have managed to turn the regional numbers in a positive direction with a 9.7% decrease from 2006 to 2005. As far as the national level is concerned, the same numbers shows a less optimistic decrease of 4.8%. On the other hand, the rate of

employment remains fairly stable at both the national and regional level.

### Trade

Looking at the trade figures, exports stand out as a growing activity. The Murmansk Region has experienced a 64 % increase in its exports from 2005 to 2006. The country's average growth for the same period amounts only to 24.7%. As regards imports, the numbers take us in a different direction. While the national import level increased 31.3% the previous year, the Murmansk Region was exposed to a 21.1% decrease in imports. Comparing this year with the preceding year, the region then had imported goods amounting to 0.2% of the country's total imports.<sup>12</sup> Today this percentage is cut to a mere 0.1%.

### Incomes

Concerning the difference in the population's real monetary incomes per month in per cent from 2005 to 2006 there is a notable growth both on the national level and in the Murmansk Region. While the general average had an increase of 10.2% the Murmansk Region experienced a raise of 10.8%. Evaluating average incomes against average salaries we can see that the income level in the Murmansk Region is higher than the national level. Then again, the average salaries are highest on the national level. The main reason for this is the advantage the population in the Murmansk Region has of living in the north. It is part of the country's strategy to attract and keep people in the region by giving them compensation in form of monetary benefits.<sup>13</sup>

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### Inflation Rates in %

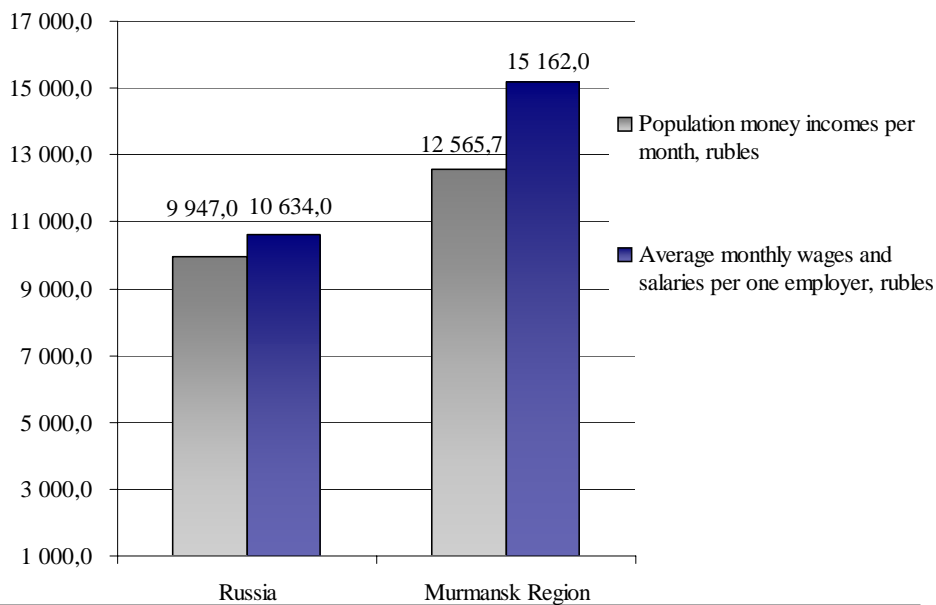
	2000	2001	2002	2003	2004	2005	2006	2007
Inflation rate	20,80	21,60	16,00	15,00	13,70	11,50	12,70	9,80

Source: *Index Mundi and World-Wide Tax*

<sup>12</sup> Murmansk Region in figures. Murmansk Regional Body of State Statistics Service, 2006. Page 11

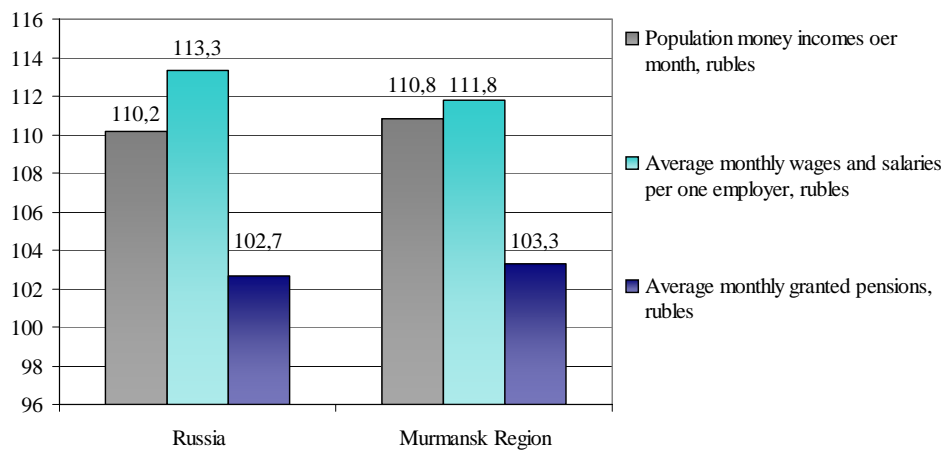
<sup>13</sup> Interview with Sergey Semenov, First Deputy of the head of Regional Economic Development Department

### Income and wage comparison 01.01.2007



Source: Murmansk Regional Body of State Statistics Service, 2007

### Difference in % from 2005 to 2006



Source: Murmansk Regional Body of State Statistics Service, 2007

# 3

## Unemployment, labour supply and human capital



### Synopsis

The movement of the population could be viewed as a basis for understanding the economic situation in a special area. Location of towns, numbers of people living in rural areas and the decrease in the total population could be factors that affect the Murmansk Region's economy.

The data explaining the breakdown of the population by types of education is also important if we are to understand the economic situation in the region. The number of people taking higher education tells us something about the level of qualified workforce in the area. In addition, the levels of education tell us a lot about the general public and their economic capability and priorities in distributing their available resources.

Unemployment is a factor that is, above all, relevant for the region's economy. Here, it is vital to distinguish between people looking for work, and people who do not/can not work because of age, poor health or other reasons. The total workforce in the region is an important element in the economic situation, along with the types of jobs available and their contribution to the economic picture.

## Population

As of 1 January 2007, the population of the Murmansk Region totalled 857,000 people. 91.3% of the population in the region lived in urban districts, while the remaining 8.7% lived in rural areas. Murmansk City is the biggest town in the Murmansk Region with a population of 317 500, or 37% of the whole region's population.

Numbers from the Murmansk Region, using 2001 as a starting point, shows a declining tendency in the population. The population fell by more than 60,000 people from 2001 to 2007. This number accounts for 7.1% of the region's inhabitants. In perspective, the reduction would have represented the population of a whole town or a district in the region.

Despite the drop, the lowest age group grew by 1% from 2005 to 2006. At this stage, men make up the majority of the population. This is in line with the natural birth rate figures, which show that more boys are born than are girls. In the age group between 5 and 24, there is a decrease in the population. This decrease occurred not only in the Murmansk Area, but in the entire country, and is related to the country's economic turn down at the beginning of the 1990's.

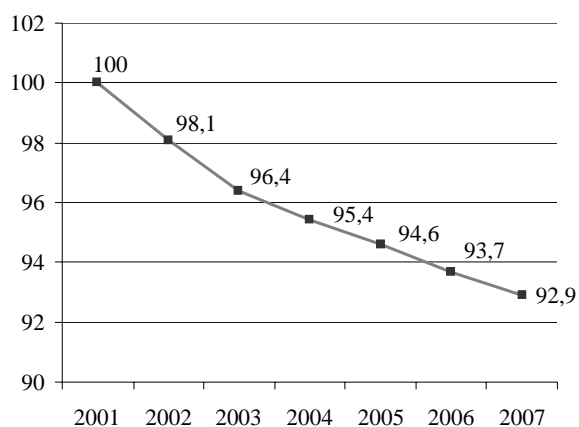
The dramatic decline in the population is becoming a problem for the country. In a speech to parliament on May 10, 2006, President Vladimir Putin called the situation "The most acute problem of

### Area and Population as of 1st January 2007 ('000)

	All Population	Urban	Rural
<b>Murmansk Region in Total</b>	<b>857,0</b>	<b>782,5</b>	<b>74,4</b>
Murmansk	317,5	317,5	
<b>Towns with subordinate Territories</b>			
Apatity	62,6	62,9	0,0
Kandalaksha	57,0	45,1	11,9
Kirovsk	33,4	30,6	2,8
Monchegorsk	52,6	49,4	3,2
Olenegorsk	32,4	23,1	9,3
Polyame Zori	18,4	15,6	2,8
<b>Districts</b>			
Kovador	22,9	19,7	3,3
Kola	50,3	37,5	13,0
Lovozero	13,2	9,6	3,7
Pechenga	45,3	36,5	8,6
Terski	6,5	5,6	0,9
<b>Zato</b>			
Vidyaevo	7,0		7,0
Zaozersk	13,3	13,3	
Ostrovnoy	4,5	4,4	0,1
Polyamy	17,0	16,9	0,1
Severomorsk	73,4	68,5	4,9
Skalisty	15,6	12,5	3,1
Snezhnogorsk	14,1	14,1	0,0

Source: Murmansk Regional Body of Federal Service of State Statistic, 2007

### Dynamics number of population as of January 1st, in per cent, (2001 = 100%)



Source: Murmansk Regional Body of State Statistics Service, 2007

## Distribution Population by Sex and Age

	All Population		Including			
	2007	2006 in % to 2005	Males		Females	
			2007	2007 in % to 2006	2007	2007 in % to 2006
0-4	43 108	100,7	22 154	100,7	20 954	100,6
5-9	38 745	99,6	19 887	99,7	18 858	99,5
10-14	41 965	93,4	21 709	93,4	20 256	93,4
15-19	75 230	93,7	43 075	94,9	32 155	92,1
20-24	79 710	101,0	45 595	100,1	34 115	102,3
25-29	77 078	99,0	41 550	99,4	35 528	98,6
30-34	72 598	101,3	37 585	101,1	35 013	101,6
35-39	62 592	100,3	32 200	100,2	30 392	100,4
40-44	66 899	93,9	33 042	94,5	33 857	93,3
45-49	77 570	99,1	36 175	99,3	41 395	99,0
50-54	70 962	99,2	30 797	99,5	40 165	99,0
55-59	55 315	105,5	22 743	105,2	32 572	105,7
60-64	23 229	100,1	8 782	100,5	14 447	99,9
65-69	32 769	101,6	10 556	102	22 213	101,4
70-	39 199	103,3	8 798	104	30 401	103,1
<b>Total</b>	<b>856 969</b>	<b>99,1</b>	<b>414 648</b>	<b>99,2</b>	<b>442 321</b>	<b>99,0</b>
<b>In the Age:</b>						
Younger than able to work	134 555	96,7	69 231	96,8	65 324	96,7
Able to work	594 645	98,9	317 281	99,2	277 364	98,5
Older than able to work	127 769	102,9	28 136	102,1	99 633	103,1

Source: Murmansk Regional Body of Federal Service of State Statistic, 2007

contemporary Russia".<sup>14</sup> The primary causes of Russia's population decline and the loss of about 700,000 to 800,000 citizens annually are high death rates, low birth rates, the high abortion rate, and a low level of immigration.

### Life expectancy at birth

On 1 January 2007 the average age of the population was 36.1 years; of which males 33.3 years, and females 38.8 years. The life expectancy at birth was 65.2 years; of which males 58.9 years and females 71.7 years.<sup>15</sup> It is claimed that the underlying reason for the difference in life expectancy is mainly the males' way of living. Heart diseases are

prevalent and the health care system is not working at its optimal level. Additionally, contamination, nutrition and accidents relating to unsafe working conditions also have an impact on life expectancy.<sup>16</sup>

Looking at the distribution of population in the Murmansk Region, the age difference between men and women under 65 years of age is obvious. Although there has been an increase for both genders, the share of males is significantly smaller than the females. The dissimilarity in life expectancy differs by 12.6 years from males to females.

<sup>14</sup> 4

<http://geography.about.com/od/obtainpopulationdata/a/russiapop.htm>

<sup>15</sup> Murmansk Regional Body of Federal Service of State Statistic, 2007. p.27

<sup>16</sup>

<http://norge.russland.ru/schlagzeilen/morenews.php?iditem=609>

<b>Natural changes and migration of population per 1000 population, persons, Murmansk Region</b>								
	1995	2000	2001	2002	2003	2004	2005	2006
<b>Natural increase and decrease</b>	<b>-3,2</b>	<b>-3</b>	<b>-3,1</b>	<b>-3,4</b>	<b>-4</b>	<b>-3,2</b>	<b>-3,6</b>	<b>-2,9</b>
Births	8,2	8,6	9,1	9,8	9,9	10,2	9,8	9,8
Deaths	11,4	11,6	12,2	13,2	19,9	13,4	13,4	12,7
in age under 1 year (per `000 births)	15,9	12,5	14,7	12,3	8,9	11	11,2	10,3
<b>Migration increase and decrease</b>	<b>-25</b>	<b>-16,5</b>	<b>-15,5</b>	<b>-14,3</b>	<b>-7,1</b>	<b>-5,1</b>	<b>-5,8</b>	<b>-6,0</b>
Immigration	51,1	39,4	39,5		20	19,3	18,1	19,3
Emigration	76,1	55,9	55		27,1	24,4	23,9	25,3

Source: Murmansk Regional Body of Federal Service of State Statistic, 2007

<b>Natural changes and migration of population per 1000 population, persons, Russia</b>					
	2003	2004	2005	2006	2007
<b>Natural increase and decrease</b>	<b>-3,9</b>	<b>-4,72</b>	<b>-4,72</b>	<b>-4,7</b>	<b>-5,12</b>
Births	10,09	9,8	9,8	9,95	10,92
Deaths	13,99	14,52	14,52	14,65	16,04

Source: [www.indexmundi.com](http://www.indexmundi.com)

### Low Birth Rate

The main reason for the low birth rates the last 20 years or so is the economic uncertainty the population has been facing. Understandably, economic hardship make having children in Russia harder and less attractive. The total fertility rate is low at 1.3 births per woman. This number represents the number of children each Russian woman gives birth to during her lifetime. The fertility rate needed to maintain a stable population is 2.1 births per woman. Obviously, with such a low total fertility rate, Russian women are contributing to a declining population. The birth rate in the country is also quite low; the basic birth rate was around 10 births per 1000 people in 2006. This corresponds to half of the world average of over 20 per 1000.<sup>17</sup> According to a Russian news source, there are more abortions than births in Russia. In 2005, 1.6 million women had abortions in Russia while 1.45 million gave birth.<sup>18</sup>

In the Murmansk Region, the birth rate is somewhat lower than the national level. The death rate for children under 1 year of age has been decreasing year by year, mainly due

to economic growth and thus the improvement of the healthcare system.

### Solution to the situation

The region's main goal in a long term perspective is to find ways to stop the declining trend in the population. One of the main efforts being made is to make the region more attractive to live in. From an economic point of view the region can tempt with higher incomes and economic benefits resulting from living in the north.

However, the region has two key solutions in focus; first is the fear of the shortage of qualified labour that already exists. The plan for solving this issue is to make the region more appealing for new entrants and thus attract a new workforce. The idea is to catch the attention of workers living in former Soviet countries and by so encourage to immigration. The second route the Murmansk Region sees as a solution to the ever-decreasing population is to encourage women to have more children. The way to do this will be through benefits and financial support.<sup>19</sup>

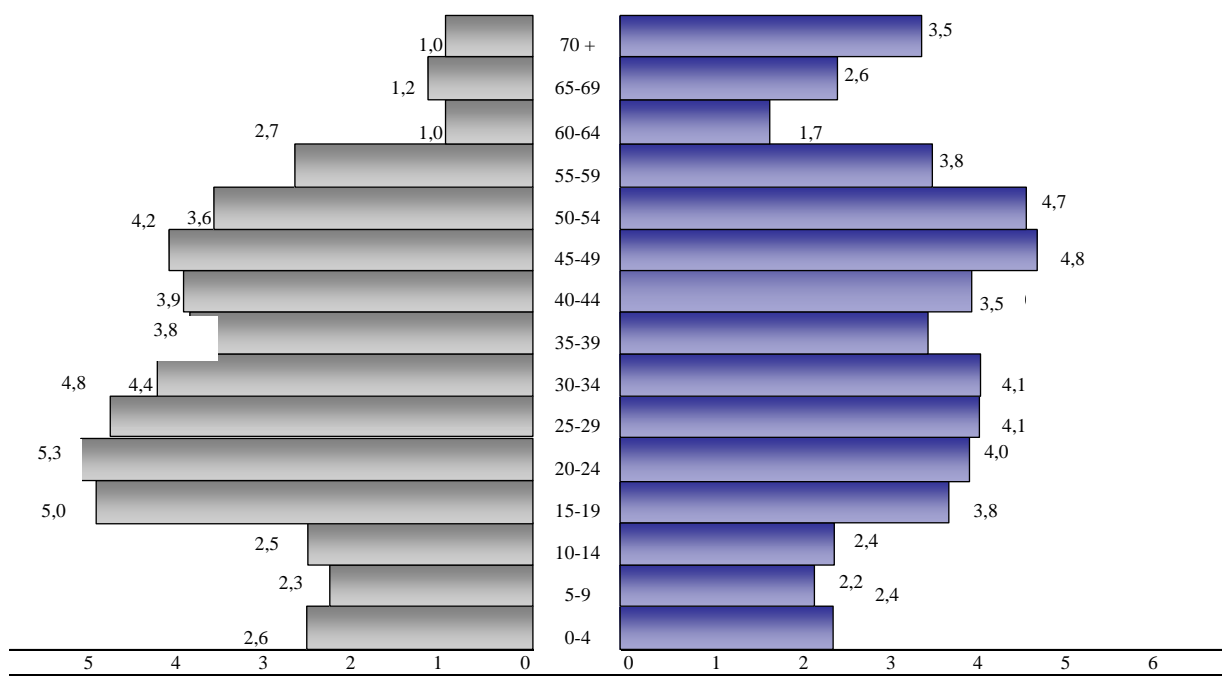
<sup>17</sup> [http://en.wikipedia.org/wiki/Birth\\_rate](http://en.wikipedia.org/wiki/Birth_rate)

<sup>18</sup>

<http://www.johnstonsarchive.net/policy/abortion/ab-russia.html>

<sup>19</sup> Interview with Sergey Semenov, First Deputy of the Head of Regional Economics Development Department in the Murmansk Region. November 2007

**Structure of population by sex and age as of January 1, 2007, in % to total, Murmansk Region**



Source: Murmansk Regional Body of Federal Service of State Statistic, 2007

## Education

The overall situation for the educational institutions over the past decade shows a diminishing trend in the number of institutions, while there is an increasing tendency for people to take higher education. The main reason for this has been the remarkable decrease in population and the improvement in efficiency in the society.

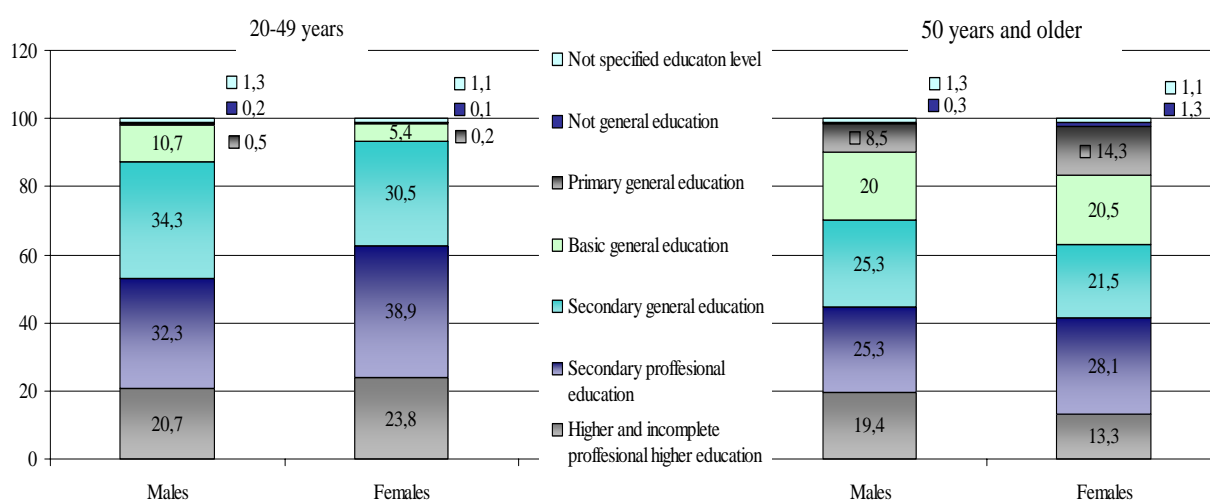
The general education institutions in the Murmansk Region have decreased in number from 274 schools in the academic year 1995/1996 to 237 schools in 2006/2007. This reduction corresponds to 13.5%. Based on the number of people undergoing general education, the 2006/2007 numbers show that there are 87.8 thousands pupils at this schooling level in the region. Compared to 1995/1996 the number has been halved. Conversely, the number of higher education institutes has risen from 3 to 4 from 1995/1996 to 2006/2007. In this case the branches of higher education have improved from 6 to 26 during the same period. In

1995/1996 only 8.6 thousand people took higher education, while in 2006/2007 there was 37.9 thousand people that were registered as students at the higher educational institutions in the Murmansk Region. The increase is interesting in relation to the region's future qualified workforce.

### Educational attainment

Dividing the population by gender and age group for those between 20 and 49 years old and for those above 50 years old, we can analyse the situation better. In the lowest age group the percentage of males with higher education is 20.7% while the percentage of females with this level of education is 23.8%. For the population above the age of 50 years, the corresponding percentages are 19.4% for males, and 13.3% for females. In the category "no formal general education", the over 50s have the highest numbers, 0.3% for males and 1.3% for females respectively. For the population between 20 and 49 years of age, there are 0.2% of the males and 0.1% of the females without a general education.

**Educational attainment of population in 2002, as % of the total of corresponding age group**



Source: Murmansk Regional Body of State Statistics Service, 2007

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## Education institutions at the beginning of a academic year

	1995/1996	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
<b>Number unit</b>								
General education institutions	274	265	263	259	254	246	240	237
Day time	255	248	246	242	238	230	224	221
Evening (shift)	19	17	17	17	16	16	16	16
Primary vocational institutions	26	26	26	25	25	22	21	19
Second vocational education institutions	11	12	12	12	12	13	13	14
Higher education institutions	3	4	4	4	4	4	4	4
Branches of higher education institutions	6	13	18	24	23	23	28	26
<b>Number of pupils, 000 persons</b>								
In general education institutions	175,6	141,9	132,7	123,0	112,7	103,2	94,6	87,8
Day time	170,4	137,6	128,8	119,3	109,2	99,6	91,0	84,3
Evening (shift)	5,2	4,3	3,9	3,7	3,5	3,7	3,6	3,5
In primary vocational institutions	11,1	11,0	10,9	10,5	10,3	10,1	10,2	9,6
In Secondary vocational education institutions	8,7	12,4	13,5	14,0	13,9	13,6	13,6	12,9
In higher education institutions	8,6	18,1	20,6	28,3	30,8	32,6	39,0	37,9

Source: Murmansk Regional Body of State Statistics Service, 2007

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## Employment

In the labour market in the Murmansk Region as of 1 January 2007, 445 800 persons were employed in the economy.<sup>20</sup> At the same time, the total population in the region was 857,000 people. This means that 52% of the inhabitants were officially working. Comparing the region's decreasing population with the employable population, there is a positive relationship.

While the population has decreased by 7.1%, the employable population has increased by almost 6.7% from 2001 to 01.01.2007.

Generally, economic restructuring, increasing investments and consumer demand growth have resulted in a need for a larger workforce. From 2003 to 2005 the number of employed people at the national level increased from 66.1 to 69.2 million people. In August 2006, Russia had an economically active population of 74.6 million people. 69.2 million were employed in the economy, while the remaining 5.4 million was actively seeking employment.<sup>21</sup>

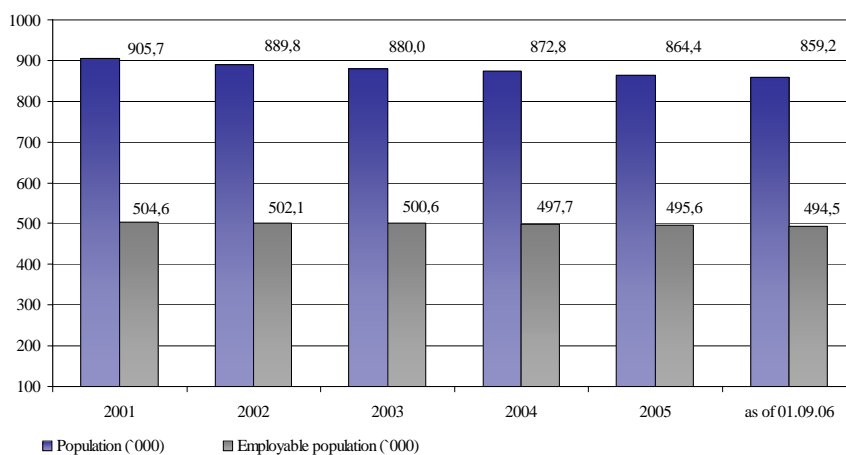
### Unemployment

2006 was characterised by the downward trend in general and in registered unemployment. This trend reflects the positive dynamics of the overall economic situation in Russia. Unemployed officially registered in the Department of Employment are, in this context, described as people seeking work. The labour force rate tells us

<sup>20</sup> Source: Murmansk Regional Body of State Statistics Service, 2007

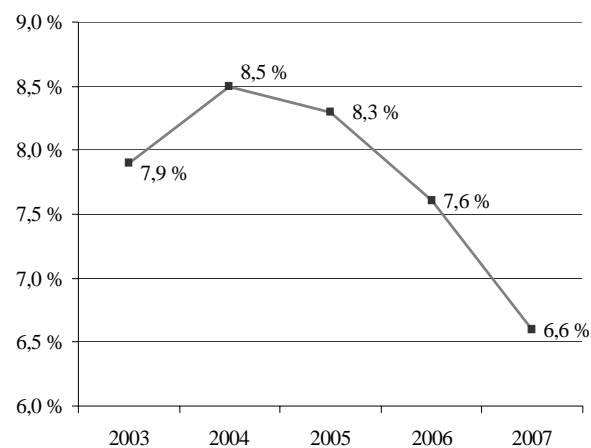
<sup>21</sup> ROSSTAT, Russian State Statistical Agency

**Employable population**



Source: Murmansk Regional Body of Federal Service of State Statistics, 2006

**Unemployment rate on the national level**



Source: index mundi, 2007

that out of all people of working age, 81.3% are actually working. In the labour market in the Murmansk Region at the end of 2000, the economically active population amounted to 542 300 persons. At the end of 2005, the corresponding number was 523 300. In other words, the unemployment decreased by 26.8% from 2000 to 2005. In 2006, the Murmansk Region had an official registered rate of unemployment of 3.4%. At the same time, the general level in the country was 8.3%.<sup>22</sup>

<sup>22</sup> www.indexmundi.com

## Labour force rate, employment rate and unemployment rate in % - 2006

	In the age15 - 72	In the age able to work
<b>Labour force rate</b>		
In the population of the respective age group	72,2	79,8
<b>Employment rate</b>		
Employed in the population of the respective age group	67,3	74,3
<b>Unemployment rate</b>		
Unemployment in the economically active population of the respective age group	6,7	7,0
<b>Unemployment officially registered rate</b>		
Unemployment officially registered in the economically active population	3,4	-

Source: Murmansk Regional Body of Federal State Statistics Services 2007

### Distribution of workforce

In Russia, the appraised working age for the population is from 16 to 59 years for males, and from 16 to 54 years for females. If we split the entire population into three groups, it is easier to understand the numbers quoted. At the beginning of 2007, there were 594 645 persons categorised as being able to work. Though there was a decrease of 1% from the previous year, the situation is stable, having in mind the decrease in the population. This group has 317 281 males and 277 364 females. Of the number of persons who are too young to work the number has decreased by 3.3%. On the other hand, the population that is too old to work has increased with 2.9%.

Based on the changes in the population, we can see that the decrease in birth rates affects the labour market. In some cases, unemployment rates may appear higher than

they actually are. The reason for this is the tendency for people and even small business not to be officially registered. By not being registered, they escape taxes and other expenses to the state. In other words, the country's black economy represents a major problem.

Putting the numbers into a graph with year 2000 as the basis point, we get an overview over the situation. The graph represents the entire population and does not take into account people who are unable to work.

Unemployment was reduced by 15.5% from 2005 to 2006. This alone is significant economic progress for the region. The number of persons employed in the economy is increasing and in 2006 was 2.2% higher than the basis year of 2000. Broadly speaking, the situation is shifting in a positive direction with an increase in

### Distribution of workforce in the Murmansk Region

In the Age	All Population		Including			
	2007	2006 in % to 2007	Males		Females	
			2007	2006 in % to 2007	2007	2006 in % to 2007
Younger than able to work	134 555	96,7	69 231	96,8	65 324	96,7
Able to work	594 645	98,9	317 281	99,2	277 364	98,5
Older than able to work	127 769	102,9	28 136	102,1	99 633	103,1

Source: Murmansk Regional Body of Federal Service of State Statistic, 2007

employment and a decrease in unemployment.

### Structure of economically active population in % of total

#### Types of Industry

There are many different types of industry in the Murmansk Region and the numbers of employees vary from activity to activity. In 2006 wholesale and retail trade had a total of 71 900 employees. Compared to the other fields of activity, this type of business accounts for more than 16% of employees in the region. The second largest economic activity is the transport and communication sector, accounting for 54 600 employees. Agriculture, hunting and forestry are the economic activities with the lowest share of the workforce. This sector employed 4 100 persons in 2006, or 0.92% of the Murmansk Region's total labour force.



Source: Murmansk Regional Body of State Statistics Service, 2007

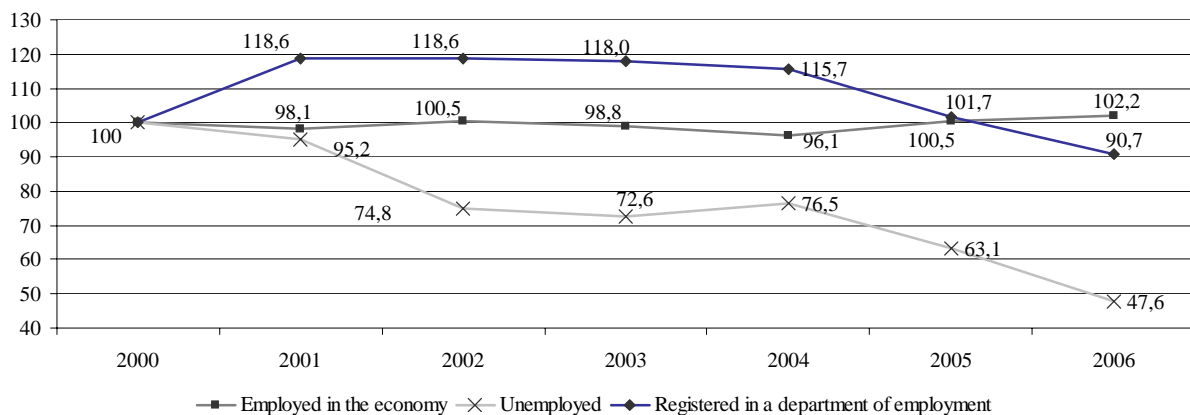
municipal ownership. The distribution of employed population by forms of stately ownership amounted to 44.1% in 2006. Compared to 2000 the number has decreased with 5%.

#### Distribution in form of ownership

In 2006, the majority of the employees in the Murmansk Region were employed in businesses owned by the state through

The percentage of employees in privately owned companies has increased by 8% from 2000 to 2006. This form of ownership is becoming more and more common in the Murmansk Region. Relatively few people work for companies with foreign ownership. From 2000 to 2006 the percentage rose by only 0.4%.

#### Dynamics of employed and unemployed population in the economy in % (2000=100%)



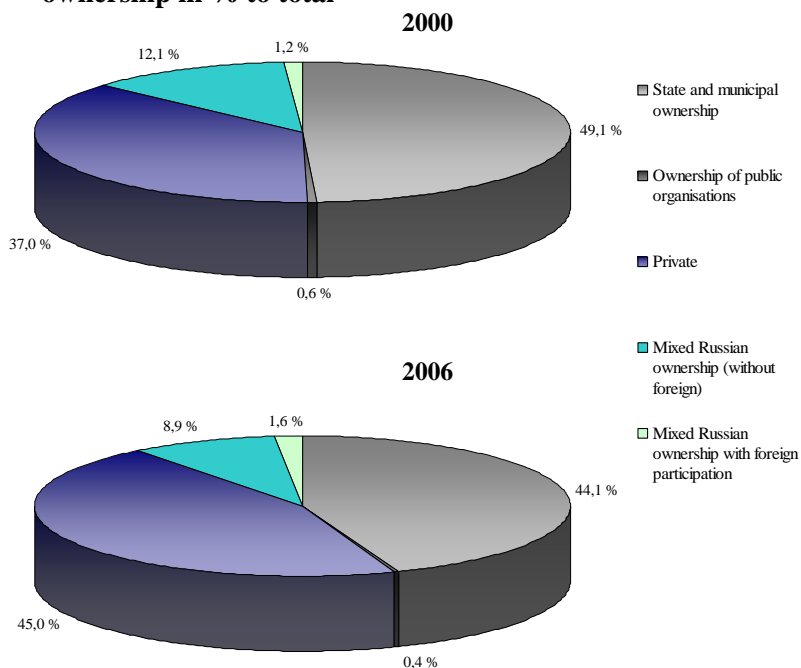
Source: Murmansk Regional Body of State Statistics Service, 2007

### Average Annual Number of Employees Distributed According to the Types of Economic Activities in 2005 in the Murmansk Region

Branch	Number of Employees ('000)	%
Wholesale and Retail Trade	71,9	16,13 %
Transport and communication	54,6	12,25 %
State Management and Military		
Safety Maintenance	40,8	9,15 %
Education	39,5	8,86 %
Health Care	36,6	8,21 %
Real Estate Operations and Leasing	31,8	7,13 %
Construction	23	5,16 %
Mining	21,8	4,89 %
Production and Distribution of Energy, Gas and Water	22,4	5,02 %
Community, Social and Individual Services	20	4,49 %
Fishing Industry	13	2,92 %
Hotels and Restaurants	9,3	2,09 %
Financial Activities	4,5	1,01 %
Agriculture, hunting and forestry	4,1	0,92 %
Other Branches	20	4,49 %
<b>Total</b>	<b>445,8</b>	<b>100 %</b>

Source: Murmansk Regional Body of Federal Service of State Statistic, 2007

### Distribution of employed population by forms of ownership in % to total



Source: Murmansk Regional Body of State Statistics Service, 2007

# 4

## Private economies and welfare



### Synopsis

This chapter looks at the private economy and how it affects the surroundings.

The average salary in the Murmansk Region has had an even and considerably high yearly increase. In 2006, the average monthly salary was approximately 15,000 roubles and is a sign that the middle class in the region is growing. Expenses, on the other hand, are also on the rise. The rate of inflation has an impact on market prices and demands more money of the private individual when he buys goods.

The financial standing of the private individual, public health indicators and crime statistics seem to point in the same direction. Disposable income is rising sharply and at the same time the availability of hospital beds is increasing. The demand for additional welfare benefits rises when people have more money to spend. Those who cannot afford the extra benefits may find illegal ways of acquiring the merchandise or services they need. As a result, crime statistics show a sharp rise in the number of thefts.

By comparing private income and expenses for an average consumer we find the unused cash that is left for alternative spending. This is both interesting and useful if we are to understand the economic picture in the Murmansk Region. Hence, when we add welfare indicators to the existing picture, the situation is seen from another perspective and gives meaning to the circumstances.

## Income and Expenses

### Income and Salary

The increase in income in the Murmansk Region, and in Russia as a whole, has had a major direct impact on the people. During a five-year period, the average monthly nominal salary in the Murmansk Region has quadrupled. In 2006 the average salary in the region had risen to 14 984 roubles a month. Compared to the average monthly salary in 2005 this was an increase of 16%.

In the table on the right, the average monthly salary is broken down by city and district. It is easy to see that there is an obvious disparity between the locations. Polyarne Zory is the town that distinguishes itself from the rest by having the highest average monthly salary. The explanation for this is the activity connected to the nuclear power plant in the area. The Lovozerskyi and the Terskyi districts are found at the bottom of the list, being communities with agriculture as the main basis for earnings.

Taking a closer look at the average salary for the different towns and districts in 2005 terms, we discover that neither the cities nor the districts were below the average salary on the national level, namely 8 550 roubles a month. The difference between average income and salary per month, as pointed out earlier is the country's strategy of giving economic benefits to attract and encourage people to live in the high north. When analysing the income figures we must have in mind the fact that a small number of people have high salaries and that this has a significant impact on statistics and gives us misleading answers.

### Average monthly nominal salary broken down by cities and districts Murmansk Region, 2005

	2000	2001	2002	2003	2004	2005
<b>Total, Murmansk</b>						
<b>Region</b>	<b>3,7</b>	<b>5,4</b>	<b>7,2</b>	<b>8,6</b>	<b>10,2</b>	<b>12,5</b>
Murmansk	4,5	5,8	7,6	9,2	10,9	13,2
<b>Citys within the jurisdiction</b>						
Apatity	3,0	4,0	5,5	6,8	8,4	10,5
Kansalaksha	4,2	5,6	7,3	9,1	10,9	12,3
Kirovsk	3,7	5,0	6,6	8,0	9,8	12,2
Monchegorsk	2,9	6,7	9,3	9,7	11,2	13,0
Olenogorsk	3,6	5,2	6,3	7,6	9,3	11,5
Polyarne Zory	6,1	8,9	12,9	17,3	18,2	21,2
<b>Districts</b>						
Kovdorskyi	4,3	5,9	7,5	8,5	9,6	12,3
Kolskyi	3,4	4,3	5,8	7,6	9,5	11,8
Lovozerskyi	2,8	4,0	5,2	6,2	7,3	9,3
Pechengsky	2,5	8,2	9,2	10,8	12,1	13,4
Terskyi	2,2	3,3	5,0	5,6	6,6	8,7

Source: DnB NOR Monchebank. Presentation 2007; Retail segmentation

### Indices of the population's income and average salary

	2004	2005	2006
<b>Real disposable income per capita in % of annual change</b>			
Murmansk Region	3,4	9,5	11,0
Russia	7,8	11,1	10,0
<b>Average salary per month in rubles (nominal)</b>			
Murmansk Region	10 404	12 522	14 984
Russia	6 828	8 550	10 736
<b>Ratio of average salaries (Murmansk Region/ Russia)</b>	1,52	1,46	1,39

Source: Murmanskstat, Murmansk Province in 2006, published by Kola Science Center, May 2007

In 2001, 61.6% of the people in the Murmansk Region had an average salary of between 0 and 5000 roubles per month. In other words; the majority of the population was to be found on the lowest rung of average monthly salary ladder in the region. At this time only 0.1% had an average salary between 50 and 75 thousand roubles, whilst none were registered with a salary above 75,000 roubles.

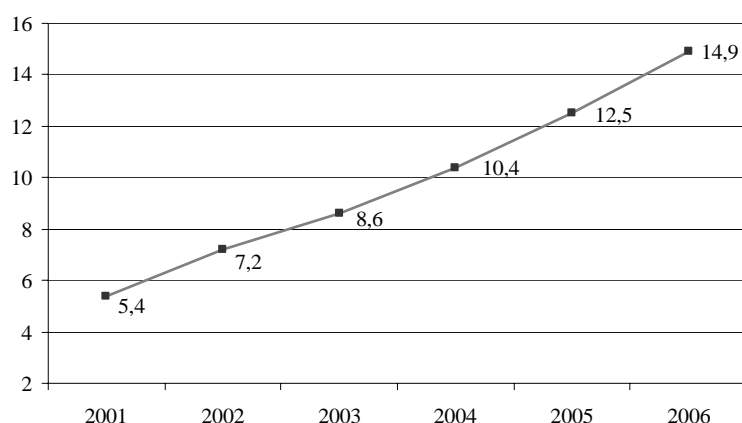
In contrast, the average salary for the majority of employees in 2006 was between 9 and 17 thousand roubles. This covers 36.5% of the population. Though this result matches the average monthly salary of 14 984 roubles, there may be some inequalities that must be taken into consideration. If we exclude the 1.5% of the population whose salary is 50 thousand or more, the average monthly salary for the Murmansk Region will be lower than indicated.

Employees with an average salary between 0 and 5000 roubles account for only 18.5 % of the population meaning that there has been a decrease corresponding to 43.1%. This is an improvement that shows the enhanced standard of living

From a general point of view there is a clear increase in salaries resulting in growing middle and upper classes. Although the annual increase may look tremendous, it is important to bear in mind the unstable inflation rate that has affected the economy.

The real disposable income per capita in 2006 was estimated at 11,000 roubles per month in the Murmansk Region, and 10,000 on the national level. Going deeper into the average monetary income per capita, by comparing the second quarter in 2006 to the same time period in 2005, the differences in the economy are easier to specify. The second quarter of 2006 shows that 546 400 people in the Murmansk Region had an

**Average Monthly Salary ('000 roubles)**



Source: Murmansk and the "Murmansk Province in 2006", published by Kola Science Center, May 2007

income that was below the average per capita income. This corresponds to 63% of the population. Going back to the same period in 2005, there is a 1% positive decrease, meaning that 10 300 people increased their income to the average level or above.

The minimal subsistence level in 2006 was 5 300 roubles per month compared to 5 100 in 2005. This is estimated as an absolute minimum for survival and will in most cases not be adequate. The location within the region will also have an effect inasmuch as the cost of living in a town automatically exceeds the cost of living in more rural areas. In the second quarter of 2005, 206 800 people in the Murmansk Region had a monetary income of less than 5000 roubles per month. One year later, the number had decreased to 131,000 people, meaning that 75 800 persons improved their income. On the other side of the income scale we find

**Structure of employees' bulk of the Murmansk Region by the size of accrued salaries**

Average Salary ('000 rub)	2001	2002	2003	2004	2005	2006
0-5	61,6	43,9	38,6	25,3	16,3	18,5
5-9	23,0	34,0	27,1	32,7	26,8	17,8
9-17	12,2	17,6	25,5	30,2	36,9	36,5
17-25	2,2	3,1	5,8	7,3	12,2	16,2
25-50	0,9	1,2	2,6	3,9	6,7	9,5
50-75	0,1	0,2	0,4	0,4	0,8	1,1
75-				0,2	0,3	0,4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: DnB NOR Monchebank. Presentation 2007; Retail segmentation

the group of people earning more than 15,000 roubles a month. This group has increased by 7.5% from the second quarter of 2005 to the same period in 2006. The groups in between these two apexes had monthly earnings from 5,000 to 10,000 roubles, and 10,000 to 15,000 roubles. Both of these groups have been quite stable in the period under review. The group of persons with an income of between 5000 and 10,000 roubles decreased by 2.1%, while persons with an income of 10,000 to 15,000 increased by 3.1%.

To sum up the income and salary situation in the Murmansk Region, we can clearly see that it has been improving and continuing to improve. At the same time, the rate of inflation is relatively high in the Russian and affects the market through higher consumer prices. Despite the degree of inflation, the overall situation shows an increase in the standard of living and also a real gross region product (GRP) of 2.4% for 2005.

#### Average level of accrued salary by type of economic activity

Analysing the salaries, we see that in 2006 all of the chosen activities experienced a positive growth. The financial sector is the sector that distinguishes itself from the rest in terms of monthly salary. With an average monthly salary of 30 264 roubles in 2006, the salary showed a nominal increase of 5,000 roubles from 2005. Employees working in the wholesale trade are the group with the lowest monthly average salary. Their salary increased by 1 303 roubles from 2005 to 2006. Comparing the average level for all the sectors in 2006 with 2005 there was a rise of 2 652 roubles. The average level for 2005 was 12 510 roubles, while in 2006 the average had reached 15 162 roubles. As the different sectors have extreme variations in wages paid to the employees, the average appraised salary will not be applicable to all. In fact, over half of the sectors listed do not meet the average level.

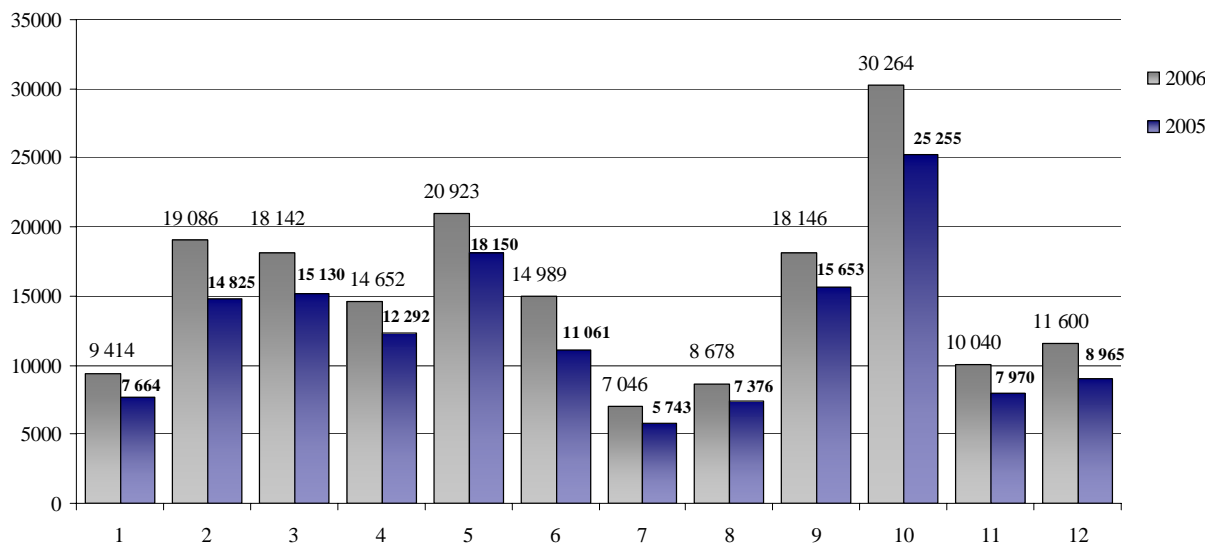
#### The Murmansk Region population break-down by the average monetary income per capita in 2q 2006 ('000 people)

	Second Quarter 2005		Second Quarter 2006		2q2006- 2q2005 diff
		%		%	
Less than 5 000 rub	206,8	23,7 %	131,0	15 %	- 75,8 (-8,5%)
5 000 - 10 000 rub	321,3	36,8 %	300,4	35 %	- 20,9 (-2,1%)
10 000 - 15 000 rub	170,2	19,5 %	195,8	23 %	25,6 (3,1%)
More than 15 000 rub	174,5	20,0 %	237,4	28 %	62,9 (7,5%)
<b>Total</b>	<b>872,8</b>	<b>100,0 %</b>	<b>864,6</b>	<b>100 %</b>	<b>- 8,2 (0,0%)</b>

	Second Quarter 2005	Second Quarter 2006	2q2006- 2q2005 diff
Average Income per Capita	10,6	12,6	2,0 (18,3%)
Population, whose income per capita less then average ('000 people)	556,7	546,4	- 10,3 (-1,9%)
Population, whose income per capita less than average (%)	64 %	63 %	-0,6%
Minimal Subsistence, 000' rub	5,1	5,3	

Source: DnB NOR Monchebank. Presentation 2007; Retail segmentation

**Average monthly nominal accrued wages of employees of organisations by kinds of economic activities in 2006 (rubles)**



Source: Murmansk Regional Body of State Statistics Service, 2006 and 2007

Average level of 2005 – 12 510 roubles

Average level of 2006 – 15 162 roubles

The economic sectors

- 1 Agriculture, hunting and forestry
- 2 Fisheries, fish farming
- 3 Mining and quarrying
- 4 Manufacturing
- 5 Electricity, gas and water supply
- 6 Construction

- 7 Wholesale and commission trade
- 8 Hotels and restaurants
- 9 Transport and communication
- 10 Financial services
- 11 Educations
- 12 Health and social work

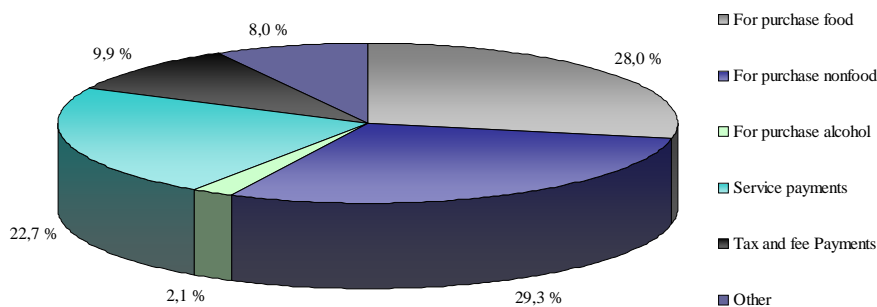
## Expenses

Looking at the income part alone does not give a correct picture of the private economy. Expenses cannot be ignored.

From 2001 to 2005, average expenses for an individual member of the private economy more than doubled, from 3,000 to 7 700 roubles a month. The consumer expenses have been split up into different types of consumption with a total decrease of 3.3% from 2001 to 2005. Food purchases decreased by 8.7% while the purchase of non-food items decreased by 1.9%. Consumer expenses related to the purchase of alcohol have been relatively stable at around 2%.

Service payments are the only expenses that have increased during this period. Increase in service is very close related to economic growth and welfare and has in this case increased with 7.6%.

### Expenses of Private Economics in 2005



Source: DnB NOR Monchebank, presentation 2007; Retail Segmentation

Tax and fee payments have been fairly stable at around 9-10%. The reason can be traced back to the introduction of a flat 13% income tax. Expenses categorised as “other” fell by 2.5%.

The average expenses for a person amounted to 7 700 roubles in 2005. This number includes consumer expenses that are listed above. In a four-year period, from 2001 to 2005, the average for a private individual has increased by 4 700 roubles.

## Expenses of Private Economies (at average for 1 member)

Average for 1 member of private economies

	2001	2002	2003	2004	2005
<b>Expenses ('000 rub)</b>	3,0	3,8	4,8	6,2	7,7

Average Structure of expenses of private economics

	2001	2002	2003	2004	2005
<b>Consumer Expenses</b>	85,4 %	84,5 %	81,4 %	80,1 %	82,1 %
For purchase food	36,7 %	34,2 %	32,7 %	29,5 %	28,0 %
For purchase nonfood	31,2 %	31,0 %	27,7 %	28,3 %	29,3 %
For purchase alcohol	2,4 %	2,1 %	2,1 %	2,0 %	2,1 %
Service payments	15,1 %	17,2 %	18,9 %	20,3 %	22,7 %
<b>Tax and fee Payments</b>	9,1 %	10,0 %	9,9 %	9,2 %	9,9 %
<b>Other</b>	5,5 %	5,5 %	8,7 %	10,7 %	8,0 %

Source: DnB NOR Monchebank. Presentation 2007; Retail segmentation

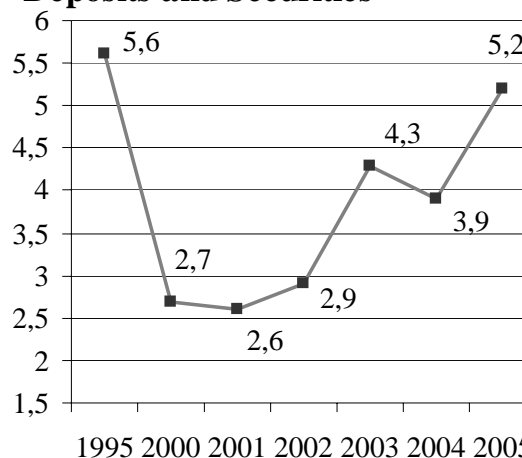
## Total Income and Expenses

In assessing the differences in income and expenses a correlation of data from the second quarters of 2006 and 2005 is used as the foundation. By reviewing the income and expenses of the private consumer we can find the balance and thus get a picture of the real growth in the buyer's market.

The biggest income post that makes a difference is the 3% increase in salaries amounting to 4 038 roubles. The income from property and currency selling is also an element that leads to higher income. In total, the income increased by 5 953 roubles. In the same period, expenses increased by 4 834 roubles. Savings, i.e. deposits and securities experienced a clear growth. The numbers from 2005 show that the share of savings was rapidly increasing and that it would exceed the level that existed before the bank crisis in 1998.

Putting these numbers into a balance sheet we can see that the result for the second quarter of 2005 is 4 003.6 roubles, while the result for the same period in 2006 was 5 122.3 roubles. In conclusion, we can see

## Accumulation of Savings on Deposits and Securities



Source: DnB NOR Monchebank. Presentation 2007; Retail segmentation

that the situation for the individual average person in the Murmansk Region has improved by 1 118.7 roubles.

## Structure of the population's total income and expenses in the Murmansk Region in second quarter 2006

	mln.rub				2q2006-2q2005
	2q2005	%	2q2006	%	Diff.
<b>Income, mln.rub.</b>	<b>27 817,6</b>	<b>100,0 %</b>	<b>33 770,6</b>	<b>100 %</b>	<b>5 953,0</b>
Salary	14 168,9	50,9 %	18 207,1	53,9 %	4 038,0 (3,0%)
From private business	3 642,1	13,1 %	4 079,1	12,1 %	437,0 (-1,0%)
Social payments	3 350,3	12,0 %	3 980,1	11,8 %	630,0 (-0,3%)
Income from property	417,4	1,5 %	744,3	2,2 %	327,0 (0,7%)
Currency selling	732,6	2,6 %	1 375,0	4,1 %	642,0 (1,4%)
Other	5 506,1	19,8 %	5 385,0	15,9 %	-121,0 (-3,9)
<b>Expenses, mln. rub.</b>	<b>23 814,0</b>	<b>100,0 %</b>	<b>28 648,3</b>	<b>100 %</b>	<b>4 834,0</b>
Purchase of goods and service payment	18 301,3	76,9 %	21 266,1	74,2 %	2 965,0 (-2,6%)
Tax and fee payments	2 569,5	10,8 %	3 178,5	11,1 %	609,0 (0,3%)
Savings	1 055,3	4,4 %	1 748,6	6,1 %	693,0 (1,7%)
Currency purchase	1 266,6	5,3 %	1 231,1	4,3 %	-35,0 (-1,0%)
Other	622,3	2,6 %	1 224,0	4,3 %	602,0 (1,7%)
<b>Balance</b>	<b>+ 4003,6</b>		<b>+ 5122,3</b>		<b>+ 1118,7</b>

Source: DnB NOR Monchebank. Presentation 2007; Retail segmentation

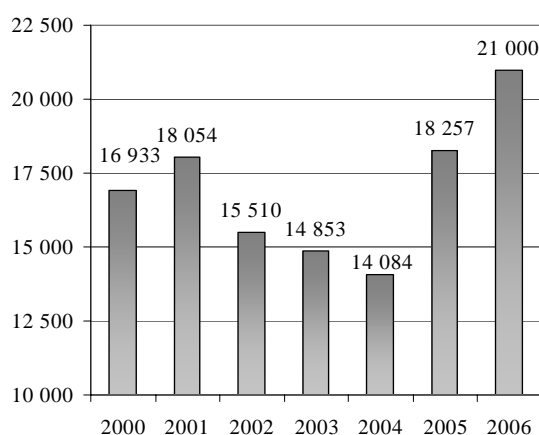
## Recorded Crime in the Murmansk Region

The present crime situation in the Murmansk Region is far from positive. With an annual crime rate growth coupled with a decreasing crime-solving rate, crime is on the rise. Corruption, organised crime and intoxicants like alcohol and drugs are some of the causes of crime in the area. The numbers of recorded crimes show that there has been a total 35.3% increase in crime from 2000 to 2006. While 18 257 criminal acts were recorded in 2005, newer statistics show that the number had increased to approximately 21,000 registered criminal acts in the region in 2006.<sup>23</sup>

It is important to emphasize that not all types of crime are increasing. The number of serious crimes, like murders and grievous bodily harm has fallen year by year. In 2006, the regional police claimed to have solved 9 out of 10 murder cases.<sup>24</sup>

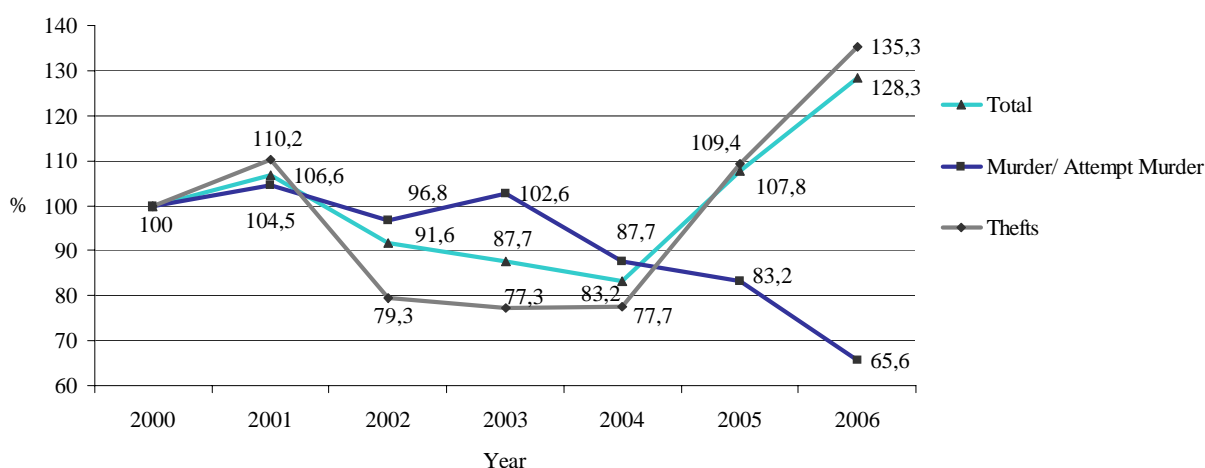
It is the less serious crimes, such as theft, robberies and fraud that are increasing drastically in the region. Comparing 2005 to 2006, the number of thefts rose by 26%. This high growth is affecting the community in the Murmansk Region in a negative manner. It is said that every seventh crime in the region was committed under the influence of alcohol and drugs.

**Number of Recorded Crimes**



Source: Murmansk Regional Body of Federal State Statistics Service, 2006

**Dynamics of Recorded Crime in %**



Source: Murmansk Regional Body of State Statistics Service, 2007

<sup>23</sup> Interview with the head of the regional police by Swedish radio, January 2007

<sup>24</sup> Referring to reference <sup>1</sup>

## Public Health

In 1995 the Murmansk Region had 52 hospitals with an aggregate 11 500 beds at their disposal. This represents 107.4 beds per 10,000 inhabitants. In 2006, the number of hospitals had fallen to 43 and the number of beds to 9 400, or 109.9 beds per 10,000 inhabitants.

The number of specialists and paramedics has decreased in line with the declining population. This decrease must be seen as a normal decline and quite natural under the circumstances. However, compared to 1995, the number of specialists per 10,000 inhabitants was higher in 2006. The same applies to paramedics that had had a potential rate of 134 per 10,000

inhabitants compared to 130.5 in 1995. The capacity of ambulatories and polyclinics in the region showed a positive development as regards the number of beds available. In 1995, there were 208.8 beds available, while in 2006 the number of beds had increased to 257.9.

### HIV and Aids

One thing that is threatening the Murmansk Region and the healthcare system is the increasing cases of HIV. In December 2007 2 292 were registered as infected by this disease. This number was 20% higher than at the same time last year with an increase of 348 new person infected.<sup>25</sup>

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## Main indicators at the end of a year

	1995	2000	2001	2002	2003	2004	2005	2006
<b>Number of hospital institutions, unit</b>	52	49	51	50	49	50	45	43
<b>Number of hospital beds, unit</b>								
Total ('000)*	11,5	10,6	10,6	10,1	10,0	9,9	9,7	9,4
Per 10 000 inhabitants	107,4	115,3	116,9	113,6	113,4	113,4	112,5	109,9
<b>Number of physicans of all spcialities, pers</b>								
Total ('000)	4,7	4,4	4,3	4,3	4,3	4,3	4,2	4,1
Per 10 000 inhabitants	44,2	48,0	47,8	48,4	48,6	49,0	48,7	48,3
<b>Number of paramedical personnel, pers</b>								
Total ('000)	13,9	12,3	12,1	12,2	11,9	11,9	11,7	11,5
Per 10 000 inhabitants	130,5	133,5	134,1	136,7	135,6	136,0	134,9	134,0
<b>Capacity of ambulatory and polyclinical institutions, visits per shift</b>								
Total ('000)	22,3	22,0	22,1	21,9	22,2	22,0	22,4	22,1
Per 10 000 inhabitants	208,8	238,4	243,9	246,5	251,8	252,6	259,4	257,9
Number of sanatoriums, unit	1	2	2	2	2	2	2	2
Number of beds (places)	50,0	257,0	360,0	390,0	408,0	424,0	377,0	377,0

\* Included the beds of day stay of patients in hospitals of the public health committee of Murmansk Region

Source: Murmansk Regional Body of State Statistics Service, 2007

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<sup>25</sup> Fredrik Norum, NRK, 05.12.07

# 5

## Investments, trade and infrastructure



### Synopsis

Today, the Murmansk Region is characterised by being at the centre of a major oil and gas project. It is claimed that the Shtokman field has enough gas to meet the entire energy requirements of a country on the size of Germany for 50 years. This particular project alone has opened for foreign investments worth billions of USD in the region.

Another thing that is important to consider in an assessment of the economic situation is the region's share of imports and exports. The fact that Russia, and especially the Murmansk Region, has a natural resource-based economy, means that exports of such resources play a central role in the region's economy.

With regards to investments and trade, the infrastructure in the region also plays an important role. It could be seen as a tool used to achieve a planned investment or a necessary trade and could as such be crucial in a given situation.

## Foreign Investments

As at 1 January 2007, Germany was the biggest investor in the Murmansk Region with a share of 74.4%. The reason for this is their contribution in clearing away nuclear reactors stored in the region. Norway and the Virgin Islands were the next biggest foreign investors in the region. Their activity was mainly connected to the fisheries and the telecom industries, and each accounted for about 7% of foreign investments.

The degree of contribution in the form of foreign investments depends heavily on the swing in the market and the circumstances associated to self-interest for the single country. Therefore, looking back at the level of foreign investments from 2000 to 2006, there is no nation that has a stable percentage of foreign investments in the Murmansk Region.

### Near future growth

As the region is wealthy in natural resources and transport opportunities, one envisages a growing interest from foreign investors in the future. Shtokman, the enormous gas field in the Barents Sea, has and will have a major

influence on foreign investments in the region. As both the French company Total and the Norwegian company StatoilHydro have been granted contracts in the development, the share of foreign investments will increase. In addition, sub-contractors from different countries will also be necessary as the entire Shtokman activity will call for a wide range of skilled workers from different industries. Suppliers of equipment and technology from different countries will also take advantage of this massive project and thus contribute to increasing the share of foreign investments in the Murmansk Region.

### Investments by sectors

In the reported economic sectors, the movements of real estate, renting and business activities are the ones with the highest volume amounting to 8% of the total investments in 2006. Activities like manufacturing and fish related industries follow up with respectively 7.8% and 7.4%.

Transport and communication is the listed sector with the lowest share of total investments. In 2006 this sector accounted for 0.9% of the total, compared to 21.4% of the total in 2005. In other words, the value of the

### Volume of foreign investments by main countries-investors

	2000		2004		2005		2006	
	USD (000')	In % of total	USD (000')	In % of total	USD (000')	In % of total	USD (000')	In % of total
<b>Total</b>	<b>43 998</b>	<b>100</b>	<b>14 950</b>	<b>100</b>	<b>29 424</b>	<b>100</b>	<b>101 929</b>	<b>100</b>
United Kingdom	1 506,0	3,4	582,0	3,9			1 627,0	1,6
Virginian Islands (UK)	210,0	0,5	2 243,0	15,0	5 998,0	20,4	7 137,0	7,0
Germany	1 535,0	3,5	-	-	117,0	0,4	75 837,0	74,4
Cyprus	15 597,0	35,4	2 157,0	14,4	7 625,0	25,9	3 401,0	3,3
Netherlands	191,0	0,4			2 800,0	9,5	46,0	0,1
Norway	15 309,0	34,8	5 301,0	35,5	4 114,0	14,0	6 887,0	6,8
USA			1 852,0	12,4	1 868,0	6,3	103,0	0,1
Finland	83,0	0,2	1 560,0	10,4			136,0	0,1
Sweden	1 170,0	2,7	308,0	2,1	820,0	2,8	15,0	-
Other countries	8 397,0	19,1	947,0	6,3	6 082,0	20,7	6 740,0	6,6

Source: Murmansk Regional Body of State Statistics Service, 2007

## Volume of foreign investments by kinds of economic activities

	2000		2004		2005		2006	
	USD (000')	In % of total	USD (000')	In % of total	USD (000')	In % of total	USD (000')	In % of total
<b>Total</b>	<b>43 998</b>	<b>100</b>	<b>14 950</b>	<b>100</b>	<b>29 424</b>	<b>100</b>	<b>101 929</b>	<b>100</b>
Fishing and fish farms	15 954,0	36,3	6 940,0	46,4	7 240,0	24,6	7 559,0	7,4
Manufacturing	10 002,0	22,7	2 822,0	18,9	2 307,0	7,8	7 964,0	7,8
Wholesale trade and commission trade	13 174,0	29,9	1 016,0	6,8	10 004,0	34,0	2 189,0	2,1
Transport and communication	3 156,0	7,2	2 628,0	17,6	6 293,0	21,4	920,0	0,9
Real estate, renting and business activities	1 575,0	3,6	1 358,0	9,1	3 478,0	11,8	8 104,0	8,0
Other countries	137,0	0,3	186,0	1,2	102,0	0,4	75 193,0	73,8

Source: Murmansk Regional Body of State Statistics Service, 2007

foreign investments related to transport and communication has decreased by USD 5 370,000. Looking back at the numbers from 2005, the structure of distribution has changed dramatically. The shares of the listed economic sectors all declined. In 2006, the accumulated sectors listed as “other” was the largest item on the list with 73.8% of total foreign investments and is related to Germany’s investment in elimination of nuclear materials.

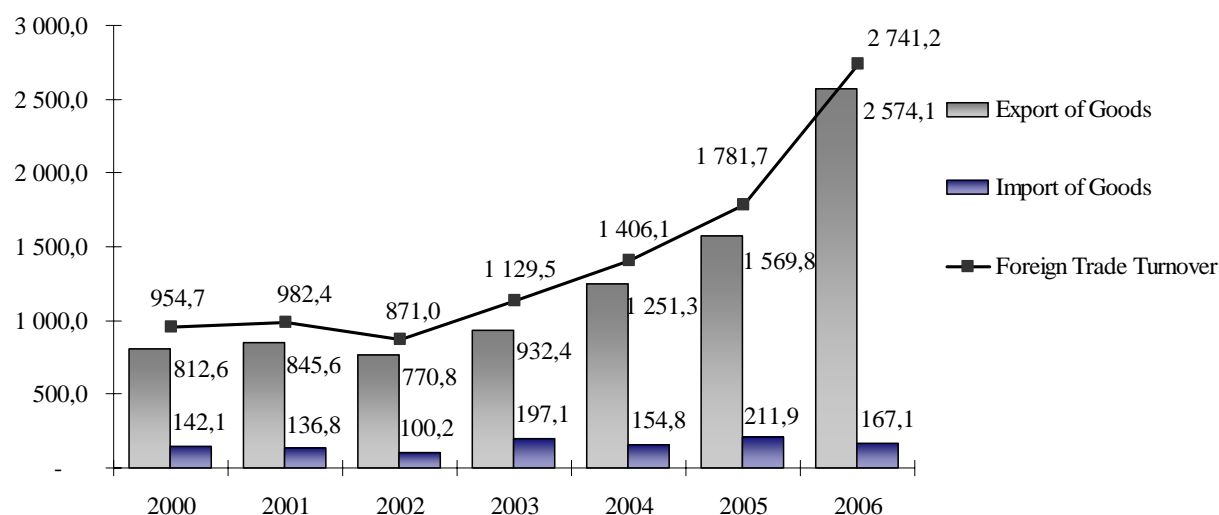
### Foreign trade turnover

While the region has experienced a

remarkable growth in the export of goods, the import side has slowly decreased. In fact, exports of goods went from a foreign trade turnover of USD 1.78 million in 2005 to USD 2,74 million in 2006. That is an increase of 150%. Although, there was a decrease in the import of goods, the graph below shows that imports to the Murmansk Region have been comparatively stable since the year 2000.

Russia’s primary export commodities are natural gas, petroleum, chemicals, metals and wood products. From 2002 to 2006

### Changes of external trade turnover of organisations in million USD



Source: Murmansk Regional Body of State Statistics Service, 2007

Russian exports increased by USD 213,000,000,000. This corresponds to a growth rate of 300%.

### Export from the Murmansk Region

Exports from the Murmansk Region consist mainly of raw materials. The main export items are nickel and nickel products, apatite concentrate, copper and copper products, aluminium, ferrous metals and their derivatives. In addition, fish and other sea products are an important export item especially for Murmansk city.<sup>26</sup>

In 2006, the foreign trade turnover grew considerably due to the sharp growth in revenues from commodity exports. Exports increased 64% compared to 2005, and the total value exceeded USD 2.5 billion. The main reason for this growth was the price rises for commodities and non-ferrous metals. Contract prices for copper rose by 75%, for nickel by 40% and for aluminium by 37%.<sup>27</sup>

### Commodity structure

Although the Murmansk Region is what we can call a “natural resource county”, the share of exported goods is no longer dominated of these kinds of products. As of 1 January 2007, the Murmansk Region’s most important exports consisted of food and agricultural raw materials. With currently 66.3% of the total export being these types of goods the figure has risen constantly from 2000 to 2006. The main product in this category is related to fish farming, and industry and this seems to be growing rapidly.

Mineral and metal products exports both experienced a decline from 2005 to 2006. The decrease was 9.2% for the mineral products, and 3% for the metal goods

### Export in the Murmansk Region

Year	Exports	% Change
2000	\$812 600 000	
2001	\$845 600 000	4,06 %
2002	\$770 800 000	-8,85 %
2003	\$932 400 000	20,97 %
2004	\$1 251 300 000	34,20 %
2005	\$1 569 800 000	25,45 %
2006	\$2 574 100 000	63,98 %

*Source: Murmansk Regional Body of Federal State Statistics Service, 2007*

respectively. In the category listed as “other goods”, exports fell from 6.9% in 2000 to 1.5% in 2006.

### Murmansk Region as part of the National Export

As we have seen, both the national and the regional export levels experienced a considerable increase. The goods traded by the Murmansk Region and by Russia in general are much the same. The Murmansk Region accounted for 0.86% of total Russian exports in 2006. The regional level had an import value of USD 2.7 billion, while the value of the total Russian export was reported as USD 317.6 billion. This percentage was the highest since 2002 and a 13% increase since 2005. The regional level had a huge increase, over 170% from 2005 to 2006, while the national level in the same period reported an increase of 130%.

Despite the fact that the previous year’s growth on the regional level exceeded the national level, the share of exports in the Murmansk Region is relatively insignificant compared to the Russian level of export.

<sup>26</sup> Interview with Evageny Alexeev, Head of Foreign Trade Division, November 2007.

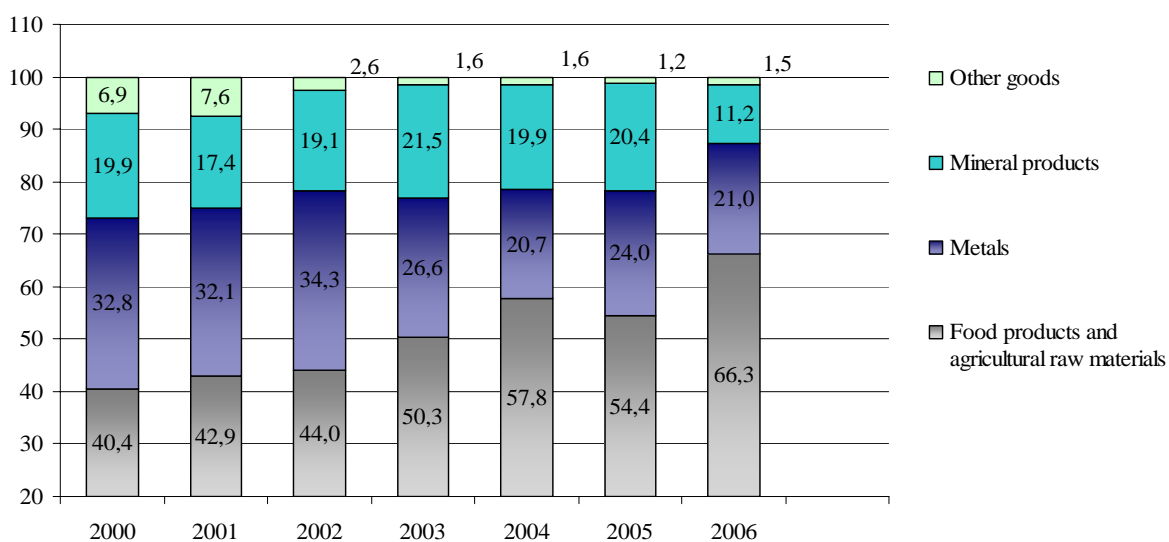
<sup>27</sup> Murmansk Province in 2006. Biannual monitoring review. Kola Science Center. Published May 2007.

## Murmansk Region as a part of the National Export

Year	Russia	Murmansk Region	Murmansk Region in % of the Russian Export
2002	\$104 600 000 000	\$770 800 000	0,74 %
2003	\$134 400 000 000	\$932 400 000	0,69 %
2004	\$162 500 000 000	\$1 251 300 000	0,77 %
2005	\$245 000 000 000	\$1 569 800 000	0,64 %
2006	\$317 600 000 000	\$2 741 200 000	0,86 %

Source: The World Factbook and Murmansk Regional Body of Federal State Statistics Service, 2007

## Commodity structure of export as % of the total



Source: Murmansk Regional Body of State Statistics Service, 2007

## Import

In 2006, Russian imports increased by 37.2% compared to 2005, and amounted to USD 171.5 billion. The trend in the import market shows a huge annual growth. From 2000 to 2006 the value of the national import has grown by USD 110.8 billion.

### Import in the Murmansk Region

	Imports	% Change
2000	\$142 100 000	
2001	\$136 800 000	-3,73 %
2002	\$100 200 000	-26,75 %
2003	\$197 100 000	96,71 %
2004	\$154 800 000	-21,46 %
2005	\$211 900 000	36,89 %
2006	\$167 100 000	-21,14 %

*Source: Murmansk Regional Body of Federal State Statistics Service, 2007*

The reason for this enormous import is the country's high industrial growth rate, the strengthening of the rouble and the nation's need for modern technology and equipment. Though it may look like a positive path, it is claimed that the explosive growth may be dangerous for the Russian economy. It could be a threat to the normal import substitution, and also for the inflow of capital into non-competitive industry sectors. Additionally, it could cause lack of motivation for national research and development activity, as well as innovations.<sup>28</sup>

### Imports into the Murmansk Region

The import situation in the Murmansk Region is quite different from the national level. While the general level increases at a high rate each year, imports in the Murmansk region are unstable. Looking at the situation in the region from 2000 to 2006, there have been some ups and downs. From 2002 to 2006 imports have fluctuated a great deal with an increase one year and a decrease the next. In 2006 imported goods in the Murmansk Region amounted to USD 167.1 million or a decrease of 21.14% from 2005.

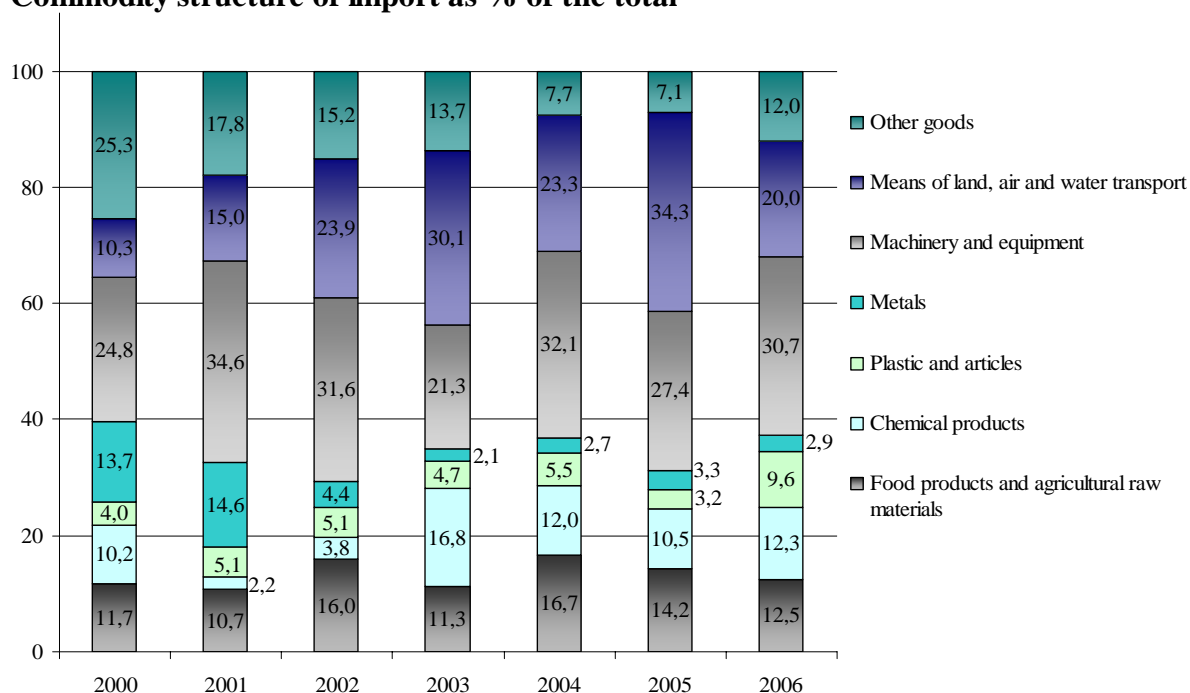
### Commodity structure

The aggregate share of food products, mechanical and electronic equipment, and chemical products of the total volume of annual imports has constantly exceeded 60% in the Murmansk Region. Also at the national level, the import of machinery and equipment is the largest import element in the region in 2006. The share of machinery and equipment has been a more or less stable amounting for around 30% of the total import in the area.

Of imported goods, it is assets related to transportation that have varied most. From 2000 to 2006 the percentage of transport related goods has been between 10% and 30% of the region's total import.

<sup>28</sup>

### Commodity structure of import as % of the total



Source: Murmansk Regional Body of State Statistics Service, 2007

### Murmansk Region as part of the national import

Considering the Murmansk Region's contribution to the national level of import puts the situation into perspective and it is easier to understand the value of the reported figures.

The Murmansk Region's share of Russian import amounted to 0.10% in 2006. With USD 167.1 million compared to USD 171.5 billion, the regional level had more or less no impact on the general import level.

In the period from 2002 to 2006, 2003 was the year when the region had the highest share of imports, amounting to 0.26% of the national level. The varied amount of import in the region is visible in the comparison with the general level. Comparing the regional share in 2003 with the same share of 2006, the difference in the impact on the national import deviates by 0.16%.

### Murmansk Region as a part of the National Import

Year	Russia	Murmansk Region	Murmansk Region in % of the Russian Import
2002	\$60 700 000 000	\$100 200 000	0,17 %
2003	\$74 800 000 000	\$197 100 000	0,26 %
2004	\$92 910 000 000	\$154 800 000	0,17 %
2005	\$125 000 000 000	\$211 900 000	0,17 %
2006	\$171 500 000 000	\$167 100 000	0,10 %

Source: The World Factbook and Murmansk Regional Body of Federal State Statistics Service, 2007

## Infrastructure

The infrastructure network in the Murmansk Region consists of railways, roads, waterways and flight connections. Railways and waterways dominate the transport of goods, while flight traffic is the leading method of transporting people. Flight traffic is important to the population in the Murmansk Region due to long distances and the fact that it often provides the only connection to a number of isolated northern communities.<sup>29</sup>

### Transportation of cargo

Transportation of general cargo, in million tons, has been relatively stable from 2000 through 2006 with an average of 32.8 million tons per year. In 2006, companies providing transportation services carried 35.1 million tons of cargo, which was an increase of 3.7% from 2005.

The railway is still the most important way of transporting goods in the Murmansk Region. In 2006 a slight increase of 1% occurred in rail transport as a result of an increase in the traffic of iron ore concentrate.<sup>30</sup>

### Transportation overview

	1995	2000	2001	2002	2003	2004	2005	2006
Freight shipments by public transport, mln.tons	39,60	32,10	30,90	30,90	32,30	34,20	33,90	35,10
Passenger traffic by public transport, mln. persons	364,30	377,30	372,90	364,50	352,20	353,00	140,00	134,70

Source: Murmansk Regional Body of State Statistics Service, 2007

Freight by road decreased significantly from 2000 to 2006. From transporting 2.8 million tons in 2000, the amount fell to 1.3 million tons in 2006. In 2005 the transportation of cargo reached its lowest level, only 0.7 million tons. Although the 2006 level was considerable lower than the level in 2000, the increase from 2005 to 2006 amounted to 87%.

Marine transport has been relatively stable at around 6-7 million tons per year since the middle of the 1990's, though with a decrease in the period from 2000 to 2002. The port of Murmansk is planned to be upgraded and modernised in the near future as the harbour could be an important factor in transportation of oil and gas. Transportation by air has been more or less stable since the beginning of this century. Looking back on the 1995 figures, air transport amounted to 2.3 thousand tons.

### Freight shipments by public transport mode, thousand tons

	1995	2000	2001	2002	2003	2004	2005	2006
<b>Total</b>	<b>39 563,3</b>	<b>32 073,7</b>	<b>30 926,2</b>	<b>30 945,3</b>	<b>32 347,8</b>	<b>34 183,0</b>	<b>33 854,6</b>	<b>35 133,3</b>
Railway	23 690,0	24 660,0	24 426,0	24 826,0	25 637,0	26 283,0	27 009,0	27 209,0
Road	9 537,7	2 751,3	2 172,3	1 497,0	901,2	760,0	713,6	1 334,5
Marine	6 333,3	4 662,0	4 327,5	4 622,0	5 809,1	7 139,6	6 131,7	6 589,4
Air	2,3	0,4	0,4	0,4	0,5	0,4	0,3	0,4

Source: Murmansk Regional Body of State Statistics Service, 2007

<sup>29</sup> Barentsinfo

<sup>30</sup> Murmansk Province in 2006. Biannual monitoring review published by Kola Science Center, May 2007.

## Passenger traffic by kinds of public transport mode, million persons

	1995	2000	2001	2002	2003	2004	2005	2006
Total	364,2	377,3	372,9	364,5	352,2	353	140*	134,7
Railway	3,1	2,3	2,2	1,9	1,9	1,9	1,4	1,4
in suburban communication	1,8	1	1	0,8	1	0,8	0,3	0,2
Buses	267	253,2	249,2	245,6	233,4	232,5	74,4	69,5
Taxi (000')	1805	680	498,5	488,9	376			
Trolleybuses	91,6	120,5	120,4	115,9	115,9	118	63,6	63,3
Marine (000')	470,1	437,8	448,3	467	466,5	401	395,2	367,1
Air (000')	311,1	122,1	127,8	138,5	154,4	168,7	154,5	153,1

Source: Murmansk Regional Body of State Statistics Service, 2007

\*) Since 2005 - methodology was changed

### Transportation of passengers

It is difficult to analyse total passenger traffic because the methodology was changed in 2005. In generally, all forms of passenger traffic have experienced a decline.

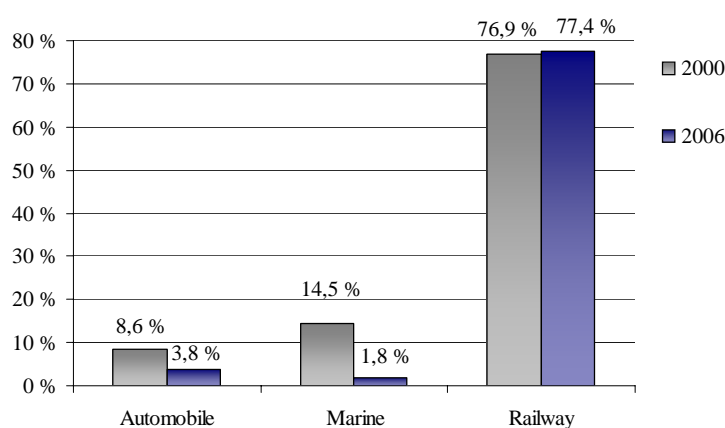
### Length of transport lines

In practice, transport lines in the Murmansk Region have not had any particular expansion during the 11-year period from 1995 to 2006. Instead, the infrastructure situation in the region has had a negative development, with little renewal and improvement.

Highways in the region have been shortened by 780 km from 1995 to 2006. Comparing the number of highways to the number of hard surface roads, there is still a positive improvement. Though the length of highways is decreasing, the number of those which are hard surfaced is growing.

The number of trolleybus lines has been stable since 1995, with trolleybuses operating only in the centre of Murmansk City. The presence of cars in the Murmansk Region is constantly growing. From 2000 to 2006 the number of vehicles increased by 30%. At the same time, the number of private people who own their own car has increased by 40%.

### Structure of transportations of cargoes by public transport mode as % of total



Source: Murmansk Regional Body of State Statistics Service, 2007

### Length of transport lines, presence of rolling stock in the end of a year

	1995	2000	2001	2002	2003	2004	2005	2006
<b>Length of transport lines, km</b>								
Public railroad tracks	933,0	891,0	891,0	891,0	892,0	870,0	870,0	870,0
Motor roads	4 185,0	4 342,0	4 277,0	4 369,0	3 630,0	3 496,0	3 518,0	3 405,0
Hard surface roads	3 438,0	3 614,0	3 590,0	3 669,0	3 083,0	2 974,0	3 003,0	3 041,0
Trolleybus lines	32,9	32,9	32,9	32,9	32,9	32,9	32,9	32,9
<b>Presence of automobile transport, stock (000')</b>								
Total	147,2	152,2	155,8	165,7	174,7	180,0	184,2	191,6
of individual owners	127,0	137,6	141,6	151,1	160,0	166,3	170,6	178,0

Source: Murmansk Regional Body of State Statistics Service, 2007

## Conclusion

Based on the statistics provided, this report shows that the Murmansk Region has improved their position as a part of the Russian economy. It is presented a variety of data to obtain a broad picture of the situation. There are different reasons for the economic growth. Some are more important than others.

The fact that the Russian Federation and particularly the Murmansk Region have a great diversity of natural resources means that they are very sensitive in swings of the world's energy prices. As the oil prices has increased to a high level of almost 95 USD per barrel in late 2007, there is no doubt that this has had an impact on the total economy.

On a more regional level, statistics shows that there has been improved efficiency in the labour market in the Murmansk Region. As an underlying reason for the economic growth the unemployment rate is decreasing at the same time as the life expectancy is extended. In addition, the working conditions for the general employed are improved and are resulting in effectiveness in accomplishing the work required.

Despite the positive trends mention, the Murmansk Region still face some challenges preventing the economic growth. The decrease in population is maybe the most important factor that will impact on future economic growth. High death rates mixed with low birth rates is diminishing the human capital available. With a decline in population of over 7% from 2001 to 2006, the Murmansk Region is in presence of losing valuable labour.

Other challenges delaying the economic development in the region is the condition of the infrastructure network. While the trade is increasing, the improvement and maintenance of the transportation possibilities is not corresponding to the optimal level.

The prognoses of the economic situation in the Murmansk Region the next years will according to the trends in the statistics provided in this report continue to grow. With knowledge of the huge Shtokman field of gas that is to be processed the up-coming years, there is no doubt that the Murmansk Region will get beneficial goods in term of economic expansion.

Though there are some drawbacks and challenges, the overall economic situation in the Murmansk Region is constructive and fast growing

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