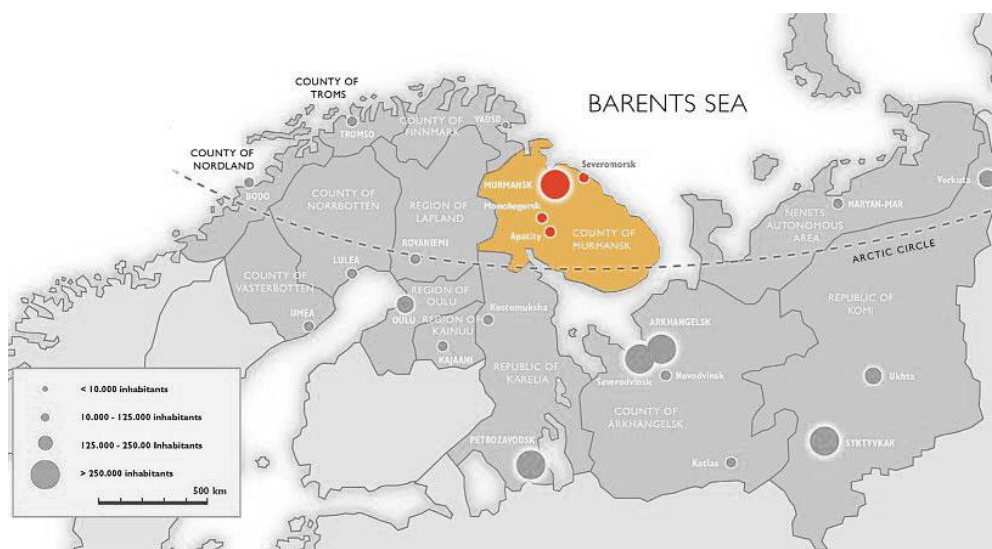


Barents Monitoring Murmansk Oblast 2008

The Social-Economic Development of Murmansk Oblast in 2008¹

Murmansk oblast. General information.

Territory:	144,900 sq. km. (0,8% of the territory of Russia)
Population:	842,500 people
Population density:	5, 8 per sq. km.
Level of urbanization:	91 %
Ethnic structure:	85,25 % Russians 6,37 % Ukrainians 2,28 % Byelorussians 0,89 % Tatars 0,2 % Saami
GRP:	195 billion rubles (average estimation)
Main cities:	Murmansk - 311, 200 people Apatity – 61, 600 people Severomorsk – 53, 500 people Monchegorsk – 48, 100 people
Main industries:	mining industry, fishery, energy complex and transport complex



¹ This report is written by the Murmansk office of the Norwegian Barents Secretariat. Figures are taken primarily from the Murmansk regional statistics service.

Trends

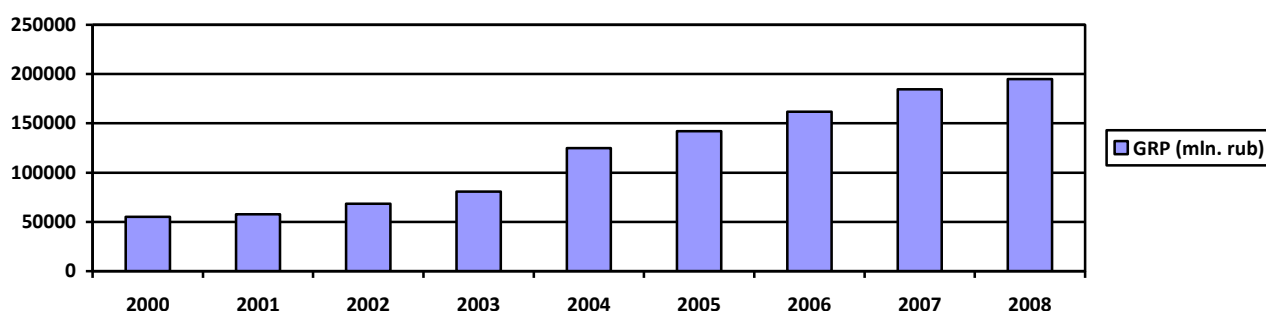
In general, year 2008 developed quite positively for Murmansk Oblast. The impact of the global financial crisis was felt only in the last quarter of the year. The positive dynamics accumulated throughout the first half of the year enabled the region to preserve 97% of production level of the previous year.

Metallurgy and raw materials industry have suffered most from the crisis. The major part of enterprises in this sphere are export-oriented what makes them dependant on world market and vulnerable in the context of global crisis. The industry makes up 45% of the regional economy and provides 25% of work places. Thus, the situation within these sectors considerably affects the social situation in the region.

Still it should be noted that other sectors of economy as well as those which are mostly oriented on domestic demand have preserved positive dynamics by the end of the year.

The gross regional product in 2007 totaled 184,5 billion rubles, which is an increase of about 250 percent compared to 2000. The growth continued in 2008. There are no official figures on GRP in 2008, however forecasts given by the Murmansk regional government indicate a gross regional product of about 195 billion rubles.

Diagram 1.1 The gross regional product 2000 - 2008



INDUSTRIAL PRODUCTION

On the whole, the index number of industrial production throughout 2008 equals to 97.3 % (compared to 2007). The influence of the world financial crisis to its full extent was experienced by industrial enterprises in November 2008, when there was a big production drop. That was however somewhat normalized already the following month. Nevertheless, the volume of output/production was much lower than in 2007 and it still keeps decreasing. Preliminary estimates made by the Murmansk Oblast Government show that the decline in production in the first quarter of 2009 will total 10% compared to 2008 figures.

Diagram 2.1 Investments in the main capital (million rubles)

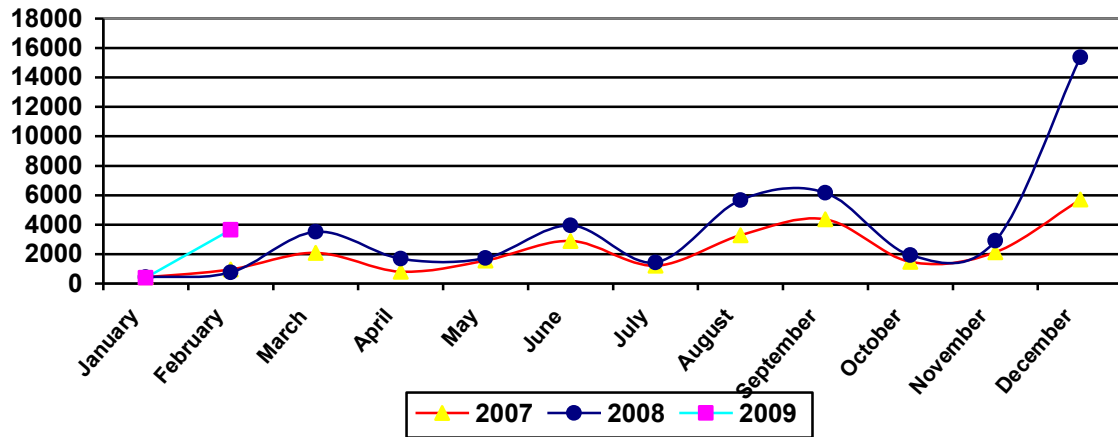


Diagram 2.2 Accumulation of the industrial production index growth in 1999-2008

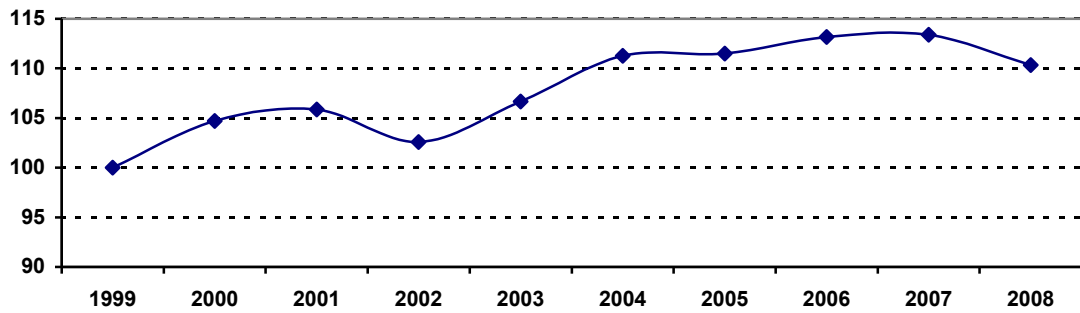


Diagram 2.3 Industrial production index in 2008-2009

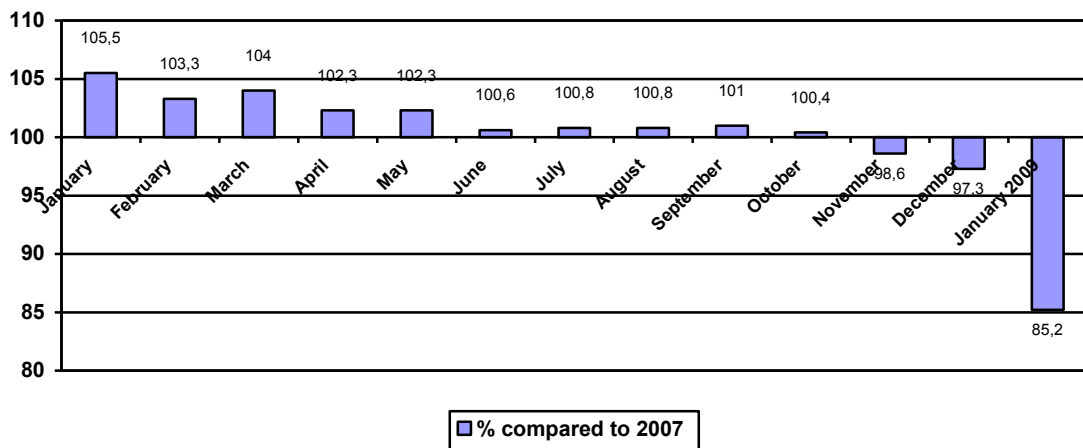
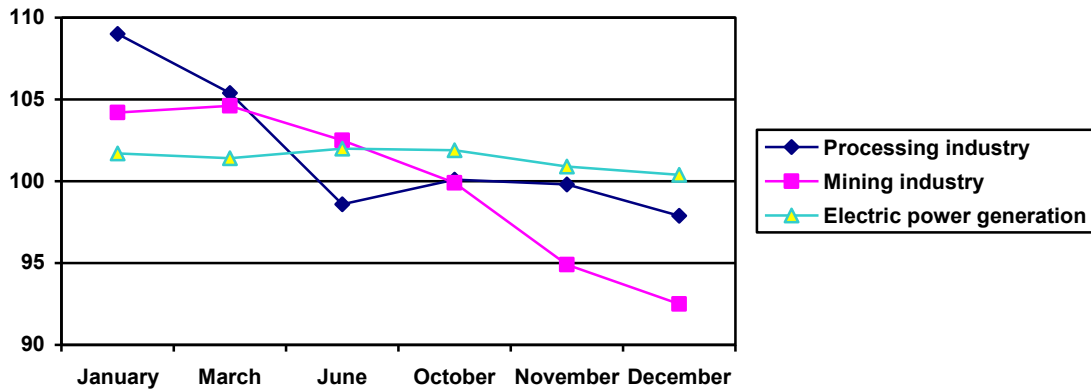


Diagram 2.4 Industrial production index in different sectors of economy (% compared to 2007)

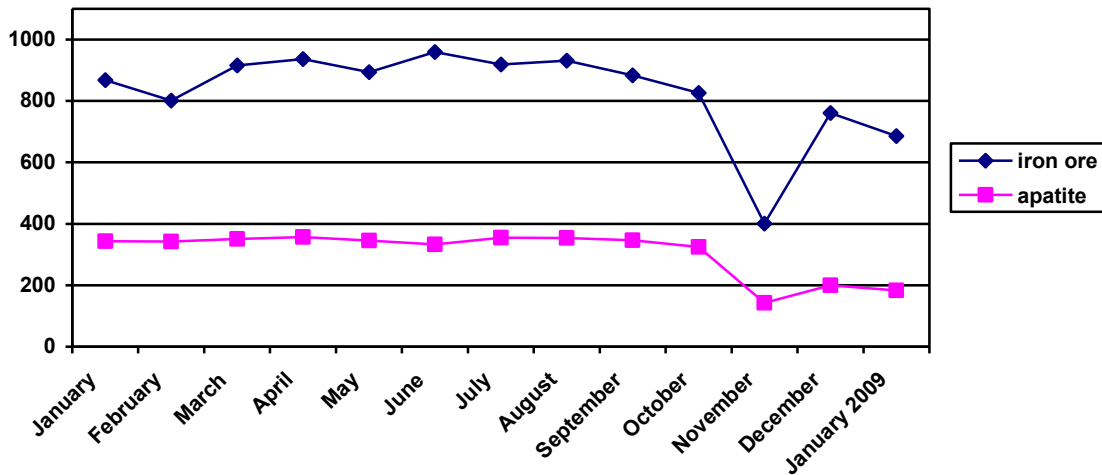


Mining

Despite positive financial figures from the mining industry (overall revenues from production increased 70% in comparison with 2007 due primarily to a price rise on iron ore and apatite concentrate) the volume of production in December 2008 shrank by one third compared to December 2007.

In the beginning of 2009 the drop in production of mining enterprises continued. January 2009 was particularly marked by a major drop in apatite concentrate production, as well as iron ore concentrate production (by 21%) as well as other kind of production (in comparison with January 2008).

Diagram 2.5 Mining industry (thousand tons)



Processing industry

The main trend in processing industry is set by the metallurgical production which is in its turn determined by the price on non-ferrous metals. By the end of 2008 cuts in the metallurgy industry totaled about 4.5% and this trend continued in the first quarter of 2009. Nevertheless other economy sectors (such as ship repair, equipment and machinery, electric equipment) showed and still show some positive dynamics.

Electric power, gas and water

Generation and distribution of electric power, gas and water underwent some alterations but on the whole were kept at the same level. Judging from the first quarter of 2009 it is expected to preserve the level of generation of early 2008.

Diagram 2.6 Electric power generation in 1999-2008.

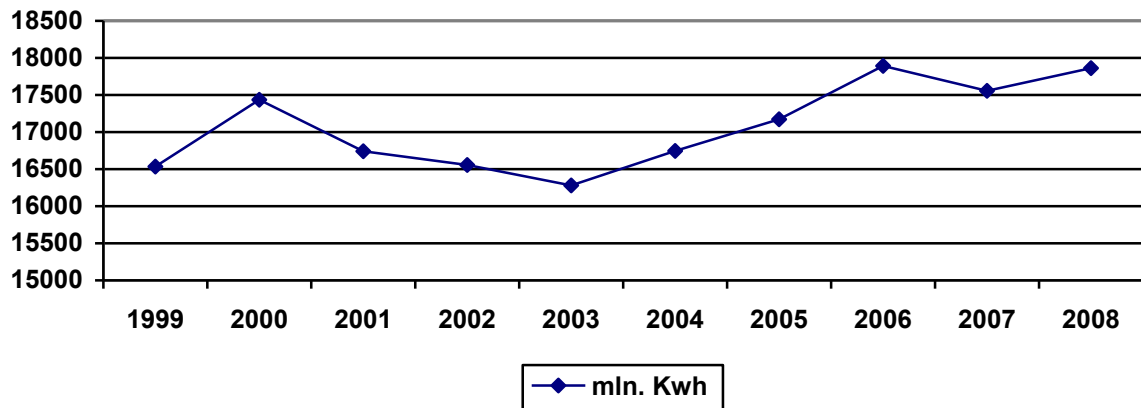
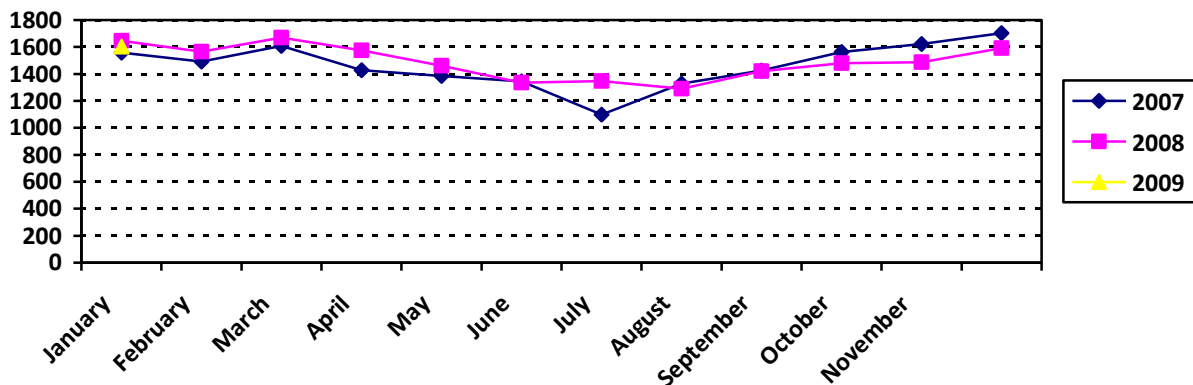


Diagram 2.7 Electric power generation in 2007-2008.



ECONOMY

Transport

Cut-down in production slightly affected the volume of cargo traffic in 2008. By the end of the year the volume increased and equaled to 45 mln. tons/km.

Railway passenger traffic has dropped while carriage by air has increased.

Diagram 3.1 Cargo transportation turnover in 1999-2008.

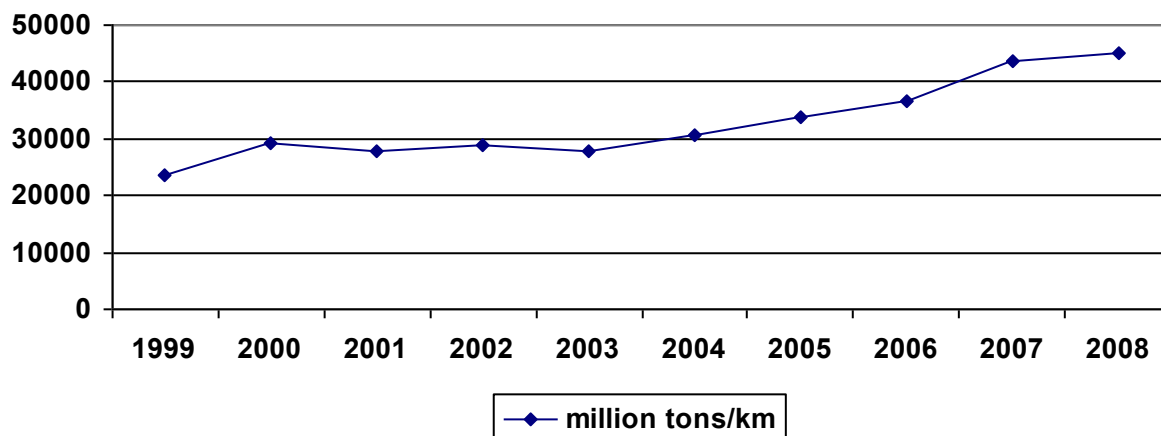
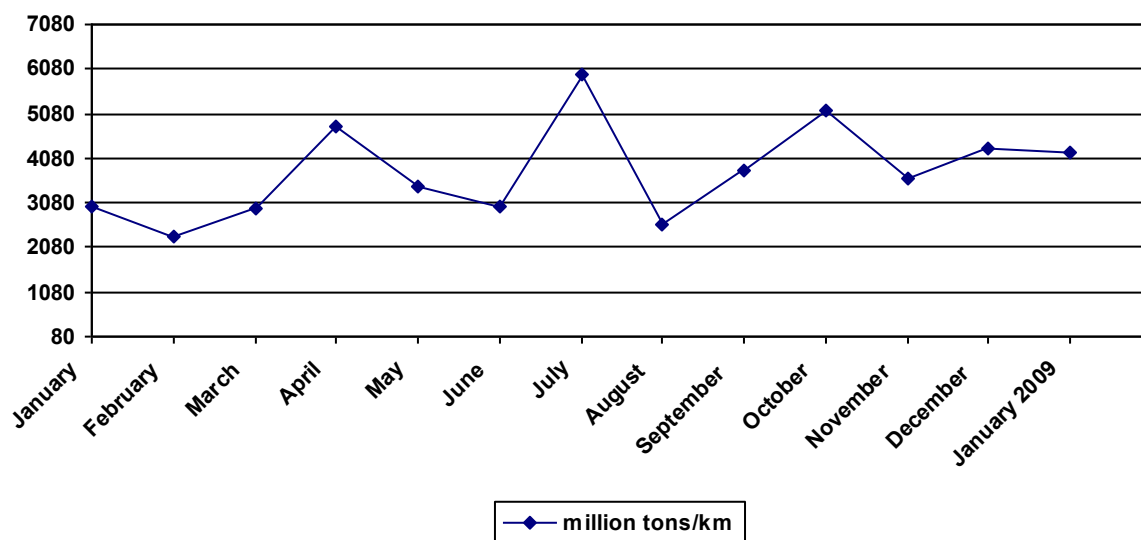


Diagram 3.2 Cargo transportation turnover in 2008.

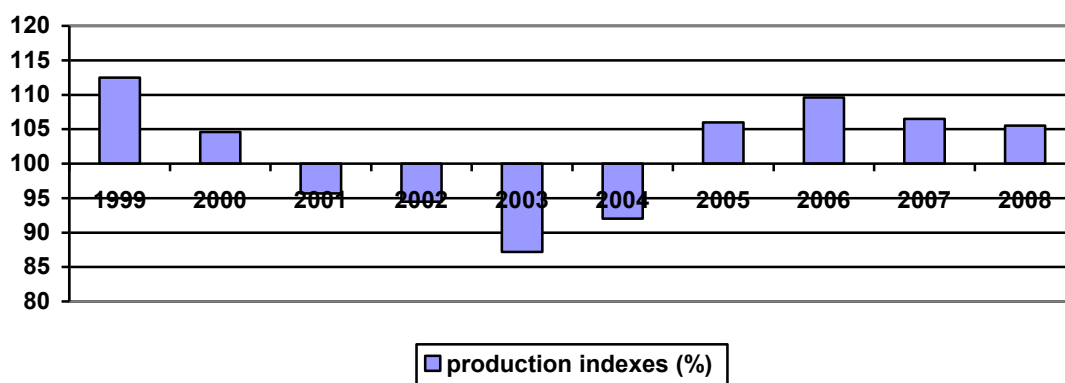


Agricultural sector

The increase in agricultural production has remained stable over several years; in 2008 the agricultural production index was 105.5%.

It is expected that the tendency will continue this year. According to the results of the 1st quarter of 2009 the rise will total 5%. This is done with the help of stronger state support to the industry.

Diagram 3.3 Agricultural production index in 1999-2008.



Fishing industry

In 2008 the fishing industry demonstrated some growth (103.6%). The biggest growth was seen in production of fresh chilled fish, a result extended permissions to sell it in different stores.

Following the introduction of new regulations under which Russian companies have to deliver all fish caught in the Russian economic zone to Russian ports, and taking into account seasonal factors, the beginning of 2009 was marked by considerable rise in fish production (almost by 30%). Fishing catch including catch of sea animals and seafood in January 2009 also increased by 30% and totaled 45.800 tons. Seeing the results for the first quarter of 2009 fishing industry expects a rise by about 19%.

Diagram 3.4 Fishery in 1999-2008

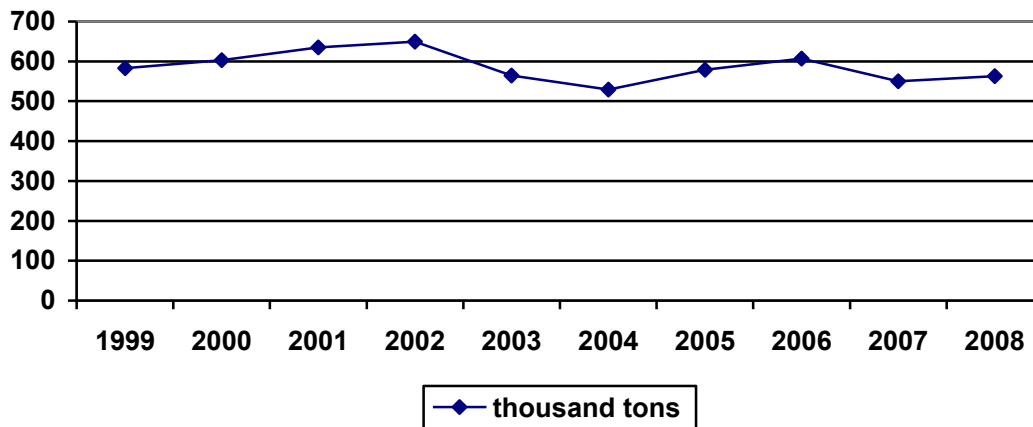
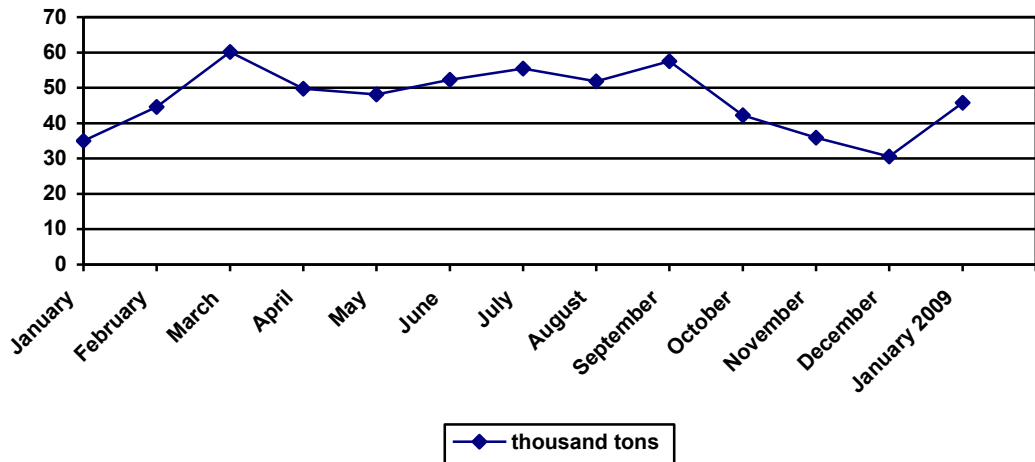


Diagram 3.5 Fishery in 2008.



Construction industry

By the end of 2008 the growth rate in housing construction slowed down considerably. Still, the construction volume was up 11% year on year. In early 2009 the negative trend continued with an index which was lower than in early 2008.

In 2008, the total area of new residential space was 7.500 sq.m. (59.2% compared to 2007) while the total area of new commercial facilities in the region totaled 51.55 sq.m (twice more than in 2007).

In addition, 21.9 km of motor road and 4 bridges were built or reconstructed.

Diagram 3.6 Construction industry in 2008

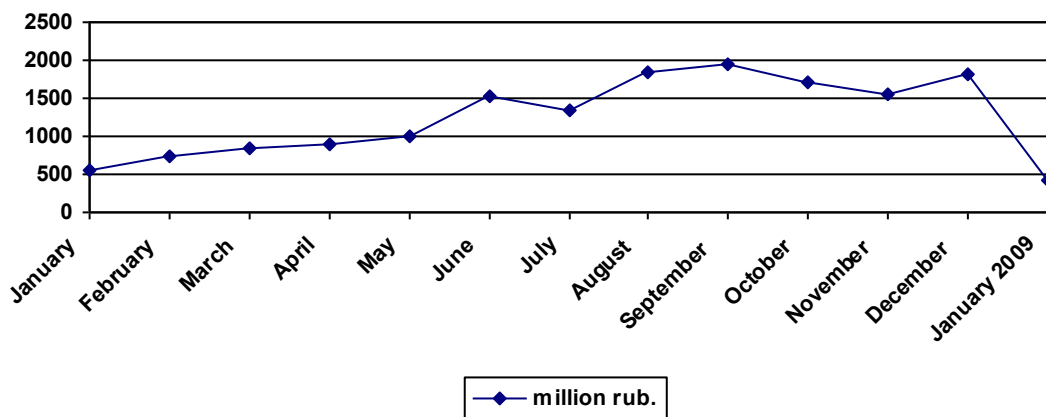


Diagram 3.7 Housing construction in 1999-2008

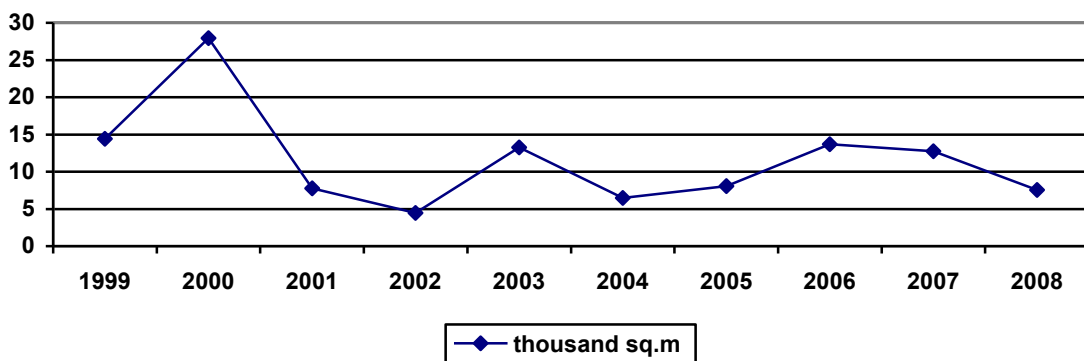
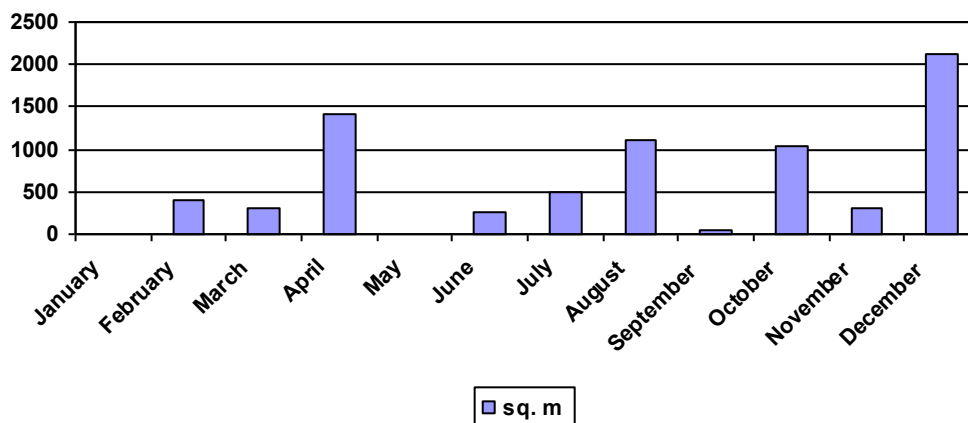


Diagram 3.8 Housing construction in 2008



Foreign trade and foreign investments

The foreign trade turnover of Murmansk Oblast in 2008 increased 11% to 1.2909 billion US dollars. Of this 1.1687 billion USD was export (up 3.6%) and 1.2217 – import (up 250%).

The figures show that Murmansk Oblast is 90% export-oriented with raw-materials. Of that, 60.5% are minerals, including oil and oil products, and 37.6 % – metals. The main foreign partners are the Netherlands – 49.15%, USA – 14.51%, the Great Britain – 6.27% and Norway - 5.93%.

The import of equipment constitutes 81% of the overall import volume. The main partners are South Korea – 26.58%, Germany – 24.26%, Sweden – 7.80%, Singapore – 6.58% and Finland – 5.53%. In the course of 2008, a total of 55 mln. US dollars of foreign investments were placed in the regional economy, which is 88 % of the 2007 level. About 35% of this sum is direct investments and only 0.05% - portfolio investments. Most investments came from Belgium (45%) and Norway (19,5%).

Diagram 3.9 Import and export

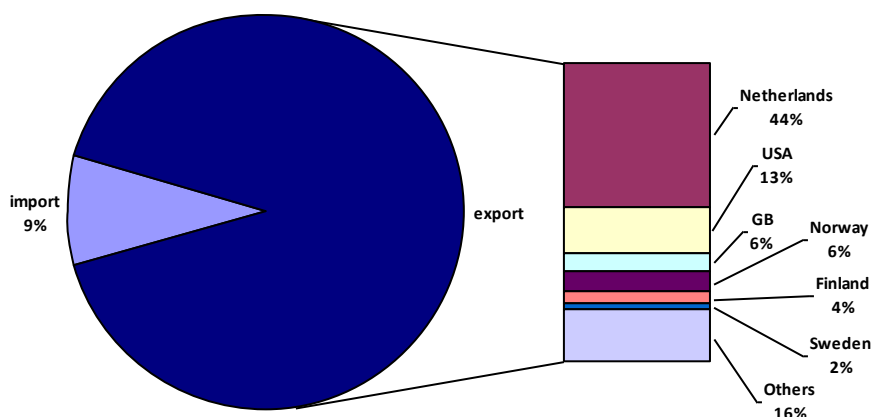
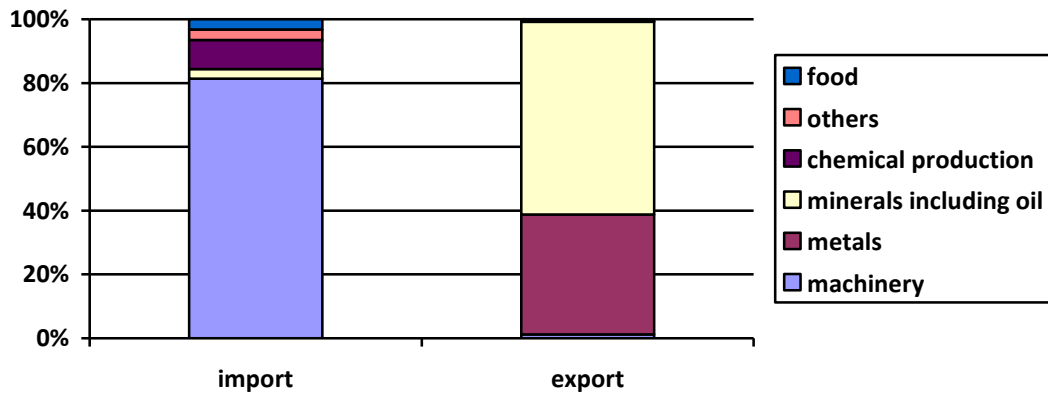


Diagram 3.10 Import and export structures

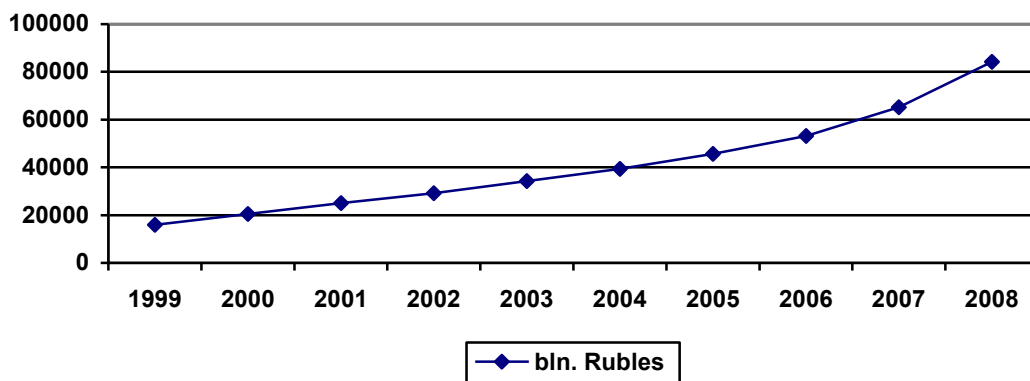


Consumer market

The growth of incomes along with credit financing development contributed to the growth in retail trade turnover over the last year by 12.5 – 13%. Total consumer market value in Murmansk Oblast in 2008 was 84.3 bln RUB (more than 3 bln US dollars).

The crisis did in 2008 not much influence the consumer market. According to preliminary estimates the growth will slow over the first quarter of 2009, but still will make about 7%.

Diagram 3.11 Consumer market in 1999-2008



POPULATION

Population and labor market

The Murmansk Oblast population keep shrinking. Over the last year the population was reduced by 1% and by year's end totaled 842 500 people. Mainly the population is decreasing due to out-migration. Meanwhile the tendency of growing birth rates was kept throughout 2008: the birth rate index number was 10.7 as per 1000 inhabitants.

Nevertheless the crisis has altered the situation. According to preliminary estimates from early 2009, the birth rate has dropped whilst the death rate has increased.

The situation within the labor market is quite stable. The economically active population in Murmansk Oblast total 55%. In 2008 the unemployment level remained the same (even some reduction tool place

by the end of the year) and was 2.5 % - registered unemployment, 6.5% - overall unemployment (using ILO-methodology) which is equal to 12.600 people as of Jan 1, 2009.

In the beginning of 2009 there was a steady trend of growing unemployment, there were no mass dismissals though the number of unemployed people in late March was about 15.5 thousand people.

Diagram 4.1 Population in Murmansk oblast (thousand people)

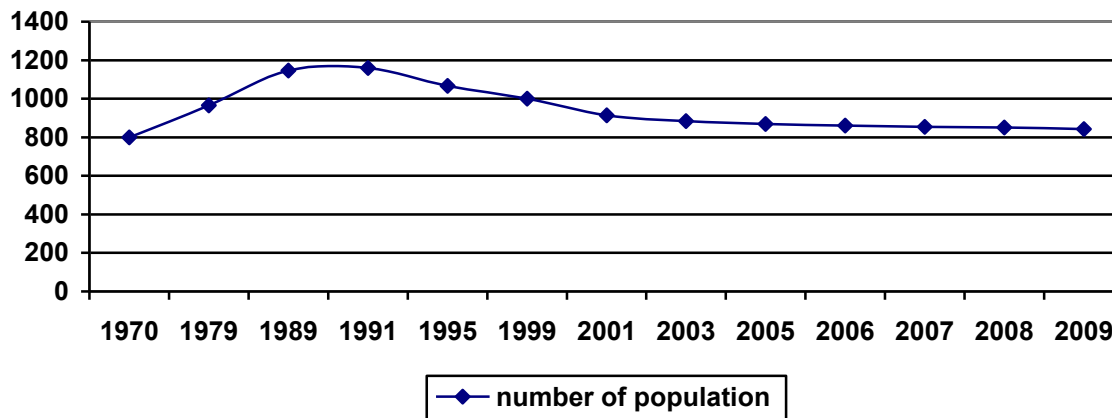


Diagram 4.2 Number of employed in the economy of Murmansk oblast (thousand people)

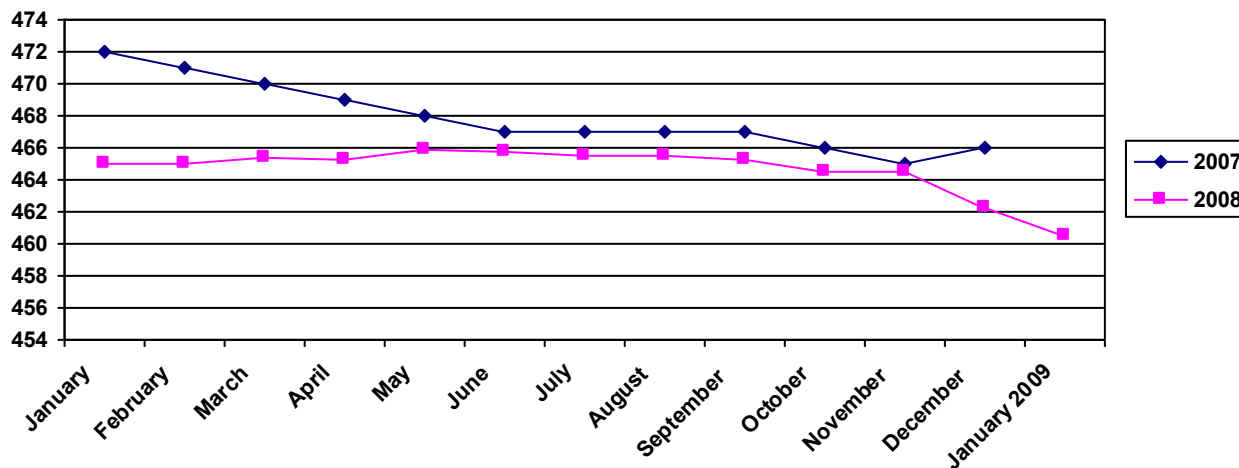
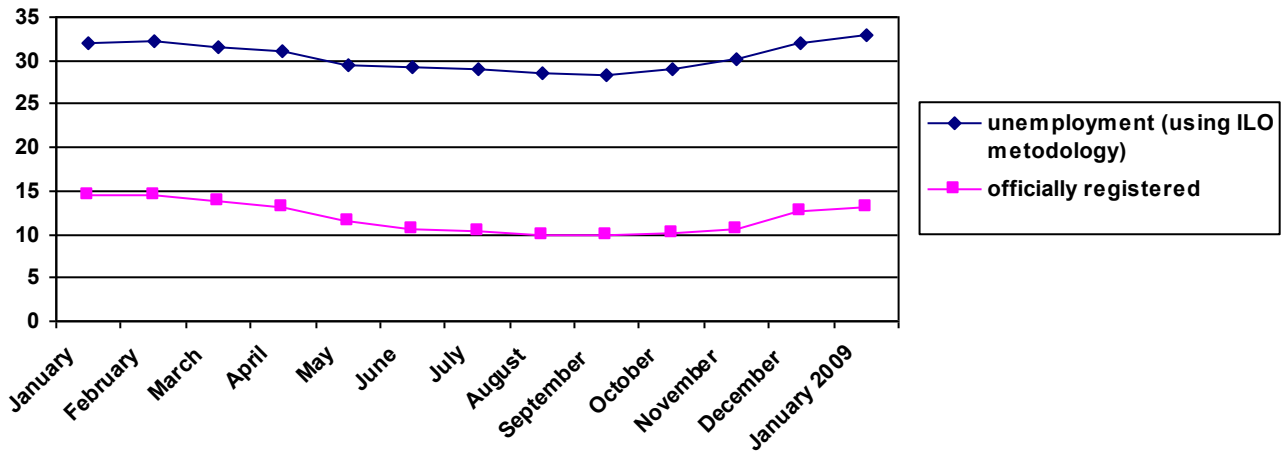


Diagram 4.3 Unemployment situation (thousand people)



Standard of living

In 2008 the monthly average cash income per one inhabitant increased from 15.200 to 18.600 RUB compared to 2007 (7.1%).

By the end of this year the salary in the region was increased to 31.180 RUB, whereupon the average monthly salary was 23.165 RUB. It rose by 17.5% compared to 2007 and its real filling increased by 10.1%. It is the highest level of average salary in the North-West Russia. In early 2009 the growing tendency was kept though the real incomes were somewhat decreased.

By the end of 2008 the share of population in Murmansk Oblast with incomes lower than the cost of living made 14.9%. The cost of living established in late 2008 made 7063 RUB (160 euro) for working population.

Still the inflation rate should be taken into account which is quite high in the region – 14.1%, the inflation rate for food products was 16.6%. It is somewhat higher than in other parts of Russia.

Diagram 4.4 An average salary and pension per person in 1999-2008

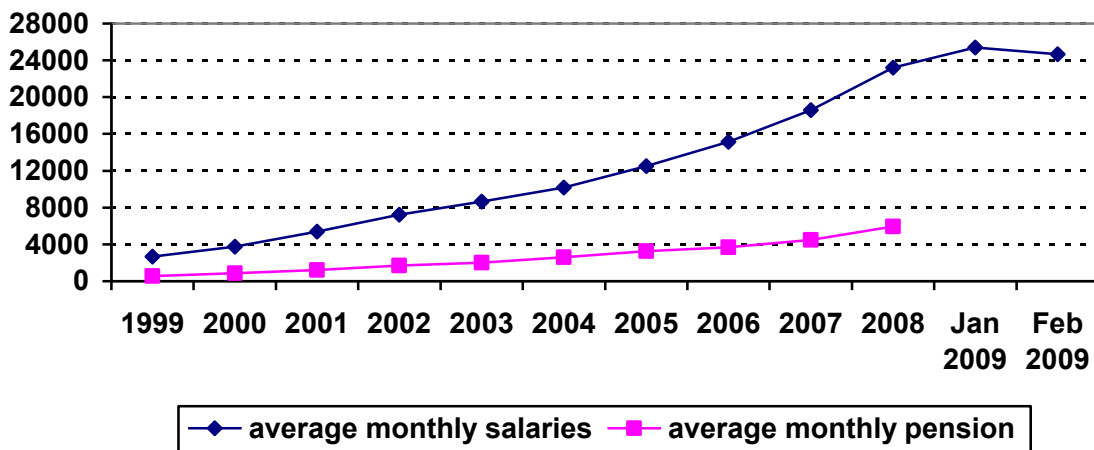


Diagram 4.5 Share of population with incomes lower than official living cost.

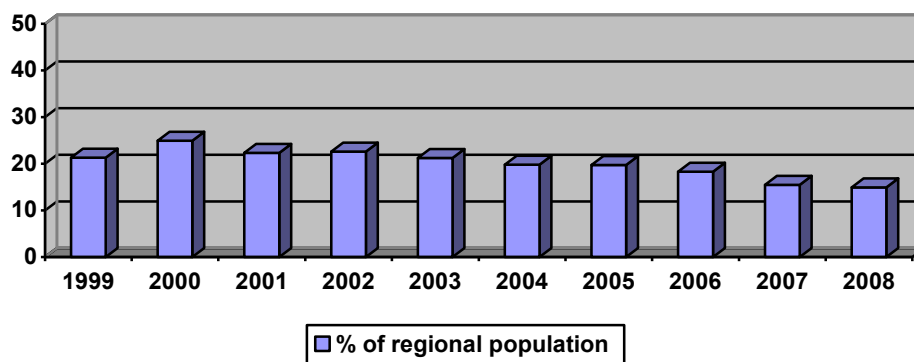
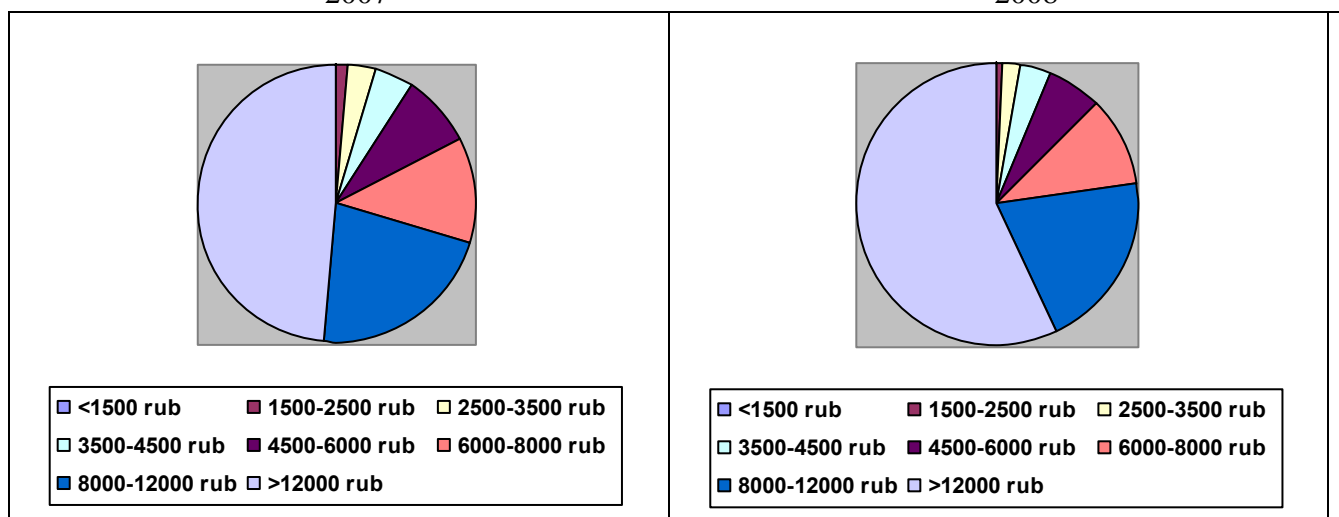


Diagram 4.6 Real money incomes of population

2007

2008



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The report is based on figures from:

- the Federal service of state statistics for Murmansk oblast - murmanskstat.gks.ru
- the Social-economical and sectoral reports, presentations and press-releases of the Murmansk regional Administration – www.gov-murman.ru
- the Murmansk customs statistics - www.murmansk-customs.ru