

High Corporate Debt Has Analysts Worried

By Alex Fak
STAFF WRITER

MOSCOW — Debt owed to foreigners by Russian companies and banks increased by 56 percent to \$75.1 billion last year, as falling interest rates abroad sent firms borrowing overseas.

Opinion is divided on whether the extra liquidity that flooded the market stayed in the financial sector or was invested into infrastructure and business expansion.

Total corporate foreign debt rose by 49 percent to \$50.3 billion, while the foreign debt of banks surged 75

percent to \$24.8 billion, according to numbers published by the Central Bank on Thursday.

“Indebtedness has increased sharply. I think 2003 was just the beginning,” said Mikhail Matovnikov, head of banking at Interfax Rating Agency.

By contrast, the government’s foreign debt grew just over 1 percent, to \$99 billion.

The increase came as a result of the restructuring of old Soviet debt, not because the government took out new loans.

debt increase is large,” said Vladimir Tikhomirov, a senior economist at NIKoil.

“If there is a change in one of the economic parameters, then some companies will end up in a hard financial situation.”

Those parameters could include rising interest rates abroad or a drop in the price of natural resources, he said.

“On the other hand, except for larger Russian companies, most of these credits are short-term, so I would not say the situation is taking on pre-default attributes.”

Natalya Orlova, an economist at Alfa Bank, used a rough estimate to measure excess liquidity. She added the rates of real GDP growth and inflation to reach a ballpark figure of how much money supply, M2, should have grown to cover the non-financial sector — about 20 percent.

In fact, M2 shot up 50.5 percent, so the boost to money mass largely remained pure liquidity, she said.

“Why invest in fixed capital that will bring you a 15 percent to 17 percent return, when you can place the money in financial assets, which are a

Hot Market Gets New Plant

By Sophia Kornienko
STAFF WRITER

The St. Petersburg condom market is stretching. This year the city’s Primorsky district will become home to a new condom factory slated to be Russia’s largest. And this month the same company will introduce a new line of condoms strictly for medical use.

St. Petersburg-based Bezopasny Seks, or BS, literally “safe sex” in Russian — producer of the Vizit condom brand — is investing a total of \$2.6 million in the new factory. “We have already received permission to do surveying at the site. I don’t see any obstacles that could prevent us from getting final approval to start construction this year,” Igor Boikov, the owner of BS, said in a telephone interview Thursday.

Investments will include equipment worth \$600,000 from the German Doeka company making it possible to produce up to 120 million condoms per year.

In what many analysts call “an overheated market,” BS plans to keep its current production level of 30 million per year in the initial stage, Boikov said.

The company also hopes to penetrate a vacant niche in the condom market. In late April, BS will release its first condoms “that are not for sex.” Cheap traditional condoms are inconvenient for use in ultrasound examinations, Boikov said. “Our German partner Condomi came up with special condoms that are easy to use for ultrasound scans,” he said.

Boikov said the ultrasound condoms will be 20 cm long and only 28 mm wide to fit the ultrasound probes used in gynecology and proctology, as opposed to the



Vizit was the second most popular condom in Russia last year, a Gallup poll found.

years without promotion and considerable investment in branding, Petrov said.

“Pharmacy customers will simply see ‘condoms for ultrasound’ written on the pack, and that should work,” said Boikov, adding that BS has other marketing strategies that he was reluctant to share. “We had doctors try the new ultrasound condoms, we had our wives try them. They were amazed at how good the product was,” he added.

Patients are often instructed by doc-

condoms, have a different approach. They do not believe the technology at Russian plants is sophisticated enough to make quality condoms from scratch, Delovoi Peterburg said. BS and Bolear-Medica import so-called raw condoms from Western Europe, which they test, color, lubricate and pack locally.

BS rents 800 square meters of space at a local plant.

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Low interbank LIBOR rates — used as a bottom line to set interest rates — and lower risk premium for Russian firms allowed companies to borrow more cheaply for longer periods.

"Most of this money is consumed by the real sector and goes into investments," Matovnikov said, adding that banks also pump money into the economy.

Some analysts disagreed, saying companies borrowed abroad not to expand their business but to restructure old debts, invest in Russia's booming stock exchange and speculate on differences in cross-border interest rates.

"It is alarming, because the rate of

debt increase is large," said Vladimir Tikhomirov, a senior economist at NIKoil.

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"Why invest in fixed capital that will bring you a 15 percent to 17 percent return, when you can place the money in financial assets, which are a much more liquid investment to begin with?" said Orlova.

"Companies are not borrowing to invest. There is still too much liquidity and too few projects."

But Boris Ginzburg, a senior fixed income analyst at NIKoil, said there is no evidence that companies used most of their borrowings to play the market or take advantage of interest rate differences.

One sign they do not, said Matovnikov, is that large companies like LUKoil and Gazprom are actually trying to lower their shares in subsidiary banks that trade securities.

"They don't need to play this market, which is in fact very small," he said.

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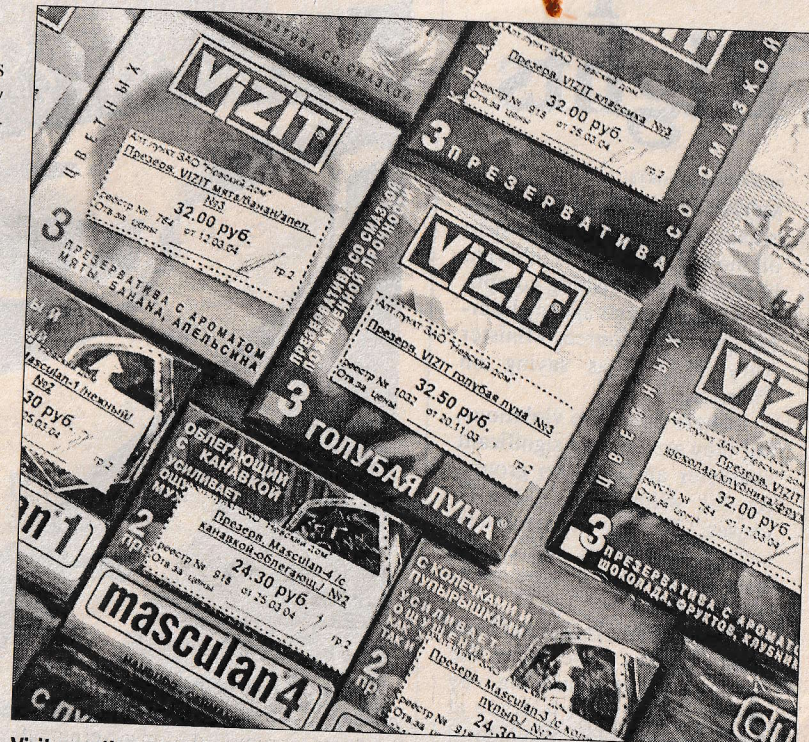
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Boikov said the ultrasound condoms will be 20 cm long and only 28 mm wide to fit the ultrasound probes used in gynecology and proctology, as opposed to the 18-cm-long and 56-mm-wide products used for preventing sexually transmitted diseases. They will be twice as thick as non-medical condoms, and will have no collector on the tip.

Another important difference is that ultrasound condoms should have no lubricant on them. "The lubricant tends to influence the results of the check-up," Boikov said.

A latent demand for ultrasound condoms does exist in the market, but high condom quality is not as important for gynecology patients as it is for ordinary users, Delovoi Peterburg quoted Yury Petrov, director of the Variant Co., distributor of the Masculan brand, as saying Wednesday. The product will not gain wide recognition for at least a couple of



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Patients are often instructed by doctors to bring their own condoms to the examination, but some clinics purchase them wholesale.

"When we used cheap Chinese condoms for ultrasound they would literally fall apart," said Tatyana Ishutina, an ultrasound specialist at the RAMI clinic. "We now use Eros condoms and have no complaints. The length is fine," Ishutina continued. "We will be buying the new ultrasound condoms only if they are in the same price range as Eros," she said.

Eros, produced by the Armavir factory of rubber devices — as well as Reflex and Magnum by Elastomer, a Serpukhov-based plant — are manufactured from Asian-supplied latex mixtures. BS and another Russian condom giant, Bolear-Medica, which

condoms, have a different approach. They do not believe the technology at Russian plants is sophisticated enough to make quality condoms from scratch, Delovoi Peterburg said. BS and Bolear-Medica import so-called raw condoms from Western Europe, which they test, color, lubricate and pack locally.

BS rents 800 square meters of space at a local plant.

"We want to move because we don't want to depend on anyone and want to own the production facilities," Boikov said. The new factory will occupy an estimated 3,500 square meters. Located in Primorsky district's Northwest industrial area, the factory will open in 2005.

The condom market in Russia shows sustained growth, according to TNS Gallup survey results obtained last year, Rosbalt reported. During the second half of 2003, 18.9 percent of Russians used condoms, TNS Gallup said. Contex was the most popular brand, accounting for 19 percent of users. Vizit scored second with 18.6 percent. Also popular in Russia, are Durex, Sico, Innotech, Vanka-Vstantka, KamaSutra, SipleX, Masculan and LifeStyles.

There is no research differentiating