

Economic News

- **Russia's CPI rose 0.2% in the week to 23 January after rising 0.1% in the previous period, the FSS said on Wednesday (25 Jan).** This brings inflation since the start of the year to 0.4% compared to 1.8% in the same period of 2011. A slowdown in consumer inflation compared to a year ago is driven by the government postponing an annual hike in tariffs due before the presidential vote in March, where PM Vladimir Putin is widely expected to defeat other candidates. The CBR aims to keep full-year inflation in 2012 at below the 2011 level of 6.1%, its lowest in the post-Soviet era. / Thomson Reuters

- **Russia's PPI rose 0.2% month-on-month in December after rising 1.6% in November, the FSS said on Wednesday (25 Jan).** Analysts had forecast a month-on-month rise of 0.5%. Since the beginning of 2011 through December, PPI rose 12%. / Thomson Reuters

- **Russian industry output slowed more than expected in December, underscoring concerns that economic growth is running out of steam as the European export market slows and rising political risks sap confidence.** Industrial output growth slowed in 2011 as a whole to 4.7% from 8.2% the year before, data from the FSS showed on Tuesday (24 Jan). In December, output rose 2.5% from a year earlier, and was up 2.9% in month-on-month terms without adjusting for seasonal factors. However, December's seasonally-adjusted growth was just 0.1% month-on-month, a minimal improvement on zero growth in November. It's almost stagnation. Analysts polled by Reuters had expected growth of 4.8% in 2011, and year-on-year growth of 3.5% in December. Industrial production growth has been on a downward trend since Europe's sovereign debt crisis intensified last August, when it grew by 6.2% year-on-year. December's 2.5% year-on-year growth represents a deceleration on the 3.9% growth recorded in November. The industry numbers were symptomatic of a deterioration in export performance. Never in Russian history have we seen strong growth in industrial production when external demand was weak. Dmitry Polevoy, an analyst, drew comfort from the sectoral breakdown of the December figures. In a research comment, he noted that a 5.1% decline in the output of electricity, gas and water suggested that "warm weather could have contributed significantly" to the month's weak growth. The fall in the utilities sector contrasted with year-on-year growth of 1.8% in mining and 3.3% in manufacturing, though the latter figure represents a deceleration compared with 4.9% seen in November. "The slowdown in manufacturing production ... was the main driver of the slowdown in December," economist Julia Tsepliaeva commented, adding that despite a weaker rouble and high oil prices "the acceleration of capital outflow affected industrial performance". Capital outflows accelerated going into the end of last year on political uncertainty resulting from popular protests against alleged fraud in a 4 December parliamentary election. Outflows for the year reached \$84 bln, their second highest after 2008. Natalia Orlova, economist, said that the December data confirmed that Russia is heading for a slowdown in 2012, but did not plan to revise her forecasts. "How significant the slowdown will be is still a question of oil prices etc, so I would not take the December figure per se as a reason to downgrade," she said. Economists polled by Reuters in December gave an average forecast of 3.1% growth in industrial output in 2012, compared with the actual growth of 4.7% recorded in 2011. / Thomson Reuters

- **The number of people unemployed in Russia was 4.6 mln, or 6.1% of the workforce, at the end of December, and in the whole of 2011 the average unemployment rate stood at 6.6%, the FSS said on Tuesday (24 Jan).** The annual data shows a decline in unemployment from a 7.5% seen a year earlier and matches forecast by analysts polled by Reuters. Figures based on the methodology of the International Labour Organisation. / Thomson Reuters

- **Russia's Energy Ministry expects crude oil production to edge up by 1% this year to a new record as a decline in output at traditional fields will be offset by a rise in new deposits,**

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a deputy minister said on Saturday (21 Jan). Last year, oil output in Russia, the world's top crude producer, edged up 1.2% to reach a new post-Soviet high of 10.27 mln barrels per day (bpd), or 511 mln tonnes. "Taking into consideration companies plans, this would be around 1%... We will add some 5 mln tonnes," Sergey Kudryashov told Rossiya 24 state-owned TV channel. The growth would slow further from 2.2% in 2010. Russia aims to maintain annual oil production at around 510 mln tonnes, or just over 10 mln bpd, in the next 10 years. It also sees its crude oil exports flat at 250 mln tonnes in 2012. Oil and gas production account for around a half of budget revenues of Russia. / Thomson Reuters

• **Demand for insurance has been gradually increasing among Russia's historically underinsured population.** However, a rising interest in insurance does not signify improving fortunes for domestic insurers, according to a report just released by S&P. The report, titled "Russian Insurers Face High Country Risk Under A Frail Market Framework", says elevated country risk represents the biggest hindrance to the development of Russia's insurance market. The economy's dependence on oil revenues and the state's tight control of the economy do not promote a truly competitive marketplace, it says. It notes, however, that the regulator is working with market participants to foster development of the industry and adds that Russian insurers enjoy fairly stable claims trends and show only modest exposure to catastrophe risk. / Thomson Reuters

• **Russian PM Vladimir Putin, standing for election in a March presidential poll, pledged \$8 bln in development aid for the coal industry during a visit to a major mining region, a hotbed of political protest in the past.** He said Russia will spend RUB 252 bln on coal industry development by 2030 as part of an overall RUB 3.7 trln investment programme that will be driven by the private sector. "The overall development of the economy, honourable colleagues, and the increased effectiveness of the coal sector...allows us to draw up such large scale plans," the PM said. The Kuznetsk Basin (Kuzbass) is Russia's largest coal producing region, mining 192 mln tonnes in 2011, or 57% of Russia's total output of 336 mln tonnes. Its miners played an instrumental role in the fall of the Soviet Union two decades ago when then-upstart politician Boris Yeltsin aligned himself with their long-running protests over wages and conditions to oppose Mikhail Gorbachev's platform. Tensions flared in the region as recently as May'10 after more than 60 miners died in a series of methane gas explosions at coking coal miner Rospadskaya's main mine. Riot police were deployed that month in the city of Mezhdurechensk, where the mine is located, to quell several days of protest by miners and their families. Putin also paid a quick visit to the region, which is tightly controlled by long-serving governor and United Russia member Aman Tuleyev. During Tuesday's (24 Jan) trip the PM, in power since 2000 and favoured to win a six-year presidential term in the 4 March election, met with local officials and executives in Kemerovo, the Kuzbass's administrative centre, as part of a three-day trip to Siberia and other provinces. He also met with relatives of the deceased from the 2010 accident and pledged to spend about RUB 500 mln in federal research and development funds on mine safety this year. "The funds will be spent on the development and introduction of modern mine-rescue and individual protection equipment," he said. Russian coal mines are among the world's most dangerous, with a 2011 fatality rate of 0.15 for every mln tonne mined, according to Russian industry consultancy Rosinformugol. By comparison, Ukraine has about 1.0 fatalities per mln tonne, while Australia has just 0.006 deaths, it said. Rospadskaya has since restarted operations at the stricken mine, and the company expects to achieve overall production of 15 mln tonnes in 2015, up from 6.25 mln tonnes this year, Putin said, confirming earlier company forecasts.

ASIAN MARKET. Putin also said that Russia should boost coal exports to Asia, where demand is surging. "We need not only to maintain our market position, but also expand it, particularly in the promising markets of the Asia-Pacific region. Russia, the world's third largest coal exporter, has opened or expanded a number of Far Eastern ports recently including SUEK's Vanino and Mechel's Posyet. Russia also has a number of new projects in the works to supply this market, such as Mechel's Elga mine in the Sakha Republic as well as a series of undeveloped properties in the southern Siberian Republic of Tuva. In a note issued prior to the meeting, analysts said improved infrastructure is the key to the further industry growth. "We welcome the government

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taking a lead in developing the export infrastructure for Russian coal, as this is the main containing factor for the industry, given its extensive growth pipeline," the analysts wrote. "Railroad access points and major routes (BAM and Trans-Sib) are already overloaded, as is the rail infrastructure at main ports. / Thomson Reuters

Global Economy

• **Emerging Europe's growth is being hit by the euro zone debt crisis and the outlook could darken if the turmoil there worsens, the EBRD said on Tuesday (24 Jan) as it trimmed its growth forecasts for 2012.** The bank, which operates in 29 countries in eastern Europe and central Asia, cut its growth forecast for the region to 3.1% this year from 3.2% in its October outlook. That is markedly slower than the region's 2011 growth rate of 4.8% but compares favourably to forecasts for Western Europe. A Reuters poll forecasts a 0.3% contraction in the euro zone this year. "The euro zone crisis poses serious further risks to our outlook, as any worsening of the situation beyond the baseline assumptions will have serious negative consequences for growth across the entire ... region," the EBRD said in its January report. It said a few countries in central and southeastern Europe were likely to return to recession this year and forecast a contraction in Hungary. "For the first time since 2009, the region as a whole experienced net capital outflows in Q3'11, and Western banks appear to be deleveraging since the autumn," the bank said. The EBRD, set up in 1991 to help former communist countries make the transition to free-market economies, said risks to its growth forecast include an escalation of the euro zone debt crisis extending to systemic bank risk, a slowdown in the United States and falling commodity prices. Uncoordinated banking sector regulations in the home and host countries of cross-border bank groups could cut growth further, the EBRD added. It said a new version of the Vienna Initiative, "Vienna 2.0", would help to manage deleveraging by western European banks which are cutting lending lines to the east as part of measures to repair their balance sheets. The EBRD forecast contraction of 1.5% in Hungary this year, down from previously forecast growth of 0.5% and the worst outlook in the region, due to uncertainty over a possible IMF/EU financing deal. However, the region grew 4.8% in 2011, the EBRD said, revising up its previous estimate of 4.5% growth. Romania showed the biggest improvement from the previous outlook, growing 2.5% last year due to a better than expected harvest. Central Europe and the Baltics were forecast to grow 1.4% this year from 3.4% in 2011, with refinancing risk and the timing of possible IMF/EU aid an issue in Hungary. Russia, the largest economy in the EBRD region, was forecast to grow 4.2% in 2012 from 4% in 2011, helped by high energy prices and weaker links to the euro zone. But any weakness in oil prices would dent Russian growth, the EBRD said. Southern and eastern Europe was seen growing at only 1% this year, compared to the 1.6% forecast made in October, due to contagion from the euro zone. Turkey grew 8% last year but is seen growing by only 2.5% this year, with its economy at risk of overheating, the EBRD said. Central Asia is the fastest-growing group in the region, forecast growing 7% this year, helped in several countries by higher energy prices. The EBRD, whose shareholders comprise 61 countries, the EU and the European Investment Bank, cut its 2012 growth forecast for eastern Europe and the Caucasus to 2.6% from 3.2%, with Ukraine suffering from exposure to the euro zone and tightening financial conditions. / Thomson Reuters

• **The World Bank said on Wednesday (25 Jan) it would make \$27 bln available in funding over the next two years to eastern European and central Asian countries that are being hard hit by the crisis in the euro zone, a \$7 bln boost from 2011 levels.** The bank said in a statement that the crisis in the single currency zone was impacting the region's emerging economies through trade, finance and workers' remittances, leading to slower economic growth. World Bank President Robert Zoellick said the expansion in funding was aimed at helping the countries weather the crisis. "While the effects of the Eurozone crisis on the largest economies of western Europe receive most of the world's attention, the crisis is also hurting people in emerging eastern European countries, particularly the poorest in central and southeastern Europe," Zoellick said in the statement. The funds for 2012-2013 comprise \$16 bln in World Bank loans, a \$4 bln increase from last year. The

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International Finance Corporation, the lender's private sector arm, will provide \$10 bln, \$2 bln more than last year. The Multilateral Investment Guarantee Agency, a World Bank arm that provides political risk insurance to investors and lenders, will provide an additional \$1 bln. The cash would go towards funding structural reforms for the private sector as well as supporting the banking sector and social safety nets, the World Bank added. The IMF predicted this week that the euro zone would slide into recession in 2012 and sharply cut forecasts for emerging markets to 5.4%. It expects central and Eastern European economies to grow just 1.1% this year, down from over 5% in 2011. Growth in the former Soviet Union is forecast to slip to 3.7% from last year's 4.5%. One big fear is that capital retrenchment by Western banks, traditionally big lenders to emerging Europe, will lead to banking or debt crises across eastern Europe, a region which is heavily dependent on the euro zone for investment and exports. This has prompted multilateral lenders including the World Bank and the EBRD to step up efforts to limit the damage, with the latter saying on Tuesday it was ready to buy stakes in local banks if the debt crisis worsens. The EBRD, which has also cut its 2012 growth forecasts for emerging Europe, said it plans to keep its lending across the region at EUR 9 bln, stable from last year's record high. Governments, regulators and international agencies have also agreed on a concerted effort to avert capital flight from the region under a programme dubbed a second "Vienna Initiative", loosely modelled on a 2009 pact that prevented a financial meltdown in eastern Europe. The World Bank said its additional lending plans complemented its participation in the programme. The IFC's involvement would provide short-term financing to systemically important regional banks to tide them over liquidity crises, the statement said. The IFC would also invest to shore up capital shortfalls and provide funding for small enterprises, it added. The euro zone crisis and a potential spillover to other countries have also prompted the IMF to seek a substantial increase in its capital base as it foresees an increased need for its assistance in coming years. / Thomson Reuters

• **There is a palpable sense of hope at the annual Davos World Economic Forum that the euro zone is pulling back from the brink of catastrophe but business leaders are equally worried that Europe's woes will hold back a global recovery.** A growth strategy is the missing ingredient in the policy cocktail that euro zone leaders are mixing to save the currency bloc from break-up. Without economic recovery, re-election will be tough for presidents in Europe and beyond this year. The 2,600 political and business leaders attending the five-day Davos Forum met against a backdrop of improved market sentiment driven by signs the euro zone may escape recession and that intense market pressure on Italy and Spain is easing. Greece is clinging to hope of a bond swap to avoid a starker default, although a deal is far from assured. But markets seem relatively unconcerned at the prospect of an enforced Greek default, seeing the problem increasingly as a one-off event divorced from developments elsewhere in the euro zone. "I think we are on the verge of putting the acute phase of the crisis behind us," said billionaire investor George Soros, adding that he believed Italian sovereign bonds represent a "very attractive" speculative investment. "If we pass the Greek potential default, if we put that behind us, I think we will be past that phase where the financial markets are on the verge of a possible meltdown," he said. Concerning Soros more than a possible Greek default were the austerity measures demanded by Germany. These, he said, would cause a "deflationary debt spiral". Germany insists other euro zone states must pursue the kind of structural reforms that helped it regain competitiveness in the last decade. Opening the meeting, German Chancellor Angela Merkel said Europe's leaders had shown by their actions in 2011 that they were committed to the success of the European project. "Europe will be a more attractive place to invest and do business when we get through this crisis, and we will get this crisis. I'm certain," Merkel said. The prevailing mood among delegates was that the bloc had made progress - aided by ECB liquidity and tighter fiscal rules - but that growth was still missing. Markets have rallied on promising signs from Europe - the broad MSCI world equity index is up some 5% for the year so far - but this rally appears to be losing steam and masks underlying concerns about growth. "I think Europe has moved a long way in the last two or three months in the direction of actually getting to policies which could stabilise this situation," said Stanley Fischer, governor of Israel's central bank. But only 40% of CEO worldwide are "very confident" of revenue growth for

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their companies in the next 12 months, down from 48% in 2011, a PricewaterhouseCoopers (PwC) survey of 1,258 CEOs showed on Tuesday (24 Jan).

DEEP RESENTMENT. Even if growth returns to Europe, the politics on the way out of the crisis have opened up divides between North and South, Germans and Greeks, Britain and the rest of Europe, said Oxford Professor of European Studies Timothy Garton Ash. "The scale of resentment is a huge political problem. We won't come out with a sense of optimism of surging forward," Garton Ash said. The ECB - rather than government leaders - won widespread praise at the Forum for acting decisively to stem the crisis. Under ECB President Mario Draghi, who took the job in November, the central bank has funnelled almost half a trillion euros in cheap, 3-year loans to banks in an effort to head off a credit crunch and give them the means to buy sovereign bonds. There are signs the ploy is working, with investors flocking to buy Spanish bonds and Italian yields well below the 7% level that alarms markets, despite S&P's downgrading the credit ratings of nine euro zone countries this month. "What it is providing at the margin is extra demand for the shorter term debt of the most affected countries, Italy and Spain," Bank of Canada Governor Mark Carney said of the measure. "(This) provides some room for manoeuvre for those countries to undertake very difficult fiscal and structural reforms which are absolutely going to be necessary to right this in the medium term," he told Reuters. But he said tackling these structural reforms would take a "more determined, consistent effort over a number of years." In Germany, a survey on Wednesday showing business morale rose in January signalled that Europe's largest economy is set to avoid recession. But the latest forecasts suggest Greece and Portugal are stuck in deep recessions, reducing their revenues and their ability to meet fiscal targets. Spain and Italy are expected to be in recession this year and next, raising the same concerns. EU leaders will hold a summit next Monday devoted to putting forward a growth strategy. But it will be largely about pledging labour market reforms, shifting taxation from labour to consumption and better targeting existing and unspent EU funds, with no new public money on the table. Given Europe's very limited resources, the growth strategy risks being seen as largely declaratory wishful thinking.

CHEER UP. The euro zone crisis is hurting the bloc's neighbours. Erik Berglof, chief economist at the EBRD, said a requirement for European banks to increase their core capital buffers was having an impact to the east of the 17-country bloc. "A lot of measures are being taken by governments in the euro zone to protect their own interests," Berglof said. "All this is leading to a very rapid deleveraging in Eastern Europe." He was working on a move similar to the 2009 Vienna Initiative to maintain west European banks' exposure to eastern Europe: "The basic objective of achieving a more coordinated deleveraging is the same." For others, the euro zone crisis poses a buying opportunity. A survey of 800 business leaders in Asia, the Middle East and North America by FTI Consulting found that 45% of companies in Asia are either executing or looking to make acquisitions in Europe in the next 12 months, compared with just 14% in the Middle East and 7% in North America. For Turkey, straddling the divide between Europe and Asia, the European project is still an attractive proposition. "Cheer up Europe. You have seen worse. We have seen worse. In European history we have put much more devastating crises behind us," Turkey's Europe minister, Egeman Bagis, said at the Forum. "Europe is still the best place to be, which is why my country is still determined to join." / Thomson Reuters

• **German Chancellor Angela Merkel questioned on Wednesday (25 Jan) whether an increase in the euro zone's rescue funds would reassure markets and said Europe has already lost a lot of confidence by failing to deliver on its promises.** "Now they say... 'it should be twice as big'," she said in a speech in Davos, referring to calls on her to back increases in euro zone rescue funds. "If it were twice as big, we'd believe you'. Some say 'it should even be three times as big, then we'd really believe you.' And I always ask myself how long is that credible and when is that no longer credible. "What we don't want (in Germany) is a situation in which we promise something we can't back up in the end because if Germany... promises something that can't be kept if markets attack it hard, then Europe is really vulnerable." Merkel added that a lot of confidence has already been lost. "Confidence has been lost because one said 'they've promised something that they didn't deliver on'," she said. "Confidence is the most important currency that one can have worldwide at the moment." / Thomson Reuters

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• **Gold staged its biggest rally in four months on Wednesday (25 Jan) after the U.S. Federal Reserve promised to extend ultra-low interest rates through 2014, more than a year longer than expected.** Oil and copper posted modest gains. In a historic meeting that also set the Fed's first ever inflation target, the CBR said it would maintain rates at near zero until late 2014, suggesting investors may favor gold over income-generating assets for another three years. Previously the Fed had promised low rates until mid-2013. Gold jumped nearly 3%, topping \$1,700 an ounce for the first time in six weeks, while other commodities and equity markets posted more modest gains, a little disappointed that the Fed's promise to maintain a "highly accommodative" monetary policy stance did not include any definitive new measures. "While we did not get an indication of an implementation of a third round of quantitative easing, the Fed is clearly continuing in an activist mode with the extension of the 'exceptionally low' interest period," said John Kilduff, partner at Again Capital LLC in New York. "This bodes well for a lower dollar and higher commodity prices (as) the Fed looks to be willing to continue to stoke inflation as part of its efforts to revive the economy." The ThomsonReuters-Jefferies CRB index posted a third day of gains, rising 0.5% to close at its highest since mid-November. News of a prolonged period of ultra-low rates was a double-edged sword for risk markets, offering the prospect of a lengthier period of cheap investment capital while suggesting that the economy was still precarious. "I don't think we're ready to declare that we've entered a new, stronger phase at this point," Fed Chairman Ben Bernanke told reporters. "We are prepared to take further steps in that direction if we see that the recovery is faltering or if inflation is not moving towards target," Bernanke said. "It's an option that's certainly on the table." Silver also rose nearly 4% on gold's coattails, while the S&P 500 index rose by about 0.9%, while the dollar index fell 0.5%. In New York, COMEX gold futures trading volume was double its 30-day average at more than 300,000 lots, the highest since December. Low interest rates particularly benefit zero-yielding gold, unlike stocks and bonds. Minimal borrowing costs also tend to fuel a gradual increase in commodity prices, supporting the metal's traditional role as a hedge against inflation. In London, ICE Brent crude for March delivery settled for the day with a 22-cent loss after news of a surprisingly big build in weekly crude oil stocks. But ultimately the Fed factor carried it higher, trading up 47 cents at \$110.50 in after-hours trade.

TECHNICAL BARRIERS LOOM. As prices rose, many markets tested key technical barriers, potentially setting up more gains again. Spot gold hurdled its 100-day moving average for the first time since breaking below it in December, when fund liquidation drove prices to a nearly six-month low. London Metal Exchange (LME) three-month copper gained more than 1%, nudging up against its 200-day moving average for the first time since last August after gaining 11.5% so far this year. Copper peaked at \$8,475 per tonne in late business, a new high dating back to 19 September, buoyed by a steady decline in warehouse stocks to their lowest since 2009. Trading activity was subdued by this week's Chinese New Year holiday. "The pace of this withdrawal is quite strong and that indicates there is steady spot demand," said Andrey Kryuchenkov, analyst at VTB Capital. Chicago grains markets were more focused on potential supply risks from Russia than the Fed news, although corn and wheat still drew some support from the low-rate promise. U.S. wheat futures climbed for a fifth day to a three-week high on speculation that Russia, nearing its export ceiling of 23 to 25 mln tonnes of grain for the current marketing year, may impose protection duties in April. Exports surged to a record 19.5 mln tonnes through mid-January, seven months since Russia lifted a nearly year-long export ban after drought reduced crops in 2010. Corn futures gained on ideas that fewer wheat exports could lead to more interest in the competing animal feed of corn while soybean futures were narrowly lower following rains in parched Argentina. / Thomson Reuters

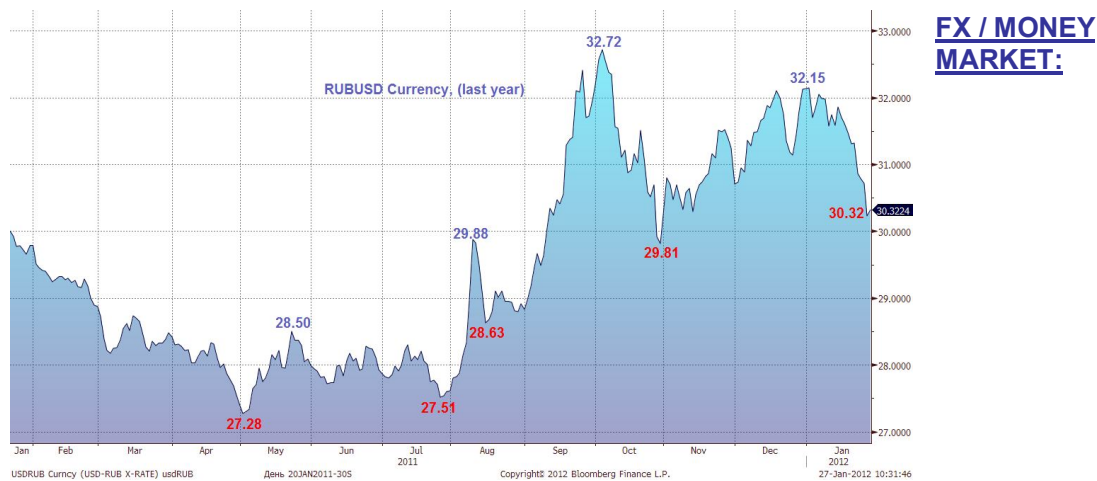
• **Tensions between Iran and the West have pushed up expectations for the average price of oil in 2012 to over \$107 a barrel, a Reuters poll found on Thursday (26 Jan).** Brent crude futures will average \$107.3 per barrel this year, according to the average of 36 analysts and consultants polled by Reuters. That is up \$2.1 from December's forecast of \$105.2 per barrel. Brent traded at just over \$110 a barrel on Thursday. It averaged a record \$110.91 last year. The poll found that U.S. light crude oil would average \$99.1 per barrel, up \$2.1 from \$97 in December's poll. U.S. crude has averaged \$100.55 per barrel so far this year. Analysts say the pressures on the

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market this year are not that different from last year's, when supply disruptions caused by the civil war in Libya outweighed the worsening euro zone debt crisis. This year has opened with threats by Iran to shut the Strait of Hormuz, which carries one third of seaborne oil exports, as the European Union agreed an embargo against Iran's oil exports. "While we have been listing the Iranian situation as a source of upside risk for a decade, there are some new factors at play now that make for a far more potentially dangerous outcome as the current drift of policy on both sides creates the risk of a significant escalation," Barclays analysts Miswin Mahesh and Amrita Sen wrote in a note. A closure of the strait could cause a price spike, and analysts worry that the deterioration of diplomatic relations between the Islamic Republic and the West could lead to an escalation with wider repercussions. BNP Paribas oil strategists Harry Tchilinguirian and Gareth Lewis-Davies said that exemptions under the EU embargo until 1 July for importers with existing Iranian contracts allowed time for Iran to reroute crude exports and for European buyers to find replacement supplies. "As such, displacement of existing crude flows and the use of some spare production capacity can contain upward price pressures," they wrote in a note. Similarly, indications from Saudi Arabia, the world's top oil exporter, that it wants prices at around \$100 per barrel could help cap any sudden spikes, analysts said. A sudden surge in prices a little above current levels could trigger almost immediate demand destruction, particularly in mature markets, as the euro zone continues to face an uncertain future and a likely recession.

ASIAN DEMAND STILL FIRM. The demand outlook is a tale of two halves, however. Asian growth will push ahead, while demand from the OECD is seen waning after a warmer-than-average winter so far and as consumers tighten their belts. European consumers adjusting to austerity measures face a further squeeze as gasoline and diesel prices in euros hit record highs during the first weeks of January, exceeding the peaks since July 2008, when Brent topped \$147 per barrel. Barclays analysts say that while the euro zone continues to pose a major threat to oil prices, only a major financial crisis would prompt a severe correction and that a euro area breakup or recession do not constitute "extreme downside price risks". "A euro area recession is not in itself enough to bring prices hurtling far below \$100 per barrel," they wrote in a note. On a global basis, Goldman Sachs continues to expect a rise in oil demand in excess of gains in production capacity, despite the slowdown in global economic growth. "In our view, it is only a matter of time before inventories and OPEC spare capacity become effectively exhausted, requiring higher oil prices to restrain demand, keeping it in line with available supply," it said in a note. Demand growth will be driven by China, India and Japan, CIBC analysts Katherine Spector and Mike Train said. "Although Chinese demand growth has slowed in recent months, Indian and Japanese demand have been the standouts to the upside lately," they said. "Strong power generation demand for oil in Japan is not surprising, but notable nonetheless". / Thomson Reuters

Markets: FX / MONEY MARKET



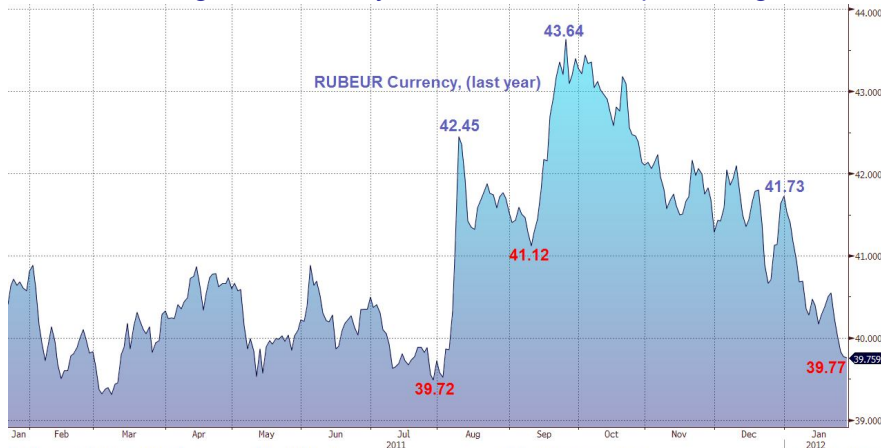
ECONOMIC BULLETIN

Short term has no future

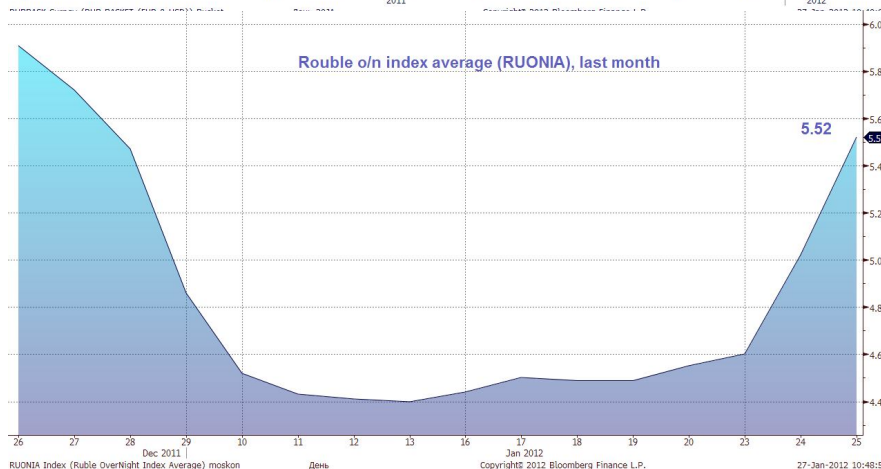
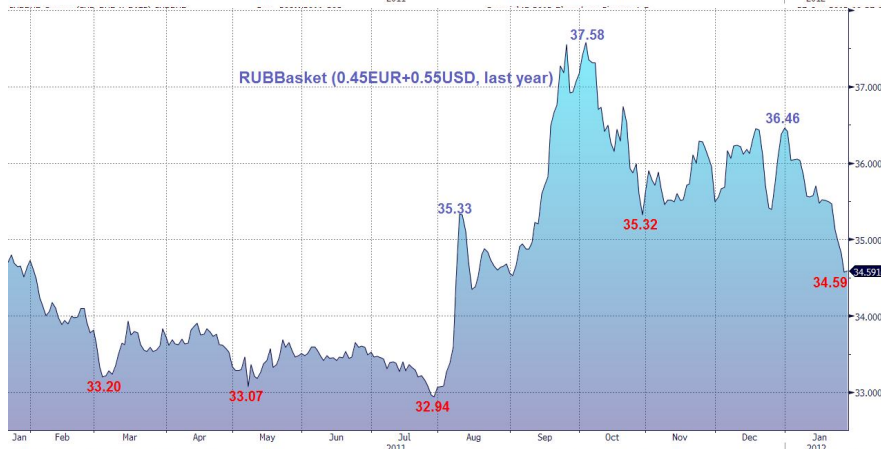


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The rouble rallied for a second straight week on this week, propelled by further liquidity strains on the back of monthly tax payments and globally improving risk sentiment after the U.S. Federal Reserve announced market supportive policy. The rouble firmed 3.2% vs the dollar, from 31.32 to 30.32, its strongest since early November. It was up 1.9% against the euro at 39.77. The gains vs



the dollar and euro helped it gain 2.5% against the basket. The rouble ends the week at 34.59 vs the basket, the level last seen in September'11. Banking liquidity, as measured by the roubles placed with the CBR on correspondent and deposit accounts, shrank on this week by some RUB 134 bln, falling to RUB 786.9 bln. Analysts consider liquidity levels comfortable at above one trln roubles, saying export-focused firms are pushed to exchange dollars and euros to meet local month-end tax bills. There are no reasons for exporters to wait the rouble's weakening and improving liquidity conditions in the short term. This year differs from early 2011 when there was enough rouble liquidity and exporters could attract roubles at low rates to pay taxes. The interbank overnight lending rate soared to 5.75-6.5%, its highest levels since December'11.



to 20 January from \$497.1 bln a week earlier, central bank data showed on Thursday (26 Jan). The reserves include monetary gold, special drawing rights, reserve position at the IMF and foreign exchange. / Thomson Reuters

• Russia's gold and foreign exchange reserves rose to \$499.7 bln in the week

• Speculators were long the rouble a total of 7,546 contracts in the latest week, according to CFTC data. The non-commercial net long position comprised 7,958 long positions, a rise of 363 contracts, and 412 short positions, a decline of 191 contracts. Rouble open interest rose 5,265

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contracts to 126,321 contracts. Long ruble contracts were 6.3% of open interest while short positions represented 0.3% of open interest. Long positions were held by three traders, and two traders held the short positions. / Thomson Reuters

- **Iran and Russia have forsaken the U.S. dollar in bilateral trade and have started using domestic rouble and rial currencies, Iran's envoy to Moscow said on Friday (20 Jan).** "(Trade) is based on our national currencies," said Iranian ambassador to Russia Seyed Sajjadi. "We started this work long ago. Iranian businessmen are buying products in Russia and are using the rouble as (payment) currency ... The US dollar has no (economic) support base," he said speaking at a news conference. / Thomson Reuters

- **The CBR is unlikely to cut interest rates in the near term and will find it difficult to meet its 5-6% inflation target in the second half of this year, a senior official said.** First Deputy Chairman Alexei Ulyukayev also told reporters in Davos the CBR did not view a break-up of the euro zone as a realistic scenario and was not considering a significant reweighting of its reserves, the world's third largest. The CBR is, however, continuing to diversify its foreign currency holdings and may begin buying Australian dollars from early February, he said. Russia's current inflation rate, at a post-Soviet low of 4.7%, is "excellent" and may fall slightly in the early part of the year, but this results from the one-off impact of delays to utility prices hikes. Capping inflation at 6% this year, compared with 6.1% in 2011, "will be more difficult" as the delayed utilities price hikes kick in from mid-year, he said. "All of this will in the third and fourth quarters create strong inflationary pressure and we will have to work and be very careful," Ulyukayev said in remarks on the fringes of the World Economic Forum that were embargoed for Thursday (26 Jan). Ulyukayev forecast that the CPI would rise by between 0.6 and 0.7% in January.

STEADY HAND. CBR policy makers are due to meet in early February to review interest-rate policy against the backdrop of a slowing economy and high capital outflows from Russia, resulting in a large part from political uncertainty. Net capital outflows totaled \$84 bln in 2011, accelerating towards the end of the year on the euro-zone credit crunch and investor concern over street protests against alleged ballot fraud in Russia's 4 December parliamentary election. And, while PM Vladimir Putin is favourite to win a presidential election on 4 March, confidence could be rattled again if he fails to win a first-round majority, which would take the contest to a run-off. Asked whether the CBR would ease interest rates, Ulyukayev said: "If inflation risks become less of a concern, and risks to economic growth increase, then we will. But for now I don't really see this situation." The CBR effectively tightened policy going into the end of 2011 by limiting access to one-day repo funds at 5.25%, forcing banks to raise funds via fixed-rate repos which charge interest of 6.25%.

NO CATASTROPHE. The CBR, which holds over two-fifths of its half a trln dollars in euro-zone government bonds, does not expect the currency bloc to break up because of its sovereign debt crisis. "The stress tests that we are conducting are oriented towards realistic scenarios, such as a European recession or a significant fall in the (euro) exchange rate," Ulyukayev said. "But it does not consider a break-up of the euro zone or the rejection of the euro as a fully-fledged currency." The CBR said in its 2010 annual report that its foreign reserves comprised 45% U.S. dollars, 43% euros, 9% sterling and modest holdings of Japanese yen and Canadian dollars. The regulator has completed preparations for launching operations in Australian dollars "in February, possibly at the beginning", said Ulyukayev. "We don't intend to significantly change (the structure of Russia's reserves) they are in principle appropriate," he added. "We would like to continue work on diversifying our currency portfolio but there are of course limitations - low liquidity on the markets for other currencies." / Thomson Reuters

Markets: FIXED INCOME

- **The Russian FinMin placed nearly all of its five-year OFZ treasury bonds on Wednesday (25 Jan) at a tiny premium to the secondary market, finding strong pent up demand for low-**

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risk debt instruments on the back of the firming rouble. The FinMin said it has placed RUB 19.84 bln in OFZ out of RUB 20 bln on offer, while the amount of bids at the auction totaled RUB 41.27 bln. The average yield was set at 8.04%, closer to the upper boundary of the 8-8.05% yield guidance, compared to a yield of 8.03% seen on the secondary market the day before. "Despite almost no premium and relatively long tenor, we do not exclude that investors will show speculative demand for all the offered amount," analysts said in a note shortly before the auction. Investors' interest for OFZs was also boosted by the firming rouble, which has been at its strongest since late November vs the dollar on the back of local tax payments and strong oil prices. At its weekly auction on 18 January, the FinMin managed to place RUB 18.6 bln out of RUB 20 bln of OFZ bonds on offer, commencing its 2012 borrowing plan amid strong demand. In the first quarter, the FinMin aims to borrow RUB 284.9 bln via OFZs, while the full-year borrowing plan calls for RUB 1.8 trln, including around \$7 bln on external markets. / Thomson Reuters

- **Sberbank has picked investment banks as its dollar Eurobond issue organisers, a Thomson Reuters news and market analysis service said on Friday (20 Jan).** IFR, which confirmed earlier reports from Reuters' sources, said that Sberbank plans to carry out the deal in the first half of 2012, adding that the issue will be "subject to market conditions." A banking source told Reuters that Sberbank will launch a series of meetings with investors from Monday, 23 January. / Thomson Reuters

- **Vnesheconombank has approached banks for a syndicated loan with pricing and maturity that replicates its \$2.45 bln agreed in April last year, bankers close to the deal said.** Discussions are at a very early stage, with VEB seeking \$800 mln - \$1 bln, one banker added. VEB's \$2.45 bln deal, which is the borrower's biggest-ever, had a three-year tenor and paid a margin of 130 bps over six-month LIBOR. VEB is more willing to compromise on the loan size, rather than face a price hike, and the size could be impacted by tightening liquidity in the market, the banker added. Some lenders faced heavy losses last year after a sell down in the secondary loan market of VEB's \$2.45 bln loan and Russian bank VTB's \$3.13 bln loan signed in July last year, which may deter some international banks from the new deal. "It's a big question mark and it may impact the appetite in the primary market for a new deal," a second banker said. VEB's loan is trading at 91.5 in secondary, after hitting a low of 91.2 in December, while VTB stands at 92.82, after a low of 90.67 in October. VEB was not available to comment. VEB joins several other Central and Eastern European (CEE) borrowers trying to gauge international lenders' capabilities and tap the market at the beginning of the year, as fears over restricted dollar availability and overall liquidity heighten. VEB is rated BBB by S&P and Fitch and Baa1 by Moody's. / Thomson Reuters

- **Russian oil pipeline monopoly Transneft said on Thursday (26 Jan) it may redeem over \$4 bln in Eurobonds at face value after the FinMin said interest payments on such bonds should be subject to tax in Russia.** The FinMin position, in a letter obtained by Reuters, could have a far-reaching impact on issuance by Russian companies via special-purpose vehicles registered in offshore jurisdictions. It comes as PM Vladimir Putin, seeking election as president in March, orders a crackdown on use by state firms of offshore financial structures suspected of being used as a conduit for capital flight. Spokesman Igor Dyomin said Transneft was considering repaying the Eurobonds early due to changes in the tax environment. "We have a plan to accumulate the necessary money ... We may redeem the Eurobonds ahead of schedule in the course of the year." According to the letter, from Deputy FinMin Sergei Shatalov to the Federal Tax Office, interest on Eurobonds issued via SPVs abroad should be "subject to tax on interest payments on the territory of the Russian Federation". The letter, dated 30 December, also said SPVs were technical intermediaries and should not be viewed as the factual recipient of bond payments that could be subject to lower rates of taxation that apply in offshore jurisdictions. Transneft has four dollar Eurobonds outstanding with a combined nominal value of \$3.45 bln and one euro-denominated issue worth EUR 700 mln. Other major Eurobond issuers include Gazprom, along with Sberbank and VTB. Net capital outflows from Russia reached \$84 bln in 2011, the second highest in post-Soviet Russia after the crisis year of 2008. / Thomson Reuters

- **Cyprus said on Thursday (26 Jan) it had secured the second tranche of a EUR 2.5 bln bilateral loan from Russia to cover its financing requirements this year.** The Republic received a EUR 1.32 bln installment, the FinMin said. It received EUR 590 mln in December and the third tranche, also EUR 590 mln, will be disbursed at the end of March. Part of the amount would be used for bond redemptions falling due in coming months, the FinMin said. Cyprus's banking sector is heavily exposed to the troubled Greek economy. Its credit ratings have been slashed over the past 18 months as Europe's debt crisis has also taken its toll. The euro zone minnow, the first to tap bilateral borrowing instead of resorting to a bailout, has been effectively shut out of international capital markets since last May. Yields on its traded bonds have made it too costly to borrow from conventional markets. Cypriot officials have previously said the loan is repayable in 4.5 years and bears an interest rate of 4.5%. / Thomson Reuters

- **Russian real estate developer Sistema-Hals said on Friday (20 Jan) that the size of a credit facility from VTB has increased to \$190 mln from \$66.3 mln.** It has an interest rate of 9.5% and must be repaid by end-2016. The credit facility is to be used to finance ongoing activities and a St. Petersburg shopping and entertainment centre. / Thomson Reuters

- **Russia's Rostelecom said on Monday (23 Jan) its wholly-owned subsidiary Mobitel has secured an RUB 8.3 bln one-year loan from bank VTB to finance repurchase of Rostelecom shares.** The state-controlled telecoms operator earlier approved an up to \$500 mln share buyback. / Thomson Reuters

Markets: STOCKS



Russian stocks rose on this week, reflecting the gains international equities posted following the Fed comments. Russian stocks tracked global gains, with the benchmark RTS index rising 4.7% to 1,566 bps and the rouble-denominated MICEX adding 1.4% to 1,512 bps.

- **Russia's delayed privatisation plan includes the sale of a small stake in pipeline monopoly Transneft alongside a host of other companies over the coming six years, according to a schedule distributed by the EconMin.** The plans, presented by EM Elvira Nabiullina at a meeting of President Dmitry Medvedev's modernisation council, are an update of an original draft released in the summer of 2010. Volatile market conditions have delayed plans to sell several stakes, originally aimed at raising \$200 bln for the state budget as well as improving corporate governance and efficiency at major companies. The latest schedule gives the following timelines:

Transneft. Oil pipeline monopoly Transneft was placed on the government's first privatisation list but was later removed after opposition from the company's management. Activist shareholder and blogger Alexei Navalny had accused it of embezzling \$4 bln connected to the construction of a \$25 bln pipeline, allegations the firm has denied. According to the latest schedule, the government's stake is 78.1% and it aims to sell 3.1% (minus one share) by 2017.

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Rosneft. Russia's largest oil company is already listed following its bumper \$10 bln IPO in 2006 and the state now wants to sell its remaining shares. The state owns 75.1% and aims to sell 25% (minus one share) by 2015 and exit entirely two years later.

VTB. Russia's second-biggest bank kicked off the state's privatisation plan with a secondary listing of a 10% stake in London just under a year ago, raising \$3.3 bln. The state now owns 75.5% and aims to sell 25.1% (minus one share) in 2012-13, and exit completely by 2017.

Sberbank. Russia's largest lender, 57.58% -owned by the state, had planned to sell a 7.6% stake via a secondary share offering in London late last year, but postponed the plans after a sharp drop in its valuation. It now hopes to float the stake in 2012 or 2013.

Sovcomflot. The 100% state-controlled Russian shipping group is expected to be privatised by an IPO some time in 2012 or 2013. The company could raise \$750 mln to \$1.25 bln from the flotation of a 25% stake, sources close to the potential placement told Reuters in July, while the new government plans state that a 50% minus one share stake could be sold. The company owns the world's largest fleet of Arctic, Aframax and ice-class LNG tankers. Its net profit fell 11.3% in 2010 to \$164.3 mln.

Russian Railways. Russia's rail monopoly is in the process of selling off various divisions to private investors while the government plans to offload a 25% minus one share stake from 2013. The rail operator is desperately in need of cash to upgrade aging infrastructure. The country's vast rail network is vital for the transportation of oil, metals and other resources from Russia's heartland to major cities and for export.

Aeroflot. The flagship airline is in the process of merging with five regional carriers, tightening its grip on the Russian market, after which it should proceed with privatisation. The state owns 51.17% and aims to sell it by 2017. Media tycoon Alexander Levedev, who owns Britain's Independent newspaper, owns a 15% stake.

Sheremetyevo. Russia hopes to combine the Moscow airport with smaller Vnukovo, renovate them and sell them off, PM Vladimir Putin said last year. Sheremetyevo, home to national carrier Aeroflot, has been overtaken as Moscow's biggest airport by the privately-owned Domodedovo. The state owns 100% and aims to sell this by 2017.

RusHydro. Russia's biggest hydroelectric power producer is also on the auction block, with the government hoping for a full sale of its 58% stake by 2017. The company is valued at \$9.8 bln, down from \$14.4 bln in the past six months.

FSK. The Russian distribution power grid is 79.11% owned by the government and has been pencilled in for a 4.11% stake sale in 2012 or 2013. The utilities sector has seen its value plummet due to government dithering over tariff reform ahead of this year's presidential election, but FSK has been shielded by its focus on industrial rather than household consumers. The company is valued at \$13 bln.

Rusnano. Russia's \$10 bln technology fund intends to invest in promising hi-tech companies and help create a so-called innovation economy. The tech industry is close to the heart of gadget-loving Medvedev, who wants to modernise Russia's economy and reduce its dependency on oil and gas. Rusnano is run by Anatoly Chubais, the architect of Russia's post-Soviet privatisation in the early 1990s. The state owns 100% and aims to sell 10% in 2012-13.

Alrosa. The Russian diamond monopoly, jointly owned by the government and regional municipalities, is the world's biggest rival to De Beers and has long been touted as an IPO candidate. The company revealed its reserves, 1.3 bln carats, for the first time in May, while the CEO said in March it could raise up to \$3 bln in a share sale in 2012. The state owns 50.9% and aims to sell this by 2017.

Rosselkhozbank. The agricultural bank, the fourth largest Russian bank with assets of \$38.95 bln, is a government agent for federal programmes in the agro sector. The bank works with the rural population and has more than 1,600 offices countrywide. The state owns 100%, and aims to sell 25% (minus one share) by 2015.

Zarubezhneft. The energy explorer develops oil and gas fields mainly abroad, in countries like Vietnam and Cuba. The state aims to sell its 100% stake by 2017.

UAC. United Aircraft Corp is the Russian state's holding company for aircraft manufacturing, responsible for military and civil planes, and is 82.95% owned by the state. It is responsible for the

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Superjet 100, Russia's first passenger plane since the fall of the Soviet Union, as well as a range of fighter planes. The government hopes to sell the company by 2017. / Thomson Reuters

• **Russian fund manager Verno Capital is investing in the country's traditionally strong oil and gas sectors amid pre-election uncertainty, tipping explorers with a strong domestic growth story as well as oil pipeline monopoly Transneft.** Verno, which has around \$160 mln under management, said Bashneft, Rosneft and TNK-BP were positioned to gain most from a combination of depressed market valuations and a persistent high oil price. Russia's oil and gas index was flat in 2011, failing to take advantage of a 13% rise in the price of Brent crude even as oil output hit a post-Soviet high of 10.27 mln barrels per day last year. "Russia's risk premium has gone up as investors are worried about domestic politics. That has outweighed the price of oil as a factor," Verno chief investment officer Dimitri Kryukov said, adding Russian stock valuations may catch up with the oil price after the presidential election in March. Russian stocks are trading at around 4.6 times next year's earnings, a 55% discount to the emerging market average, according to market research. Investors have been spooked by unprecedented street protests against alleged fraud in last December's parliamentary election, which saw Vladimir Putin's United Russia party take a slim majority. Putin has also been the target of demonstrations against his 12 year rule, but remains favourite to return to the Kremlin in a March presidential vote for a six-year term. "Oil and gas is the natural place to look for value. Rosneft (Russia's state-controlled biggest oil explorer) has the Vankor field, which is already producing 300,000 barrels a day," said Verno portfolio manager Bruce Bower, referring to the new bumper oilfield that is expected to pump 500,000 bpd by 2013. He said privately-owned LUKOIL was in a less favourable position due to riskier assets in foreign fields such as Iraq and West Africa and slower growth at home. LUKOIL's crude output has been falling due to depletion of its core fields in Russia's oil heartland of Western Siberia as well as lower-than-expected output at the new deposit of South Khylochuyu. The company has slipped into third place among Russian majors in terms of domestic production behind Rosneft and TNK-BP, part owned by Britain's BP.

CORPORATE GOVERNANCE. Verno is also tipping Gazprom, which is more than doubling its dividend payments at the behest of the government, while Transneft is seen improving its notoriously poor corporate governance and transparency record. "Transneft has recently conducted meetings with sell-side analysts for the first time, which is a huge step. It trades at just 1.5 times earnings so it does not take much to generate a return," said Bower. He added that government plans to further privatise the firm may have led to some state encouragement to be more open with investors. The promotion of Maxim Grishanin, who has been in charge of Transneft's finances and is seen as a pioneer of greater investor contact, is also a good sign, Bower said. Bets for a post-election share-price growth spurt include the utilities sector, which has been battered by uncertainty surrounding tariff reform since the government decided to put off raising household bills during the election cycle. Distribution grids FSK and MRSK Holding are best exposed to any post-election hikes, Bower said. Sectors to avoid include mining, according to Verno, as the commodity prices that support the sector are most at threat from a global economic slowdown. "Mining is most exposed to the global situation, particularly any hiccup in China growth. Prices could fall a long way," Bower said. Another sector to avoid is retail, where a slowdown in inflation is hampering sales growth and margins at the fast-expanding food chains X5 and Magnit. Magnit, in the midst of a breakneck store expansion plan, this month reported a marked slowdown in like-for-like sales growth for the fourth quarter, while X5 said on Friday its underlying sales fell. / Thomson Reuters

Macroeconomic indicators of Russia

| ECONOMIC INDICATORS | PERIOD | LATEST | PREV | YR AGO |
|-----------------------------|---------|---------|----------|----------|
| Nominal GDP (bln USD) | Q3 | 436,7 | 457,9 | 384,6 |
| GDP Y/Y | Q3 | +4.8 | +3.4 | +3.1 |
| CPI M/M | Dec | +0.4 | +0.4 | +1.1 |
| CPI Y/Y | Dec | +6.1 | +5.6 | +8.8 |
| PPI M/M | Dec | +0.2 | +1.6 | +1.0 |
| PPI Y/Y | Dec | +12.0 | +15.7 | +16.7 |
| Ind output M/M | Dec | +2.9 | +0.4 | +4.3 |
| Ind output Y/Y | Dec | +2.5 | +3.9 | +6.3 |
| Retail sales Y/Y | Dec | +9.5 | +8.6 | +6.9 |
| Unemployment (mln) | Dec | 4.64 | 4.77 | 5.40 |
| Real disposable income Y/Y | Dec | +6.3 | +0.3 | +2.8 |
| Real average wage Y/Y | Dec | +4.9 | +7.0 | +6.3 |
| Nominal average wage (rbls) | Dec | 30.856 | 24.296 | 28.027 |
| Capital investment (blnR) | Dec | 1 970.0 | 1 138.0 | 1 676.3 |
| Capital investment Y/Y | Dec | +8.9 | +7.7 | +13.3 |
| Trade surplus (\$bln) | Nov | 17.376 | 16.560 | 10.798 |
| Exports (\$bln) | Nov | 47.702 | 45.947 | 35.504 |
| Imports (\$bln) | Nov | 30.326 | 29.387 | 24.706 |
| Budget balance (bln rbls) | Jan-Dec | +416.5 | +1 343.2 | -1 812.0 |
| CBR reserves (\$bln) | 20-Jan | 499.7 | 497.1 | 484.7 |
| Monetary base (bln rbls) | 16-Jan | 6.834 | 7.150 | 5.661 |
| M2 (blnR) | 1-Dec | 21.962 | 21.381 | 20.012 |
| REER rouble | Jan-Dec | +3.9 | +3.7 | +6.9 |
| Oil output (mln bpd) | Nov | 10.34 | 10.26 | 10.06 |
| Oil output (mln T) | Dec | 43.6 | 42.3 | 43.0 |
| Gazprom gas output (bcm) | Dec | 63.0 | 60.7 | 63.1 |
| URALS oil, \$/bbl | 27-Jan | 109.29 | 107.60 | 93.60 |
| BRENT oil, \$/bbl | 27-Jan | 110.29 | 108.95 | 96.55 |

| ANNUAL DATA | 2011 | 2010 | 2009 | 2008 | 2007 |
|-----------------------|------|--------|--------|--------|--------|
| Nominal GDP (bln USD) | n/a | 1457,0 | 1291,7 | 1403,4 | 1349,3 |
| GDP (pct) | n/a | +4.0 | -7.9 | +5.2 | +8.5 |
| CPI Y/Y (pct) | +6.1 | +8.8 | +8.8 | +13.3 | +11.9 |
| M2 (bln R) | n/a | 20,173 | 15,698 | 13,49 | 13,27 |
| Oil/gas cond.(mln T) | 505 | 505 | 494 | 488 | 491 |
| Natural gas (bcm) | n/a | 508 | 582 | 665 | 653 |
| Coal (mln T) | n/a | 323 | 298 | 326 | 315 |
| Grain (mln T) | n/a | 61 | 97 | 108 | 82 |
| Beet Sugar (mln T) | n/a | 2.7 | 3.3 | 3.6 | 3.2 |
| Gold (T) | n/a | 201 | 205 | 184 | 163 |

ECONOMIC BULLETIN

Short term has no future

DEXIA

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| GOVT FORECASTS | 2011 | 2012 | 2013 |
|--------------------------------------|--------------------|-------------------|-------------------|
| Nominal GDP (bln USD) | 1609,9 | n/a | n/a |
| GDP Y/Y (pct) | +4.2 - +4.5 (+4.1) | +3.7 (+3.7) | +3.9 (+4.0) |
| Industry output (pct) | 4.7 | +3.6 (+3.4) | +3.8 (+3.9) |
| CPI Y/Y (pct) | 6.1 | 5.0-6.0 (5.0-6.0) | 4.5-5.5 (4.5-5.5) |
| Cap. Investment pct | +6.2 | +7.8 (+7.8) | +7.1 (+7.1) |
| Retail Sales pct | +7.2 | +5.5 (+5.5) | 5.3 (5.3) |
| Exports \$ bln | 521.4 | 513.4 (533.1) | 515.0 (535.9) |
| Imports \$ bln | 323.3 | 368.6 (397.4) | 412.7 (444.6) |
| Trade Balance \$ bln | 198.1 | 144.8 (135.7) | 102.3 (91.3) |
| Urals oil, ave., \$/bbl | 108.75 | 100 (100) | 97 (97) |
| Rouble rate/\$1 | 29.34 | 31.1 (28.7) | 31.3 (29.4) |
| Rouble REER | +7.7 (+2.6) | +0.2 (+3.5) | +2.0 (0.0) |
| Reserve fund, trln RUB as of yearend | 1.450 (1.408) | 1,568 | 1,619 |
| Revenue, trln RUB | 11.146 (11.008) | 11.779 (10.615) | 12.729 (11.674) |
| Expenditure, trln RUB | 11.008 (11.023) | 12.670 (12.185) | 13.766 (13.418) |
| Budget deficit, trln RUB | +0.145 (0.0) | -0.891 (-1.570) | -1.037 (-1.744) |
| Budget deficit, % of GDP | +0.8 | -1.5 (-2,7) | -1.6 (-2,7) |
| Real incomes, % | +0.8 | 4,8 (5,0) | 4,8 (4,8) |

| BALANCE OF PAYMENTS (\$bln) | 2011 | 2010 | 2009 |
|-----------------------------|-------|-------|-------|
| Current account | 101.1 | 70.3 | 48.6 |
| Cap/fin account | -75.3 | -25.5 | -43.5 |
| Net errors/omissions | n/a | -8.0 | -1.7 |
| Reserve assets | n/a | -36.8 | -3.4 |

LONG-TERM FOREIGN CURRENCY RATINGS

| | | | |
|---------|---------------------|------|------------------|
| Moody's | (December 12, 2008) | Baa1 | (outlook stable) |
| S&P | (December 04, 2011) | BBB | (outlook stable) |
| Fitch | (January 16, 2012) | BBB | (outlook stable) |

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