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MNI Russia Business Report December 2014

Insight and data for better decisions

MNI Russia Business Report

MNI Russia Business Sentiment is a monthly poll of Russian business executives at companies listed on the Moscow Exchange. Companies are a mix of manufacturing, service, construction and agricultural firms.

The survey provides the first monthly snapshot of economic and business conditions, ahead of official data and other business confidence data in Russia.

Respondents are asked their opinion on whether a particular business activity has increased, decreased or remained the same compared with the previous month as well as their expectations for three months ahead, e.g. Is Production Higher/Same/Lower compared with a month ago?

A diffusion indicator is then calculated by adding the percentage share of positive responses to half the percentage of those respondents reporting no change. An indicator reading above 50 shows expansion, below 50 indicates contraction and a result of 50 means no change.

The survey looks at key business metrics including orders, production, pricing, inventories, credit availability and exchange rate impact. Sentiment on both current and future expectations allows users to comprehensively monitor business and economic trends.

Whether you are forecasting the Russian economy, analysing where to invest in Russia or want to know how other companies in your sector are performing, our monthly intelligence offers an unrivalled insight into exactly what Russia's largest companies are thinking.

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MNI Russia Business Report - December 2014

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Rouble on the Ropes

The rouble has been left black and blue from the punches thrown at it over the past year, with recent events turning into a full-blown currency crisis. Nevertheless, the Central Bank of Russia hasn't thrown in the towel, at least for now.

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Russia has faced many Western opponents over the past year following its annexation of Crimea, culminating in the imposition of economic sanctions against some of its largest companies and most prominent individuals. While these have no doubt hurt, it is the slide in the price of oil to less than \$60 a barrel that has really hurt.

The one-two punch of Western economic sanctions and the collapse of oil prices have caused the rouble to weaken significantly over the past year. In response, the Central Bank of Russia (CBR) raised the key rate in five of its monthly monetary policy meetings by a total of 500 basis points and abandoned a managed floating exchange rate under which it spent more than \$30 billion in October alone trying in vain to stop the slide in the rouble.

Even so, such actions failed to stem the weakening in the rouble and so at 1:00am Moscow time on December 16, the CBR announced a huge 650 basis points hike in the key rate to 17% just days after an official meeting when it raised it by 100 basis points to 10.5%.

Rather than help support the rouble, however, the drastic action fuelled fears causing the rouble to weaken from 58.2 to 80.1 to the US dollar, the greatest daily drop since the 1998 crisis in what is now being called "Black Tuesday". While the rouble recovered to 67.9 to the US dollar by the end of trading, the size of the hike had shown how serious the situation is in Russia and just how slow the CBR has been to react to the significant weakening in the currency.

Faced with a currency crisis, the CBR announced that it would implement seven measures to attempt to maintain stability. These included a pledge to recapitalise Russian credit institutions in 2015, a temporary relaxing of banking standards requiring banks to recognise losses on their securities portfolios

and an increase in opportunities to buy foreign exchange funds through auctions held by the CBR. Following the announcement of the measures, the rouble improved significantly to register the largest daily appreciation since the 1998 crisis.

While the CBR has a range of tools it can use to try and stem the decline in the rouble, a further fall in the price of oil could well leave it powerless with speculators seizing their chance to land a knockout punch.

George Brown

Junior Economist

MNI Indicators



Executive Summary

The MNI Russia Business Sentiment Indicator increased marginally to 47.3 in December from 46.8 in November, remaining below the 50 level that separates expansion from contraction.

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Almost 80% of our panel thought that overall business conditions had not changed since November, while around 14% of respondents reported that they had worsened. Confidence of both manufacturing and service sector companies declined in December, while sentiment among construction companies rose to the 50 level that separates optimism from pessimism.

Looking ahead, there was a decline in the near-term outlook, but companies were still relatively more optimistic about future business conditions. The Future Expectations Indicator fell by 1.4% to 55.3 in December from 56.1 in November.

New Orders remained at a record low level of 48.3 and Export Orders remained in contraction for the fifth consecutive month, albeit improving to 49.0 in December. With demand weakening, Production fell sharply for the second consecutive month to 47.0, the lowest level in the survey's history and into contraction.

Western economic sanctions continued to take their toll on our panel of Moscow Exchange-listed companies who reported that their Financial Position was in the worst shape since the survey began, falling to 50.5 in December. They also continued to report that their Availability of Credit had been severely restricted, in spite of a rise to 42.3.

In spite of the depreciation in the rouble, respondents reported that Input Prices had eased slightly to 50.0 in December, the threshold that separates expansion from contraction.

In line with Input Prices, firms in our panel reported a lower increase in the prices charged for their goods and services with the Prices Received Indicator falling slightly to 50.8 in December.

Having shown resilience in recent months, the employment landscape finally worsened in December. The Employment Indicator fell to an 11-month low of 49.5 this month.

The build-up of Inventories slowed to 50.7 in December, although remained at a relatively high level due to the weak level of demand.

Rate hikes by the Central Bank of Russia appear to have begun to flow through to businesses in December, with the Interest Rates Paid indicator increasing to 50.0 in December.

Six out of the 15 components in the MNI Russia Business Sentiment survey improved in December, 10 of the 16 future expectations indicators fell on the month.

Overview

	Oct-14	Nov-14	Dec-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	46.7	46.8	47.3	Sep-14	-	46.9	0.5	1.1%
Future Expectations	57.6	56.1	55.3	-	Jul-14	56.3	-0.8	-1.4%
Production								
Current Conditions	54.3	50.8	47.0	-	series low	50.7	-3.8	-7.5%
Future Expectations	53.5	52.4	51.6	-	Jun-14	52.5	-0.8	-1.5%
New Orders								
Current Conditions	52.8	48.3	48.3	Nov-14	-	49.8	0.0	0.0%
Future Expectations	54.0	52.9	52.1	-	Jul-14	53.0	-0.8	-1.5%
Export Orders								
Current Conditions	49.3	47.7	49.0	Oct-14	-	48.7	1.3	2.7%
Future Expectations	51.1	52.5	52.1	-	Oct-14	51.9	-0.4	-0.8%
Productive Capacity								
Current Conditions	50.0	50.5	50.0	-	series low	50.2	-0.5	-1.0%
Future Expectations	51.0	50.5	50.5	Nov-14	-	50.7	0.0	0.0%
Order Backlogs								
Current Conditions	49.0	49.0	49.3	Feb-14	-	49.1	0.3	0.6%
Future Expectations	47.0	47.5	47.0	-	Sep-14	47.2	-0.5	-1.1%
Employment								
Current Conditions	50.0	50.0	49.5	-	Jan-14	49.8	-0.5	-1.0%
Future Expectations	50.5	50.5	48.5	-	Dec-13	49.8	-2.0	-4.0%
Inventories								
Current Conditions	49.3	52.0	50.7	-	Oct-14	50.7	-1.3	-2.5%
Future Expectations	48.6	49.3	48.6	-	Sep-14	48.8	-0.7	-1.4%
Input Prices								
Current Conditions	50.0	50.8	50.0	-	series low	50.3	-0.8	-1.6%
Future Expectations	50.0	50.0	50.0	Nov-14	-	50.0	0.0	0.0%
Prices Received								
Current Conditions	50.8	51.0	50.8	-	Aug-14	50.9	-0.2	-0.4%
Future Expectations	50.5	50.0	50.5	Oct-14	-	50.3	0.5	1.0%
Financial Position								
Current Conditions	52.5	51.3	50.5	-	series low	51.4	-0.8	-1.6%
Future Expectations	58.1	58.4	57.6	-	Aug-14	58.0	-0.8	-1.4%
Interest Rates Paid								
Current Conditions	49.5	49.5	50.0	Sep-14	-	49.7	0.5	1.0%
Future Expectations	50.0	50.5	50.5	Nov-14	-	50.3	0.0	0.0%
Effect of Rouble Exchange Rate								
Current Conditions	49.4	46.2	52.4	May-14	-	49.3	6.2	13.4%
Future Expectations	49.7	49.7	49.1	-	Jun-13	49.5	-0.6	-1.2%
Supplier Delivery Times								
Current Conditions	50.0	50.0	50.0	Nov-14	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Nov-14	-	50.0	0.0	0.0%
Availability of Credit								
Current Conditions	47.8	41.5	42.3	Oct-14	-	43.9	0.8	1.9%
Future Expectations	53.6	53.4	52.6	-	Jul-14	53.2	-0.8	-1.5%

The MNI Russia Business Indicator stood at 47.3 in December...

...compared with 46.8 in November.



Economic Landscape

At the conclusion of an after-hours meeting running into the early morning of December 16, the Central Bank of Russia surprised markets with a 650 basis point rate hike. What followed was one of the most volatile trading days in the rouble's history, referred to as "Black Tuesday".

At the conclusion of an after-hours meeting running into the early morning of December 16, the Central Bank of Russia surprised markets with a 650 basis point rate hike. What followed was one of the most volatile trading days in the rouble's history, referred to as "Black Tuesday", with the currency shrugging off an early rally in the order of 10% to be down as low as 80.1 roubles per US dollar. The rouble has since recovered to around 60 roubles per US dollar following a further package of measures to support the banking sector, including liquidity injections, looser capital requirements and the prospect of large-scale recapitalisation. What remains clear though is that the Russian economy remains under massive pressure from a perfect storm in financial and geopolitical conditions, not least falling oil prices and Western sanctions.

Russian economic growth slowed slightly in the third quarter of this year, although the weakening in the rouble and falling oil prices since September point to a contraction in growth in Q4. The sustained fall in oil prices and the increasing likelihood that sanctions will remain in place at least for the next year has prompted Russia's Economic Development Ministry to downgrade their economic growth forecast for 2015.

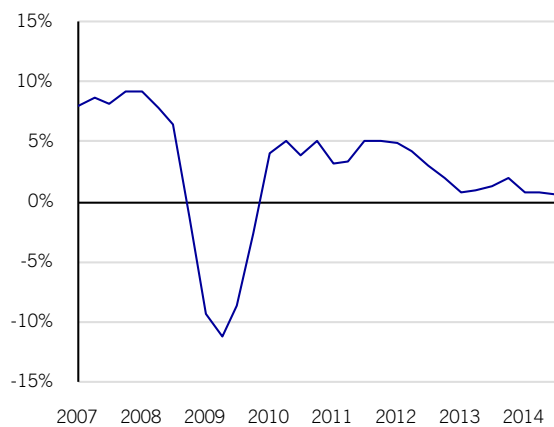
Economic growth slows

The latest GDP figures from the Federal Statistics Service revealed that the economy slowed to 0.7% in the three months to September from 0.8% in the previous quarter. The slowdown in growth was, however, much more muted than many had anticipated given the imposition of economic sanctions against Russia and the ban on Western food imports on the economy.

While more granular level GDP data is not yet available, many are attributing the resilience of the economy to a good harvest and strong industrial production on the back of import substitution and the commencement of a gas pipeline project to China. Nevertheless, since the end of Q3, Russia has been hit by a significant weakening in the rouble and a slide in oil prices which will likely take their toll on the economy. We therefore anticipate a contraction on the year in the final quarter of 2014 before slipping into recession in 2015.

Russia's Economic Development Ministry had predicted GDP growth of 2.5% this year before the turmoil in Ukraine. This has, though, been dramatically reduced to just 0.5%, following paltry growth of 1.3% in 2013. Recently, the economy ministry revised their forecast for 2015 to -0.8%, considerably down from its previous estimate of 1.2%. The ministry cited reduced expectations in the price of oil from \$100 to \$80 a barrel

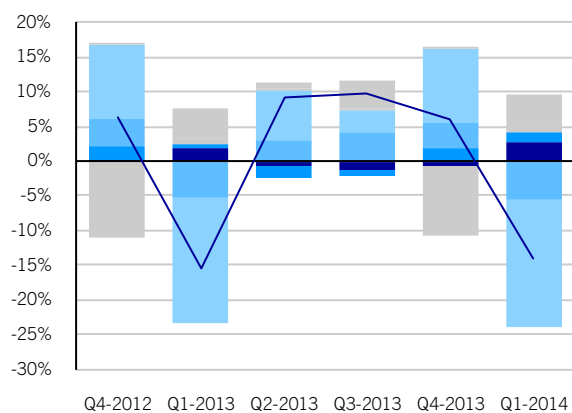
Economic Growth



— GDP Growth Y/Y %

Source: Federal State Statistics Service of Russia

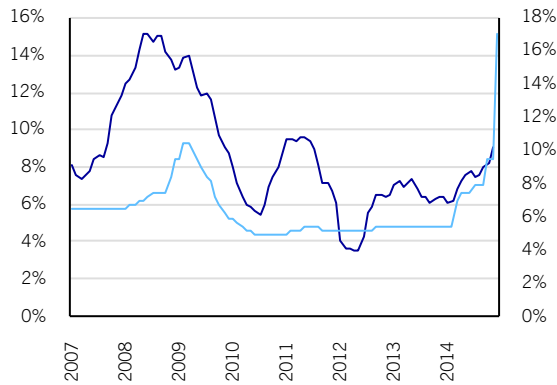
Contribution to Economic Growth



■ Discrepancies ■ GFCF — GDP Growth Q/Q %
 ■ Net Exports ■ GFCE
 ■ PFCE ■ Inventories

Source: Federal State Statistics Service of Russia

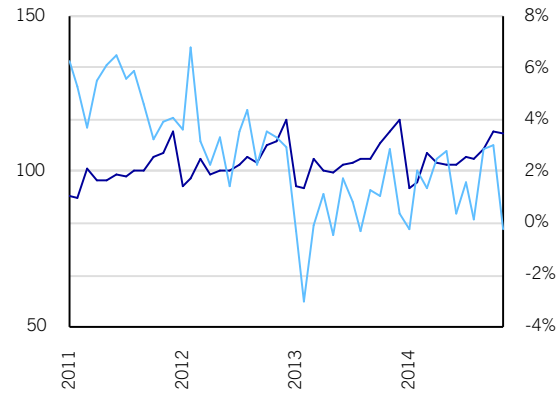
Inflation and Interest Rate



— CPI Y/Y%*
— 7-day repo rate (RHS)**

Source: *Federal State Statistics Service of Russia, **Central Bank of Russia

Industrial Production



— Industrial Production
— Industrial Production Y/Y% (RHS)

Source: Federal State Statistics Service of Russia

and the likelihood that sanctions will remain in place throughout 2015 for the downward revision.

Industrial production falls in November

Industrial production fell by 0.4% on the year in November following growth of 2.9% in October. On a monthly basis, industrial production fell by 0.2% in November after growing by 5.1% in October.

The decline was led by manufacturing output, which fell by 3% on the year after rising 3.6% the month before. The Russian ban on Western food imports has provided a boost to domestic food manufacturers, which accounts for the strong growth for both September and October.

Industrial production was boosted by utilities output, which grew by 7% on the year in November following an increase of 2.8% in October as construction started on a new gas pipeline to China following the signing of a \$400 billion contract in May. Growth in mining and quarrying output picked up somewhat, increasing to 2.5% on the year in November from 1.9% in the previous month.

In the first 10 months of 2014, industrial production grew 1.6% on the year compared with growth of 0.2% in the same period a year ago.

Russia's Economic Development Ministry forecasts that industrial output will expand by about 1.7% this year after growing by just 0.4% in 2013.

Inflation rises in November

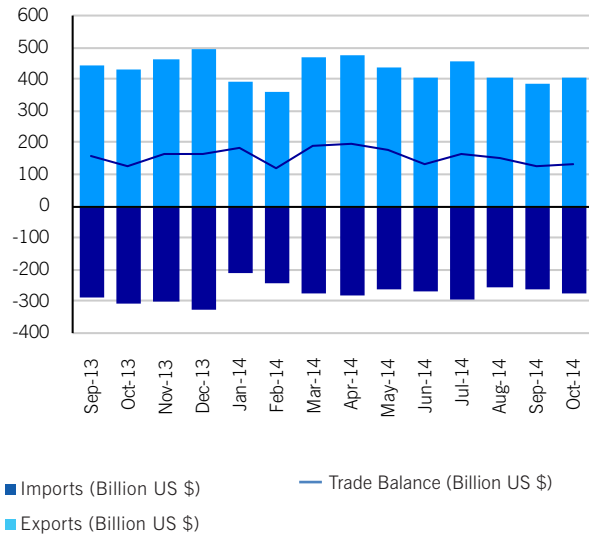
Consumer price inflation accelerated to 9.1% in November from 8.3% in October, the highest since June 2011. Following a ban on food imports from Western nations, food price inflation rose to 12.6% in November driven by higher prices for fruit and vegetables which have increased 11.1% on the year. Even after stripping out the prices of food and fuel, core inflation accelerated to 8.9% from 8.4% in the previous month, the highest since November 2010.

Russia's Economy Ministry recently forecast that inflation will be 9% by the end of 2014 and that it would ease to around 7.5% at the end of 2015.

Key policy rate at 17%

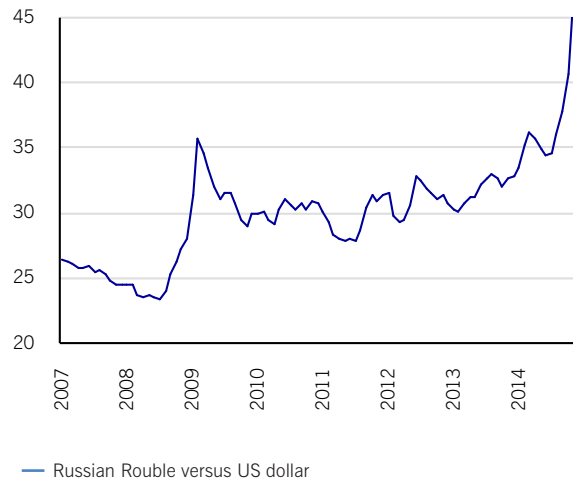
In a surprise move, the Central Bank of Russia increased the key interest rate by 650 basis points to 17% in the

Trade Balance



Source: Central Bank of Russia

Rouble Exchange Rate



Source: Central Bank of Russia

very early hours of the morning on December 16. The move came just days after its meeting on December 11, when it had increased rates by 100 basis points to 10.5%. Any success in the attempt to stem the slide in the rouble was short-lived, however, with the rouble relinquishing all of the 10% gain seen directly after the announcement in the next day's trading, plus more. The central bank has now raised the benchmark interest rate six times this year by a total of 1,150 basis points.

What was notably absent from the statement after the central bank meeting of December 11, when rates were increased just 100 basis points, was any acknowledgement that affirmative action was required to tackle the pronounced rout in the rouble. Central bank governor Elvira Nabiullina said that the rate rise was to curb inflation, rather than to steady the currency and commented that the rouble was undervalued by fundamental measures and would take time to appreciate.

Rouble hits record low

The rouble fell to an all-time intraday low of 80.1 against the US dollar on December 16 after the central bank's decision the night before to raise interest rates by 650

basis points caused a wave of speculative betting against the currency.

Following an intraday fall in the exchange rate to as low as 80.1, the currency finished the day trading at around 67.9 roubles per US dollar. Authorities intervened again on Wednesday with a further a package of measures to support the banking sector, including liquidity injections, looser capital requirements and the prospect of large-scale recapitalisation.

Trade surplus narrows in October

Russia's trade surplus narrowed to \$10.8 billion in October, from \$13 billion a month earlier, and was below the \$12.8 billion recorded a year earlier.

Exports fell to \$37.9 billion in October, down from September's \$38.8 billion, while imports rose to \$27.1 billion in October from \$25.8 billion in September.

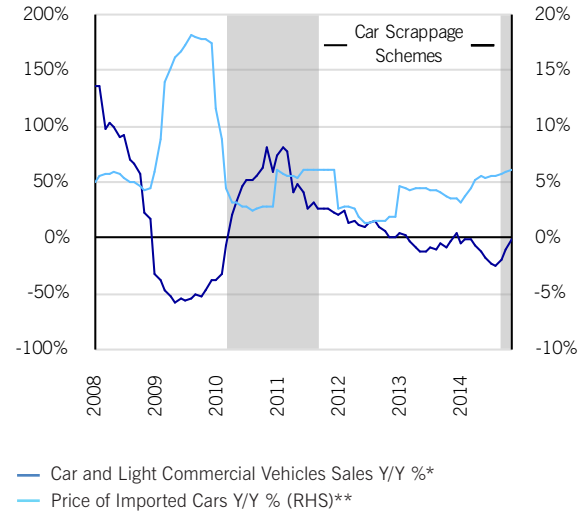
Russia is the second largest exporter of oil in the world, and the fall in global oil prices therefore accounts for the steep 12.8% decline on the year in exports. Oil prices have continued to fall since September to almost \$65 a barrel in December, and this trend is likely to continue in the months to come.

Car sales fall in November

In November, 229,439 cars were sold in Russia, 1.1% below the level in the same month a year earlier but up from a 9.9% contraction seen in the previous month.

The 11 months to November saw a decline of 11.6% in car sales compared with the same period a year earlier. The government has recently introduced a car scrappage and trade-in scheme, in an attempt to kick-start the market. Under the programme, consumers who trade in a car which is at least six years old are eligible for a discount of at least 40,000 roubles off a new vehicle. While the government measures have not reversed the downward trend in car sales, it has certainly helped to mitigate it. November's decline was considerably below the 25.8% fall seen in August, one month before the introduction of the scrappage scheme.

Car Sales



Source: *Association of European Businesses, ** Federal State Statistics Service

Industrial production fell by 0.4% on the year in November...

...following growth of 2.9% in October.

Almost 80% of our panel thought that overall business conditions had not changed...

...while 14% of respondents reported that they had worsened.



Indicators

Business confidence among Russian companies improved slightly in December but remained in contraction as it continued to be hit by Western sanctions, the fall in oil prices and the depreciation in the rouble.

MNI Russia Business Indicator

Business Sentiment Improves Marginally



Business confidence among Russian companies improved slightly in December but remained in contraction as it continued to be hit by Western sanctions, the fall in oil prices and the depreciation in the rouble.

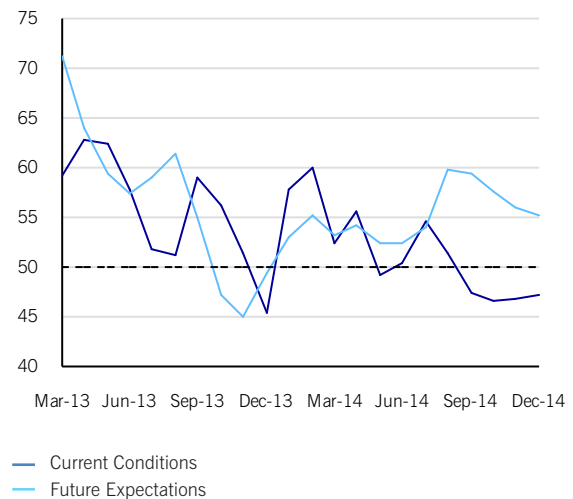
The MNI Russia Business Indicator stood at 47.3 in December compared with 46.8 in November. Almost 80% of our panel thought that overall business conditions had not changed since November, while around 14% of respondents reported that they had worsened. Confidence of both manufacturing and service sector companies declined in December, while sentiment among construction companies rose to the 50 level that separates optimism from pessimism.

Looking ahead, there was a decline in the near-term outlook, but companies were still relatively more optimistic about future business conditions. The Future Expectations Indicator fell by 1.4% to 55.3 in December from 56.1 in November.

While overall sentiment managed a moderate improvement, there was a sharp fall in other key metrics in the report. The Production Indicator fell to a record low while employment conditions to the lowest since January.

Latest official data revealed that economic growth slowed to 0.7% in the three months to September, down from 0.8% in the previous quarter. There is a clear correlation between GDP growth and quarterly movements in the MNI Russia Business Sentiment Indicator, reflected in the decline in the three-month trend to 51.2 in September from 51.8 in June. With sentiment averaging 46.9 in the October-December quarter, the weakest quarter on record, there is likely to be further easing in economic growth in the final quarter of 2014.

MNI Russia Business Indicator



MNI Russia Business Indicator

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Current Conditions	45.5	54.6	51.5	47.5	46.7	46.8	47.3

Subsequent events have seen a run on the rouble which has hit a record low. A sharp hike in interest rates to 17% by the Russian Central Bank followed by intervention has managed to stabilise the currency somewhat although it remains under pressure.

Companies continued to suffer from the economic sanctions which have prevented many of Russia's largest state-owned companies from raising capital on Western financial markets. The Availability of Credit Indicator, though, improved marginally to 42.3 from November's outturn of 41.5 but remained well below the 50 line that separates expansion from contraction.

The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, rose to 52.4 in December from a series low of 46.2 in the previous month. The improvement is likely due to the growth in demand from abroad as Russian goods and services become cheaper to foreign companies, reflected by the rise in Export Orders to 49.0 in December. Even so, the indicator remained below the 50 threshold which suggests that the negative impact of Western sanctions are outweighing any benefit of the weak rouble.

Six out of the 15 components in the MNI Russia Business Sentiment survey improved in December, 10 of the 16 future expectations indicators fell on the month.

Sectors - Overall Business Conditions

	Manufacturing	Services	Construction
Current Conditions	↓ > 50	↓ < 50	↑ = 50
Future Expectations	↓ > 50	↓ > 50	↓ > 50

MNI Russia Business Indicator

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Future Expectations	49.5	54.0	59.8	59.4	57.6	56.1	55.3

Orders

New Orders Remain at Lowest on Record



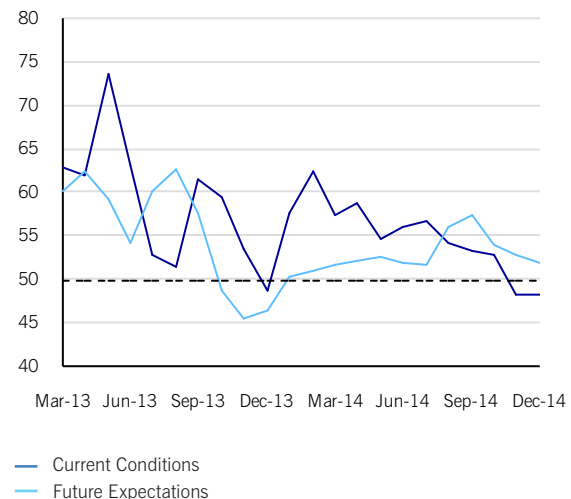
While domestic orders remained at the lowest on record, the further decline in the rouble provided a small boost to orders from abroad. Still, export orders remained in contraction as the Western economic sanctions outweighed the benefits of the weaker currency.

Demand for Russian goods and services continued to decline in December with the New Orders Indicator standing at 48.3 in December, the lowest reading in the survey's history. The EU and US have imposed Tier 3 sectoral sanctions against Russia, who have retaliated by imposing a ban on Western food imports. Faced with a highly uncertain business environment, companies' order books across the three sectors have weakened, with the New Orders September-December average of 49.8 the lowest quarter on record.

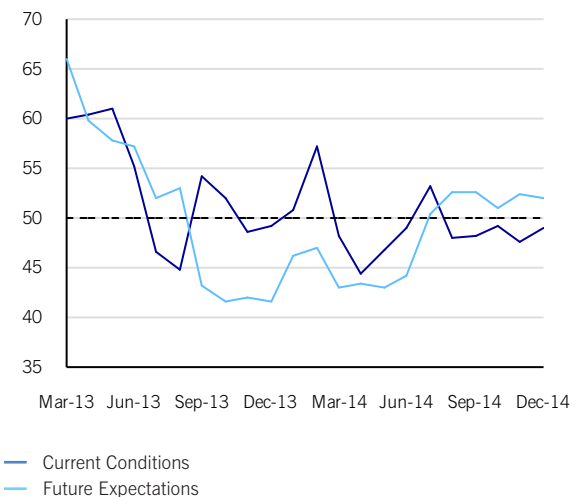
With the rouble weakening to a record low of 55 to the US dollar during our survey period, Russian goods and services have become cheaper to foreign companies, causing the Export Orders Indicator to improve to 49.0 in December from 47.7 in November. Western economic sanctions have prevented trade with certain Russian companies, resulting in numerous joint-ventures having to be cancelled, while new trade agreements have become a rarity amid fears of additional sanctions. The rouble has declined much more significantly since and hit a fresh low of 80.1 to the US dollar following an emergency rate hike by the Central Bank of Russia on December 16. It has since recovered to around 60 to the US dollar which should help exporters that are unaffected by the sanctions, although the negative impact of the sanctions is currently outweighing any benefit.

Our panel was slightly less optimistic about export orders in the next three months, with the Expectations Indicator falling to 52.1 in December from 52.5 in November as

New Orders



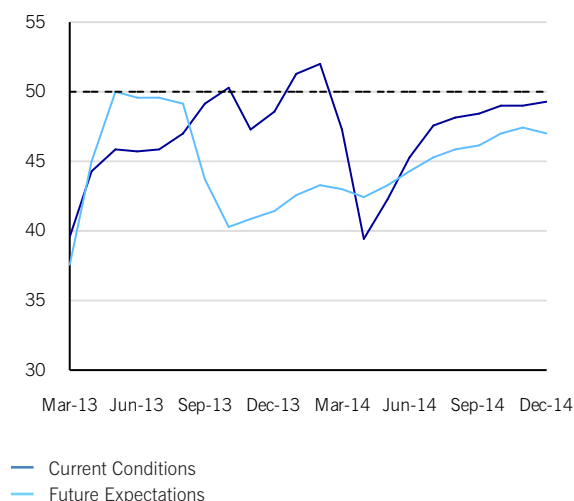
Export Orders



Orders - Current Conditions

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
New Orders	48.8	56.8	54.3	53.3	52.8	48.3	48.3
Export Orders	49.2	53.3	48.0	48.3	49.3	47.7	49.0
Order Backlogs	48.7	47.7	48.2	48.5	49.0	49.0	49.3

Order Backlogs



Sectors - Current Conditions

	New Orders	Export Orders	Order Backlogs
Manufacturing	↑ = 50	↑ < 50	↑ > 50
Services	↓ < 50	↑ = 50	↔ < 50
Construction	↔ < 50	↔ = 50	↓ < 50

Sectors - Future Expectations

	New Orders	Export Orders	Order Backlogs
Manufacturing	↓ > 50	↓ = 50	↔ < 50
Services	↑ < 50	↔ > 50	↑ < 50
Construction	↔ > 50	↔ = 50	↓ < 50

companies continued to anticipate that the weakening in the rouble would eventually help to boost foreign demand.

Order Backlogs remained in contraction for the tenth consecutive month, with the Order Backlogs Indicator improving only marginally to 49.3 in December from 49.0 in November. Nevertheless, companies revised down their Expectations for Order Backlogs to 47.0 in December from 47.5 in November. Except for May last year, when the Future Expectations Indicator was exactly 50.0, expectations for Order Backlogs have always been in contraction, although have trended up gradually since October 2013.

Orders - Future Expectations

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
New Orders	46.5	51.8	56.0	57.4	54.0	52.9	52.1
Export Orders	41.7	50.4	52.6	52.6	51.1	52.5	52.1
Order Backlogs	41.5	45.4	45.9	46.2	47.0	47.5	47.0

Output and Employment

Production Plummets to Series Low



Production fell to the lowest level on record among our panel of Moscow Exchange-listed Russian companies and employment conditions deteriorated to the worse since January.

The Production Indicator plummeted by 7.5% to a series low of 47.0 in December from 50.8 in the previous month, falling into contraction for the first time in the history of the survey. All three sectors surveyed scaled back their production in December, led by manufacturing companies which joined the rest of the sectors by falling into contraction.

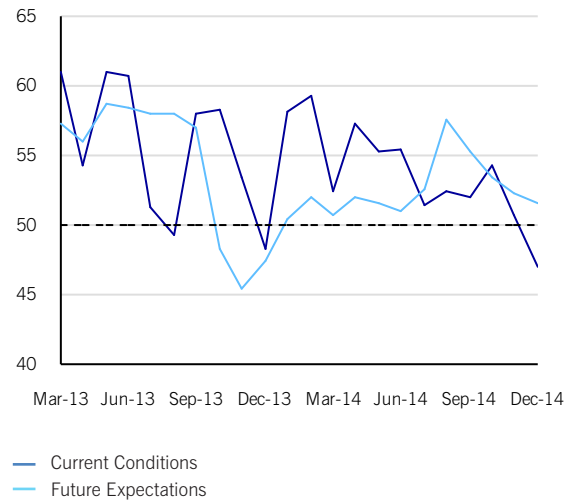
Western sanctions against the Russian economy have taken their toll on our panel of companies in recent months, causing the demand backdrop to considerably worsen. Indeed, our panel reported that they had received fewer orders from both domestic and foreign firms this month.

Expectations for Production in the coming three months fell in tandem by 1.5% to 51.6 in December from 52.4 in November, the lowest level since June.

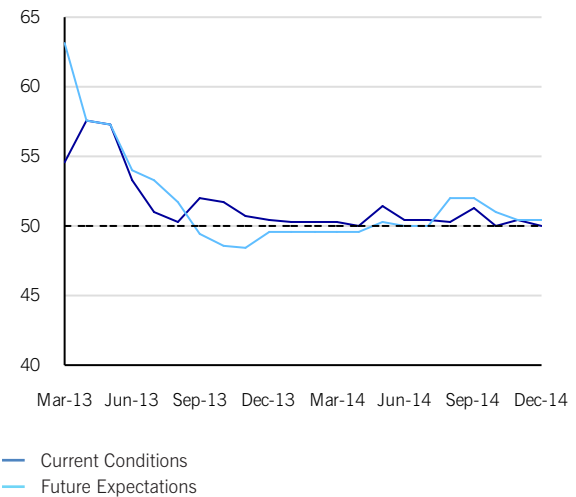
Official data showed that industrial production contracted by 0.4% on the year in November following growth of 2.9% in October. On a monthly basis, industrial production fell by 0.25% in November after growing by 5.1% in October.

Weak consumer demand and a tough economic climate have left many companies with a high degree of excess capacity and evidence from the survey suggests that firms have done little to cut back in recent months, with the Productive Capacity Indicator falling only slightly to return to a series low of 50.0 in December from 50.5 last month.

Production



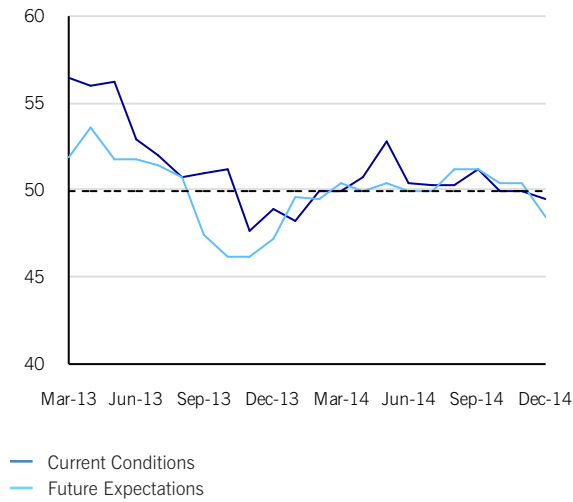
Productive Capacity



Output and Employment - Current Conditions

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Production	48.3	51.5	52.5	52.0	54.3	50.8	47.0
Productive Capacity	50.5	50.5	50.3	51.3	50.0	50.5	50.0
Employment	49.0	50.3	50.3	51.3	50.0	50.0	49.5

Employment



Sectors - Current Conditions

	Production	Productive Capacity	Employment
Manufacturing	↓ < 50	↔ = 50	↓ < 50
Services	↓ < 50	↔ = 50	↔ = 50
Construction	↓ < 50	↔ = 50	↔ = 50

Sectors - Future Expectations

	Production	Productive Capacity	Employment
Manufacturing	↓ > 50	↔ > 50	↓ < 50
Services	↓ > 50	↔ = 50	↔ = 50
Construction	↔ > 50	↔ = 50	↓ < 50

Having shown resilience in recent months, the employment landscape finally worsened in December. The Employment Indicator fell to an 11-month low of 49.5 in December from 50.0 in November.

Output and Employment - Future Expectations

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Production	47.5	52.6	57.7	55.3	53.5	52.4	51.6
Productive Capacity	49.7	50.0	52.0	52.0	51.0	50.5	50.5
Employment	47.2	50.0	51.3	51.3	50.5	50.5	48.5

Prices

Exchange Rate Helping Businesses



In spite of the depreciation in the rouble, respondents reported that input costs remained steady in December.

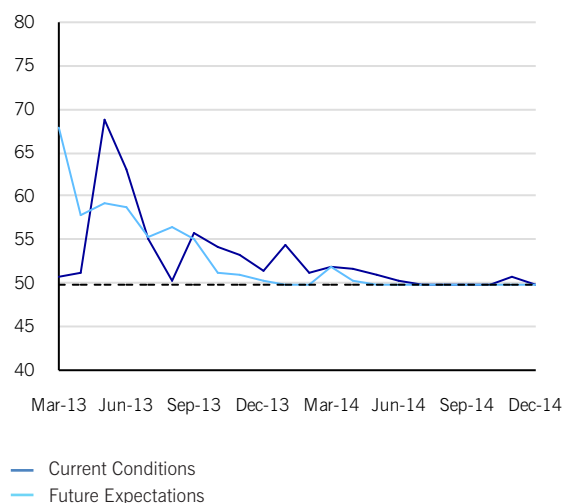
The Input Prices Indicator eased slightly to 50.0 in December, the threshold that separates expansion from contraction, from 50.8 in November. Companies, expected prices to remain stable over the next three months, with the Expectations Indicator remaining flat at 50.0.

Official figures showed that consumer price inflation accelerated to 9.1% in November from 8.3% in October, the highest since July 2011. Following a ban on food imports from Western nations, food price inflation rose to 12.6% in November driven by higher prices for fruit and vegetables which have increased 11.1% on the year. Even after stripping out the prices of food and fuel, core inflation accelerated to 8.9% from 8.4% in the previous month, the highest since November 2010. The Central Bank of Russia has raised the official interest rate six times by a total of 1,150 basis points this year in a bid to counter rising prices and a falling rouble and has stated that it is prepared to use its massive foreign exchange reserves to defend the rouble if needed.

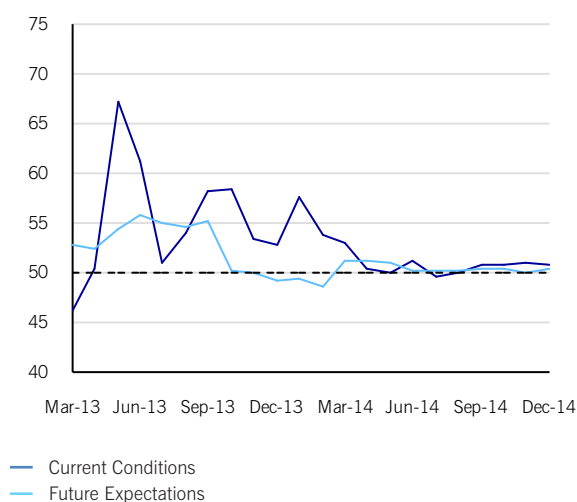
In line with Input Prices, firms in our panel reported a lower increase in the prices charged for their goods and services with the Prices Received Indicator falling slightly to 50.8 in December from 51.0 in the previous month.

Inflationary pressures have been compounded by the rapid descent of the rouble to a fresh low of 55 to the US dollar towards the end of our survey period, with the full effect likely to be gauged in the January survey. The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, rose to 52.4 in December after

Input Prices



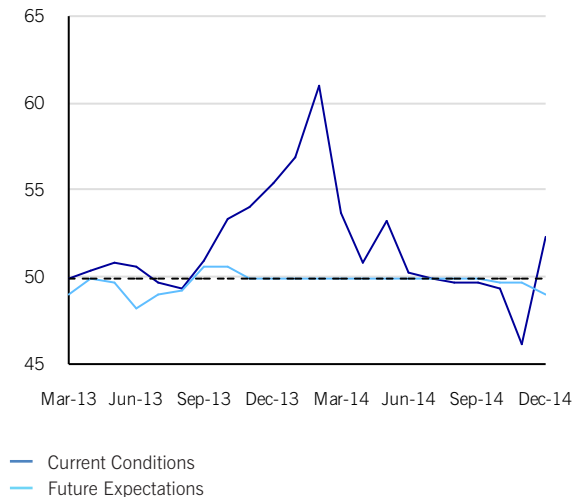
Prices Received



Prices - Current Conditions

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Input Prices	51.5	50.0	50.0	50.0	50.0	50.8	50.0
Prices Received	52.8	49.7	50.0	50.8	50.8	51.0	50.8
Exchange Rate	55.4	50.0	49.7	49.7	49.4	46.2	52.4

Effect of Rouble Exchange Rate



falling to a series low 46.2 in the month before. Businesses are asked whether the exchange rate is helping or hurting their company and a value above 50 shows more firms reported that it was helping, while a reading below 50 shows the exchange rate was hurting.

Economic sanctions and the slide in the price of oil caused the rouble to breach the Central Bank of Russia's trading range in October sparking unlimited interventions from the central bank to defend the currency, the first time it has had to do so since May. In October alone, the central bank spent more than \$30 billion defending the rouble. The rapid and significant drain on Russia's reserves prompted the central bank to bring forward a planned float of the currency by abolishing the exchange rate mechanism on November 10. The rouble was subsequently placed under intense pressure, culminating on December 16, the day after the central bank hiked

Sectors - Current Conditions

	Input Prices	Prices Received	Effect of Rouble Exchange Rate
Manufacturing	↑ < 50	↔ = 50	↓ < 50
Services	↑ < 50	↑ = 50	↑ > 50
Construction	↓ < 50	↔ = 50	↓ = 50

Sectors - Future Expectations

	Input Prices	Prices Received	Effect of Rouble Exchange Rate
Manufacturing	↔ > 50	↔ = 50	↓ > 50
Services	↓ > 50	↔ > 50	↑ > 50
Construction	↔ > 50	↔ = 50	↔ > 50

rates by 650 basis points when it traded as low as 80.1 to the US dollar.

The rouble has stabilised somewhat after the central bank affirmed that it is prepared to spend significant reserves intervening if there is a threat to financial stability although downside risks to the rouble remain given that the price of oil could fall further. Companies expected the rouble exchange rate to continue to hurt marginally more in the coming three months, with the Expectations Indicator falling further into contraction at 49.1 in December.

Prices - Future Expectations

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Input Prices	50.5	50.0	50.0	50.0	50.0	50.0	50.0
Prices Received	49.2	50.3	50.3	50.5	50.5	50.0	50.5
Exchange Rate	50.0	50.0	50.0	50.0	49.7	49.7	49.1

Money and Credit

Worst Financial Position on Record



Our survey showed that Western sanctions continued to have a material impact on Russian companies in December. A look at our Availability of Credit Indicator over the past few months certainly suggests that capital restrictions in particular have hurt our panel of companies.

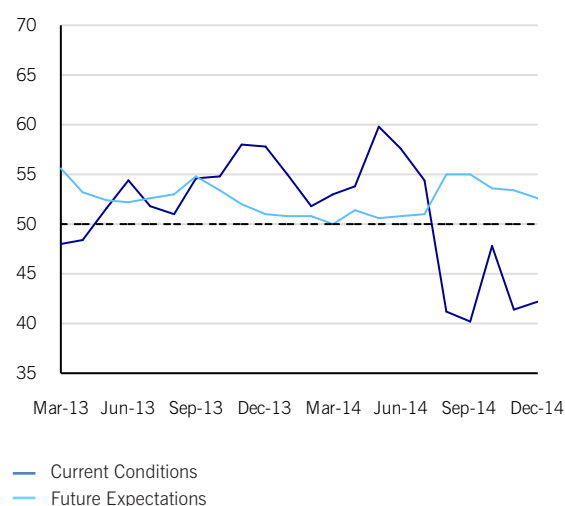
Several EU and US banks had already reduced their lending to Russian businesses since the annexation of Crimea in March, although the downing of Malaysia Airlines flight MH17 prompted Western nations to step up economic sanctions by restricting Russian access to capital markets including the major state-owned banks VTB Bank, Bank of Moscow and Russian Agricultural Bank. As a consequence, credit availability to firms has been severely dented.

In December, the Availability of Credit Indicator rose 1.9% to 42.3 after November's 13.2% fall to 41.5. All three sectors reported a deterioration in conditions over the month and each indicator was in contraction in December.

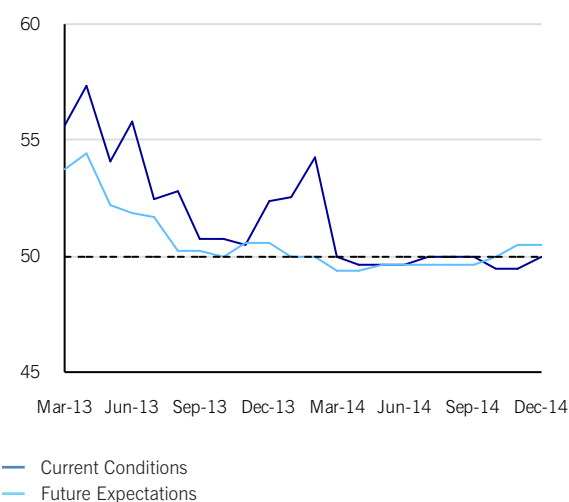
Since the onset of the Crimean crisis, the central bank has hiked the key interest rate six times by a total of 1,150 basis points, with the most recent increase of 650 basis points occurring at the end of the December survey period. Earlier hikes appear to have begun to flow through to businesses in December, with the Interest Rates Paid indicator increasing to 50.0 in December from 49.5 in November. Companies continued to expect interest rates paid to increase, with the Expectations Indicator remaining at 50.5 in December, the highest since December 2013.

The financial health of our panel of companies has shown a downward trend since February, exacerbated

Availability of Credit



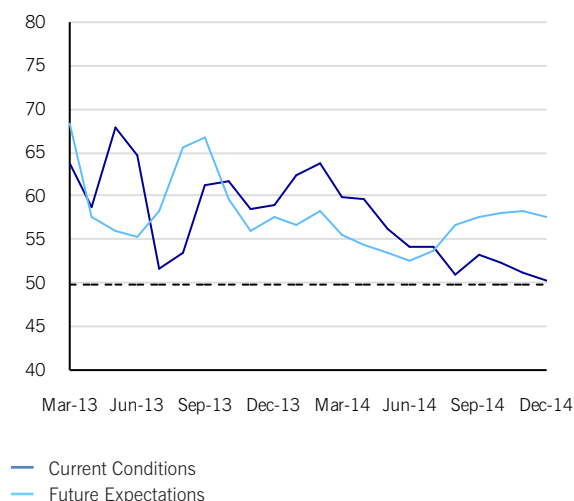
Interest Rates Paid



Money and Credit - Current Conditions

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Availability of Credit	57.9	54.5	41.3	40.3	47.8	41.5	42.3
Interest Rates Paid	52.4	50.0	50.0	50.0	49.5	49.5	50.0
Financial Position	59.1	54.3	51.0	53.3	52.5	51.3	50.5

Financial Position



by Russia's stand-off with the West. In December, it declined further to a series low suggesting that many companies continued to be hurt by the economic sanctions and the sharp slide in oil prices. The Financial Position Indicator fell by 1.6% to 50.5 in December from 51.3 in November. The indicator now sits dangerously close to the 50 level that separates the pessimists from the optimists and is well below the series average of 57.8.

Companies also revised down their expectations for their financial situation in the future, although their outlook for the next three months remained considerably more upbeat than their current situation. The Expectations Indicator fell 1.4% to 57.6 in December from 58.4 in November.

Sectors - Current Conditions

	Availability of Credit	Interest Rates Paid	Financial Position
Manufacturing	↓ < 50	↔ = 50	↓ < 50
Services	↓ < 50	↔ = 50	↔ = 50
Construction	↓ < 50	↔ = 50	↔ = 50

Sectors - Future Expectations

	Availability of Credit	Interest Rates Paid	Financial Position
Manufacturing	↓ > 50	↔ > 50	↓ < 50
Services	↓ > 50	↔ = 50	↔ = 50
Construction	↔ > 50	↔ = 50	↓ < 50

Money and Credit - Future Expectations

	Dec-13	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Availability of Credit	51.1	51.0	55.1	55.0	53.6	53.4	52.6
Interest Rates Paid	50.6	49.7	49.7	49.7	50.0	50.5	50.5
Financial Position	57.8	53.9	56.8	57.8	58.1	58.4	57.6



Data tables

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Historical Summary

	2013	2014											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
MNI Russia Business Indicator													
Current Conditions	45.5	57.9	60.0	52.5	55.6	49.2	50.5	54.6	51.5	47.5	46.7	46.8	47.3
Future Expectations	49.5	53.0	55.3	53.3	54.3	52.5	52.5	54.0	59.8	59.4	57.6	56.1	55.3
Production													
Current Conditions	48.3	58.2	59.3	52.5	57.3	55.3	55.5	51.5	52.5	52.0	54.3	50.8	47.0
Future Expectations	47.5	50.5	52.0	50.8	52.0	51.7	51.1	52.6	57.7	55.3	53.5	52.4	51.6
New Orders													
Current Conditions	48.8	57.6	62.5	57.5	58.8	54.8	56.0	56.8	54.3	53.3	52.8	48.3	48.3
Future Expectations	46.5	50.3	51.0	51.8	52.2	52.7	51.9	51.8	56.0	57.4	54.0	52.9	52.1
Export Orders													
Current Conditions	49.2	50.8	57.2	48.3	44.4	46.9	49.0	53.3	48.0	48.3	49.3	47.7	49.0
Future Expectations	41.7	46.3	47.1	43.0	43.5	43.0	44.3	50.4	52.6	52.6	51.1	52.5	52.1
Productive Capacity													
Current Conditions	50.5	50.3	50.3	50.3	50.0	51.5	50.5	50.5	50.3	51.3	50.0	50.5	50.0
Future Expectations	49.7	49.7	49.7	49.7	49.7	50.3	50.0	50.0	52.0	52.0	51.0	50.5	50.5
Order Backlogs													
Current Conditions	48.7	51.4	52.0	47.4	39.5	42.3	45.4	47.7	48.2	48.5	49.0	49.0	49.3
Future Expectations	41.5	42.7	43.3	43.0	42.5	43.3	44.4	45.4	45.9	46.2	47.0	47.5	47.0
Employment													
Current Conditions	49.0	48.3	50.0	50.0	50.8	52.8	50.5	50.3	50.3	51.3	50.0	50.0	49.5
Future Expectations	47.2	49.7	49.5	50.5	50.0	50.5	50.0	50.0	51.3	51.3	50.5	50.5	48.5
Inventories													
Current Conditions	46.5	38.2	44.4	40.4	32.2	39.2	48.0	48.6	49.3	47.3	49.3	52.0	50.7
Future Expectations	45.7	43.8	43.8	40.2	41.2	43.4	46.5	47.3	48.6	47.3	48.6	49.3	48.6
Input Prices													
Current Conditions	51.5	54.5	51.3	52.1	51.8	51.0	50.5	50.0	50.0	50.0	50.0	50.8	50.0
Future Expectations	50.5	50.0	50.0	52.1	50.3	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Prices Received													
Current Conditions	52.8	57.7	53.8	53.1	50.5	50.0	51.3	49.7	50.0	50.8	50.8	51.0	50.8
Future Expectations	49.2	49.4	48.7	51.3	51.3	51.0	50.3	50.3	50.3	50.5	50.5	50.0	50.5
Financial Position													
Current Conditions	59.1	62.6	63.8	60.1	59.8	56.3	54.3	54.3	51.0	53.3	52.5	51.3	50.5
Future Expectations	57.8	56.9	58.4	55.6	54.4	53.6	52.7	53.9	56.8	57.8	58.1	58.4	57.6
Interest Rates Paid													
Current Conditions	52.4	52.6	54.3	50.0	49.7	49.7	49.7	50.0	50.0	50.0	49.5	49.5	50.0
Future Expectations	50.6	50.0	50.0	49.4	49.4	49.7	49.7	49.7	49.7	49.7	50.0	50.5	50.5
Effect of Rouble Exchange Rate													
Current Conditions	55.4	56.9	61.0	53.7	50.9	53.3	50.3	50.0	49.7	49.7	49.4	46.2	52.4
Future Expectations	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.7	49.7	49.1
Supplier Delivery Times													
Current Conditions	49.5	51.7	50.5	50.0	49.5	51.8	50.3	50.0	50.0	50.0	50.0	50.0	50.0
Future Expectations	49.5	49.7	49.7	49.7	49.7	49.7	49.7	50.0	50.0	50.0	50.0	50.0	50.0
Availability of Credit													
Current Conditions	57.9	55.0	51.9	53.0	53.9	59.9	57.7	54.5	41.3	40.3	47.8	41.5	42.3
Future Expectations	51.1	50.9	50.9	50.0	51.5	50.6	50.8	51.0	55.1	55.0	53.6	53.4	52.6

Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	53.5	52.2
Future Expectations	45.0	71.3	56.0	55.3
Production				
Current Conditions	47.0	61.1	54.6	54.4
Future Expectations	45.5	58.8	53.5	52.5
New Orders				
Current Conditions	48.3	73.8	56.9	56.4
Future Expectations	45.5	62.8	54.2	52.8
Export Orders				
Current Conditions	44.4	61.1	51.1	49.1
Future Expectations	41.6	66.0	49.7	50.8
Productive Capacity				
Current Conditions	50.0	57.7	51.6	50.5
Future Expectations	48.5	63.2	51.8	50.4
Order Backlogs				
Current Conditions	39.5	52.0	47.0	47.6
Future Expectations	37.7	50.0	44.8	44.7
Employment				
Current Conditions	47.7	56.5	51.2	50.7
Future Expectations	46.2	53.6	50.0	50.5
Inventories				
Current Conditions	32.2	52.0	46.9	49.0
Future Expectations	37.5	51.9	46.1	47.3
Input Prices				
Current Conditions	50.0	68.8	53.0	51.3
Future Expectations	50.0	67.9	53.0	50.4
Prices Received				
Current Conditions	46.3	67.3	53.3	51.2
Future Expectations	48.7	55.8	51.6	50.5
Financial Position				
Current Conditions	50.5	68.0	57.8	58.8
Future Expectations	52.7	68.5	58.0	57.7
Interest Rates Paid				
Current Conditions	49.5	57.4	51.7	50.7
Future Expectations	49.4	54.5	50.6	50.2
Effect of Rouble Exchange Rate				
Current Conditions	46.2	61.0	51.7	50.8
Future Expectations	48.2	50.7	49.8	50.0
Supplier Delivery Times				
Current Conditions	45.9	51.8	49.7	50.0
Future Expectations	49.1	50.8	49.8	49.7
Availability of Credit				
Current Conditions	40.3	59.9	51.4	52.5
Future Expectations	50.0	55.6	52.6	52.6

Historical Records - Quarterly

	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator							
Current Conditions	51.1	56.8	51.8	51.2	46.9	-4.3	-8.4%
Future Expectations	47.2	53.9	53.1	57.7	56.3	-1.4	-2.4%
Production							
Current Conditions	53.4	56.7	56.0	52.0	50.7	-1.3	-2.5%
Future Expectations	47.1	51.1	51.6	55.2	52.5	-2.7	-4.9%
New Orders							
Current Conditions	53.9	59.2	56.5	54.8	49.8	-5.0	-9.1%
Future Expectations	46.9	51.0	52.3	55.1	53.0	-2.1	-3.8%
Export Orders							
Current Conditions	50.0	52.1	46.8	49.9	48.7	-1.2	-2.4%
Future Expectations	41.8	45.5	43.6	51.9	51.9	0.0	0.0%
Productive Capacity							
Current Conditions	51.0	50.3	50.7	50.7	50.2	-0.5	-1.0%
Future Expectations	49.0	49.7	50.0	51.3	50.7	-0.6	-1.2%
Order Backlogs							
Current Conditions	48.8	50.3	42.4	48.1	49.1	1.0	2.1%
Future Expectations	40.9	43.0	43.4	45.8	47.2	1.4	3.1%
Employment							
Current Conditions	49.3	49.4	51.4	50.6	49.8	-0.8	-1.6%
Future Expectations	46.5	49.9	50.2	50.9	49.8	-1.1	-2.2%
Inventories							
Current Conditions	47.0	41.0	39.8	48.4	50.7	2.3	4.8%
Future Expectations	46.5	42.6	43.7	47.7	48.8	1.1	2.3%
Input Prices							
Current Conditions	53.0	52.6	51.1	50.0	50.3	0.3	0.6%
Future Expectations	50.9	50.7	50.1	50.0	50.0	0.0	0.0%
Prices Received							
Current Conditions	54.9	54.9	50.6	50.2	50.9	0.7	1.4%
Future Expectations	49.8	49.8	50.9	50.4	50.3	-0.1	-0.2%
Financial Position							
Current Conditions	59.9	62.2	56.8	52.9	51.4	-1.5	-2.8%
Future Expectations	57.9	57.0	53.6	56.2	58.0	1.8	3.2%
Interest Rates Paid							
Current Conditions	51.2	52.3	49.7	50.0	49.7	-0.3	-0.6%
Future Expectations	50.4	49.8	49.6	49.7	50.3	0.6	1.2%
Effect of Rouble Exchange Rate							
Current Conditions	54.3	57.2	51.5	49.8	49.3	-0.5	-1.0%
Future Expectations	50.2	50.0	50.0	50.0	49.5	-0.5	-1.0%
Supplier Delivery Times							
Current Conditions	49.8	50.7	50.5	50.0	50.0	0.0	0.0%
Future Expectations	49.4	49.7	49.7	50.0	50.0	0.0	0.0%
Availability of Credit							
Current Conditions	56.9	53.3	57.2	45.4	43.9	-1.5	-3.3%
Future Expectations	52.2	50.6	51.0	53.7	53.2	-0.5	-0.9%

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