

MNI Russia Business Report February 2014

Insight and data for better decisions

About MNI Indicators

Insight and data for better decisions

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MNI Indicators specialises in business and consumer focused macro-economic reports that give our customers the ability to make timely and relevant decisions. We strive to provide up-to-date information on business and consumer confidence on the economy.

MNI Indicators publishes data on a monthly basis. Our indicators are based on a unique and proprietary methodology and are designed to present an advance picture of the economic landscape as perceived by businesses and consumers every month.

Our monthly reports explore attitudes, perspectives and confidence across different countries and regions. They deliver in-depth analysis, highlight changing patterns and how these can affect potential developments in business and consumer activities.

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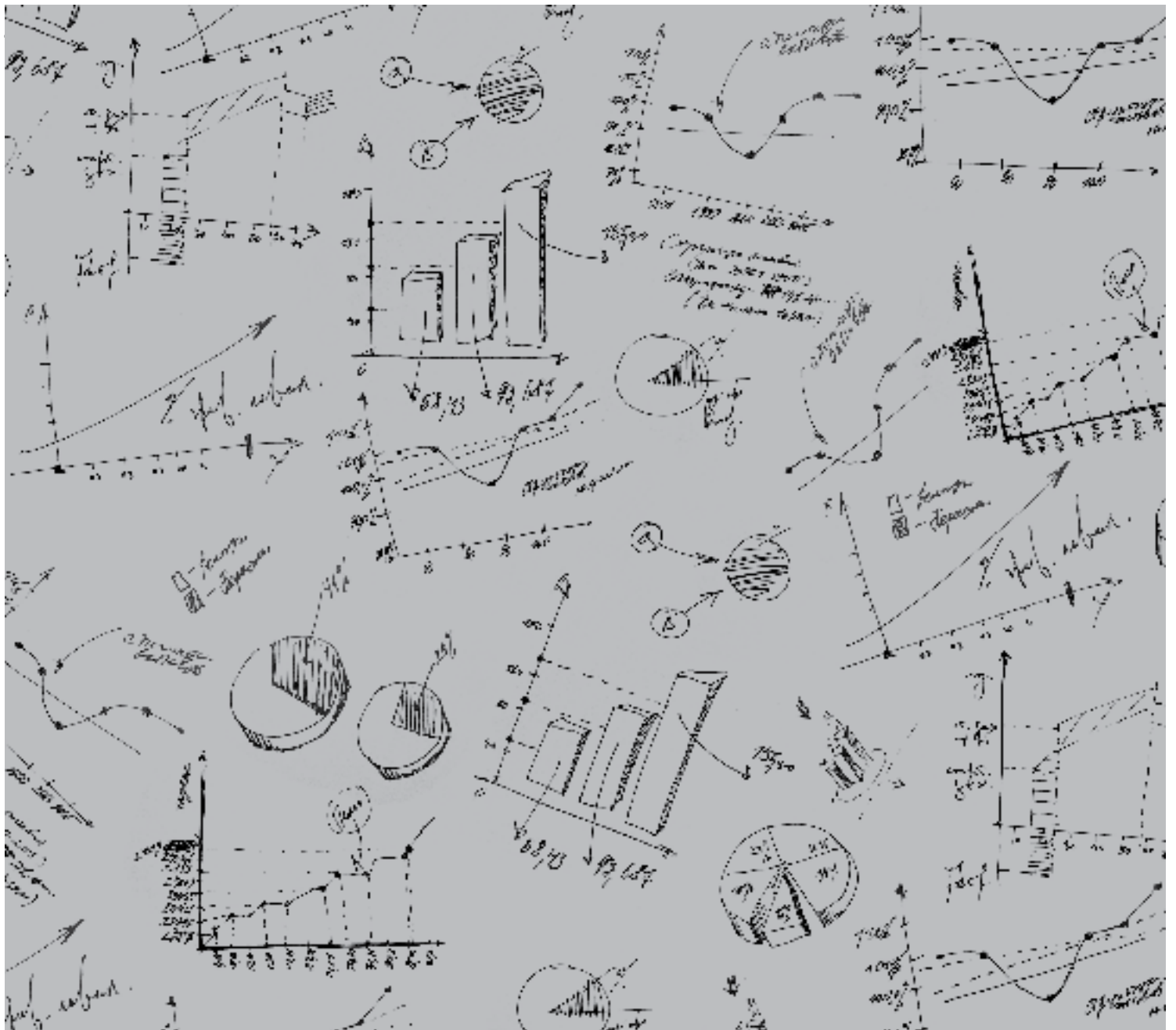
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Contents

4	Editorial	33	Special Question
6	Executive Summary	34	Data Tables
10	Economic Landscape	38	Methodology
14	Indicators		
15	MNI Russia Business Indicator		
16	Production		
17	New Orders		
18	Export Orders		
19	Productive Capacity		
20	Order Backlogs		
21	Employment		
22	Inventories		
24	Input Prices		
25	Prices Received		
26	Financial Position		
28	Interest Rates Paid		
29	Effect of Rouble Exchange Rate		
30	Supplier Delivery Times		
32	Availability of Credit		



Was it worth it?

Now that the Sochi Winter Olympics have come to an end, questions remain over the eye watering cost of the event which spiralled from an initial estimate of \$12 billion to the final cost of \$51 billion.

Now that the Sochi Winter Olympics have come to an end, questions remain over the eye watering cost of the event which spiralled from an initial estimate of \$12 billion to the final cost of \$51 billion. That's over \$2 million per minute...

Hosting an Olympics is never profitable – well with maybe the exception of Atlanta in 1996 where no public funds were used to finance the games. Countries that choose to host the Olympics don't do so to make money but out of a sense of national pride and, in the case of Russia, a show of power.

The winter games have been President Putin's pet project and he's taken an active role in ensuring that Russia won the right to host the games and made sure that that no expense was spared in putting on a great show. It was a bid to show both the Russian people and the global community that Russia was a modern country and very much open for business.

The games themselves have gone well and Russia winning with a total of 33 medals won't do Putin's domestic ratings any harm. But as a showcase to the global community, accusations of corruption which opposition opponents estimated at \$30 billion will only reinforce the view that corruption in Russia is widespread. This is a significant turn off for foreign companies looking to invest overseas. Transparency International placed Russia 133 out of 176 countries in its rankings of the most corrupt countries and it is still ranked 92 on the World Bank's Ease of Doing Business survey in 2013 – although that's an improvement from 112th in 2012.

Evidence from our business survey suggests that the Olympics have boosted business sentiment. And asked this month whether they'd benefited or will benefit from the games, over 70% of our panel of companies said they would. Our consumer survey also showed a rise in consumer sentiment in January, potentially boosted by Sochi.

Still, the Olympic effect is unlikely to provide a significant long lasting boost to growth and Russia faces another tough year.

Philip Uglow

Chief Economist

MNI Indicators



Executive Summary

Russian business sentiment improved further in February to the highest since May 2013, building on the recovery seen in January, possibly boosted by the Sochi Olympics.

Russian business sentiment improved further in February to the highest since May 2013, building on the recovery seen in January, possibly boosted by the Sochi Olympics.

The MNI Russia Business Indicator increased to 60.0 in February from 57.9 in January, an outturn only bettered in two out of the past 12 months since the series began in March 2013.

There was also an increase in the proportion of companies that thought business conditions would improve over the next three months. The Expectations Indicator rose to 55.3 in February from 53.0 in the previous month, the highest since August.

Current conditions for Production improved in February to the highest since June.

The New Orders Indicator has risen sharply since falling into contraction for the first time on record in December, and in February it rose to the highest level since June 2013.

The Export Orders Indicator also rose markedly on the month in the wake of the weakening of the rouble, which companies have reported is benefiting their businesses. The indicator increased to 57.2 in February, from 50.8 in January, having spent the previous two months in contraction.

The Employment Indicator increased to the breakeven level of 50 in February, from 48.3 in January, and the first time out of contraction since October.

The Input Prices Indicator fell to 51.3 in February from 54.4 in January, the lowest level since August 2013, a sign that inflationary pressures have eased.

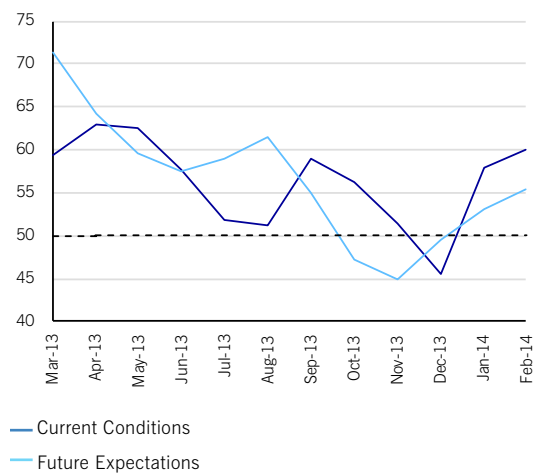
The number of companies reporting that the exchange rate was helping business increased further compared with the previous month. The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting their company,

rose to a new record high of 61.0 in February from 56.9 in January.

Firms reported further tightening in credit conditions in February with the Availability of Credit Indicator falling to 51.9 from 55.0 in January, the lowest since August.

For the February survey, which was taken at the start of the month, we asked our panel of 200 of the largest Russian companies whether the Sochi Olympics has or will have a positive impact on their business and more than 70% of our panellists reported that the Games have had or would have a positive impact.

MNI Russia Business Indicator



Overview

	Dec -13	Jan-14	Feb-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	45.5	57.9	60.0	May-13	-	54.5	2.1	3.6%
Future Expectations	49.5	53.0	55.3	Aug-13	-	52.6	2.3	4.3%
Production								
Current Conditions	48.3	58.2	59.3	Jun-13	-	55.3	1.1	1.9%
Future Expectations	47.5	50.5	52.0	Sep-13	-	50.0	1.5	3.0%
New Orders								
Current Conditions	48.8	57.6	62.5	Jun-13	-	56.3	4.9	8.5%
Future Expectations	46.5	50.3	51.0	Sep-13	-	49.3	0.7	1.4%
Export Orders								
Current Conditions	49.2	50.8	57.2	May-13	-	52.4	6.4	12.6%
Future Expectations	41.7	46.3	47.1	Aug-13	-	45.0	0.8	1.7%
Productive Capacity								
Current Conditions	50.5	50.3	50.3	Jan-14	-	50.4	0.0	0.0%
Future Expectations	49.7	49.7	49.7	Jan-14	-	49.7	0.0	0.0%
Order Backlogs								
Current Conditions	48.7	51.4	52.0	series high	-	50.7	0.6	1.2%
Future Expectations	41.5	42.7	43.3	Sep-13	-	42.5	0.6	1.4%
Employment								
Current Conditions	49.0	48.3	50.0	Oct-13	-	49.1	1.7	3.5%
Future Expectations	47.2	49.7	49.5	-	Dec-13	48.8	-0.2	-0.4%
Inventories								
Current Conditions	46.5	38.2	44.4	Dec-13	-	43.0	6.2	16.2%
Future Expectations	45.7	43.8	43.8	Jan-14	-	44.4	0.0	0.0%
Input Prices								
Current Conditions	51.5	54.5	51.3	-	Aug-13	52.4	-3.2	-5.9%
Future Expectations	50.5	50.0	50.0	Jan-14	-	50.2	0.0	0.0%
Prices Received								
Current Conditions	52.8	57.7	53.8	-	Dec-13	54.8	-3.9	-6.8%
Future Expectations	49.2	49.4	48.7	-	series low	49.1	-0.7	-1.4%
Financial Position								
Current Conditions	59.1	62.6	63.8	Jun-13	-	61.8	1.2	1.9%
Future Expectations	57.8	56.9	58.4	Oct-13	-	57.7	1.5	2.6%
Interest Rates Paid								
Current Conditions	52.4	52.6	54.3	Jun-13	-	53.1	1.7	3.2%
Future Expectations	50.6	50.0	50.0	Jan-14	-	50.2	0.0	0.0%
Effect of Rouble Exchange Rate								
Current Conditions	55.4	56.9	61.0	series high	-	57.8	4.1	7.2%
Future Expectations	50.0	50.0	50.0	Jan-14	-	50.0	0.0	0.0%
Supplier Delivery Times								
Current Conditions	49.5	51.7	50.5	-	Dec-13	50.6	-1.2	-2.3%
Future Expectations	49.5	49.7	49.7	Jan-14	-	49.6	0.0	0.0%
Availability of Credit								
Current Conditions	57.9	55.0	51.9	-	Aug-13	54.9	-3.1	-5.6%
Future Expectations	51.1	50.9	50.9	Jan-14	-	51.0	0.0	0.0%

The central bank left its key policy rate on hold at 5.5%.

However, it sent a signal that policy could be tightened if the inflation outlook worsens further.



Economic Landscape

Latest economic data has done little to lift the economic gloom from Russia after posting the lowest growth for four years in 2013. In addition, the turbulence in emerging markets has put significant downward pressure on the rouble.

Latest economic data has done little to lift the economic gloom from Russia after posting the lowest economic growth for four years in 2013. Industrial output contracted in January, investment fell sharply and retail sales growth decelerated to a four year low of 2.4% on the year in January. Consumer price inflation, which had been stubbornly high in 2013, eased in January to 6.1%, down from 6.5% in December, although there are still risks that it will overshoot the 5% target set for this year.

The turbulence in emerging markets has put significant downward pressure on the rouble, exacerbated by the situation in the Ukraine. The Central Bank of Russia left its key policy rates unchanged for the 16th time in a row at its February policy meeting, but warned that it was ready to tighten policy if the recent rouble weakening begins to pose a risk of higher inflation.

Lowest economic growth since 2009

According to the first estimate from the Federal Service of State Statistics, Russian economic growth slowed to just 1.3% in 2013 from 3.4% in 2012, the lowest since 2009. Growth remained reliant on consumer spending although this failed to make up for sagging investment and a drop in global demand for oil and natural gas.

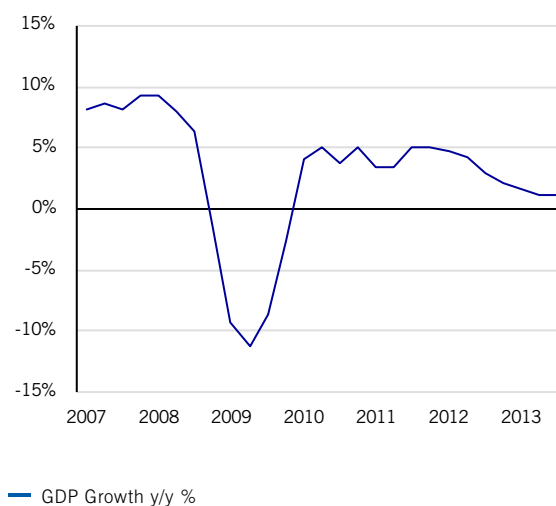
Private consumption expenditure remained relatively firm at 4.7% in 2013, but considerably down from the 7.9% rate seen in 2012. Government consumption declined 0.1%, following growth of 4.2% in 2012, while investment growth shrank to 0.3% from 6.4%.

On the positive side, exports rose 3.8% in 2013, recovering from growth of just 1.4% in 2012. Imports of goods and services were less of a drag on the economy as they increased 5.9%, lower than the 8.8% reported in 2012.

Deputy Economic Development Minister Andrei Klepach expects economic growth of 2.5% in 2014 with the Winter Olympics having a small positive effect on economic growth.

He expects the Russian economy to pull out of its current stagnation in the second and third quarter due to a revival in external markets and because the sharp drop in investment at Gazprom and other state owned companies seen in 2013 will not be repeated in 2014.

Economic Growth



Source: Federal State Statistics Service of Russia

Industrial production contracts in January

Industrial production contracted by 0.2% on the year in January, down from a rise of 0.4% in December (revised from a previously reported 0.8%). The revisions meant production in 2012 and 2013 was a little stronger than previously thought, especially in the second half of 2013. Manufacturing output was revised up the most.

Manufacturing production was flat in January compared with the same month a year earlier. Despite the cold weather, utilities output declined 3.9%, and mining and quarrying output slowed to 0.9% in January from 2% in December.

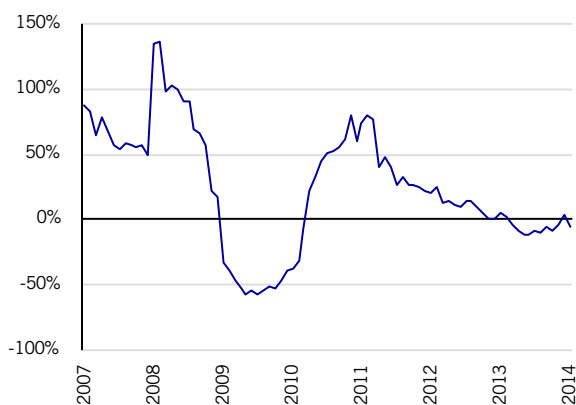
Car Sales decline in January

Following a surprise increase in December, sales of new cars fell 5.8% in January compared with a year ago. 152,662 vehicles were sold in January, down more than 40% from December's 264,257, according to the Association of European Businesses (AEB).

Russia is the second largest market for cars in Europe and last year saw the first annual fall in sales in four years. A total of 2.78 million new cars were sold in Russia last year, below the record level of 2.94 million set in 2012, according to the AEB.

The AEB remains cautious about the outlook and have forecasted sales of 2.73 million in 2014. The government offered cheap credit on cars to propel the car industry in the second half of 2013, barring which car sales would have been even worse. It is possible the scheme could be launched again should sales disappoint in 2014.

Car Sales



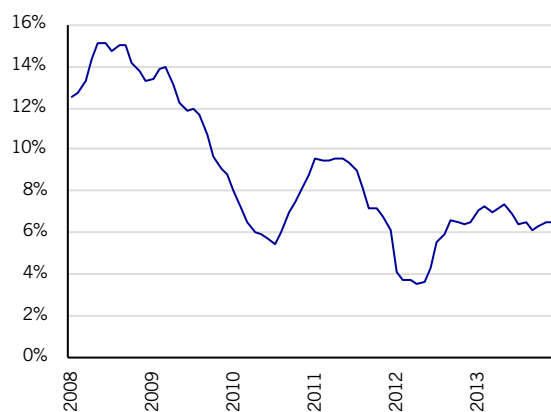
— Car and Light Commercial Vehicles y/y%

Source: Federal State Statistics Service of Russia

Inflation eases in January

Consumer price inflation eased to 6.1% in January from 6.5% in December. Food price inflation fell to 6.5% from 7.3% in December, with annual growth in fresh fruits and vegetables' prices easing to 7.7% from 9.3%.

Inflation



— CPI Growth y/y %

Source: Federal State Statistics Service of Russia

The central bank is targeting an inflation rate of 5% this year, after overshooting its 5-6% range in 2013. First Deputy Chairman Ksenia Yudaeva recently said that the central bank could react quickly and tighten policy if inflation remains high.

A freeze on fees charged by state monopolies such as natural gas producer Gazprom and Russian Railways in 2014 should help to push inflation down this year.

Monetary policy: key rate unchanged

The central bank left its key rate – the one-week repo rate at which it lends money to financial institutions – on hold at 5.5% at its policy meeting held on February 14. However, it sent a signal that policy could be tightened if the inflation outlook worsens.

The bank said its top priority was to reduce annual consumer price inflation to record low levels. That would make borrowing more affordable and lead to a road of longer-term investment, which in turn should support economic growth. The central bank warned, however, that there were significant risks to the outlook for inflation including the recent depreciation of the rouble.

Depreciation in the rouble

So far this year, the rouble has been one of the worst performing emerging market currencies. It fell to 35.76 versus the US Dollar on February 19, a level last seen in the midst of the 2008-2009 crisis, and has fallen by 4% since the start of the year and 16% since last year.

The Russian authorities have denied deliberately weakening the rouble in an effort to raise export revenue or to provide a windfall gain for the state budget. Currency turmoil has been seen throughout most emerging market economies, although the move in Russia to a fully free floating currency has meant reduced currency intervention from the central bank has put downward pressure on the rouble.

Russia's central bank has pledged, though, to launch unlimited foreign exchange interventions if the rouble's exchange rate strays outside its target corridor. The central bank has raised the exchange rate band it targets for interventions to 34.65-41.65 roubles to the dollar-euro currency basket as of February 14, compared with 34.60-41.60 roubles last month.

The recent weakness in the rouble also comes from the finance ministry's plan to buy foreign currency to replenish one of its sovereign wealth funds. It will buy nearly \$6 billion in foreign currency on the market to reduce the central bank's daily foreign exchange market interventions. Russia's support to Ukraine and its promise of paying \$2 billion of a total \$15 billion aid package to the heavily indebted economy has also put pressure on the rouble.

Trade surplus fell in December

The trade surplus fell to \$15.8 billion in December, down from \$16.6 billion in November and 3.7% below the level seen a year earlier.

Exports rose for the second consecutive month to \$49.2 billion in December, up 5.2% from November. Compared with the same month last year, exports were up by almost 2%. Shipments to countries outside the Commonwealth of Independent States (CIS) rose 2.7%, while those to the CIS countries fell for the second month in a row to 2.1%.

Imports surged by 10.5% to \$33.4 billion in December compared with the previous month and were up by 4.7% compared with the same period a year ago .

The current account surplus has been steadily falling each year and in January, the central bank forecast that the current account surplus, which was over 10% of GDP a decade ago, will disappear by 2016.

Labour market

The unemployment rate remained steady in January at 5.6%, unchanged from December, but down from the 6% rate seen in January 2013. For 2013 as a whole, the unemployment rate remained unchanged at 5.5%, nearly half the rate it was back in 2000.

Real wage growth picked up to 2.5% in January compared with a year earlier, from 1.9% in December 2013 which was the lowest since February 2011.

The Russian government has set a goal to create tens of millions of new jobs in high-tech sectors, while gradually cutting low-efficient obsolete jobs. According to Deputy Prime Minister Olga Golodets, about 150,000 such jobs will be cut in Russia in 2014.

MNI Russia Business Indicator

Highest Since May 2013



Russian business sentiment accelerated in February to the highest since May 2013, building on the recovery seen in January, possibly boosted by the Sochi Olympics.

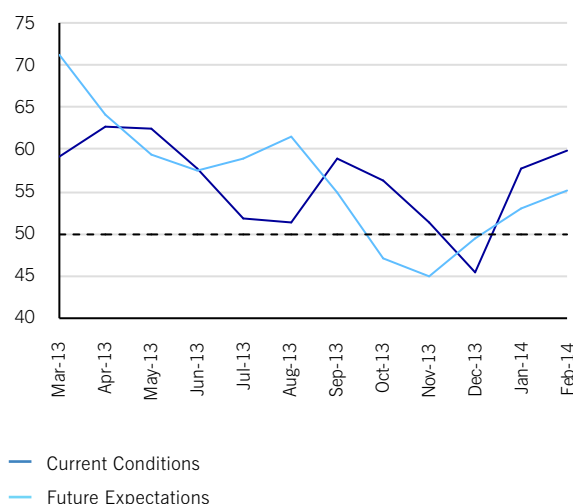
The MNI Russia Business Indicator increased to 60.0 in February from 57.9 in January, an outturn only bettered in two out of the past 12 months since the series began in March 2013. As well as the winter games, some of the recent pick-up is likely to be seasonal following the holiday period. The significant gain in business sentiment in 2014 has reversed the downward trend seen last year, though it is probably too early to conclude that the Russian economy has turned the corner.

In total, 10 out of the 15 current conditions indicators increased between January and February, of which Order Backlogs and the Effect of the Rouble Exchange Rate indicators hit series' highs.

Business confidence improved among construction and service sector companies. The Business Indicator for service sector companies rose to the highest in seven months, while the indicator for construction companies climbed back into expansion having been in contraction for the past three months. Sentiment among manufacturing companies fell slightly though remained in expansion.

There was also an increase in the proportion of companies that thought business conditions would improve in next three months. The Expectations Indicator rose to 55.3 in February from 53.0 in the

MNI Russia Business Indicator



previous month, the highest since August and the third consecutive increase.

Expectations in the construction sector improved the most, while future sentiment among services companies increased by a smaller measure. Manufacturing companies' expectations about business conditions over the next three months remained broadly stable.

In February, seven out of the 15 future expectations indicators remained flat while six of them increased compared with January.

MNI Russia Business Indicator

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	51.3	59.0	56.3	51.5	45.5	57.9	60.0
Future Expectations	61.5	55.0	47.2	45.0	49.5	53.0	55.3

Production

Highest Since June



Current conditions for Production improved in February to the highest since June.

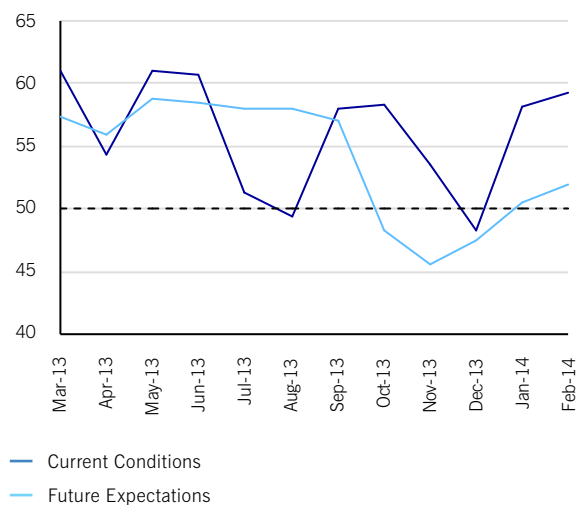
The Production Indicator increased to 59.3 from 58.2 in January and well above the 48.3 outturn seen in December, which was the first time it has fallen into contraction. It is likely that the Sochi Olympics is giving a short term boost although we're likely to get a better guide to underlying growth over the next couple of months.

The increase was led by construction and services sector companies. For construction sector companies, the indicator rose to the 50 mark after remaining in contraction for the past three months, while the indicator for service sector companies rose to the highest in seven months. In contrast, for manufacturing sector companies, Production declined on the month, although remained above 50.

Companies' optimism for the next three months improved further as the Future Expectations Indicator increased for the third month in a row to 52.0 from 50.5 in January.

Expectations about future Production levels were the highest among construction sector companies, for which the indicator moved into expansion territory for the first time in seven months. Manufacturing and service sector companies' expectations remained broadly stable around the breakeven level.

Production



Production

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	49.3	58.0	58.3	53.5	48.3	58.2	59.3
Future Expectations	58.0	57.0	48.3	45.5	47.5	50.5	52.0

New Orders Rise Markedly



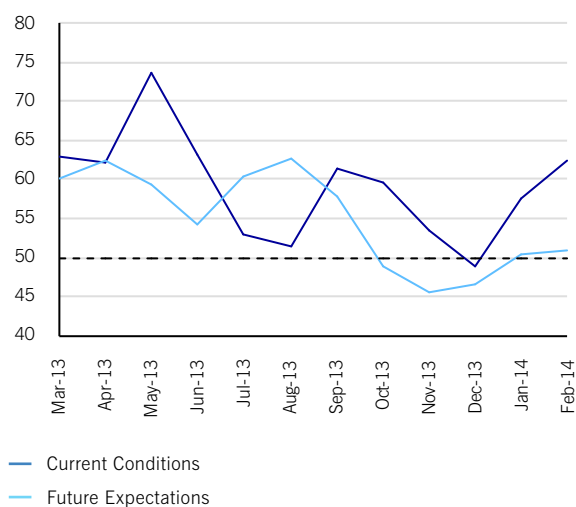
The New Orders Indicator has risen sharply since falling into contraction for the first time on record in December, and rose to the highest level since June 2013 in February.

The New Orders Indicator increased to 62.5 in February, up from 57.6 in January. The increase in was broad based with the indicator for the construction sector rising sharply into expansion territory having remained below the 50 level for the past three months. Service sector companies' New Orders were significantly higher while for manufacturing, the indicator saw a smaller increase compared with the previous month.

Companies' expectations for New Orders in three months' time improved for the third month in a row. The indicator rose from 50.3 to 51.0 in February, the highest since September and the second consecutive month above the 50 breakeven level.

February's improvement was led by better expectations among manufacturing and service sector companies while the indicator for construction companies remained below the breakeven level.

New Orders



New Orders

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	51.5	61.5	59.5	53.5	48.8	57.6	62.5
Future Expectations	62.8	57.8	48.8	45.5	46.5	50.3	51.0

Export Orders

Highest since May 2013



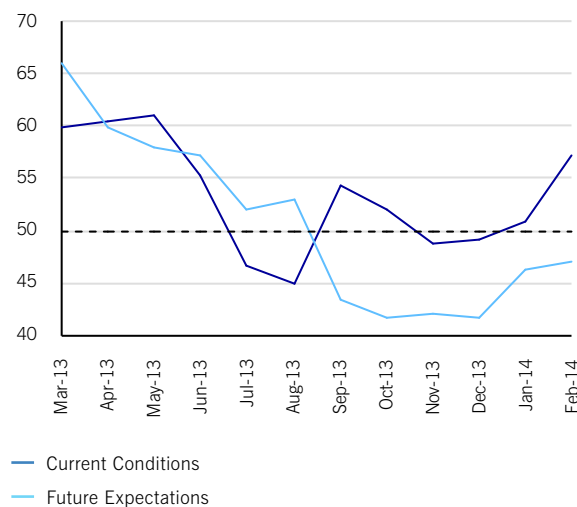
The Export Orders Indicator rose markedly on the month in the wake of the weakening of the rouble, which companies have reported is benefiting their businesses.

The Exports Orders Indicator increased to 57.2 in February, up from 50.8 in January, having spent the previous two months in contraction.

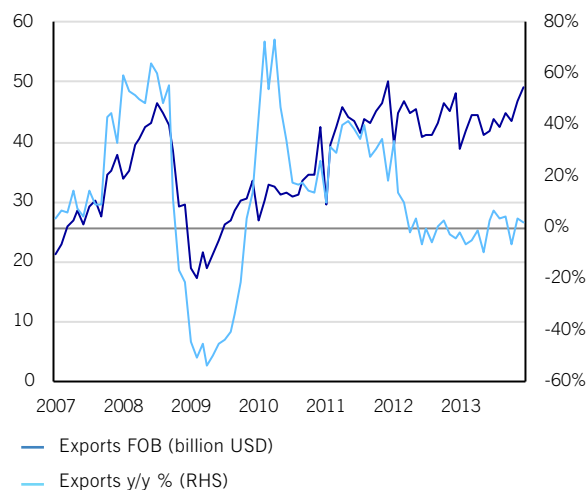
Service sector companies reported a strong rise in Export Orders, as in February the number of companies reporting that their Export Orders more than doubled January's figure. The Export Orders Indicator for manufacturing sector companies increased by a smaller degree, remaining just below the 50 mark, while construction sector companies' Export Orders remained steady at the 50 level.

Future Expectations also improved, but remained in contraction for the sixth straight month. The indicator increased to 47.1 compared with 46.3 in January, the second consecutive monthly rise and up from the series low of 41.6 seen in October.

Export Orders



Exports Trend Up

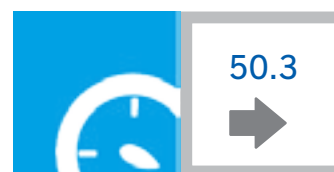


Source: Federal State Statistics Service of Russia

Export Orders

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	44.9	54.3	52.1	48.7	49.2	50.8	57.2
Future Expectations	53.0	43.3	41.6	42.1	41.7	46.3	47.1

Productive Capacity Broadly Stable

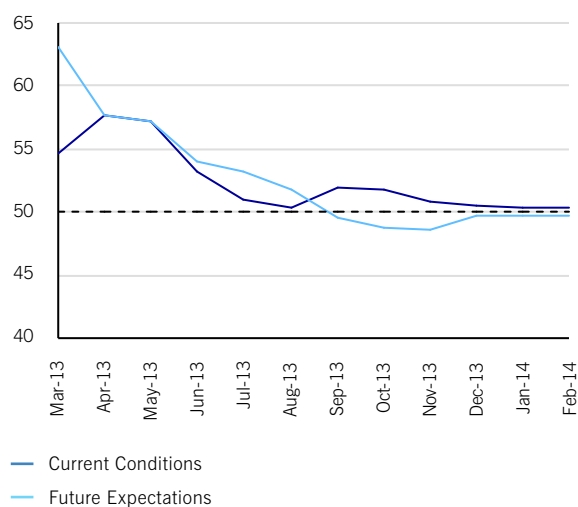


The Productive Capacity Indicator remained unchanged at 50.3 in February with little change seen in any of the three sectors.

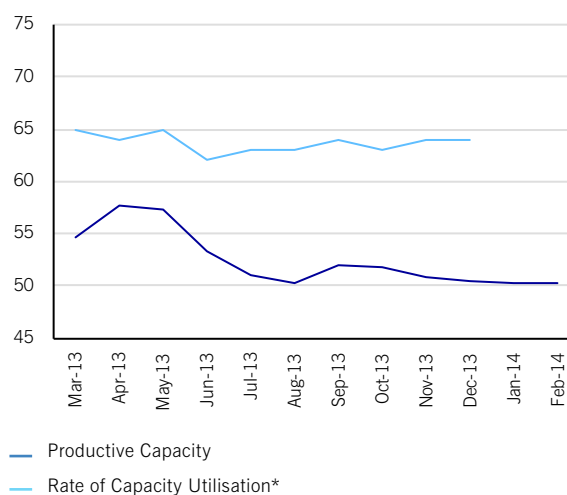
Productive Capacity has been broadly stable since June hovering around 51, declining very gradually every month since September to mark the lowest three month average on record.

The Expectations Indicator remained flat at 49.7 for the third consecutive month in February. The indicator has been trending downwards since the series started in March, and has been in contraction since August.

Productive Capacity



Productive Capacity and Rate of Capacity Utilisation



*Source: Federal State Statistics Service of Russia

Productive Capacity

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	50.3	52.0	51.8	50.8	50.5	50.3	50.3
Future Expectations	51.8	49.5	48.7	48.5	49.7	49.7	49.7

Order Backlogs

New Series High



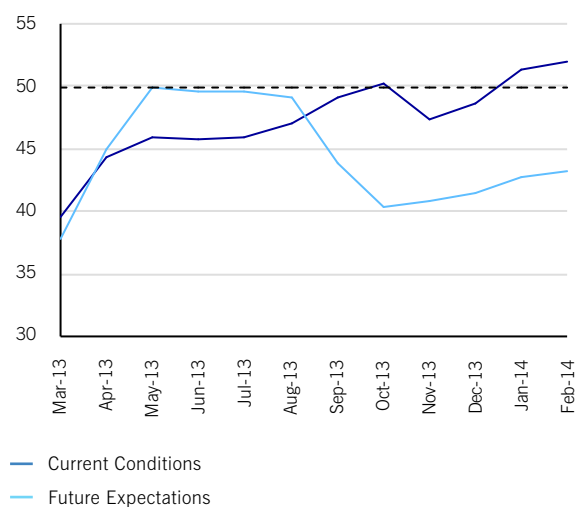
Order Backlogs increased to a new record high in February, continuing the long-term trend rise seen since the series began in March 2013, suggesting demand has picked up.

The indicator for Order Backlogs rose to 52.0 in February from 51.4 in January, fed by the recent increase in both domestic and foreign orders.

February's rise was led by manufacturing sector companies, for which the Order Backlogs Indicator rose to the highest in seven months, although was still below the 50 expansion/contraction mark. In spite of a rise in New Orders for service sector companies, their Order Backlogs eased, probably reflecting excess capacity. For construction sector companies, the indicator declined to the breakeven level.

Future Expectations for backlogs remained firmly in contraction but picked up further in February to 43.3 from 42.7 in January. Except for May last year, when the Future Expectations Indicator was exactly 50, expectations for Order Backlogs have always been in contraction, although have been gradually rising since November.

Order Backlogs



Order Backlogs

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	47.1	49.2	50.3	47.4	48.7	51.4	52.0
Future Expectations	49.2	43.8	40.4	40.9	41.5	42.7	43.3

Employment Just Right



The Employment Indicator increased to the breakeven level of 50 in February, up from 48.3 in January, and the first time out of contraction since November.

Companies are asked whether the number of employees they have is not enough, just right or too many, compared with the previous month.

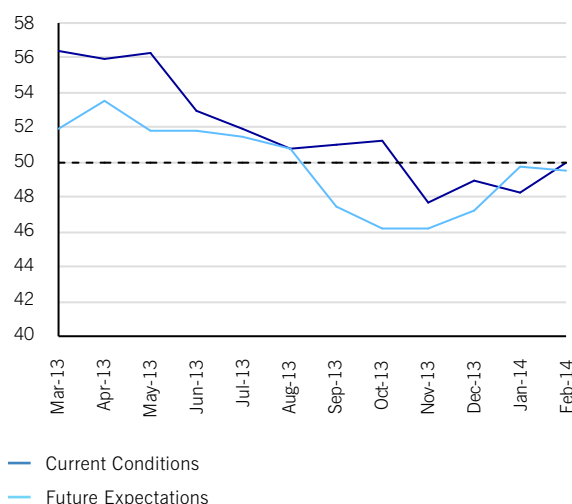
Much of the increase in the Employment Indicator was seen in construction sector companies and there was also a smaller improvement in the employment situation for service sector companies, with the indicator remaining close to the breakeven level.

Companies were a little less optimistic about future conditions, with the Future Expectations Indicator remaining below 50 for the sixth consecutive month.

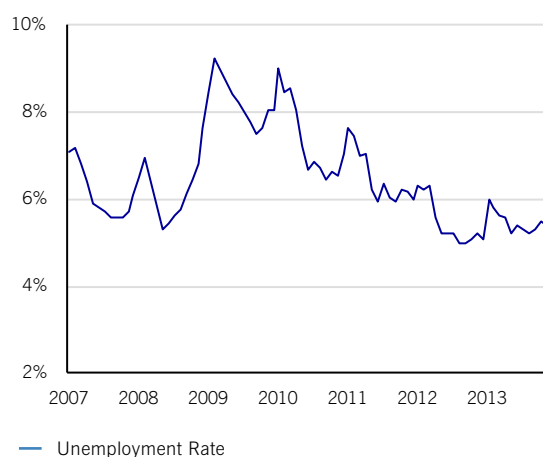
The indicator remained broadly stable at 49.5, compared with 49.7 in January, the lowest since December. After falling into contraction in September, expectations have improved over the past three months.

Official data shows that the unemployment rate remained steady in January at 5.6%, unchanged from December, although down from the 6% rate of unemployment seen in January 2013.

Employment



Steady Unemployment Rates



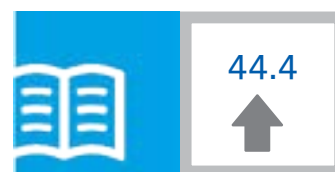
Source: Federal State Statistics Service of Russia

Employment

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	50.8	51.0	51.3	47.7	49.0	48.3	50.0
Future Expectations	50.8	47.5	46.2	46.2	47.2	49.7	49.5

Inventories

Pick Up



The Inventories Indicator bounced back to 44.4 in February, following a sharp drop to 38.2 in January.

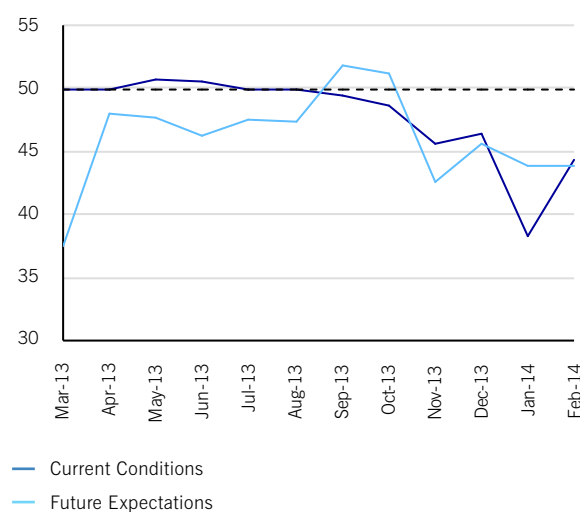
Fewer companies reported that their inventory levels fell on the month in an anticipation of higher orders.

The rise in inventories was led by manufacturing sector companies, although the indicator remained below 50 for the sixth consecutive month. The level of inventories remained broadly stable among construction sector companies, bang in line with the 50 breakeven level.

Companies' expectations for inventories in three months' time remained broadly stable at 43.8, unchanged from January.

Companies began destocking in September last year and their expectations for the future turned negative two months later in November and have remained in contraction since then, suggesting companies expect to see lower levels of finished goods inventories in the next three months.

Inventories



Inventories

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	50.0	49.4	48.7	45.7	46.5	38.2	44.4
Future Expectations	47.4	51.9	51.3	42.6	45.7	43.8	43.8

Both current and future expectations for the Prices Received Indicator declined.

Official data showed that consumer price inflation eased to 6.1% in January from 6.5% in December.

Input Prices

Lowest Since August



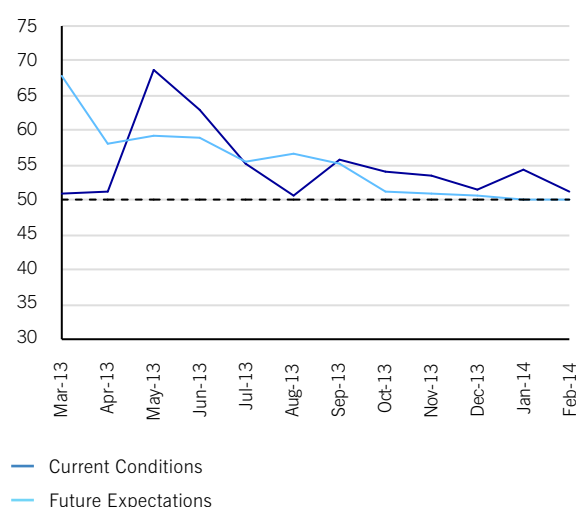
The Input Prices Indicator fell to 51.3 in February from 54.4 in January, the lowest level since August 2013, a sign that inflationary pressures have eased.

The three month trend in Input Prices has fallen significantly since the summer of 2013 and the decline in February puts the indicator below the series average of 55.0.

Much of the decline was led by more manufacturing companies reporting lower input prices compared with a month ago, while the indicator for service sector companies showed a smaller decline. The Input Prices Indicator for construction companies remained broadly stable at the 50 mark.

Expectations for three months' time have been on a declining trend since the series began in March. Companies expected input prices in the next three months to remain broadly stable with the indicator remaining unchanged at 50.0.

Input Prices



Input Prices

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	50.5	55.8	54.2	53.4	51.5	54.5	51.3
Future Expectations	56.6	55.3	51.3	51.0	50.5	50.0	50.0

Prices Received

Future Expectations Hit a Series Low



Both current and future expectations for the Prices Received Indicator declined on the month in line with the fall in Input Prices.

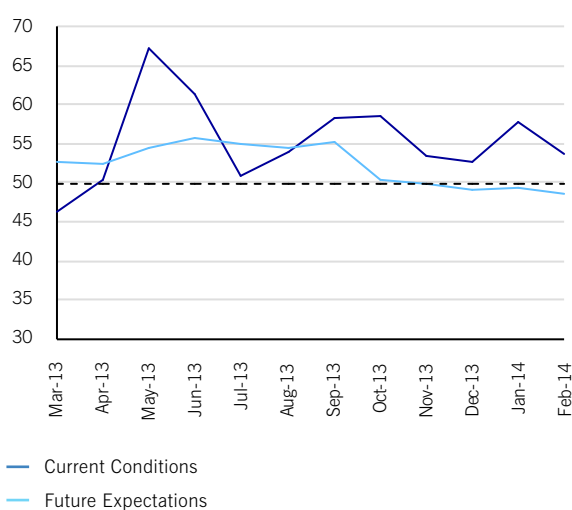
The Prices Received Indicator, which measures prices that companies charge for their goods and services, declined significantly from 57.7 in January to 53.8 in February.

The latest decline was driven by lower prices charged by manufacturing companies. The Prices Received Indicator for the construction sector remained stable at the breakeven level for the fourth month in a row, while it fell slightly for service sector companies.

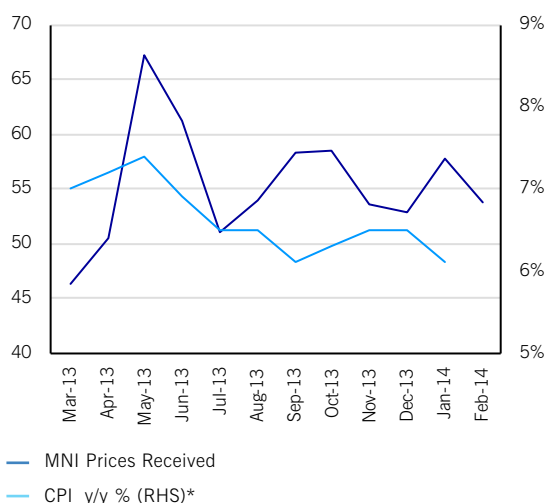
Companies continued to expect that the prices they charge would ease in the next three months, as the Future Expectations Indicator declined to a series low of 48.7 compared with 49.4 in January.

Official data showed that consumer price inflation eased to 6.1% in January from 6.5% in December. The central bank is targeting an inflation rate of 5% this year, after overshooting its 5-6% range in 2013. The central bank left its key rate on hold at 5.5% at its policy meeting held on February 14, but sent a signal that policy could be tightened if the inflation outlook worsens.

Prices Received



Prices Received and CPI



*Source: Federal State Statistics Service of Russia

Prices Received

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	54.0	58.3	58.5	53.5	52.8	57.7	53.8
Future Expectations	54.6	55.3	50.3	50.0	49.2	49.4	48.7

Financial Position

Highest since June

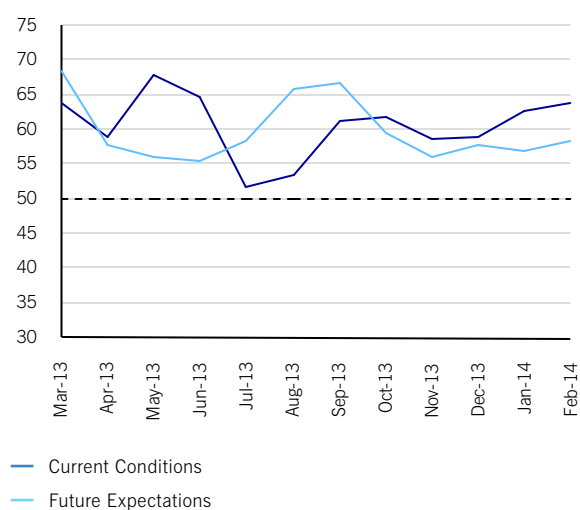


In spite of the economic downturn, the indicator measuring the Financial Position of firms has remained well above 50 and increased further in February to the highest since June 2013.

The Financial Position Indicator rose to 63.8 from 62.6 in January, led by an improvement among service sector companies. Both manufacturing and construction companies' financial positions remained broadly stable compared with the previous month.

Expectations for three months' time improved to 58.4 from 56.9 in the previous month led by an increase in optimism among construction sector companies.

Financial Position



Financial Position

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	53.6	61.4	61.9	58.6	59.1	62.6	63.8
Future Expectations	65.8	66.9	59.7	56.2	57.8	56.9	58.4

Companies expected interest rates paid to remain broadly stable in three months' time.

The Future Expectations Indicator for Interest Rates Paid stood at 50.0, unchanged from January.

Interest Rates Paid Highest Since June



The indicator for Interest Rates Paid has been on a downward trend since the start of the survey in March and fell to the lowest level on record in November. It has subsequently picked up, rising to 54.3 in February, from 52.6 in January.

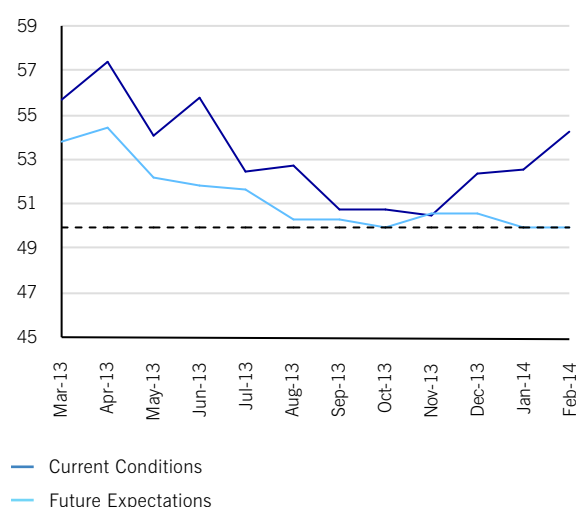
The central bank left its key rate – the one-week repo rate at which it lends money to financial institutions – on hold at 5.5% in its policy meeting held on February 14. It sent a signal that policy could be tightened if the inflation outlook worsens further.

The yield on the Russian 10-year government bond stood at 8.39% on February 21, up from 7.71% on January 28 hit by the sell-off in emerging markets, while the three month interbank rate declined to 6.89% from 6.95% between January and December.

The rise in the headline Interest Rates Paid Indicator was due to an increase in the number of services companies that paid higher interest rates in February. In contrast, for manufacturing and construction sector companies, the indicator was broadly stable from January, close to the breakeven level.

Companies expected interest rates paid to remain broadly stable as the Future Expectations Indicator stood at 50.0, unchanged from January.

Interest Rates Paid



Interest Rates Paid

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	52.8	50.8	50.8	50.5	52.4	52.6	54.3
Future Expectations	50.3	50.3	50.0	50.6	50.6	50.0	50.0

Effect of Rouble Exchange Rate

Exchange Rate Helps More as Rouble Depreciates



The number of companies reporting that the exchange rate was helping business increased further compared with the previous month. The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting their company, rose to a new record high of 61.0 in February, up from 56.9 in January.

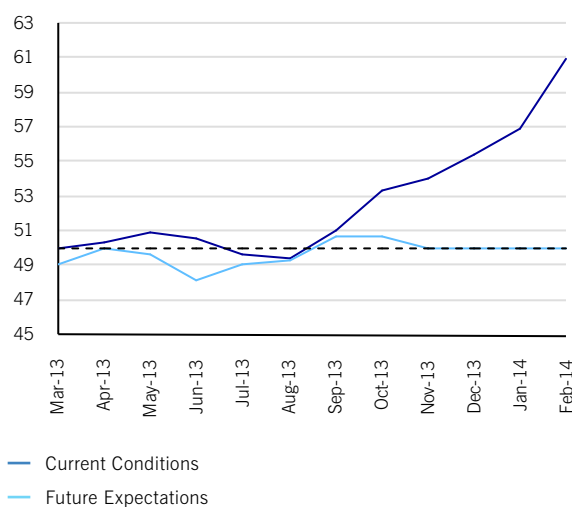
The rouble has fallen by around 4% since the start of the year against the US dollar. Part of the depreciation in the currency is due to the Fed tapering and ensuing turmoil in emerging markets which has hurt currencies. The move to a free floating currency, however, has meant the central bank has reduced its currency market interventions which has weakened the rouble.

Russia's central bank has pledged to launch unlimited foreign exchange interventions if the rouble's exchange rate strays outside its target corridor. The central bank has raised the exchange rate band it targets for interventions to 34.65-41.65 roubles to the dollar-euro currency basket as of February 14.

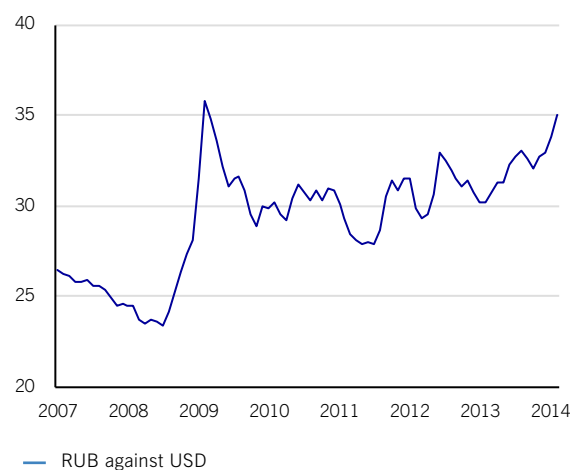
Service companies reported that they benefitted the most from rouble's depreciation as the indicator gained significantly on the month. Manufacturing sector companies had a smaller gain while construction sector companies also said that the exchange rate was helping them, though the indicator remained flat from last month.

Expectations for three months' time remained at 50.0 for the fourth consecutive month, having stood slightly above the breakeven level in September and October.

Effect of Rouble Exchange Rate



Depreciation in the Rouble



Source: The Central Bank of the Russian Federation

Effect of Rouble Exchange Rate

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	49.4	51.0	53.4	54.1	55.4	56.9	61.0
Future Expectations	49.3	50.7	50.7	50.0	50.0	50.0	50.0

Supplier Delivery Times Remain Broadly Stable



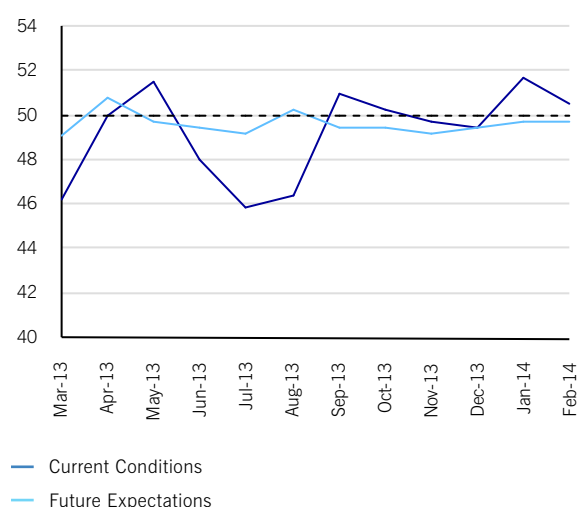
The time taken to deliver supplies to companies shortened from last month, although was above the 50 mark. The Supplier Deliveries Indicator fell from January's series high of 51.7 to 50.5 in February.

Supplier Delivery Times have been in expansion territory for two months in line with an increase in New Orders and Export Orders.

The indicator was around the 50 level for all three sectors (manufacturing, construction, services).

Expectations for three months' time remained flat at 49.7 in February compared with the previous month. Future expectations have remained broadly stable since March with the series averaging 49.6, and only rising above the breakeven level of 50 twice since then.

Supplier Delivery Times



Supplier Delivery Times

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	46.4	51.0	50.3	49.7	49.5	51.7	50.5
Future Expectations	50.3	49.5	49.5	49.2	49.5	49.7	49.7

Firms reported further tightening in credit conditions in February...

...as the Availability of Credit Indicator fell to 51.9
from 55.0 in January, the lowest since August.

Availability of Credit

Third Decline in a Row

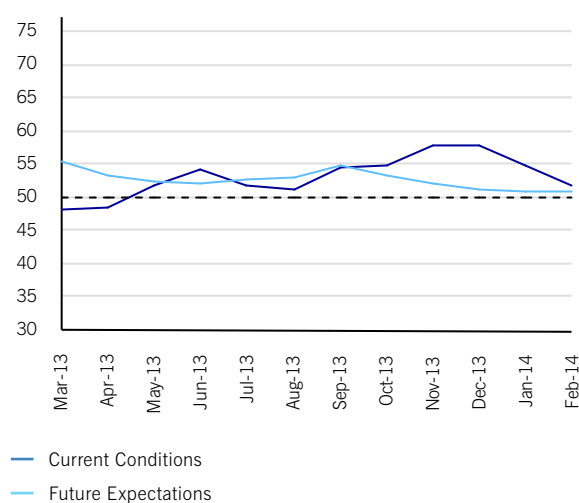


Firms reported further tightening in credit conditions in February with the Availability of Credit Indicator falling to 51.9 from 55.0 in January, the lowest since August.

Credit availability had risen gradually until November 2013, but February marked the third consecutive monthly decline. Much of this decline was led by manufacturing sector companies. Services and construction companies found credit availability broadly stable from last month, with the latter remaining in contraction for the second consecutive month.

Businesses did not foresee any change in credit availability in next three months' time as compared with January's survey when it hit a record low. The Future Expectations Indicator has declined since the survey started in March and was left flat at 50.9 in February.

Availability of Credit



Availability of Credit

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Current Conditions	51.1	54.7	54.9	58.0	57.9	55.0	51.9
Future Expectations	53.1	54.9	53.4	52.0	51.1	50.9	50.9

Special Question

Impact of Sochi Olympics on Business



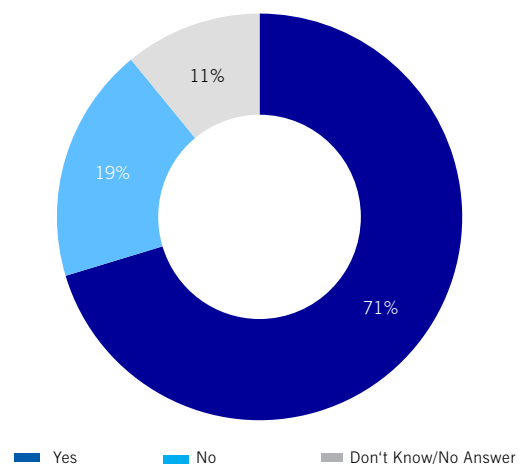
For the February survey, which was taken at the start of the month, we asked our panel of 200 of the largest Russian companies whether the Sochi Olympics has or will have a positive impact on their business.

The vast majority of respondents, 71%, said that the games had or would have a positive impact on business. Nineteen percent said they were unsure about the impact while only 11% said it would have no impact.

Around \$51 billion was spent on the Games, surpassing the next most expensive Olympics (Beijing Summer Games, 2008) by around \$8 billion.

The central bank expects the winter Olympic Games to add 0.3 percentage point to GDP growth in 2014. The venues will require high maintenance costs in the medium term, but later the positive factors such as profits from new infrastructure and increased tourist flows are expected to help the economy.

Do you think the Sochi Olympics Games have or will have a positive impact on your business?
(% of respondents)





Data Tables

-
- 35 Historical Summary
 - 36 Historical Records
 - 37 Historical Records - Quarterly

Historical Summary

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
MNI Russia Business Indicator												
Current Conditions	59.3	62.9	62.5	57.8	51.8	51.3	59.0	56.3	51.5	45.5	57.9	60.0
Future Expectations	71.3	64.1	59.5	57.5	59.0	61.5	55.0	47.2	45.0	49.5	53.0	55.3
Production												
Current Conditions	61.1	54.4	61.0	60.8	51.3	49.3	58.0	58.3	53.5	48.3	58.2	59.3
Future Expectations	57.4	56.0	58.8	58.5	58.0	58.0	57.0	48.3	45.5	47.5	50.5	52.0
New Orders												
Current Conditions	63.0	62.1	73.8	63.3	53.0	51.5	61.5	59.5	53.5	48.8	57.6	62.5
Future Expectations	60.2	62.5	59.3	54.3	60.3	62.8	57.8	48.8	45.5	46.5	50.3	51.0
Export Orders												
Current Conditions	60.0	60.5	61.1	55.3	46.6	44.9	54.3	52.1	48.7	49.2	50.8	57.2
Future Expectations	66.0	59.9	57.9	57.3	52.1	53.0	43.3	41.6	42.1	41.7	46.3	47.1
Productive Capacity												
Current Conditions	54.7	57.7	57.3	53.3	51.0	50.3	52.0	51.8	50.8	50.5	50.3	50.3
Future Expectations	63.2	57.7	57.3	54.0	53.3	51.8	49.5	48.7	48.5	49.7	49.7	49.7
Order Backlogs												
Current Conditions	39.6	44.3	45.9	45.8	45.9	47.1	49.2	50.3	47.4	48.7	51.4	52.0
Future Expectations	37.7	45.0	50.0	49.7	49.7	49.2	43.8	40.4	40.9	41.5	42.7	43.3
Employment												
Current Conditions	56.5	56.0	56.3	53.0	52.0	50.8	51.0	51.3	47.7	49.0	48.3	50.0
Future Expectations	51.9	53.6	51.8	51.8	51.5	50.8	47.5	46.2	46.2	47.2	49.7	49.5
Inventories												
Current Conditions	50.0	50.0	50.8	50.6	50.0	50.0	49.4	48.7	45.7	46.5	38.2	44.4
Future Expectations	37.5	48.1	47.7	46.3	47.5	47.4	51.9	51.3	42.6	45.7	43.8	43.8
Input Prices												
Current Conditions	50.9	51.3	68.8	63.1	55.2	50.5	55.8	54.2	53.4	51.5	54.5	51.3
Future Expectations	67.9	58.0	59.4	58.9	55.5	56.6	55.3	51.3	51.0	50.5	50.0	50.0
Prices Received												
Current Conditions	46.3	50.4	67.3	61.3	51.0	54.0	58.3	58.5	53.5	52.8	57.7	53.8
Future Expectations	52.8	52.4	54.5	55.8	55.1	54.6	55.3	50.3	50.0	49.2	49.4	48.7
Financial Position												
Current Conditions	63.9	58.9	68.0	64.9	51.8	53.6	61.4	61.9	58.6	59.1	62.6	63.8
Future Expectations	68.5	57.7	56.0	55.4	58.3	65.8	66.9	59.7	56.2	57.8	56.9	58.4
Interest Rates Paid												
Current Conditions	55.7	57.4	54.1	55.8	52.5	52.8	50.8	50.8	50.5	52.4	52.6	54.3
Future Expectations	53.8	54.5	52.2	51.9	51.7	50.3	50.3	50.0	50.6	50.6	50.0	50.0
Effect of Rouble Exchange Rate												
Current Conditions	50.0	50.4	50.9	50.6	49.7	49.4	51.0	53.4	54.1	55.4	56.9	61.0
Future Expectations	49.1	50.0	49.7	48.2	49.1	49.3	50.7	50.7	50.0	50.0	50.0	50.0
Supplier Delivery Time												
Current Conditions	46.2	50.0	51.5	48.0	45.9	46.4	51.0	50.3	49.7	49.5	51.7	50.5
Future Expectations	49.1	50.8	49.7	49.5	49.2	50.3	49.5	49.5	49.2	49.5	49.7	49.7
Availability of Credit												
Current Conditions	48.1	48.4	51.7	54.4	51.9	51.1	54.7	54.9	58.0	57.9	55.0	51.9
Future Expectations	55.6	53.3	52.5	52.2	52.7	53.1	54.9	53.4	52.0	51.1	50.9	50.9

Historical Records

	Minimum	Maximum	Median	Mean
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	56.3	57.9
Future Expectations	45.0	71.3	56.5	56.4
Production				
Current Conditions	48.3	61.1	56.1	58.1
Future Expectations	45.5	58.8	54.0	56.5
New Orders				
Current Conditions	48.8	73.8	59.2	60.5
Future Expectations	45.5	62.8	54.9	56.1
Export Orders				
Current Conditions	44.9	61.1	53.4	53.2
Future Expectations	41.6	66.0	50.7	49.6
Productive Capacity				
Current Conditions	50.3	57.7	52.5	51.4
Future Expectations	48.5	63.2	52.8	50.8
Order Backlogs				
Current Conditions	39.6	52.0	47.3	47.3
Future Expectations	37.7	50.0	44.5	43.6
Employment				
Current Conditions	47.7	56.5	51.8	51.2
Future Expectations	46.2	53.6	49.8	50.3
Inventories				
Current Conditions	38.2	50.8	47.9	49.7
Future Expectations	37.5	51.9	46.1	46.9
Input Prices				
Current Conditions	50.5	68.8	55.0	53.8
Future Expectations	50.0	67.9	55.4	55.4
Prices Received				
Current Conditions	46.3	67.3	55.4	53.9
Future Expectations	48.7	55.8	52.3	52.6
Financial Position				
Current Conditions	51.8	68.0	60.7	61.7
Future Expectations	55.4	68.5	59.8	58.1
Interest Rates Paid				
Current Conditions	50.5	57.4	53.3	52.7
Future Expectations	50.0	54.5	51.3	50.6
Effect of Rouble Exchange Rate				
Current Conditions	49.4	61.0	52.7	51.0
Future Expectations	48.2	50.7	49.7	50.0
Supplier Delivery Time				
Current Conditions	45.9	51.7	49.2	49.9
Future Expectations	49.1	50.8	49.6	49.5
Availability of Credit				
Current Conditions	48.1	58.0	53.2	53.2
Future Expectations	50.9	55.6	52.7	52.6

Historical Records - Quarterly

	Q2 13	Q3 13	Q4 13	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator					
Current Conditions	61.1	54.0	51.1	-2.9	-5.4%
Future Expectations	60.4	58.5	47.2	-11.3	-19.3%
Production					
Current Conditions	58.7	52.9	53.4	0.5	0.9%
Future Expectations	57.8	57.7	47.1	-10.6	-18.4%
New Orders					
Current Conditions	66.4	55.3	53.9	-1.4	-2.5%
Future Expectations	58.7	60.3	46.9	-13.4	-22.2%
Export Orders					
Current Conditions	59.0	48.6	50.0	1.4	2.9%
Future Expectations	58.4	49.5	41.8	-7.7	-15.6%
Productive Capacity					
Current Conditions	56.1	51.1	51.0	-0.1	-0.2%
Future Expectations	56.3	51.5	49.0	-2.5	-4.9%
Order Backlogs					
Current Conditions	45.3	47.4	48.8	1.4	3.0%
Future Expectations	48.2	47.6	40.9	-6.7	-14.1%
Employment					
Current Conditions	55.1	51.3	49.3	-2.0	-3.9%
Future Expectations	52.4	49.9	46.5	-3.4	-6.8%
Inventories					
Current Conditions	50.5	49.8	47.0	-2.8	-5.6%
Future Expectations	47.4	48.9	46.5	-2.4	-4.9%
Input Prices					
Current Conditions	61.1	53.8	53.0	-0.8	-1.5%
Future Expectations	58.8	55.8	50.9	-4.9	-8.8%
Prices Received					
Current Conditions	59.7	54.4	54.9	0.5	0.9%
Future Expectations	54.2	55.0	49.8	-5.2	-9.5%
Financial Position					
Current Conditions	63.9	55.6	59.9	4.3	7.7%
Future Expectations	56.4	63.7	57.9	-5.8	-9.1%
Interest Rates Paid					
Current Conditions	55.8	52.0	51.2	-0.8	-1.5%
Future Expectations	52.9	50.8	50.4	-0.4	-0.8%
Effect of Rouble Exchange Rate					
Current Conditions	50.6	50.0	54.3	4.3	8.6%
Future Expectations	49.3	49.7	50.2	0.5	1.0%
Supplier Delivery Time					
Current Conditions	49.8	47.8	49.8	2.0	4.2%
Future Expectations	50.0	49.7	49.4	-0.3	-0.6%
Availability of Credit					
Current Conditions	51.5	52.6	56.9	4.3	8.2%
Future Expectations	52.7	53.6	52.2	-1.4	-2.6%

Methodology

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.

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.

Data is collected through computer aided telephone interviews and around 200 companies are surveyed each month.

Discovering trends in Emerging Markets

MNI's Emerging Markets Indicators explore attitudes, perspectives and confidence in Russia, India and China. Our data and monthly reports present an advance picture of the economic landscape as perceived by businesses and consumers.

Our indicators allow investors, economists, analysts, and companies to identify economic trends and make informed investment and business decisions. Our data moves markets.

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Insight and data for better decisions

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