MACROECONOMIC ENVIRONMENT

The global economic growth in 2013 of 3.0% was driven by the developing countries, especially China, India and ASEAN countries, which grew by 7.7%, 4.9% and (on a collective basis) 4.6% respectively. Developed economies have shown relatively positive results with the EU28 area turning from recession to recovery and showing growth of 0.1%. The North American market slowed down to some extent (with annual growth of 1.8%), but is expected to improve in 2014 due to the announced tapering of US Federal Reserve quantitative easing measures and the growth in internal demand. Global industrial output mirrored the overall GDP growth within emerging markets, while in developed markets industrial production levels were weaker.

In the contrast to the majority of other developing markets, the Russian economy demonstrated lower rates of growth in 2013, with the economic growth rates slowing down to 1.3% from 3.4% in the previous year. Deceleration has been caused by the occurrence of several major factors, including significant decline in private investments by large and medium-sized companies, weak global demand for the metals and coal (which represent some of the key sectors of Russian economy) and a slowdown of internal consumer spending. As a result, the economy was consistently slowing down during first three quarters of 2013 with quarter-by-quarter growth decreasing from 1.6% in Q1 to 1.2% in Q3. However, in Q4 the economic growth slightly accelerated to 1.4%, which was interpreted as a sign of recovery by the Ministry of Economic Development of Russia and a number of market analysts.

For 2013 as a whole, growth of real domestic consumption in Russia slowed down from 6.9% to 3.4%. Investments in fixed assets decreased by 1.4% and constituted 16.6% of the overall Russian GDP.

Russia experienced just 0.1% growth in industrial output in 2013 (2.2% in 2012). The severest decline in output was recorded in two sectors: the construction sector (a decline of 2.4%) and the energy, gas & water production and transportation sector (a decline of 1.6%). At the same time, the raw materials extraction sector and the manufacturing sector have shown sluggish growth of 0.9% and 0.8% respectively. The profitability of an absolute majority of the producers of industrial products has significantly decreased across all the industrial segments.

Inflation (Consumer Price Index) in Russia in 2013 has remained at the stable level of 6.5%, as in 2012. At the same time, the Industrial Goods Producers Price Index has increased by only 3.7%, reflecting the decreasing domestic demand for investment goods and stagnating global demand for metals.

Starting in May 2013, investors globally shifted their focus from the developing to the developed markets, which resulted in the global strengthening of the US dollar and Euro and a corresponding depreciation of all currencies in developing countries. The Russian ruble has demonstrated an average performance among other currencies of the developing countries, performing much better, than the Argentinean Peso, the Turkish Lira, the Brazilian Real and the Indian Rupee. Overall during the year, the ruble declined by 7.6% relative to USD and by 12.2% relative to EUR (RUB/USD: from 30.45 to 32.77; RUB/EUR: from 40.20 to 45.11). The Central Bank of Russia has tacitly encouraged this moderate decline in the ruble exchange rate in order to increase exchange rate flexibility, which is perceived as a useful tool to deal with a prospective tightening of international monetary conditions. Fundamentally, the ruble continued to be strongly supported by a consistently positive Russian balance of trade of goods and services, which amounted to a surplus of 118.3 billion USD for 2013 and was largely attributable to a steadily high Brent price (108.6 USD/barrel on average for the year). The overall balance from current and capital accounts amounted to a surplus of 32.6 billion USD.

The slowdown in the economy was reflected in the Russian stock market, where the RTS index dropped in the first half of the year from 1,570 points in January 2013 to 1,230 points in June 2013, with a subsequent partial recovery, up to 1,440 points in December. The volatility in the financial markets, combined with negative capital flows, has resulted in a significant worsening of fundraising conditions. This factor was particularly relevant to the corporate sector as a decrease of profitability and a growth of working capital have resulted in most of the companies increasing their debt leverage. The overall sum of credits issued by banks to corporate lenders increased by 16.6% in comparison to 2012, from Rub 180 trillion to Rub 210 trillion , resulting in a 15.4% increase of the national corporate debt load, from Rub 19.5 trillion rub in December 2012 to Rub 22.5 trillion in December 2013.

Real wages in Russia grew in average by 5.3%, while the real disposable income of the Russian population increased by 3.3%. The unemployment rate remained stable at the low level of the previous year and amounted to just 5.5%.