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Press Release

MNB Monthly GDP Indicator

Russian economy registered growth of 4.5% during final quarter.

MNB's Monthly GDP Indicator provides the earliest and most accurate indication of trends in overall economic growth in Russia.

The Indicator is derived from Purchasing Managers' Index surveys of Russian manufacturing and service sector business conditions that NTC produces for Moscow Narodny.

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Growth of the Russian economy eased for a sixth successive month in December, slowing to a year-on-year rate of 3.9%. The latest annual growth implied by the MNB GDP Indicator was the slowest recorded since April 1999.

For the fourth quarter as a whole, the MNB GDP Indicator suggested that the annual rate of expansion was the weakest since the end of 2002. Growth was estimated to be 4.5%, down from 6.2% in Q3. Furthermore, the latest quarterly reading confirmed a trend of slowing economic growth throughout the whole of 2004 from a recent peak of 8.6% in Q4 2003.

Commenting on the Indicator, Paul Timmons, Economist at Moscow Narodny Bank said:

"Clearly the latest MNB survey data signal a marked slowing in the rate of growth across the Russian economy in Q4 and, at a suggested rate of 4.5%, remains below trend. Nevertheless, the magnitude of the recent slowdown remains consistent with the easing in the headline components and also the decline in the global tradable goods sector, as evident in the global PMI measure. Moreover, the concerns relating to difficulties in gaining access to working capital have also contributed to the slowdown in growth of new orders. Nonetheless, this trend is still viewed as not being indicative of any inherent structural weakness in Russia's current economic performance, and the discrepancy between the MNB and official GDP growth estimates remains largely a function of the performance of the oil sector. That said, the latest MNB manufacturing and services data both signal a reversal in the downward trend that took hold in Q3 last year and a growth rate of around 5.8% is expected in 2005."

The GDP Indicator is derived from MNB's PMI surveys of business conditions in the manufacturing and service sectors of Russia. By weighting together the output measures from these surveys, an indicator of total output is produced. The All Industry Index fell to its lowest reading for six years in Q4 2004. The Index posted a reading of 54.4, down from 56.4 in the previous quarter. Weaker growth of output in Q4 reflected the lowest rates of manufacturing and service sector expansion seen during 2004. These, in turn, have been the result of generally lower new business expansion, particularly in the manufacturing sector. A number of firms in this sector have commented over the quarter that client activity is lower than earlier in the year, with sharp input cost inflation reported to have restricted companies' access to working capital. Moreover, continued weakness in key global markets have seen exports rise (on average) only modestly in Q4 when compared to the robust rates of growth recorded in previous quarters.

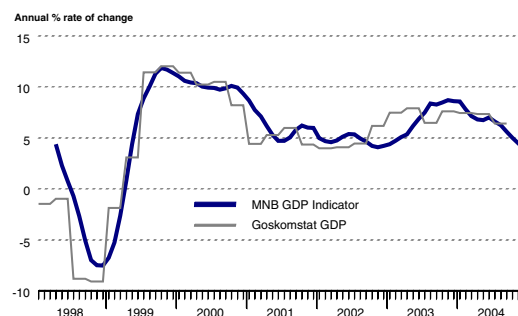
That said, although still well down on levels seen earlier in the year, December's MNB PMI survey data indicated a rise in both manufacturing and service sector growth – highlighted by a rise in the All Industry Index to a level of 54.7, from 53.6 in November.

The table below shows the PMI survey MNB GDP Indicator index (a weighted combination of the output indexes from the manufacturing and service sector surveys) which is used to estimate GDP growth rates, derived by comparing this index against official GDP.

	MNB GDP Indicator Index	Annual rates of change		Quarterly rates of change	
		Official GDP	MNB Indicator	Official GDP	MNB Indicator
2004 Mar	57.9	n/a	7.2	n/a	1.6
Apr	58.9	n/a	6.8	n/a	1.8
May	58.8	n/a	6.8	n/a	1.7
Jun	57.6	n/a	7.0	n/a	1.5
Jul	56.1	n/a	6.6	n/a	1.3
Aug	57.2	n/a	6.2	n/a	1.5
Sep	55.9	n/a	5.6	n/a	1.3
Oct	54.8	n/a	5.0	n/a	1.1
Nov	53.6	n/a	4.5	n/a	0.9
Dec	54.7	n/a	3.9	n/a	1.1

Monthly indicator data aggregated into quarterly series:

2003	q1	56.2	7.5	4.6	1.7
	q2	58.5	7.9	6.1	2.0
	q3	60.0	6.5	8.0	1.6
	q4	60.5	7.6	8.6	2.0
2004	q1	57.8	7.5	7.8	1.8
	q2	58.4	7.3	6.9	1.7
	q3	56.4	6.4	6.2	0.7
	q4	54.4	n/a	4.5	n/a



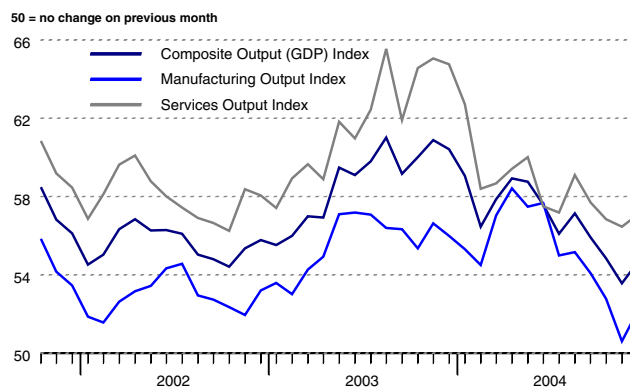
About the GDP Indicator

The GDP Indicator has been developed for MNB by UK specialist economic research house, NTC Research Ltd, to provide a tool to help policy-makers and investors monitor economic conditions in Russia.

Key features of the new MNB GDP Indicator for Russia are:

- It is available several weeks ahead of official first estimates of GDP (for example, Goskomstat did not release their first estimate of third quarter growth until December 2004);
- It is produced monthly, rather than quarterly, allowing quicker identification of changing business conditions and turning points in the economic cycle;
- It is internationally comparable with other GDP Indicators that NTC has launched, including the Eurozone GDP Indicator;
- On average, NTC's GDP Indicators have been more accurate at estimating GDP growth rates than official first estimates (the latter tending to be revised after initial publication).

Components of the GDP Indicator



For further information on trends in Russian manufacturing and services please visit the following:

- www.mosnar.com/manufacturing_PMI
- www.mosnar.com/services_PMI

Notes to Editors

A full report on the survey and data for the publication of charts are available from **Paul Smith** at NTC on **+44 (0)1491 418 638**. For all other press enquiries please contact **Paul Forrest**, Group Economist at Moscow Narodny Bank on **+44 (0)20 7815 9333**.

GDP Indicator performance

The performance of the *GDP Indicator* in estimating both quarter-on-quarter and year-on-year GDP growth can be measured by either correlation coefficients or adjusted R-square figures (adjusted R-square figures vary between 0 and 1, with 1 indicating 100% explanatory power of GDP data and 0 indicating 0% explanatory power).

- For the quarterly growth rate series, the correlation coefficient of the PMI-based Indicator against final estimates of GDP for the period Q1 1998 to Q1 2004 is 0.86. The adjusted R-square is 0.69 with a standard error of 0.97.
- For the annual growth rate series, the correlation coefficient of the PMI-based Indicator against final estimates of GDP for the period Q1 1998 to Q1 2004 is 0.92. The adjusted R-square is 0.82 with a standard error of 2.3.

It is important to note that the above comparison uses latest official estimates of GDP growth. National statistics bodies typically produce first estimates which are subsequently revised.

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