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Press Release

MNB Services PMI

Russian service sector expanded strongly in December, supported by marked growth of business activity and new business.

Today sees the latest release of data based on the MNB survey of the Russian services economy, produced by NTC Research.

The headline figure from the survey is the MNB *Services PMI*[®], which provides a single figure measure of the state of the Russian services economy. Readings above 50.0 signal expansion on the previous month, readings below 50.0 contraction.

The performance of the Russian services economy continued to strengthen in December, as activity and new business both showed marked rates of growth. The seasonally adjusted headline MNB *Services PMI*[®] again signalled impressive growth. The PMI rose marginally from November's twenty-two month low of 56.9, to 57.0, to indicate broadly the same marked rate of overall growth of the sector as that recorded throughout the fourth quarter of 2004. Nevertheless, the rate of expansion remained down on the levels recorded earlier in the year.

Commenting on the survey, Paul Timmons, Economist at MNB, reported that:

"While the latest survey data indicate a slight rebound in growth across Russia's services sector, the underlying level of expansion still remains below trend. At the same time, despite the apparent easing in the service sector price indexes, the rate of increase continues to signal prominent inflationary pressures both at the input and output levels. Moreover, with the panel reporting structural cost factors such as the weakness in the US dollar, rising rents and salaries for higher prices, this too suggests that such inflationary pressures are likely to persist over the coming months. On a positive note, the employment index increased for the first time since June and such conditions were clearly reflected in the high levels of confidence regarding future business activity, as indicated by the business expectations index."

The MNB Services PMI is a monthly publication, researched and published by NTC Research featuring original research data from a survey of Russian services companies.

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Activity and new business

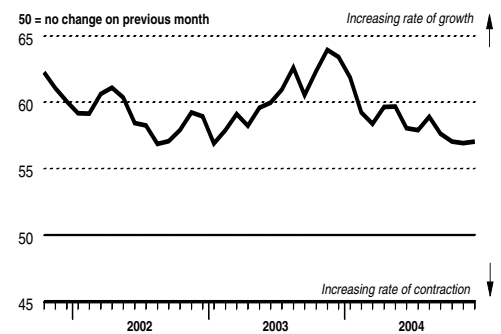
Further marked growth of **business activity** supported the headline index in December. Furthermore, the rate of expansion signalled by the index increased slightly for the first time since August, to signal the sharpest rate of growth of the last three months. Firms mainly attributed the latest rise in business activity to further strong growth in levels of incoming new business, and expanding product ranges. Though substantial, the rate of growth of business activity remained down on the average for 2004.

Having expanded at the slowest rate indicated by the survey to date in November, volumes of **new business** to the Russian service sector grew more sharply in December. The launch of new products and services at competitive prices was reported by firms to have attracted new customers. However, though demand grew at a strong pace, it failed to match the levels recorded earlier in the year, in line with the trend for overall business activity.

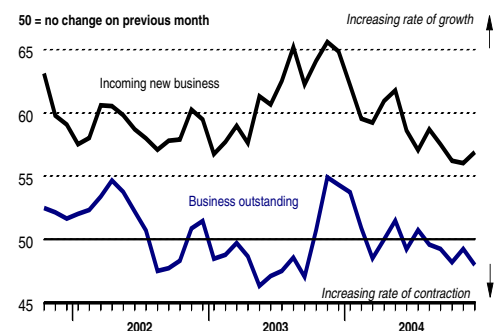
Employment

A modest rate of Russian service sector **employment** growth was recorded in December, with expansion up on that recorded the previous month. Nevertheless, the rate of job creation was the second-weakest indicated by the survey since data were first collected in October 2002, reflecting the slower growth of business activity in the second half of 2004.

MNB Services PMI (Russia)



Incoming and Outstanding Business



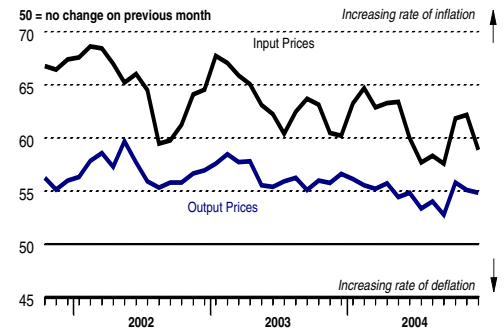
Inflationary pressures

Input price inflation in the Russian service sector remained marked in December, despite a fall in the rate of inflation from November's six-month high. The main sources of the latest inflation of input prices were reported by firms to be salary increases, fuel prices and other transportation costs. The continued weakness of the US dollar was also reported to have had an inflationary impact on costs. Meanwhile, **output price inflation** remained strong, despite easing for the second straight month.

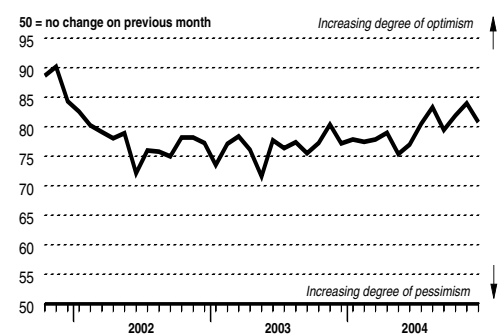
Business confidence

In December, Russian service providers remained highly optimistic that **business activity** would continue to expand in 2005, and almost two-thirds of panel members expected the level of business activity to be higher in a year's time than at present.

Input and Output Prices



Business Expectations



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, Head of Research at Moscow Narodny Bank on +44 (0)20 7815 9333.

The MNB Services PMI is a composite index designed to provide a snapshot of the health of the services economy. The PMI is based on five of the individual indexes with the following weights: Incoming New Business - 0.3, Business Activity - 0.25, Employment - 0.2, Outstanding Business - 0.15, Future Business Activity - 0.1.

The MNB Services PMI report complements the MNB Manufacturing PMI report for Russia, which is also produced by NTC Research.

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