RUSSIAN ECONOMY NEWS

By LegaLife LLC

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"Russian Economy News" is not intended to be a widely circulated newsletter but a concise digest of some of the most relevant news for LegaLife' s clients in the Russian Federation.

Sources include: *The Moscow Times, modernrussia.com, USRBC Daily Update, Bloomberg, Itar-Tass, Financial Times, Ria Novosti, Kremlin.ru, Alfa Bank Morning Brief, Vnesheconombank news, Russia Today, World Bank Country Office in Russia news.*

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MEDVEDEV AND PUTIN WITH ONE VOICE ON KHODORKOVSKY

In late December 2010 former Yukos CEO Mikhail Khodorkovsky was sentenced to another term in prison. Some Russian constituencies and foreign personalities have long regarded the trials to the former tycoon as "politically motivated" and a farce from a legal point of view. During the months preceding the sentencing, Khodorkovsky himself said that the outcome of the trial would show whether President Medvedev was serious in his fight against "legal nihilism". Just days before the sentencing, Prime Minister Putin, during a TV talk, compared Khodorkovsky to American Bernard Madoff, the mastermind of the biggest Ponzi scheme in history, who was sentenced to 150 years in prison in 2009 for an $18 billion fraud. On 27th Januray 2011, from Davos, President Medvedev stood compact with Putin : "An investor, Russian or foreign, should observe the law, otherwise they can get a jail term like it happened with Khodorkovsky and Madoff," Medvedev told Bloomberg Television at the World Economic Forum.

NEWS

- *Reuter's poll on inflation. Inflation risks are higher than previously expected, and the Central Bank will need to push trough more interest rate hikes, which in turn will boost the ruble, a Reuters poll of 17 economists shows. Economists have raised their 2011 inflation forecast to 8.2 percent from 8 percent a month ago, putting it far above the government and the Central Bank's target of 6 to 7 percent.* Gross domestic product was seen growing 4.2 percent in 2011 — in line with government estimates and representing a slight acceleration from 2010, but far short of pre-crisis expansion of about 7 percent a year.

- *CEOs Praise Russia at the World Economic Forum in Davos. Most CEOs whose companies have large deals and ventures in Russia spoke in very gentle terms about the need for increased transparency and barely mentioned corruption and the rule of law, often named by other investors as Russia's main problems. "The government is doing everything possible to encourage foreign investors," said PepsiCo CEO Indra Nooyi, praising Prime Minister Vladimir Putin for a speedy blessing of PepsiCo's latest acquisition in Russia in late 2010, which she said was granted within hours.* The exception to these broadly shared comments came from William Browder, who once had about $4 billion invested in Russia through his Hermitage fund. He said he had to flee Russia after accusing officials of corruption and saw some of his firms being stolen from him by Interior Ministry officials.

- Opening Address by Dmitry Medvedev to the World Economic Forum in Davos. *Mr Medvedev affirmed that the crisis has had a sobering effect on everyone, but the economy has not been the only source of lessons learned. Noting the recent environmental disasters in various nations, the President of Russia stressed the necessity of completing the 'long-standing' climate talks and creating a common system for environmental monitoring, prevention of and responding to emergency situations. According to Dmitry Medvedev, today the world needs ideas that can change it for the better; in this regard, it would be beneficial to discuss Russia's proposals for a new European Security agreement in Davos.* International relations and regulation principles are increasingly lagging behind. In order to build a new world, it is necessary to be guided by several well-known principles, Mr Medvedev said. First of all, problems need to be addressed through a strategic, long-term approach. Second, we must be realistic and ready to live within our means. Today's reality in various nations - sovereign debt crises, budget deficits, reluctance to cut spending – is fraught with new economic and political crises. The third principle concerns global partnership and its proper organisation. Dmitry Medvedev stressed the necessity for the G20 to work effectively and for developing new leadership alliances, particularly within BRIC format, which will soon be joined by South Africa. The President suggested including BRIC currencies in the IMF's basket of main currencies known as the special drawing rights (SDR) system. The fourth principle is the diversification of the world's various economic and political models that allow for adapting to future challenges. Mr Medvedev emphasised that Russia's modernisation strategy fully corresponds with these principles and offers new opportunities for successfully doing business in the country. The President specified the main steps being taken by Russia as regards privatisation, investment, financial sector, energy sector, creation of new markets and creation of a common economic space with the European Union, as well as the creation of a common economic space with Belarus and Kazakhstan. Furthermore, new opportunities are being created in Russia for innovation and venture capital financing; the mechanisms for technology transfer are being used, and there is a programme for expanding broadband Internet access along with a state project for integrating banking and public services and developing electronic payments. In addition, Russia is training its own specialists and seeking to attract the best foreign specialists. The President also spoke about the implementation of major infrastructure projects in Russia, including major international sporting events.

- *World Bank Report. The World Bank Economic Prospects 2011 report predicts that Russia will play a significant part in the economic prosperity of the Commonwealth of Independent States (CIS) region. With 45 percent of remittances flowing into CIS countries from Russia, and economic growth predicted to stabilize at 4.2 percent in 2011 - after 3.8 percent growth in 2010 – much of the inflow of capital in the CIS will hinge upon a Russian economy on the rebound, the report stated.*

- *Goldman Sachs on Why Russia is Still Solidly a BRIC Economy. Jim O'Neill, Chairman of Goldman Sachs Asset Management, re-iterated 3 simple points on Russia's position as a BRIC. 1)* until the sharp economic contraction of 2009, the degree of positive GDP surprise since 2001-03 in Russia was higher than all of the other BRICs. Even taking 2009 into consideration, the aggregate performance over the decade was almost exactly as we had assumed. 2) Russia is twice the size of Indonesia in US$ terms, the country that some people suggest should replace it. 3) while there are eye- catching obvious factors, corruption included, as to why there is so much negative feeling about Russia, if you look at objective indicators that one should monitor for economic development and sustainable growth, Russia is not the weakest of the BRICs. GS produces Growth Environment Scores (GES) every year, which are an index of 13 subcomponents, the aggregate level varying from 0 to 10, with 10 being the best. The Economics Department is due to present its 2010 scores (for close to 180 countries). In 2009, India had the lowest score of the four BRIC countries. Brazil was highest, followed closely by China, which in turn was followed closely by Russia.

- *Industrial Production Up 8.2 Percent in 2010. Rosstat has reported that industrial production in 2010 was up by 8.2 percent year-on-year, with manufacturing growing by 11.8 percent yoy.* The annual rise was predicated on the low base effect of 2009, when industrial production dropped by 9.3 percent. The Ministry of Economic development has projected an increase of 4.1 percent in industrial output in 2011, but this is based on relatively low global oil prices.

- *Investment Flows into Russia Increase. In the seconfd week of January investment funds flowing into Russia reached a record high of $724 million, according to Emerging Portfolio Fund Research, resulting in a total so far this year of over $1 billion.* The rise has been ascribed to Russia's low price/earnings ratio forecast for 2011 of 6.6, whereas the same ratios for Brazil are 11.6, China 12.1, and for India 15.4.

- Budget Deficit in 2010. *Finance Minister Alexei Kudrin told the government presidium on January 20 that the federal budget deficit in 2010, originally forecast to be 5.3 percent of GDP, had turned out at 3.9 percent of GDP. The latest forecast by the Ministry of Economic Development had been 3.5-3.8 percent of GDP, while Kudrin had estimated it at 4.1-4.2 percent of GDP.*

- WTO Accession Talks to End in April? *Maxim Medvedkov, the Ministry of Economic Development's point man on WTO accession, said on January 18 that negotiations on Russia's joining the organization may be completed as early as April.* He added that agricultural subsidies would rise in 2012 to $9 billion a year, but could be halved over the next 5-7 years.

- *Russian DST Increases its Investment in Facebook. Russian technology company Digital Sky Technologies (DST) on January 3 invested $50 million in Facebook, part of a deal that increases DST's stake to slightly less than 10 percent of the company.* DST has the right to buy up to an additional $75 million in the company's shares through a deal with Goldman Sachs.