RUSSIAN ECONOMY IN 2012

Given the declining growth rates of the global economy and a reduction in demand for main fuel and energy resources, Russian economy did not demonstrate significant growth in 2012.

GDP growth as the principal economic indicator reached a mere 3.4%, which can be characterized as a major deceleration compared to both the previous year 2011, when it amounted to 4.3%, and the average rate since year 2005, which was 4.2%.

Apart from the actual deceleration, a change in the economic growth structure should also be noted. Comparison of trends in the major economic sectors in 2012 and 2011 shows a substantial growth in the financial sector and retail trade.

The survey was provided by the Research Department of Bank Saint Petersburg
Manufacturing industry has gained 2.6% over the year, which is 1.8 times less than in 2011. The mining sectors and energy, gas and water generation industries have demonstrated the minimum growth of 1.1% and 1.2% respectively, while the most significant increase was observed in the processing sector.

Negative trends were also evident in 2012 in the real income of population: as at the end of December the annual gain in the average real wages was only 5% as compared to 11.4% in 2011.

Unemployment rate fell by 1.06PP in 2012, amounting to 5.08% – a record low for the post-Soviet Russia.

Inflation rate in 2012 has reached 6.5% (6.1% in 2011) despite of the plans of the Central Bank of the Russian Federation to bring it down to below 6% in 2012. The key factor was the summer drought season, which destroyed part of the crops, causing an increase in grain prices. The Central Bank had to raise its rates in September 2012 to head off rising inflation.

Year 2012 saw relevantly high volatility in the foreign markets, but catastrophic scenarios, which included one or several countries exiting the Eurozone, were avoided. The ongoing Iran tensions had a positive impact on Russia, which allowed for continuously high oil prices, with oil remaining one of the Russian export staples.

The 2012 balance of trade was USD 4 bn less than in 2011, while the average price of Urals brand oil gained USD 1.2 from the previous year. However, the considerable inflow of funds was accompanied by an outflow in capital transactions. Russia’s net capital outflow in 2012 amounted to USD 56.8 bn.

Russian financial market was also unstable in 2012, but at year-end the principal indicators were positive. The RTS Index has grown by 148 points or 10.7%, while the federal loan bond (OFZ) yields have shown a sizeable decrease in view of the expected liberalization of the RUB debt market and the potential permission for Euroclear and Clearstream to deal with Russian securities.
2012 was the year of record profits for Russian credit institutions totalling RUB 1,011.9 bn, which is 19.3% higher than in 2011.

The year has not shown any significant changes in the banking sector structure: total assets of the 20 major banks still amount to 70% of all Russian banks’ assets, with nearly 50% of the assets being attributable to the top-5 banks. State-controlled banks rank above other Russian banks in terms of total assets.

2012 saw an increase in the banking sector assets by 18.9% (23.1% in 2011). Bank assets to GDP ratio has also grown from 74.6% (at year-end 2011) to 79.4% (at year-end 2012).
The inflation rate, which remained above the target level (6%) throughout 2012, forced the Central Bank of the Russian Federation to maintain high interest rates until the end of the year, affecting the Russian money market, which was strained for the better part of 2012.

The average overnight interbank rate in 2012 was 1.67PP higher than in 2011. This also caused an increase in the average bank loan rates. According to data provided by the Central Bank of the Russian Federation, the average bank lending rates for loans with a maturity of up to 1 year provided to non-financial organizations was 0.65PP higher than in the previous year. The average bank deposit rate, with the exception of demand deposits, has grown by 1.1PP. This indicates a major decline in lending conditions in 2012.

2012 asserted a trend, which became obvious in the previous year. The highest profit margins were demonstrated by banks targeted at consumer lending. The growth rate in retail loans sector was significantly higher than in corporate lending. The overall retail lending volume in 2012 rose by 39.4%, with corporate loans gaining only 12.7% (35.9% and 26.0% in 2011 respectively). The companies were likely to be less inclined to borrow funds in 2012 as opposed to 2011 due to the higher interest rates. The total volume of loans provided by the Russian banks went up by 19.1% (28.2% in 2011).

The increase in retail customer deposits in 2012 amounted to 20%, showing better results compared with the corporate sector.
OVERVIEW OF ECONOMY OF ST. PETERSBURG AND THE LENINGRAD REGION

Many economic indicators of St. Petersburg and the Leningrad Region in 2012 were better than the average ones for the Russian regions. This includes higher industry growth rates, less significant inflation and lower registered unemployment figures than the Russian average by region.

In 2012 the city once again justified its status of one of Russia’s major industrial hubs, with St. Petersburg and the Leningrad Region enjoying a much higher industry growth rate than the country’s average. The industrial output in St. Petersburg has grown by 4.3% during the year as opposed to the overall Russian average of 2.6%. For the Leningrad Region this indicator reached 4.2%.

Most significant growth was evidenced in the motor vehicle industry and various equipment manufacturing sectors, including the production of lifting and handling equipment, rubber articles, cars, industrial refrigeration and ventilation equipment, plastic goods, timber structures and trucks.

A major growth was also seen in the consumer goods sector, with dairy products and soft drinks manufacturers taking the lead.

In the Leningrad Region most substantial growth was demonstrated by the construction sector, which driven mostly by the declining growth rate in residential construction in St. Petersburg, which in 2012 was 5% lower than in 2011.

Such modest construction capacities for a city with population topping 5 million was an additional impetus for accelerated development of housing projects in the nearby Leningrad Region, where there was a considerable growth in the number of newly commissioned residential houses amounting to 6%.

St. Petersburg also remains a large transportation hub. Throughout 2012 the city’s transportation companies have carried 1.5 times more cargo than the year before. The most apparent (2x) growth was observed in road and ship transport.

St. Petersburg is one of Russia’s leading regions in terms of small and medium business development. Small and medium enterprises account for approximately 30% of all city budget receipts. The largest number of SMEs, over 40%, is in the wholesale and retail trade sectors. The shares of processing industry, real estate, transport and communications are also significant.

Another positive factor was that, considering the higher economy growth rates in the city, prices were growing slower than in Russia on average. Thus the inflation rate in 2012 was 6.1% in St. Petersburg and 6.5% in the Leningrad region, while the overall rate in Russia reached 6.6%.

As for the social welfare growth, the situation in St. Petersburg was slightly less favourable. Compared with 2011, real cash income of the population has gained only 2.9% which is less than both the average growth in Russia (4.8%) and that in the Leningrad Region (6.4%). Bearing in mind that the labour force participation rate in St. Petersburg is not lower than the average one for other regions of the Russian Federation (50% and 48% respectively), it is likely that there was a further widening of the wealth gap, which certainly cannot be regarded as a positive trend.

St. Petersburg and the Leningrad region have demonstrated higher employment rates in 2012 than the average rates in Russia. Registered unemployment levels were as low as 0.4% and 0.5% respectively, with country average being 1.4%.
At year-end 2012, St. Petersburg banking sector assets have totalled RUB 2,247 bn. The city’s share in the Russian banking sector amounted to 4.5%.

Changes in the St. Petersburg banking sector generally correspond to the overall Russian trends, and in this respect 2012 was no exception. Total assets of the St. Petersburg banks in 2012 have gained 20.7% as against the 18.9% asset growth in Russia as a whole. The share of local banking assets in the total assets of Russian banks has grown slightly.
As in the rest of Russia, retail lending has shown more sizeable growth in St. Petersburg than corporate lending. Retail customers were also more willing than companies to deposit their funds in banks.
The Bank is the largest privately-owned bank in St. Petersburg. The Bank maintains its stable position across all major banking service markets, including lending to and attracting deposits from both corporate clients and individuals, securities trading, plastic cards, cash management services, the foreign exchange market and the inter-bank loan market.

As of the end of 2012, the Bank held the following market shares in St. Petersburg:

- 12.6% by assets;
- 13.0% of the corporate lending market;
- 9.8% of the corporate deposits market;
- 4.8% of the retail lending market;
- 8.0% of the retail deposits market.

Based on data provided by the Central Bank of the Russian Federation and the Association of Banks of North-West Russia, as well as internal Bank Saint Petersburg data.