

AB ICI: Foreign Investments up 20%

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Investment Summary

- AB ICI increased by 20% driven by IPOs and the acceleration of FDI in non-oil sectors
- Despite a favorable liquidity outlook, financial markets are no longer delivering rapid growth
- The Cabinet's concerns about inflation could damage investor sentiment, but only in the near term

AB-ICI shows unprecedented 20% growth

AB-ICI increased by 20%,...

...reflecting a strong preference for rubles,...

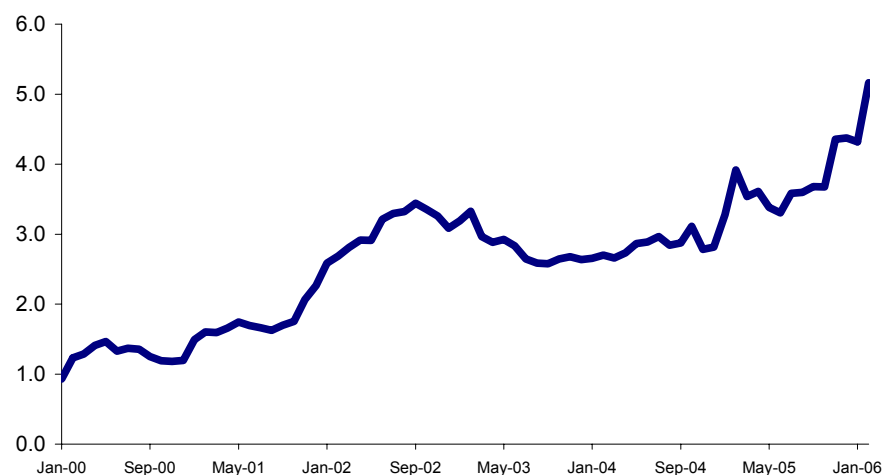
...a surge in FDI ...

...and ongoing IPO activity

The Alfa Bank Investor Confidence Index (AB-ICI) increased by 20% in February, reflecting the publication of very favorable macroeconomic figures:

- The Index's **economic confidence** increased, reflecting a decline in capital outflows and a reduction in the foreign currency savings rate. According to recent publications, the share of foreign deposits in total deposits dropped to 24%;
- **Foreign confidence** indicators improved dramatically. Annual FDI inflows jumped 38% y-o-y to \$13 bln. Foreign banks' penetration in Russia's banking sector also increased and reached 11%, versus just 6% a year ago;
- **Market confidence** also demonstrated substantial improvement thanks to a 24% YTD increase in the RTS and Comstar's recent IPO.

Figure 1. AB-ICI declined by 1% in January due to extended holiday period



Sources: New School of Economics, Alfa Bank

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FDI posts record high \$13 bln inflow in 2005
FDI increases to \$13 bln on manufacturing investments

The acceleration of investment flows from the Netherlands was an important structural shift in 4Q05. While the Netherlands was mainly focused on fuel investments in Sakhalin projects in 9M05, it increased investment in the manufacturing sector in 4Q05. As a result, of the \$50 bln in accumulated FDI in Russia, the Netherlands now accounts for \$16 bln, or 32%. This country has now become the largest FDI investor in Russia, whereas in the past two years the leading position was held by Cyprus.

Figure 2. FDI inflows in 2004 and 2005, \$ mln

	2004	Structure, %	1H2005	Structure, %	9M2005	Structure, %	2005	Structure, %
FDI inflow, total	9,420	100%	4,489	100%	6,602	100%	13,072	100%
Fuel sectors	4,080	43%	2,041	46%	3,135	47%	4,012	31%
Manufacturing sectors	2,911	31%	1,019	23%	1,432	22%	6,028	46%
Financial segments	356	4%	229	5%	386	6%	589	5%
Real estate	650	7%	403	9%	603	9%	930	7%
Others	1,423	15%	797	17%	1,046	16%	1,513	11%

Source: Rosstat

Liquidity outlook remains positive
Banking liquidity is stable at \$22-23 bln this year, versus \$20 bln in 2005

The general monetary mass statistics indicate some improvement with regards to the liquidity situation in the beginning of this year. While the banks' liquid accounts represented an average of \$20 bln in 2005, liquidity was stable at around \$22-23 bln in January and February 2006. The higher liquidity allows banks to reduce their interest rates, and is likely to support rapid growth of retail lending in 2006.

Figure 2. Monetary base by components, \$ bln

	Dec-04	Mar-05	Jun-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Cash in circulation	60.2	56.7	61.3	65.1	66.0	66.0	76.1	71.5	72.3
Correspondent accounts	17.5	11.7	9.9	13.3	10.6	11.7	17.6	12.1	11.0
Obligatory reserves	4.4	4.8	4.8	5.3	5.4	5.6	5.6	6.1	6.0
Deposits at the CBR+CBR bonds	3.6	6.3	4.5	5.3	5.1	4.8	1.4	3.9	5.4
Reverse repo	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves on foreign operations	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.3
Total in banks	25.8	23.1	19.3	24.2	21.4	22.4	24.9	22.3	22.7

Sources: CBR, Alfa bank estimates

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