

Macroeconomic environment

Russia's GDP rose by 7.1% in 2004, a small fraction less than 7.3% in 2003. This high growth rate is, to a large extent, due to positive external factors. The rate of production of goods and services was higher than expected. In 2004, the increase in overall production of goods and services in key sectors was 6.6% (in 2003 – 7.3%). Capital investments by Russian enterprises in 2004 grew by 10.9% (in 2003 – by 12.5%). Positive fiscal trends continue: budget revenues exceeded expenditures. The budget surplus was 730.7 billion rubles or 4.4% of the GDP, an increase from 1.7% in 2003. By early 2005, the stabilization fund of the Russian Federation was 522.3 billion rubles, an increase of 416.3 billion rubles over the previous year. This enabled

Russia to pursue a policy aimed at early repayment of its foreign debts. The balance of payments of the Russian Federation remained stable and in surplus. Exports and imports in 2004 were at record highs. Consumer price inflation was lower than in 2003; basic inflation was 10.5%, down from 11.2% in 2003. In November 2004, Fitch, an international ratings agency, upgraded Russia's long-term rating with respect to national/foreign currency to an investment level: from BB+ to BBB-. The short-term rating was also upgraded from B to F3.

In the social sector there were positive trends as well: income of individuals continued to grow strongly, by 9.4%, although slightly less than the 14.5% the previous year; income growth was more widely spread among population sectors; consumers spent more and saved less.

Factors that impeded economic development in 2004 included more rapid inflation in industrial product prices, less lending generally provided by banks to companies in non-financial sectors, greater net capital outflow compared to 2003 and a greater impact of goods imported from competitors.

(materials of the Central bank of the Russian Federation and data of the Federal Public Statistics Service).