



**THE CENTRAL BANK
OF THE RUSSIAN FEDERATION
(BANK OF RUSSIA)**

Quarterly Inflation Review

2006 Q4

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Research and Information Department

Quarterly Inflation Review is placed on Bank of Russia website:
<http://www.cbr.ru/analytics/macro/>.

Introduction

Consumer price growth continued to slow down in Russia in 2006. Core inflation was lower than in 2005 and growth in the prices of goods and services not included in the calculation of the core consumer price index decreased. Consumer prices rose 9.0% in 2006, the smallest increase in inflation since 1991. Although the reduction of inflation in 2006 (by 1.9 percentage points) was more significant than in the previous two years (0.8 percentage points and 0.3 percentage points), the inflation target set for the year (7-8.5%) was not met. The reduction of inflation on the consumer goods market in 2006 was largely due to the slowing of growth in the prices of services provided to the public, including those regulated by government.

The Bank of Russia was limited in implementing its monetary policy by the need to contain the ruble's appreciation for the purpose of maintaining the competitiveness of Russian goods on the international and domestic markets.

A large part of aggregate liquidity, which resulted from significant growth in international reserves, was absorbed in 2006, as in 2005, by the Russian Government's Stabilisation Fund and settled in the federal government accounts with the Bank of Russia. At the same time, the rise in the base price of oil from \$20 to \$27 per barrel in the beginning of 2006 reduced the absorption capacity of the Stabilisation Fund, compelling the monetary authorities to tighten control over the money supply.

To reduce the inflationary pressure, the Bank of Russia raised the interest rates on deposit operations conducted on standard terms and revised interest rates on auction deposit operations and operations with Bank of Russia bonds (OBR),

the main instruments used by the Bank of Russia to raise funds.

Despite the implementation of the liquidity absorption measures, the monetary aggregates in 2006 increased more than the projected demand for money. The M2 aggregate rose more than 40% on an annualised basis in the second half of 2006 and by the end of the year it stood at 48.8%, whereas broad money expanded 41.4%.

Nevertheless, the pressure of rapid growth in the monetary aggregates on inflation has been cushioned in the past few years by the significant expansion of demand for the national currency and the lengthening of the lags in the effect of monetary growth on prices. The increase in the demand for the national currency was chiefly due to growth in domestic demand and the continued withdrawal of the dollar from the Russian economy. The velocity of money decreased rapidly, while the monetisation of the economy increased.

In the second half of 2006, oil prices declined on the world market and in the fourth quarter they were lower than in the same period of 2005.

In the beginning of 2007, the price of oil was also lower than a year earlier. In this situation the price of Russian oil in 2007 may be lower than the one projected when the budget was being compiled. Export revenues may be smaller than expected and the effect of excess liquidity on the economy and the upward pressure on the ruble will decrease. In addition, the Bank of Russia will be able to tighten its policy on the money supply and this, in the long run, may favourably affect inflation dynamics.

Inflation Dynamics

Consumer Prices

According to the Federal State Statistics Service (Rosstat), consumer prices rose 9.0% in 2006 as against 10.9% in 2005.

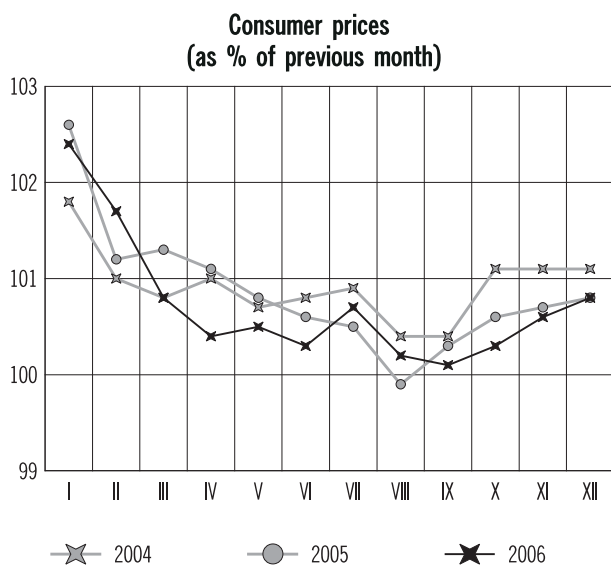
In the first quarter of 2006, consumer prices gained 5.0%, in the second 1.1%, in the third 1.0% and in the fourth 1.7%. In October consumer prices were up 0.3%, in November 0.6% and in December 0.8%.

Core inflation stood at 7.8% in 2006 as against 8.3% in 2005. In the first quarter it was 2.8%, in the second 1.1%, in the third 2.0% and in the fourth 1.8%. In October core inflation ran at 0.5%, in November 0.6% and in December 0.7%.

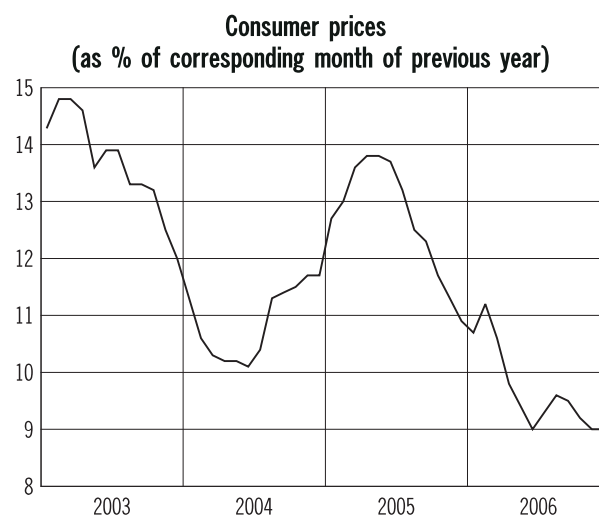
According to Bank of Russia estimates, growth in the prices of goods and services included in the calculation of the core consumer price index accounted for 6.1 percentage points, or 67.1% of overall price increase on the consumer goods market (6.6 percentage points, or 60.5% in 2005).

Food prices rose 8.7% in 2006 as against 9.6% in 2005.

Food prices, excluding vegetable and fruit prices, went up 8.5% in 2006 as against 9.1% in 2005. In the first quarter they increased 3.9%, in the second 0.6%, in the third 2.0% and in the fourth 1.8%. According to Bank of Russia estimates, growth in the prices of this group of



Source: Rosstat.



Source: Rosstat.

Consumer price inflation (%)

	Growth (December 2006 on December 2005)	Growth (December 2005 on December 2004)	
Prices of goods and services, total	9.0	10.9	Slowing of growth by 1.2 times
of which:			
- food prices	8.7	9.6	Slowing of growth by 1.1 times
- food prices, excluding vegetable and fruit prices	8.5	9.1	Slowing of growth by 1.1 times
- non-food prices	6.0	6.4	Slowing of growth by 1.1 times
- paid services provided to public	13.9	21.0	Slowing of growth by 1.5 times
Prices of goods and services included in core inflation calculation	7.8	8.3	Slowing of growth by 1.1 times

Source: Rosstat.

goods accounted for 3.3 percentage points, or 36.6% of overall price increase on the consumer goods market (3.8 percentage points, or 35.2% in 2005).

Growth in the price of granulated sugar accelerated sharply in the first quarter of 2006 and reached 48.8%, but since the second quarter it mostly declined. Overall, in 2006 the price of granulated sugar rose 14.9%, whereas in 2005 it fell 0.1%. This growth was due to the reduction of sugar supply on the domestic market, caused by the 44% fall in refined sugar imports, 16% growth in the contract prices of imported refined sugar and the rise in the domestic producer prices, caused by the increased price of imported raw sugar. According to Bank of Russia estimates, growth in the price of granulated sugar increased overall consumer price growth by 0.2 percentage points and core inflation by 0.3 percentage points (it was negligent in 2005).

Growth in meat and poultry prices slowed down to 5.9% in 2006 from 18.6% in 2005, largely due to the fall in poultry prices, which declined 5.3% amid 20.4% growth in output. Beef and pork prices gained 13.3% and 7.9%, respectively, in 2006 (as against 23.6% and 18.2% in 2005).

Fish and seafood prices rose 7.8% in 2006, or 1.6 times less than in 2005.

Grain producer prices increased 29.4% in 2006, whereas in 2005 they fell 14.1%. As a result, growth accelerated year on year in the prices of bread and bakery products (to 11.1% as against 3.0%), cereals and legumes (to 12.1% as against

0.2%) and pasta (to 4.7% as against 1.9%). According to Bank of Russia estimates, these price increases accounted for 0.4 percentage points of last year's overall consumer price growth as against 0.1 percentage points in 2005.

As in the previous three years, food prices, excluding vegetable and fruit prices, in 2006 grew faster than non-food prices.

Vegetable and fruit prices rose 10.3% in 2006 (as against 14.3% in 2005), which represents a slowdown from the 2001-2005 average. As a result, the general rate of inflation accelerated by an estimated 0.4 percentage points, or 4.6% of overall consumer price growth (0.6 percentage points, or 5.4% in 2005).

Non-food prices gained 6.0% in 2006 (as against 6.4% in 2005). In the first quarter they increased 1.3%, in the second 1.0%, in the third 1.9% and in the fourth 1.6%.

Petrol prices rose 10.9% as against 15.8% a year earlier and their growth accounted for an estimated 0.2 percentage points of total inflation as against 0.3 percentage points in 2005.

Prices of **paid services** provided to the public were up 13.9% last year as against 21.0% in 2005. In the first quarter they rose 8.0%, in the second 1.9%, in the third 1.8% and in the fourth 1.6%.

The significant slowing of service prices, including administered prices, contained overall consumer price growth. The administered service prices rose 13.7%, according to Bank of Russia estimates (as against 23.9% in 2005). The amend-

Food price inflation (%)

	Growth (December 2006 on December 2005)	Growth (December 2005 on December 2004)	
Food products	8.7	9.6	Slowing of growth by 1.1 times
Bread and bakery products	11.1	3.0	Acceleration of growth by 3.7 times
Cereals and legumes	12.1	0.2	Acceleration of growth by 60.5 times
Pasta	4.7	1.9	Acceleration of growth by 2.5 times
Meat and poultry	5.9	18.6	Slowing of growth by 3.2 times
Fish and seafood	7.8	12.7	Slowing of growth by 1.6 times
Milk and dairy products	8.7	10.5	Acceleration of growth by 1.2 times
Butter	6.8	8.2	Acceleration of growth by 1.2 times
Sunflower oil	-1.2	2.1	
Granulated sugar	14.9	-0.1	
Vegetables and fruit	10.3	14.3	Slowing of growth by 1.4 times
Alcoholic beverages	10.1	7.6	Acceleration of growth by 1.3 times

Source: Rosstat.

ments passed to Federal Law No. 210-FZ, dated December 30, 2004, 'On the Principles of Regulating Tariffs Set by House Maintenance and Utility Services,' in 2005 and the Federal Tariff Service's Order No. 853-e/4, dated December 29, 2005, set limits on growth in housing and utility charges for each region and created the mechanism to control their dynamics. As a result, housing and utility charges increased 17.9% in 2006 as against 32.7% in 2005.

Passenger transport fares and communications fees rose 14.2% and 2.1%, respectively, in 2006 as against 15.8% and 9.1% in 2005. Pre-school tuition fees increased more than other service prices (by 28.5% as against 32.1% in 2005).

Service prices in 2006 grew 1.9 times faster than consumer prices as a whole (in 2005 they increased 2.6 times faster) and stood at 7.5%. According to Bank of Russia estimates, the increase in service prices in 2006 accounted for 3.3 percentage points, or 36.3% of overall consumer price growth (4.4 percentage points, or 40.2% in 2005).

According to Rosstat data, consumer price growth in 2006 was slower than in 2005 in all **federal districts** of Russia.

According to Bank of Russia estimates, the difference has decreased between the Russian regions in terms of the price of the fixed set of goods and services used by Rosstat in monitoring the purchasing power of the population in the re-

gions. The regional difference ratio¹ in 2006 remained virtually unchanged from 2005 at 45.3% (in 2005 it stood at 45.8%).

The most significant difference between the Russian regions was in the rates of growth in vegetable and fruit prices. In the Southern Federal District, for instance, these prices increased 17.3%, whereas in the Volga District they rose 5.0%. At the same time, growth in non-food prices and food prices without vegetable and fruit prices was approximately the same in all regions.

Although growth in service prices slowed down significantly in all regions, it was particularly noticeable in the Southern and Far Eastern Federal Districts (10.2 and 13.6 percentage points, respectively, as against 7.1 percentage points in Russia as whole).

According to the Institute for the Economy in Transition, the inflationary expectations of the managers of key industrial enterprises somewhat decreased in 2006 as compared with 2005. Up to 37% of them predicted growth in selling prices in 2006 as against 38% in 2005.

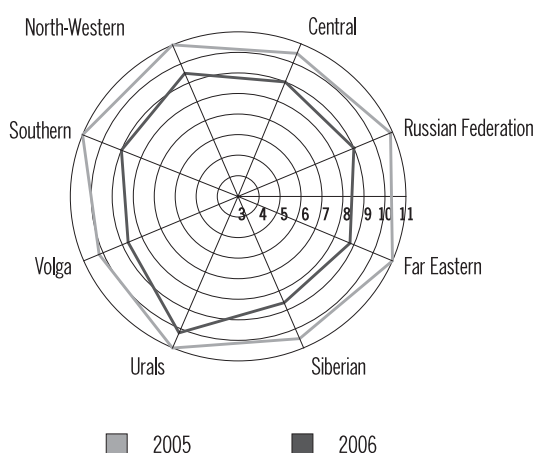
Housing Market Prices

In recent years housing prices have risen faster than consumer prices. In the period from 2000 through 2005 prices on the primary housing market had increased 190% and on the secondary market 230%, while consumer prices had grown 150%. In 2006, prices on the primary housing market rose 47.7% as against 17.5% in 2005, whereas prices on the secondary housing market increased 54.4% as against 18.0% a year earlier. Meanwhile, consumer price inflation slowed down to 9.0% last year.

Housing price growth accelerated despite rapid growth in housing construction: in 2006 it was 115.2% as against 106.1% in 2005. Demand exceeded supply partly because the tightening of quality and other requirements for developers had slowed the completion of housing projects in 2005.

One factor of growth in the demand for housing was rapid growth in household income: 19.8 million square metres of housing, or 39.5% of total housing completed in 2006, were built by occupants at their own expense or on credit. How-

**Consumer price growth by federal district
(December as % of December of previous year)**



Source: Rosstat.

¹ The regional difference ratio is calculated as the difference between the price of a fixed set of goods and services in the most expensive and the cheapest regions relative to the national value of the same set.

ever, real estate accounts for a small proportion of total household income used. According to the household sector balance of income and expenses, in the first nine months of 2006 it stood at 2.5%.

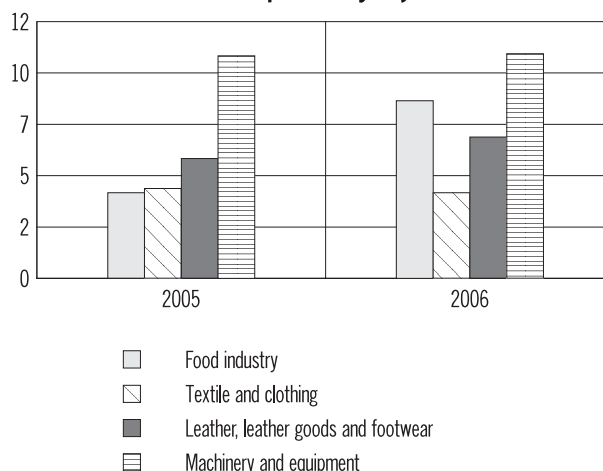
Continuous growth in housing prices makes investment in housing extremely profitable. While a bank deposit carried an interest of 8.2% last year (this applies to the ruble-denominated household deposits with terms of up to one year, except demand deposits), investment in housing yielded more than 47%.

Producer Prices

Producer prices gained 10.4% in 2006 as against 13.4% in 2005. The slowdown was partly due to the significant fall in producer prices (by 19.2%) in the mining sector in the fourth quarter of last year, which was caused by a drop in oil prices on the world market. Overall growth in producer prices in this type of activity in 2006 was 1.6% as against 31% in 2005. At the same time, fuel and energy producer prices declined 3.6%, whereas in 2005 they gained 35.3%. Producer prices in the ore mining sector increased 49.4% as against 5.6% in 2005. According to Bank of Russia estimates, the contribution made by producer price growth in the mining sector to overall price growth in 2006 contracted to 0.4 percentage points, or 3.5% as against 6.1 percentage points, or 45.8% in 2005.

Meanwhile, producer price growth in the manufacturing sector accelerated to 13.3% from

Producer prices in some manufacturing industries (growth in December as % of December of previous year)



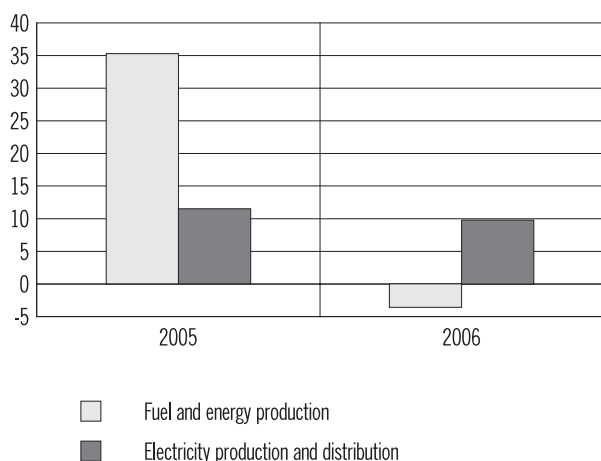
Source: Rosstat.

8.1% in 2005. There was a sharp rise in metal prices (from 5.1% to 26.9%) as non-ferrous metal prices increased amid growth in world prices.

As for the manufacturing industries whose output goes to the consumer goods market, price growth in the production of foodstuffs, including beverages, and tobacco accelerated from 4.0% in 2005 to 8.3% in 2006 and in the production of leather, leather goods and footwear from 5.6% to 6.6%. In textile and clothing production price growth slowed from 4.2% to 4.0%.

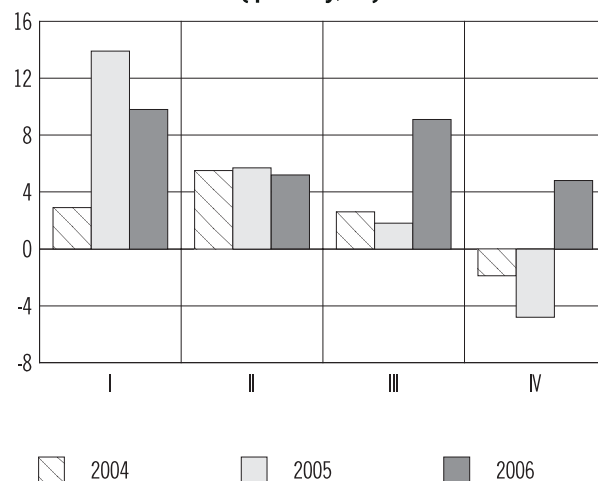
According to Bank of Russia estimates, as a result of producer price growth in the sectors oriented to the consumer goods market, core inflation increased by 4.4 percentage points to 56.4%

Producer prices by type of activity (growth in December as % of December of previous year)



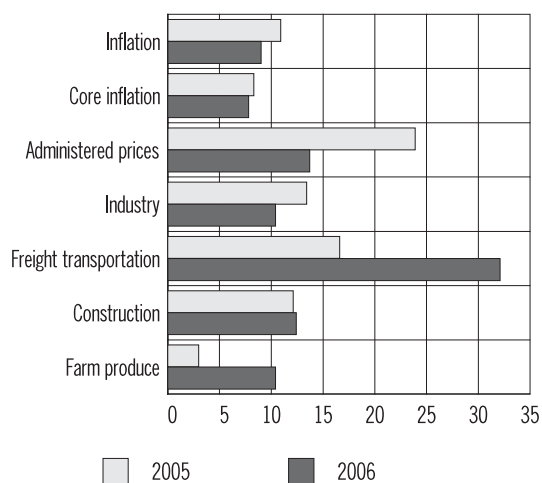
Source: Rosstat.

Freight transportation charges (quarterly, %)



Source: Rosstat.

**Price growth in the economy
(December as % of December of previous year)**



Source: Rosstat.

of total inflation in 2006 (as against 3.0 percentage points, or 36.1% in 2005).

Price growth in the production, transmission and distribution of electricity stood at 9.8% as against 11.5% in 2005.

Freight transportation charges rose 32.1% in 2006 as against 16.6% in 2005, with freight railway charges going up 8.9% as against 13.3% a year earlier.

Communication fees for corporate users increased 1.3% in 2006 as against 2.2% in 2005.

Prices in the **construction sector** gained 12.4% last year as against 12.1% a year earlier.

Agricultural producer prices were up 10.4% in 2006, whereas in 2005 they increased 3.0%. The main contributor was the crop-growing sector, where producer prices increased 21.0% in 2006, whereas in 2005 they fell 6.1%.

Prices of livestock products rose 4.2% in 2006 as against 9.0% in 2005. At the same time, growth in livestock and poultry prices slowed down to 3.2% as against 15.2% in 2005.

Inflation in Some Countries of the World²

US inflation slowed to 2.5% in 2006 (December on December of previous year) from 3.4%

in 2005. The main contribution to the general level of consumer prices in the United States in the period under review was made by core inflation³ (nearly 2.0 percentage points). The changes in the prices of energy and foodstuffs were far less important (0.25 percentage points and 0.3 percentage points, respectively). Growth in energy prices slowed to 2.9% from 17.1% in 2005 due to the energy price downturn in the period from August through November caused by the fall in the price of oil on the world market. Motor fuel prices gained 6.4% in 2006 as against 16.2% in 2005. The prices of household energy products⁴ fell 0.3%, whereas in 2005 they rose 18%. Food prices gained 2.1% as against 2.3% in 2005. Meanwhile, growth in sugar prices slowed down and the prices of milk and dairy products dropped.

US core inflation stood at 2.6% in 2006 as against 2.2% in 2005. Rent increased 4.2% (as against 2.6% in 2005), making the biggest contribution to core inflation. Other major factors of core inflation in the United States were the increased health charges, which rose 4.1% (as against 4.5% in 2005) and education fees, which grew 6.3% (as against 6.2% a year earlier).

Eurozone inflation stood at 1.9% in 2006 as against 2.3% in 2005. As is the case with the United States, the biggest contribution to consumer price growth in the eurozone was made by core inflation⁵ (1.1 percentage points), the smallest by growth in energy prices (0.3 percentage points). Energy prices gained 2.9% in 2006 as against 11.3% in 2005. In the period from September through November 2006 the eurozone saw energy prices fall. The prices of liquid fuel and lubricants used in transport dropped by 0.8% in 2006, whereas in 2005 they rose 13.6%. Growth in the prices of energy products used by households stood at 5.7% as against 11.2% in 2005. Increase in the prices of foodstuffs, alcoholic beverages and tobacco contributed half a percentage point to eurozone inflation. Prices of this group of products increased 2.7% as against 1.7% a year earlier. Growth in vegetable and fruit prices, meat

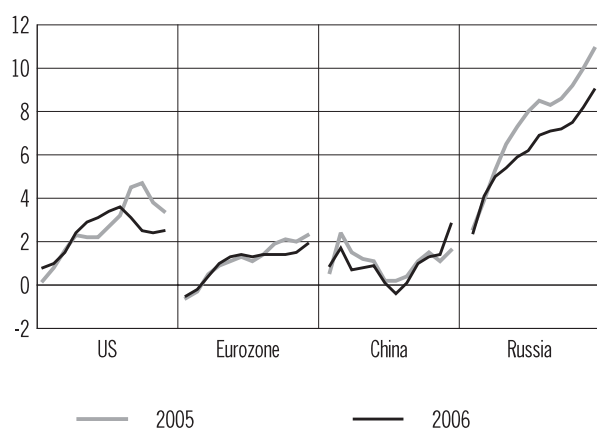
² According to data compiled by the US Department of Labour Bureau of Labour Statistics, the Statistical Office of the European Communities (EUROSTAT), China's National Statistics Bureau and national statistics agencies of other countries. The effect of various factors on US and eurozone inflation has been calculated by the Bank of Russia.

³ Growth in prices of goods and services included in the consumer goods basket, except foodstuffs and energy products.

⁴ Fuel oil, boiler fuel, coal, household gas and electricity.

⁵ Growth in the prices of goods and services included in the consumer goods basket, except foodstuffs, alcoholic beverages, tobacco and energy products.

Consumer prices by country (%)*



* Consumer price growth relative to December of previous year.

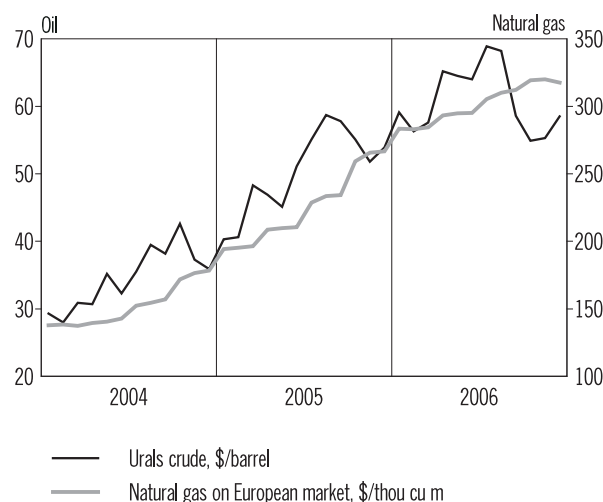
Source: US Department of Labour Bureau of Labour Statistics, Statistical Office of the European Communities, China's National Statistics Bureau and Rosstat.

prices, prices of milk and dairy products, and sugar prices accelerated.

Eurozone core inflation stood at 1.5% in 2006 as against 1.3% in 2005. Growth in housing and utility charges and other service prices (catering, insurance and personal services) made the biggest contribution to core inflation last year. Core inflation in 2006 changed little from the previous year because of the fall in the prices of telecommunications facilities and communication services and the prices of some kinds of household electrical appliances and electronic gadgets (audio and video players and recorders and personal computers).

As for the countries that account for a large portion of Russia's foreign trade turnover, it should be noted that in 2006 inflation accelerated to 6.5% in Hungary (from 3.3% in 2005), 5.1% in Estonia (3.6%), 4.5% in Lithuania (3%), 11.6% in Ukraine (10.3%), 6.9% in India (5.6%), 2.8% in China (1.6%) and 3.0% in Britain (1.9%). Inflation also gathered pace in Kazakhstan, Sweden, Poland, Slovakia, Turkey and Iran. At the same time, inflation slowed down to 4.9% in Romania (from 8.7%), 3.1% in Brazil (5.7%) and 6.6% in Belarus (8%). Inflation also slowed in Switzerland, South Korea and the Czech Republic. In Latvia inflation remained unchanged from 2005. In Japan consumer prices rose in 2006, whereas in 2005

Oil and natural gas world market prices



Source: Reuters, World Bank.

they declined, while in Israel consumer prices fell last year, whereas in 2005 they increased. The biggest year-on-year increase in consumer prices in 2006 was registered in Iran (15.9%) and the smallest in Japan (0.3%).

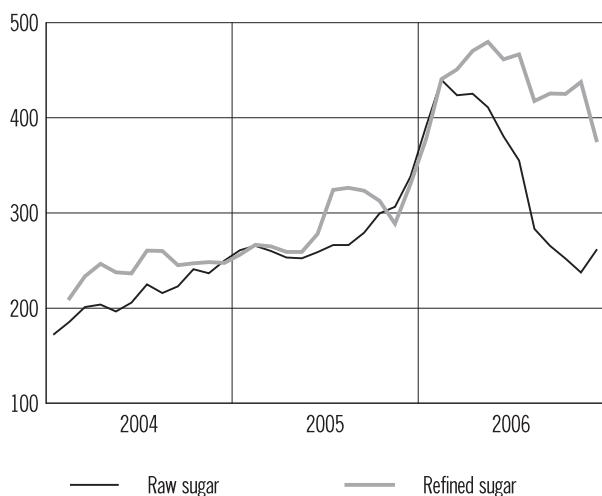
Foreign Trade Conditions

Prices of Russia's major export commodities⁶ in 2006 were mostly higher than in 2005. The most significant increase was registered in energy and non-ferrous metal prices. The average price of Urals crude rose 21% in 2006 year on year (as against 46% in 2005), petroleum products 19% (44%), natural gas in Europe 34% (48%) and non-ferrous metals almost 50% (11%).

However, in 2006 the world market saw growth in energy prices slow down. Oil and petroleum product prices declined in the period from August through October as US commercial oil stocks grew and non-OPEC countries increased the supply of oil to the world market. In addition, the oil price downturn was the result of the weather conditions that caused the reduction of fuel consumption in North America and Europe and the lessening of political tension in the world in the second half of last year. Oil price growth resumed after OPEC had decided to cut output by 1.2 million barrels per day from November 1, 2006.

⁶ Average prices have been calculated by the Bank of Russia on the basis of data provided daily by the following news agencies and exchanges: Reuters for oil, Petroleum Argus for petroleum products (petrol, diesel fuel and fuel oil) and the London Metal Exchange for non-ferrous metals (aluminium, copper and nickel). Natural gas is priced on an average monthly basis; ferrous metal price indices are published by the World Bank; other goods are priced on an average monthly basis by the IMF.

World sugar prices (\$/tonne)



Source: Financial Times.

As a result, in the third and fourth quarters of 2006 the average price of Urals was higher than in the same periods of 2005 by 14% and 5%, respectively, whereas in the first half of 2006 it was higher by one-third than in the same period of 2005. In December 2006, the price of Urals was 8.6% higher than a year earlier (in December 2005, it was 50% higher than a year earlier).

Petroleum product prices followed the oil price dynamics by and large. The price of premium petrol on the European market rose 8.9% in December 2006 year on year (40% in 2005), diesel fuel 6.4% (30%) and fuel oil 5.3% (80%). Natural gas prices in Europe mostly increased in 2006, but their growth gradually slowed down during the year and in December 2006 they were 19.1% higher than a year earlier, whereas in December 2005 they were 50% higher than a year earlier.

Ferrous metal prices continued to fall last year and in December 2006 they were down 5.5% on a year earlier (in December 2005, they were 7.7% higher than a year earlier). Meanwhile, growth in non-ferrous metal prices accelerated and in December 2006 they were 60% higher than a year earlier (in December 2005, they were 13.7% higher than a year earlier). Energy prices in December 2006 were on average 10.6% higher than a year earlier (in December 2005, they were 45.4% higher than a year earlier) and non-energy

prices rose 14.5% (as against 11.2% in December 2005).

Food prices on world markets⁷ changed both ways in 2006. The average price of beef was down 2.7% on 2005. Beef prices started to rise in the second half of last year as Argentina, which accounts for nearly 20% of world meat exports, set limits on beef exports. Despite the gradual easing of the beef export restrictions, the quota set by that country on frozen beef exports in September 2006 was by 30% smaller than a year earlier. In addition, in line with its long-term plan to cut the domestic prices of meat products, the Argentine government issued an order to reduce beef exports by almost a quarter from December 2006. As a result, in the fourth quarter of 2006, the world market price of beef was up 3.4% on the same period in 2005. In December 2006, the price of beef rose 5.2% year on year and pork was up 0.5%, whereas poultry prices were down 3.1% (in December 2005 beef, pork and poultry prices were down 2.0%, 15.9% and 3.2%, respectively).

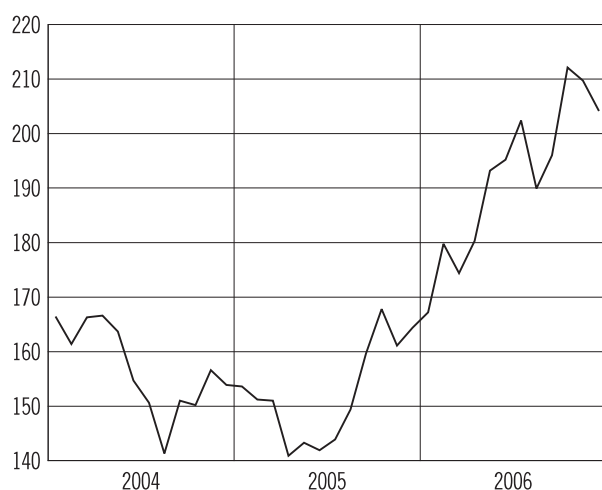
The world market price of raw sugar declined in 2006 due to the expectations of a record-high output in the 2006/2007 season, which, according to the World Sugar Organisation, will outstrip consumption. As a result, in December 2006 the price of raw sugar was down 23% on the same period a year earlier (in December 2005 it rose 35% year on year).

The bumper raw sugar harvest led to growth in the production of refined sugar and sugar stocks increased on the world market. As a result, the price of refined sugar began to show a downward trend in the second half of 2006. However, in December 2006, it was 13.8% higher than a year earlier (in December 2005, it was 33.5% higher than a year earlier). The price of refined sugar may continue to fall as the world market is expected to experience a surplus of sugar in the 2006/2007 season.

Grain prices rose significantly on the world market in 2006. The International Grains Council scaled down the world grain production forecast for 2006/2007 agricultural year to 1.55 billion tonnes, a decrease of 42 million tonnes from the

⁷ Average raw and refined sugar prices have been calculated on the basis of data provided daily by the London Commodity Exchange. Beef and wheat prices are monthly averages published by the World Bank and pork and poultry prices are monthly averages published by the IMF.

US wheat export prices (\$/tonne)



Source: World Bank.

previous agricultural year's harvest. It also scaled down its world grain trade and stocks projections. US wheat export prices rose 24.3% in December 2006 year on year (in December 2005, they increased 6.8%).

As growth in the prices of major export commodities exceeded increase in the prices of imports, the terms of Russia's trade with foreign countries⁸ improved in 2006, but the rise of the terms of trade index slowed down.

Russia's trade surplus continued to increase in 2006 but more slowly because of the slowing of export growth. In 2006, this country's trade surplus expanded 18.9% to \$140.7 billion (in 2005, it rose 37.8% to \$118.3 billion).

Foreign Trade in Some Countries of the World⁹

The US trade deficit increased by \$49.1 billion in January-November 2006, as compared with the same period in 2005, due to growth in the value of imports, especially crude oil. The deficit in US trade with China accounted for more than a quarter of the total US trade deficit. The increased value of energy imports was the principal factor of growth in the European Union's aggregate imports. Russian exports accounted for more than a quarter of growth in EU energy imports. In China, exports continued to grow faster than imports,

increasing significantly the country's trade surplus. Chinese imports of mineral fuel increased, while steel imports declined. In terms of trade turnover Russia was China's 10th leading trading partner. Chinese imports of Russian goods slightly exceeded Chinese exports to Russia. There was a rise in Russian exports to Belarus, Kazakhstan and Ukraine.

Demand

Domestic Demand

Russia's GDP increased 6.7% in 2006 as against 6.4% in 2005. The country's economic development parameters were largely determined by consumer and investor demand. According to Bank of Russia estimates, the contribution of domestic demand to GDP growth decreased in 2006 as compared with 2005. At the same time, in 2006, as in 2005, domestic demand for imported products grew faster than the demand for domestic products. The gap between them grew wider as compared with the previous year due to more rapid expansion of imports and this was a factor that checked growth in domestic production.

Growth in export revenues and the expansion of domestic demand facilitated dynamic growth in both investment and consumer goods imports. Meanwhile, imports of investment goods necessary for economic development grew somewhat faster than imports of consumer goods, according to Bank of Russia estimates.

As engineering imports grew faster in 2006 than in 2005, the value of imports increased significantly. Compared to 2005, imports of goods increased 30.8% in 2006, to \$163.9 billion (according to the balance of payments methodology). Rapid rates of growth were registered in imports¹⁰ from the Asia-Pacific Economic Co-operation member countries, especially the United States, China, South Korea and other Asian countries. Imports from the European Union member countries, including the eurozone countries, rose virtually at the same rates as imports in general. Imports from Russia's other major trading partners grew more slowly, especially imports from CIS countries.

⁸ Ratio between export and import price indices.

⁹ According to the US Department of Commerce Census Bureau, the Statistical Office of the European Communities (EUROSTAT), the Ministry of Trade of the People's Republic of China and national statistics agencies of other countries.

¹⁰ According to data provided by Russia's Federal Customs Service.

GDP consumption* (growth as % of corresponding period of previous year)

	2004					2005					2006				
	I	II	III	IV	full year	I	II	III	IV	full year	I	II	III	IV	full year
GDP	7.2	7.9	7.2	6.7	7.2	5.0	5.7	6.6	7.9	6.4	5.5	7.4	6.5	na	6.7
Final consumption	8.0	9.0	9.3	9.2	9.2	6.7	9.5	9.1	8.9	9.7	8.5	9.6	9.5	na	9.0
of which:															
- household sector	10.5	11.9	12.1	11.8	12.1	8.7	12.3	11.7	11.4	12.7	10.7	12.0	11.7	na	10.7
Gross capital formation	14.0	13.7	8.6	12.4	12.2	15.0	4.2	13.5	12.2	7.2	13.4	14.6	13.4	na	13.2
Net exports	-1.9	-6.6	-12.1	-20.1	-12.2	-10.7	-9.5	-27.2	-10.0	-12.8	-11.7	-12.3	-27.0	na	-14.3
- exports	11.2	11.7	11.1	13.0	11.8	3.5	5.6	5.1	10.3	6.4	7.8	5.8	5.2	na	7.0
- imports	20.0	21.3	19.7	25.9	23.3	15.4	14.9	19.4	18.6	17.0	25.7	19.1	20.0	na	20.3

* Quarterly data are to be specified by Rosstat in March 2007.
Source: Rosstat.

The share of imported products in the retail trade commodity resources expanded from 45% in 2005 to 46% in 2006.

As was the case a year earlier, imports grew mostly due to the expansion of import volumes. At the same time, growth in import prices slowed down from 2005 and this had a favourable effect on domestic price dynamics.

According to Bank of Russia estimates, domestic demand in 2006 grew faster than at any time in the past six years, mainly due to the significant acceleration of gross capital formation.

Growth in expenditures on final consumption slowed down from 2005 due to the slowing of growth in household spending. Expenditures on household sector final consumption increased 10.7% in 2006 as against 12.7% in 2005. Growth in consumer spending led to increase in sales through the retail trade network. Retail trade turnover expanded 13% in 2006 year on year (as against 12.8% in 2005) and the value of paid services provided to the public increased 8.1% (as against 6.8% a year earlier).

Growth in expenditures on government sector final consumption in 2006 was bigger than at any time in more than a decade. It constituted 4.6% (2.2% in 2005). Nevertheless, the restrictive budget expenditure policy and the absorption of excess money supply by the Stabilisation Fund contained growth in government sector demand.

Gross capital formation increased 13.2% in 2006 as against 7.2% in 2005. Fixed capital investment grew 13.5% as against 10.7% a year earlier. The biggest investments were made in transport

and communications, the manufacturing sector and the mining sector (investments in these sectors accounted for 60.5% of total fixed capital investment of large and medium-sized enterprises). The share of the mining sector in total investment expanded to 17.3% from 15.2% in 2005, whereas the share of the manufacturing sector in fixed capital investment contracted from 17.6% to 16.4% and the share of transport and communications decreased from 28.8% to 26.8%.

Investments in machinery, equipment and transport vehicles accounted for more than a third of total investment in 2006, as in 2005. About one-fifth went to purchase imported equipment. Big investments in machinery and equipment facilitated the technical retooling of fixed assets and this represented a major factor of growth in labour productivity and created conditions for curbing price growth.

As imports grew much faster than exports, net exports of goods and services declined by 14.3% in 2006.

External Demand

According to IMF and World Bank estimates¹¹, the world output of goods and services increased 5.1% in 2006 as against 4.7-4.9% in 2005. According to preliminary data¹², in 2006 GDP grew 3.4% in the United States (as against 3.2% in 2005), 2.7% in the eurozone (1.4%) and 10.7% in China (10.2%).

Apart from the expansion of domestic demand, the acceleration of GDP growth in the eurozone, the United States and China was largely

¹¹ *World Economic Outlook, September 2006, Global Economic Prospects, December 2006.*

¹² *According to data compiled by the US Department of Commerce Bureau of Economic Analysis, the Statistical Office of the European Communities (EUROSTAT), China's National Statistics Bureau and national statistics agencies of other countries.*

the result of growth in exports, which was the major factor of GDP growth in Japan. The expansion of domestic demand was the major factor of economic growth in Belarus, Kazakhstan and Ukraine. At the same time, the United States registered the slowing of growth in individual consumption and fixed capital investment amid the reduction of housing construction. Growth in inventories was also a major factor of GDP growth rates.

Economic growth accelerated in most countries in 2006. As a result, the world market demand for the major Russian export commodities increased and the upward trend in the dynamics of prices of these products continued.

Growth in export prices, especially energy and non-ferrous metal prices, and the expansion of export volumes contributed to growth in Russian exports. Growth in the value of exports was largely due to the increased export of fuel and energy products. In 2006 Russian exports grew 25% year on year to \$304.5 billion (according to the balance of payments methodology). Exports to the European Union member countries, including the eurozone, the United States and most of the other countries that are Russia's leading trading partners increased faster than exports in general¹³. Exports to Asian countries, such as China and South Korea, increased more slowly than exports in general. There was a fall in Russian exports to Iran.

In 2006, as in 2005, most of the increase in Russia's GDP was due to the expansion of domestic demand for domestic products, according to Bank of Russia estimates. At the same time, the contribution of external demand (exports of goods and services) to GDP dynamics increased in 2006 and the acceleration of growth in external demand became a factor of GDP growth. Meanwhile, growth in export prices slowed down.

Supply

The macroeconomic situation in Russia in 2006 was characterised by production growth in the main types of economic activity. Output in the key sectors of the economy rose 6.1% as against 5.2% in 2005. The most rapid rates of growth were registered in some services, especially wholesale

and retail trade, financial activities and communications.

The industrial output index registered 103.9% in 2006 as against 104.0% in 2005. At the same time, production growth in the manufacturing sector was by 1.9 times faster than in the mining sector.

Production growth in the mining sector accelerated from 1.3% in 2005 to 2.3% in 2006 and growth in the production and distribution of electricity, gas and water accelerated from 1.2% to 4.2%.

Bank of Russia estimates show that in 2006, as in 2005, most of growth in industry was due to expansion in the manufacturing sector. However, although output in many manufacturing industries grew faster than in 2005, overall production growth in the manufacturing sector slowed down from 5.7% to 4.4%. Output grew rapidly in all major industries turning out products for the consumer goods market. After decline in 2005, output in the textile and clothing industry in 2006 rose 7.3% and the production of leather, leather goods and footwear increased 16.7%. As for other manufacturing industries, the most rapid rates of growth were registered in the production of rubber and plastic goods (11.7%), non-metal mineral products (10.8%) and metallurgy products (8.8%). Unlike 2005, last year saw a 5.5% drop in the output of electric, electronic and optical equipment (in 2005 it rose 20.7%).

Price dynamics in the economy as a whole were affected by the changes in the prices of some goods caused by the changes in the supply of these goods. Agricultural output increased 2.8% in 2006 year on year as against 2.4% in 2005. The gross output of grain rose 0.3% year on year and sugar beet production increased 39.8%. There was a rise in the output of the major livestock products. However, growth in the supply of farm produce was accompanied by the quickened price increases caused by significant price growth in crop farming, especially grain growing, which had a negative effect on the prices of corresponding products on the consumer goods market. At the same time, the output of meat and meat products increased 6.5% year on year (the output of

¹³ According to data provided by Russia's Federal Customs Service.

meat rose 13.3% and poultry 20.4%) and this growth led to the slowing of growth in meat prices on the consumer goods market.

Rapid growth in the price of granulated sugar on the consumer goods market, caused by a fall in output in January, February, June, July and August, presented an acute problem in 2006. Overall, in 2006 sugar production expanded 4.3% (in the period from December 2005 through December 2006 sugar production increased 2.5 times over).

There has been sustained growth in capacity utilisation in recent years. According to the Centre for Economic Studies, capacity utilisation in industry stood at 68% in the third quarter of 2006, which represents an increase of 9 percentage points on the same period in 2005. The highest rates of capacity utilisation were registered in the production of coke and petroleum products (81%), leather, leather goods and footwear (78%) and chemicals (77%), the lowest in the production of machinery and equipment (57%).

Estimates show that capacity utilisation in industry in January-September 2006 increased to 66.3% from 51.3% in the same period of 2005. Taking into consideration the unfavourable age structure of fixed assets in the Russian economy (more than half of industrial machinery and equipment have been used for more than 20 years), one can regard the capacity utilisation level at the end of 2006 as fairly high. It increases the inflationary pressure in the economy.

Labour Market

The trend towards growth in the number of jobholders continued in 2006. Over the year job numbers increased 0.9% as against 1.3% in 2005. As output grew faster than employment, labour productivity increased 5.7%, according to Bank of Russia estimates, as against 5% in 2005. This

means that the intensive factors of growth remained important, containing price growth in the economy. In 2006, as a year earlier, labour productivity in the manufacturing sector and in the services increased at approximately the same rates, according to Bank of Russia estimates. However, growth in labour productivity in the manufacturing sector was mostly due to the fall in job numbers, whereas in the service sector it was the result of output growing faster than jobs.

Wage grew rapidly in 2006, faster than labour productivity. The gap between the rates of growth in real wage and labour productivity in 2006 widened as compared with 2005, a trend indicating that prices will go on rising.

Significant wage differences in different types of activity remained in 2006. The average monthly wage was the highest in the fuel and energy sector (27,636 rubles) and the financial business (27,794.9 rubles). This is 2.6 times the national average. The lowest average monthly wage was in agriculture, hunting and forestry (4,577.7 rubles), textile and clothing industry (4,859.8 rubles) and the production of leather, leather goods and footwear (5,643.3 rubles). These account for 43%, 45% and 53% of the national average, respectively. It should be noted that low wages were paid in the sectors that were largely financed from the federal budget (education, community amenities, public and individual services, healthcare and social services).

The number of jobless, calculated according to ILO methodology, continued to decline in 2006 year on year and stood at 4.9% as against 6.3% a year earlier. The total number of unemployed in 2006 stood at 7.2% of the economically active population (as against 7.6% in 2005), the lowest level since the 1998 financial crisis.

Monetary Conditions

Exchange Rate

High energy prices in the world brought about a massive inflow of foreign currency earnings and led to the expansion of Russia's international reserves in the fourth quarter of 2006. The changes in the ruble/dollar and ruble/euro exchange rates followed the dollar/euro dynamics on international markets. The Bank of Russia remained the net buyer of foreign currency on the domestic forex market as it conducted transactions aimed at cushioning the ruble fluctuations against the bi-currency basket used by the Bank of Russia as an operational benchmark in its exchange rate policy. In the fourth quarter of 2006 the composition of this basket remained unchanged (0.6 dollars and 0.4 euros).

The ruble mostly appreciated against the dollar in 2006. In the fourth quarter the nominal ruble/dollar rate gained 0.8% quarter on quarter (in the first 1.9%, in the second 3.5% and in the third 1.5%). At the same time, in October the ruble slipped 0.4% against the dollar, for the first time in 2006, but in November and December it recovered and rose 0.9% and 1.3%, respectively. Since the beginning of 2006, the nominal ruble/dollar rate gained 9.6%, whereas in 2005 it fell 3.1%.

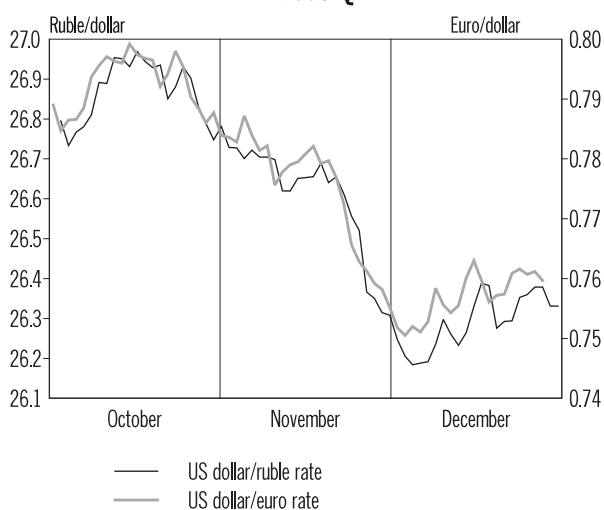
The ruble/euro dynamics on the domestic forex market in the fourth quarter of 2006 matched the euro/dollar dynamics on world markets. The ruble fell 0.3% against the euro in nominal terms in the fourth quarter (in the second it was down 1.0% and in the third 0.1%). At the same time, in October the ruble gained 0.6% against the euro, but in November it lost 0.9% and in December 1.5%. Since the start of last year, the nominal rate of the ruble against the euro fell 1.7%, whereas in 2005 it rose 9.3%.

In the fourth quarter the real rate of the ruble against the dollar and the euro appreciated 2.8% and 0.7%, respectively, while the real effective rate of the ruble against the foreign currencies dropped 0.1% quarter on quarter. Since the beginning of 2006, the ruble gained 16.7% against the dollar and 5.6% against the euro in real terms, while its real effective rate against the foreign currencies rose 7.4%.

Russia's international reserves increased by \$37.5 billion, or 14%, in the fourth quarter of 2006 and since the beginning of 2006 they grew by \$121.5 billion, or 67%, and as of January 1, 2007, reached \$303.7 billion. In 2005, Russia's international reserves expanded by \$57.7 billion, or 46%.

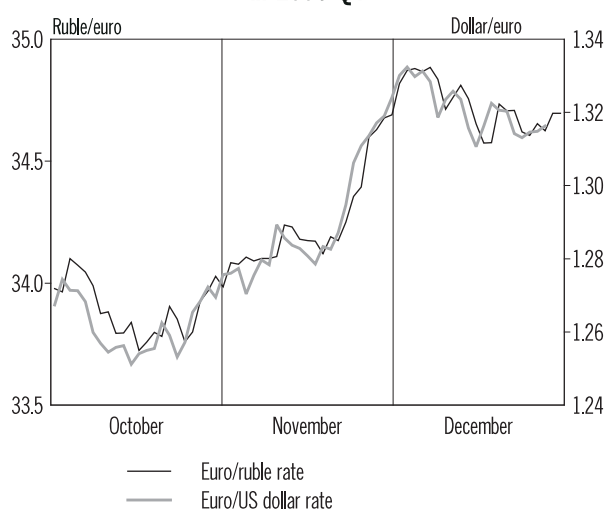
The international currency market regis-

Nominal US dollar/ruble and US dollar/euro rate in 2006 Q4



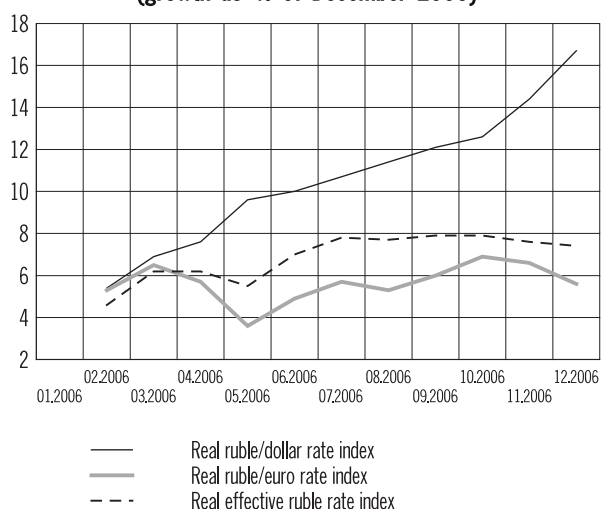
Source: Bank of Russia, Reuters.

Nominal euro/US dollar and euro/ruble rate in 2006 Q4



Source: Bank of Russia, Reuters.

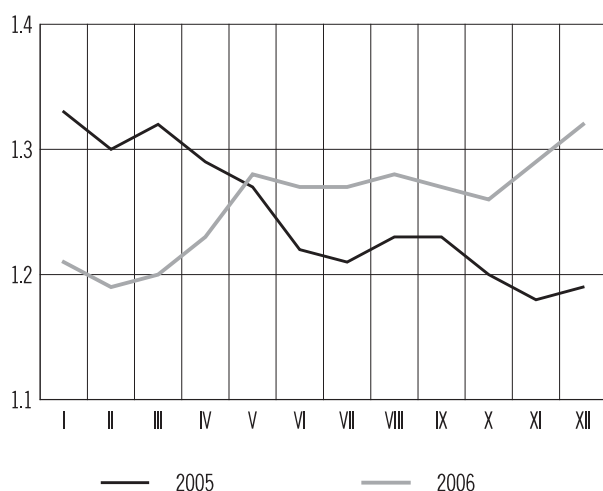
**Real ruble rate indices in 2006
(growth as % of December 2005)**



Source: Bank of Russia.

tered the dollar's depreciation against the major European and Asian currencies. The decline was due to US foreign trade imbalances, the Federal Reserve's decision to leave US short-term interest rates unchanged since the middle of 2006, growth in interest rates in the eurozone, Great Britain and Japan and the adoption by China of a more flexible exchange rate policy since the middle of 2005. In 2006, China continued to float the yuan against a basket of currencies comprising the US dollar and other currencies of importance for the Chinese economy. The intraday fluctuations of the yuan against the US dollar were within $\pm 0.3\%$. In 2006

Average monthly euro/US dollar rate (dollar/euro)



Source: Reuters.

(December on December 2005) the US dollar depreciated 11.5% against the euro, 12.5% against the pound sterling, 3.2% against the yuan and 0.8% against the yen¹⁴. The dollar also depreciated against most of the other foreign currencies of importance for the Russian economy, especially the Slovak koruna, Romanian leu, Swedish krona, Czech koruna, Polish zloty, Estonian kroon, Lithuanian litas, Latvian lat and South Korean won.

Interest Rates

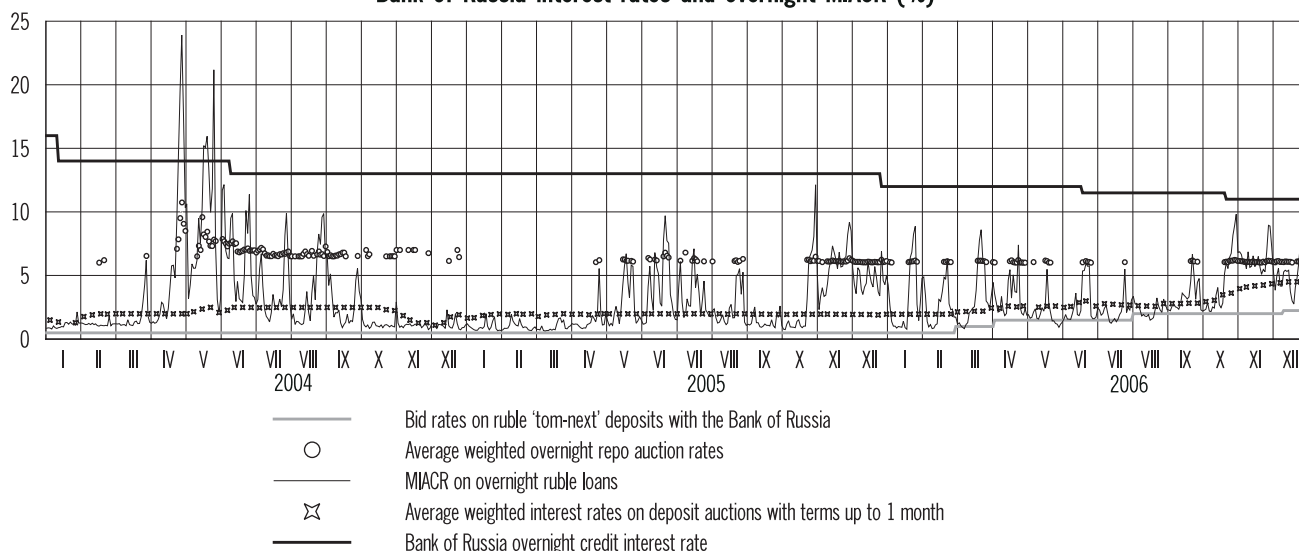
The Bank of Russia in 2006 took steps to **narrow the interest rate band** in its operations. The lowest Bank of Russia interest rate within the band, set by the interest rate on deposit operations conducted on standard 'tom-next' conditions, in 2006 was raised from 0.5% to 2.25% p.a. (in the fourth quarter it was raised by 0.25 percentage points). The overnight credit rate, the highest rate within the band, was lowered over the year from 12% to 11% p.a. (in the fourth quarter it was cut by half a percentage point).

The average weighted yield at the deposit auctions held in the fourth quarter of 2006 rose as the Bank of Russia raised the cut-off rates. The average weighted four-week deposit auction interest rates ranged between 2.95% and 4.50% p.a. (in the third quarter they ranged between 2.59% and 2.83% p.a.) and three-month rates varied from 4.03% to 5.11% p.a. (3.80-4.45% p.a.). The average weighted yield at the Bank of Russia bond (OBR) auctions held in October, November and December ranged between 4.14% and 5.24% p.a. (3.98% and 4.99% p.a. in the third quarter). The average weighted yield on overnight repo operations, the major market instrument used to provide liquidity to the banking sector, varied from 6.01% to 6.47% p.a. (6.00% to 6.19% p.a. in the third quarter). The average weighted Lombard credit auction interest rate ranged from 7% to 7.18% p.a. in the fourth quarter (7.1% p.a. in the third).

Interbank interest rates on overnight ruble loans remained within the Bank of Russia interest rate band in the fourth quarter of 2006. The MIACR on overnight ruble loans ranged between 2.17% and 9.82% p.a. in the fourth quarter (1.25% to 6.67% p.a. in the third). The average MIACR

¹⁴ According to data provided by Reuters.

Bank of Russia interest rates and overnight MIACR (%)



Source: Bank of Russia.

on overnight ruble loans increased to 5.12% p.a. in the fourth quarter from 2.60% p.a. in the third.

As the ruble remained relatively stable against the bi-currency basket in the fourth quarter, financial market participants continued actively to invest in the ruble-denominated assets. There was no single trend in the dynamics of interest rates on loans to non-financial enterprises and households on the Russian financial market. In the fourth quarter the average interest rate on short-term loans to non-financial enterprises rose by 0.1 percentage points to 10.4% p.a., whereas on long-term loans it fell by 0.4 percentage points to 12.1% p.a.

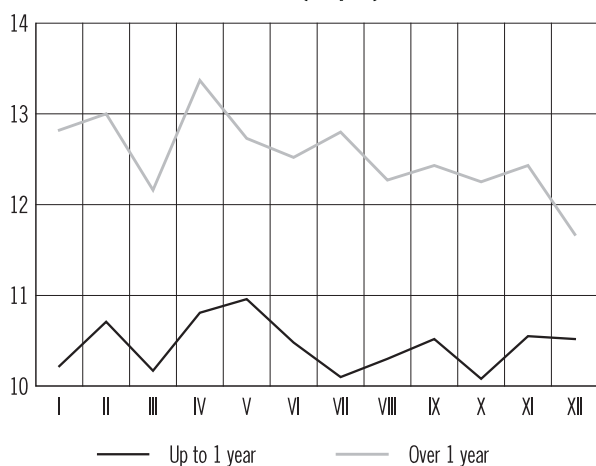
The yield curve for loans extended to non-financial enterprises in the fourth quarter of 2006

rose in all sections except the loans extended for terms longer than three years, but it became a little less inclined as the shortest-term interest rates inched up.

The average interest rate on loans extended to households for terms of up to one year slipped by 1.1 percentage points in the fourth quarter as compared with the third and stood at 18.2% p.a. The average interest rate on loans extended to households for terms longer than one year was down by 0.6 percentage points to 15.5% p.a.

Average interest rates on deposits with terms of up to one year and from one year to three years rose in the fourth quarter as compared with the third by 0.1 percentage points and 0.2 percent-

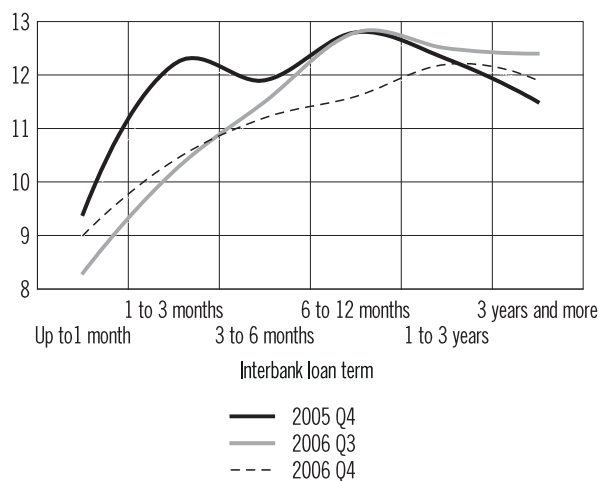
Interest rates on ruble loans to non-financial enterprises in 2006 (% p.a.)*



* Since April 2006 interest rates have been calculated taking into account data provided by bank branches.

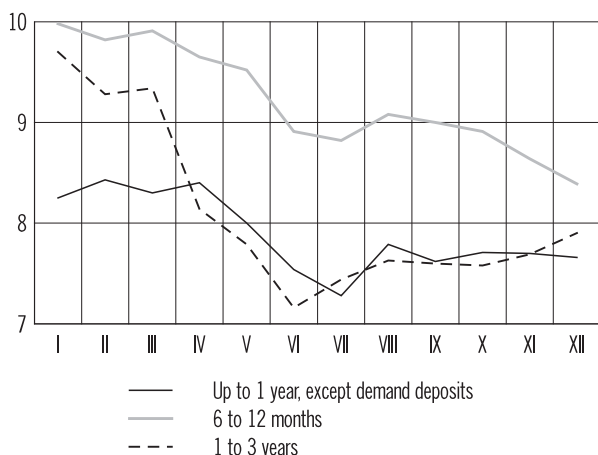
Source: Bank of Russia.

Yield curve for bank loans to non-financial enterprises (% p.a.)*



* Since April 2006 interest rates have been calculated taking into account data provided by bank branches.

Interest rates on household ruble deposits in 2006 (% p.a.)*



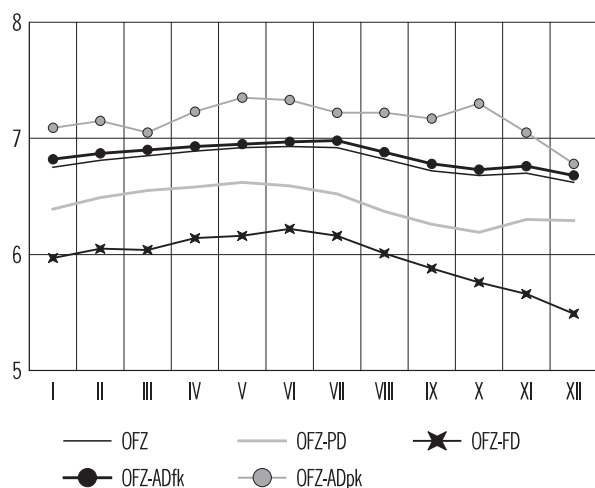
* Since April 2006 interest rates have been calculated taking into account data provided by bank branches.
Source: Bank of Russia.

age points, respectively, and both stood at 7.7% p.a. As in the period from January through September, deposits with terms of six months to one year carried the highest interest.

Yields tended to decline on the federal loan bond (OFZ) market in the fourth quarter, except the permanent-income OFZ-PD segment. As of the end of the quarter the effective OFZ market portfolio index registered 6.57% p.a., a decrease of 0.1 percentage points from the previous quarter. The average quarterly effective OFZ market portfolio index shed 0.15 percentage points and stood at 6.67% p.a.

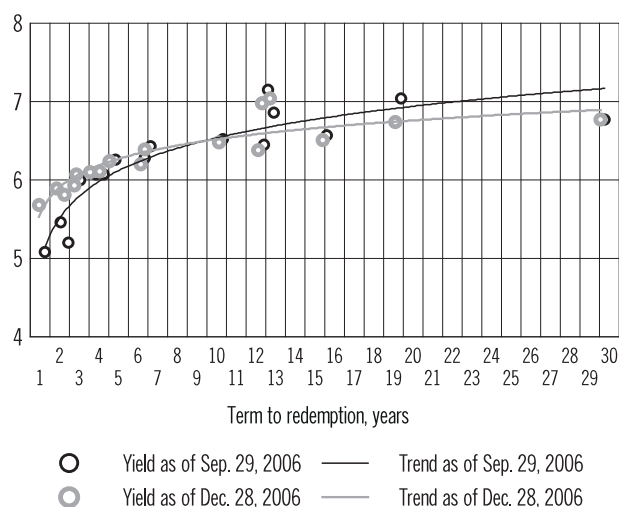
The OFZ yield curve remained ascending in the fourth quarter, but its incline decreased as the

OFZ portfolio average monthly yield in 2006 (% p.a.)



Source: Bank of Russia.

OFZ effective yield curve (% p.a.)



Source: Bank of Russia.

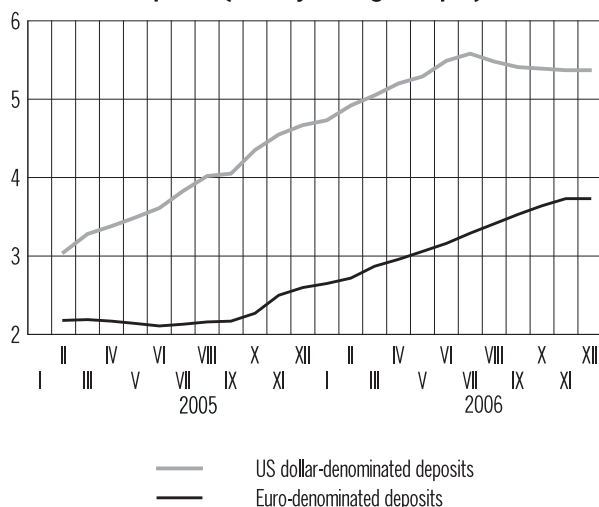
yield on OFZ bonds with terms of up to four years rose and the yield on longer-term OFZ bonds fell.

The volatility of price indicators for most of the ruble-denominated financial instruments remained moderate and their interest rate structure by term was relatively balanced. The yield curves for the key financial instruments moved down a little but remained ascending. They became slightly less inclined as short-term interest rates inched up.

International financial markets in 2006 were affected by the tightening of the monetary policy by the central banks of the world's leading industrialised nations and major emerging markets, which was necessitated by the increased danger of inflation at the current stage of the world's cyclic economic recovery. The factors of accelerated inflation in the conditions of economic growth and increased employment were growth in unit wage costs and the expansion of demand for goods and services amid the diminished capabilities for increasing their supply through the utilisation of unused production capacity.

In the first half of 2006, the US Federal Reserve raised four times the federal funds rate: from 4.25% to 4.5% p.a. in January, to 4.75% p.a. in March, to 5% p.a. in May and to 5.25% p.a. in June. In the period from June 2004 to June 2006 the benchmark federal funds rate had increased by 4.25 percentage points. Growth in US short-term interest rates contained core inflation. In the

LIBOR on six-month US dollar- and euro-denominated deposits (monthly average, % p.a.)



Source: Reuters.

middle of 2006, the Federal Reserve switched to the policy of leaving the benchmark federal funds rate unchanged as signs of an economic slow-down appeared in the United States, especially in housing construction.

The European Central Bank (ECB) raised the refinancing rate in December 2005 from 2% to 2.25% p.a., in March 2006 to 2.5% p.a., in May to 2.75% p.a., in August to 3% p.a., in October to 3.25% p.a. and in December to 3.5% p.a.

In the eurozone, consumer price inflation in the period from June 2005 through August 2006 topped 2% (month on corresponding month of previous year), exceeding the medium-term target set by the ECB. In the period from September through December 2006 eurozone inflation was less than 2% due to the fall in energy prices.

The LIBOR on US dollar deposits with maturity periods from one month to one year rose by 0.5-1 percentage points in 2006 (December on December 2005); the LIBOR on similar deposits denominated in the euro increased by 1-1.1 percentage points¹⁵. The yield on US government securities with maturity periods from two to ten years rose by 0.1-0.3 percentage points, while the yield on similar financial assets in the eurozone gained 0.4-0.9 percentage points. The LIBOR on US dollar deposits with all terms and the yield on US treasuries with all maturities in September 2006 were higher than the LIBOR on the euro-denominated deposits and the yield on eurozone government securities. The US benchmark federal funds

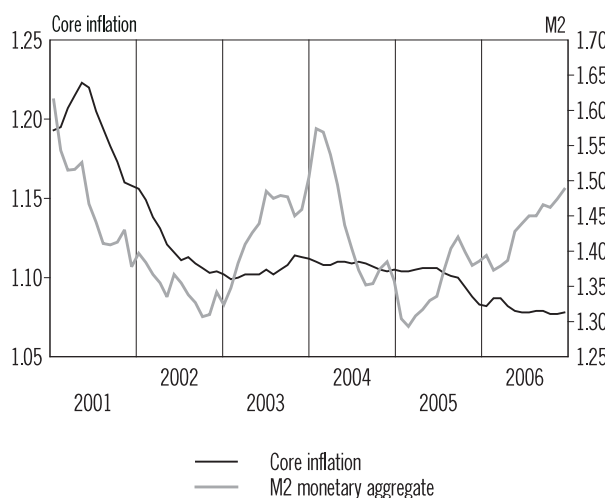
rate has exceeded the ECB's refinancing rate since December 2004 (since December 13, 2006, the difference has been 1.75 percentage points and the biggest difference in the period since December 2004 was 2.5 percentage points).

Money

The M2 monetary aggregate increased 16% in the fourth quarter of 2006, exceeding with seasonal regularity its growth in the previous quarter (9.4%). On an annualised basis (against the same date a year earlier) M2 growth accelerated from 46.6% as of October 1, 2006, to 48.8% as of January 1, 2007.

As a result, actual M2 growth surpassed the revised projection of growth in the demand for rubles in 2006 (36-39%). At the same time, despite rapid growth in the money supply, inflation continued to slow down, largely due to accelerated economic growth and the expansion of demand for the national currency. The inflationary consequences of monetary growth were also mitigated by the fact that the expansion of the ruble supply was accompanied by the significant reduction of the velocity of money. In the fourth quarter of 2006 the velocity of money, measured by the M2 aggregate, decreased 6.0% as against 1.6% in the same period of 2005. Overall, in 2006 the velocity of money decreased 14% as against 6.5% a year earlier. In 2006 the velocity of money declined more rapidly than in 2005 due to the structural changes in the money supply and the

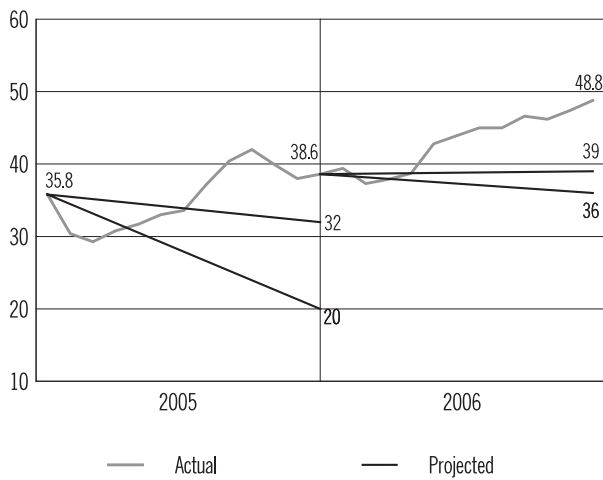
Core inflation and M2 (as % of corresponding date of previous year)



Source: Bank of Russia, Rosstat.

¹⁵ According to data provided by Reuters.

**Projected and actual M2 growth rates
(as % of corresponding date of previous year)**

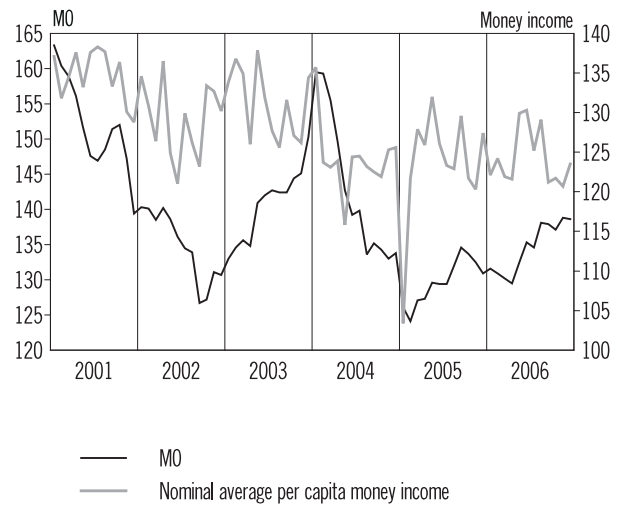


Source: Bank of Russia.

significant reduction of demand for foreign exchange.

The 'Money' aggregate in the monetary survey definition, which comprises the most liquid transactional components of the money supply, reflects the economic situation and liquidity preferences. In the fourth quarter of 2006, these funds grew 15.3% as against 14.4% in the same period of 2005. On an annualised basis (against the same data a year earlier) the 'Money' aggregate increased from 44% as of October 1, 2006, to 45.1% as of January 1, 2007. This was the result of growth in both cash and non-cash (funds in accounts and demand deposits) components of this aggregate (in the period from October through December the latter increased slightly less

**M0 and household money income
(month on month of previous year, %)**



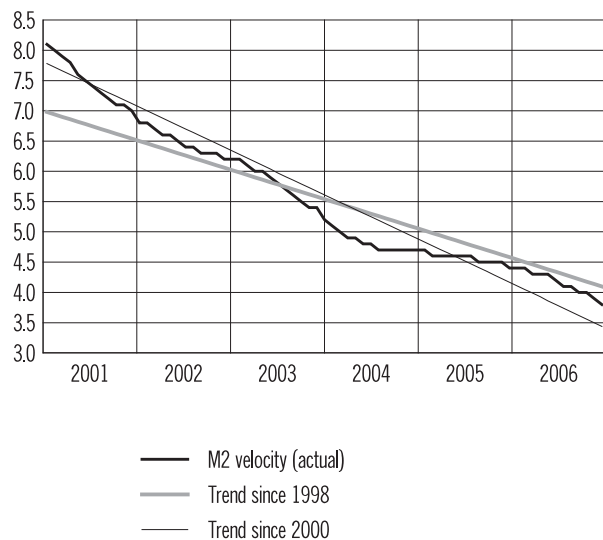
Source: Bank of Russia, Rosstat.

than cash). Cash expanded 38.6% in 2006, an increase of 7.7 percentage points on a year earlier. **Demand deposits** increased 52% in 2006, which represents a growth of 11 percentage points on 2005.

The non-cash component of the 'Money' aggregate is mostly comprised of corporate sector funds and its growth largely reflects the increased demand of economic agents for money for the purpose of conducting transactions. The share of corporate sector funds contracted from 79.4% in 2005 to 77.7% in 2006.

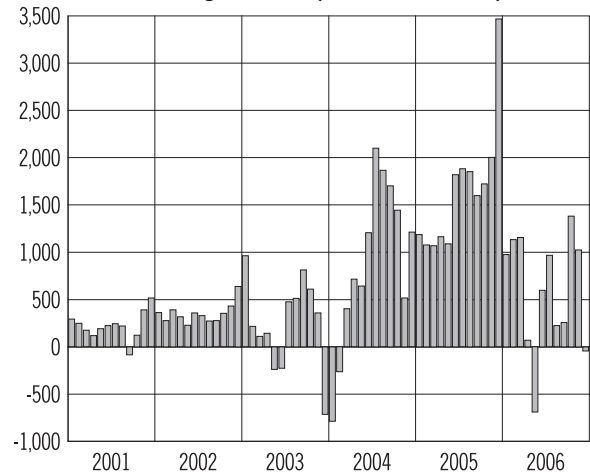
Following the seasonal pattern of changes of the past few years, **cash** in the fourth quarter of 2006 increased more than in the third (by 16% as against 7.5%) and more than in the fourth

M2 Velocity



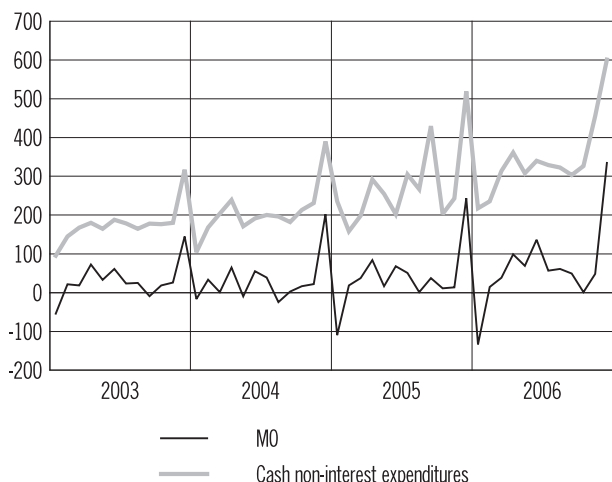
Source: Bank of Russia.

Net sales of foreign exchange to households through exchange offices (million US dollars)



Source: Bank of Russia.

Monthly growth in cash in circulation and cash non-interest federal budget expenditures (billion rubles)



Source: Bank of Russia, Federal Treasury.

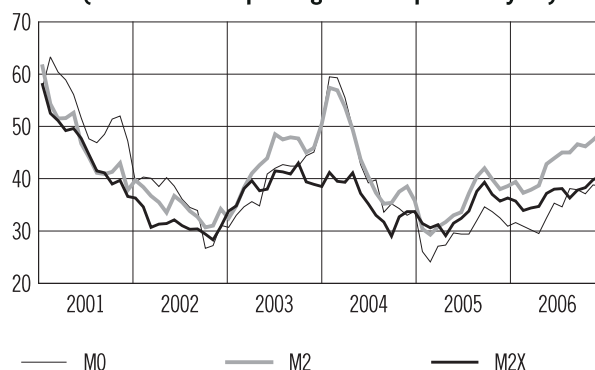
quarter of 2005 (15.4%). As a result, M0 grew 38.6% in 2006 as against 30.9% in 2005 and its growth was smaller than that of M2.

The dynamics of household sector demand for foreign exchange had a major effect on the changes in the monetary aggregate M0. As the ruble appreciated against the dollar and the euro, net sales of foreign exchange to households through the exchange offices decreased by more than half in 2006 as compared with 2005.

Cash accounted for 31% of M2 as of January 1, 2007, a contraction of 2.3 percentage points, which somewhat made up for the impact of overall money supply growth on inflation.

The aggregate 'Quasi-money' comprises less liquid components of the money supply, used

Monetary aggregates (as % of corresponding date of previous year)



Definition of aggregates:

M0 is cash in circulation (outside banks);

M2 = M0 + ruble accounts of resident non-financial enterprises and households;

M2X (money supply in the monetary survey definition) = M2 + foreign currency deposits

Source: Bank of Russia.

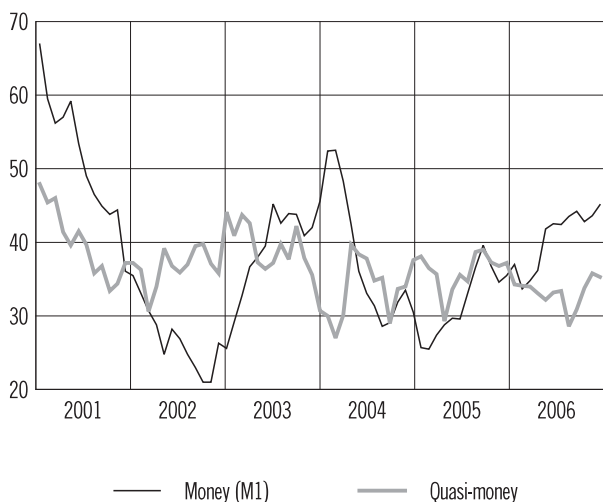
by economic agents as savings. In the fourth quarter of 2006, it increased by 12.6% and in 2006 as a whole 35.3% (as against 37.2% in 2005).

Growth in 'Quasi-money' in October-December was due to the expansion of the **ruble component**: time deposits increased 17.4% in the fourth quarter and 55.4% in 2006 as a whole (44.2% in 2005).

The foreign currency component of 'Quasi-money' (foreign currency-denominated deposits) expanded 1.9% in dollar terms in the fourth quarter of 2006. Foreign currency deposits increased 7.2% in 2006, or almost three times less than in 2005.

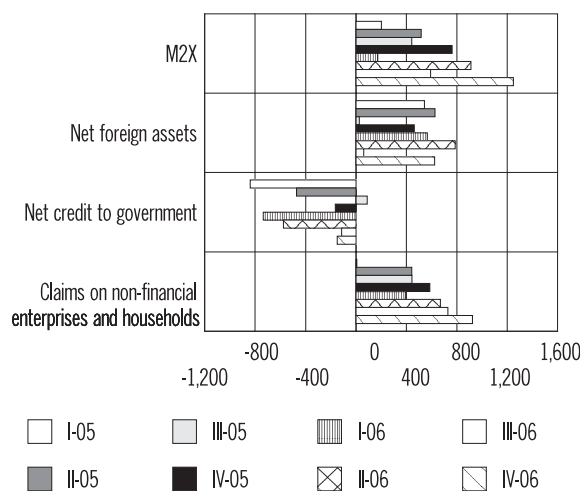
One factor of the differences in the dynamics of various monetary aggregates is the back and

Money and Quasi-money (as % of corresponding date of previous year)



Source: Bank of Russia.

Sources of money supply growth (quarterly change, billion rubles)



Source: Bank of Russia.

forth movement of rubles and foreign exchange caused by fluctuations in the demand for the national and foreign currency. As a result of the fall in the demand for foreign exchange in 2006 the monetary aggregate M2 grew more than M2X, which expanded 40.5% as against 36.3% in 2005.

The dollarisation ratio (the share of the foreign currency component in the money supply in the monetary survey definition) decreased in 2006 from 16.3% to 11.4%, or by 4.9 percentage points (in 2005 it contracted by 1.3 percentage points). At the same time, the ruble-denominated time deposits accounted for the largest part of M2X (33.5% as of January 1, 2007, as against 30.2% as of January 1, 2006).

The non-cash component of the M2X aggregate, that is, funds raised by banks from enterprises and households in rubles and foreign currency, in 2006 grew more slowly (by 41.3%) than **banking sector claims on the non-financial enterprises and households** (47.2%). At the same time, in the fourth quarter of 2006 these claims increased considerably more than in the same period of 2005. Thus, in the fourth quarter of last year, as in 2006 as a whole, the importance of banking sector credit to the non-financial enterprises and households as a source of aggregate money supply increased significantly.

The broad **monetary base** expanded 18.3% in the fourth quarter of 2006 as against 14.8% in the same period of 2005. The share of credit institutions' funds in correspondent accounts with the Bank of Russia in the broad monetary base expanded from 12.7% to 15.5% in the fourth quar-



* As of the 1st day of each month.
Source: Bank of Russia, Ministry of Finance.

ter of 2006. The share of credit institutions' funds sterilised by the Bank of Russia by deposit taking and OBR operations contracted in that period from 7.7% to 4.9%, but it was larger than at the end of 2005 (1.4%). The share of tied funds, including the credit institutions' required reserves, also decreased, from 13.6% to 10.2% (in the fourth quarter of 2005 it contracted by 5 percentage points to 6.9%).

The massive accumulation of funds in general government accounts, caused above all by the expansion of the Stabilisation Fund, was a major brake on money supply growth in 2006. High oil prices in the world in that period led to significant growth of the Stabilisation Fund, which equalled 2,346.9 billion rubles as of January 1, 2007, as against 1,237 billion rubles a year earlier.

Statistical Addendum

Table 1

Consumer prices by group of goods and services (month on month, %)

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices excluding petrol	Service price growth
2004								
January	1.8	0.9	1.6	1.3	5.5	0.5	0.5	4.1
February	1.0	0.8	1.1	1.1	1.5	0.4	0.4	1.6
March	0.8	0.7	1.1	0.9	2.8	0.4	0.5	0.6
April	1.0	0.8	0.8	1.0	-0.6	0.6	0.5	2.0
May	0.7	0.6	0.4	0.5	-0.7	0.8	0.6	1.4
June	0.8	0.5	0.8	0.4	4.8	0.7	0.4	0.9
July	0.9	0.8	1.0	1.0	1.5	0.6	0.4	1.3
August	0.4	0.7	0.1	0.8	-6.3	0.5	0.5	1.0
September	0.4	0.9	0.0	0.9	-9.0	0.9	0.6	0.6
October	1.1	1.3	1.4	1.7	-2.7	0.7	0.7	1.2
November	1.1	1.1	1.5	1.5	2.2	0.7	0.5	0.8
December	1.1	1.0	1.7	1.4	5.4	0.4	0.5	1.0
Full year (December on December)	11.7	10.5	12.3	13.1	3.3	7.4	6.2	17.7
2005								
January	2.6	0.9	1.4	1.1	5.1	0.4	0.5	8.8
February	1.2	0.7	1.4	0.9	6.1	0.4	0.4	2.2
March	1.3	0.8	2.1	1.1	11.2	0.4	0.4	1.2
April	1.1	0.9	1.7	1.3	5.4	0.5	0.4	0.8
May	0.8	0.6	1.1	0.7	4.1	0.4	0.4	0.8
June	0.6	0.5	0.7	0.4	3.3	0.3	0.3	0.9
July	0.5	0.5	0.3	0.5	-1.8	0.4	0.4	0.9
August	-0.1	0.5	-1.0	0.5	-12.9	0.5	0.4	0.8
September	0.3	0.8	-0.7	0.6	-11.6	1.1	0.8	0.9
October	0.6	0.7	0.4	0.6	-2.4	0.7	0.7	0.7
November	0.7	0.6	0.9	0.6	4.5	0.6	0.6	0.6
December	0.8	0.6	1.1	0.6	5.6	0.5	0.5	0.8
Full year (December on December)	10.9	8.3	9.6	9.1	14.3	6.4	6.0	21.0
2006								
January	2.4	0.8	2.0	1.0	11.3	0.4	0.5	6.2
February	1.7	1.2	3.0	1.9	12.6	0.5	0.5	1.0
March	0.8	0.7	1.2	0.9	3.2	0.4	0.4	0.7
April	0.4	0.4	0.3	0.3	-0.3	0.3	0.3	0.6
May	0.5	0.4	0.5	0.2	2.6	0.4	0.4	0.6
June	0.3	0.3	0.0	0.1	-0.6	0.3	0.3	0.7
July	0.7	0.5	0.9	0.7	2.7	0.4	0.3	0.6
August	0.2	0.6	-0.5	0.7	-10.0	0.8	0.5	0.8
September	0.1	0.8	-0.6	0.6	-11.0	0.8	0.6	0.5
October	0.3	0.5	0.0	0.4	-4.1	0.6	0.7	0.4
November	0.6	0.6	0.8	0.6	2.7	0.6	0.6	0.5
December	0.8	0.7	1.1	0.8	3.6	0.5	0.5	0.7

* Excluding vegetables and fruit.

Note: Tables 1 to 7 are based on Rosstat data and Bank of Russia calculations.

Table 2

**Consumer prices by group of goods and services
(since start of year on accrual basis, %)**

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices excluding petrol	Service price growth
2004								
January	1.8	0.9	1.6	1.3	5.5	0.5	0.5	4.1
February	2.8	1.7	2.8	2.3	7.1	0.9	0.9	5.8
March	3.5	2.4	3.8	3.2	10.1	1.4	1.4	6.4
April	4.6	3.2	4.7	4.2	9.5	2.0	1.9	8.5
May	5.3	3.8	5.2	4.8	8.7	2.8	2.5	10.0
June	6.1	4.3	6.0	5.2	13.9	3.4	2.9	11.0
July	7.1	5.1	7.1	6.2	15.6	4.0	3.3	12.5
August	7.6	5.8	7.2	7.1	8.3	4.6	3.8	13.6
September	8.0	6.8	7.2	8.0	-1.4	5.5	4.4	14.3
October	9.3	8.1	8.7	9.9	-4.0	6.3	5.2	15.7
November	10.5	9.3	10.4	11.5	-1.9	7.0	5.7	16.6
December	11.7	10.5	12.3	13.1	3.3	7.4	6.2	17.7
2005								
January	2.6	0.9	1.4	1.1	5.1	0.4	0.5	8.8
February	3.9	1.7	2.8	2.0	11.5	0.7	0.9	11.2
March	5.3	2.4	4.9	3.1	24.0	1.1	1.2	12.6
April	6.5	3.3	6.7	4.4	30.8	1.6	1.6	13.5
May	7.3	4.0	7.9	5.1	36.1	2.1	2.0	14.4
June	8.0	4.4	8.6	5.5	40.6	2.4	2.4	15.4
July	8.5	5.0	8.9	6.1	38.0	2.8	2.8	16.5
August	8.3	5.5	7.8	6.6	20.2	3.4	3.2	17.4
September	8.6	6.3	7.1	7.2	6.2	4.5	4.1	18.5
October	9.2	7.1	7.5	7.8	3.6	5.2	4.8	19.3
November	10.0	7.7	8.4	8.4	8.3	5.9	5.5	20.0
December	10.9	8.3	9.6	9.1	14.3	6.4	6.0	21.0
2006								
January	2.4	0.8	2.0	1.0	11.3	0.4	0.5	6.2
February	4.1	2.0	5.0	2.9	25.3	0.9	0.9	7.2
March	5.0	2.8	6.2	3.9	29.3	1.3	1.3	8.0
April	5.4	3.2	6.5	4.2	28.9	1.6	1.6	8.6
May	5.9	3.6	7.0	4.4	32.3	2.0	2.0	9.3
June	6.2	3.9	7.0	4.5	31.5	2.3	2.3	10.0
July	6.9	4.5	8.0	5.2	35.0	2.7	2.7	10.7
August	7.1	5.1	7.4	6.0	21.6	3.5	3.2	11.5
September	7.2	5.9	6.7	6.6	8.2	4.3	3.8	12.0
October	7.5	6.5	6.7	7.0	3.7	5.0	4.5	12.5
November	8.2	7.1	7.5	7.6	6.5	5.5	5.2	13.0
December	9.0	7.8	8.7	8.5	10.3	6.0	5.7	13.9

* Excluding vegetables and fruit.

Table 3

**Consumer prices by group of goods and services
(month on corresponding month of previous year, %)**

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices excluding petrol	Service price growth
2004								
January	11.3	11.0	9.2	11.7	-10.7	8.6	8.4	21.9
February	10.6	10.8	9.2	12.0	-12.9	8.0	8.0	18.9
March	10.3	10.8	9.2	12.2	-13.8	7.6	7.7	17.5
April	10.2	11.0	9.1	12.7	-17.8	7.6	7.5	17.8
May	10.2	11.0	8.9	12.9	-20.4	7.8	7.4	17.7
June	10.1	10.9	8.8	12.6	-18.4	7.9	7.2	17.4
July	10.4	11.0	9.5	12.9	-15.7	8.0	7.1	16.7
August	11.3	10.9	11.1	12.9	-4.6	8.0	7.1	17.0
September	11.4	10.7	11.3	12.7	-2.2	8.1	6.9	16.8
October	11.5	10.5	11.7	12.7	0.9	7.8	6.7	17.3
November	11.7	10.4	12.0	12.9	2.0	7.6	6.3	17.7
December	11.7	10.5	12.3	13.1	3.3	7.4	6.2	17.7
2005								
January	12.7	10.4	12.1	12.9	3.0	7.3	6.2	23.1
February	13.0	10.4	12.4	12.6	7.6	7.2	6.2	23.8
March	13.6	10.5	13.5	12.9	16.4	7.1	6.1	24.6
April	13.8	10.6	14.5	13.2	23.4	7.0	6.0	23.1
May	13.8	10.6	15.2	13.3	29.3	6.6	5.8	22.4
June	13.7	10.6	15.1	13.4	27.5	6.3	5.7	22.4
July	13.2	10.3	14.2	12.9	23.4	6.2	5.7	21.9
August	12.5	10.1	12.9	12.5	14.7	6.1	5.7	21.6
September	12.3	10.0	12.1	12.1	11.3	6.3	5.9	22.0
October	11.7	9.4	11.0	10.9	11.6	6.3	5.9	21.4
November	11.3	8.9	10.3	9.9	14.1	6.3	6.1	21.2
December	10.9	8.3	9.6	9.1	14.3	6.4	6.1	21.0
2006								
January	10.7	8.2	10.2	9.1	21.1	6.5	6.0	18.1
February	11.2	8.7	11.9	10.1	28.4	6.6	6.1	16.7
March	10.6	8.7	10.9	10.0	19.2	6.7	6.1	16.1
April	9.8	8.2	9.4	9.0	12.7	6.4	6.0	15.9
May	9.4	7.9	8.7	8.5	11.1	6.4	6.0	15.6
June	9.0	7.8	8.0	8.1	7.0	6.4	6.0	15.3
July	9.3	7.8	8.7	8.3	11.9	6.3	5.9	15.0
August	9.6	7.9	9.2	8.5	15.6	6.6	6.0	15.0
September	9.5	7.9	9.3	8.5	16.4	6.2	5.8	14.5
October	9.2	7.8	8.8	8.3	14.4	6.1	5.7	14.1
November	9.0	7.8	8.7	8.3	12.4	6.0	5.7	13.9
December	9.0	7.8	8.7	8.5	10.3	6.0	5.7	13.9

* Excluding vegetables and fruit.

Table 4

**Inflation growth over period since start of year due to price changes
by group of goods and services (percentage points)**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
2004							
January	0.6	0.2	0.8	0.2	1.8	0.8	1.0
February	1.1	0.3	1.1	0.3	2.8	1.4	1.4
March	1.5	0.4	1.2	0.4	3.5	2.0	1.6
April	2.0	0.6	1.5	0.4	4.6	2.6	1.9
May	2.2	0.8	1.8	0.4	5.3	3.1	2.2
June	2.4	1.0	2.0	0.6	6.1	3.5	2.6
July	2.9	1.2	2.3	0.7	7.1	4.2	2.9
August	3.3	1.4	2.5	0.4	7.6	4.7	2.8
September	3.8	1.7	2.6	-0.1	8.0	5.5	2.5
October	4.6	1.9	2.9	-0.2	9.3	6.6	2.7
November	5.4	2.1	3.0	-0.1	10.5	7.6	2.9
December	6.1	2.3	3.2	0.1	11.7	8.5	3.3
2005							
January	0.4	0.1	1.8	0.2	2.6	0.7	1.9
February	0.8	0.2	2.3	0.5	3.9	1.3	2.6
March	1.3	0.4	2.6	1.0	5.3	1.9	3.3
April	1.9	0.5	2.8	1.3	6.5	2.7	3.8
May	2.1	0.7	3.0	1.5	7.3	3.1	4.1
June	2.3	0.8	3.2	1.7	8.0	3.5	4.5
July	2.5	0.9	3.4	1.6	8.5	3.9	4.5
August	2.8	1.1	3.6	0.8	8.3	4.4	4.0
September	3.0	1.5	3.9	0.3	8.6	5.0	3.6
October	3.3	1.7	4.0	0.1	9.2	5.6	3.6
November	3.6	1.9	4.2	0.3	10.0	6.1	3.9
December	3.8	2.1	4.4	0.6	10.9	6.6	4.3
2006							
January	0.4	0.2	1.5	0.4	2.4	0.6	1.8
February	1.1	0.3	1.7	1.0	4.1	1.5	2.6
March	1.5	0.5	1.9	1.2	5.0	2.1	2.9
April	1.6	0.6	2.0	1.1	5.4	2.5	2.9
May	1.7	0.7	2.2	1.3	5.9	2.7	3.1
June	1.8	0.8	2.4	1.2	6.2	3.0	3.2
July	2.0	0.9	2.5	1.4	6.9	3.4	3.5
August	2.3	1.2	2.7	0.9	7.1	3.9	3.2
September	2.6	1.5	2.9	0.3	7.2	4.6	2.6
October	2.7	1.7	3.0	0.1	7.5	5.0	2.5
November	3.0	1.9	3.1	0.3	8.2	5.5	2.7
December	3.3	2.0	3.3	0.4	9.0	6.1	3.0

* Excluding vegetables and fruit.

** Growth in prices of goods and paid services not included in calculation of core consumer price index.

Table 5

**Monthly inflation growth due to price changes
by group of goods and services (percentage points)**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
2004							
January	0.6	0.2	0.8	0.2	1.8	0.8	1.0
February	0.5	0.1	0.3	0.1	1.0	0.6	0.4
March	0.4	0.1	0.1	0.1	0.8	0.6	0.2
April	0.4	0.2	0.4	0.0	1.0	0.6	0.3
May	0.2	0.2	0.3	0.0	0.7	0.5	0.2
June	0.2	0.2	0.2	0.2	0.8	0.4	0.4
July	0.4	0.2	0.3	0.1	0.9	0.6	0.3
August	0.4	0.2	0.2	-0.3	0.4	0.5	-0.1
September	0.4	0.3	0.1	-0.4	0.4	0.7	-0.3
October	0.8	0.2	0.2	-0.1	1.1	1.0	0.2
November	0.7	0.2	0.2	0.1	1.1	0.9	0.2
December	0.6	0.1	0.2	0.2	1.1	0.8	0.3
2005							
January	0.4	0.1	1.8	0.2	2.6	0.7	1.9
February	0.4	0.1	0.5	0.3	1.2	0.6	0.7
March	0.5	0.1	0.3	0.5	1.3	0.6	0.7
April	0.5	0.2	0.2	0.3	1.1	0.7	0.4
May	0.3	0.1	0.2	0.2	0.8	0.5	0.3
June	0.2	0.1	0.2	0.2	0.6	0.4	0.3
July	0.2	0.1	0.2	-0.1	0.5	0.4	0.1
August	0.2	0.2	0.2	-0.6	-0.1	0.4	-0.5
September	0.2	0.4	0.2	-0.6	0.3	0.6	-0.4
October	0.3	0.2	0.2	-0.1	0.6	0.5	0.0
November	0.2	0.2	0.1	0.2	0.7	0.5	0.3
December	0.3	0.1	0.2	0.2	0.8	0.4	0.4
2006							
January	0.4	0.2	1.5	0.4	2.4	0.6	1.8
February	0.7	0.2	0.2	0.5	1.7	0.9	0.7
March	0.4	0.1	0.2	0.2	0.8	0.6	0.3
April	0.1	0.1	0.1	0.0	0.4	0.3	0.0
May	0.1	0.1	0.1	0.1	0.5	0.3	0.2
June	0.0	0.1	0.2	0.0	0.3	0.2	0.1
July	0.3	0.1	0.2	0.1	0.7	0.4	0.3
August	0.3	0.2	0.2	-0.5	0.2	0.5	-0.3
September	0.2	0.3	0.1	-0.5	0.1	0.6	-0.5
October	0.1	0.2	0.1	-0.2	0.3	0.4	-0.1
November	0.2	0.2	0.1	0.1	0.6	0.5	0.2
December	0.3	0.1	0.2	0.1	0.8	0.5	0.3

* Excluding vegetables and fruit.

** Growth in prices of goods and paid services not included in calculation of core consumer price index.

Table 6

**Contribution to inflation growth over period since start
of year by group of goods and services (%)**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
2004						
January	33.8	8.6	43.5	14.0	43.2	56.8
February	40.0	10.2	38.3	11.5	50.0	50.0
March	42.9	11.7	32.8	12.7	55.3	44.7
April	43.5	13.3	34.0	9.2	57.5	42.5
May	42.4	15.9	34.4	7.3	58.5	41.5
June	39.8	17.2	32.9	10.1	57.2	42.8
July	40.9	17.3	32.1	9.8	58.8	41.2
August	43.8	18.4	32.8	4.9	62.6	37.4
September	47.0	21.1	32.7	-0.8	68.4	31.6
October	50.2	20.8	31.0	-1.9	70.9	29.1
November	51.5	20.4	28.9	-0.8	72.0	28.0
December	52.1	19.2	27.5	1.2	72.0	28.0
2005						
January	17.0	4.8	70.2	8.0	27.1	72.9
February	21.2	6.2	60.4	12.1	33.4	66.6
March	24.5	6.8	50.0	18.7	36.7	63.3
April	28.6	8.1	43.8	19.5	41.1	58.9
May	29.3	9.2	41.2	20.2	43.1	56.9
June	29.0	9.8	40.5	20.8	44.1	55.9
July	30.1	10.9	40.7	18.3	46.5	53.5
August	33.2	13.2	43.6	9.9	52.3	47.7
September	35.1	17.1	44.9	3.0	58.3	41.7
October	35.9	18.6	43.9	1.6	60.9	39.1
November	35.6	19.2	41.8	3.4	61.1	38.9
December	35.2	19.2	40.3	5.4	60.5	39.5
2006						
January	16.0	6.1	59.5	18.3	24.5	75.5
February	27.2	7.7	40.9	24.1	37.2	62.8
March	30.1	9.1	37.6	23.2	42.4	57.6
April	30.5	10.3	37.9	21.3	45.7	54.3
May	29.3	11.8	37.2	21.8	46.7	53.3
June	28.6	12.9	38.3	20.2	48.4	51.6
July	29.6	13.5	36.7	20.2	49.7	50.3
August	32.7	16.8	38.5	12.1	55.4	44.6
September	35.7	20.2	39.6	4.5	63.4	36.6
October	36.3	22.4	39.4	2.0	66.7	33.3
November	36.2	22.9	37.7	3.2	67.3	32.7
December	36.6	22.6	36.3	4.6	67.1	32.9

* Excluding vegetables and fruit.

** Growth in prices of goods and paid services not included in calculation of core consumer price index.

Table 7

**Contribution to monthly inflation growth
by group of goods and services (%)**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
2004						
January	33.8	8.6	43.5	14.0	43.2	56.8
February	50.7	13.1	29.1	7.1	61.8	38.2
March	52.8	17.0	13.3	16.9	74.2	25.8
April	45.7	19.0	38.2	-2.9	65.1	34.9
May	35.7	32.6	36.6	-4.9	64.9	35.1
June	22.1	25.8	23.1	29.1	48.2	51.8
July	47.5	17.6	27.3	7.5	68.1	31.9
August	89.6	37.7	44.9	-72.2	122.3	-22.3
September	100.3	67.0	30.2	-97.5	164.9	-64.9
October	70.5	18.9	20.3	-9.7	86.8	13.2
November	60.7	18.0	13.8	7.5	79.4	20.6
December	55.8	9.0	15.5	19.7	71.7	28.3
2005						
January	17.0	4.8	70.2	8.0	27.1	72.9
February	30.0	9.2	40.0	20.8	46.5	53.5
March	33.6	8.4	20.9	37.0	46.1	53.9
April	46.7	14.1	15.8	23.4	60.9	39.1
May	34.9	18.4	20.6	26.1	60.1	39.9
June	25.7	15.5	32.1	26.6	54.6	45.4
July	48.4	29.6	43.6	-21.6	86.0	14.0
August	<i>Estimate can't be made for negative value</i>					
September	92.7	141.5	83.9	-218.1	243.9	-143.9
October	47.2	40.9	29.7	-17.8	96.4	3.6
November	31.6	26.1	18.2	24.1	63.1	36.9
December	31.0	18.8	22.1	28.1	53.5	46.5
2006						
January	16.0	6.1	59.5	18.3	24.5	75.5
February	43.4	10.0	14.0	32.6	55.8	44.2
March	43.9	15.8	21.6	18.7	67.5	32.5
April	35.8	27.0	41.3	-4.2	90.9	9.1
May	16.1	27.6	29.9	26.4	57.3	42.7
June	15.3	34.9	59.7	-10.0	81.6	18.4
July	37.6	19.0	23.4	20.0	60.9	39.1
August	140.5	132.4	97.9	-270.7	249.5	-149.5
September	269.8	290.1	128.8	-588.7	678.9	-578.9
October	51.0	73.9	34.6	-59.5	145.8	-45.8
November	35.6	29.6	17.8	17.0	74.1	25.9
December	39.5	18.9	23.2	18.4	64.4	35.6

* Excluding vegetables and fruit.

** Growth in prices of goods and paid services not included in calculation of core consumer price index.

Table 8

Economic growth and inflation in Russia's major trading partners in 2001-2006

	2001	2002	2003	2004	2005	2006
GDP growth (reporting year as % of previous year)						
Eurozone	1.9	0.9	0.8	2.0	1.4	2.4-2.6*
China	8.3	9.1	9.0	10.1	10.2	10.7**
Ukraine	9.2	5.2	9.6	12.1	2.7	7.0
Belarus	4.7	5.0	7.0	11.4	9.4	9.9
Turkey	-7.5	7.9	5.8	8.9	7.4	6.0-6.1*
Poland	1.1	1.4	3.8	5.3	3.5	5.1-5.4*
Switzerland	1.0	0.3	-0.2	2.3	1.9	2.7-3.0***
United Kingdom	2.4	2.1	2.7	3.3	1.9	2.7
United States	0.8	1.6	2.5	3.9	3.2	3.4
Kazakhstan	13.5	9.8	9.2	9.6	9.5	10.6
Japan	0.2	0.3	1.4	2.7	1.9	2.8-2.9*
Inflation (December of reporting year as % of December of previous year)						
Eurozone	2.0	2.4	2.0	2.3	2.3	1.9
China	-0.3	-0.4	3.2	2.4	1.6	2.8**
Ukraine	6.1	-0.6	8.2	12.3	10.3	11.6
Belarus	46.1	34.8	25.4	14.4	8.0	6.6
Turkey	68.5	29.7	18.4	9.3	7.7	9.7
Poland	3.6	0.7	1.7	4.4	0.7	1.4
Switzerland	0.3	0.8	0.6	1.3	1.0	0.6
United Kingdom	1.1	1.7	1.2	1.6	1.9	3.0
United States	1.6	2.4	1.9	3.3	3.4	2.5
Kazakhstan	6.4	6.6	6.8	6.7	7.5	8.4
Japan	-1.2	-0.3	-0.4	0.2	-0.4	0.3

* Estimated by the OECD (November 2006) and World Bank (December 2006).

** Reported by China's National Statistics Bureau on January 25, 2007.

*** Estimated by the Commission of the European Communities (October 2006) and OECD (November 2006).

Table 9

Russia's key macroeconomic and financial indicators

		Year	Q1	Q2	Q3	Q4	
Macroeconomic indicators							
GDP	over period since start of year, billion rubles	2004	3,481	7,424	12,028	17,048	
		2005	4,400	9,429	15,285	21,615	
		2006	5,722	12,065	19,289	26,621	
	as % of corresponding period of previous year	2004	107.2	107.5	107.5	107.2	
		2005	105.0	105.4	105.8	106.4	
		2006	105.5	106.5	106.5	106.7	
	as % of corresponding quarter of previous year	2004	107.2	107.9	107.2	106.7	
		2005	105.0	105.7	106.6	107.9	
		2006	105.5	107.4	106.5		
Industrial output indices	as % of corresponding quarter of previous year	2004	108.3	108.7	109.2	107.1	
		2005	103.2	103.6	104.1	104.9	
		2006	103.0	106.0	103.8	103.0	
	as % of corresponding period of previous year	2004	108.3	108.5	108.7	108.3	
		2005	103.2	103.4	103.6	104.0	
		2006	103.0	104.4	104.2	103.9	
Agricultural output	as % of corresponding quarter of previous year	2004	99.6	100.2	105.0	102.8	
		2005	100.3	101.2	103.8	101.4	
		2006	101.3	101.0	100.6	109.5	
	as % of corresponding period of previous year	2004	99.6	100.8	103.2	103.1	
		2005	100.3	100.9	102.7	102.4	
		2006	101.3	101.1	100.8	102.8	
Fixed capital investment	over period since start of year, billion rubles	2004	423.9	1,027.3	1,801.3	2,804.8	
		2005	526.5	1,282.2	2,262.2	3,534.0	
		2006	624.3	1,582.7	2,812.8	4,482.7	
	as % of corresponding quarter of previous year	2004	114.0	113.0	110.9	110.5	
		2005	108.0	109.6	111.0	112.4	
		2006	106.1	114.1	112.9	116.8	
Retail trade turnover	over period since start of year, billion rubles	2004	1,237.2	2,559.3	3,989.5	5,641.8	
		2005	1,510.5	3,184.6	4,980.7	7,038.3	
		2006	1,841.5	3,884.9	6,099.3	8,627.5	
	as % of corresponding quarter of previous year	2004	111.7	112.9	113.6	114.8	
		2005	110.5	113.8	113.2	113.4	
		2006	110.6	112.3	114.2	114.5	
Federal budget on accrual basis, as of end of period	revenue	billion rubles	2004	688.6	1,538.7	2,425.0	3,428.9
			2005	1,196.4	2,386.4	3,681.7	5,127.2
			2006	1,399.1	2,938.1	4,561.0	6,276.3
		as % of GDP	2004	19.8	20.7	20.2	20.1
			2005	27.2	25.3	24.1	23.7
			2006	24.5	24.4	23.7	23.6
	expenditure	billion rubles	2004	553.9	1,184.6	1,837.0	2,698.9
			2005	671.1	1,444.2	2,519.7	3,514.3
			2006	823.2	1,854.7	2,866.5	4,281.3
		as % of GDP	2004	15.9	16.0	15.3	15.8
			2005	15.3	15.3	16.5	16.2
			2006	14.4	15.4	14.9	16.1
Federal budget surplus on accrual basis, as of end of period	billion rubles	2004	134.7	354.1	588.0	730.0	
		2005	525.3	942.2	1,162.0	1,612.9	
		2006	575.9	1,083.4	1,694.5	1,995.0	
	as % of GDP	2004	3.9	4.7	4.9	4.3	
		2005	11.9	10.0	7.6	7.5	
		2006	10.1	9.0	8.8	7.5	

Note. Table 9 has been compiled on the basis of data collected by the Bank of Russia, Federal State Statistics Service and Federal Treasury reported data. Full-year GDP estimate is given without quarterly data adjustment. Beginning from April 2006, pursuant to Bank of Russia Ordinance No. 1660-U, dated February 17, 2006, interest rates on lending and deposit operations conducted by banks include data reported by bank branches.

Table 9 (continued)

		Year	Q1	Q2	Q3	Q4
Socio-economic indicators						
Nominal imputed average monthly per employee wage	rubles	2004	6,173	6,650	6,930	7,582
		2005	7,638	8,234	8,674	9,651
		2006	9,397	10,401	10,949	12,224
	as % of corresponding quarter of previous year	2004	127.3	125.0	123.7	117.5
		2005	122.6	122.4	123.9	126.2
		2006	122.3	125.1	125.1	125.6
	as % of corresponding period of previous year	2004	127.3	126.1	125.2	122.6
		2005	122.6	122.4	123.0	126.9
		2006	122.3	123.7	124.1	124.5
Real imputed average monthly per employee wage	as % of corresponding quarter of previous year	2004	115.0	113.5	111.4	105.2
		2005	108.4	107.6	110.0	113.4
		2006	110.3	114.3	114.3	115.2
Household money income	per capita monthly average, rubles	2004	5,532.8	5,971.3	6,352.8	7,720.5
		2005	6,539.5	7,707.3	8,064.7	9,697.7
		2006	8,025.7	9,806.4	10,087.6	11,722.9
Household real disposable money income	as % of corresponding quarter of previous year	2004	113.0	108.4	109.5	110.8
		2005	105.1	114.1	112.7	111.9
		2006	106.8	113.2	111.4	108.6
	as % of corresponding period of previous year	2004	113.0	110.1	109.7	109.9
		2005	105.1	109.8	110.8	111.1
		2006	106.8	110.2	110.6	110.0
Household spending as % of income	purchase of goods and services	2004	70.6	70.3	71.9	67.4
		2005	73.6	70.1	71.9	67.2
		2006	73.9	67.9	71.4	68.7
	compulsory payments	2004	8.8	9.3	9.6	8.8
		2005	8.4	8.8	9.6	9.6
		2006	11.4	11.0	11.6	11.2
	growth in savings	2004	15.0	10.0	7.9	11.3
		2005	13.1	10.3	9.5	9.4
		2006	10.7	9.7	7.3	9.7
	purchase of foreign exchange	2004	5.7	8.1	10.9	8.0
		2005	7.6	8.0	9.1	9.2
		2006	7.6	7.0	7.3	7.4
	cash on hand	2004	-0.1	2.3	-0.3	4.5
		2005	-2.7	2.8	-0.1	4.6
		2006	-3.6	4.4	2.4	3.0
Average imputed pension	total, rubles	2004	1,764	1,889	1,979	2,026
		2005	2,125	2,324	2,467	2,540
		2006	2,539	2,727	2,800	2,839
Real imputed pension	as % of corresponding quarter of previous year	2004	107.0	106.6	104.8	103.8
		2005	106.6	108.2	110.6	112.6
		2006	107.8	107.2	103.7	102.5
	as % of corresponding period of previous year	2004	107.0	106.8	106.1	105.5
		2005	106.6	107.4	108.5	109.6
		2006	107.8	107.5	106.1	105.1
Total number of unemployed (according to ILO methodology)	million	2004	6.7	5.7	5.5	6.0
		2005	6.0	5.5	5.4	5.6
		2006	5.8	5.5	5.4	5.0
	as % of economically active population	2004	9.2	7.8	7.5	8.2
		2005	8.2	7.4	7.3	7.5
		2006	7.9	7.5	6.6	6.8

Table 9 (continued)

		Year	Q1	Q2	Q3	Q4	
Foreign economic activities							
Price of Urals crude	over period since start of year, \$/barrel	2004	29.4	31.1	33.3	34.6	
		2005	43.1	45.4	49.3	50.4	
		2006	57.7	61.1	62.5	60.9	
	as % of corresponding period of previous year	2004	99.1	115.3	123.1	126.8	
		2005	146.4	146.1	148.2	145.6	
		2006	134.0	134.7	126.7	120.9	
Commodity exports	over period since start of year, \$ billion	2004	37.3	80.5	128.9	183.2	
		2005	50.2	109.8	174.6	243.6	
		2006	67.4	144.0	224.0	304.5	
	as % of corresponding period of previous year	2004	120.0	128.1	131.9	134.8	
		2005	134.6	136.4	135.4	132.9	
		2006	134.2	131.2	128.3	125.0	
Commodity imports	over period since start of year, \$ billion	2004	19.9	42.9	67.9	97.4	
		2005	25.7	55.1	87.5	125.3	
		2006	31.6	69.8	112.6	163.9	
	as % of corresponding period of previous year	2004	124.6	125.5	126.2	128.0	
		2005	128.8	128.4	129.0	128.7	
		2006	123.1	126.7	128.6	130.8	
Current account (over period since start of year), \$ billion		2004	12.7	26.1	41.1	59.0	
		2005	20.0	42.0	61.7	83.3	
		2006	29.5	54.4	78.0	95.6*	
Private sector net outflow (inflow) of foreign capital (over period since start of year), \$ billion		2004	-4.1	-10.2	-17.0	-8.4	
		2005	1.9	-3.1	5.3	1.1	
		2006	-4.7	15.1	27.8	41.6	
Foreign investment in non-financial sector of the Russian economy (according to Rosstat data)	over period since start of year, \$ billion	2004	6.2	19.0	29.1	40.5	
		2005	6.0	16.5	26.8	53.7	
		2006	8.8	23.4	35.3		
	as % of corresponding period of previous year	2004	98.5	149.9	139.4	136.4	
		2005	97.6	86.9	92.1	132.4	
		2006	146.0	141.9	131.7		
of which	direct	total, \$ billion	2004	1.5	3.4	5.6	9.4
			2005	1.9	4.5	6.6	13.1
			2006	3.8	6.4	10.3	
		as % of corresponding period of previous year	2004	142.8	135.3	119.8	138.9
			2005	130.0	131.0	118.1	138.8
			2006	200.0	143.6	155.5	
	portfolio	total, \$ billion	2004	0.1	0.1	0.2	0.3
			2005	0.1	0.2	0.4	0.5
			2006	0.2	0.5	0.7	
		as % of corresponding period of previous year	2004	500.0	340.0	280.0	83.0
			2005	89.9	135.2	160.5	136.3
			2006	290.0	290.0	182.3	
	other	total, \$ billion	2004	4.6	15.4	23.3	30.8
			2005	4.0	11.8	19.9	40.1
			2006	4.7	16.5	24.4	
as % of corresponding period of previous year		2004	88.3	152.9	144.4	136.6	
		2005	87.3	76.7	85.2	130.5	
		2006	117.2	139.1	122.8		
Russia's international reserves (as of end of period), \$ billion		2004	83.4	88.2	95.1	124.5	
		2005	137.4	151.6	159.6	182.2	
		2006	205.9	250.6	266.2	303.7	
Real ruble exchange rate indices (as % of December of previous year), as of end of quarter**	ruble vs. dollar	2004	5.1	4.7	5.6	14.0	
		2005	4.7	3.3	2.3	3.9	
		2006	6.9	10.0	12.1	16.7	
	ruble vs. euro	2004	6.1	7.6	7.6	6.0	
		2005	6.8	14.7	14.2	18.8	
		2006	6.5	4.9	6.0	5.6	
	effective rate	2004	4.8	5.0	5.3	4.7	
		2005	5.1	8.7	8.3	10.5	
		2006	6.2	7.0	7.9	7.4	

Table 9 (continued)

		Year	Q1	Q2	Q3	Q4
Financial market indicators						
Quarterly average						
Overnight interbank credit rate, % p.a.	in rubles	2004	1.6	7.8	3.9	1.4
		2005	1.2	3.0	2.3	4.6
		2006	3.2	2.8	2.6	5.1
	in US dollars	2004	1.3	1.1	1.4	1.9
		2005	2.3	2.8	3.3	3.9
		2006	4.4	4.8	5.2	5.2
GKO-OFZ yields***, % p.a.		2004	7.1	7.7	7.9	7.8
		2005	7.9	8.0	7.7	7.1
		2006	6.8	6.9	6.8	6.7
Interest rate on household time deposits, % p.a.	up to 1 year in rubles	2004	9.5	9.0	9.2	9.6
		2005	9.5	8.6	8.5	8.4
		2006	8.3	8.0	7.6	7.7
	over 1 year in rubles	2004	10.3	9.1	8.4	7.5
		2005	8.4	7.9	6.2	6.4
		2006	7.6	5.1	5.2	5.4
	up to 1 year in US dollars	2004	5.5	5.9	5.5	5.5
		2005	5.6	5.7	5.6	5.6
		2006	5.6	5.7	5.7	5.9
	over 1 year in US dollars	2004	7.2	6.7	6.3	6.0
		2005	6.1	5.6	5.8	5.5
		2006	6.2	4.7	5.0	5.5
Interest rate on credit to non-financial enterprises, % p.a.	up to 1 year in rubles	2004	11.7	12.1	11.4	10.5
		2005	10.6	10.7	10.3	11.0
		2006	10.4	10.8	10.3	10.4
	over 1 year in rubles	2004	14.3	13.5	11.5	12.0
		2005	13.0	11.7	12.9	12.1
		2006	12.7	12.9	12.5	12.1
	up to 1 year in US dollars	2004	8.8	7.9	8.2	8.4
		2005	7.9	8.6	9.0	8.8
		2006	8.6	8.4	8.6	8.5
	over 1 year in US dollars	2004	9.9	9.6	9.4	10.2
		2005	9.6	9.6	10.4	10.4
		2006	10.5	10.2	10.4	10.0
Interest rate on ruble-denominated promissory notes discounted by banks, % p.a.		2004	11.5	12.4	12.9	11.6
		2005	10.9	10.6	9.9	10.0
		2006	12.9	8.7	9.2	9.7
As of end of quarter						
RTS index	2004	752.66	583.32	631.65	614.11	
	2005	669.07	706.38	1,007.76	1,125.60	
	2006	1,434.99	1,494.63	1,549.99	1,921.92	
Refinance rate, % p.a.	2004	14.0	13.0	13.0	13.0	
	2005	13.0	13.0	13.0	12.0	
	2006	12.0	11.5	11.5	11.0	

Table 9 (concluded)

		Year	1.01	1.04	1.07	1.10		
Monetary indicators								
M0, billion rubles		2005	1,534.8	1,481.7	1,650.7	1,740.7		
		2006	2,009.2	1,928.8	2,233.4	2,400.8		
		2007	2,785.2					
M2, billion rubles		2005	4,363.3	4,474.6	4,927.4	5,292.8		
		2006	6,045.6	6,169.4	7,092.3	7,757.5		
		2007	8,995.8					
Net foreign assets of monetary authorities and credit institutions, billion rubles		2005	3,210.0	3,753.3	4,379.7	4,405.4		
		2006	4,867.9	5,433.6	6,221.1	6,281.8		
		2007	6,906.0					
Domestic credit, billion rubles		2005	4,345.6	3,509.6	3,487.7	4,035.2		
		2006	4,460.8	4,129.4	4,256.1	4,944.1		
		2007	5,727.7					
Money (monetary survey definition), billion rubles		2005	2,848.3	2,859.6	3,144.3	3,371.9		
		2006	3,858.5	3,855.9	4,479.3	4,856.1		
		2007	5,598.4					
Quasi-money (monetary survey definition), billion rubles		2005	2,450.4	2,640.0	2,871.6	3,086.5		
		2006	3,362.6	3,537.0	3,825.5	4,041.1		
		2007	4,548.3					
Foreign currency deposits, billion rubles		2005	935.1	1,024.9	1,090.6	1,167.9		
		2006	1,178.2	1,225.9	1,221.0	1,153.2		
		2007	1,155.4					
Broad monetary base, billion rubles		2005	2,380.3	2,250.1	2,302.8	2,538.9		
		2006	2,914.1	2,721.0	3,285.9	3,484.2		
		2007	4,121.6					
Balances in correspondent accounts, billion rubles		2005	480.4	320.9	276.7	374.4		
		2006	508.6	320.0	430.9	443.7		
		2007	638.1					
M2 velocity		annual average		2005	4.7	4.6	4.6	4.5
				2006	4.4	4.3	4.2	4.0
				2007	3.8			
		change since start of year, %		2005	-10.0****	-1.6	-3.0	-5.0
				2006	-6.5****	-1.7	-4.9	-8.5
				2007	-14.0****			
Rate of monetisation of the economy (by M2 aggregate), %		2005	21.2	21.5	21.9	22.3		
		2006	22.7	23.1	23.9	24.8		
		2007	26.4					
Money multiplier		by broad monetary base		2005	1.8	2.0	2.1	2.1
				2006	2.1	2.3	2.2	2.2
				2007	2.2			
		change since start of year, %		2005	9.2****	8.5	16.7	13.7
				2006	13.2****	9.3	4.0	7.3
				2007	5.2****			
Foreign currency exchange rates		rubles per dollar		2005	27.75	27.85	28.63	28.53
				2006	28.78	27.70	26.94	26.78
				2007	26.33			
		rubles per euro		2005	37.84	36.03	34.63	34.31
				2006	34.19	33.63	34.24	33.98
				2007	34.70			

* Estimate.

** Appreciation of the ruble (+), depreciation of the ruble (-).

*** GKO-OFZ secondary trade turnover effective indicator.

**** Relative to beginning of previous year.

