



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

# **Monetary Policy Report**

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**Moscow  
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The report is based on data as of August 2, 2013.

The electronic version of the information and analytical report can be found on the website of the Bank of Russia:  
<http://www.cbr.ru/publ/>.

You can send your feedback to: [monetarypolicyreport@mail.cbr.ru](mailto:monetarypolicyreport@mail.cbr.ru).

## Summary

The decisions made by the Bank of Russia in the monetary policy sphere are based on its analysis of foreign and domestic macroeconomic conditions and economic development prospects. The decisions take into account the risks of substantial deviation from inflation targets and ensuring sustainable economic growth in the medium-term perspective, along with possible risks associated with threats to banking sector stability.

Foreign sector continues to act as a restraining factor on the Russian economy. Despite the gradual stabilisation of foreign economic conditions there are no sufficient grounds yet for making a conclusion that sustainable business recovery in trading partner countries has begun. Slow economic growth rates restricted inflation in Russia's trading partner countries. Oil prices in Q2 were substantially lower than in Q1, although an upward trend started to form in July.

In Q2, the totality of market indicators pointed out an investor's growing risk aversion caused inter alia by expectations of the start of reduction in asset purchases by the US Federal Reserve within the framework of its quantitative easing policy. This increased the volatility of the rouble exchange rate and Russian asset prices.

The main macroeconomic indicators show persistent low rates of economic growth in Russia. Domestic demand remains the main factor driving economic growth. However, growth rates of investment and consumer activity have slowed significantly. The actual production of goods and services is assessed as being close to its potential level in the first half of 2013. Its evolution is indicative of a certain strengthening of factors which curb inflation. According to Bank of Russia estimates, low investment activity and slack foreign demand determine the retardation of economic growth in Russia.

According to Bank of Russia forecasts, the business activity is expected to remain low in the medium-term perspective. First of all, this will be related to persistent low foreign demand

for Russian exports, whereas domestic demand continues to play a key role in supporting economic growth. Supposedly lower oil prices in 2013 as compared with the previous year may also restrain economic growth.

In Q2, annual growth rates of consumer prices exceeded the inflation target (5-6% for 2013 in line with the 'Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015'). In June-July, inflation decelerated under the impact of a slower food price growth rate. The forecast implies a gradual reduction of inflation. According to Bank of Russia estimates, in the absence of negative shocks on the foodstuff market inflation will approach its target range by the end of 2013, and the downward trend will continue in 2014. This is going to be facilitated by the lack of inflation pressure triggered by aggregate demand and the stabilisation of inflation expectations.

The certain acceleration of monetary aggregate growth in the first months of the year may be of temporary character and the current dynamics of money supply is an evidence of a possible inflation slowdown to a medium-term target level.

Amid an economic downturn, a slower growth rate of credit aggregates is caused by reduced demand for loans. At the same time, the growth rate of household loans remains high. Monetary analysis results do not provide any clear grounds for regarding monetary factors as the main cause of the current economic slowdown.

The monetary policy in 2013 Q2 may be characterised as moderately tight, which was, first of all, a result of current and projected inflation exceeding the targets. In April to June, the Bank of Russia did not change the stance of its monetary policy retaining its rates on the main operations of liquidity provision and absorption, as well as the refinancing rate. At the same time, it decreased the rates on certain liquidity provision operations for long terms by 0.5–0.75 percentage points in the period under review. In addition, in July,

the Bank of Russia supplemented its system of monetary policy instruments with auctions for extending loans secured by non-marketable assets or guarantees for a period of 12 months at a floating rate. The changes are aimed at increasing the managing ability of money market rates and improving the efficiency of the interest rate channel of the monetary policy transmission mechanism and are not regarded by the Bank of Russia as its monetary policy easing.

The Bank of Russia analyses possible risks which, if materialised, may lead to a significant change in macroeconomic projections and cause a policy shift. According to Bank of Russia estimates, the risks of continued low investment growth increase, which will result in the economic downturn. The risks of exceeding the inflation targets in case of high rates of food price growth also persist.

# I. Macroeconomic conditions

## I.1. Foreign economic conditions and exchange rate

### Global economy

In 2013 Q1, GDP growth rates improved quarter on quarter in many countries that are Russia's trading partners. However, the external environment remains unfavourable and inhibits Russian economic growth, and there are no strong grounds yet for making a conclusion that business activity in Russia's trading partner countries has started its sustainable recovery.

Euro area 2013 Q1 results were worse than expected. The GDP contracted by 0.3% quarter on quarter due to continued downturn in the investment activity in EMU countries, including Germany (at the same time, the GDP in this country grew by 0.1%).

Short-term indicators of business activities testify to the fact that in February-May the growth of output and sales of industrial products in Germany ensured a relative stability of the respective indicators of the euro area as a whole. The situation on the German labour market also remained relatively stable. Nevertheless, within the whole EMU the unemployment continued to rise exceeding 12% of economically active population from the beginning of the year.

In Germany, the business activity in 2013 Q1 was recovering slower than expected. PMIs<sup>1</sup> for economy and industry in 2013 Q2 slightly decreased. Nevertheless, the manufacturing output PMI in May-June exceeded 50%. The upward trend in the growth of PMIs for the euro area as a whole persists, although they are still below 50%.

Business sentiments in the euro area may be improved by monetary policy stimulus. The European Central Bank (ECB) cut the refinancing rate from 0.75% to 0.5% p.a. in May 2013.

In the USA, the production and employment continued to grow. In 2013 Q2, the GDP increased by 0.4% quarter on quarter and by 1.4% year on

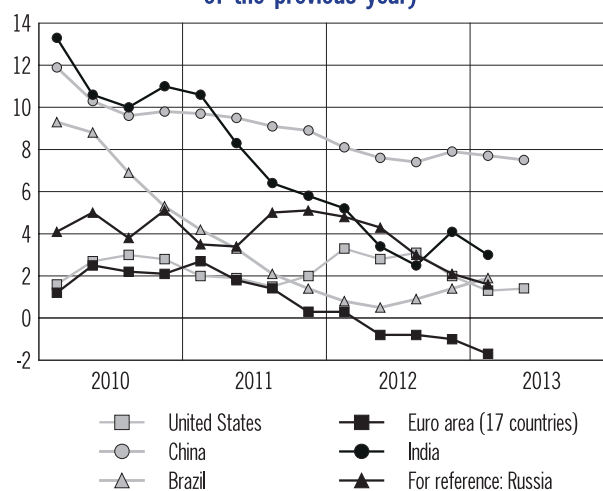
year. The Federal Reserve continued to stimulate the economy through its quantitative easing policy: it purchased long-term securities to a total of \$85 billion per month.

No improvement of business sentiments was observed in China. In June 2013, the PMI for the manufacturing industry amounted to 50.1%. In Q2, the decrease in GDP growth rates continued (the second quarter in a row) to reach 7.5% as compared with the same period of the previous year (7.7% in Q1) due to a slowdown of exports and investments in fixed capital.

In 2013 Q2, inflation-restraining factors persisted in the countries that are Russia's trading partners. A fall in oil prices in March-April, as well as a certain decrease in the general level of prices for the global markets of agricultural products in May-June resulted in a lower contribution to inflation of changes in food and energy prices.

Policy interest rates were going down in emerging economies closely related with the euro area (Poland, Hungary, and Turkey) and in certain Asian economies (India and the Republic of Korea). At the same time, China and the Republic of South Africa have not changed their interest

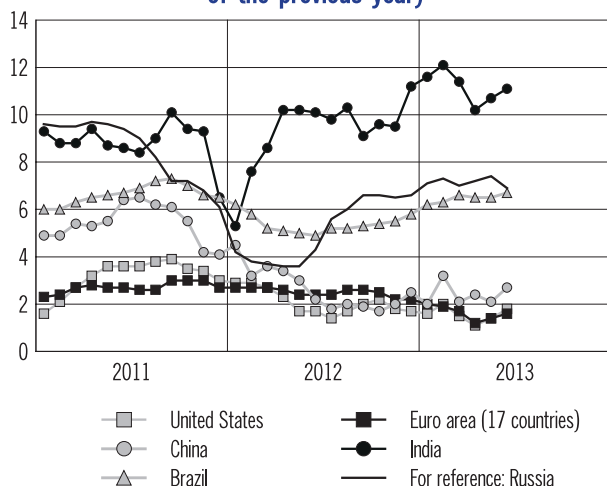
**GDP growth rates in foreign economies**  
(quarter as % of the corresponding quarter of the previous year)



Source: National statistics agencies, Eurostat.

<sup>1</sup> Purchasing managers index. Source: Markit Group (London). PMI values below 50% testify to a decline in business activity, while values above it – to its growth.

**Overall consumer price increase in foreign economies  
(month as % of the corresponding month  
of the previous year)**

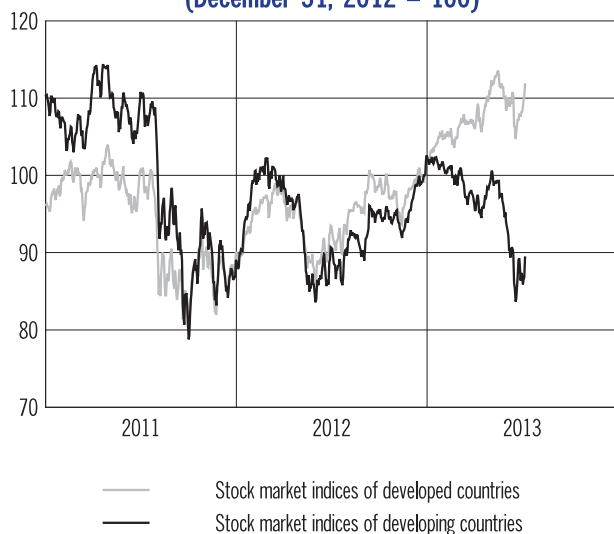


Source: National statistics agencies, Eurostat.

rates from mid-2012 due to higher inflation risks in these economies. For the same reason, the Central Bank of Brazil has already increased its interest rate on three occasions (in April, May and July 2013).

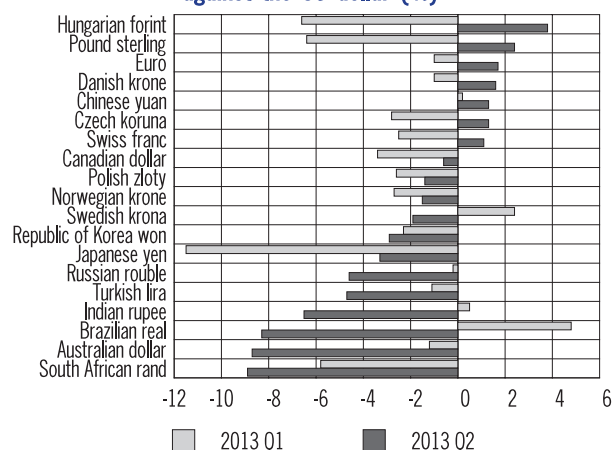
The upward trend in global stock market indices persisted until early May. Indices were growing in the economies taking large-scale measures of stimulating the business activity – in USA and especially in Japan. Indices were also rising on euro area stock markets. Nevertheless, in developing countries the reaction to the third round of quantitative easing policy in the USA remained relatively weak.

**MSCI stock market indices by day  
(December 31, 2012 = 100)**



Source: Bloomberg.

**Changes in the exchange rates of some currencies  
against the US dollar (%)\***



\* The average for the last month of the quarter relative to the average for the last month of the previous quarter.

‘+’ denotes appreciation of the currency against the US dollar, and ‘-’ denotes its depreciation.  
Source: The Bank of Russia.

High volatility in asset prices and exchange rates became apparent in the downturn of stock market indices in May-June. A possibility of the Federal Reserve curtailing its accommodative monetary policy assumes adjustments risk. According to expert estimates, the set of market indicators in 2013 Q2 testified to an investor’s growing risk aversion, although such risk indicators as OIS/LIBOR spreads and VIX were generally stable.

The difficult situation with servicing the US public debt after it has reached the threshold value persists. With the debt ceiling issue unresolved, there is the risk of deterioration in the credit quality of US Treasuries<sup>2</sup>.

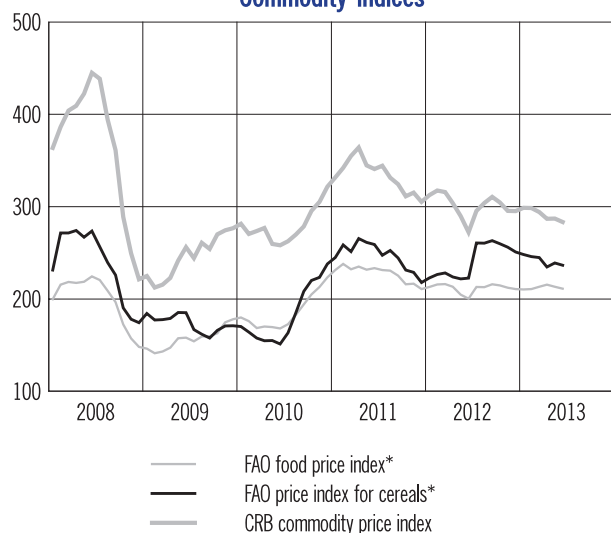
## Commodity markets

In 2013 Q2, prices for world commodity markets were impacted by lower global economic growth estimates and instability on the foreign exchange market and financial market. At the same time, in some countries, prices were supported by the accommodative monetary policy contributing to investment in commodity assets. The average value of CRB commodity index<sup>3</sup> in

<sup>2</sup> The debt ceiling was suspended from February 4 to May 18, 2013 with regard to borrowings placed for debt servicing after which the debt ceiling was increased by a borrowing net growth amount (from \$16.4 trillion to \$16.7 trillion). Starting with May 19, the debt has been servicing through extraordinary measures and to restore the usual servicing regime a law on changing the debt ceiling should be passed.

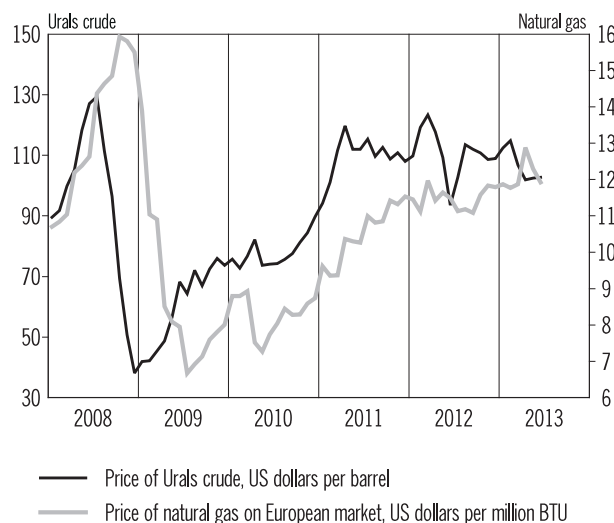
<sup>3</sup> The composite index of prices for commodity markets calculated using 19 commodity futures prices.

## Commodity indices



\* 2002-2004 = 100  
Source: FAO, Bloomberg.

## Energy prices



Source: Reuters, the World Bank.

2013 Q2 contracted by 5.3% quarter on quarter. The index value decreased by an average of 2.0% year on year with non-energy raw commodities (excluding foodstuffs) depreciating faster than energy resources. Prices of foodstuffs and raw agricultural commodities somewhat rose year on year.

Continued growth of global oil stocks amid lower forecasts of oil consumption in China – the second largest oil consumer in the world – determined oil price dynamics in 2013 Q2. Nevertheless, oil prices were underpinned by persistent accommodative monetary policies in several countries. Continued geopolitical instability in oil-producing regions prevented a deeper fall in prices. The price of Urals crude on the world market exceeded the level of \$100 per barrel during the quarter. In 2013 Q2, its average price went down from \$111.4 to \$102.3 per barrel. In the first six months of the year, the average price of Urals crude on the world market stood at \$106.8 per barrel, a decrease of 4.8% year on year.

In 2013 Q2, the price of natural gas on the European market rose as compared with the previous quarter and was 7.4% higher than in the same period of the previous year. Oil product prices fell by 5.8% year on year. In the first six months of the year, natural gas on the European market went up by 5.1% year on year and oil products went down by 6.4% on average.

In 2013 Q2, ferrous and non-ferrous metals continued to fall in price. In the first six months of

2013, their prices decreased by an average of 9% year on year.

Higher food prices for the global market in 2013 Q2 were mostly due to a sharp rise in the prices of dairy products, which were increasing during the last four quarters, and persistent high meat prices. The prices for cereals, sugar, oils/fats went down in 2013 Q2 in the expectation of a good harvest. The FAO<sup>4</sup> food price index in 2013 Q2 rose by 0.8% quarter on quarter and by 3.5% year on year. In the first half-year of 2013, food prices went up by 0.9% on average as compared with the same period of 2012.

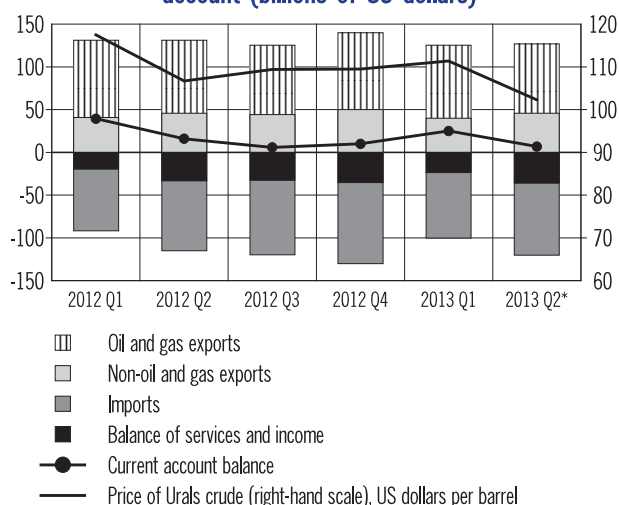
## Russia's balance of payments

The surplus of the current account of the balance of payments in 2013 Q2 was estimated at \$6.9 billion, a decrease of 72% as compared with the previous quarter and of 57% as compared with the same quarter of the previous year. As in the previous quarter, about three quarters of this decrease was attributed to a lower surplus in the trade balance. As a result, the current account surplus contracted from \$55.5 billion in the first six months of 2012 to \$32.0 billion in the same period of 2013.

The trade surplus fell in 2013 Q2 by 13% year on year and by 12% quarter on quarter, and stood at \$42.9 billion. Its decrease was due to the reduction in exports observed over the last four quarters. Growth in the import of goods in 2013 Q2 continued. As a result, the trade surplus

<sup>4</sup> The UN Food and Agriculture Organisation.

Major components of the balance of payments current account (billions of US dollars)



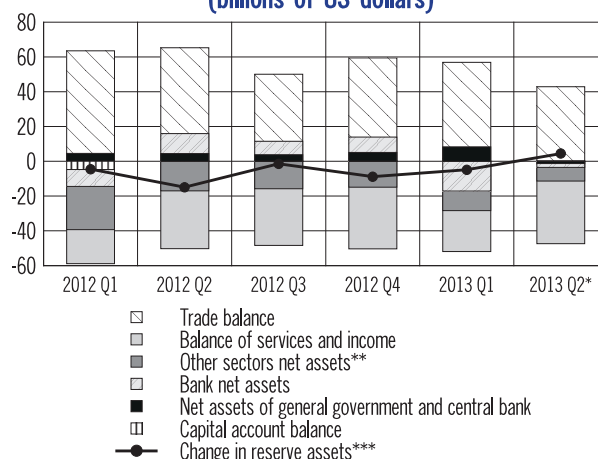
\* Estimate.

Source: The Bank of Russia.

contracted in the first six months of 2013 by 15% to \$91.6 billion year on year.

Exports of goods shrank by 3% to \$127.0 billion (in the previous quarter, by more than 4%), which was attributed exclusively to the drop in contract prices. The value of energy exports went down in 2013 Q2 as a result of a fall in the prices of oil and petroleum products with rising prices for natural gas. Oil export volumes remained on the level of 2012 Q2, and gas export volumes increased. The value of exported non-energy products was the same as in 2012 Q2 with declining exports of ferrous and non-ferrous metals as a result of a price decrease, as

Major balance of payments components (billions of US dollars)



\* Estimate.

\*\* Including 'Net errors and omissions' item.

\*\*\* Increase '-'; decrease '+';

Note: Assets: '-': increase, '+': decrease.

Source: The Bank of Russia.

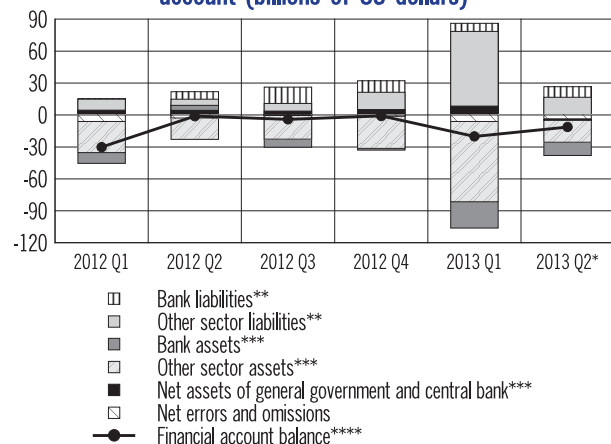
well as a drop in export volumes. The share of energy products (crude oil, petroleum products and natural gas) in the total export value in 2013 Q2 decreased to 64% (65% in 2012 Q2) due to a lower share of oil.

Import of goods increased in 2013 Q2 by less than 3% as compared with the same period of the previous year and totalled \$84.1 billion (in the previous quarter by more than 6%). As in the previous quarter, almost three quarters of this growth were due to a rise in import volumes. A slower growth of the import of engineering products that started to emerge in the previous quarter continued in 2013 Q2.

The deficit in the balance of services and the balance of primary and secondary income was in 2013 Q2 1.5-fold larger than in the previous quarter and exceeded by 8% its value in the same period of 2012. Its growth, as in the previous quarter, was mainly attributed to an increase in the deficit of the balance of services and the compensation of employee balance, while the deficit in the balance of investment income contracted as compared with 2012 Q2. In the first half-year, the deficit in the balance of services and the balance of primary and secondary income grew by 13% to \$59.6 billion year on year.

In 2013 Q2, the growth of foreign assets and liabilities slowed down quarter on quarter; the financial account deficit (excluding reserve assets) was \$7.7 billion as against \$14.0 billion in the previous quarter. In the first half-year of 2013, the financial account negative balance decreased

Major components of the balance of payments financial account (billions of US dollars)



\* Estimate.

\*\* Liabilities: '+' - increase, '-' - decrease.

\*\*\* Assets: '-': increase, '+': decrease.

\*\*\*\* Including 'Net errors and omissions' item.

Source: The Bank of Russia.

by 3% year on year to \$21.7 billion<sup>5</sup>. The net liabilities assumed by the Russian economy in the first half of 2013 (\$111.8 billion) were 3.4-fold higher than in the first half-year of the previous year. The net acquisition of financial assets (excluding reserve assets) expanded 2.4-fold to \$133.5 billion.

The net export of private capital fell in 2013 Q2 by almost two thirds quarter on quarter and is estimated at \$10.0 billion (in 2013 Q1, \$28.4 billion), but it was 1.8-fold higher year on year, mostly as a result of growing export of capital by banks (in 2012 Q2, a decrease of their foreign assets was observed).

As of July 1, 2013, the foreign debt of the Russian Federation was estimated at \$703.9 billion. In 2013 Q2, its growth slowed down as compared with the previous quarter. The foreign debt of the general government and the central bank contracted by 2.1% to \$75.5 billion in 2013 Q2 (in the previous quarter, it grew by 10.0%), the private sector debt increased by 2.3% to \$628.4 billion as against 8.2% in the previous quarter. The growth of the foreign debt in 2013 Q2 was mainly attributed to a rise in foreign liabilities of other sectors<sup>6</sup>, by \$9.4 billion (2.3%). The foreign debt of the banking sector rose by \$4.9 billion (2.4%).

As of July 1, 2013, the international reserves of the Russian Federation totalled \$513.8 billion. They decreased by \$13.9 billion during 2013 Q2 and by \$23.8 billion from the beginning of the year. The main reason of the change in the reserve assets in 2013 Q2 was a substantial negative revaluation resulting from a sharp fall in gold prices. During the quarter, gold reserves lost about a quarter of their value. The reserve assets decreased by \$4.4 billion in 2013 Q2 as a result of operations recorded in the balance of payments (in the previous quarter, they increased by \$4.9 billion).

<sup>5</sup> With account of net errors and omissions, the financial account deficit in the first half-year of 2013 is estimated practically at the same level as in the first half-year of 2012 – \$31.4 billion (in the first half-year of 2012, \$31.2 billion).

<sup>6</sup> Other sectors include other financial institutions (except banks), non-financial organisations, households and non-profit organisations servicing households.

## The Bank of Russia exchange rate policy

In April to early July 2013, the Bank of Russia continued to implement its exchange rate policy within the framework of the managed floating exchange rate regime, not hindering rouble exchange rate developments determined by macroeconomic fundamentals.

In 2013 Q2, the rouble exchange rate depreciated against the main world currencies as a result of internal and external factors. In April, the emerging trend of rouble depreciation was caused by the temporary deterioration of foreign conditions, as well as by the concerns of market participants with regard to growing demand for foreign currency as a result of a change in the mechanism of funds transfer to the Reserve Fund. The indicated trend was of short-term nature (also due to a substantial downward review of the amount of funds to be transferred to the Reserve Fund this year), and in May rouble appreciated to the average level of the previous month.

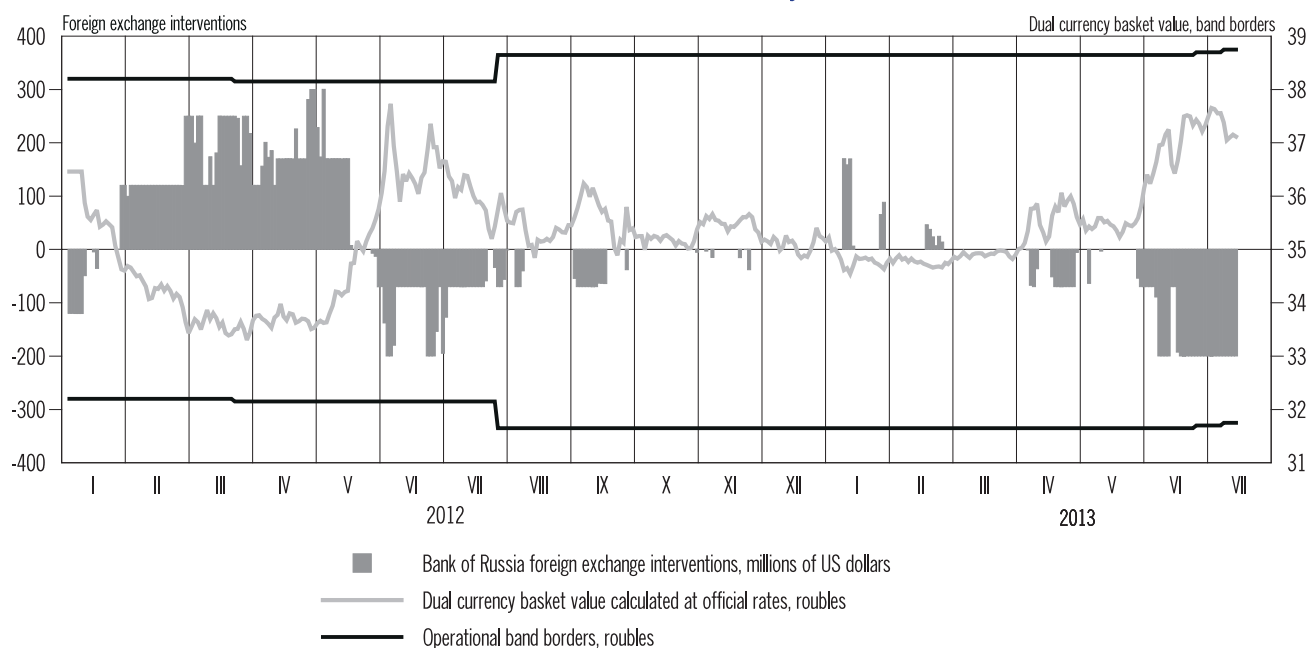
In June and the first half of July, the rouble exchange rate was mostly affected by an investor's growing risk aversion, which was caused by an expected decrease in the amount of asset purchases by the Federal Reserve within the frame of its quantitative easing policy. These expectations strengthened after the meeting of the Federal Open Market Committee held on June 18-19, 2013.

From the beginning of April 2013, the value of the dual currency basket rose by 6.0% to 37.12 roubles as of July 16, 2013. The currencies of most other BRICS countries demonstrated a similar trend.

In April-early July 2013, the mechanism of the exchange rate policy remained unchanged. The permissible range of the rouble value of the dual currency basket was set by a floating operational band, the borders of which were adjusted depending on the volume of Bank of Russia foreign exchange interventions on the domestic market.

During the period under review, the Bank of Russia sold foreign exchange on the domestic market. In May, the volume of Bank of Russia sales was on the minimum level and in June-early July the volumes of foreign exchange interventions substantially increased. In general, the amount of foreign exchange sold by the Bank of Russia from April 1 to July 15 was \$6.2 billion. As a

### Bank of Russia interventions on domestic foreign exchange market and rouble value of dual currency basket



Source: The Bank of Russia.

result, the amount of Bank of Russia interventions accumulated for shifting the borders of the floating operational band exceeded the limit value (\$450 million) on two occasions in the observed period which, in line with the Bank of

Russia exchange rate policy mechanism, led to an upward correction of the borders by 10 kopecks to the levels of 31.75 roubles and 38.75 roubles for the lower and upper borders respectively as of July 15, 2013.

## 1.2. Internal economic conditions

### Public finances

According to Federal Treasury data, in January-May 2013, the extended government budget expenditure accounted for 34.6% of GDP, while non-interest expenditure stood at 33.9% of GDP, exceeding the corresponding 2012 indicators by 0.2 percentage points and 0.1 percentage points respectively. An increase in budget expenditure was attributed to the continued flattening of public spending distribution during the year. The share of the extended government budget expenditure amounted to 35.5% in January to May 2013 as a percentage of the total expenditure scheduled for the year in accordance with the 'Fiscal Policy Guidelines in 2014 and for 2015 and 2016' (hereinafter referred to as the Guidelines) against 35.1% during the corresponding period of 2012.

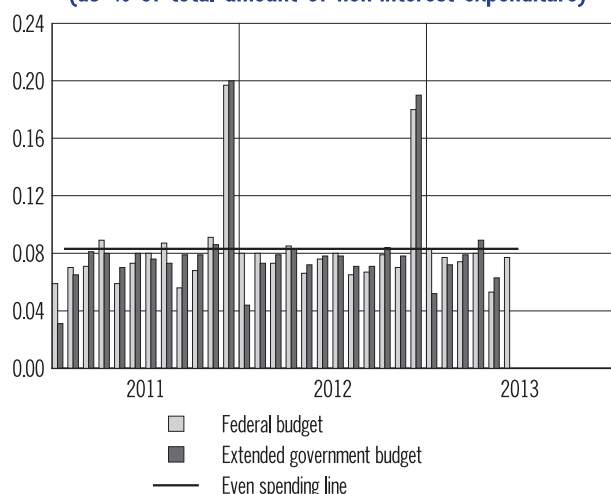
Amid a fall in the revenue side of the budget, in January to May 2013, the extended government budget surplus decreased by half relative to the same period of 2012, and amounted to 2.2% of GDP. The non-oil and

gas primary deficit increased by 1.0 percentage point to 7.3% of GDP.

Under the Guidelines, the extended government budget deficit in 2013 is set at 0.7% of GDP, an increase of 1.1 percentage points on the corresponding indicator in 2012. This increase is a result of an expected fall in oil and gas revenues (by 1.3% percentage points). In 2013, budget expenditure may grow as well (by 0.6% percentage points), nevertheless it may be financed by the same increase in non-oil and gas revenues (0.7% percentage points).

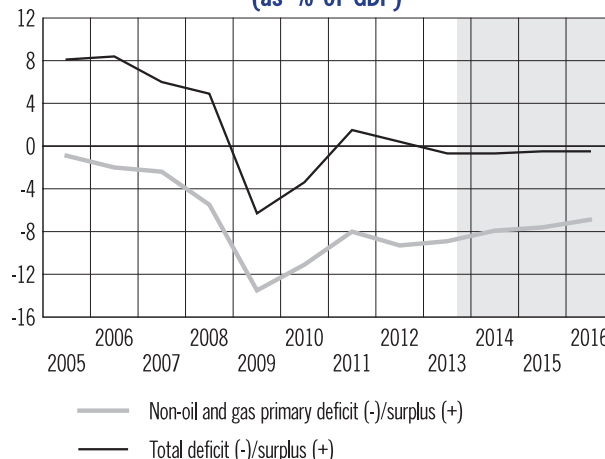
The amount of the structural non-oil and gas primary budget deficit of the extended government is estimated at 9.1% of GDP in 2013, a decrease of 0.5 percentage points on the respective indicator in 2012. In 2014-2016, this indicator is expected to go down further to 7.2% of GDP and this reduction should continue in the subsequent years in case of compliance with the budget rules introduced in 2013. Amid an expected negative output gap in 2013-2014, the budget policy tightening leads to its procyclicality. The opposite dynamics of the

**Extended government budget spending in 2011-2013  
(as % of total amount of non-interest expenditure)**



Source: The Federal Treasury, the Ministry of Finance, 'Fiscal Policy Guidelines in 2014 and for 2015 and 2016'.

**Total and non-oil and gas primary deficit  
(-)/surplus (+) of extended government budget  
(as % of GDP)**



Source: the Federal Treasury, Rosstat, 'Fiscal Policy Guidelines in 2014 and for 2015 and 2016'.

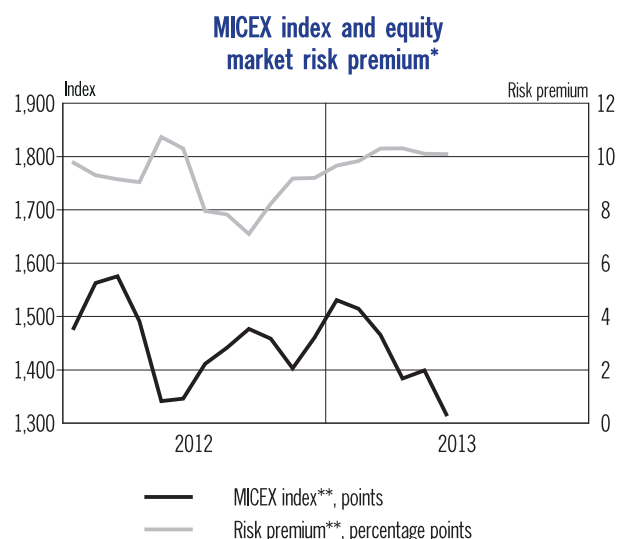
output gap assumed for 2015-2016 allows the budget policy characterised as countercyclical<sup>1</sup>.

## Financial sector

### Asset prices

In 2013 Q2, Russian equity market price indices were determined by factors irrelevant to the Bank of Russia interest rate policy, such as the increased volatility of global stock market prices, growing risk aversion of global investors and the rouble depreciation at the end of May and in June. Along with the continued slowdown of Russian economic growth and the deterioration of the financial standing of domestic enterprises, these factors contributed to lower investment attractiveness of Russian assets. In Q2, Russian equity prices were mostly going down. The Russian equity market risk premium<sup>2</sup> rose quarter on quarter. As of the end of June, the MICEX and RTS indices significantly decreased (by 7.5% and 12.6% respectively) as compared with the end of March. The average values of the MICEX and RTS indices in 2013 Q2 were 8.9% and 12.5% lower than in 2013 Q1. There are no grounds to expect that in Q3 the situation on the domestic equity market will improve.

In 2013 Q2, an increase in residential real estate prices continued. In the period under review, the price indices on the primary and secondary housing markets amounted to respective 101.10% and 101.02% quarter on quarter. They



\* Portfolio of equities included in MICEX index calculation.

\*\* Average monthly indicator.

Source: The Moscow Exchange, Bloomberg, Bank of Russia calculations.

grew somewhat slower than the consumer price index. Nevertheless, the interest of households in real estate as an investment instrument continued. The commissioning of residential housing did not change substantially in 2013 Q2 as compared with 2013 Q1. Amid high demand, this had no restraining effect on rising prices for the real estate market. Accelerated growth of housing mortgage loans after the April decrease in their interest rates, first of all, by mortgage market leaders, ensured upward pressure on the market. A slight increase in interest rates on housing mortgage loans in May had no serious impact on their movement.

### Money market

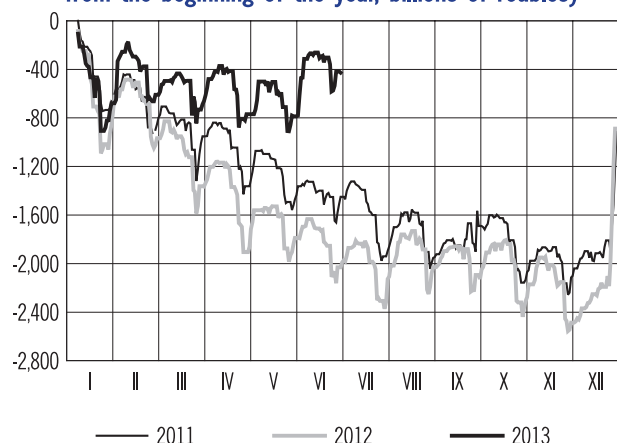
The money market in 2013 Q2 was influenced by a certain increase in the structural deficit of banking sector liquidity. During this period, the average value of funds in bank correspondent accounts with the Bank of Russia grew by 42.1 billion roubles as compared with the previous period and reached 878.5 billion roubles. This was driven by a rise in the average value of required reserves (by 60.9 billion roubles on average during the quarter).

The change in autonomous factors caused a decrease in banking sector liquidity by 129.6 billion roubles in 2013 Q2 (83.5 billion roubles in the previous quarter). With the growing balances of correspondent accounts, this led to a rising need of credit institutions in refinancing and to an increase of their debt to the Bank of Russia by 199.6 billion roubles. The effect of autonomous factors during the quarter was heterogeneous: a

<sup>1</sup> Countercyclical or stabilising fiscal policy implies the tightening of a fiscal policy at times of the 'overheating' of the economy and an easing of the policy at times of economic downturn. Otherwise, the fiscal policy is procyclical. The change in the annualised output gap is used as an indicator characterising the phase of the economic cycle, while the rigidity of the fiscal policy is determined by the dynamics of the budget structural non-oil and gas primary deficit. The structural non-oil and gas primary deficit represents budget elements that do not depend on the phase of the business cycle and are a result of government decisions. In other words, it is the total budget deficit net of oil and gas revenues, net interest payments and items that are directly linked to changes in economic activity. For details see Vlasov S. 'Russian fiscal framework: Past, present and future. Do we need a change?' BOFIT Online 2011, No. 5.

<sup>2</sup> The equity market risk premium is calculated as the difference between the return on the equity market portfolio, which consists of equities included into the MICEX index calculation base, and OFZ zero-coupon yield. As the return on the equity market portfolio is recalculated quarterly and annually, certain insignificant deviations from the earlier published risk premium values are possible that are not reflected in this indicator's dynamics.

**Impact on liquidity of changes in the balances of extended government's accounts with the Bank of Russia\* (accrued from the beginning of the year, billions of roubles)**



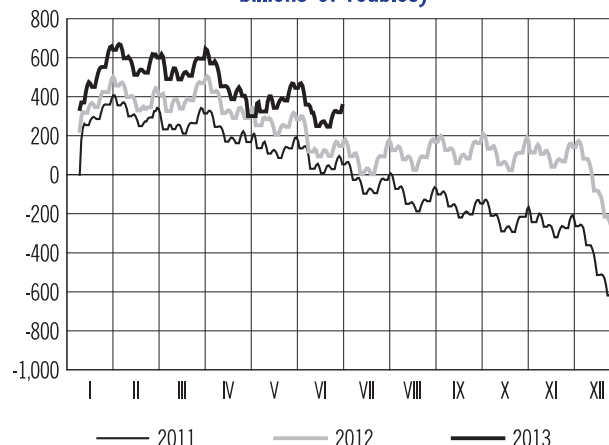
\* '+' denotes a decrease in balances, and '-' denotes their increase.  
Source: The Bank of Russia.

high outflow of liquidity from the banking sector totalling 379.3 billion roubles that served as the main reason for the growth of bank liabilities to the Bank of Russia emerged in April, whereas in May-June, an inflow of liquidity to the banking sector stood at 249.6 billion roubles.

In 2013, the influence of the budget flows on banking sector liquidity substantially changed. The significant absorption of banking sector liquidity via the budget channel in 2013 Q1 was replaced by a large inflow of funds to the banking sector in Q2 totalling 316 billion roubles. More even budget spending along with slower rates of federal budget revenue growth as a result of decreased prices for Russia's major exports contributed to a small inflow of funds to the banking sector (excluding OFZ operations and Treasury deposits with credit institutions) in 2013 Q2 (26.1 billion roubles). In the same period of the previous year, this channel contributed into an outflow of funds from the banking sector in the amount of 568.3 billion roubles as against 502.8 billion roubles in 2013 Q1.

A large inflow of liquidity to the banking sector was attributed to a placement of temporarily free funds by the Treasury with credit institutions. Amid structural liquidity deficit in the banking sector, credit institutions continued their active participation in these operations benefiting from an increase in deposit maturities and liquidity supply growing up to 1,502.9 billion roubles (by 482.0 billion roubles as compared with 2013 Q1). As a result, the value of funds deposited by the Treasury with credit institutions in 2013

**Impact on liquidity of changes in money in circulation\* (accrued from the beginning of the year, billions of roubles)**



\* '+' denotes a decrease in money in circulation, and '-' denotes its increase.  
Source: The Bank of Russia.

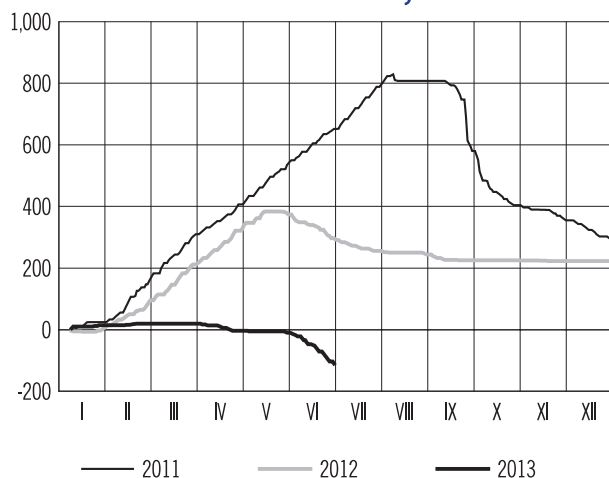
Q2 totalled 1,076.0 billion roubles, a 2.2-fold increase on the amount deposited in the previous quarter. With a lower repayment of deposited funds (637.4 billion roubles as against 850.5 billion roubles in Q1), this resulted in an inflow of liquidity to the banking sector in the amount of 438.9 billion roubles (in Q1, the outflow as a result of these operations stood at 353.8 billion roubles).

Operations with government securities in 2013 Q2 led to a banking liquidity absorption amounting to 149.4 billion roubles (the volume of OFZ placement was close to that of Q1 at a substantially lower level of redemption and coupon payments). Most active placement of government securities occurred in April, which was attributed to bank continued demand for OFZs amid a high level of global liquidity on international markets in April-early May and emerging unfavourable conditions on the domestic debt market in the second half of Q2.

The main source of banking liquidity outflow in 2013 Q2 was a seasonal growth of money in circulation due to a large number of holidays and weekends in May and June, as well as to the beginning of a vacation season. This factor ensured an outflow of liquidity from the banking sector to the amount of 274.3 billion roubles, whereas in the previous quarter, the decrease in money in circulation led to an increase in banking liquidity by 596.0 billion roubles.

Higher tension on global capital markets in May-June 2013 caused, among other factors, by investors' growing concern regarding a possibility

**Bank of Russia interventions on the domestic foreign exchange market (accrued from the beginning of the year, billions of roubles)**



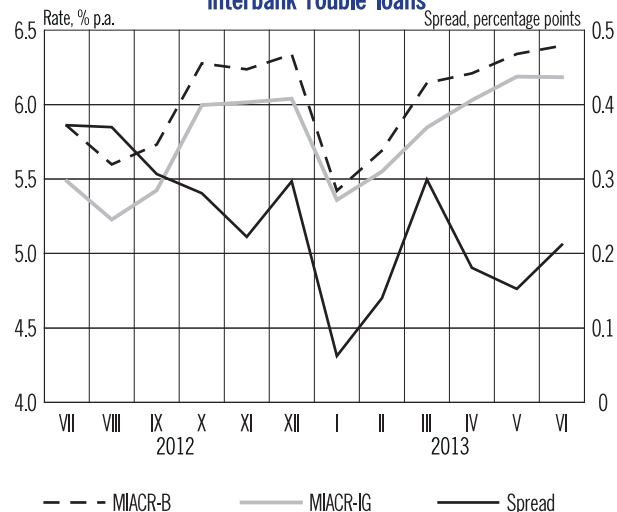
Source: The Bank of Russia.

of an imminent Fed exit from the QE policy contributed to a substantial depreciation of the rouble exchange rate on the domestic foreign exchange market at the end of Q2. This led to Bank of Russia sales of foreign exchange within the framework of the current exchange rate policy mechanism. In this environment, the inflow of funds to the banking sector via the foreign exchange channel in the amount of 22.4 billion roubles registered in 2013 Q1 was replaced by an outflow in April-June, which resulted in a decrease in banking liquidity caused by this factor by 122.8 billion roubles.

Increased bank demand for rouble liquidity contributed to maintaining high interbank interest rates. For the larger part of 2013 Q2, the rates on overnight interbank rouble loans remained in the upper part of the interval of rates on Bank of Russia operations deviating from the fixed rate on repo operations with the Bank of Russia by no more than 25 basis points. The MIACR on overnight interbank rouble loans ranged from 5.7% to 6.6% p.a. during Q2 without a clear trend. The average quarterly rate amounted to 6.29% p.a. as against 5.72% p.a. in the previous quarter. In the segment of rates on loans with maturities exceeding a month, a rise in average quarterly rates was smaller (by 16-25 basis points), which testifies to the fact that no further rate increases are expected.

The volatility of money market interest rates during 2013 Q2 remained moderate. The spread between the rates which reflected the borrowing

**Spread of rates on overnight interbank rouble loans**



Source: The Bank of Russia.

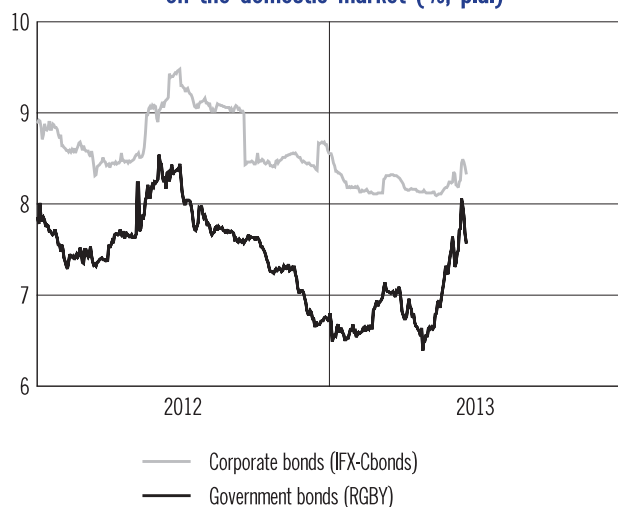
by participant groups with different credit ratings (MIACR-IG as against MIACR-B) for the larger part of the quarter did not exceed 20 basis points. This is a proof that market participants continue to assess credit risk in interbank operations as low.

In 2013 Q2, a participant activity in the main segments of the money market remained on the existing level or slightly increased. Unsecured loans (deposits) and currency swaps with a low share of repos continued to dominate the turnover of interbank operations. As before, the bulk of transactions on the money market were represented by overnight operations. The share of money market instruments in Russian banking sector assets remained low. The volume of claims on interbank loans and deposits placed on the domestic market totalled 1.87 trillion roubles (3.5% of Russian bank total assets) at the end of 2013 Q2 as compared with 1.80 trillion roubles (3.6%) as of the beginning of Q2 and 2.02 trillion roubles (4.1%) as of early January 2013.

### Debt market

The Bank of Russia interest rate policy had no noticeable impact on bond yields on the domestic secondary market in Q2 since the main factor of changes in bond yields was a change of an investor's interest in rouble assets. In April, the bond yields decreased as a result of an inflow of funds from the equity market caused by a growing risk aversion of investors in the world, including Russia. A slight increase in corporate bond yields in June followed the growth of OFZ yields related

**Rouble bond yields  
on the domestic market (% p.a.)**



Source: Cbonds.ru, the Moscow Exchange.

to an outflow of non-resident funds from the OFZ market. As of the end of June 2013, the OFZ yields rose by 60 basis points as against the end of March 2013 to 7.58% p.a., while the corporate bond yield – by 3 basis points to 8.34% p.a.

During 2013 Q2, the demand for rouble debt securities varied. Sales by issuers of securities decreased during this period quarter on quarter: by 8% on the OFZ market (to 172.7 billion roubles at par value), and by 17% on the corporate bond market (to 355.4 billion roubles at par value). The Ministry of Finance sold the majority of OFZ issues at a premium to their yields on the secondary market or to the yields of comparable outstanding issues. For stable companies, the issue of corporate bonds remained an important addition to bank loans. Corporate borrowers usually placed bonds within the limits of the originally announced first coupon benchmark rates depending on the market developments and issuer solvency. Some reliable companies managed to place bonds with coupon rates below the ranges announced in the bid period. In Q2, the first coupon average rate on placed corporate bonds amounted to 9.50% p.a., the average term to maturity – 8.4 years (in Q1, 9.35% p.a. and 5.5 years respectively).

The volume of OFZ operations increased by 24% on the secondary market in Q2 quarter on quarter to 1,932.4 billion roubles, the volume of corporate bond operations decreased by 6% to 1,526.4 billion roubles at actual cost.

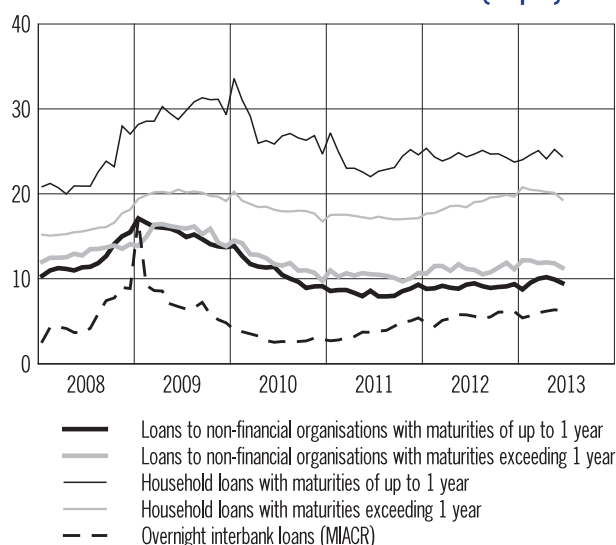
## **Bank interest rates and non-price lending conditions**

An increase in the interest rates on rouble-denominated loans to non-financial organisations with maturities of up to one year, which was observed in the first months of the year, stopped by the end of the first half of 2013. Interest rates on rouble-denominated long-term corporate loans fluctuated insignificantly in the first six months of 2013.

In June 2013, interest rates on rouble-denominated loans to households with maturities of up to one year were close to the level of the beginning of the year. A downward trend in interest rates on long-term rouble loans to this category of borrowers, which had been observed since February 2013, continued. After a period of growth in February and March, the average-weighted interest rate on rouble-denominated housing mortgage loans (HML) went down in April to reach 12.6% p.a. and in May it returned to the level of early 2013 – 12.7% p.a. In 2013 Q2, market leaders were reducing the price of retail credit products, first of all, within seasonal promotions and for regular clients.

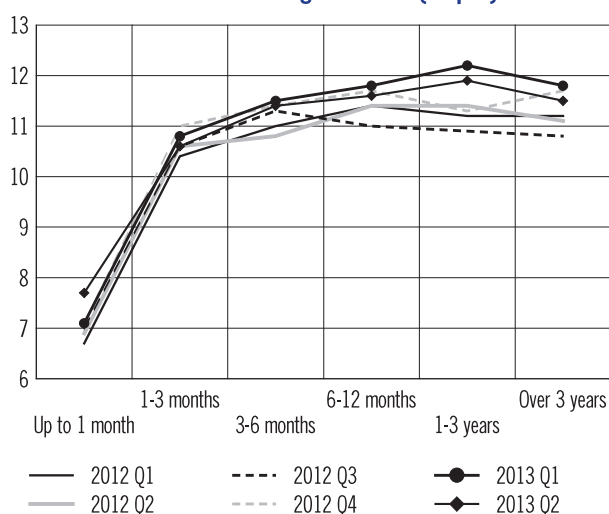
A downward trend in interest rates emerged on the household deposit market in the first half of 2013. Certain banks offered in Q2 deposits with higher interest rates within promotions and seasonal products, but their level was 0.2-0.5 percentage points lower than in Q1. The average maximum rate on rouble-denominated deposits of 10 Russian banks, which attracted the largest amount of deposits, reached the local maximum

**Nominal interest rates on rouble loans (% p.a.)**



Source: The Bank of Russia.

Term structure of interest rates on rouble loans to non-financial organisations (% p.a.)

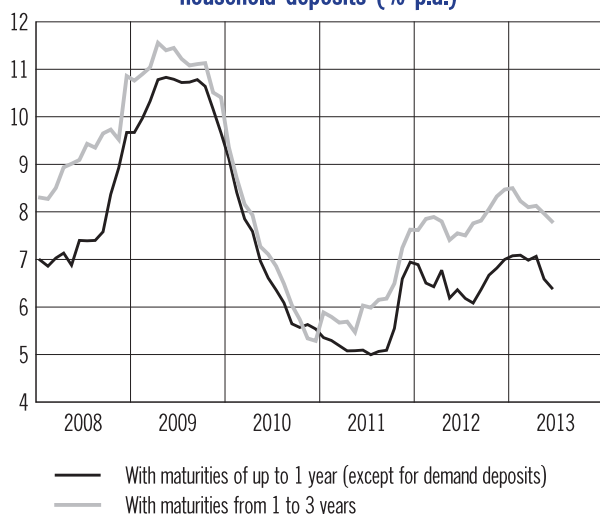


Source: The Bank of Russia.

in the middle of January 2013 (10.0% p.a.) and in the subsequent months it was unevenly decreasing and at the end of June it amounted to 9.26% p.a.<sup>3</sup>

In 2013 Q2, non-price lending conditions were subject to insignificant mixed changes in all segments of the Russian loan market, while a trend for easing these conditions prevailed. Banks were increasing the maximum loan term and introducing new credit products. At the same time, the requirements for the financial standing of borrowers were tightened still further. In Q2,

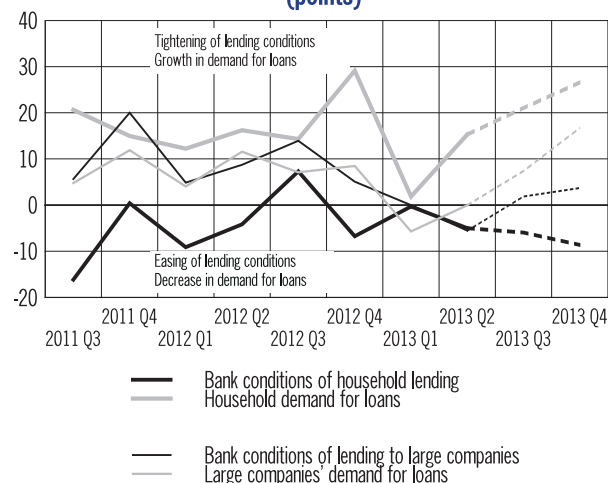
Nominal interest rates on rouble household deposits (% p.a.)



Source: The Bank of Russia.

<sup>3</sup> Calculated by the Bank of Russia to determine the indicative level of deposit rates for the banking sector as a whole.

Lending condition index\* (points)



\* Indices for 2013 Q2 and expectations based on preliminary data.  
Source: The Bank of Russia.

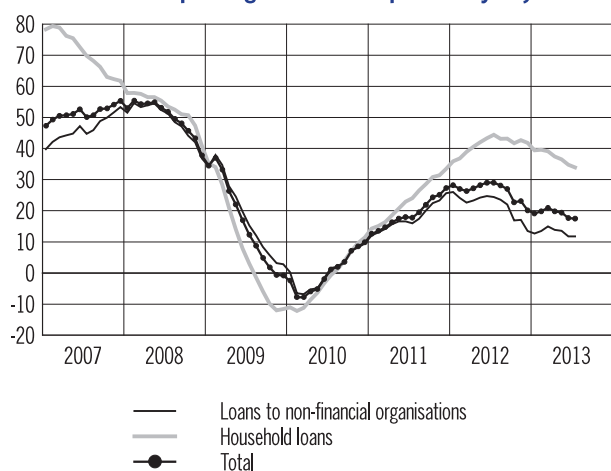
according to banks estimates, growth rates of demand for loans were observed to recover following their slowdown in the preceding quarter.

Banks expect that in the second half of 2013 all market segments will show growing demand for loans with household demand growing faster than any other. The banks will resume their differentiated credit policy in various market segments: terms of lending to households will get looser and there will be observed a certain tightening in lending to large companies. If these expectations materialise in 2013 Q3 and Q4, there may be expected moderate fluctuations of loan rates without any definite trend.

### Credit aggregates

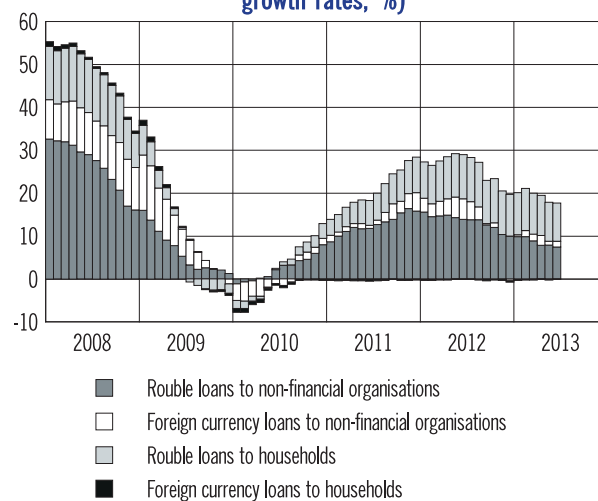
The current dynamics of credit aggregates testifies to steady and stable operation of loan markets. Thus, the decrease in the annual growth of banks credit activity is gradually decelerating and is in line with macroeconomic fundamentals. The current situation is characterised by continued mixed dynamics of loans to the various sectors of economy. While the contribution of the growth rate of loans to non-financial organisations to the total loan annual growth rate fell by more than half as compared with 2012, the contribution of the growth rate of household loans remains practically unchanged. As a result, the annual growth rate of loans to non-financial organisations amounted to 11.8% as of July 1, 2013 and that of household loans – to 33.9%.

**Loans to non-financial organisations and households in roubles and foreign currency (growth as % of the corresponding date of the previous year)**



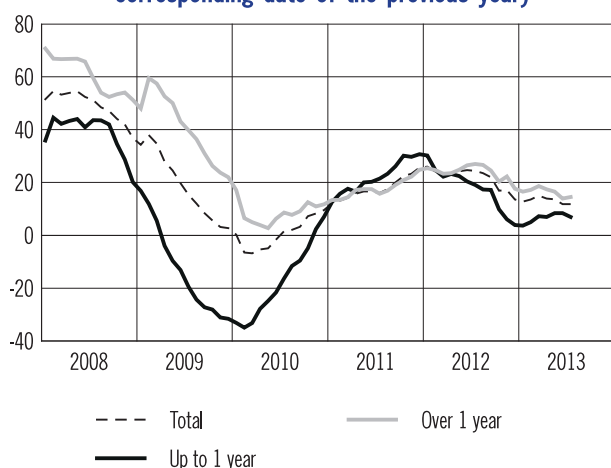
Source: The Bank of Russia.

**Loans to non-financial organisations and households (contributions of various categories of loans to annual growth rates, %)**



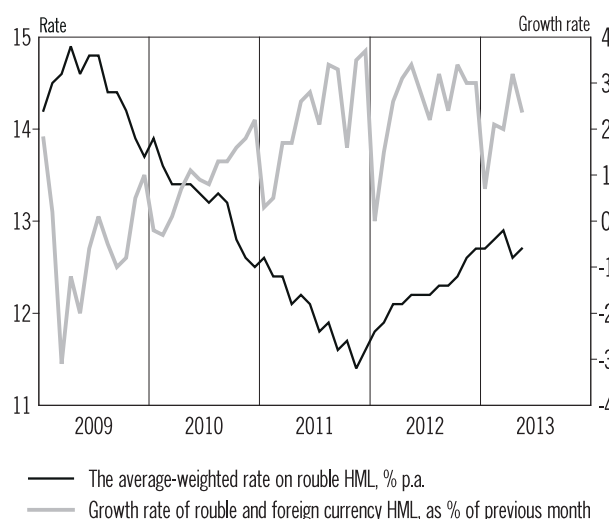
Source: The Bank of Russia.

**Loans to non-financial organisations in roubles and foreign currency by maturity (growth as % of the corresponding date of the previous year)**



Source: The Bank of Russia.

**Housing mortgage loan market**



Source: The Bank of Russia.

The volume of outstanding loans to non-financial organisations with maturities exceeding one year increased by 4.2% in 2013 Q2 as against 1.1% in Q1, which ensured about 70% of the growth in the total corporate loan portfolio with the share of long-term loans in its structure remaining the same (almost 70%). The volume of loans to non-financial organisations with maturities of up to one year increased by 4.7% in Q2 (1.0% in Q1). Wholesale and retail trade organisations, as well as manufacturing enterprises remain leaders in the volume of outstanding bank loans. The volume of outstanding bank loans

to construction companies increased by 8.6% in Q2, which was the largest as compared with organisations in other economic sectors, although their share in the total corporate loan portfolio remained insignificant (about 8.0%). Small and medium-sized businesses continued to build up their loan portfolio faster than large borrowers in this period.

Household loans grew by 8.6% in 2013 Q2 as against 4.7% in 2013 Q1 and their share of the bank total loan portfolio rose to 23.6% as of July 1, 2013. In Q2, the volume of retail loans with maturities exceeding one year grew more rapidly than the volume of retail

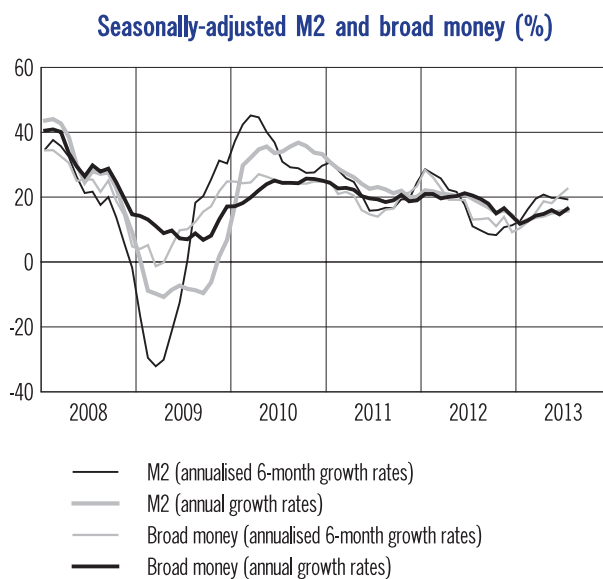
loans with maturities of up to one year quarter on quarter. This is explained partially by some acceleration in the growth of certain types of long-term loans (over 80% of the household loan portfolio), primarily of mortgages and car loans. The volume of HMLs increased by 5.7% in April-May as against 4.9% in Q1. The build-up of the HML loan portfolio was supported in April by a decrease in interest rates by a number of banks and the improvement of non-price terms (an introduction of new types of mortgage products, bank joint benefit programs with developers and a cancellation of an initial instalment). Amid a slower growth of car sales, banks intensify their competition in attracting borrowers. Nevertheless, interest rates on car loans changed insignificantly and those of the leaders of the car loan market still remained within the range of 10-20% p.a. depending on the maturity and value.

The volume of consumer loans rose by 9.8% in Q2 as against 5.6% in Q1. At the same time, some banks, first of all those with government shareholding, lowered their interest in this high-risk type of lending. This could be a result of measures implemented by the Bank of Russia for the regulation of consumer loan risks by way of tightening the procedure for provisioning and accounting at capital adequacy calculation.

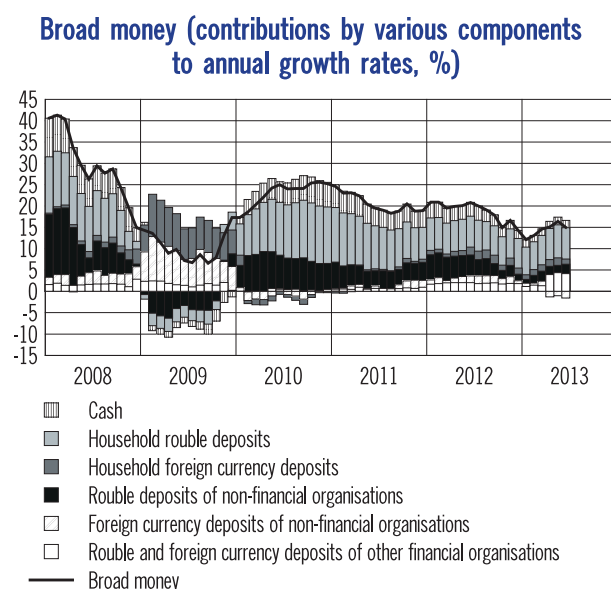
### Money supply

In the first six months of 2013, the annual growth rate of M2 monetary aggregate was increasing and stood at 15.5% as of July 1, 2013 as against 11.9% as of January 1, 2013. The M2 annualised 6-month growth rate, which is less dependent on the base effect, has stabilised recently. This testified to the fact that the acceleration of annual growth rate of rouble monetary aggregates was determined mostly by its dynamics in the period from January through February 2013, whereas in subsequent months this trend to acceleration was less evident. The existing money supply dynamics indicated that monetary factors would have a restraining effect on price growth and ensure a medium-term inflation decrease to the target level (see Analysis of monetary factor impact on the economy, Section II.1. Economic development prospects).

The dynamics of household deposits were the most stable among the components of rouble money supply. Their annual growth rate



Source: The Bank of Russia.

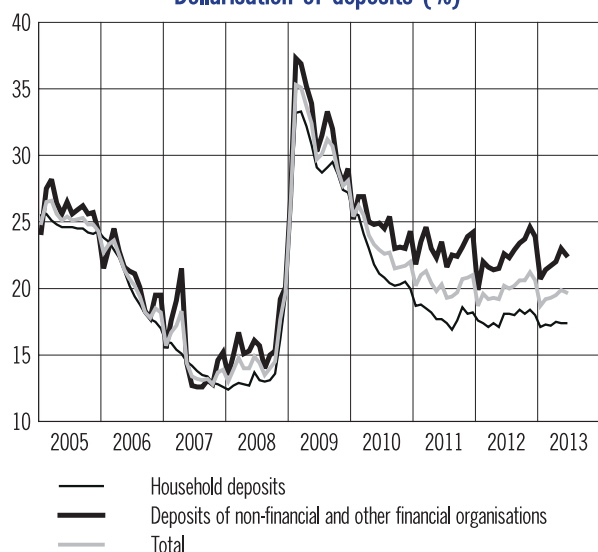


Source: The Bank of Russia.

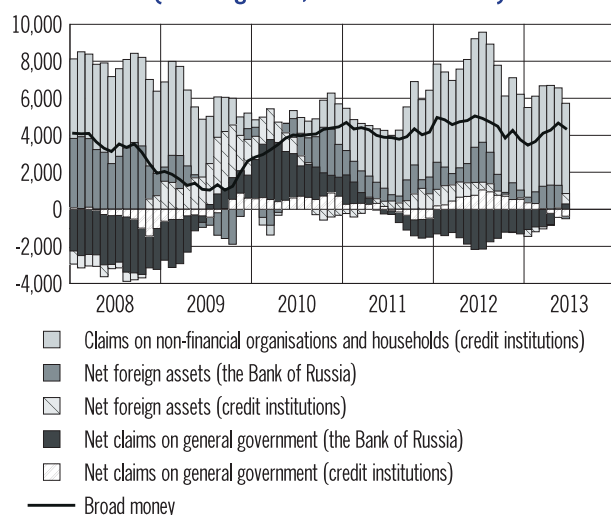
was kept at the level of about 20% and stood at 20.7% as of July 1, 2013 (19.0% as of January 1, 2013). At the same time, corporate deposits traditionally showed higher volatility. The annual growth rate of deposits to non-financial organisations increased from 6.4% as of January 1, 2013 to 14.5% as of July 1, 2013.

The annual growth rate of broad money also rose to 16.3% as of July 1, 2013 as against 12.1% as of January 1, 2013. To a certain extent, this was a result of revaluation effect due to the rouble depreciation. At the same time, the currency structure of monetary

## Dollarisation of deposits (%)



Source: The Bank of Russia.

Banking sector basic assets and broad money  
(annual growth, billions of roubles)

Source: The Bank of Russia.

aggregates remained stable despite rouble exchange rate fluctuations. The level of dollarisation of deposits<sup>4</sup> stood at 20.3% as of July 1, 2013, which generally corresponds to the level prevailing in the Russian economy in 2011-2012.

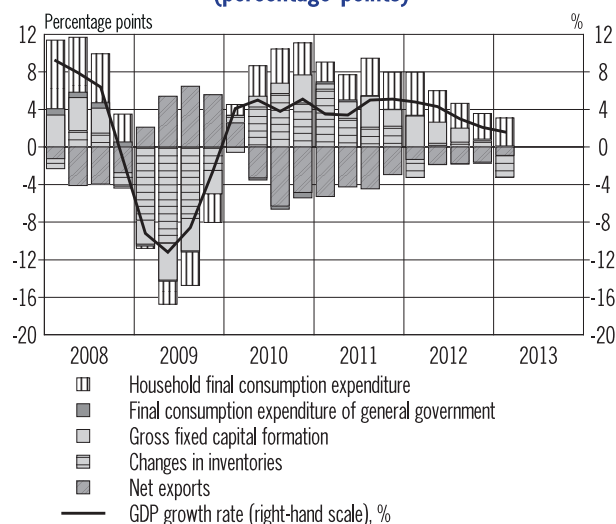
Higher lending activity was the main source of growth in money supply. At the same time, the acceleration in money supply growth as compared with the previous year resulted primarily from government finances, which showed a slight annual change in net claims on

<sup>4</sup> The level of dollarisation in this case is the share of foreign currency deposits in banking sector total deposits.

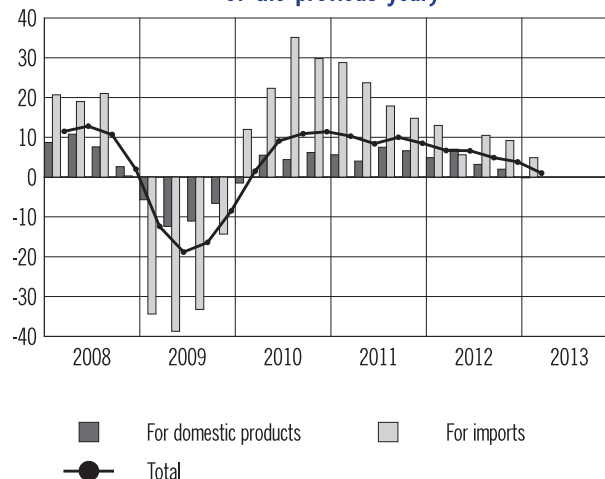
the general government by the Bank of Russia (in 2012, this indicator highly decreased). In the absence of significant changes in the fiscal policy as compared with the previous year, it is possible to assume that acceleration of monetary indicator growth is of temporary nature and in the medium-term perspective it will not lead to any significant macroeconomic consequences.

## Domestic demand

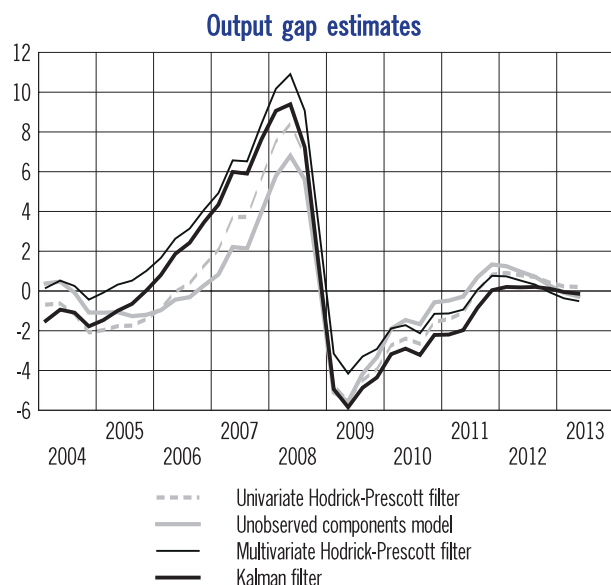
In 2013 Q1, the GDP grew by 1.6%. Household final consumption expenditure made the greatest contribution to economic

GDP growth structure by element of use  
(percentage points)

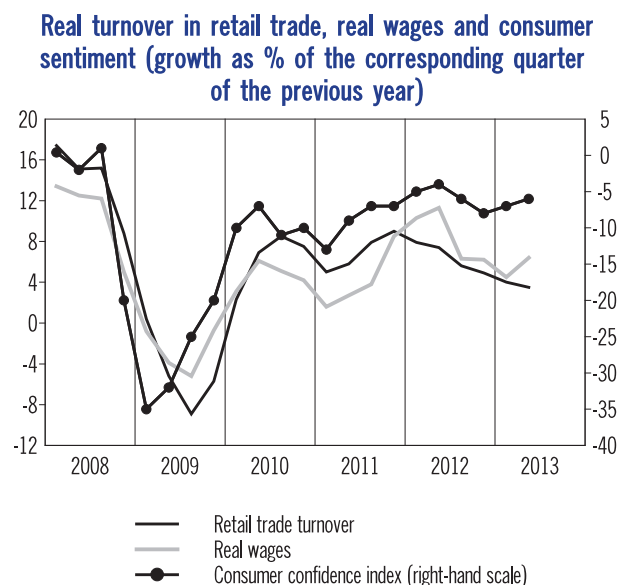
Source: Bank of Russia calculations, Rosstat.

Domestic demand  
(growth as % of the corresponding quarter  
of the previous year)

Source: Banks of Russia calculations, Rosstat.



Source: Banks of Russia calculations.



Source: Rosstat.

growth among elements of the GDP use. The contribution of the final consumption expenditure of the general government and non-profit institutions serving households to GDP growth was small.

A significant slowdown of growth rates of fixed capital investments in January-March 2013, as well as a substantial decrease in inventories resulted in a negative contribution of the gross capital formation to GDP growth. Amid a slowdown in the growth rates of the import of goods and services, the negative contribution of net exports declined as compared with 2012 Q1.

The output gap was estimated to be close to zero<sup>5</sup> in 2013 Q1 testifying to a lack of significant inflation risks posed by domestic demand on the consumer market.

## Consumption

With a seasonal factor excluded in 2013 Q1 quarter on quarter, the acceleration of the growth rates of household final consumption expenditure continued. In Q2, the average monthly growth of household final consumption expenditure in real terms was higher than in Q1. An increase in real wages and employment and high growth rates

of lending to households contributed to a rise in household consumption spending.

In the first two quarters of 2013, the consumer confidence index (according to Rosstat surveys) was increasing due to an improved assessment of economic situation and prospects, changes in personal financial position and favourable conditions for making large-value purchases. The index of expected changes in personal financial position did not change in Q2. The business confidence index (Rosstat) characterising business climate in retail trade remained positive in Q2 as in the previous quarter and equal to the same indicator for the respective quarter of the previous year.

Household propensity to save<sup>6</sup>, including savings in the form of deposits and securities was higher than in the first six months of 2012 due, to some extent, to a higher level of interest rates on household deposits offered this year, and increased household real disposable income.

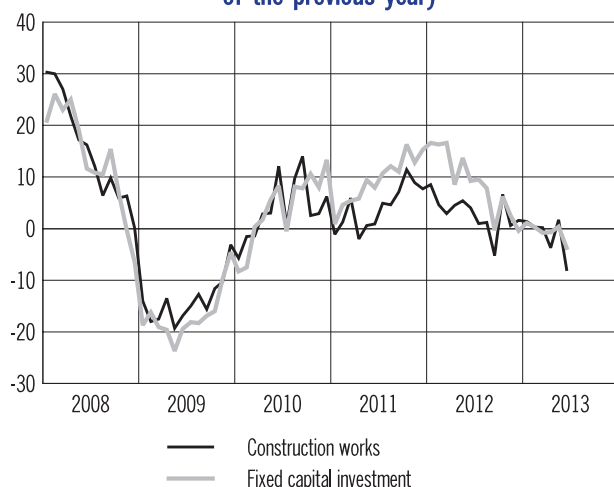
## Investments

After growth in the last three quarters of 2012, the seasonally adjusted amount of gross fixed capital formation decreased in 2013 Q1. Significant decrease in the profits of non-financial organisations, persistent financial uncertainty, weak external demand, unfavourable domestic investment climate and outflow of private capital

<sup>5</sup> The use of different assessment methods allows a decrease in an ambiguity which is a characteristic feature of gap evaluations. It should be noted that the main assessment taken into account by the Bank of Russia while implementing its monetary policy is the assessment using the Kalman filter. See for details the Box 'Output gap indicator' in the Report published in January 2013.

<sup>6</sup> Savings include higher (lower) deposits, purchases of securities, changes in bank balances of individual entrepreneurs, changes in loans, acquisition of real estate, and purchases of livestock and poultry by households.

**Fixed capital investment and construction works  
(growth as % of the corresponding month  
of the previous year)**



Source: Rosstat.

remain the factors contributing to a decline in investment activity. In Q2, with the seasonal component excluded, the average monthly rate of decrease in fixed capital investments accelerated quarter on quarter.

Business activity in construction remained low at the beginning of 2013. The seasonally adjusted volume of construction works decreased again in Q2 as compared with the previous quarter.

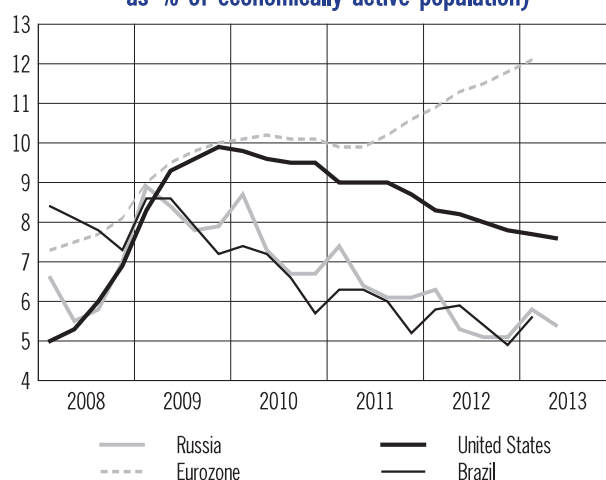
According to a Rosstat survey of the business activity of construction firms, the business confidence index in construction improved in 2013 Q2 quarter on quarter in line with the seasonal dynamics of the indicator. Most of the surveyed managers named high taxes, insolvent customers and competition as factors that constrained construction activity.

In line with the Federal targeted investment program, the 2013 budget allocation limit for capital construction projects, purchase of real estate and implementation of large investment projects was 8.8% less than in 2012.

## Labour market

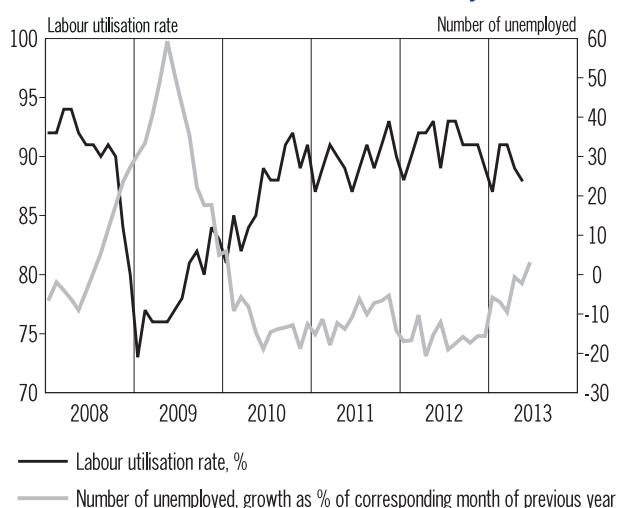
At the beginning of 2013, positive trends were preserved on the labour market. The increase of economically active population continued. The level of utilisation of available labour force remained high standing at 89% in January to May 2013, according to Russian Economic Barometer data. The total number of unemployed was going down but slower than in the previous year.

**Unemployment in Russia, Brazil, the United States  
and eurozone (average for the reporting quarter,  
as % of economically active population)**



Source: national statistics agencies, Eurostat, ILO, Rosstat.

**Total number of unemployed  
and labour utilisation in industry**

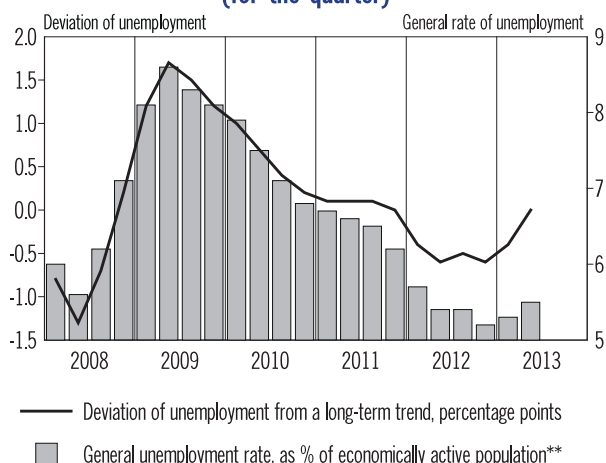


Source: Russian Economic Barometer, Rosstat.

After a seasonal increase in early 2013, the unemployment contracted to 5.4% in June as against 5.2% in June 2012. In Q2, the seasonally adjusted unemployment was higher quarter on quarter. Employment growth was not accompanied by a marked increase in the efficiency of production – the labour productivity growth rate was rather low and estimated at 0.4% in 2013 Q1. The growth rates of unit labour cost (ULC)<sup>7</sup> in Q1 were higher than in Q1 of the

<sup>7</sup> Calculated as the ratio of the growth rate of the nominal wage per one employee to labour productivity growth. It is similar to the indicator calculated by American and other statistics agencies as a ratio of the average hourly nominal wage to labour productivity. This ratio indicates the pressure exerted by wage costs on inflation.

### Unemployment rate (for the quarter)\*

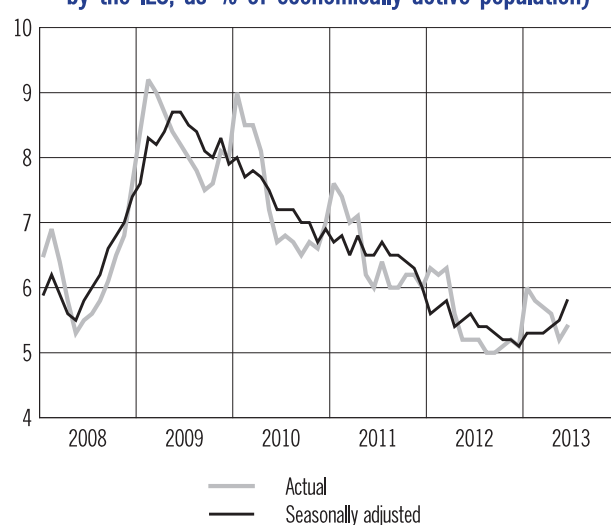


\* Long-term trend is assessed by Hodrick-Prescott filter.

\*\* Seasonally adjusted.

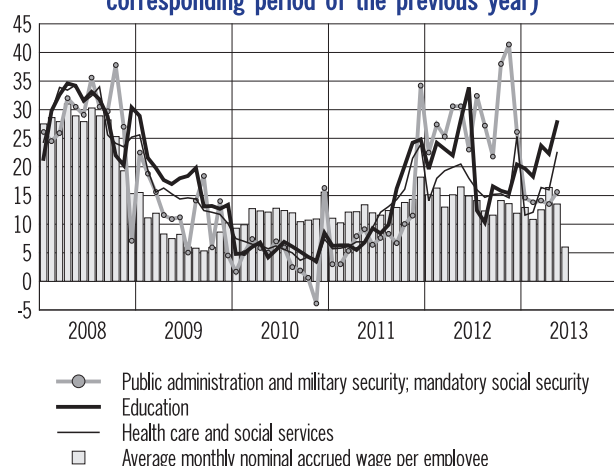
Source: Bank of Russia calculations, Rosstat.

### Unemployment rate (the number of unemployed by the ILO, as % of economically active population)



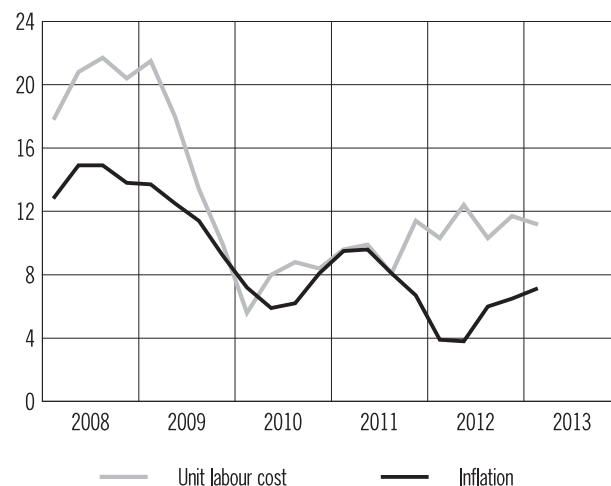
Source: Bank of Russia calculations, Rosstat.

### Average nominal accrued wage in the economy as a whole, and in activity types with a high share of financing by the state budget (as % of the corresponding period of the previous year)



Source: Rosstat.

### Unit labour cost and inflation (as % of the corresponding quarter of the previous year)



Source: Bank of Russia calculations, Rosstat.

previous year. The general unemployment rate is estimated to remain below the long-term trend. ULC growth amid a low unemployment rate may increase inflation risks due to higher production costs.

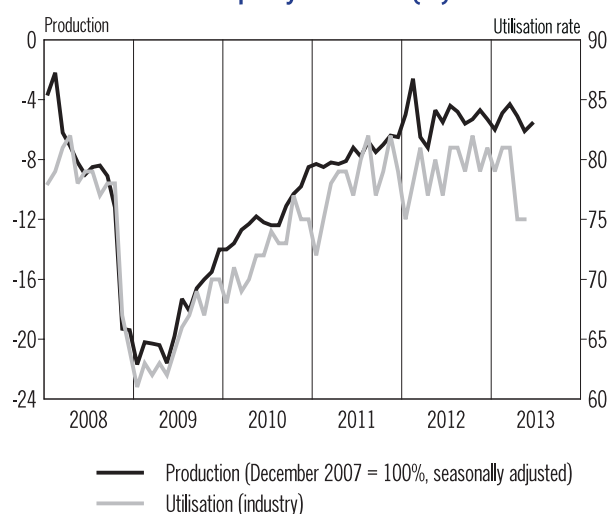
Faster wage growth in the public sector in early 2012 caused a general acceleration of this indicator. Gradual exhaustion of this effect, as well as higher inflation in the first half of 2013 resulted in a slowdown of real wage growth rates this year. Wage growth rates in the activity types largely financed from the state budget were close to the average level for the economy as a whole (excluding education). Nevertheless, the size of these salaries is still below the level of average

monthly wage in Russia. Thus, in January-May 2013, the average wages of employees in public health care and social services amounted to 78% of the all-Russian level, and the wages of employees in education – to 76%.

## Production

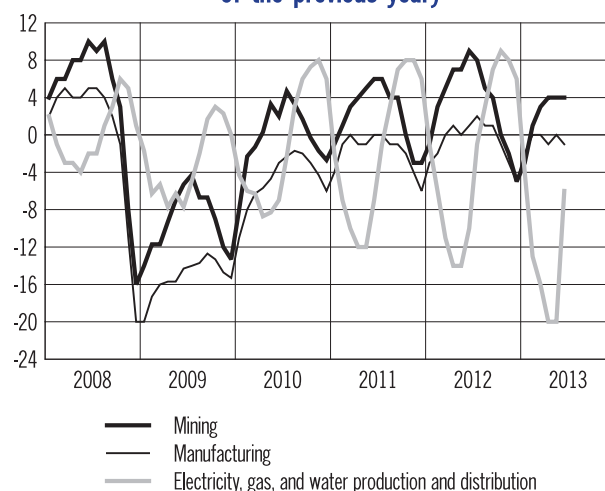
In 2013 Q1, the GDP grew by 1.6%. Seasonally adjusted growth rate of the production of goods and services was the lowest in the last three years. Driving sectors in GDP growth in 2013 Q1 were wholesale and retail trade, financial activity and transactions with real estate. Mining sector contribution to GDP growth was negative.

**Industrial production growth and capacity utilisation (%)**



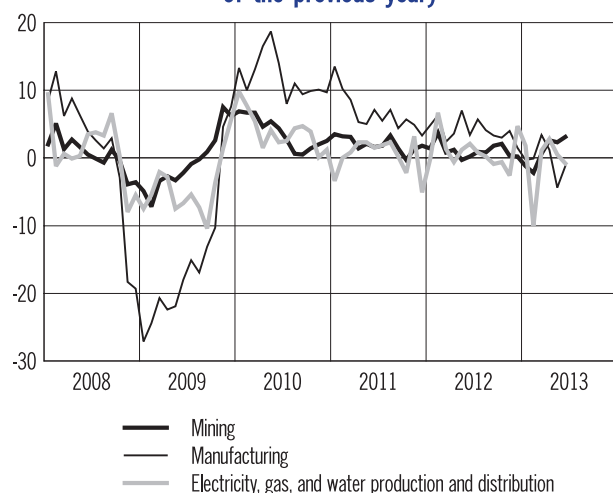
Source: Rosstat, Bank of Russia calculations, Russian Economic Barometer.

**Business Confidence Indices by activity type (growth as % of the corresponding month of the previous year)**



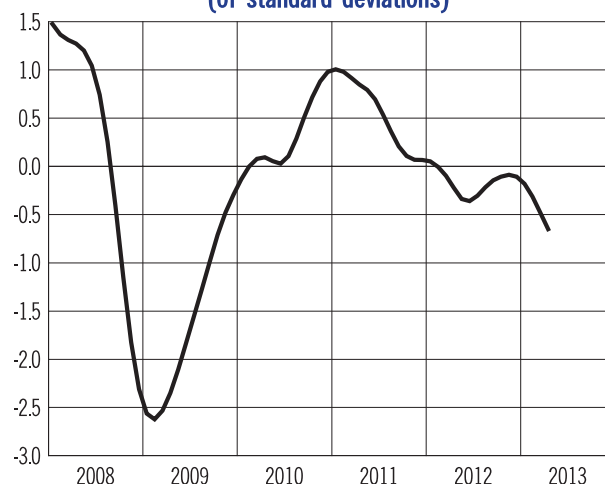
Source: Rosstat.

**Industrial production by activity type (growth as % of the corresponding month of the previous year)**



Source: Rosstat.

**Financial Conditions Index\* (of standard deviations)**



\* Trend: normalised series.  
Source: Bank of Russia calculations.

In April, the production of goods and services in key economic activities<sup>8</sup> increased by 1.9%, and in May-June it decreased by 0.4% and 0.9% respectively. The dynamics of production indicators were unstable. In the industry as a whole, including mining and manufacturing, seasonally adjusted production growth in the first half of 2013 was replaced by a reduction. In Q2, seasonally adjusted industrial output decreased quarter on quarter. According to Rosstat surveys,

<sup>8</sup> Calculated on the basis of data on changes in the output of agriculture, mining, manufacturing, electricity, gas, and water production and distribution, as well as construction, transport, retail and wholesale trade.

in June as compared with December 2012, producer sentiments in mining and manufacturing rose. Growth rate in production was constrained by high taxes, insufficient domestic demand for industrial output (in manufacturing industries), and weak foreign demand for mining output. The business confidence index of electricity, gas, and water production and distribution in June was lower as compared with the beginning of the year. Seasonality in production exerts a significant impact on the business confidence index.

The utilisation of industrial production capacity remains high. According to Russian Economic Barometer data, in the first five months of 2013, this indicator stood at 78%. The high

level of production utilisation limits the possibilities of further increases in the output of goods and services.

Seasonally adjusted average monthly growth rate of agricultural production was approximately the same in the first six months of the year as in the period from January through June 2012. According to Ministry of Agriculture data, areas under cereal and legume crops for the 2013 harvest increased by 2.8%. According to operative data on new harvest, as of August 2, cereal and legume crops were 15% higher than in 2012. According to Ministry of Agriculture forecasts, cereal crops are expected at the level

of 90-94 million tons in 2013. Amid small grain stocks this year, the risk of higher prices for some foodstuffs persists; at the same time, good harvest prospects may have a favourable effect on food price dynamics.

According to calculations, from January to April 2013, the Financial Conditions Index (FCI)<sup>9</sup> remained negative, within one standard deviation, which testified to the absence of substantial risks of economic slowdown due to the financial sector.

In 2013 Q2, the GDP grew by an estimated 1.8%-2.2%. According to the Bloomberg consensus forecast published at the end of July, GDP growth amounted to 2.0% in Q2.

<sup>9</sup> The underlying idea of the index calculation is the same as one used in the calculation of the Monetary Conditions Index first proposed by C. Freedman (C. Freedman 'The role of monetary conditions and monetary conditions index in the conduct of policy', Bank of Canada Review, Autumn 1995). The Financial Conditions Index is calculated on the basis of the following indicators: the real rouble exchange rate to the US dollar, money supply (M2), the RTS index, banking sector net foreign assets, the capital adequacy ratio (N1), and the interest rate on loans to non-financial organisations with maturities of up to one year. In the course of calculating the index, cyclic and random components are determined for all variables, after which these components are normalised. Normalisation allows one to compare the effects of individual variables on output. At the final stage, the index is calculated as a weighted total of financial variables. Weights are determined using the impulse response function from the vector autoregressive model.

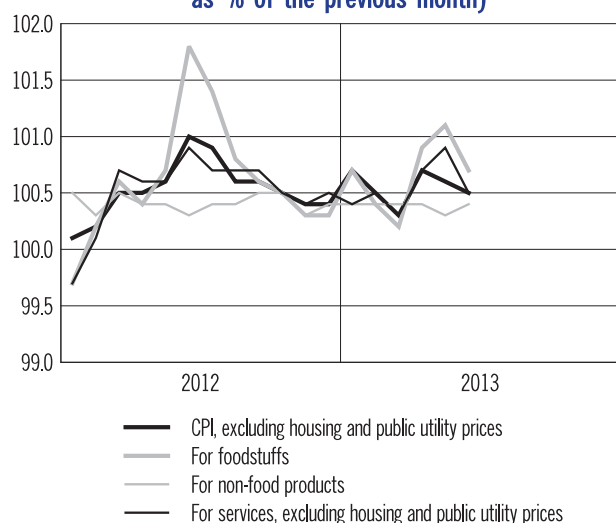
## I.3. Inflation

In accordance with the 'Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015' the inflation target for 2013 is set as a range from 5% to 6%. During Q2, the year on year consumer price growth exceeded the upper border of the target range.

In April to May 2013, inflation (excluding the prices for housing and public utilities) was growing<sup>1</sup>. This was due, first of all, to a rise in prices for foodstuffs and services (excluding the prices for housing and public utilities), which reached the maximum levels in May. It should be noted that a noticeable acceleration of prices for services in May (as well as their slowdown in March) was caused by an intra-year indexation of administered railroad tariffs.

Under the influence of a slowdown in price growth for foodstuffs, first of all, fruit and vegetables, as well as services, the growth rate of consumer prices (excluding the prices for housing and public utilities) decreased in June 2013.

Price indices (seasonally adjusted, as % of the previous month)



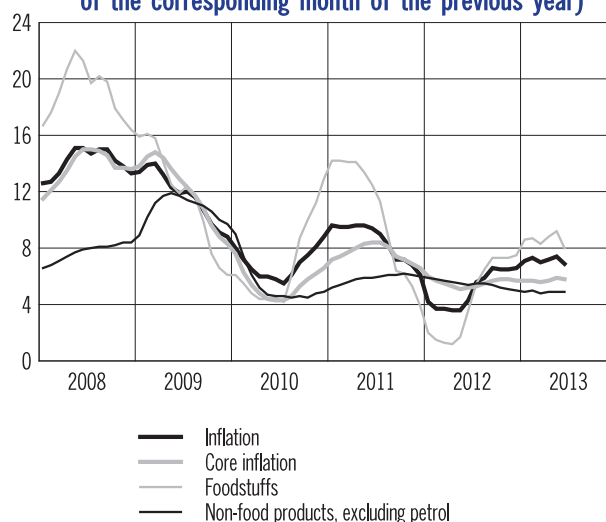
Source: Rosstat, Bank of Russia calculations.

<sup>1</sup> Here and below, if it is not stipulated otherwise, monthly price growth is compared with the previous month, with seasonal values being smoothed. Rosstat report data are presented in Tables 2-3 of Appendix 2. The change in the date of annual price adjustment of housing and public utilities which occurred last year, makes it impossible to correctly adjust for seasonality inflation series and rates of service price growth and for this reason inflation and service price growth rates are analysed without taking into account this component of the consumer goods basket.

As compared with June 2012, headline inflation stood at 6.9%, which is its lowest value this year. Core inflation was 5.8% in June 2013.

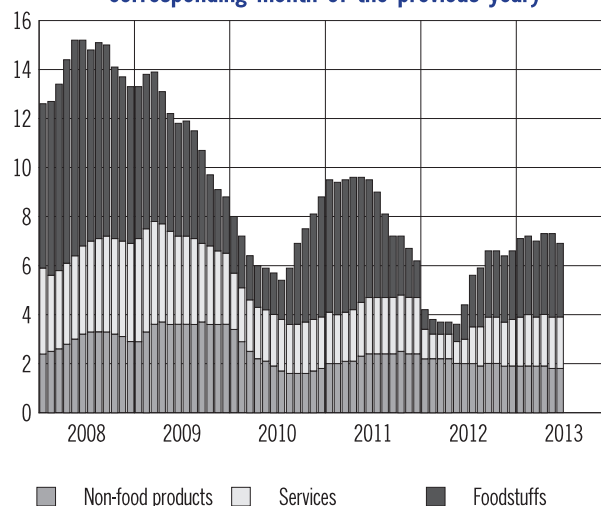
According to estimates, monthly price growth rates for non-food goods, excluding petrol prices, which are less susceptible to the influence of administrative and volatile factors, and, as a result, reflect more the impact of macroeconomic fundamentals, remained unchanged in Q2. This testifies to the fundamentals neutral influence on price movements on the consumer market as a whole.

Prices for consumer goods and services (month as % of the corresponding month of the previous year)



Source: Rosstat, Bank of Russia calculations.

Contribution to inflation (month as % of the corresponding month of the previous year)



Source: Rosstat, Bank of Russia calculations.

## II. Economic development prospects and risk assessment

### II.1. Economic development prospects

External environment will have a restraining effect on the economic processes in Russia to the end of 2013 and in 2014.

The business activities in Russia's main trading partners in 2013 Q2 remained weak in line with earlier assumptions. The projections of economic growth aggregate indicators in these countries for the second half of 2013 are slightly lower amid the negative influence of budget consolidation and continued growth of unemployment. In the euro area, Russia's largest consolidated trading partner, a stabilisation of the negative output gap close to current values is projected. Subsequently, its gradual reduction might be expected<sup>1</sup>. The unfavourable conditions in the euro area remain a key factor restricting external demand.

Weak external demand restraining Russia's net export growth is expected to continue but without an increase. According to Bank of Russia estimates, amid high uncertainty regarding further development of the global economy, the probability of the implementation of scenarios related to negative terms of trade remains high but it is gradually decreasing.

In this situation, the exit of the central banks of major economies from their quantitative easing policies still looks unlikely; the monetary policy of foreign central banks is expected to remain accommodative in 2013. According to consensus forecasts, key policy rates in the euro area and the United States will not be raised till the end of 2014<sup>2</sup>.

It is expected that the quantitative easing measures implemented by foreign central banks will not spur inflation in the economies of Russia's main trading partners. Real inflation in foreign countries in the first half of 2013 turned out to be slightly lower than expected due to both fundamental factors restraining price growth

and the negative contribution of energy prices. Based on current inflation dynamics in the USA and euro area, Q2 estimates of inflation and its forecast until the end of 2013 have been reduced. If there are no additional price shocks on global markets and substantial changes in the rouble exchange rate, the pressure of imported inflation on consumer price growth rates in Russia will remain insignificant.

Projected low rates of global economic growth and a high level of global stocks of many industrial products and energy resources will limit potential price growth of major Russian export commodities in 2013. Oil price forecasts have been largely reduced due to their current dynamics<sup>3</sup>, and at present they are close to the lower border of the annual average interval of \$100–110 for barrel.

In the first half of 2013, the growth rates of goods and services production slowed down. This fall was expected but turned out to be somewhat larger than the projected one. According to estimates, this was a result of lower fixed asset investments and household consumer spending.

The currently observed slowdown of real disposal income should stop along with lower inflation and in future it will have no restraining effect on expenditure dynamics.

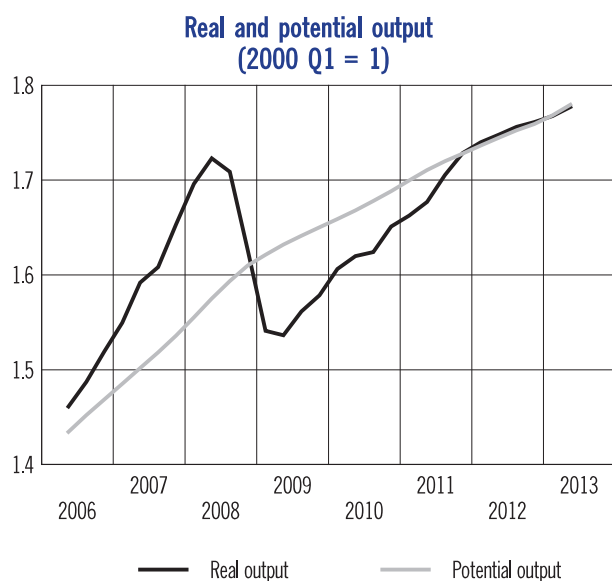
Domestic demand is expected to be supported by gradual restoration of investment activities but one cannot exclude its current unstable dynamics continuing further.

According to estimates, starting with 2012, the potential GDP growth rate as compared with the respective quarter of the previous year was practically identical to the same indicator for the real GDP. The potential GDP annualised growth rate decreased after the crisis of 2008-2009 from 4-5% to 2.0-2.5%, according to estimates.

<sup>1</sup> According to EC and IMF estimates, the output gap will remain negative until the end of 2016.

<sup>2</sup> According to Bloomberg and Reuters forecasts.

<sup>3</sup> The data cut-off date for projections is June 20, 2013.



Source: Bank of Russia calculations.

A number of factors will contribute to the formation of a moderate negative output gap until the end of 2013, and these will be factors mostly independent of the monetary policy.

Thus, lower oil prices in the first half of 2013 may have a restraining effect on the economy. External demand is currently determined by low business activity in the euro area and expected

to have no stimulating effect on the domestic economy in the short-term period.

In 2013, GDP growth can rise to approximately 2%. In 2014, a gradual restoration of growth rate is expected with a weakening effect from the mentioned factors. However, no significant acceleration of medium-term economic growth is projected due to expected potential output, first of all.

The inflation rate as of the end of Q2 is generally in line with earlier observed money supply dynamics. Amid money aggregate low growth rates, monetary factors will produce a restraining effect on price growth and will contribute to inflation deceleration in the medium-term perspective.

The mid-term forecast implies a gradual decrease in inflation. Inflation annualised growth observed in the first half of 2013 was due to a large degree to persistent high rates of price growth for foodstuffs and a rise in administered prices and tariffs. At present, the rates of food price growth are decreasing faster than expected against the background of favourable harvest estimates.

The annualised growth rate of core inflation is below 6% at the moment. From the beginning of the year, its monthly rates tend to decrease,

### Analysis of monetary factor impact on the economy

To timely detect the risks of price, financial and general macroeconomic instability, the Bank of Russia conducts regular analysis of monetary and credit aggregates. Money supply dynamics taken into account in the assessment of inflation risks is based on the analysis of the most significant changes in low-frequency inflation components<sup>1</sup>. The analysis performed in line with these approaches resulted in the following conclusions.

Large fluctuations of inflation dynamics occurred during the last five quarters (the slowdown of price growth rates in early 2012 and their subsequent acceleration) were not related to the impact of monetary factors, whereas the inflation rate as of the end of 2013 Q2 is in general in line with preceding money supply dynamics. Monetary factors will produce a substantial restraining effect on price growth rates and ensure a possible slowdown of inflation to the target in the medium-term perspective.

Some acceleration of money supply growth rates in the first months of 2013 as compared with the same period of the previous year was mainly caused by government finance indicators. In the absence of significant changes in the fiscal policy as compared with the previous year, one can assume that an acceleration of monetary indicator growth is of temporary nature and will not lead to any important medium-term macroeconomic consequences.

The current values of credit indicators seem to be balanced in the medium-term perspective and amid economic downturn, slower credit aggregate growth looks natural due to decreased demand for loans. The continued disproportion in loan growth rates in different sectors can be regarded as a potential volatility factor for the economy as a whole. But it is possible that growth rates in high-risk segments of the loan market will gradually decrease due to Bank of Russia tightened supervision of the consumer loan market, among other factors.

<sup>1</sup> The basic methodological principles of this approach are described in detail in Chapter 4, Papademos, L. D. and Stark, J. (2010) Enhancing Monetary Analysis, European Central Bank. For examples of the application of these methods in the Russian economy see article by Ponomarenko, A., Vasilieva, E., and Schobert, F. (2012) Feedback to the ECB's Monetary Analysis: The Bank of Russia's Experience with Some Key Tools. Working Paper No. 1471, European Central Bank; Deryugina, E., Ponomarenko, A. (2013) Money-based Inflation Risk Indicator for Russia: a Structural Dynamic Factor Model Approach. CCBS Joint Research Paper No. 3, Bank of England.

which testifies, first of all, to a gradual exhaustion of the effect from cereal poor harvest. Assuming the absence of additional shocks on the food market in the second half of the year, core and headline inflation (annualised) will go down without additional monetary policy measures.

In Q2, the estimates of 2013 inflation continued to decrease. Short-term inflation expectations (for the next quarter) calculated using financial market data are going down, remaining although on a high level yet. Reuters and Interfax consensus forecasts for 2013, based on the results of an expert opinion poll as of the

end of July, are 6.0% and 6.2% respectively. Household surveys<sup>4</sup> testify to persistent lower inflation expectations.

Thus, in the absence of additional shocks, inflation will approach the target range at the end of the year.

The current monetary policy can be characterised as moderately tight. From the beginning of 2013, this was caused, first of all, by current and projected upward deviation of inflation from the target values. Lower inflation and continued moderate business activity may ensure a transition to a neutral policy in future.

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<sup>4</sup> See "Household inflation expectations in May-June 2013", which is available on the Bank of Russia website.

## II.2. Risk assessment

Mid-term inflation forecasts, which take into account lags in the monetary policy effect on economic processes, play an important role in decision-making. There are several risks that can lead to deviations of projected inflation from the target, and macroeconomic and financial imbalances, which can affect the future monetary policy. In case inflation goes beyond the target range, the necessity of changes in the monetary policy shall be evaluated with account of the shock nature, risks of its spreading to inflation expectations, as well as mid-term inflation projections.

Major risks are currently related to the situation on domestic markets. The external environment continues to be negative but no prerequisites for noticeable deterioration of the situation on global markets are observed. In general, the risks of inflation remaining above the upper border of the target range are assessed as moderate, the probability of their materialisation is estimated to decrease. According to Bank of Russia estimates, the possibility of inflation remaining below the target range in the short-term and medium-term perspective continues to be insignificant.

One of the main sources of higher inflation risk is a possible acceleration of growth in the prices for foodstuffs, which account for a large share in the structure of the Russian consumer price index basket. Global and Russian crop forecasts are optimistic, but they are traditionally characterised by high uncertainty caused by the impossibility of excluding the impact of unforeseen natural calamities. This year, the Russian agriculture may turn to be poorly prepared to unfavourable developments, because after a lean year and in expectation of a high harvest grain stocks were at their lowest level in several years on July 1, 2013. In case of a poor harvest, low grain stocks can catalyse a substantial growth of food prices in the second half of 2013 and first half of 2014. The Bank of Russia assesses the risks of this scenario realisation as low. If this shock materialises, the Bank of Russia will make a decision on the necessity of changing the

monetary policy taking into account the fact that monetary policy measures are of limited efficiency in dealing with supply shock effects. The decisions will be based on the assessment of the balance of risks spreading this short-term shock impact on the inflation expectations of economic agents and risks generating excessive macroeconomic and financial volatility.

Other domestic risks are related to negative macroeconomic trends. Lower investment activity and weaker economic growth in the first half of 2013 occurred at a high level of labour force and production capacity utilisation. This testified to limited possibilities of further supply growth owing to higher utilisation of production capacities and the necessity of economic modernisation.

Amid the deterioration in the financial standing of organisations and continued high risks of bank lending, the possibilities of financing the necessary fixed capital investments may turn to be insufficient. Along with high uncertainty of global and Russian economic development prospects, this forms a danger of investment stagnation and, as a consequence, persistent low growth rates of potential output and GDP and cost pressure on prices.

The probability of this risk realisation is assessed as low. It should be noted that the indicated risks are related to limited production capacities and low economic efficiency. The solution of this problem lies, first of all, in structural economic reforms and in this sense it is out of reach for the monetary policy. In this situation, the Bank of Russia priority task is to maintain financial stability. The monetary policy response in the event of this risk's realisation will be determined by the balance of pro-inflation risks and risks of slower economic growth in future.

In the short-term perspective, there is also an uncertainty regarding the scale of influence of administered prices and tariffs adjusted in July 2013 on inflation and the inflation expectations of economic agents. The rouble depreciation may also serve as a source of inflation risk. However, these risks are assessed as low. In particular, according to Bank of Russia estimates, only a long

and persistent depreciation of the rouble and not its short-term fluctuations will have an impact on inflation.

Bank of Russia analysis of monetary and credit aggregates makes it possible to conclude that the probability of financial imbalances and

the occurrence of additional inflation risks in the medium-term perspective is negligible. At the same time, the results of monetary analysis do not provide any distinct grounds for considering monetary factors as the main reason for the current slowdown of economic activity.

## III. Implementation of Bank of Russia monetary policy

### III.1. Key monetary policy decisions

When taking monetary policy decisions, the Bank of Russia takes into account medium-term forecasts of inflation and economic activity, as well as possible risks of their deviation from the predicted path.

In 2013 Q2, the annual growth rate of consumer prices remained above the upper border of the target range. Inflation dynamics was, first of all, related to growth in food prices and some administered prices and tariffs. At the same time, growth in non-food prices in the period under review continued to decelerate. Annualised core inflation fluctuated within a narrow range and its monthly rates demonstrated a downward trend. According to Bank of Russia estimates, provided main monetary parameters are preserved and in the absence of negative shocks on the food market, consumer price growth rates may return within the target range in the medium-term perspective. At the same time, inflation exceeding the target range for a long period of time may influence economic agents' expectations, which is a source

of inflation risk. In addition, there remain external risks related to balance of payments deterioration and rouble exchange rate fluctuations.

In the first half of 2013, amid weak external demand and low investment activity, economic growth slowed down. At the same time, consumer spending despite the deceleration of its growth remained a key factor supporting domestic demand. An increase in the number of employed and household real disposable income and high rates of retail lending supported the positive dynamics of consumer demand. According to Bank of Russia estimates, in 2013 there appear prerequisites for the formation of a moderate negative output gap. The current and predicted output gap indicates an absence of preconditions for demand-induced inflation growth.

Based on a comprehensive assessment of inflation risk and economic development prospects, the Bank of Russia did not change the stance of its monetary policy in April-July 2013.

## III.2. Bank of Russia operations to regulate banking sector liquidity

The implementation of the interest rate policy is based on the mechanism of managing money market rates using Bank of Russia operations of liquidity provision and absorption. Interest rates on these operations form the Bank of Russia interest rate band, which limits money market rate volatility. Bank of Russia determines the limits for operations on the open market based on daily forecasts of banking sector liquidity. Meeting bank demand at a rate close to the minimum rate of short-term auctions, which actually plays the role of the base rate, is a precondition for forming the cost of interbank borrowings on a level corresponding to the inflation target.

In 2013 Q2, amid a higher structural deficit of liquidity in the banking sector, there was observed a growing bank demand for Bank of Russia refinancing operations. Gross credit increased by 0.2 trillion roubles to 2.3 trillion roubles<sup>1</sup> in the period under review.

The Bank of Russia provided liquidity to credit institutions primarily in the form of auction-based operations, especially via its repo auctions. The debt on auction-based repos rose by 0.5 trillion roubles in April to June 2013 and on certain days reached the maximum values approaching 2.2 trillion roubles.

Credit institutions continued to use one-week repo auctions as their primary means of obtaining liquidity from the Bank of Russia. The average daily value of funds provided through this instrument in 2013 Q2 stood at 1.5 trillion roubles, an increase of 0.3 trillion roubles on the previous quarter. At the same time, the average daily value of funds provided by the Bank of Russia through overnight repo auctions rose by more than three-fold quarter on quarter to 317.2 billion roubles.

In Q2, bank demand for longer-term auction-based liquidity remained insignificant. The bank debt on three-month repos remained practically on the Q1 level and amounted to 57.9 billion roubles at the end of June. Meanwhile, the one-year repo auction conducted in Q2

was declared invalid due to the lack of demand, and the debt on this instrument decreased from 31.6 billion roubles to 0.9 billion roubles.

Currency swaps and loans secured by non-marketable assets or guarantees were in the highest demand among standing facilities, which was partially due to decreased free marketable collateral, including the securities from the Bank of Russia Lombard List.

Amid a higher structural deficit of liquidity in 2013 Q2 and growing interest rates of the money market, the frequency and value of Bank of Russia currency swaps increased. The average value of operations on dealing days in April-June 2013 amounted to 97.6 billion roubles as against 38.8 billion roubles in Q1. Bank demand for currency swaps occurred mainly in periods of increased tension on the money market, including tax payments. In 2013 Q2, the share of currency swaps conducted in the last ten days of each month in the total value of these operations stood at 68.5% as against 62.5% in Q1.

The amount of funds provided to the banking sector through loans secured by non-marketable assets or guarantees grew to 140.3 billion roubles in Q2 as compared with 45.3 billion roubles in Q1. At the same time, the average daily value of this type of loans decreased from 469.0 billion roubles in 2013 Q1 to 169.9 billion roubles in Q2 (a high level of debt in 2013 Q1 was due to a significant amount of these loans issued with maturities exceeding one month at the end of 2012).

The volume of other refinancing operations with fixed rates (Lombard loans, overnight loans, loans secured by gold, and repos) remained insignificant in the reporting period.

Bank demand for funds placement in 2013 Q2 was lower than in Q1. The Bank of Russia average daily debt on deposit operations with credit institutions decreased from 153.3 billion roubles to 106.8 billion roubles respectively.

During the larger part of 2013 Q2, money market rates remained within the Bank of Russia interest rate band formed by rates on short-term standing facilities for liquidity provision and absorption. At the same time,

<sup>1</sup> Excluding subordinated loans to Sberbank and Bank of Russia deposits placed with credit institutions.

**Bank of Russia gross credit to credit institutions\*  
and liabilities on absorption operations  
(billions of roubles)**



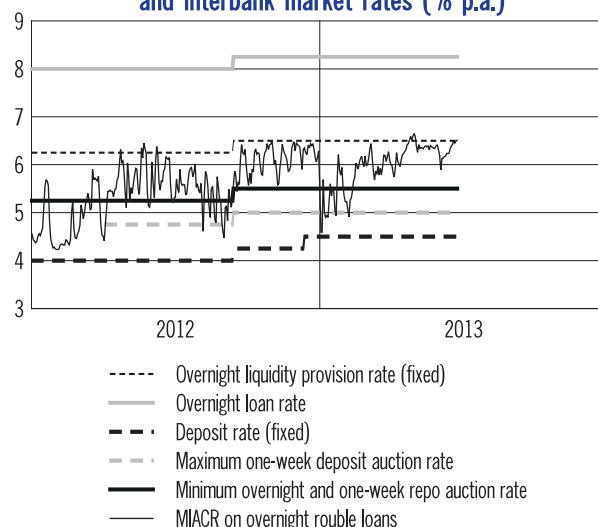
\* Excluding a subordinated loan to Sberbank and Bank of Russia deposits placed with credit institutions.

Source: The Bank of Russia.

amid an increasing structural deficit of liquidity, a decrease in the volume of free marketable collateral at the disposal of credit institutions and continued segmentation of the interbank loan market, the average MIACR on overnight interbank rouble loans rose by 0.6 percentage points quarter on quarter to reach 6.3% p.a. The average spread between the MIACR and the minimum short-term auction-based repo rate stood at 79 basis points.

Mindful of the above, the Bank of Russia took measures in the period under review aimed at easing bank access to refinancing operations and reducing the cost of borrowing with maturities over one month (see Section III.3. Changes in the system of instruments and other monetary policy measures).

**Bank of Russia interest rate band  
and interbank market rates (% p.a.)**



Source: The Bank of Russia.

In 2013 Q3, the liquidity deficit is expected to continue (see Box 'The forecast of liquidity-forming factors in 2013 Q3'), which will contribute to supporting bank demand for Bank of Russia refinancing operations.

The Bank of Russia has a sufficient set of instruments to satisfy banking sector liquidity needs. As of July 1, 2013, the value of potential collateral (in the form of securities and non-marketable assets) at bank disposal on Bank of Russia refinancing operations was about 5.5 trillion roubles (of which, approximately 3/4 were securities and 1/4 was non-marketable assets). The utilisation rate of marketable collateral grew on average to 66.6% in Q2 as against 58.2% in Q1.

### **The forecast of liquidity-forming factors in 2013 Q3**

*The banking sector liquidity level in 2013 Q3 will be determined mainly by changes in the balances of the extended government's accounts with the Bank of Russia and the volume of cash in circulation.*

*In the second half of 2013, more even budget spending as compared with the previous year, as well as more moderate federal budget revenues amid lower prices of Russian exports will contribute to an insignificant outflow of funds from the banking sector. According to a Bank of Russia preliminary estimate, in 2013 Q3, the excess of budget revenues over the expenditures (excluding OFZ operations and changes in Federal Treasury deposits) may lead to an outflow of liquidity from the banking sector amounting to 0.3 trillion roubles.*

*The mechanism of depositing temporary free funds of the federal and local budgets and extra-budgetary funds with credit institutions will assist in smoothing the intra-year unevenness of fiscal flows and reducing their impact on banking sector liquidity and the money market.*

*As estimated by the Bank of Russia, in July to September 2013, a slight change in money in circulation is expected.*

*The direction and scale of the impact of Bank of Russia foreign exchange interventions on the banking sector liquidity will depend on domestic foreign exchange market developments. At the same time, the existing exchange rate policy mechanism ensuring the flexibility of the rouble's exchange rate provides a lower effect of Bank of Russia foreign exchange operations on banking sector liquidity as compared with the previous years.*

### III.3. Changes in the system of instruments and other monetary policy measures

In April-July 2013, the Bank of Russia took a number of measures aimed at improving the system of monetary policy instruments, easing bank access to refinancing operations, as well as bringing the cost of long-term borrowing closer to the level of rates on its main liquidity provision operations.

The Bank of Russia Board of Directors cut interest rates on refinancing operations with maturities over one month by 0.5-0.75 percentage points all in all on three occasions in April-June.

In July 2013, the Bank of Russia Board of Directors launched floating-rate auctions to provide loans secured by non-marketable assets or guarantees with maturities exceeding 12 months. The minimum interest rate on the loans was set at 5.75% p.a., i.e. with a spread of 25 basis points to the minimum interest rate on Bank of Russia main auction-based operations of liquidity provision with one-week maturity. If the Bank of Russia Board of Directors makes a decision to change the minimum interest rate on main auction-based operations, for earlier granted loans based on results of credit auctions the interest rate will be adjusted, starting with the date indicated in the Board of Director's decision, for the amount of the change in the minimum interest rate on Bank of Russia main auction-based operations of liquidity provision with one-week maturity. Conducting long-term operations at a floating rate will allow strengthening the signal given by the interest rate policy because the changes in the interest rates will be translated into changes in the cost of funds provided earlier to credit institutions by the Bank of Russia. In addition, the use of these operations by credit institutions will allow for decreasing the volume of market collateral on Bank of Russia refinancing operations. This will enhance the efficiency of the interbank loan market. Thus, the decision is aimed at improving the management of money market rates and increasing the efficiency of the interest rate channel of the monetary policy transmission mechanism.

The Bank of Russia changed since July 15, 2013 approaches to making a list of organisations whose liabilities may be used as collateral for Bank of Russia loans secured by non-marketable assets or guarantees by way of including into the list enterprises without an international rating.

To expand bank possibilities in managing collateral used in refinancing operations, the Bank of Russia started since April 15, 2013 conducting OTC repos with a basket of securities from the Bank of Russia Lombard List. A non-bank credit institution, closed joint-stock company the National Settlement Depository (NSD) acts as an agent managing collateral, selecting and replacing securities within a transaction, calculating collateral value and margining. This measure is expected to help restrict the pressure on money market interest rates in the periods characterised by increased volume of Bank of Russia refinancing operations collateralised by securities from the Lombard List.

Since May 2, 2013, there is a possibility for the Bank of Russia to partially satisfy bids in auction-based repos. In case the total value of bids submitted by credit institutions exceeds the limit set by the Bank of Russia, the bids indicating a rate equal to the cut-off rate may be satisfied partially. The volume of funds provided for each of the mentioned bids is determined based on its share of the total value of bids submitted at the cut-off rate.

In May 2013, the Bank of Russia within its efforts of improving the mechanism of banking liquidity regulation decided to reduce the daily number of overnight repo auctions and held one (morning) auction starting with July 1. According to Bank of Russia estimates, this measure will not lead to a substantial change in bank demand for auction-based overnight repo operations, because the share of funds provided at the second auction in the total volume of the mentioned operations was relatively small (its median in 2013 Q2 stood at 4.8%).

# Glossary

## **Autonomous factors influencing bank liquidity**

*Changes in the balance-sheet of a central bank which affect the level of correspondent accounts of credit institutions, but are not directly controlled by the liquidity management system. These factors include changes in the value of cash outside the Bank of Russia, changes in the balances of the extended government's accounts with the Bank of Russia, as well as Bank of Russia operations on the domestic foreign exchange market.*

## **Balances of extended government's accounts**

*Balances of accounts with the Bank of Russia for the funds of the federal budget, regional and local budgets, government extra-budgetary funds and the extra-budgetary funds of the regional and local authorities.*

## **Bank of Russia gross credit**

*Includes loans extended by the Bank of Russia to credit institutions (including banks with revoked licences), overdue debt and overdue interest on loans, funds provided by the Bank of Russia to credit institutions through repos and currency swaps.*

## **Bank of Russia interest rate band (interest rate band)**

*The range of Bank of Russia fixed interest rates for a one-day term. The upper border of the interest rate band is determined both by the rate on Lombard loans and fixed-rate repos, while the lower border – by the fixed-rate deposit overnight rate. At the same time, it is possible to use the concept of a 'wide interest rate band', with its upper border being the rate on Bank of Russia overnight loans, which is currently equal to the refinancing rate.*

## **Bank of Russia net credit to credit institutions**

*Bank of Russia gross credit to credit institutions net of bank correspondent account balances in Russian roubles (including an averaged amount of required reserves) and deposit account balances with the Bank of Russia, bank portfolios of Bank of Russia bonds (at a price fixed as of the beginning of the current year).*

## **Bank of Russia net operations**

*Defined as the difference between Bank of Russia liabilities to the banking sector and Bank of Russia claims on the banking sector, which are due on the current day. The Bank of Russia liabilities to the banking sector include volume of funds to be returned by the Bank of Russia via deposit operations and the redemption of outstanding Bank of Russia bonds net of funds raised by the Bank of Russia through deposit operations and Bank of Russia bonds placement on previous days, which are due on the current day. The Bank of Russia claims on the banking sector include the volume of funds to be paid by credit institutions to the Bank of Russia through repos and currency swaps and the repayment of Bank of Russia loans net of funds provided by the Bank of Russia on previous days through repos, currency swaps and loans which are due on the current day. Bank of Russia net operations also include the volume of operations, conducted by the Bank of Russia with banks, on the sale/purchase of foreign currency on the previous working day on tomorrow terms.*

## **Broad money (M2X monetary aggregate)**

*It includes all components of M2 monetary aggregate and foreign currency deposits.*

**Consumer price index (CPI)**

One of the key indicators characterising inflation processes. The CPI tracks changes in the overall price level of goods and services purchased by households for unproductive consumption. It is computed by the Federal State Statistics Service and measured as the ratio of a fixed set of goods and services value in current prices to the value of the same set of goods and services in the prices of a previous (reference) period.

**Countercyclical currency**

A currency that demonstrates a traditional appreciation in the periods of instability on global markets and/or a recession in the world economy. Specifically, this category of currencies includes the US dollar, Japanese yen, and Swiss franc.

**Dollarisation of deposits**

A share of deposits denominated in foreign currency in the total volume of banking sector deposits.

**Dual currency basket**

The operational target of the Bank of Russia exchange rate policy denominated in the national currency. The basket is comprised of US dollars and euros (effective since February 2005). The rouble value of the dual currency basket is calculated as a sum of 0.55 US dollars and 0.45 euros in rouble terms (effective since February 8, 2007).

**Free bank reserves**

These comprise balances of bank correspondent accounts in Russian currency (including an averaged amount of required reserves) and deposit accounts with the Bank of Russia, as well as bank portfolios of Bank of Russia bonds.

**Generalised (composite) consumer confidence index**

It is computed by Rosstat on the basis of quarterly surveys as an arithmetical mean value of five indices: occurred and expected changes in personal wealth, occurred and expected changes in the economic situation in Russia, and favourable conditions for large-value purchases. The indices are calculated by drawing up the balance of respondent estimates (in percents). The balance of estimates is the difference between the sum of shares (in percents) of definitely positive answers and 1/2 rather positive answers and the sum of shares (in percents) of negative and 1/2 rather negative answers. Neutral answers are not taken into account.

**Index of bank lending conditions**

A generalised indicator of changes in bank lending conditions, which is calculated by the Bank of Russia on the basis of a quarterly survey of leading Russian banks participating in the loan market as follows: (share of banks which reported a substantial tightening of their lending conditions, %) + 0.5 x (share of banks which reported a moderate tightening of their lending conditions, %) – 0.5 x (share of banks which reported a moderate easing of their lending conditions, %) – (share of banks which reported a substantial easing of their lending conditions, %). It is measured in percentage points.

**Index of rouble real effective exchange rate**

The geometrically weighted average of indices of rouble real exchange rates to the currencies of the countries which are Russia's main trading partners (with weights determined according to the shares of individual countries in the total foreign trade turnover of Russia with its main trading partners).

The real exchange rate of the rouble to a foreign currency is calculated as a product of the nominal exchange rate of the rouble to the foreign currency and the ratio of the consumer price index in Russia to the consumer price index in a given foreign state.

## **M2 monetary aggregate**

Total amount of money in circulation and cashless funds. The national definition of the money supply indicator includes all funds of non-financial and financial (except credit institutions) organisations and individuals who are residents of the Russian Federation, in cash and cashless form in roubles.

## **Monetary policy transmission mechanism**

The process that serves to transfer the effect of monetary policy decisions (in particular, decisions made by a central bank to change interest rates on its operations) on the economy as a whole, and on the price level, in particular.

## **'Non-marketable' assets eligible as collateral for Bank of Russia loans**

Promissory notes and credit claims accepted as collateral for Bank of Russia loans in line with Bank of Russia Regulation No. 312-P, dated November 12, 2007, 'On the Procedure for Extending to Credit Institutions Bank of Russia Loans Covered by Assets or Guarantees'.

## **Open market operations**

Operations performed at the initiative of a central bank. This type of operations includes auction-based refinancing and sterilisation operations (repo auctions, deposit auctions, etc.), as well as purchase/ sales operations with respect to financial assets (government securities, foreign currency).

## **Output gap**

The GDP percentage deviation from potential output, which characterises the demand-to-supply ratio, being an aggregate indicator of the effect that demand factors have on inflation. If the actual output is larger than the potential one (positive output gap), price growth acceleration is expected. A negative output gap is an indicator of an expected slowdown in price growth.

## **Procyclical currency**

A currency that demonstrates a traditional appreciation in the periods of world economic growth. Specifically, this category of currencies includes the euro, Canadian dollar, and Australian dollar.

## **Risk premium on market securities portfolio**

It is calculated in compliance with the capital asset pricing model as a difference between the yield of the market securities portfolio and the yield of a risk-free asset. The yield of the risk-free asset is usually taken to be that of government securities (e.g. OFZs). It is measured in percentage points.

## **Standing facilities**

Bank of Russia operations aimed at providing and absorbing liquidity at fixed rates.

## **Structural deficit of banking sector liquidity**

An excessive demand for liquidity compared to the supply of banking sector liquidity. The excess is formed due to autonomous factors, i.e. factors that are not directly controlled by the liquidity management system of a central bank. A reverse situation is characterised by a structural surplus (excessive liquidity). A structural deficit (surplus) usually has a longer duration, being either a stable state or a prevailing trend, as compared with short-term deficits and surpluses, such as a seasonal liquidity deficit (surplus).

## **Term structure of interest rates**

Yields on debt instruments (loans, deposits, bonds, etc.) with various maturities. They indicate the cost of funds on the financial market depending on the borrowing period. The term structure of interest rates on the bond market (yield curve) can be visually presented as a plot, with its abscissa and ordinate axes being time to redemption and yield to maturity respectively.

# Appendix 1

## (disclosure of monetary policy information on the Bank of Russia website)

№	The title of the section and subsection of the of Bank of Russia website, Internet address of the page	Section/subsection contents
1	<b>Main page – Monetary policy (<a href="http://www.cbr.ru/dkp/">http://www.cbr.ru/dkp/</a>)</b>	
	<b>Monetary policy</b>	
	Guidelines for the Single State Monetary Policy	Archive of documents since 2000
	Monetary Policy Report	Quarterly releases since January 2013
	Monetary policy measures	Changes in the refinancing rate
		Changes in required reserve ratios, averaging factors for the calculation of the averaged value of required reserves
		Borders of rouble exchange rate fluctuations, introduction of the floating rouble exchange rate policy
	On setting limits for Bank of Russia market operations of liquidity provision (absorption)	The limit for Bank of Russia market operations within banking sector liquidity management The role of Bank of Russia operations of banking sector liquidity provision Projected supply of banking sector liquidity Projected demand for banking sector liquidity Calculation of limits for overnight repos Calculation of limits for one-week auction-based operations
	Press releases on monetary policy	Archive of press releases since 2000
	<b>Monetary policy instruments</b>	
	Interest rates on Bank of Russia operations	Tables of interest rates on Bank of Russia operations since 2011
	Bank of Russia required reserve ratios (reserve requirements)	Legal and regulatory framework for required reserves to be deposited with the Bank of Russia
		Depositing required reserves with the Bank of Russia
		Main components used for the calculation of the amount of required reserves to be deposited with the Bank of Russia
		Regulation of required reserve amount
		Required reserve averaging mechanism, including statistical data
		Enforcement actions taken by the Bank of Russia against credit institutions that violated required reserve ratios
	Bank of Russia secured loans	Terms and conditions of Bank of Russia operations on extending secured loans to credit institutions at fixed interest rates
		Legal and regulatory framework
		General description of the Bank of Russia refinancing (lending) system
		Loans against the collateral (blocking) of securities from the Bank of Russia Lombard List (intraday loans, overnight loans, and Lombard loans)
		Loans secured by non-marketable assets or guarantees
		Loans secured by gold
		Development prospects of Bank of Russia refinancing (lending) operations
	Bank of Russia repos	Refinancing and the Bank of Russia Banking Electronic Speedy Payment system (BESP)
		Key features of operations
		Participants in Bank of Russia repos
		Collateral for Bank of Russia repos
		Parameters of Bank of Russia repos

№	The title of the section and subsection of the of Bank of Russia website, Internet address of the page	Section/subsection contents
	Access to Bank of Russia repos	Bank of Russia regulations on general conditions of repos conducted between the Bank of Russia and a credit institution on the organised market and OTC market in the Russian Federation
	Bank of Russia currency swaps	Key features of the instrument
		Counterparties of Bank of Russia currency swaps
		Currency swap parameters
	Bank of Russia deposit operations	Legal and regulatory framework
		Deposit operation types and conditions
		Requirements for Bank of Russia counterparty credit institutions
		Deposit operations conducted through Bank of Russia regional branches
		Deposit operations conducted via the Reuters Dealing System
		Deposit operations conducted via the MICEX Electronic Trading System
		Bank of Russia counterparties in deposit operations (statistical data)
		The value of bank deposits borrowed by the Bank of Russia
		Development prospects of Bank of Russia deposit operations
		Sources of information on Bank of Russia deposit operations
	Operations with Bank of Russia bonds (OBRs)	Key features of the instrument
		Participants in OBR operations
		Parameters of OBR operations
		The OBR secondary market
	Bank of Russia purchases/sales of securities on the open market	Key features of the instrument
	Bank of Russia unsecured loans	Key features of the instrument
		Participants in operations
		Parameters of operations
		Bank of Russia regulations that establish (amend) the procedure for extending unsecured loans to credit institutions
	Results of commercial bank surveys on refinancing	Information material, 2005
	Household inflation expectations	Results of surveys conducted by Public Opinion Foundation requested by the Bank of Russia, 2013
	Monetary sphere and monetary policy implementation	Analytics, spreadsheets and charts, quarterly, archive since 2010
	Quarterly Inflation Review	Archive from Q1 2004 to Q2 2012
	Inflation Targeting in Practice – 2012	Material of the Centre for Central Banking Studies, Bank of England
	Statistics	Information from this Section is also given at: Main page – Statistics - Bank of Russia Monetary Policy Instruments and Banking Sector Liquidity Indicators
	<b>Bank of Russia exchange rate policy</b>	
		History of Bank of Russia exchange rate policy in 1999–2010
		Effective mechanism of Bank of Russia exchange rate policy
<b>2</b>	<b>Main page – Bank of Russia Publications – List of Bank of Russia publications (<a href="http://www.cbr.ru/publ/">http://www.cbr.ru/publ/</a>)</b>	
	Bank of Russia Annual Report	Archive of Bank of Russia annual reports since 1992
	Bank of Russia Bulletin	Materials are available one month after publication, archive since 1998
		List of Bank of Russia regulations, ordinances and letters published in the Bank of Russia Bulletin
		Interviews and speeches published in the Bank of Russia Bulletin
		Bank of Russia consultations published in the Bank of Russia Bulletin
		Reference materials and statistics published in the Bank of Russia Bulletin

№	The title of the section and subsection of the of Bank of Russia website, Internet address of the page	Section/subsection contents
	Includes analytical materials published in the Bank of Russia Bulletin	Review of domestic foreign cash market
		Balance of payments and external debt of the Russian Federation
		Foreign financial markets
		Monetary sphere and monetary policy implementation
		Russian banking sector
		Domestic financial market
		Changes in the terms and conditions of bank lending
	Bulletin of Banking Statistics	Archive of monthly statistical bulletins since 1998
	Monetary Policy Report	Quarterly releases since January 2013
	Bank of Russia Foreign Asset Management Review	Archive of quarterly reviews since 2007
3	<b>Main page — Information and analytical materials (<a href="http://www.cbr.ru/analytcs/">http://www.cbr.ru/analytcs/</a>)</b>	
	<b>Financial markets</b>	
	Financial Market Review	Archive of semi-annual reviews since 2009
	Domestic Financial Market State	Archive of monthly information and analytical materials since 2007
	Analytical Review 'Non-Banking Financial Intermediaries'	Archive of semi-annual reviews since 2009
	Review 'Changes in the Terms and Conditions of Bank Lending'	Archive of quarterly reviews since 2009
	Rouble Exchange-Rate Dynamics and Exchange Trade Indicators	Database since 2005
	<b>Financial stability</b>	
	Money Market Review	Quarterly releases since 2012 Q4
	Inter-Dealer Repo Market Report	Quarterly reports since 2012 Q1
	Global Risk Review	Monthly reviews since January 2012
	Rating Structure of Collateral under Repo Operations	Monthly spreadsheets since June 2012
	Financial Stability Review	Semi-annual reviews since December 2012
	Review of Financial Stability Board Activities	First release in March 2013
4	<b>Main page — Bank of Russia today — Publications and reports (<a href="http://www.cbr.ru/today/?Prtd=pubdoc">http://www.cbr.ru/today/?Prtd=pubdoc</a>)</b>	
	Financial Stability Review	Archive of annual reviews for 2009–2011
	Speeches of Bank of Russia executives	Speeches since 2010
5	<b>Main page — Press Centre (<a href="http://www.cbr.ru/press/">http://www.cbr.ru/press/</a>)</b>	
	Interviews of Bank of Russia executives with the Russian and foreign mass media	Archive of interviews since 2008
6	<b>Main page — Database on currency rates (<a href="http://www.cbr.ru/currency_base/">http://www.cbr.ru/currency_base/</a>)</b>	
	Official exchange rates of foreign currencies on a selected date set on a daily basis	Database since 1992
	Official exchange rates of foreign currencies on a selected date set on a daily basis	Bank of Russia regulations on setting official exchange rates of foreign currencies against the rouble
	Dynamics of the official exchange rate of a selected currency	Database since 1992
	Official exchange rates of foreign currencies on a selected date set on a monthly basis (before January 11, 2010)	Database for 1999-2010
	Foreign currency exchange rates in the period before July 1, 1992	Database for the period before 1992
7	<b>Main page — Interbank loan market rates (<a href="http://www.cbr.ru/mkr_base/">http://www.cbr.ru/mkr_base/</a>)</b>	
	Interbank loan market rates: MIBID, MIBOR, MIACR, MIACR-IG, MIACR-B and respective turnovers of transactions	Database since August 1, 2000
	Interbank market rates	Database since January 3, 1996 to August 1, 2000
8	<b>Main page — Statistics (<a href="http://www.cbr.ru/statistics/">http://www.cbr.ru/statistics/</a>)</b>	
	<b>Macroeconomic statistics</b>	
	<b>Monetary and financial statistics</b>	
	Monetary base (broad definition)	Database since 2002
	Money supply	Database since 1992
	Central Bank Survey	Database since 2001

№	The title of the section and subsection of the of Bank of Russia website, Internet address of the page	Section/subsection contents
	Credit Institutions Survey	Database since 2001
	Banking System Survey	Database since 2001
	Other Financial Organisations Survey (data cover state financial corporations (since January 1, 2013), insurance companies and private pension funds)	Data since January 1, 2006
	Financial Sector Survey (data cover banking system, state financial corporations (since January 1, 2013), insurance companies and private pension funds)	Data since January 1, 2006
	Monetary and Financial Statistics Indicators	Database for 1995–2000, 2001–2007 and since 2008
	Analytical Accounts of Monetary Authorities	Database for 1995–2000
	Analytical Accounts of Credit Institutions	Database for 1995–2000
	Monetary Survey	Database for 1995–2000
	The Bank of Russia Balance Sheet	Database since 1996
	<b>External sector statistics</b>	
	Basic Derived Indicators of Rouble's Exchange Rate Dynamics	Database since 2004
	<b>Bank of Russia monetary policy instruments and banking sector liquidity indicators</b>	
	Bank of Russia Refinancing Rate	Data since 1992
	Required Reserves	Information since 1991
	Foreign Exchange Operations <ul style="list-style-type: none"> <li>– data on Bank of Russia currency interventions on the domestic FX market</li> <li>– dynamics of the borders of Bank of Russia floating operational band</li> <li>– dual-currency basket structure</li> </ul>	Information since August 2008 Information since February 27, 2009 Information since February 1, 2005
	Repo Operations	Information since 2002
	Unsecured Loans	Information since October 2008
	Lombard Loans and Lombard Credit Auctions	Information since 2003
	Overnight Loans	Data available since June 18, 1998
	Bank of Russia Intraday Loans	Data available since June 29, 2007
	Bank of Russia Other Loans	Data available since June 29, 2007
	FX swap	Data available since September 26, 2002
	Deposit Operations	Databases since 1994, 1997 and 2002
	OBR Operations and Reverse Repo Operations	Database since 1998
	Banking Sector Liquidity Indicators <ul style="list-style-type: none"> <li>– correspondent account balances of credit institutions</li> <li>– Bank of Russia transactions balance for liquidity supply/absorption</li> <li>– factors affecting banking sector liquidity</li> <li>– forecast of factors affecting banking sector liquidity used to determine the limit on Bank of Russia one-week market operations</li> </ul>	Database since 1997 Database since 2003 Database since 2011 (chart and spreadsheet) Weekly forecasts beginning from December 2012
	<b>Banking sector</b>	
	<b>Interest Rates and Non-price Bank Lending Conditions</b>	
	Interest Rates <ul style="list-style-type: none"> <li>– rates on loans to individuals, non-financial organisations and credit institutions</li> <li>– rates on deposits of individuals, non-financial organisations and credit institutions</li> </ul>	Data since January 2011 Data since January 2011
	Retrospective Information	Data for 1995-2012
	Indices of changes in bank lending conditions and demand for loans based on a quarterly survey of the largest Russian banks	Database since 2009 Q2

## Appendix 2 (statistical tables)

Table 1

### Interest rates on Bank of Russia operations (% p.a.)

Purpose	Type of Instrument	Instrument	Maturity	Date of decision taken by the Bank of Russia Board of Directors					
				10.12.12	2.04.13	15.05.13	10.06.13	12.07.13	
Liquidity supply	Standing facilities (at fixed interest rates)	Overnight loans	one day	8.25					
		Currency swaps (rouble leg)	one day	6.50					
		Lombard loans. repos	one day. one week <sup>1</sup>	6.50					
		Lombard loans	30 days <sup>1</sup>	6.50					
		Repos	12 months <sup>1</sup>	8.00	7.75	7.50	7.25		
		Loans secured by gold	Up to 90 days	7.00	6.75	6.50			
			From 91 to 180 days	7.50	7.25	7.00			
			From 181 to 365 days	8.00	7.75	7.50	7.25		
		Loans secured by non-marketable assets or guarantees	Up to 90 days	7.25	7.00	6.75			
			From 91 to 180 days	7.75	7.50	7.25			
			From 181 to 365 days	8.25	8.00	7.75	7.50		
	Open market operations (minimum interest rates)	Repo auctions	one day	5.50					
		Auctions for the extension of loans secured by non-marketable assets or guarantees	12 months	—				5.75	
		Lombard auctions. repo auctions	one week	5.50					
			3 months	7.00	6.75	6.50			
			6 months <sup>1</sup>	7.50	7.25	7.00			
			12 months	8.00	7.75	7.50	7.25		
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	one week	5.00					
			one month <sup>1</sup>	5.75					
			3 months <sup>1</sup>	6.75		6.50			
	Standing facilities (at fixed interest rates)	Deposit operations	one day. one week <sup>1</sup> . one month. on demand	4.50					
For reference:									
Refinancing rate				8.25					

<sup>1</sup> Operations are suspended.

Table 2

**Consumer prices by group of goods and services  
(month as % of the previous month)**

	Inflation	Core inflation	Food price growth	Food price growth <sup>1</sup>	Vegetable and fruit price growth	Non-food price growth	Non-food price growth, excluding petrol <sup>2</sup>	Service price growth
<b>2011</b>								
January	2.4	1.1	2.6	1.6	11.2	0.9	0.6	4.1
February	0.8	0.7	1.2	1.0	2.7	0.3	0.5	0.8
March	0.6	0.7	0.9	0.9	1.4	0.5	0.6	0.3
April	0.4	0.5	0.4	0.6	-1.6	0.5	0.5	0.5
May	0.5	0.4	0.0	0.2	-1.6	0.8	0.4	0.7
June	0.2	0.3	-0.2	0.1	-3.2	0.4	0.3	0.7
July	0.0	0.4	-0.7	0.4	-9.2	0.3	0.3	0.6
August	-0.2	0.4	-1.4	0.3	-16.0	0.5	0.4	0.3
September	0.0	0.5	-0.6	0.2	-9.8	0.7	0.7	-0.1
October	0.5	0.5	0.5	0.5	0.5	0.7	0.7	0.1
November	0.4	0.5	0.5	0.7	-1.0	0.6	0.5	0.1
December	0.4	0.4	0.7	0.6	1.3	0.3	0.4	0.3
Total for the year (December on December)	6.1	6.6	3.9	7.4	-24.7	6.7	6.0	8.7
<b>2012</b>								
January	0.5	0.5	0.8	0.6	2.8	0.4	0.5	0.2
February	0.4	0.4	0.7	0.5	2.1	0.3	0.4	0.0
March	0.6	0.5	0.8	0.6	2.7	0.5	0.5	0.4
April	0.3	0.4	0.2	0.3	-0.4	0.4	0.4	0.3
May	0.5	0.2	0.6	0.0	5.8	0.4	0.3	0.7
June	0.9	0.4	1.6	0.3	13.4	0.2	0.2	0.8
July	1.2	0.5	1.1	0.8	3.5	0.3	0.3	2.7
August	0.1	0.6	-0.5	0.8	-10.8	0.4	0.4	0.6
September	0.6	0.7	0.1	0.8	-5.6	0.7	0.6	1.0
October	0.5	0.6	0.5	0.8	-2.2	0.7	0.6	0.1
November	0.3	0.5	0.5	0.6	-1.3	0.4	0.4	0.0
December	0.5	0.4	0.9	0.7	2.4	0.3	0.3	0.4
Total for the year (December on December)	6.6	5.7	7.5	7.1	11.0	5.2	5.0	7.3
<b>2013</b>								
January	1.0	0.5	1.8	1.2	7.4	0.4	0.4	0.6
February	0.6	0.4	0.8	0.6	2.8	0.4	0.4	0.4
March	0.3	0.4	0.4	0.5	0.1	0.4	0.4	0.2
April	0.5	0.4	0.7	0.4	3.6	0.4	0.4	0.5
May	0.7	0.3	1.0	0.3	6.5	0.3	0.4	0.8
June	0.4	0.3	0.5	0.2	3.0	0.2	0.2	0.6

<sup>1</sup> Excluding vegetables and fruit.<sup>2</sup> Bank of Russia estimate.

Note. Tables 2 and 3 are based on Rosstat data and Bank of Russia calculations.

Table 3

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

	Inflation	Core inflation	Food price growth	Food price growth <sup>1</sup>	Vegetable and fruit price growth	Non-food price growth	Non-food price growth, excluding petrol <sup>2</sup>	Service price growth
<b>2011</b>								
January	9.6	7.2	14.2	10.2	51.1	5.6	5.2	8.2
February	9.5	7.4	14.2	10.5	46.9	5.6	5.4	7.9
March	9.5	7.7	14.1	10.8	42.9	5.8	5.6	7.9
April	9.6	8.0	14.1	11.2	39.1	5.9	5.8	8.2
May	9.6	8.3	13.4	11.6	27.7	6.3	5.9	8.6
June	9.4	8.4	12.5	11.7	18.3	6.6	5.9	8.8
July	9.0	8.4	11.3	11.7	8.1	6.6	6.0	8.9
August	8.2	8.1	8.8	10.7	-7.9	6.8	6.1	9.0
September	7.2	7.4	6.4	8.9	-17.1	6.8	6.1	8.8
October	7.2	7.2	6.2	8.4	-15.2	6.9	6.2	9.0
November	6.8	6.9	5.3	8.0	-19.3	6.8	6.1	8.8
December	6.1	6.6	3.9	7.4	-24.7	6.7	6.0	8.7
<b>2012</b>								
January	4.2	6.0	2.0	6.3	-30.4	6.2	5.9	4.7
February	3.7	5.7	1.5	5.8	-30.8	6.2	5.8	3.9
March	3.7	5.5	1.3	5.5	-29.9	6.2	5.7	3.9
April	3.6	5.3	1.2	5.2	-29.1	6.1	5.6	3.7
May	3.6	5.1	1.7	4.9	-23.8	5.6	5.5	3.7
June	4.3	5.2	3.6	5.1	-10.8	5.4	5.4	3.8
July	5.6	5.3	5.5	5.6	1.7	5.5	5.5	5.9
August	5.9	5.5	6.5	6.1	8.0	5.3	5.5	6.2
September	6.6	5.7	7.3	6.7	13.1	5.4	5.4	7.3
October	6.5	5.8	7.3	7.0	10.1	5.3	5.2	7.2
November	6.5	5.8	7.3	7.0	9.8	5.2	5.1	7.2
December	6.6	5.7	7.5	7.1	11.0	5.2	5.0	7.3
<b>2013</b>								
January	7.1	5.7	8.6	7.8	16.1	5.1	4.9	7.8
February	7.3	5.7	8.7	7.8	16.8	5.3	5.0	8.2
March	7.0	5.6	8.3	7.7	13.8	5.2	4.8	7.9
April	7.2	5.7	8.8	7.7	18.3	5.1	4.9	8.1
May	7.4	5.9	9.2	8.0	19.1	5.0	4.9	8.3
June	6.9	5.8	8.0	7.9	8.2	4.9	4.9	8.1

<sup>1</sup> Excluding vegetables and fruit.<sup>2</sup> Bank of Russia estimate.

Table 4

**Macroeconomic indicators**  
(seasonally adjusted, growth as % of the previous period)

	Industrial output <sup>1</sup>	Agriculture	Construction	Freight turnover	Retail trade turnover	Investments in fixed capital	Household consumer spending	GDP <sup>2</sup>
<b>2012</b>								
January	0.9	-23.9	-0.6	3.2	-0.4	-3.8	-1.5	
February	0.6	23.0	-0.9	-0.5	1.1	2.3	1.0	
March	-1.2	1.2	-0.1	-1.0	-0.1	0.9	0.7	0.6
April	-0.2	5.2	0.9	-0.9	0.4	-3.0	0.4	
May	1.3	3.8	0.4	-0.7	1.1	3.5	1.8	
June	0.1	-9.1	0.5	0.7	0.4	0.0	2.4	0.5
July	0.3	20.7	-0.8	0.0	-0.1	0.8	0.7	
August	-0.3	8.0	0.6	0.5	0.3	0.0	1.2	
September	-0.2	23.7	-1.0	1.1	0.6	-6.3	1.2	0.6
October	0.1	-20.3	9.1	-2.4	0.1	9.7	0.9	
November	0.1	20.7	-6.6	0.7	0.4	-4.3	0.8	
December	-0.5	-29.9	0.2	1.8	0.9	0.5	2.3	0.3
<b>2013</b>								
January	-0.6	-23.5	-0.1	-1.0	-0.8	-1.1	-1.0	
February	0.1	24.9	-1.6	-1.4	-0.2	0.7	-0.6	
March	1.1	0.6	-0.6	0.5	1.1	-0.2	0.4	0.2
April	-0.1	3.1	-2.3	0.5	0.1	-2.0	1.2	
May	-0.7	2.9	4.9	-0.5	-0.1	3.2	0.9	
June	0.1	-6.8	-8.7	-0.5	0.9	-2.7	1.7	

<sup>1</sup> Rosstat estimate.

<sup>2</sup> Quarterly data.

Source: Rosstat, Bank of Russia calculations.

Table 5

**Macroeconomic indicators**  
(as % of the corresponding period of the previous year)

	2013							For reference: 2012
	January	February	March	April	May	June	January-June	January-June
Output of goods and services by key economic activities	0.7	-0.9	2.0	1.9	-0.4	-0.9	0.4	4.7
Industrial output	-0.8	-2.1	2.6	2.3	-1.4	0.1	0.1	3.1
Agriculture	2.5	2.4	2.1	1.7	1.5	2.1	2.0	4.2
Investments in fixed capital	1.1	0.3	-0.8	-0.7	0.4	-3.7	-1.4	12.8
Construction	1.4	0.3	0.2	-3.7	1.7	-7.9	-1.9	4.7
Retail trade turnover	4.4	3.1	4.5	4.1	2.9	3.5	3.7	7.7
Household real disposable money income	0.6	6.6	10.0	7.5	-1.1	2.2	4.4	3.1
Real imputed per employee wage	5.4	3.3	5.1	8.5	4.7	6.0	5.5	10.7
Number of unemployed	-5.8	-6.9	-9.5	-0.6	-2.2	2.7	-4.0	-15.4
Unemployment level (as % of economically active population at end-period)	6.0	5.8	5.7	5.6	5.2	5.4	5.4	5.2

Source: Rosstat, Bank of Russia calculations.



