



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

Monetary Policy Report

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Contents

Summary	1
I. Macroeconomic conditions	3
I.1. Foreign economic conditions and exchange rate	3
<i>Global economy</i>	3
<i>Commodity markets</i>	5
<i>Balance of payments of the Russian Federation</i>	6
<i>Exchange rate policy of the Bank of Russia</i>	7
I.2. Internal economic conditions	9
<i>Public finances</i>	9
<i>Financial sector</i>	10
<i>Domestic demand</i>	18
<i>Labour market</i>	20
<i>Production</i>	22
I.3. Inflation.....	24
II. Economic development prospects and risk assessment	25
II.1. Economic development prospects	25
II.2. Risk assessment	27
<i>Monetary analysis of risks</i>	27
III. Implementation of Bank of Russia monetary policy	29
III.1. Key monetary policy decisions	29
III.2. Bank of Russia operations to regulate banking sector liquidity	30
Glossary	32
Appendix 1 (disclosure of information on monetary policy on the official website of the Bank of Russia).....	36
Appendix 2 (statistical tables)	40

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Summary

The decisions taken by the Bank of Russia in the sphere of monetary policy have been based upon its analysis of foreign and domestic macroeconomic conditions and the prospects for economic development. The risks associated with achieving inflation targets and ensuring sustainable economic growth in the medium term, along with possible risks associated with threats to the stability of the banking sector, have been taken into account.

It is believed that the foreign sector has acted as a restraining factor for the Russian economy. Economic growth rates in Russia's trading partner countries remain low, while inflation has continued to fall in these countries. Oil prices remained rather high in Q1, although a downward trend is projected.

The situation facing the real economy in Russia has been characterised by a dropping off in business activity since the second half of 2012. Early 2013 saw a noticeable slowdown in the growth of production of basic goods and services. Domestic demand remained the main factor driving economic growth. However, growth rates of investment and consumer activity slowed significantly. The actual production of goods and services was assessed as being close to its potential level at the end of 2012 – beginning of 2013. Its evolution is indicative of a certain strengthening of factors which curb inflation.

The increase in the inflation rate in Q1 2013 was associated with an increase in the rate of growth of prices for foodstuffs and services. In Q1 2013, the annual inflation rate exceeded the upper border of the target range (5%-6%) established for this year by the 'Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015'. However, the downward trend persisted in terms of the annual rate of increase in prices least susceptible to the impact of administrative and volatile factors.

Under these conditions, the Bank of Russia did not alter the stance of its monetary policy in Q1 2013. In this regard, on 2 April 2013, the Bank of Russia Board of Directors made a decision to reduce by 0.25 percentage points the interest rate for liquidity provision operations for periods exceeding one month. According to Bank of Russia estimates, the coming together of long-term loan costs and the minimum rate on short-term auction transactions, nowadays responsible for the main volume of transactions with credit institutions, is going to contribute to the increased efficiency of the interest rate channel of the monetary policy transmission mechanism.

External demand for Russian exports and moderate growth in domestic demand will act as a brake in terms of the persisting low level of business activity anticipated in 2013. The expected fall in oil prices in 2013 compared with the previous year may also restrain economic growth.

According to forecasts, inflation will gradually decrease. Provided there are no further price shocks, the Bank of Russia is forecasting a possible reversion of the rate of price increases to target values by the end of 2013. This is going to be facilitated by the lack of inflationary pressure on the part of aggregate demand, moderate rates of food price increases and the stabilisation of inflation expectations. The risks of imported inflation impacting consumer price growth rates will remain insignificant.

The results of the monetary analysis also prove the existence of a restraining effect on the rate of price increases which is going to become apparent in the second half of 2013.

The current dynamics of credit aggregates generally confirms the transition of credit growth into a more moderate phase. The credit market situation is characterised by mixed dynamics of lending to various sectors of the economy. While

the rate of growth of loans to non-financial organisations has declined significantly, thus ensuring a slowdown in the growth of total loan debt, the rate of growth of household loans remains high.

In determining the future direction of its monetary policy amid the slowdown of the economic growth rates, the Bank of Russia will lay special emphasis on an analysis of the root causes of this slowdown. Alongside an analysis of evolving conditions and the prospects for economic

development forming the basis of the focus of its monetary policy, the Bank of Russia will monitor potential risks, the implementation of which may lead to significant deviations from forecasts and trigger policy changes. According to the Bank's estimates, the greatest risks are the uncertainty as regards the developing foreign economic situation and a possible further slowdown in the domestic economy. At present, the probability of these risks is seen as insignificant.

I. Macroeconomic conditions

I.1. Foreign economic conditions and exchange rate

Global economy

Economic growth rates in countries that are trading partners of Russia remain low. However, the stabilising and expansionary measures adopted in the euro area and the United States in 2012 ensured that stable conditions were maintained in global financial markets during the period January to March 2013, establishing the prerequisites for increased business activity, including the beginning of a recovery in the euro area.

PMI indices¹ for individual economies within the euro area, and the monetary union as a whole, increased compared to the indices for mid-2012. They predominantly remain below 50%, although the increase observed may be an indication of the recession drawing to an end, as confirmed by analytical indices of the situation in the euro area and turning points in the area's business cycle: Eurocoin, IARC². The PMI index for Germany exceeded 50% in February to March 2013.

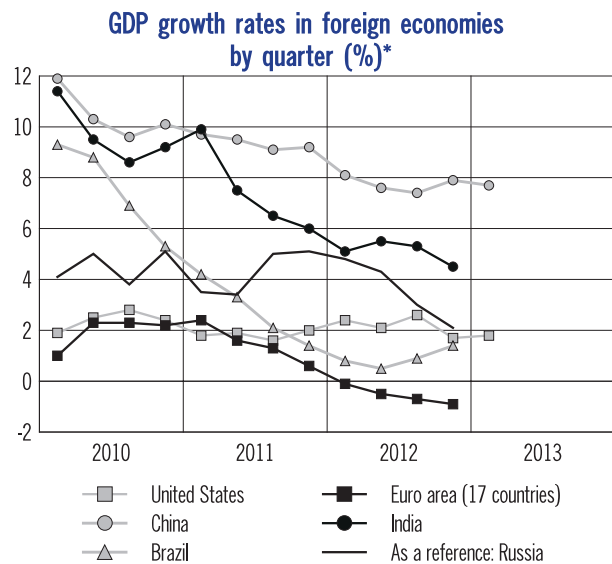
However, these are just indirect indicators of the potential stabilisation and an improvement of the economic situation in the euro area. In Q1 2013, statistical information on short-term economic indicators remained largely unfavourable. Estimates from different sources³ suggest that GDP in the euro area contracted compared with Q4 2012, though this reduction was slight. Meanwhile, GDP growth in Germany was restored.

The adoption of legislation⁴ in the USA at the end of 2012 which partly extended the tax rates reduced at the beginning of 2000s and

postponed start of the sequestration of budget spending to March 2013, allowed to avoid a 'fiscal cliff' scenario⁵. The United States' business cycle is in a phase of increased economic activity. ISM indices⁶ (similar to PMI) exceed 50%.

The global market conditions remained unfavourable for export-oriented countries. China's GDP growth rate in Q1 2013 decreased to 7.7% relative to the corresponding quarter of the previous year (7.9% in Q4 2012). However, in recent months China has seen restored moderate optimism in companies' assessments of the economic situation.

Q1 2013 continued to show a decline of CPI inflation in trading partners of Russia relative to the similar period of the previous year. Inflation processes were characterised by small rates of the core inflation, while the contribution from the rise in food and energy prices decreased.



* Growth relative to the corresponding quarter of the previous year.
Source: national statistics agencies, Eurostat.

¹ Purchasing managers indices. Source: Markit Group (London). PMI values below 50% as evidence of a decline in business activities, while values above it – of its growth.

² Sources: Bank of Italy; economic research centre Coe-Rexecode (Paris).

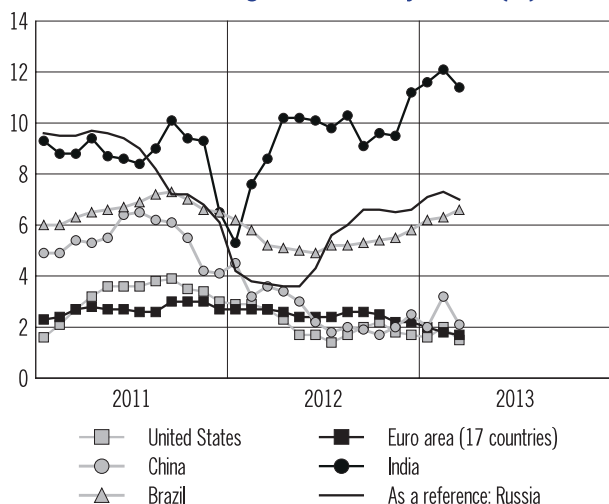
³ Reviews of the European Commission, OECD, and consensus forecasts (Thomson Reuters, Bloomberg, and Consensus Economics).

⁴ The American Taxpayer Relief Act of 2012.

⁵ The scenario consisted of the threat of a dramatic reduction in net consumption by the public sector, because the expiration of the regulation on the extension until 2012 of lower tax rates (Tax Relief, Unemployment Insurance Reauthorisation and Job Creation Act of 2010) coincided with the start of the sequestration according to another law (Budget Control Act of 2011).

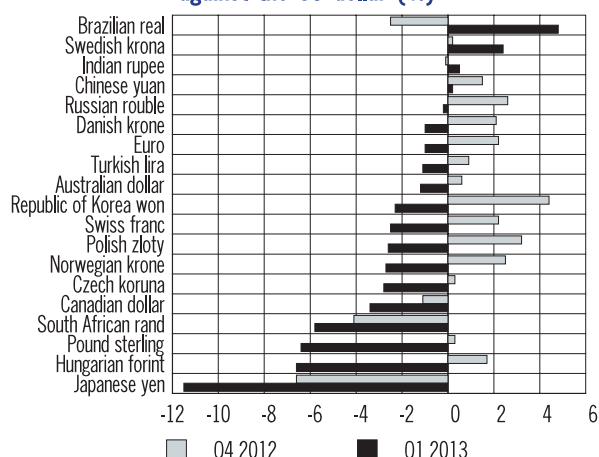
⁶ Source: Institute for Supply Management (United States).

Inflation in foreign economies by month (%)*



* Increase in the general level of consumer prices relative to the corresponding month of the previous year.
Source: national statistics agencies, Eurostat.

Change in exchange rate 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. Sign '+' denotes appreciation of currency against the US dollar, and sign '-' denotes its depreciation.
Source: Bank of Russia.

MSCI stock markets indices by day (1.01.2010 = 100)



Source: Bloomberg.

In Q1 2013, in most large foreign economies, including the euro area, monetary policy interest rates were kept at the same levels as before the beginning of the year, with the exception of individual countries, where they continued to drop (India, Poland, Hungary). The Federal Reserve System of the United States (Fed) started to buy long-term government bonds to the amount of \$45 billion per month. Coupled with the purchase of MBS⁷ that had been effected by Fed since September 2012, this intensified the accommodative impact of quantitative easing on the economy.

⁷ Mortgage-backed securities. Securities backed by claims on mortgage (their placement is guaranteed by American federal mortgage agencies).

Q1 2013 showed relatively calm sentiments in global financial markets. In addition, according to expert evaluations⁸, the totality of market indicators testified to a moderate level of risk aversion by investors. Indicators of market participants' perception of credit and market risks remained moderate⁹. Individual periods showed intensification of tensions due to political processes in Italy and a wide public response to the official bail-out in Cyprus.

Under the impact of monetary incentives, stock indices in the United States (DJIA, S&P 500) exceeded their previous records of 2007; the Nikkei 225 (Japan) experienced a strong rally. The growth of stock markets in Europe, as well as in the developing countries of Asia and Latin America was contained by continuing uncertainty in respect of the development of the global economic conditions.

The appreciation of the US dollar was a predominant trend in the international foreign exchange market. Changes in foreign exchange rates were mainly within moderate volatility, with the exception of the high rates of depreciation in the yen, which were conditioned by the intensification in the accommodative stance of Japan's monetary policy aimed at lifting the economy from deflation.

⁸ Source: Citigroup Global Markets.

⁹ OIS/LIBOR spreads (between overnight indexed swap rate and interest rate for term deposits in the interbank money market), VIX index (implicit volatility of S&P 500 Index).

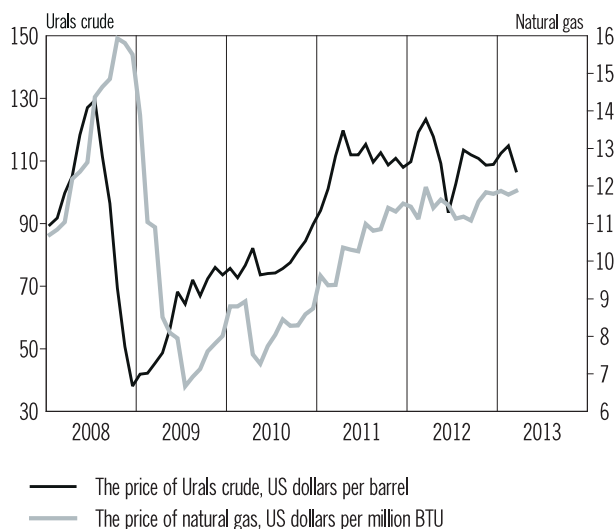
Commodity markets

The value of the composite index of prices in commodity markets (CRB, Commodity Research Bureau Index), calculated based on 19 stock commodity futures prices, dropped by 0.4% in Q1 2013 quarter on quarter (by 1.6% in Q4 2012). The index value reduced by an average of 5.7% relative to the similar period of 2012. Under these conditions, the decrease in prices for energy resources and non-energy products was comparable, while the prices for foodstuffs and raw agricultural commodities reduced at a slower rate than industrial raw materials.

The dynamics of oil prices in Q1 2013 was defined by the continuing growth of global oil inventories, a decrease in oil consumption forecasts in the United States, decline in demand in EU countries and a deceleration of economic growth in China – the second largest oil consumer in the world. Oil prices were supported by the continuing loose monetary policy of several countries and the persisting geopolitical instability in the Middle East and North Africa. The price of Russian Urals crude in the world market in Q1 2013 was in the range of \$105 to \$118 per barrel. As a result, the average price of oil in Q1 2013 totalled \$111.4 per barrel, a rise of 1.7% on the previous quarter, though marking a fall of 5.2% on the comparable period in 2012.

In Q1 2013, the price for natural gas in the European market remained almost unchanged from the previous quarter and was 2.8% higher than in the same period of the previous year. Prices

Energy prices



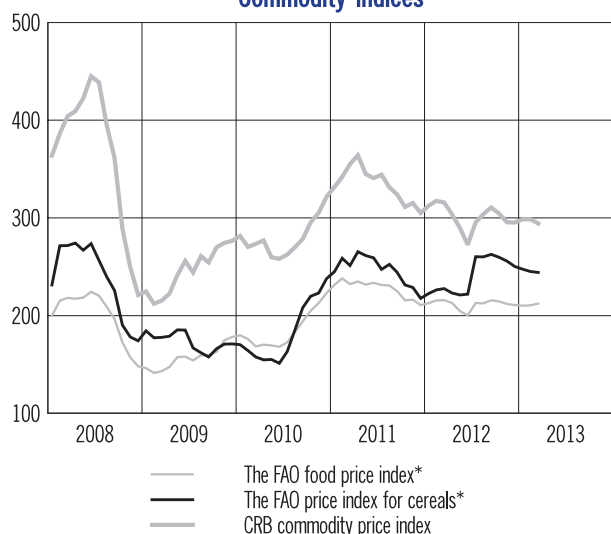
Source: Reuters, World Bank.

for oil products increased by 2.2%, on average, compared to Q4 2012, but registered a fall of 6.5% on Q1 of the previous year.

The global price fluctuation for ferrous and non-ferrous metals in Q1 2013 mostly followed the trend of oil price volatility. Against the previous period, prices for ferrous metals and nickel increased, while prices for copper and aluminium remained stable. Prices for ferrous metals fell by 9%, and non-ferrous metals – by 8%, on average, compared to Q1 2012.

The fall in food prices in the global market in Q1 2013 was related to the ongoing adjustment of cereal and sugar prices under conditions of higher world stocks of these products than had been anticipated. The reduced fall in food prices against industrial raw material prices has largely been determined by the rise in the prices for dairy products. In Q1 2013, the food price index calculated by FAO¹⁰ fell by 0.6% compared to the previous quarter (by 0.6% as well in Q4 2012). The drop in prices compared to the previous quarter was observed in all commodity groups (except dairy products and oils/fats). The FAO food price index decreased by 1.7% in January-March 2013 relative to Q1 2012: there was a significant fall in prices for sugar (by 22.5%) and oils/fats (by 14.6%). At the same time, cereal prices rose by 8.8%, dairy prices – by 3.4%, and meat prices – by 0.4%, year on year.

Commodity indices



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

¹⁰ Food and Agriculture Organisation of the United Nations.

Balance of payments of the Russian Federation

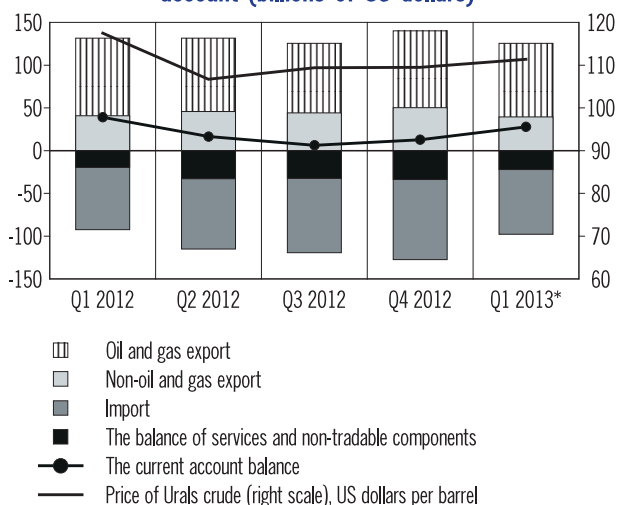
The surplus of the current account of the balance of payments in Q1 2013, according to preliminary estimates, totalled \$27.9 billion and was higher than in the previous quarter, but significantly lower (by 29%) than in the same period of 2012 (\$39.2 billion). More than three quarters of this reduction was attributed to the reduced surplus in the trade balance.

The trade surplus in Q1 2013 fell by 15% – to \$50.1 billion year on year, but was higher quarter on quarter (\$46.6 billion). The drop in surplus in the trade balance is conditioned by the reduction in exports coupled with increasing import of goods. The observed dynamics has been characteristic for Russia’s foreign trade over the last three quarters.

The reduction in exports of goods compared with Q1 2012 by almost 5% – to \$125.7 billion – was related to the drop in contract prices (by 2%, on average) and decrease in export quantities (by 3%). Export volumes of oil, petroleum products, natural gas, ferrous and non-ferrous metals in Q1 2013 were lower than in Q1 2012. The share of exported energy products (crude oil, petroleum products and natural gas) in the total export quantities in Q1 2013 is estimated at 68% (69% in Q1 2012).

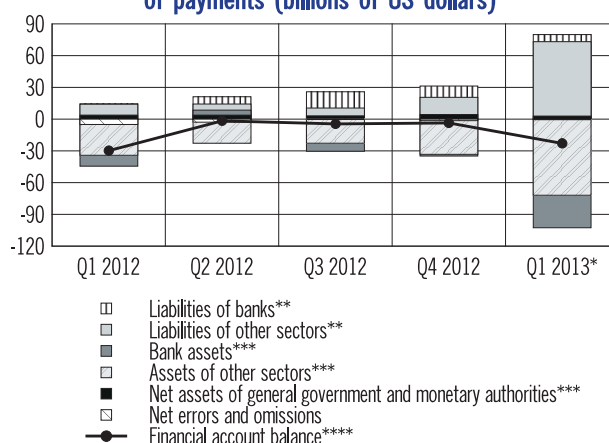
Import of goods in Q1 2013 increased by less than 4% and totalled \$75.7 billion. Almost three quarters of this growth was due to the increase in import volumes. Despite slow growth rates, the role of imports in the formation of economic

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



* Estimate.
Source: Bank of Russia.

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



* Estimate.
** Liabilities: '+' - increase, '-' - decrease.
*** Assets: '-' - increase, '+' - decrease.
**** Including 'Net errors and omissions' item.
Source: Bank of Russia.

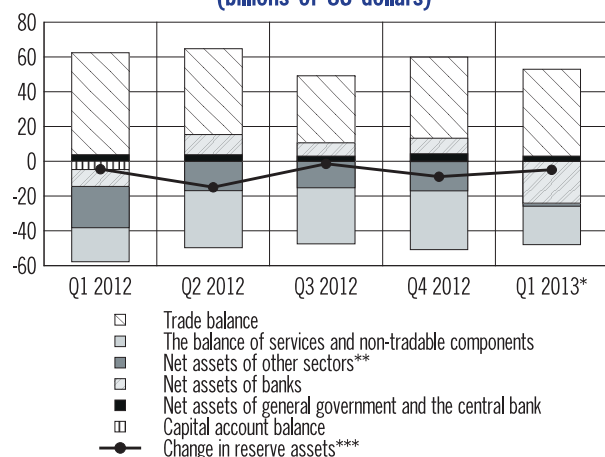
resources at a time of low rates of increase in domestic production has not reduced. Changes were noted in the structure of imports: the import quantities of engineering products grew slower than total imports, and the import of consumer goods – food products and textiles – grew faster.

The deficit of services and non-tradable components in Q1 2013 was lower than in the previous quarter, but higher than in Q1 2012. Its growth was mainly conditioned by the increase in deficits of the balance of trade in services and the compensation of employees balance, while the deficit in the balance of investment income remained at the same level as in Q1 2012.

Against the background of a significant increase in operations with foreign assets and also with liabilities (excluding reserve assets) the financial account deficit in Q1 2013 was significantly higher (by a factor of ten) than in the previous quarter, totalling \$22.3 billion, though slightly lower than in Q1 2012 (\$24.7 billion)¹¹. The operations associated with the buy-out of BP’s stake in TNK-BP Ltd by OJSC OC Rosneft had the main impact on the financial account and resulted in 100% consolidation of TNK-BP by OJSC OC Rosneft. Overall, the net liabilities assumed by the Russian economy in Q1 2013 (\$80.1 billion) increased by a factor of seven compared to Q1 2012. The net acquisition of financial assets (excluding reserve assets) was valued at \$102.4 billion (\$36.4 billion in Q1 2012).

¹¹ Taking into account net errors and omissions, the financial account deficit in Q1 2013 amounts to \$22.9 billion (\$29.8 billion in Q1 2012).

Major balance of payments components
(billions of US dollars)



* Estimate.
 ** Including 'Net errors and omissions' item.
 *** Increase '-', decrease '+'.
 Note. Assets: '-': increase, '+': decrease.
 Source: Bank of Russia.

The net export of private capital in Q1 2013 fell to \$25.8 billion (\$33.6 billion in Q1 2012) on account of practically balanced import and export of capital by non-financial organisations, while the net outflow of capital in the banking sector surged.

Due to increased foreign capital inflows, Russia's external debt for Q1 2013 rose by \$52.6 billion (8.3%), and as of 1 April 2013, it is estimated at \$684.4 billion. The growth of the external debt was mainly attributable to the rise in foreign liabilities of other sectors¹² by \$45.9 billion (12.5%). The external debt of the banking sector largely associated with the issue of new Eurobonds rose by \$4.2 billion (2.1%).

As of 1 April 2013, the international reserves of the Russian Federation totalled \$527.7 billion, reflecting a decrease of \$9.9 billion during Q1 2013. The key contributor to the change of reserve assets was a significant negative revaluation resulting from the fall in the exchange rate of euros and pounds sterling in the foreign exchange market. The reserve assets increased by \$4.9 billion on account of operations recorded in the balance of payments. The structure of these operations mainly consisted of Bank of Russia currency swaps with resident banks, repos with foreign counterparties, and transactions of the Russian Ministry of Finance.

¹² Other sectors include other financial institutions (except banks), non-financial organisations, households and non-profit organisations servicing households.

Exchange rate policy of the Bank of Russia

From January till early April 2013, the Bank of Russia continued to implement the exchange rate policy within the framework of the managed floating exchange rate regime, not hindering rouble exchange rate developments determined by economic fundamentals.

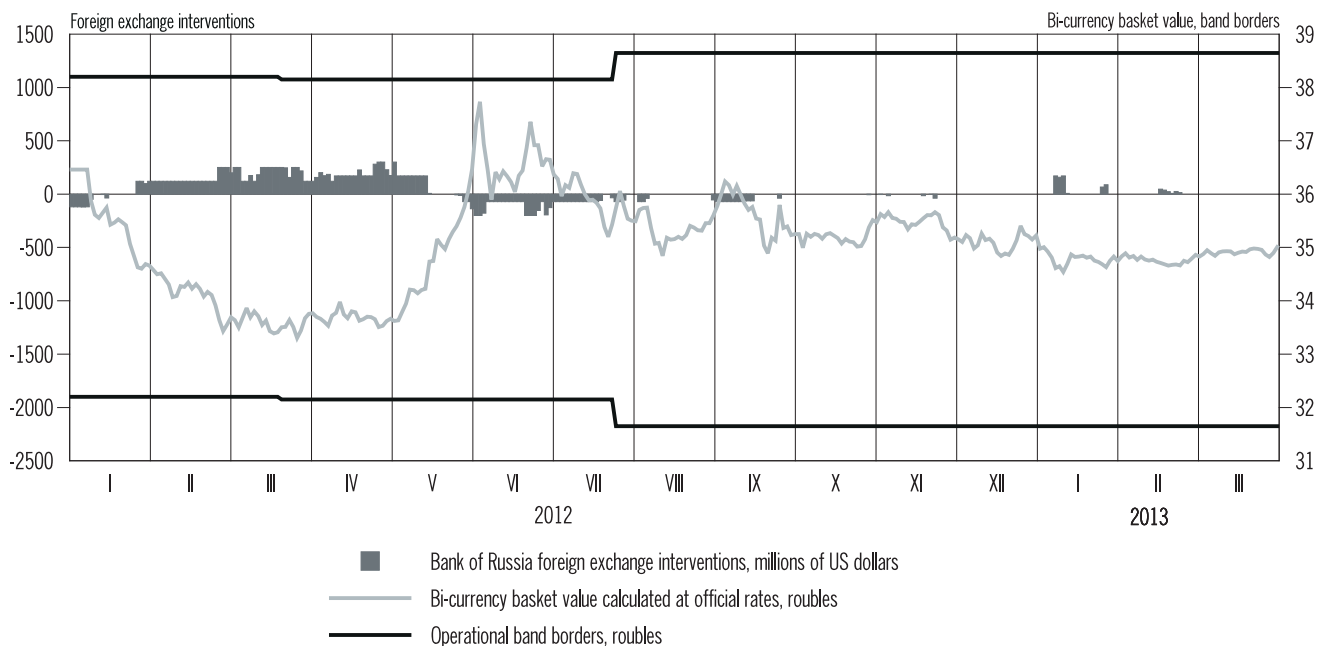
In Q1 2013, fluctuations of the rouble exchange rate remained insignificant, and its volatility was moderate. From January to the first half of February 2013, against the background of high energy prices, no significant changes in the demand and supply of foreign currency were observed. Therefore, there were no marked trends in the dynamics of the rouble exchange rate. During the second half of February to March 2013, the adjustment of oil prices in global markets and some fall in the risk appetite of investors due to the aggravation of the political situation in Italy and financial problems in Cyprus led to a slight depreciation of the rouble.

At the beginning of April 2013, the volatility of the exchange rate of the national currency noticeably increased influenced by further worsening of foreign economic conditions coupled by certain domestic factors, in particular, weak macroeconomic statistics for February, intensification of expectations for the easing of monetary policy by the Bank of Russia, and prospective changes to be introduced by the Russian Ministry of Finance into the mechanism for purchasing foreign currency to replenish sovereign wealth funds. In total, for the period from the beginning of 2013, the value of the bi-currency basket increased by 1% to 35.15 roubles as of 12 April 2013. At the same time, among the currencies of other BRICS countries only South African rand depreciated during the specified period, while other currencies appreciated against major world currencies.

In January to the beginning of April 2013, the mechanism of the exchange rate policy remained unchanged. The acceptable fluctuation range of the rouble value of the bi-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 in the domestic market.

The Bank of Russia did not conduct any foreign exchange interventions during the most of the observed period. It purchased foreign currency

Bank of Russia interventions in the domestic foreign exchange market and developments of the rouble value of the bi-currency basket



Source: Bank of Russia.

only on several days in January and February 2013 and sold foreign currency in small amounts at the beginning of April under conditions of minor depreciations of the rouble. In total, the net volume of purchases of foreign currency by the Bank of Russia in the domestic foreign exchange

market amounted to \$636.8 million during the period from 1 January to 12 April 2013. As a result, during the period under review, the floating operational band remained unchanged; its lower and upper borders were kept at 31.65 and 38.65 roubles for the bi-currency basket, respectively.

1.2. Internal economic conditions

Public finances

According to the Federal Treasury data, in 2012, general government budget expenditure accounted for 36.5% of GDP, while non-interest expenditure accounted for 35.8% of GDP, exceeding the corresponding indicators for 2011 by 0.6 percentage points.

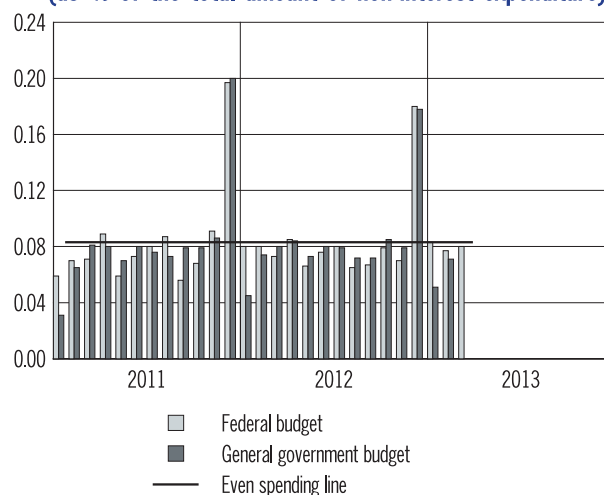
An increase of the expenditure side of the budget as a percentage of GDP (against the background of a decrease of the revenue side) led to the reduction of the general government budget surplus down to 0.4% of GDP in 2012 (or by 1.1 percentage points compared to 2011). The non-oil and gas primary deficit increased by 1.3 percentage points – up to 9.3% of GDP – compared to 2011. Given falling non-oil and gas revenues, the increase in budget expenditure (including those on social needs) raises fiscal risks related to fluctuations in oil prices.

The structural non-oil and gas primary general government budget deficit in 2012 amounted to 9.6% of GDP¹. This is 1.6 GDP percentage points higher than in 2011. Based on the output gap dynamics, it may be concluded that the budget policy in 2012 was procyclical².

In January to February 2013, general government budget expenditure accounted for 32.8% of GDP, while non-interest expenditure accounted for 32.0% of GDP (1.9 percentage points higher year-on-year). This trend can be explained by the overall increase in expenditure

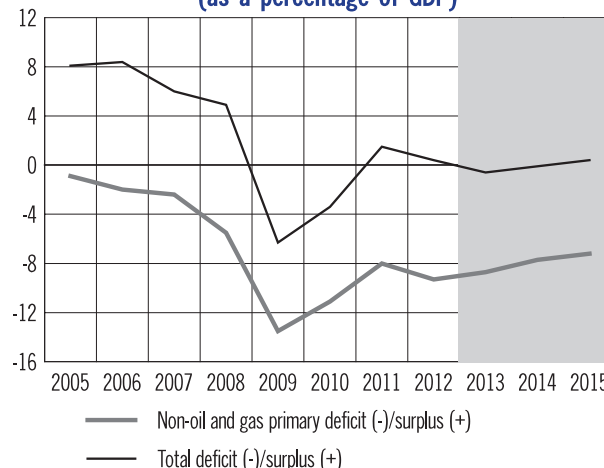
as a percentage of GDP, as well as the continuing improvement in the even distribution of public expenditures/spending during the financial year. The share of general government budget expenditure amounted to 11.9% in January to February 2013 as a percentage of the total expenditure scheduled for the year in accordance with the 'Fiscal Policy Guidelines for 2013 and the Period of 2014 and 2015' (hereinafter referred to as the Guidelines) against 11.6% during the same period of 2012.

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



Source: the Federal Treasury of the Russian Federation, the Ministry of Finance of the Russian Federation, 'Fiscal Policy Guidelines for 2013 and the Period of 2014 and 2015'.

**Total and non-oil and gas primary deficit (-)/
surplus (+) of the general government budget
(as a percentage of GDP)**



Source: the Federal Treasury of the Russian Federation, Rosstat, 'Fiscal Policy Guidelines for 2013 and the Period of 2014 and 2015'.

¹ Hereinafter, calculations of the Bank of Russia.

² Countercyclical or stabilising fiscal policy implies the tightening of fiscal policy at times of economic 'overheating' and an easing of policy at times of economic downturn. Otherwise, the fiscal policy is procyclical. The change in the annualised output gap is used as an indicator of the phase of the economic cycle, while the stringency of fiscal policy is determined by the dynamics of the budget's structural non-oil and gas primary deficit (surplus). The structural non-oil and gas primary deficit (surplus) 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 cumulative budget deficit (surplus) which is independent of oil and gas revenues as well as net interest payments and items that are directly linked to changes in economic activity. For details see S. Vlasov 'Russian fiscal framework: Past, present and future. Do we need a change?' BOFIT Online 2011, No. 5.

Against the background of more moderate increases on the revenue side of the budget, in January to February 2013, the general government budget surplus decreased by 1.6 percentage points relative to the same period of 2012, and amounted to 1.0% of GDP. The non-oil and gas primary deficit increased by 0.3 percentage points – up to 8.5% of GDP.

In accordance with the Guidelines, for 2013 the general government budget deficit has been set at 0.6% of GDP. Compared to 2012, the reduction of surpluses and creation of a budget deficit are due to the decrease of oil and gas revenues. The structural non-oil and gas primary general government budget deficit is expected to drop to 8.9% of GDP in 2013.

Financial sector

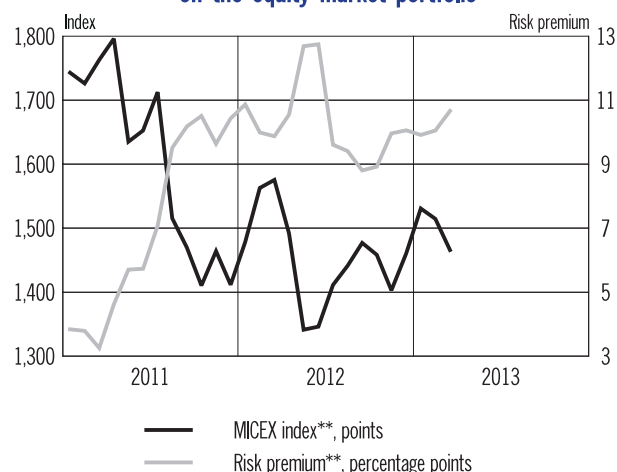
Asset prices

In Q1 2013, with the stability of interest rates on Bank of Russia main operations, the volatility of the equity market price indices remained at the level of Q4 2012. The outflow of non-resident capital from the secondary equity market significantly reduced compared to Q4 2012. At the same time, in February to March 2013, the Russian equity quotes were subjected to downward pressure due to factors such as the domestic market participants' concerns about its 'overheating' as a result of the prices boom from mid-November 2012 to January 2013, oil prices drop, and global investors' risk appetite decrease due to the further aggravation of debt problems in the euro area. The Russian equity market risk premium³ rose only slightly in February to March 2013 compared to January 2013. By the end of March 2013, the MICEX and RTS indices decreased by 2.5% and 4.4%, respectively, as compared to the end of December 2012. Average values of the MICEX and RTS indices in Q1 2013 were 4.3% and 6.4% higher than in Q4 2012.

In Q1 2013, the increase in residential real estate prices continued. As in Q4 2012, during this period the price indices for the primary and secondary housing markets exceeded the consumer price index, thus supporting the interest of households in real estate as one of the few relatively secure long-term investment

³ The equity market risk premium is calculated as the difference between the return on the equity market portfolio, which consists of shares included into the MICEX index calculation base, and OFZ zero-coupon yield.

MICEX index and risk premium on the equity market portfolio*



* Portfolio of stocks included in the calculation of the MICEX index.
 ** Average monthly indicator.
 Source: Moscow Exchange, Bloomberg, Bank of Russia calculations.

instruments. The commissioning of residential housing reduced in Q1 2013 compared to Q4 2012, under the influence of a seasonal factor, however, it exceeded the same indicator of Q1 2012. According to expert assessments, the decrease in commissioning had no noticeable impact on market prices, because the purchasing activity in the housing market is traditionally low at the beginning of a calendar year. Some slowdown in housing mortgage loan growth at the beginning of 2013 might have restrained the growth of housing prices.

Money market

The money market in Q1 2013 was significantly affected by the change in the structural deficit of liquidity. The liquidity situation in the banking sector during the period under review was heterogeneous. While a seasonal liquidity surplus formed at the beginning of 2013 under the influence of autonomous factors of December 2012 (budget deficit), its gradual decrease in the second half of the quarter contributed to the growth in demand among credit institutions for Bank of Russia refinancing operations.

A traditional increase in general government budget expenditure in the last ten days of December 2012 led to a significant growth of balances in correspondent and deposit accounts of credit institutions with the Bank of Russia. However, a gradual decrease in their level and reduction of the debt of credit institutions to the Bank of Russia has been noted since the beginning of 2013. The average amount of funds in the correspondent accounts of credit institutions with

the Bank of Russia in Q1 2013 grew by 49.2 billion roubles compared to Q4 2012, and amounted to 836.4 billion roubles. The additional need for liquidity, coupled with an increase in the averaged amount of required reserves in Q1 2013, totalled 37.5 billion roubles.

The combined effect of autonomous factors led to a decrease in the amount of funds in the banking sector by 83.5 billion roubles in total during Q1 2013. However, while the influence of these factors was insignificant in January to February (they caused the inflow of liquidity in the amount of 9.3 billion roubles), they then brought about a fall in the amount of funds in the banking sector by 92.7 billion roubles in March.

In Q1 2013, the excess of federal budget revenue over its expenditure (excluding operations in federal government bonds (OFZ) and changes in deposits of the Federal Treasury) led to a decline in the liquidity of the banking sector by 0.5 trillion roubles, while the inflow of budget funds in Q4 2012 contributed to the growth of liquidity by 1.4 trillion roubles.

Despite the fact that the supply of funds deposited by the Federal Treasury in credit institutions is maintained at the level of Q4 2012, the seasonal surplus of liquidity that had formed at the beginning of 2013, as well as the reduction of the deposit terms to seven days in the first two months of the year, contributed to the fall in demand of credit institutions for these operations. As a result, in Q1 2013, about 50% of 1 trillion roubles proposed by the Federal Treasury were deposited, with the repayment on these operations totalling 0.9 trillion roubles. In

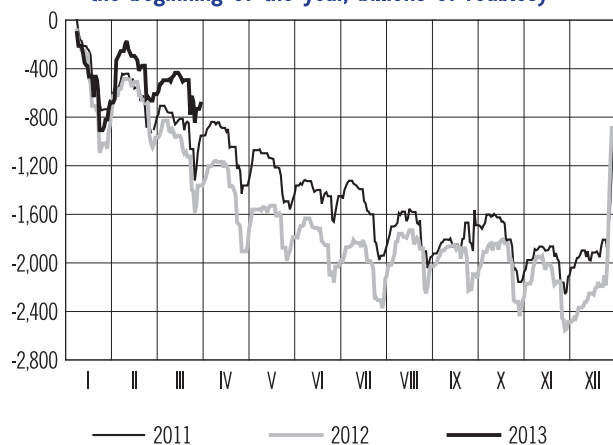
the previous quarter, with comparable volumes of the supply and repayment, Federal Treasury deposits amounted to 0.8 trillion roubles.

The aggravation in global financial markets against the background of instability in some euro area economies contributed to a decline in activity of credit institutions at OFZ auctions of the Ministry of Finance of the Russian Federation. In January to March 2013, its revenue from the sale of federal government bonds reduced from 0.3 trillion roubles in the last quarter of 2012, to 0.2 trillion roubles. The resulting net inflow of funds into the banking sector on account of the above mentioned transactions amounted to 0.2 trillion roubles (the previous quarter showed a similar outflow).

The withdrawal of liquidity from the banking sector conditioned by flows of budget funds was largely compensated by a reduction in the amount of cash in circulation. This January the traditional removal of cash from circulation amounted to 0.7 trillion roubles, and was the main source of growth of funds in the banking sector. Taking into account cash issues during the quarter, the total quarterly reduction in the volume of cash in circulation led to the increase in banking sector liquidity by 0.6 trillion roubles (in Q4 2012, the increase in the volume of cash in circulation led to the reduction in banking sector liquidity by 0.8 trillion roubles).

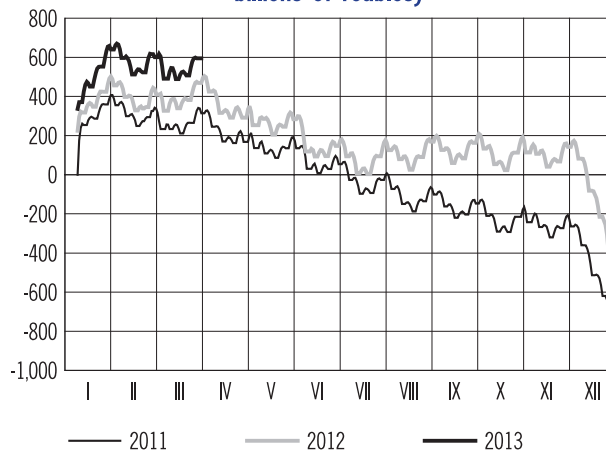
Amid the increasing flexibility of the exchange rate, the influence of the Bank of Russia's interventions on banking sector liquidity remained minimal. In Q1 2013, bank liquidity increased by 24.5 billion roubles (in Q4 2012, it decreased by 2.5 billion roubles) as a result of

Impact on liquidity of changes of general government's account balances with the Bank of Russia* (accrued from the beginning of the year, billions of roubles)



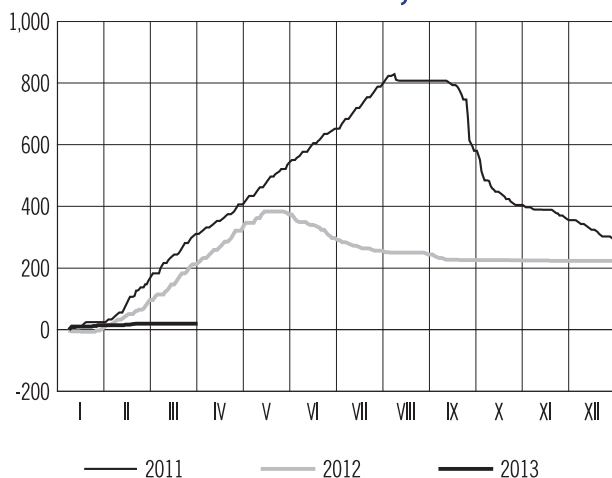
* Sign '+' denotes a decrease in balance, and sign '-' denotes an increase in balance.
Source: Bank of Russia.

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



* Sign '+' denotes a reduction in the amount of cash in circulation, and sign '-' denotes its increase.
Source: Bank of Russia.

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



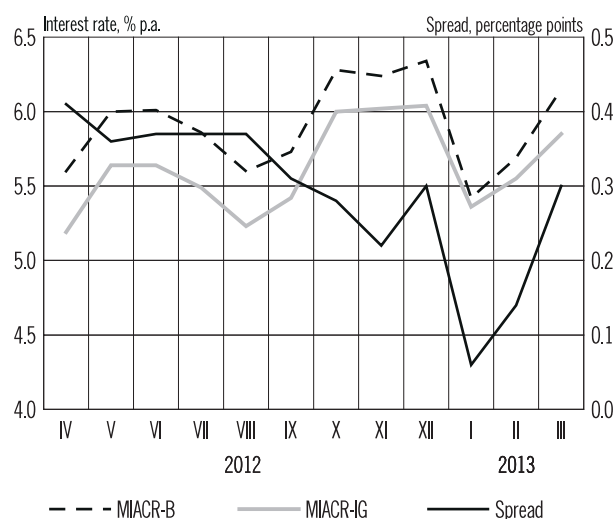
Source: Bank of Russia.

operations conducted by the Bank of Russia in the domestic foreign exchange market.

Significant amount of funds in correspondent and deposit accounts of credit institutions with the Bank of Russia that formed at the end of 2012, as well as the neutral effect of autonomous factors on the liquidity situation in January to February 2013, allowed credit institutions to reduce their liabilities on Bank of Russia refinancing operations in this period by 0.8 trillion roubles. In March, the drop in the level of banking liquidity under the influence of autonomous factors facilitated a resumption of a growth in credit institutions' demand for Bank of Russia loans. As a result, the gross credit of the Bank of Russia to the banking sector dropped by 0.6 trillion roubles over the quarter.

The change in the banking sector liquidity affected the dynamics of short-term rates in the money market. In the first half of the quarter, they predominantly were in the lower part of the interest rate band of the Bank of Russia. The decrease in the level of liquidity brought close the rates of the interbank lending market and Bank of Russia rates for short-term refinancing operations. The overnight MIACR on interbank loans in roubles during the quarter ranged from 4.9% to 6.4% p.a. The average monthly rate on overnight rouble-denominated interbank loans fell from 6.2% p.a. in December 2012 to 5.4% p.a. in January 2013, and then rose to 5.7% p.a. in February and to 6.0% p.a. in March 2013. The average of this rate in Q1 2013 amounted to 5.7% p.a., marking a fall of 0.4 percentage points compared to the previous quarter.

Spread of rates on overnight interbank rouble loans



Source: Bank of Russia.

The volatility of money market interest rates during Q1 2013 remained moderate. In the period under review, no breaches of the upper border of the Bank of Russia's interest rate band by the overnight money market rates were observed. In January to February, the spread between the rates, which reflected borrowing by participant groups with different credit ratings (MIACR-IG versus MIACR-B) narrowed compared to October-December 2012. It returned to the level of Q4 2012 in March. This is proof that market participants continue to assess the credit risk in interbank operations as low.

In Q1 2013, a moderate growth was observed in participants' activity in the major segments of the money market (compared to the previous quarter). The turnover of interbank transactions continued to be dominated by unsecured loans (deposits) and currency swaps with a low share of repos. As before, the bulk of operations in the money market were represented by overnight deals. The share of money market instruments in the assets of the Russian banking sector remained moderate. The volume of claims on interbank loans and deposits placed in the domestic market totalled 1.80 trillion roubles (3.6% of the total value of assets of Russian banks) at the beginning of April 2013, as compared to 2.02 trillion roubles (4.1%) at the beginning of January 2013.

Debt market

In Q1 2013, the demand for rouble-denominated bonds was lower than in the previous quarter. Sales by issuers of securities

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



Source: Cbonds.ru, Moscow Exchange.

during this period compared to Q4 2012, decreased: by 38% in the federal government bond market (to 187.9 billion roubles at face value), and by 17% in the corporate bond market (to 430.8 billion roubles at face value). The majority of federal government bonds were sold by the Russian Ministry of Finance at a premium to yield in the secondary market or at a premium to yield of comparable traded instruments. Corporate borrowers usually placed bonds within the limits of the originally announced first coupon benchmark rates, and certain issuers with high credit-ratings placed bonds at coupon rates that were below the ranges declared in their bids.

The activity of secondary trades' participants in Q1 2013, compared to Q4 2012, also decreased. The volume of operations in OFZ dropped by 9% to 1,554.0 billion roubles, and in corporate bonds – by 5% to 1,620.1 billion roubles at actual value.

The situation in the money market and the policy of issuers in the primary capital market were the main factors affecting the bond yield in the secondary market. In January to the first half of February, the OFZ yield changed within the horizontal band, and predominantly increased along with money market rates until the end of March. The corporate bond yield in January to February reduced, and then changed within the horizontal band⁴. At the end of March 2013, the OFZ yield rose relative to the end of December 2012, by 27 basis points to 6.98% p.a., while

the corporate bond yield fell by 25 basis points to 8.31% p.a.

Bank interest rates and non-price lending conditions

The average interest rate on rouble loans to non-financial organisations for up to one year increased by 0.3 percentage points to 9.4% p.a. in Q1 2013 compared to Q4 2012, while for a term exceeding one year, the rate increased by 0.6 percentage points to 12.1% p.a. Q1 2013 showed no stable trends in the dynamics of these rates. The relatively low level of interest rates on corporate loans in some months of Q1 2013 is explained by the fact that the majority of the loans were provided by the largest banks with government and foreign participation with rates below the average market level.

In December 2012, within the framework of seasonal promotions, some of the largest banks – leaders in the provision of rouble loans to households for terms up to one year reduced interest rates for such loans. In Q1 2013, upon completion of the seasonal promotional campaigns the rates on these loans mostly returned to the average level observed in Q4 2012. In March 2013, the average weighted interest rate on rouble loans to households for up to one year was 25.1% p.a., while for terms exceeding one year, the rate was 20.4% p.a.

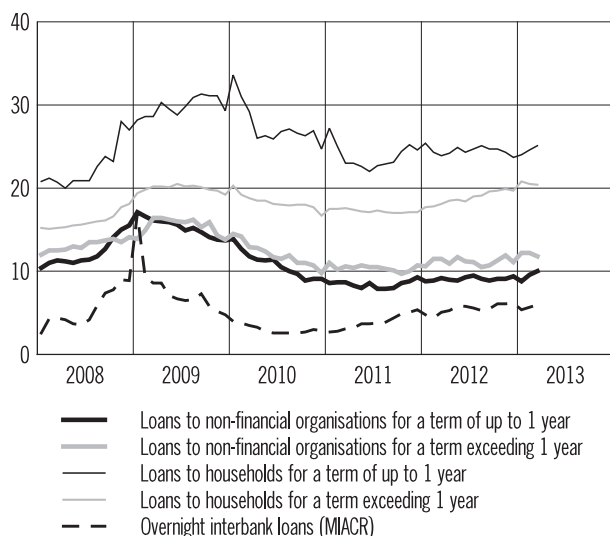
In Q1 2013, individual non-price lending conditions⁵ were subject to mixed changes in all segments of the Russian credit market, while a trend for the easing of these conditions prevailed. Banks increased maximum amounts of their loans and their maturities, and introduced new credit products. At the same time, requirements to the financial status of borrowers continued to tighten. According to banks' assessment, in Q1 the increase in demand for loans drastically slowed down, and some market segments saw a drop in demand.

The average interest rate on rouble deposits of households for up to one year (except for demand deposits) increased by 0.2 percentage points to 7.1% p.a. in Q1 2013, compared to the

⁴ On 15 March 2013, the IFX-Cbonds index calculation base was revised.

⁵ Bank lending conditions are evaluated according to a quarterly survey of credit institutions which is conducted by the Bank of Russia. The evaluation methodology was published in the Bulletin of the Bank of Russia (No. 68, dated 14 December 2011, p. 11). The survey results are published on the website of the Bank of Russia in the 'Information and Analytical Materials' (Russian version of the website).

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

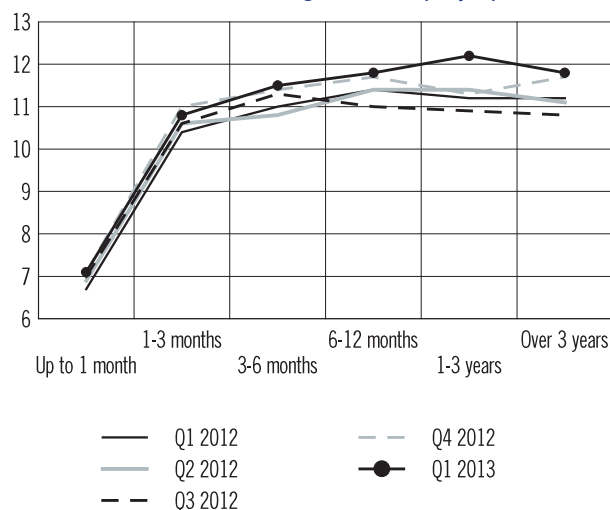


Source: Bank of Russia.

average rate of Q4 2012, while the rate for a term from one year to three years has not changed remaining at 8.3% p.a. The Bank of Russia’s monitoring shows that the average maximum rate on the rouble deposits of 10 Russian credit institutions which attracted the largest amount of deposits, in the last ten days of March 2013 amounted to 9.94% p.a., having increased by 0.29 percentage points as compared to the last ten days of December 2012⁶.

According to the banks’ evaluations, in Q2-Q3 2013, all market segments will see a noticeable

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



Source: Bank of Russia.

⁶ Since September 2012 – excluding the impact of combined deposit products. Since October 2012, the Bank of Russia has focused mainly on credit institutions with rates on deposits that exceed this indicative figure by more than 2.0 percentage points.

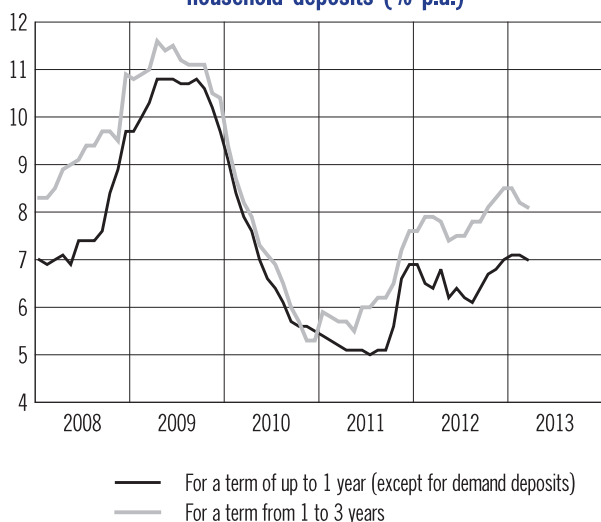
increase in demand for loans. It will mostly come from households. The easing of lending conditions for households will continue, and the segment of lending to large corporations will probably see an insignificant tightening of lending criteria. If these expectations come true moderate fluctuations in loan rates with slight domination of the upward trend may be possible in the middle of 2013.

Credit aggregates

The current dynamics of credit aggregates confirms the transition of credit growth to a more moderate phase. By the end of Q1 2013, the annual growth rate of total outstanding loans was 19.8% (27.2% in the previous year). The hallmark of the current situation in the credit markets that differentiates it from previous years is mixed dynamics of loans to the various sectors of the economy. While the growth rate of credits to non-financial organisations has distinctly reduced, thus ensuring slowdown in the growth of total loan debt, the growth rate of loans to households is still at a sufficiently high level. By the end of Q1 2013, the annual growth rate of loans to non-financial organisations was 13.9%, while the growth rate of loans to households was 37.4%. As a result, the contribution of the growth of loans to households to the overall annual growth of the loan portfolio of banks almost equalled the contribution of corporate loans.

In Q1 2013, more than 70% of the growth in the volume of outstanding loans to non-financial organisations was represented by loans for the term exceeding one year. The volume of these increased by 1.1% (by 4.9% in Q4 2012). The growth of the long-term components of the corporate loan portfolio in Q1 2013 was conditioned by the revaluation of foreign currency loans with corresponding terms as a result of the rouble depreciation against the US dollar. In Q1 2013, the volume of outstanding loans to non-financial organisations for the term up to one year slightly increased after their reduction in Q4 2012. The share of long-term corporate loans reached almost 70% in the total corporate loan portfolio. Wholesale and retail trade organisations, as well as manufacturing enterprises remain leaders in the volume of outstanding bank loans by sector. Q1 2013 saw the most noticeable increase (by 4.8%) in the volume of outstanding loans to wholesale and retail trade companies. Small and medium-sized businesses continued to build up

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

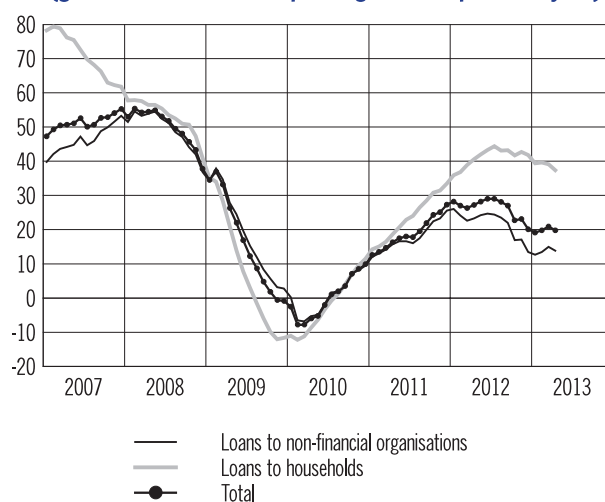


Source: Bank of Russia.

their loan portfolio faster than large borrowers in this period.

Lending to households continued to develop more intensively compared to lending to non-financial organisations in Q1 2013. The share of loans to households in the banks' total loan portfolio rose to 23.3% as of 1 April 2013. Over Q1 2013, the volume of outstanding loans to households rose by 4.7% (by 1.5% as a monthly average), which is 1.7 times less than in Q4 2012, when the average monthly growth was 2.5%. In Q1 2013 like in Q4 2012, the volume of retail loans for a term of up to one year increased more than for a term exceeding one year. This is primarily explained by the decline in the volume of rouble loans for a term from one to three years

Loans to non-financial organisations and households (growth as % of corresponding date of previous year)

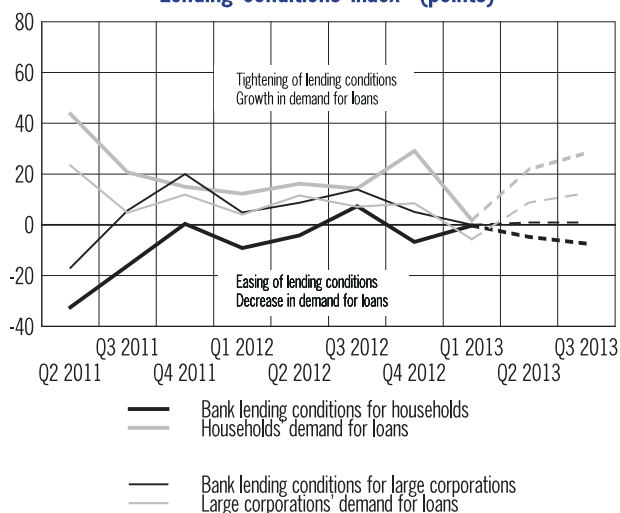


Source: Bank of Russia.

and foreign currency loans for a term exceeding one year. The share of long-term retail loans in the total volume of loans continued to dominate, exceeding 80%.

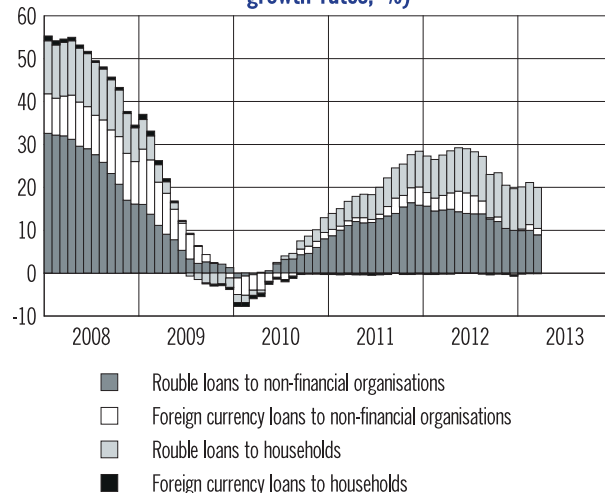
In January-February 2013 compared to Q4 2012, the growth in the volume of housing mortgage loans (HML) fell slightly. At the beginning of 2013, the banks' price policy for mortgage programmes varied. For example, several large banks completed their promotional campaigns for HML with low interest rates in this period, which resulted in an increase in the cost of their mortgage products. At the same time, other large banks reduced interest rates for these loans mainly within the framework of their promotional campaigns and certain options to

Lending conditions index* (points)



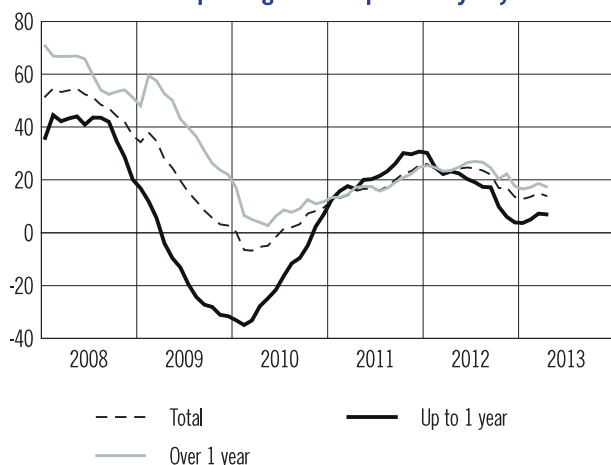
*Indices for Q1 2013 and expectations based on preliminary data.
Source: Bank of Russia.

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



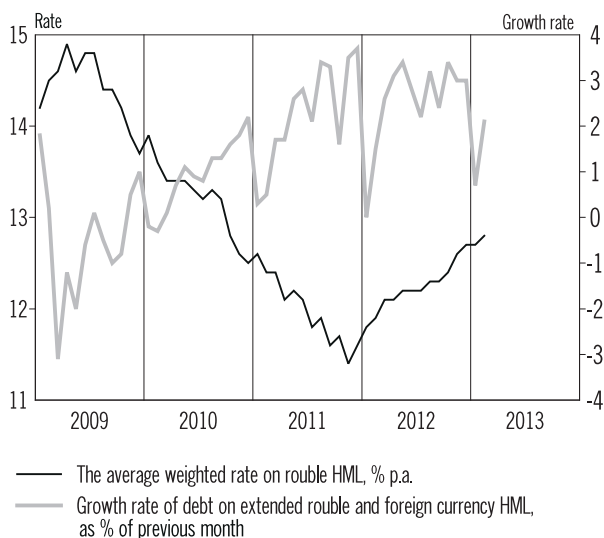
Source: Bank of Russia.

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



Source: Bank of Russia.

Housing mortgage loan market



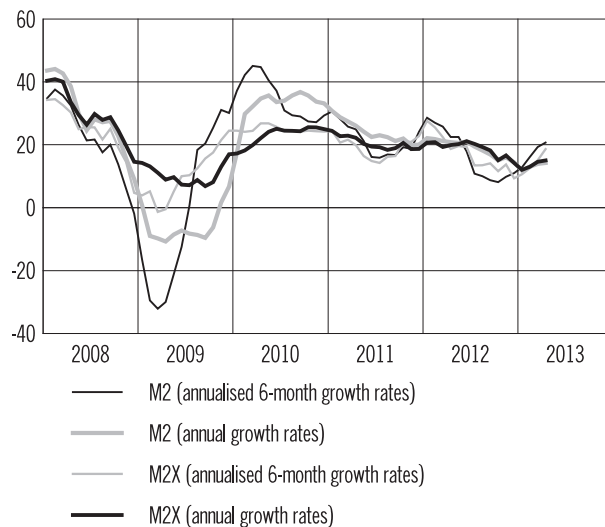
Source: Bank of Russia.

existing programmes. The volume of car loans in Q1 2013 increased, however, markedly less than in Q4 2012. Competition in the car loan market intensified due to the appearance of new auto banks. Despite that, only few banks, primarily the largest ones, reduced interest rates for car loans, and easing of non-price requirements to borrowers was the most significant instrument employed by banks in their competition.

Money supply

During 2012, the M2 monetary aggregate increased by 11.9%, which was sufficiently lower than the corresponding indicator for 2011 (22.3%). In the first months of 2013, the annual rate of growth of the rouble money supply slightly increased and amounted to 14.5% as of 1 April

Seasonally-adjusted M2 and M2X (%)



Source: Bank of Russia.

2013. The annualised 6-month growth rate of M2, which is less dependent on the base effect, increased in Q1 of the current year. In total, the established dynamics of the money supply will help reduce inflation risks in the medium term (see 'Monetary analysis of inflation risks').

The dynamics of household deposits was the most stable one among the components of the rouble money supply. Their annual growth rate was maintained with sufficient stability at the level of about 20% and amounted to 20.6% as of 1 April 2013 (19.0% as of 1 January 2013). Unlike deposits of households, the annual growth rate of rouble deposits of non-financial and financial organisations has started to significantly reduce from the second half of 2012. However, in Q1 of the current year, the annual growth rate of these deposits slightly rose and amounted to 11.5% as of 1 April 2013 (6.4% as of 1 January 2013).

The broad money (M2X) increased by 12.1% in 2012 (by 20.9% in 2011). Annual growth rates of M2X in January to March, somewhat increased, similar to the dynamics of the M2 monetary aggregate, and amounted to 15% on 1 April 2013. The indicator of 6-month growth rates of this monetary aggregate has also increased in the last months.

The annual growth rate of foreign currency deposits (in rouble terms) started to fall in the second half of 2012 and, in general, for the year the growth was 12.9% (13.0% in 2011). In Q4 2012, the level of dollarisation of deposits⁷

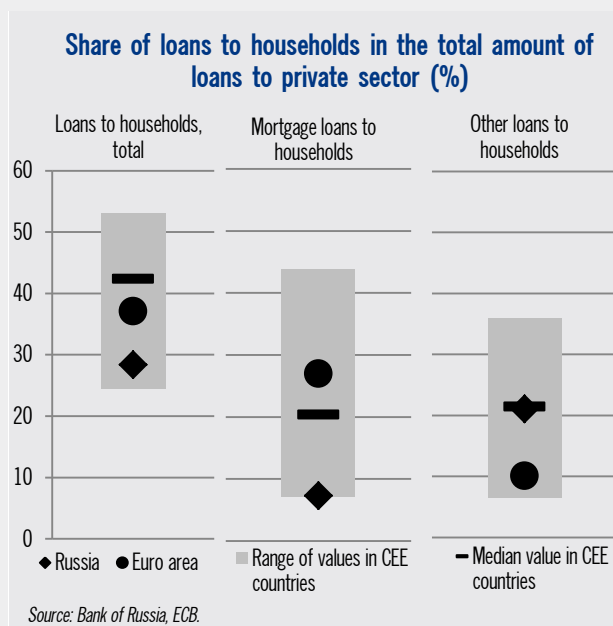
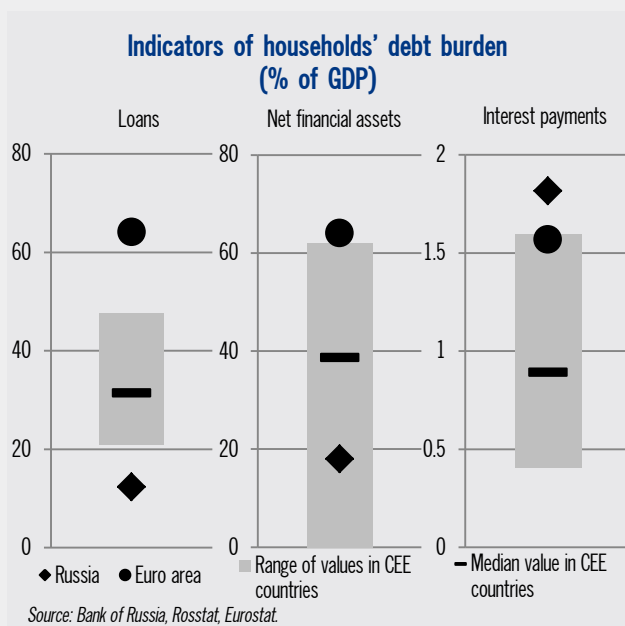
⁷ The level of dollarisation in this case is the share of foreign currency deposits in total deposits of the banking sector.

Macroeconomic consequences of the increase in household debt

The rise in household debt may considerably affect the behaviour of economic agents. First of all, the existence of significant household debt increases the vulnerability of the real sector to economic shocks. This is due to the fact that household consumption, burdened by high costs of servicing debt, is more sensitive to changes in income and the growth of uncertainty, as well as to changes in the interest rate.

One may get an insight about the level of the debt burden of Russian households by comparing the respective indicators calculated for the Russian economy and countries of Central and Eastern Europe (CEE)¹. A range of balance sheet indicators (usually relative to GDP) of households is traditionally used to measure the debt burden. First of all, it is a debt indicator. Its value in Russia is sufficiently low compared to CEE countries evidencing of low level of debt burden. At the same time, the Russian economy is characterised not only by an insignificant amount of financial liabilities (debt), but also by a relatively small amount of financial assets² on the balance sheet of households. Accordingly, the indicator of net financial assets of households, which can also be viewed as a debt burden indicator, is lower in Russia compared to the majority of the CEE countries. Therefore, even a low level of debt currently present may potentially impact the solvency of Russian households. The third indicator used as a debt burden indicator is the amount of interest payments for loans. It is higher in Russia than in European countries. This can be explained by the prevalence of high-risk consumer loans in the loan market, which are provided at relatively high nominal interest rates.

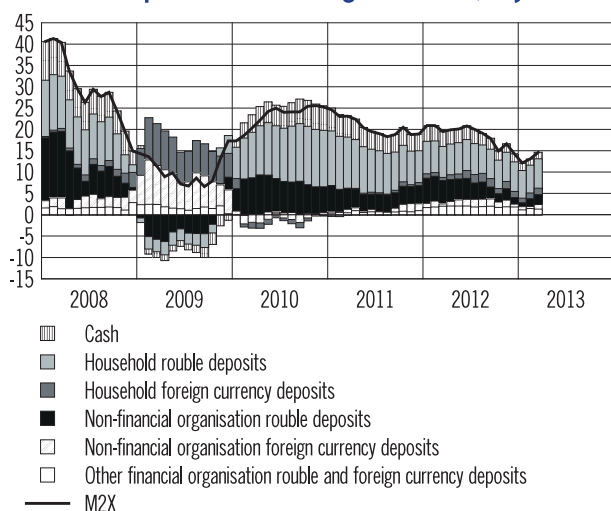
As the share of loans to households in the structure of bank assets increases, further growth of this type of debt may affect not only the household sector, but also the banking sector in Russia. Loans to household take up a relatively small share in the structure of the banks' loan portfolio, which is related to low share of mortgages. At the same time, the share of non-mortgage loans to households in the total amount of loans to the private sector reached the level of CEE countries. Further accelerated growth of this type of loans may no more be considered as a 'catch-up' growth. The growth in this type of debt may lead, in particular, to an increase in bank vulnerability to the credit risk (risk of deteriorating asset quality).



¹ The selection included indicators calculated for Bulgaria, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Croatia, the Czech Republic and Estonia, as well as the aggregate indicator for countries of the euro area. Data provided at the website of Eurostat, national banks and in the publication Brown, M., Lane, P. R. (2011) 'Debt Overhang in Emerging Europe?' World Bank Policy Research Working Paper 5784, were used. The indicators for CEE countries are provided for end-2010 and end-2011. For Russia, values of indicators are provided as of 1 January 2013.

² The amount of financial assets of households was calculated as the sum of cash money and bank deposits of households, and also the cost of securities owned by households (according to the data of Rosstat). The indicator of net financial assets of households was calculated as a difference between their financial assets and the size of debt.

Broad money (M2X) (contributions by various components to annual growth rates, %)

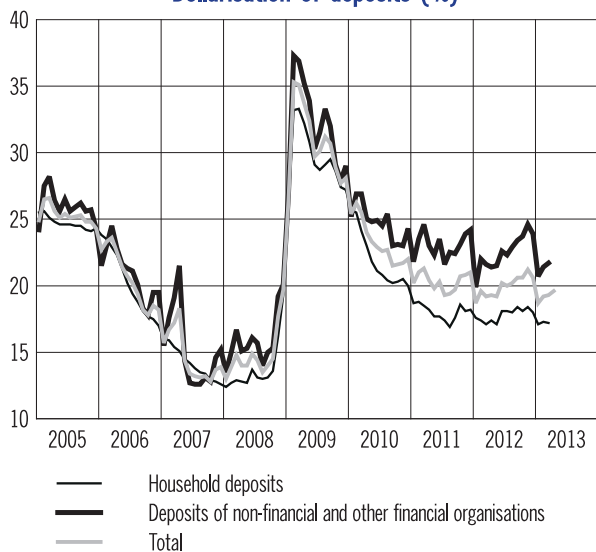


Source: Bank of Russia.

decreased and stood at 18.7% by the beginning of the current year, i.e. it was the same as in the previous year. In January to March 2013, the annual growth rate of foreign currency deposits in general was higher than in the same period of the last year. Dollarisation of deposits also slightly increased, however, its level was not much higher than the same indicator in the previous year (19.3% and 19.5%, respectively, as of the beginning of April).

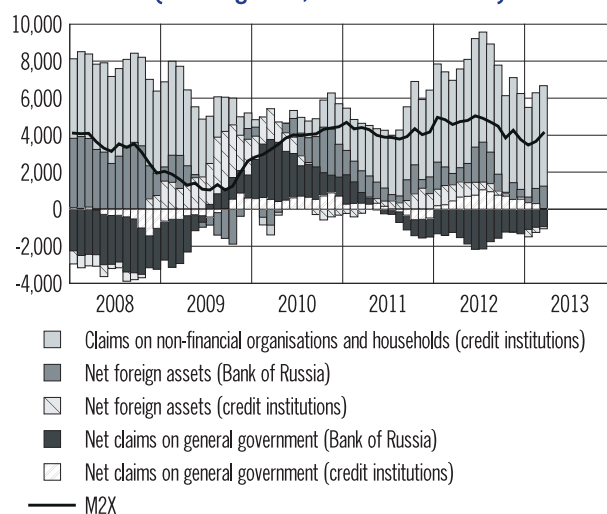
The growth in lending activity was the main source of the increase of money supply in 2012. At the same time, the slowdown in growth rates of money supply resulted primarily from the decrease in net claims on the general government by the Bank of Russia, as well as the reduction in the net foreign assets of the Bank of Russia.

Dollarisation of deposits (%)



Source: Bank of Russia.

Broad money (M2X) and its main counterparts (annual growth, billions of roubles)



Source: Bank of Russia.

In January-February 2013, there was a slight increase in the annual growth of the M2X against the background of the increase in the growth rate of loans to the economy coupled with a smaller (compared to the last year) drop in net claims on the general government by the Bank of Russia.

Domestic demand

In 2012, the GDP grew by 3.4%. Domestic demand remained the main factor driving economic growth. The households final consumption expenditure made the greatest contribution to economic growth among elements of GDP use. The contribution of the final consumption expenditure of the general government and non-profit organisations servicing households to GDP growth was negative.

The slowdown of growth rates of fixed capital investments in 2012, as well as a reduction in growth rates of inventories resulted in a decrease in the contribution of the gross capital formation to GDP growth. Against the background of a more than twofold slowdown in the growth rates of imports of goods and services, the negative contribution of net exports declined markedly. However, in general, in 2012, the growth in domestic demand for imported products was higher than for domestic products.

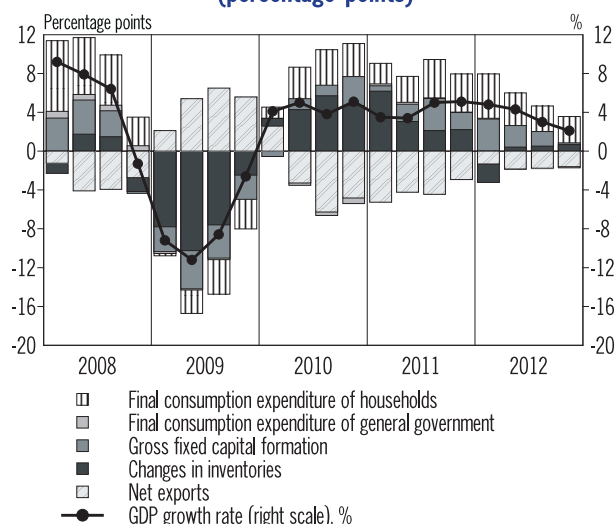
In 2012, the actual output of goods and services is estimated to be close to its potential level, indicating a lack of significant inflation risks posed by domestic demand in the consumer market.

Consumption

In 2012, the household final consumption expenditure increased by 6.8% compared to the previous year (by 6.4% in 2011). At the beginning of 2013, high growth rates in loans to households contributed to the increase in consumer expenditure of households. In Q1 2013, compared to the corresponding period of the previous year, growth rates of real household expenditures for the purchase of goods and services were estimated to have slowed down from 6.4% to 4.4%.

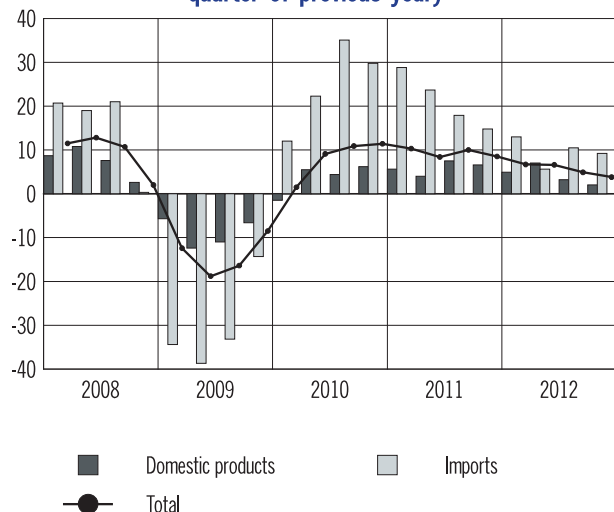
In Q1 2013, the consumer confidence index (according to Rosstat surveys) increased. This was connected with improved assessment by individuals regarding economy performance and

GDP growth structure by expenditure (percentage points)



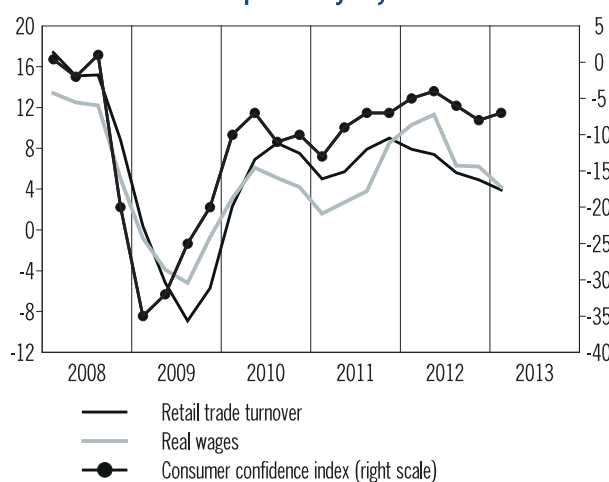
Source: Bank of Russia calculations, Rosstat.

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



Source: Banks of Russia calculations, Rosstat.

Turnover in real retail trade, real wages and consumer sentiment (growth as % to corresponding quarter of previous year)



Source: Rosstat.

prospects, regarding changes in their personal financial situation and the existence of favourable conditions for making major purchases. In Q1 2013, growth rates of retail sales slowed down significantly compared to the corresponding period of the previous year (from 7.9% to 3.9%). The growth of turnover of retail trade in food products, including beverages and tobacco, showed the most noticeable slowdown, which can to some extent be attributed to the acceleration in the growth of food prices. In Q1 2013, household propensity to consume equalled 79.4%. With the output gap close to zero, the existing dynamics of consumer expenditure does not aggravate inflation risks.

In January to March 2013, the household propensity to save⁸ (including savings in the form of deposits and securities) was higher than in the corresponding period of 2012, which to some extent is related to the increase in interest rates for retail deposits offered by the largest Russian banks at the end of 2012, and the increase in household real disposable income.

Investments

In 2012, the amount of gross fixed capital formation increased by 6.0% (by 10.2% in 2011). At the beginning of the current year, growth rates of fixed capital investment continued to slow down and equalled 0.1% at the end of the

⁸ Savings include growth (reduction) in deposits, acquisition of securities, changes in funds in accounts of individual entrepreneurs, changes in loan debts, purchase of real estate, and purchase of livestock and poultry by households.

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



Source: Rosstat.

first three months (16.5% in January to March 2012).

The dynamics of corporate own funds⁹ as a source for financing fixed capital investment continued to decline; this is one of the factors that hamper investment activity. According to the results of 2012, growth rates of profits of non-financial organisations slowed down from 19.8% at end-2011 to 9.9%. In January to February 2013, the net financial result of organisations was 21.2% less than the same indicator in 2012.

The high base of Q1 2012 also affected the deceleration in fixed capital investment.

The monthly dynamics of construction activities was volatile in 2012 and was characterised by a noticeable slowdown of growth rates in the second half of the year. In general, during the year, construction increased by 2.4%. Business activity in construction remained low at the beginning of 2013. In January to March, the volume of construction works went up by 0.6% (by 5.0% in January-March 2012). At the same time, volumes of housing construction in this period increased by 6.5% (5.5%). More than half of the total housing was built by individual developers.

According to a survey of the business activity of construction organisations (Rosstat), the business confidence index in construction improved in Q1 2013, compared to the previous quarter, in line with the seasonal dynamics of

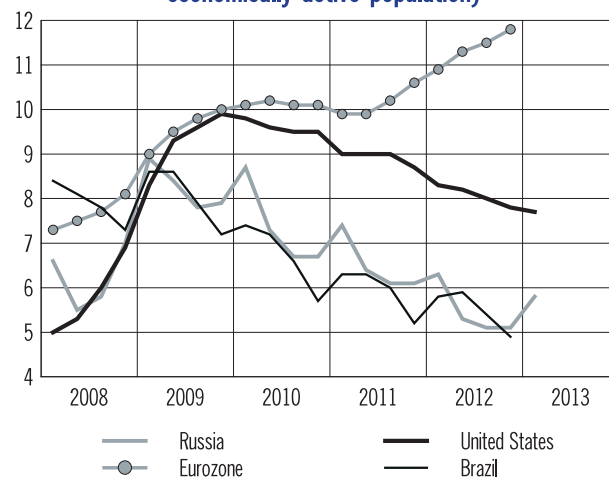
⁹ The share of own funds in the structure of fixed capital investment by sources of financing was 45.4% in 2012.

the indicator. Most of the surveyed managers named the high level of taxes and the insolvency of their customers as the factors that constrained construction activity.

Labour market

At the beginning of 2013, positive trends were preserved in the labour market. The increase of population employed in the economy continued. The level of utilisation of available manpower was high: it stood at 89% in January to February 2013, according to Russian Economic Barometer data.

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



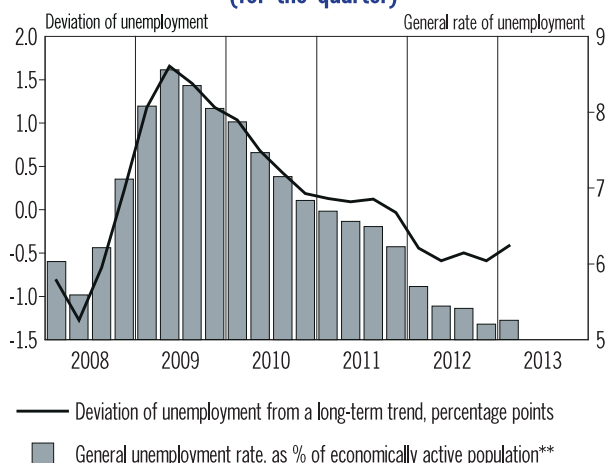
Source: national statistics, Eurostat, ILO, Rosstat.

Unemployment and labour utilisation in industry



Source: Russian Economic Barometer, Rosstat.

Unemployment rate (for the quarter)*



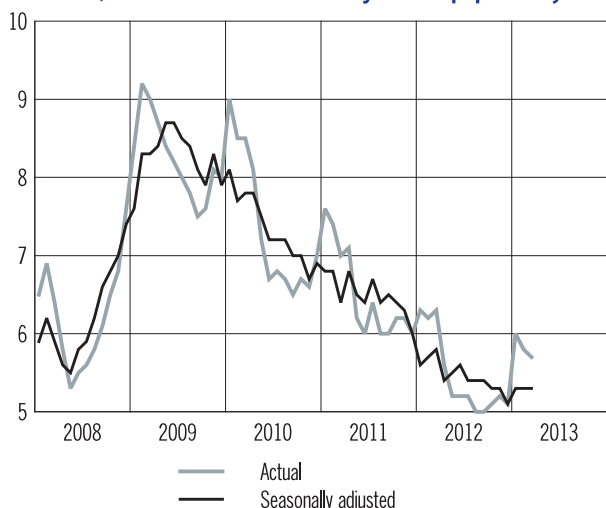
* Long-term trend was assessed by the Hodrick-Prescott filter.
 ** Seasonally adjusted.
 Source: Bank of Russia calculations, Rosstat.

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



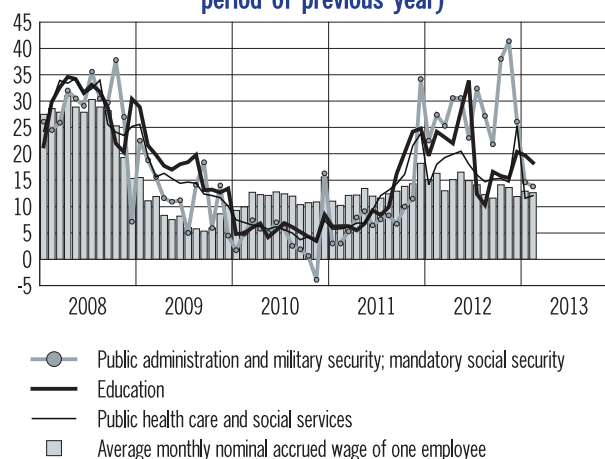
Source: Bank of Russia calculations, Rosstat.

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



Source: Bank of Russia calculations, Rosstat.

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



Source: Rosstat.

In 2012, the unemployment sank to its lowest value in the last 20 years (5.5%). In March 2013, this indicator reached 5.7% (6.3% in March 2012). In January to March, the seasonally adjusted unemployment was higher than in Q4 2012. The general unemployment rate is estimated to remain below the long-term trend. The growth rates of unit labour cost¹⁰

¹⁰ Calculated as the ratio of the growth rate of the nominal wage of one employee to labour productivity growth. It is similar to the growth rate of unit labour cost calculated by American and other countries' statistical agencies as a ratio of the average hourly nominal wage to labour productivity, the ratio being an indicator of the pressure exerted by wage costs on inflation.

(ULC) reduced at the end of 2012; however, in general they were higher than the year before. The growth of ULC against the background of a low unemployment rate may increase inflation risks from the rise in production costs.

Labour productivity increased by an estimated 2.4% in 2012 compared to 2011. According to estimates, labour productivity growth rate in non-tradable sector exceeded those in the tradable sector. In 2012, real wage growth rate exceeded the rate of change in labour productivity. Particularly high wage growth was registered in the activity types largely financed from the state budget. However, their level is still

below the national average monthly wages. The beginning of 2013 may be characterised by the same situation. In January to February 2013, the average wages of the public health care and social services employees were 82% of the level for manufacturing industries, while wages of education employees amounted to 81%. In January to March 2013, growth rate of real wages slowed from 10.3% to 4.2% compared to the corresponding period of 2012. With the output gap close to zero, the growth of real wages does not create additional pressure on inflation from the consumer demand.

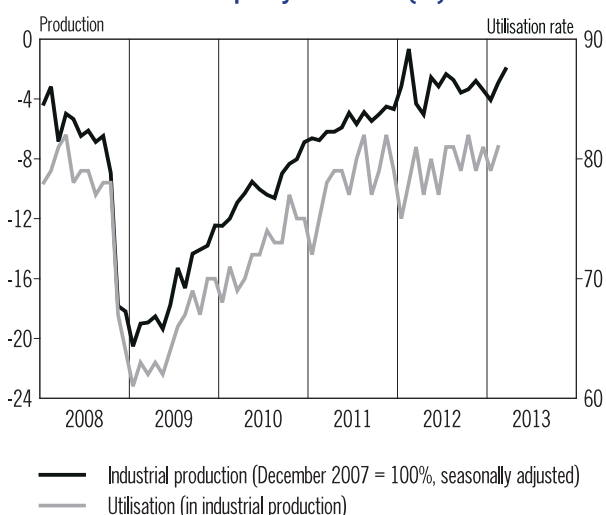
Production

In 2012, the driving sectors in the GDP growth rate were wholesale and retail trade, financial activity and transactions with real estate.

Compared to the corresponding period of 2012, Q1 2013 saw a slowdown in the growth of the production of goods and services in basic types of economic activity¹¹ (from 5.3% to 0.6%).

The volume of industrial production in Q1 2013 remained at the level of the corresponding period of 2012. Seasonally adjusted, the monthly average rate of industrial growth in January to March was higher than in the respective period of 2012. After a slip in January 2013, the output

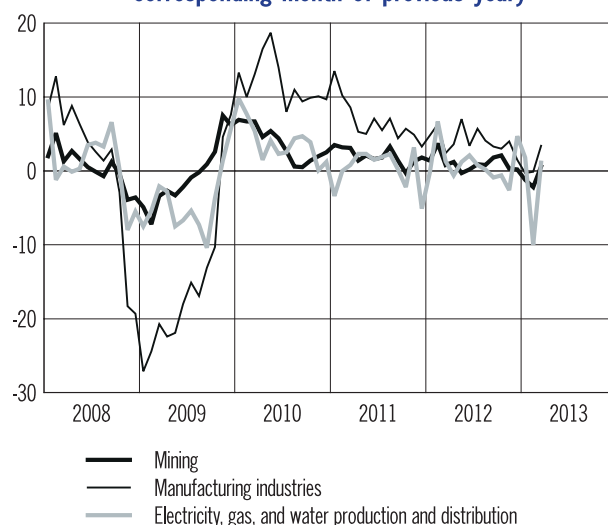
Industrial production growth and capacity utilisation (%)



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

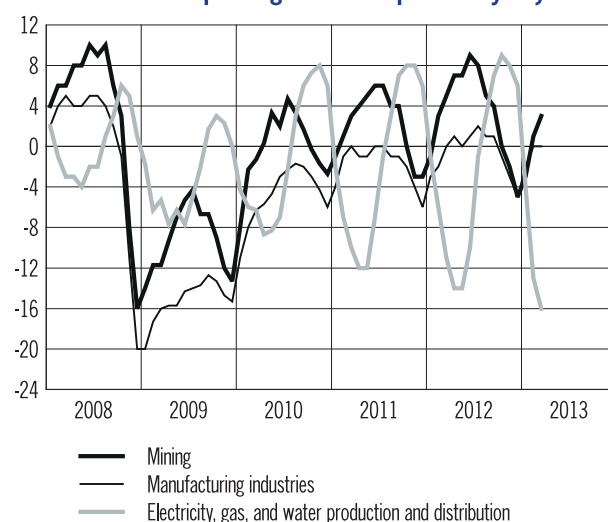
¹¹ Calculated on the basis of data on changes in the quantities of the output of agriculture, mining, manufacturing, electricity, gas, and water production and distribution, as well as construction, transport, retail and wholesale trade.

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



Source: Rosstat.

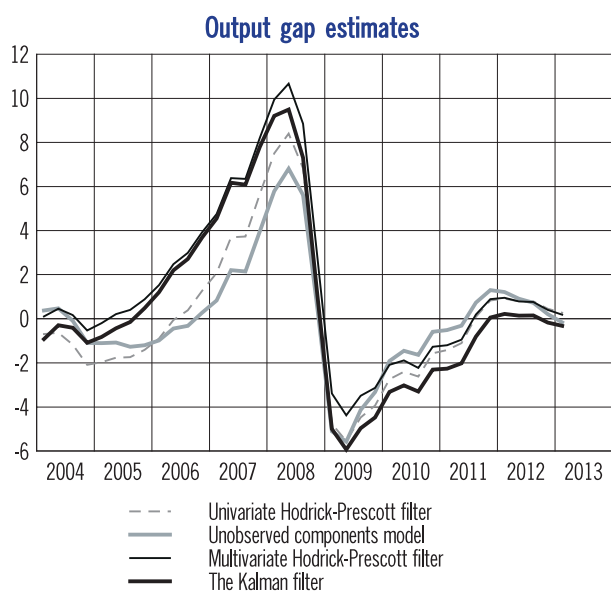
Business confidence indices by activity type (growth as % of corresponding month of previous year)



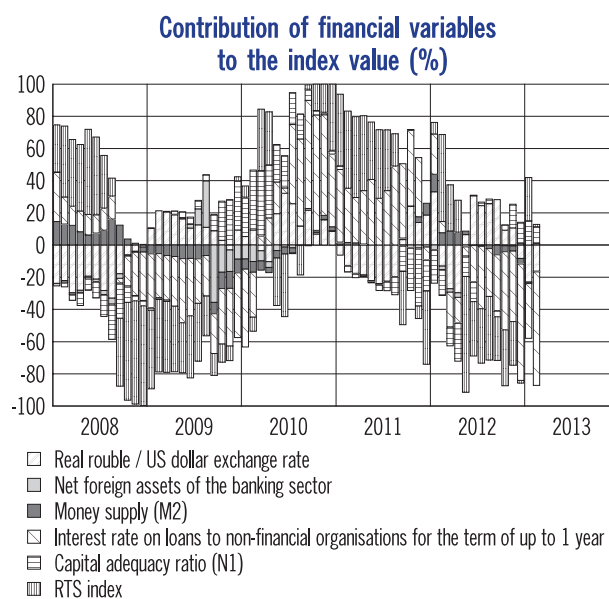
Source: Rosstat.

of industrial products in February and March increased compared to the previous month.

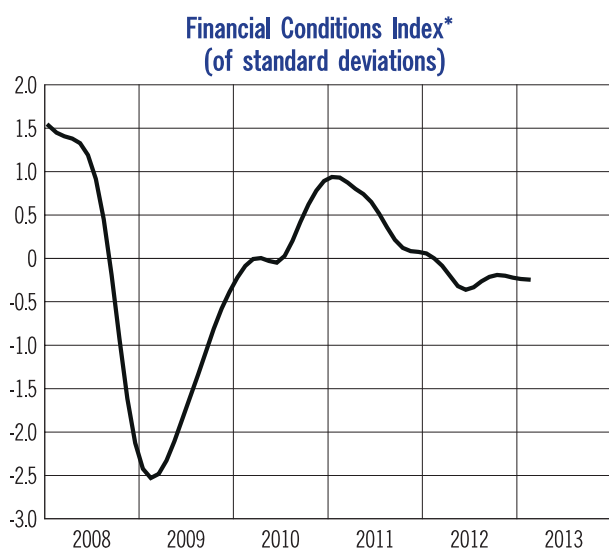
In January to March of the current year compared to the respective period of 2012, mining sector output fell by 0.9%, while electricity, gas and water production and distribution dropped by 2%, and the output in manufacturing rose by 1.2%. According to Rosstat surveys, in Q1 2013 producers' sentiments in mining and manufacturing improved compared to Q4 2012. Growth rate in production was constrained by high levels of taxation, insufficient demand for manufactured products in the domestic market (in manufacturing industries), and insufficient



Source: Banks of Russia calculations.



Source: Bank of Russia calculations.



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

demand in foreign markets (for the output of mining). The Business Confidence Index of the electricity, gas, and water production and distribution in Q1 2013 was lower compared to Q4 2012.

The utilisation of industrial production capacity was equal to its pre-crisis level. According to the Russian Economic Barometer, in January to February 2013 and in general in 2012, the average value of this indicator was 80%.

January to March 2013 saw an increase of 2.3% in agricultural production. Data from the Ministry of Agriculture of the Russian Federation demonstrate that rates of spring sowing in the

period under review were by a factor of three higher than at the beginning of the previous year. According to the Ministry's forecasts the crop harvest in 2013 is expected to be at the level of 90-92 million tons. Good harvest forecasts may have a favourable effect on the food price dynamics in the current year.

In Q1 2013, the GDP grew by an estimated 1-2%.

According to calculations, from February 2012 to February 2013, the Financial Conditions Index (FCI)¹² was negative, close to zero, which was evidence of the absence of substantial risks of economic growth decelerating on the part of the financial sector. The largest negative contribution to the index value is high rates for short-term loans to non-financial organisations.

¹² The underlying idea of the index calculation is the same as the idea 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 to US dollar exchange rate, money supply (M2), the RTS index, the net foreign assets of the banking sector, the capital adequacy ratio (N1), and the interest rate on loans to non-financial organisations for the term 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 March 2013, inflation (in moving annualised terms) was 0.4 percentage points higher than in December 2012, reaching 7.0%. Core inflation stood at 5.6% as compared with 5.7% in December 2012. In accordance with the 'Guidelines of 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%.

The increase in the inflation rate was associated with an increase in the rate of growth of prices for foodstuffs and services. In March 2013, foodstuffs were 8.3% more expensive than in the same month of the previous year (7.5% in December 2012). January to February saw high rates of price growth for alcohol products related to the increase in respective excise duties¹. However, in Q1 2013, overall growth in food prices was sufficiently moderate, but higher than in Q1 2012, when minimum values for this period of a year were reached in conditions of high levels of supply of agricultural products in global and domestic markets.

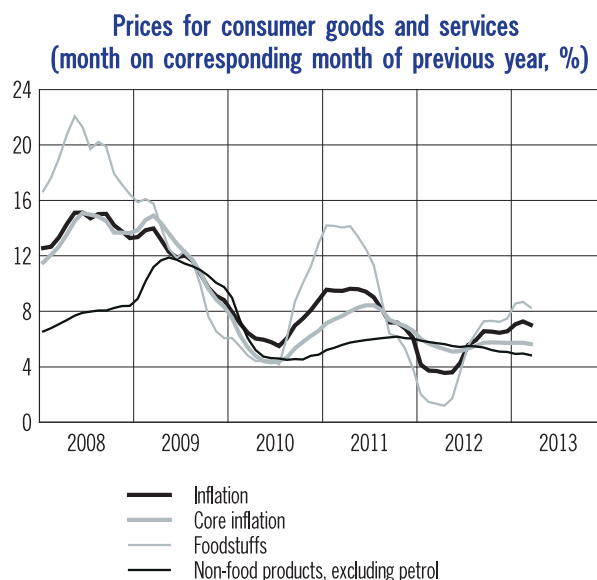
In March 2013, prices and tariffs were 7.9% higher than in the same period of the previous year (7.3% in December 2012). This is related to the fact that values of several indices of goods and services prices, primarily prices of administered services, were higher in Q1 of the current year than in Q1 2012. Thus, the index of prices and tariffs for housing and public utility services was 100.3% against 100% in January to March 2012, and 101.1% against 99.5% for passenger transport fees, and 101.6% against 101.0% for communications, respectively.

In Q1 2013, a downward trend in price growth rates for non-food goods (excluding petrol prices) preserved, these items being least susceptible to the influence of administrative and certain volatile factors. In December 2012, the rate of price growth for this group of goods was estimated at 5%, and in March, it was estimated at 4.8%.

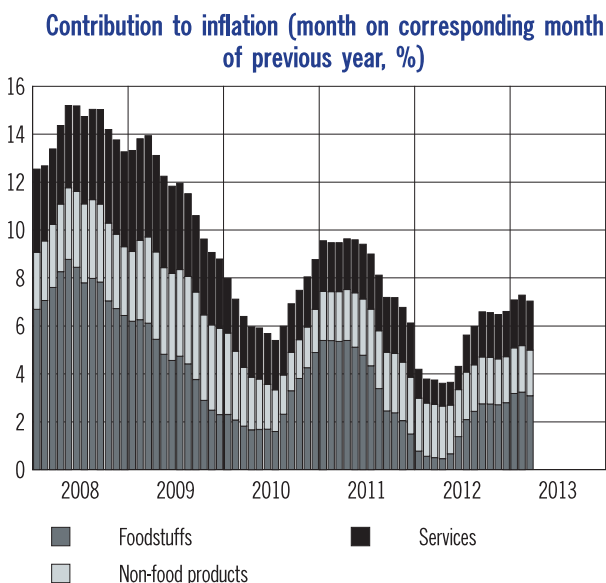
It should be noted that in March 2013 annual inflation and core inflation were lower than in February and January. This was the result of a

reduction of growth rates of prices for foodstuffs, primarily fruit and vegetables. It rose by 0.1% in March, which is the lowest level for this month during the observation period. March also saw a fall in annual rates of growth of prices for non-food products and services compared to February.

According to assessments, the output gap in Q1 2013 was close to zero, indicative of a preservation of general economic factors restricting inflation. Fluctuations in rouble exchange rates were estimated to have a restraining effect on inflation.



Source: Rosstat, Bank of Russia calculations.



Source: Rosstat, Bank of Russia calculations.

¹ Furthermore, excise duties on tobacco products, petrol and diesel, and passenger cars were also increased.

II. Economic development prospects and risk assessment

II.1. Economic development prospects

In 2013, the situation in the global economy is expected to remain tense. The unfavourable situation in the euro area (the largest consolidated trading partner of Russia) remains the key external factor. Weak foreign demand will continue to exert a restraining influence, but this is not expected to intensify. A stabilisation of the negative output gap at close to current values is projected in the euro area till the end of the current year. Subsequently, its gradual reduction might be expected¹.

Potential growth in the prices of Russia's main export commodities will be restricted in 2013 by the forecasted low growth rates of the global economy and the high level of global stocks of energy and other commodities. At the same time, the accommodative policy of the leading central banks will contribute to the preservation of investment demand for commodities. In general, it is expected that oil prices in 2013 will remain fairly high, although on average they will be noticeably lower than in 2012.

According to forecasts, foreign inflation will be moderate, conditioned by a weak stance of the global economy and price fluctuations in world food and energy markets. Quantitative easing measures by foreign central banks are not expected to spur inflation in the economies of Russia's main trading partners. Consequently, without additional price shocks in the global markets and factors that may considerably influence the exchange rate, the risk that imported inflation will have an upward effect on Russian consumer prices remains insignificant.

According to consensus forecasts, key interest rates of monetary policy in the euro area and the United States will remain static till the end of 2014².

The problems facing the banking sector of Cyprus and its restructuring are unlikely to impact

the Russian economy seriously; however, they may influence negatively individual Russian companies and banks. Further aggravation in the financial crisis of Cyprus or in other periphery countries of the euro area is not projected.

According to forecasts, the level of economic activity in Russia will remain moderate in the coming months. The GDP growth forecast for 2013 is lowered. The main drivers of this lowered growth are weak foreign demand and the end of the oil price rally, coupled with an expected slowdown in the growth of the domestic demand.

The influence of non-price lending conditions on economic growth is currently assessed as neutral. Further minor tightening of these conditions for corporate borrowers and some easing in consumer lending conditions to households and to small and medium-sized enterprises is expected.

Estimates of potential output obtained through different methods³ suggest that the growth rate of this indicator has not slowed, however it remains slightly higher than the growth rate of actual output of goods and services. Thus, it may be said that a negative output gap is developing in 2013, though it is not expected to be large.

A number of factors currently suggest that in the absence of any structural transformations, any immediate acceleration in the growth rates of the potential domestic output is unlikely. First and foremost, these factors should include the observed slowdown in investment activities in the economy and the lack of growth in prices for the main Russian exports. This growth is not expected to resume in the next few years. Against the backdrop of the slowdown in growth rates of potential output, the likely short-term drop in business activity in the economy in 2013 may not

¹ According to IMF estimates, the output gap in the euro area will remain negative until the end of 2016.

² According to Bloomberg and Thomson Reuters forecasts.

³ See Schedule of output gap estimates in Section I.2 Domestic economic conditions – Production.

result in the formation of a significant negative gap.

The combination of several factors will form the basis for the reduction in inflation in the coming quarters. The dynamics of food prices, representing a weighty share in the consumer price index basket (37.1% in 2013), will probably contribute to the slowdown in inflation. Favourable FAO forecasts regarding the production of cereals and demand for them both from world markets and from main exporting countries, including Russia, as well as forecasts by the Ministry of Agriculture of the Russian Federation suggest a decline in growth rates of food prices in the Russian market in the second half of the year compared with the same period of the previous year.

The current and projected ratio of actual and potential output is indicative of an absence of preconditions for demand-induced inflation growth. Stabilisation of inflation noted in Q1 contributes to the formation of moderate inflation expectations. In the absence of sharp fluctuations in food prices inflation will continue to reduce.

In the second half of 2012 to the beginning of 2013, the Bank of Russia's policy, among other things, was focused on restraining inflation expectations. Expectations are currently returning to inflation targets, which will be taken into account when determining the vector of the monetary policy. Results of surveys show that inflation expectations at the beginning of 2013 continued to fall even against the backdrop of inflation growing in annualised terms. Based on

the results of the expert opinion poll, consensus forecasts of Thomson Reuters and Interfax for 2013 fell by 0.1 percentage points to 6.0% and 6.3%, respectively, at end-March and early April, compared with December 2012. The consensus forecast of the Development Centre was 6.1%, having fallen by 0.2 percentage points. The end-of-March public opinion poll showed a noticeable improvement in consumer sentiment and a sharp fall in short-term inflation expectations, which is largely associated with the fact that households have noted no significant increase in prices and tariffs at the beginning of the year.

Estimates based on financial market data suggest that the short-term inflation expectations of the market's participants are also reducing, remaining at an elevated level for the time being.

According to forecasts of Bank of Russia specialists, inflation may return to the target range indicated in 'Guidelines for a Single State Monetary Policy for 2013 and for 2014 and 2015' by the end of 2013 (5%-6% in 2013, 4%-5% in 2014). Meanwhile, the projected path of inflation suggests that it may exceed the target range in Q2 2013. Such a rise is expected to be moderate and will not require additional tightening of monetary policy. This is due to the fact that the monetary policy measures available to the Bank of Russia cannot significantly affect growth rates of prices in the short-term, while the likelihood that the target range for 2013 as a whole will be exceeded is currently assessed as moderate. The mid-term inflation forecast suggests that it will continue to gradually decrease.

II.2. Risk assessment

Mid-term inflation forecasts, which take into account the time lag influence of monetary policy on economic processes, play an important role in decision making. There are several risks which may lead to deviations of projected inflation in 2013-2014 from the target, and imbalances in the macroeconomic and financial fields which may affect the future stance of monetary policy.

The main risks are currently associated both with the external sector and with the domestic market conditions. Overall, probability of the realisation of risks, which can have a significant influence on the parameters of Bank of Russia monetary policy, is estimated as low.

External risks include a major slowdown in the global economy recovery rates, and also dramatic and unforeseen changes in the global financial market.

The situation in the United States relating to the expiration of legal restrictions at the end of 2012 on levels of public debt remains complex. Depending on the type of solution to this issue there may appear risks of a fall in business activity in the United States, which will have a negative impact on the global economy, or weakening of trust in the United States as a sovereign borrower, which can affect global financial markets.

The fast growth of stock indices is becoming the primary consequence of the third stage of quantitative easing in the United States. If monetary stimuli do not generate reliable growth acceleration in the economy of the United States there is a danger of sharp price adjustments which will have negative consequences for global financial markets.

The implementation of unfavourable scenarios associated with the build-up of tensions in the global financial market may result in a fall in external demand and in prices for Russia's major exports. Along with tightening access to external funding this may lead to a fall in production coupled with a decline in real household incomes and a growth in unemployment. Destabilisation of the global financial market may cause external pro-inflationary risks associated with aggravation of Russia's balance of payments, depreciation of the rouble and acceleration of inflation induced

by the transmission of foreign exchange rate dynamics onto prices.

If such scenarios occur, monetary policy will most probably respond by a substantial easing in the medium-term perspective. Meanwhile, the threat of growth of inflation expectations may require a short-term increase in interest rates, the advisability of which will be determined based on the combination of inflation risks and threats to financial stability.

The significance of internal economic risks has recently come to the forefront.

The slowdown in economic growth is currently one of the most significant risks from the point of view of the monetary policy stance. Restrictions in production factors may further lead to a fall in potential output growth rates. Such a fall seems unlikely now, though the risks remain. Thus, low investment activity may limit the future potential of economic growth. It is important to note that if such a scenario occurs amid a noticeable deceleration of economic growth, policy easing may be inefficient, because it will facilitate the rise in short-term volatility of inflation rather than provide a basis for a sustainable and long-term development.

The Russian economy may also face the risk of a serious slowdown in business activity, which will be more pronounced compared to the fall in the potential output. The level of business activity in Q1 2013 turned out to be noticeably lower than projected. Mid-term predictive estimates of the Bank of Russia are based on the assumption that the causes of these deviations are short-lived, and that growth may renew by the end of 2013 and beyond. If the situation takes a worse than predicted path for a long time, a significant negative output gap may form in 2013–2014. A marked decline in inflation may become one of the possible consequences of such developments, requiring a significant easing of monetary policy.

Monetary analysis of risks

In order to be able to timely detect the risks of price, financial and general macroeconomic instability the Bank of Russia conducts regular

analysis of the dynamics of monetary and credit aggregates. Meanwhile, the methodology of including money supply dynamics in the assessment of inflation risks is based on the analysis of the most significant changes in low-frequency inflation components¹. The analysis performed in line with these approaches has allowed us to make the following conclusions.

The sharp fall in inflation rates which began at the end of 2011 did not fully correspond to the money supply dynamics demonstrated in the previous periods. This was indicative of possible risks that the trend towards the slowing down of the consumer price index (CPI) growth rate might be unstable. Some of these risks were observed in the second half of 2012. Current values of inflation rates are generally consistent with the preceding dynamics of monetary aggregates.

At the same time, the slowdown in the growth of the money supply to a relatively low level may have a pronounced restraining influence on price growth rates in 2013. Under these conditions, the expected slowdown in inflation may significantly differ from the comparable process at the beginning of 2012 and will have a longer duration.

Without explicit factors accelerating the expansion of bank lending (currently the principle source of money supply growth) and subject to preservation of a well-balanced fiscal policy profile, there are no grounds to expect significant fluctuations in growth rates of monetary aggregates. This will help to form inflation risks at a relatively low level and to meet medium-term inflation targets.

Despite some deceleration, monetary and credit aggregates are growing generally in line with the values of the main macroeconomic indicators expected in the medium term. However, according to Bank of Russia estimates, consumer lending growth remains high relative to equilibrium values induced by fundamental factors which may be viewed as a potential source of higher macroeconomic volatility. Meanwhile, its further gradual reduction during 2013, partially related to the tightening of supervision in the field of consumer lending by the Bank of Russia, has the highest probability. Therefore, the likelihood of overheating in the credit market is low.

¹ 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.

III. Implementation of Bank of Russia monetary policy

III.1. Key monetary policy decisions

As before, in Q1 2013, the annual inflation rate exceeded the upper border of the target range set for the current year (5%-6%). The consumer price index path in the period under consideration was determined primarily by its non-monetary component: increase in individual administered prices and tariffs and acceleration of growth rates for food prices. The Bank of Russia forecasts a decline in annual growth rate of the consumer price index for the second half of 2013. The fact that inflation has been above the borders of the target range for a long time may negatively affect expectations of economic agents, and is regarded by the Bank of Russia as a source of mid-term inflation risks.

In January to March 2013, business activity continued to cool down. Weak dynamics of production indicators was coupled with a slowdown in growth rates of several indicators characterising consumer activities. Meanwhile, the state of the labour market and the dynamics of bank lending continued to support domestic demand.

Under these conditions, the Bank of Russia did not alter the stance of its monetary policy in Q1 2013. In this regard, on 2 April 2013, the Bank of Russia Board of Directors made a decision

to cut by 0.25 percentage points interest rates for its liquidity provision operations for the term exceeding one month. According to Bank of Russia estimates, the approximation of long-term loan costs with the minimum rate on short-term auction operations, which are currently responsible for the main volume of operations with credit institutions, will raise the efficiency of the interest rate channel of the monetary policy transmission mechanism.

The increase in flexibility of the exchange rate, together with evolving foreign and domestic macroeconomic trends has reduced the role of required reserve ratios in regulating cross-border flows of capital. In this regard, in February 2013, the Bank of Russia switched from the use of differentiated required reserve ratios (5.5% for rouble and foreign currency liabilities of credit institutions to non-resident legal entities, and 4.0% for rouble and foreign currency liabilities of credit institutions to households and other liabilities) to a single required reserve ratio equal to 4.25% for all categories of liabilities of credit institutions. The mentioned decision is neutral from the point of view of the monetary policy stance and the impact on the banking sector liquidity.

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

To manage money market interest rates and to maintain them at a level consistent with achieving the ultimate goal of its monetary policy, the Bank of Russia conducts operations to regulate banking sector liquidity in the short term. It does so to satisfy the needs of the banking sector either for refinancing or for depositing free cash funds, primarily through market operations, whose parameters are established on the basis of the aggregate liquidity forecast of the banking sector.

In Q1 2013, amid a reducing structural deficit of liquidity in the banking sector, the demand of credit institutions for the refinancing operations of the Bank of Russia was generally lower than in Q4 2012. Accordingly, the gross credit of the Bank of Russia to credit institutions declined by 0.6 trillion roubles to 2.1 trillion roubles¹ over the observed period. Heterogeneity in the dynamics of autonomous liquidity factors had a significant influence on the intraquarter dynamics of credit institutions' demand for Bank of Russia liquidity provision instruments. At the beginning of the quarter, the debt of credit institutions on Bank of Russia refinancing instruments declined by approximately 1.4 trillion roubles in January and the first ten days of February. However, as the structural deficit increased in the second half of the quarter influenced by the budget factor, there evolved an upward trend in the refinancing volumes of credit institutions by the Bank of Russia.

The Bank of Russia provided liquidity to credit institutions primarily in the form of auction-based operations, especially via its repo auctions. According to Q1 results, the debt on auction-based repo operations fell by 242.2 billion roubles to 1.6 trillion roubles.

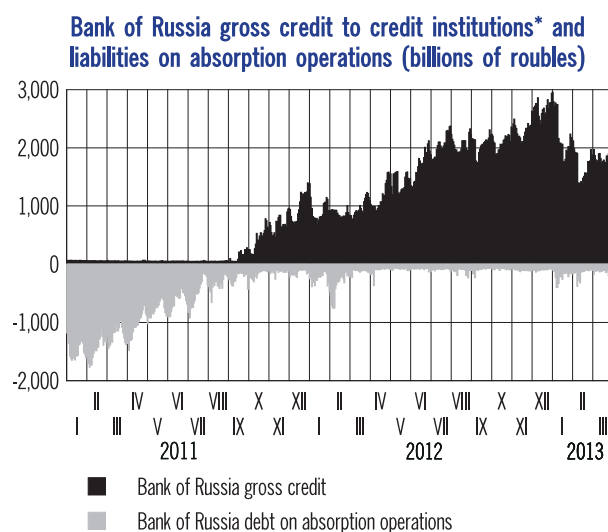
Credit institutions continued to use one-week repo auctions as their primary means of obtaining liquidity from the Bank of Russia. The debt of credit institutions on these operations exceeded 1 trillion roubles, on average, in January to March. Meanwhile, the average amount of funds provided by the Bank of Russia through overnight repo auctions in Q1 reduced by a factor of three

compared to the previous quarter, amounting to 97.2 billion roubles.

As before, demand of credit institutions for longer-term auction-based liquidity provision remained at a low level. The debt of credit institutions on three-month repos reduced more than twofold to 57.4 billion roubles by the end of March. The one-year repo auction conducted in Q1 was declared invalid due to the lack of demand, and the debt of credit institutions on one-year repo actions remained almost unchanged at the level of about 30 billion roubles.

Reduction in the structural deficit of liquidity compared with the previous quarter and lowering of short-term interest rates of the money market led to the fall in demand of credit institutions for Bank of Russia currency swap operations. This resulted in a fall in their frequency in Q1, as well as a decrease in average daily amounts of provided liquidity to 38.8 billion roubles (53.6 billion roubles in Q4 2012).

As before, Bank of Russia currency swaps were most actively conducted in periods of main tax payments. Q1 saw a noticeable reduction in a number of large-volume Bank of Russia currency swaps on days when the demand of credit institutions at repo auctions was below the liquidity provision limit established by the Bank of Russia.



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

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

Amid a reduction in the structural deficit of liquidity in Q1 2013, the demand of credit institutions for Bank of Russia loans secured by non-marketable assets and guarantees of credit institutions fell markedly. The amount of funds provided to the banking sector through this type of loans fell from 375.2 billion roubles in Q4 2012 to 45.3 billion roubles in Q1 of the current year, and the average amount of debt on this type of loans totalled 472.1 billion roubles (711.2 billion roubles in Q4 2012).

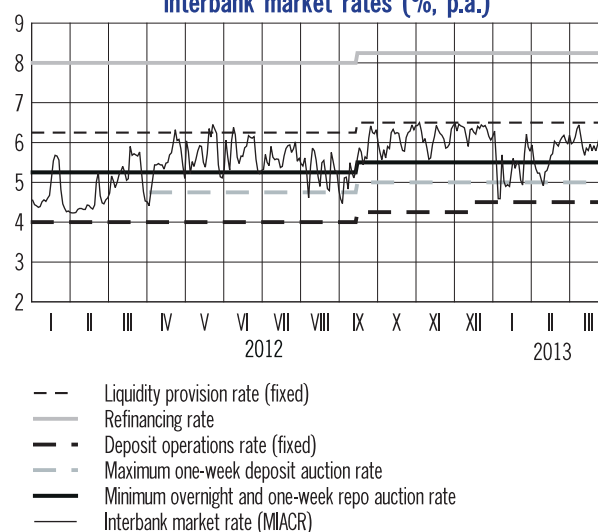
The volume of other refinancing operations with fixed rates (Lombard loans, overnight loans, loans secured by gold, and repos) remained insignificant in the reporting period.

The volume of free cash funds of credit institutions placed with the Bank of Russia was slightly higher in Q1 2013 compared with Q4 2012 (the average daily amount Bank of Russia debt on deposit operations with credit institutions rose from 102.5 billion roubles to 165.8 billion roubles, respectively).

Amid a fall in demand of credit institutions for refinancing operations in Q1, among Bank of Russia liquidity provision operations its interest rates on overnight and seven-day repo auctions had the most significant influence on money market rates. The spread between the overnight MIACR on rouble loans and the minimum short-term auction-based repo rate reduced by 22 basis points in Q1, on average, compared with the same indicator in Q4 2012.

In Q2 2013, the structural deficit of liquidity is expected to grow slightly (see Box 'Forecast of liquidity-forming factors in Q2 2013'), which will

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



Source: Bank of Russia.

lead to a small increase in the demand of credit institutions for Bank of Russia refinancing facilities.

The Bank of Russia has a sufficient set of instruments to satisfy liquidity needs of the banking sector. The volume of potential collateral (in the form of securities and non-marketable assets) on Bank of Russia refinancing operations at the disposal of credit institutions was about 5.3 trillion roubles as of 1 March 2013 (of which, approximately 3/4 are securities and 1/4 are non-marketable assets). At the same time, utilisation rate of market collateral was about 60%. That is, the Bank of Russia is capable of satisfying additional refinancing needs of credit institutions in the volume of up to 1.6 trillion roubles through the appropriate refinancing mechanisms.

Forecast of liquidity-forming factors in Q2 2013

Changes in both the balances on the general government's accounts with the Bank of Russia and the volume of cash in circulation will be of key importance for the formation of liquidity in the banking sector in Q2 2013.

It is expected that the uneven spending of budget funds will become less pronounced in 2013 compared with the previous year. Based on the seasonal patterns, according to preliminary estimates of the Bank of Russia, in Q2 2013 the excess of budget revenue over expenditure (excluding operations with OFZ and changes in deposits of the Federal Treasury) may cause a minor outflow of liquidity from the banking sector.

Meanwhile, it will become more important to use the mechanism of depositing temporary free federal budget funds with credit institutions. This must bring about the smoothing of the intrayear unevenness of fiscal flows and reduce their effect on the banking sector liquidity and on the money market.

As estimated by the Bank of Russia, in the period from April to June 2013, the rise of cash in circulation is expected to cause a withdrawal of liquidity in the amount of 0.2-0.3 trillion roubles.

The direction and scale of the consequences of Bank of Russia foreign exchange interventions for the liquidity volume will depend on the developments in the domestic foreign exchange market. At the same time, the existing exchange rate policy, which is designed to ensure the flexibility of the rouble's exchange rate, leads to a significant fall in the effect of Bank of Russia forex operations on the banking sector liquidity compared with the previous years.

Glossary

Autonomous factors

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 cash in circulation, changes in the balances on the accounts of the general government with the Bank of Russia as well as Bank of Russia operations in the domestic foreign exchange market.

Balances on general government's accounts

Balances on accounts with the Bank of Russia for federal budget funds, the budgets of the constituent territories of the Russian Federation, local budgets, government extra-budgetary funds and extra-budgetary funds of the constituent territories of the Russian Federation and local authorities.

Bank of Russia net operations

Defined as the difference between the liabilities of the Bank of Russia to the banking sector and the claims of the Bank of Russia on the banking sector which are due on the current day. The liabilities of the Bank of Russia 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 through Bank of Russia bonds allotment on previous days, which are due on the current day. The claims of the Bank of Russia on the banking sector include the volume of funds to be paid back by credit institutions to the Bank of Russia through repos and currency swaps and through the redemption 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 tom-next conditions.

Bi-currency basket

Operational indicator of the exchange rate policy of the Bank of Russia, expressed in the national currency (in roubles). The basket is comprised of US dollars and euros (effective since February 2005). The rouble value of the bi-currency basket is calculated as a sum of 0.55 US dollars and 0.45 euros in rouble terms (effective since 8 February 2007).

Broad money (monetary aggregate M2X)

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

Consumer price index (CPI)

One of the key indicators characterising the 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 is 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 at prices from a previous (reference) period.

Countercyclical currency

A currency which demonstrates traditional appreciation in periods of instability in the world 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

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

Free bank reserves

These include balances on the correspondent accounts in Russian currency (including an averaged amount of required reserves) and on the deposit accounts of credit institutions with the Bank of Russia, as well as credit institution's holding of Bank of Russia bonds.

Generalised (composite) consumer confidence index

Computed by Rosstat on the basis of quarterly surveys, as an arithmetical mean value of five indices: occurred and expected changes in one's 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 respondents' estimates (in percents). The balance of estimates is the difference between the sum of shares (in percents) of definitely positive answers and rather positive answers and the sum of shares (in percents) of negative and rather negative answers. Neutral answers are not taken into account.

Gross credit of the Bank of Russia

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

Index of bank lending conditions

Generalised indicator of changes in the conditions of bank lending, which is calculated by the Bank of Russia on the basis of a quarterly survey of the leading Russian banks – participants in the lending 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, %). Measured in percentage points.

Index of real effective rouble exchange rate

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

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

Interest rate band of the Bank of Russia (Interest rate band)

The range of fixed interest rates of the Bank of Russia for a one-day term. The upper border of the interest rate band is determined both by the rate of Lombard loans and fixed-rate repos, while the lower border is

determined by the fixed-rate deposit operations (overnight) rate. At the same time, it is possible to use the concept of a 'wide interest rate band', with its upper border considered to be the overnight credit rate of the Bank of Russia, which is currently equal to the refinancing rate.

Monetary aggregate M2

Total amount of cash in circulation and cashless funds. The national definition of the money supply indicator includes all of the 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.

Net credit of the Bank of Russia to credit institutions

Gross credit of the Bank of Russia to credit institutions net of correspondent account balances in Russian roubles (including the averaged amount of required reserves) and deposit account balances of credit institutions with the Bank of Russia, credit institutions' holding of Bank of Russia bonds (at a bond price fixed as of the beginning of the current year).

'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 Regulation of the Bank of Russia No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions'.

Open market operations

Operations performed at the initiative of the Central Bank. This type of operations includes auction-based refinancing and sterilisation operations (repo auctions, deposit auctions, etc.), as well as purchase and sale operations with respect to financial assets (government securities, currency).

Output gap

Deviation of GDP from potential output, expressed as a percent. Characterises the demand-to-supply ratio, being an aggregate indicator of the effect which the demand factors have on inflation. If the actual output is larger than the potential output (positive output gap), one can expect a price growth acceleration trend. A negative output gap is an indicator of an expected slowdown in price growth.

Procyclical currency

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

Risk premium on the market securities portfolio

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., OFZ – federal government bonds). Measured in percentage points.

Standing facilities

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

Structural deficit of the 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 the 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 other 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.) of various terms. Yields give an indication of the cost of funds in the financial market depending on the borrowing period. The term structure of interest rates in the bond market (yield curve) can be visually presented as a plot, with its abscissa and ordinate axes being time to redemption and yield at maturity, respectively.

Transmission mechanism of the monetary policy

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

Appendix 1

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

No.	The title of the section and subsection of the official website of Bank of Russia, Internet address of the page	Section/subsection contents
1	Main page – Monetary policy (http://www.cbr.ru/dkp/)	
	Monetary policy	
	Guidelines for the Single State Monetary Policy	Archive of documents since 2000
	Monetary Policy Report	First release for Q4 2012
	Monetary policy measures	Change in refinancing rate
		Change in required reserve ratios, averaging factors for the calculation of averaged value of required reserves
		Borders of variation of the rouble exchange rate, introducing the policy of a floating rouble exchange rate
	Press releases on monetary policy	Archive of press releases since 2000
	On setting limits for Bank of Russia market operations related to the supply (absorption) of liquidity	The limit for Bank of Russia market operations in the context of liquidity management in the banking sector The role of Bank of Russia operations in the creation of liquidity in the banking sector Forecasted supply of liquidity in the banking sector Forecasted demand for liquidity in the banking sector Calculation of limits for overnight repos Calculation of limits for one-week auction-based operations
	Monetary policy instruments	
	Interest rates on Bank of Russia operations	Tables of interest rates on Bank of Russia operations since 2011
	Required reserve ratios (reserve requirements) of the Bank of Russia	Legislative and regulatory framework for required reserves to be deposited with the Bank of Russia
		Procedure for depositing required reserves with the Bank of Russia
		Regulation of required reserve volume
		Required reserve averaging mechanism, including statistical data
		Measures used by the Bank of Russia, when credit institutions violate required reserve ratios
		Sources of information on required reserves of the Bank of Russia
	Bank of Russia secured loans	Terms and conditions of Bank of Russia operations on extending secured loans with fixed interest rates to credit institutions
		Legislative and regulatory framework
		General description of the refinancing (lending) system of the Bank of Russia
		Loans against the collateral (blocking) of securities from 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 refinancing operations (lending) of the Bank of Russia
		Refinancing and Banking Electronic Speedy Payment system (BESP) of the Bank of Russia
	Bank of Russia repos	Basic features of the instrument
		Participants in Bank of Russia repos
		Collateral for Bank of Russia repos
		Discounts for Bank of Russia repos
		Parameters of Bank of Russia repos

No.	The title of the section and subsection of the official website of Bank of Russia, Internet address of the page	Section/subsection contents
	Access to repos with the Bank of Russia	Bank of Russia documents setting general conditions of repos between the Bank of Russia and a credit institution at organised and non-organised trading in the Russian Federation
	Bank of Russia currency swaps	Basic features of the instrument
		Counterparties of Bank of Russia currency swaps
		Currency swap parameters
	Bank of Russia deposit operations	Types and conditions of deposit operations
		Requirements to credit institutions that are counterparties of the Bank of Russia
		Deposit operations performed via regional branches of the Bank of Russia
		Deposit operations performed using Reuters Dealing
		Deposit operations performed using the MICEX electronic trading system
		Statistical and graphical data
		Development prospects of Bank of Russia deposit operations
	Sources of information on Bank of Russia deposit operations	
	Operations with Bank of Russia bonds	Basic features of the instrument
		Participants in operations with Bank of Russia bonds
		Parameters of operations with Bank of Russia bonds
		Secondary market for Bank of Russia bonds
	Purchase/sale of securities in the open market by the Bank of Russia	Basic features of the instrument and its use
	Bank of Russia unsecured loans	Basic features of the instrument
		Participants in operations
		Parameters of operations
		Bank of Russia regulations which establish (amend) the procedure for extending unsecured loans to credit institutions
	Results of surveys of commercial banks on refinancing issues	Information material, 2005
	Monetary sphere and implementation of monetary policy	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
	Bank of Russia exchange rate policy	
		History of Bank of Russia exchange rate policy in 1999–2010
		Effective mechanism of Bank of Russia exchange rate policy
2	Main page – Bank of Russia publications – List of publications of the Bank of Russia (http://www.cbr.ru/publ/)	
	Annual report of the Central Bank of the Russian Federation	Archive of Bank of Russia annual reports since 1992
	Bulletin of the Bank of Russia	Materials are available one month after publication, archive since 1998
		A list of Bank of Russia regulations, orders and letters published in the Bulletin of the Bank of Russia
		Interviews and speeches published in the Bulletin of the Bank of Russia
		Bank of Russia consultations published in the Bulletin of the Bank of Russia
	Includes analytical materials published in the Bulletin of the Bank of Russia	Review of domestic foreign cash market
		Balance of payments and external debt of the Russian Federation
		Foreign financial markets
		Monetary sphere and implementation of monetary policy
		Russian banking sector
		Domestic financial market
	Bulletin of Banking Statistics	Archive of monthly statistical bulletins since 1998
	Monetary Policy Report	First release for Q4 2012
	Review of the management of foreign exchange assets by the Bank of Russia	Archive of quarterly reviews since 2007

No.	The title of the section and subsection of the official website of Bank of Russia, Internet address of the page	Section/subsection contents
3	Main page – Information and analytical materials (http://www.cbr.ru/analytics/)	
	Financial markets	
	Financial market review	Archive of semi-annual reviews since 2009
	Domestic financial market situation	Archive of monthly information and analytical materials since 2007
	Analytical review 'Non-Banking Financial Intermediaries'	Archive of semi-annual reviews since 2009
	Review 'Change of the Terms and Conditions of Bank Lending'	Archive of quarterly reviews since 2009
	Financial stability	
	Money market review	First release for Q4 2012
	Inter-dealer repo market report	Quarterly reports for Q1-Q3 2012
	Review of global risks	Monthly reviews since January 2012
	Rating structure of collateral under repo operations	Monthly spreadsheets since June 2012
	Financial stability review	First release for Q2-Q3 2012
4	Main page – Bank of Russia today – Publications and reports (http://www.cbr.ru/today/?Prtid=pubdoc)	
	Financial stability review	Archive of annual reviews for 2009–2011
	Speeches of the Bank of Russia's executives	Speeches since 2010
5	Main page – Press Centre (http://www.cbr.ru/press/)	
	Interviews of the Bank of Russia's executives with the Russian and foreign mass media	Archive of interviews since 2008
6	Main page – Database on currency rates (http://www.cbr.ru/currency_base/)	
	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 11.01.2010)	Database for 1999-2010
	Foreign currency exchange rates in the period before 1.07.1992	Database for the period before 1992
7	Main page – Interbank market rates (http://www.cbr.ru/mkr_base/)	
	Interbank lending market rates MIBID, MIBOR, MIACR, MIACR-IG, MIACR-B and turnover volumes of respective transactions	Database since 2000
8	Main page – Statistics (http://www.cbr.ru/statistics/)	
	Monetary and financial statistics	
	Monetary base (broad definition)	Database since 2002
	Money supply	Database since 1997
	Central Bank survey	Database since 2001
	Credit institutions survey	Database since 2001
	Banking system survey	Database since 2001
	Other financial organisations survey (data cover insurance companies and private pension funds)	Data since 1.01.2006
	Financial sector survey (data cover banking system, insurance companies and private pension funds)	Data since 1.01.2006
	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
	Banking sector liquidity indicators	
	Correspondent account balances of credit institutions	Database since 1997
	Factors affecting banking sector liquidity	Database since 2011 (Chart and Spreadsheet)
	Forecast of factors affecting banking sector liquidity used to determine the limit on Bank of Russia one-week operations	Weekly forecasts beginning from December 2012

No.	The title of the section and subsection of the official website of Bank of Russia, Internet address of the page	Section/subsection contents
	General data on interest rates	
	Interest rates	Database since 1995
	Foreign sector statistics	
	Basic derived indicators of rouble's exchange rate dynamics	Database since 2004
	Monetary policy instruments of the Bank of Russia	
	Refinancing rate of the Bank of Russia	Data since 1992
	Bank of Russia operations balance for liquidity supply/withdrawal	Database since 2003
	Required reserves	Information since 1991
	Foreign exchange transactions	
	– data on Bank of Russia interventions in the domestic FX market	Information since August 2008
	– dynamics of the borders of Bank of Russia floating operational band	Information since 27.02.2009
	– bi-currency basket structure	Information since 1.02.2005
	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 18.06.1998
	Intraday loans	Data available since 29.06.2007
	Other loans of the Bank of Russia	Data available since 10.10.2007
	Currency swaps	Data available since 26.09.2002
	Deposit operations	Databases since 1994, 1997 and 2002
	Operations with Bank of Russia bonds (OBRs) and reverse repo operations	Database since 1998
	Credit institutions performance indicators	
	Interest rates on rouble-denominated loans extended to non-financial organisations and on private deposits	Database since 1998
	Average rates on short-term loans (in foreign currency) extended by Russian credit institutions	Database since 1998

Appendix 2 (statistical tables)

Table 1

Interest rates on Bank of Russia operations used for interest rate policy (% p.a.)

Purpose	Type of instrument	Instrument	Term	Date of decision by the Bank of Russia Board of Directors	
				10.12.12	2.04.13
Liquidity supply	Standing facilities (with fixed interest rates)	Overnight loans	1 day	8.25	8.25
		Currency swaps (rouble part)	1 day	6.50	6.50
		Lombard loans, repos	1 day, 1 week ¹	6.50	6.50
		Lombard loans	30 days ¹	6.50	6.50
		Repos	12 months ¹	8.00	7.75
		Loans secured by gold	Up to 90 days	7.00	6.75
			From 91 to 180 days	7.50	7.25
			From 181 to 365 days	8.00	7.75
		Loans secured by non-marketable assets or guarantees	Up to 90 days	7.25	7.00
			From 91 to 180 days	7.75	7.50
	From 181 to 365 days		8.25	8.00	
	Open market operations (minimum interest rates)	Repo auctions	1 day	5.50	5.50
		Lombard auctions, repo auctions	1 week	5.50	5.50
			3 months	7.00	6.75
6 months ¹			7.50	7.25	
12 months			8.00	7.75	
Liquidity withdrawal	Open market operations (maximum interest rates)	Deposit auctions	1 week	5.00	5.00
		1 month ¹	5.75	5.75	
		3 months ¹	6.75	6.75	
	Standing facilities (with fixed interest rates)	Deposit operations	1 day, 1 week ¹ , 1 month, on demand	4.50	4.50
For reference:					
Refinancing rate				8.25	8.25

¹ Operations are suspended.

Table 2

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

	Inflation	Core inflation	Food price growth	Food price growth ¹	Vegetable and fruit price growth	Non-food price growth	Non – food price growth, excluding petrol	Service price growth
2011								
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
2012								
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
2013								
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

¹ Excluding vegetables and fruit.

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 on corresponding month of previous year, %)**

	Inflation	Core inflation	Food price growth	Food price growth ¹	Vegetable and fruit price growth	Non-food price growth	Non – food price growth, excluding petrol	Service price growth
2011								
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
2012								
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
2013								
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

¹ Excluding vegetables and fruit.

