The Central Bank of the Russian Federation

# Guidelines for the Single State Monetary Policy in 2014 and for 2015 and 2016

Approved by the Bank of Russia Board of Directors on 8 November 2013


107016 Moscow, 12 Neglinnaya St.

# Contents

# I. Medium-term monetary policy objectives and tasks

In the next three years, the primary goal of the Bank of Russia's monetary policy will be to ensure price stability, which implies achieving and maintaining steady and low rates of growth in consumer prices and is a major condition for balanced and sustainable economic growth. By 2015, the Bank of Russia plans to complete the transition to the inflation targeting regime, under which the priority goal of monetary policy is to ensure price stability. The new regime's essential characteristics also include announcing quantitative inflation targets, making decisions primarily on the basis of a forecast of economic development and inflation dynamics, as well as the central bank's active communication with society and its accountability. Along with this, the Bank of Russia considers financial stability, i.e. the smooth and efficient operation of the financial system, as a necessary condition for implementing state macroeconomic policy, monetary policy in particular. The financial system should ensure the safety of savings and their transformation into investment, optimal risk allocation and the stable functioning of payment and settlement systems. Failure to meet these requirements may hamper the implementation of monetary policy measures and distort their effect on the economy.

The Bank of Russia's medium-term goal is to lower further consumer price growth. This process should proceed gradually: the inflation target path will be based on the prospects of economic growth (the inflation targets are achievable without creating any significant risk for sustainable economic growth) and the tasks of maintaining the stable operation of the banking sector and financial markets. The target values for consumer price changes established with account taken of the above factors will be set at 5.0% in 2014, 4.5% in 2015 and 4.0% in 2016. The inflation target is set for the consumer price index, which is calculated using the prices of a wide range of goods and services. The choice of this index as a target indicator may be explained by the fact that while the core consumer price index is less volatile and can be influenced by monetary policy measures to a greater extent, the headline index better characterises changes in the cost of living and its dynamics have an impact on economic agents' inflation expectations.

The Bank of Russia will seek to achieve the inflation targets by adjusting interest rates on its operations, taking into account the specifics of the monetary policy transmission mechanism, i.e. the process through which the central bank's decisions influence the economy. In setting interest rates on its operations, the Bank of Russia exerts a direct influence on the cost of funds in the money market (the segment of the financial market where operations with the shortest maturities are conducted), thus affecting medium- and long-term interest rates. Interest rates are among the factors that determine the economic decisions made by households and businesses (including decisions regarding consumption, savings, and investment), which eventually influence inflation dynamics.

The Bank of Russia will make monetary policy decisions on the basis of a comprehensive economic analysis. The Bank of Russia will pay close attention to macroeconomic forecasts and the assessment of the risks of inflation deviation from the target, given the fact that the impact of monetary policy measures is spread over time.

The Bank of Russia will continue optimising the system of monetary policy instruments in order to enhance the efficiency of the interest rate channel of the transmission mechanism. The Bank of Russia's measures to develop the infrastructure and increase the depth of financial markets, as well as fine-tune the Bank of Russia payment system, will help achieve this goal. The efficiency of the transmission mechanism will also improve as a result of the banking sector enhancement, including through the implementation of Basel III. The Bank of Russia estimates that these measures will not have any considerable negative impact on lending dynamics as banks already broadly comply with capital requirements.

The Bank of Russia will further increase the exchange rate flexibility and intends to complete the transition to a floating exchange rate regime by 2015. This will allow it to avoid the possible conflict of monetary policy goals.

Inflation is to a great extent driven by economic agents' expectations with regard to the inflation dynamics, short-term interest rates and other economic indicators. Along with measures to ensure its accountability, the Bank of Russia's active information policy, including regular explanations of the goals, rationale and results of its monetary policy to the public, will contribute to a better understanding of its monetary policy and boost confidence in the Bank of Russia, thus enhancing its influence on economic agents' expectations.

The successful implementation of state macroeconomic policy largely depends on the concerted efforts of the Bank of Russia and the Russian Government. Consistent fiscal policy measures aimed at ensuring long-term fiscal sustainability will make a positive contribution to financial and overall macroeconomic stability. While implementing its monetary policy, the Bank of Russia attaches great importance to fostering cooperation with the federal authorities on issues concerning tariff policy, management of government accounts with the Bank of Russia, and replenishment and spending of the Reserve Fund and the National Wealth Fund.

# II. Russia's economic development and monetary policy in 2013

## II.1. Inflation and economic growth

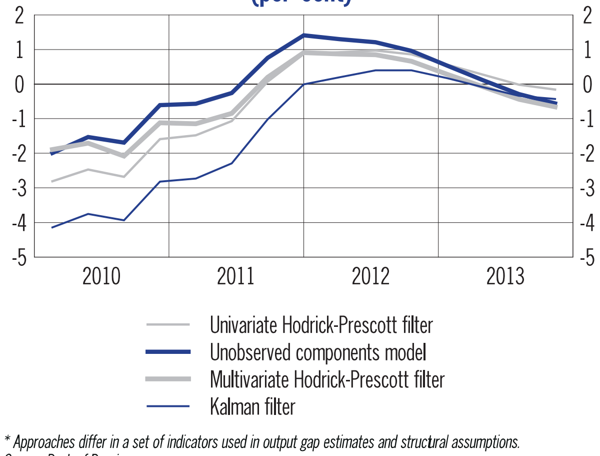
In January-June 2013, Russia's GDP growth slowed to 1.4% year on year. An increase in consumer demand and exports ensured growth in the output of goods and services. According to estimates, gross capital formation made a negative contribution to GDP growth.

In January-September 2013, fixed capital investment shrank by 1.4% due to a considerable contraction in the profits of non-financial organisations and a bleak economic outlook. The rate of growth in household spending on goods and services slowed down to an estimated 4%.

According to estimates, a slight negative output gap has developed in the economy. Weaker economic activity was accompanied by certain increase in the seasonally adjusted unemployment rate, which stood at an estimated 5.6% in September (compared with 5.3% in January 2013), and also by a slight increase in wage arrears. In addition, a decrease was registered in the utilisation of the workforce (resulting from the expansion of part-time employment and temporary layoffs) and production capacities. Nonetheless, the unemployment rate remains near its record low, while capacity utilisation is close to the pre-crisis figures, which suggests that aggregate output deviates insignificantly from its potential level.

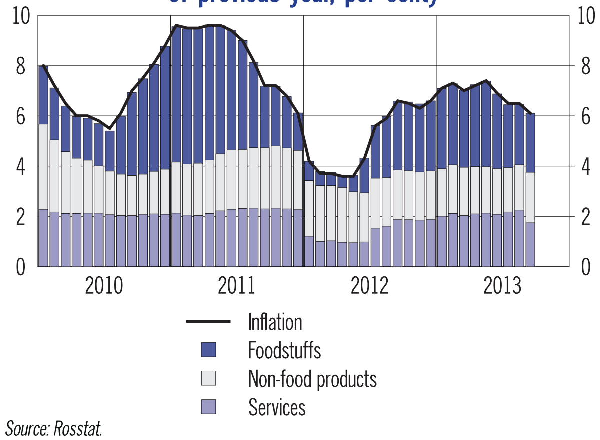
In January-September 2013, inflation exceeded the target range of 5-6% set for 2013 by the Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015. The higher inflation rate was primarily the result of an accelerated growth in food prices caused by the

**Output gap estimates***
**(per cent)**



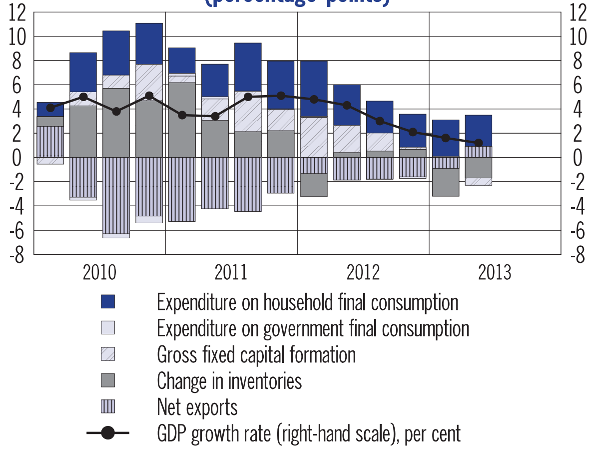

** Approaches differ in a set of indicators used in output gap estimates and structural assumptions.*
*Source: Bank of Russia.*

**Inflation and its components**
**(month on corresponding month of previous year, per cent)**




*Source: Rosstat.*

**GDP growth by expenditure (percentage points)**




Source: Rosstat, Bank of Russia.

**Rouble government bond yields to redemption (per cent p.a.)**


* Domestic government bonds placed in the international capital market.
Source: Bloomberg.

poor harvest in 2012 and increased excise duties on certain goods, as well as the price indexation of services provided by natural monopolies.

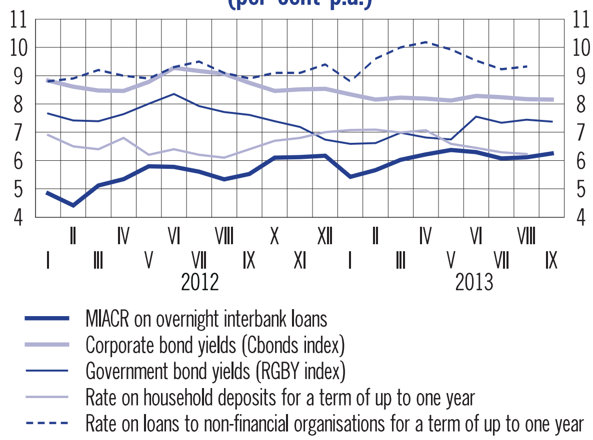
Starting from June, the improved conditions in domestic food markets amid new harvest supply and the fall in world grain prices were conducive to a significant slowdown in food price growth and inflation in general. Slowdown in inflation was facilitated by the absence of demand-side inflation pressure. Core inflation fell to 5.5% in September from 5.7% in January 2013. In this situation, the Bank of Russia expects a further slowdown in inflation and its return to the target range by the end of the year.

## II.2. Financial sector

### *Interest rates*

In January-September 2013, short-term money market fluctuations were driven by the changes in banking sector liquidity. Seasonal expansion of liquidity in January-February 2013 caused by budget expenditure growth in December 2012 brought money market rates close to the centre of the Bank of Russia's interest rate corridor. In the subsequent months, as the structural liquidity deficit increased amid the accumulation of funds in general government accounts with the Bank of Russia and net sales of foreign currency by the Bank of Russia in the domestic foreign exchange market, money market interest rates shifted towards the upper

**Monthly average interest rates on rouble operations (per cent p.a.)**



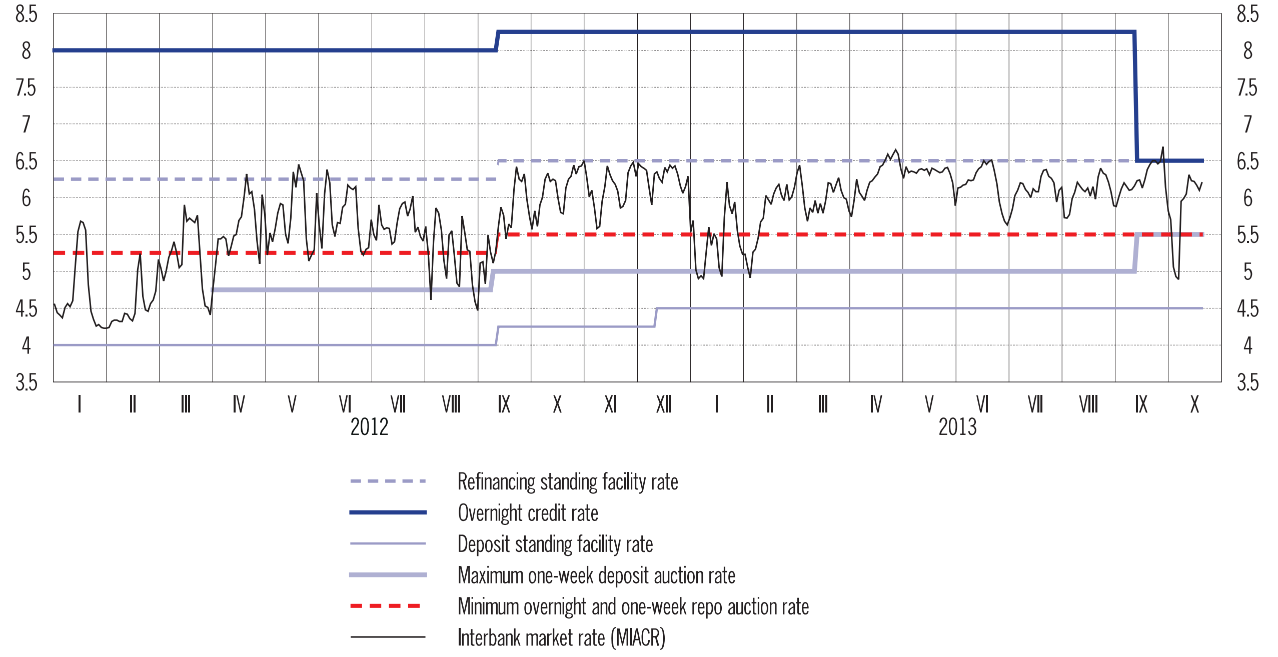

Source: Bank of Russia, Cbonds.ru, Moscow Exchange.

bound of the corridor: the weighted average MIACR on overnight rouble loans rose from 5.4% p.a. in January to 6.2% p.a. in September 2013.

In January-September 2013, the money market conditions did not exert any material influence on the government and corporate debt securities market, which was largely determined by the flow of foreign investors' funds. Following the liberalisation of foreign investors' access to the federal loan bond (OFZ) market, the gross yield to maturity of government bonds (RGBY[1]) stabilised in January-April 2013 after a considerable reduction in the second half of

[1] Indicator of Russian government bond yields calculated by OJSC Moscow Exchange.

**Bank of Russia main interest rates and overnight MIACR (per cent p.a.)**

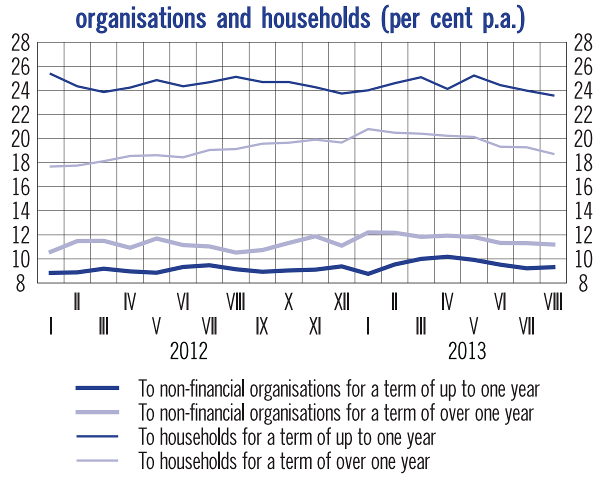



*Source: Bank of Russia.*

2012. Investors' low risk appetite caused by expectations of a reduction in asset purchases under the US Fed's quantitative easing programme resulted in government bond yield growth in May-June 2013. In July-September, government bond yields fluctuated within a horizontal band. The yields on the most liquid corporate bonds changed insignificantly in January-September 2013.

January-August 2013 saw a reduction in interest rates on household rouble deposits and on long-term loans to non-financial organisations and households. At the same time, interest rates on short-term rouble loans to non-financial organisations and households remained fairly stable.

**Nominal interest rates on rouble loans to non-financial organisations and households (per cent p.a.)**

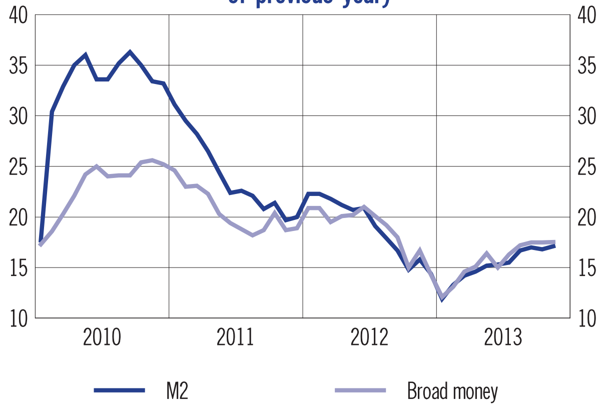



*Source: Bank of Russia.*

## *Money supply and its sources*

January-September 2013 saw an increase in annual growth rates of the M2 monetary aggregate and broad money. Lending activity growth continued to be the predominant source of the money supply increase. In the period under review, the rate of growth in loans to non-financial organisations did not undergo drastic changes and banks continued to provide loans more actively to small and medium-sized businesses than to large borrowers. Growth in loans to households tended to slow down, partly due to the Bank of Russia's measures to mitigate risks in the consumer loan market by tightening the procedure for their provisioning and accounting when calculating capital adequacy. The non-price bank lending conditions for most borrowers (households, major corporate borrowers, small and medium-sized businesses) did not change significantly on the whole in January-September 2013. At the same time,

**Monetary aggregates (percentage change on corresponding date of previous year)**



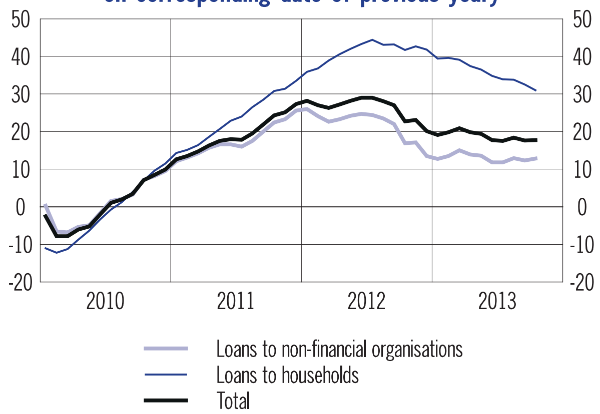

*Source: Bank of Russia.*

certain banks tightened the requirements for the borrowers' financial standing while easing other non-price lending conditions (the maximum term and value of loans). Russian banks pursued more conservative policy in lending to major corporate borrowers.

Less intensive accumulation of general government funds in accounts with the Bank of Russia compared with the previous year contributed to the higher annual growth rates of money supply.

Acceleration of growth in broad money, which includes foreign currency deposits, was partly due to the revaluation effect resulting from the rouble's depreciation. In spite of the rouble's exchange rate fluctuations, the currency composition of monetary aggregates remained

**Rouble and foreign currency loans to non-financial organisations and households (percentage change on corresponding date of previous year)**




*Source: Bank of Russia.*

rather stable. The level of deposit dollarisation stood at 20.6% as of 1 September 2013, which is comparable to the figures registered in 2011-2012.

In order to reflect recent developments the Bank of Russia revised monetary forecast for 2013 (see Section III.2).

## II.3. Balance of payments[2]

In January-September 2013, Russia's balance of payments reflected deteriorating global commodity market conditions and terms of trade. Foreign exchange reserves dynamics were largely influenced by a considerably decreased inflow of funds to the current account and the continued outflow of funds from the financial account amid the Bank of Russia's withdrawal from the domestic foreign exchange market.

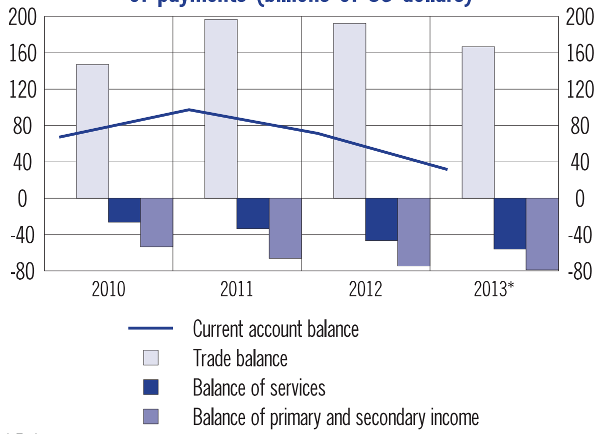
Russia's current account surplus decreased by more than a half in January-September 2013 to $29.5 billion. This resulted from both a fall in the trade surplus and persistently high rates of growth in the deficits of the balance of services and the balance of primary and secondary income.

Exports of goods fell by 1.4% year on year in January-September 2013, largely reflecting a decrease in contract prices, while export quantities demonstrated some growth. Despite a contraction in the value of oil exports, the share of key fuel and energy products in Russia's total exports grew by 1.1 percentage points to 67.3%. Imports of goods grew by an estimated 3.4% in January-September 2013 (by 4.8% in the same period last year), largely reflecting an increase in import prices and consumer goods deliveries. The share of machinery, equipment and transport vehicles in total imports declined due to weaker demand for investment goods.

The financial account deficit net of reserve assets narrowed to $25.3 billion in January-September 2013 from $28.0 billion in the same period last year due to the faster growth in external liabilities compared with assets. The Russian economy's net incurrence of external

[2] *Russia's balance of payments was compiled using the methodology of the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). The use of signs corresponds to BPM5.*

**Key current account parameters of Russia's balance of payments (billions of US dollars)**




** Estimate.*
*Source: Bank of Russia.*

liabilities rose 2.2 times year on year in January-September 2013 to $120.8 billion, while its net acquisition of financial assets grew 1.7 times to $146.1 billion. The growth in net assets and liabilities was caused primarily by large-scale mergers and acquisitions by Russian companies and the corresponding fund-raising.

In January-September 2013, net private capital outflow was primarily due to net capital outflow from the non-banking sector and stood at $48.2 billion as compared with $46.4 billion in the same period last year. The dynamics of portfolio investments were in line with the trends typical of emerging market economies (EMEs).

Foreign exchange reserves accounted for in the balance of payments decreased by $6.9 billion in January-September 2013. As a result of currency and market revaluations as well as other factors, Russia's international reserves fell by $15.0 billion from the beginning of the year to $522.6 billion as of 1 October 2013.

The Bank of Russia revised balance of payments forecast for 2013 (see Section III.2).

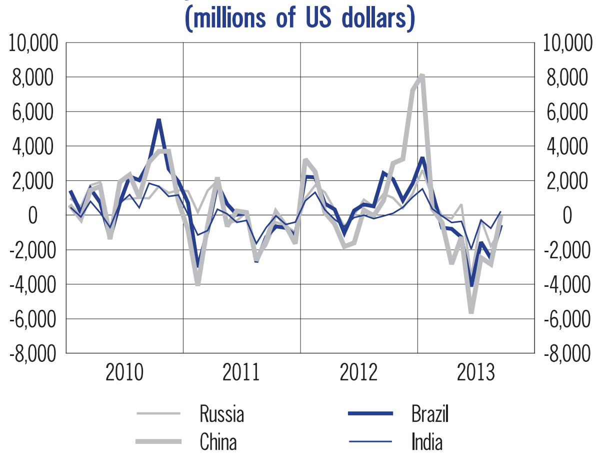
## II.4. Exchange rate policy

In 2013, the Bank of Russia continued to implement its exchange rate policy under the managed floating exchange rate regime, using the same mechanism as in 2012. The Bank of Russia continued to use the rouble value of the dual currency basket (0.45 euros and 0.55 US dollars) as an operational indicator of its exchange rate policy without imposing limitations on the exchange rate level. The range of the dual currency basket's fluctuations was determined by the 7 rouble wide floating operational band.

The exchange rate policy mechanism allowed the Bank of Russia to buy and sell foreign currency within the operational band. The latter included the 'neutral' range where no foreign exchange interventions were conducted. The borders of the operational band were automatically adjusted whenever the Bank of Russia's cumulative operations in the foreign exchange market (excluding target interventions) reached the required amount.

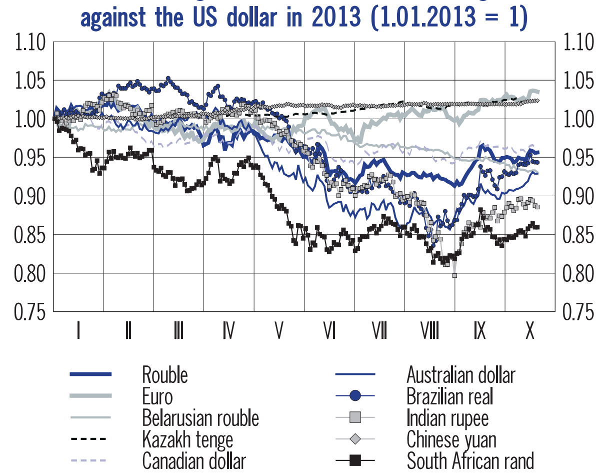
In January-September 2013, the rouble's nominal exchange rate dynamics were comparable to the exchange rate dynamics

**Net portfolio investment inflow (millions of US dollars)**



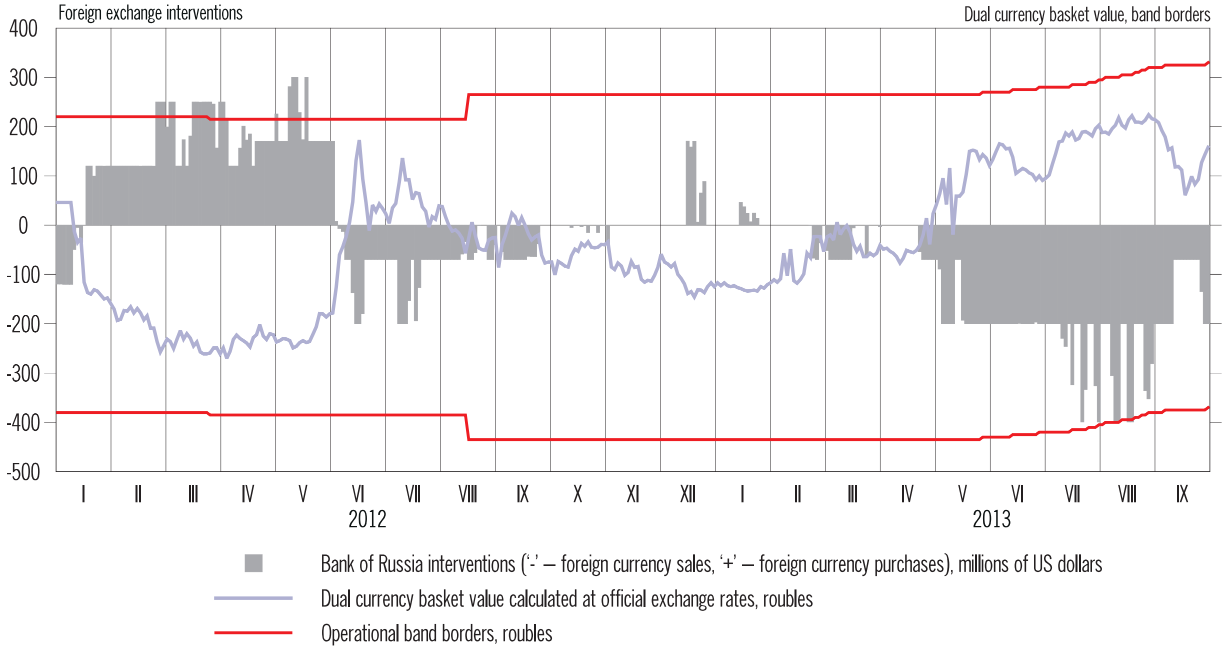

*Source: Emerging Portfolio Fund Research Global (EPFR Global).*

**Indices of foreign currencies' nominal exchange rates against the US dollar in 2013 (1.01.2013 = 1)**




*Source: Bank of Russia.*

**Bank of Russia interventions in domestic foreign exchange market and rouble value of dual currency basket**




*Source: Bank of Russia.*

observed in most of EMEs. In the first quarter of 2013, the rouble's rate changed insignificantly and its volatility was moderate. In the second quarter, the rouble depreciated slightly against major world currencies. However, the demand-and-supply balance in the domestic foreign exchange market was still characterised by a relatively small scale of Bank of Russia interventions. In the third quarter of 2013, the national currency continued to depreciate, which prompted larger Bank of Russia's interventions. However, the rouble strengthened to some extent at the end of the period under review. Between 1 January and 1 October 2013, the Bank of Russia's net foreign currency sales in the domestic foreign exchange market amounted to $17.6 billion and the operational band borders were adjusted on 13 occasions with the lower and upper borders reaching 32.30 roubles and 39.30 roubles, respectively. As of 1 October 2013, the value of the dual currency basket stood at 37.47 roubles, an increase of 8.3% on the beginning of the year. The nominal effective exchange rate of the rouble against the currencies of Russia's major trading partners fell by 4.7% in September 2013 on December 2012. The real effective exchange rate of the rouble went down by an estimated 1.9% over the same period.

As part of measures to further increase exchange rate flexibility, on 9 September 2013 the Bank of Russia reduced the volume of cumulative interventions triggering a 5 kopeck shift in the operational band from $450 million to $400 million and on 7 October 2013 widened symmetrically to 3.1 roubles the 'neutral' range of the operational band where the regulator does not conduct interventions aimed at smoothing the rouble exchange rate volatility. In order to increase the sensitivity of the operational band borders to the volume of interventions, on 21 October 2013 the Bank of Russia also reduced the volume of target interventions to $60 million.

Moreover, on 1 October 2013, the Bank of Russia adjusted its exchange rate policy mechanism so that in addition to its interventions in the domestic foreign exchange market aimed at smoothing the rouble volatility, the regulator may conduct foreign currency purchases or sales related to the Federal Treasury's operations of replenishing (spending) Russia's sovereign funds. Pursuant to this adjustment, the volumes of Bank of Russia foreign exchange interventions will be increased or reduced by an amount equal to the volume of the Federal Treasury's operations.

## II.5. Monetary policy implementation

### *Key monetary policy decisions*

Based on the assessment of inflation risks and economic outlook, the Bank of Russia did not change its monetary policy stance in January-October 2013 and left its rates on main liquidity providing operations unchanged.

In order to enhance its monetary policy efficiency, the Bank of Russia optimised the system of interest rate instruments. On 13 September 2013, the Bank of Russia declared the one-week auction interest rate to be a key rate reflecting its monetary policy stance. Simultaneously, the Bank of Russia cut interest rates on overnight loans and loans secured with non-marketable assets and guarantees to accomplish the formation of its interest rate corridor bounded by interest rates on overnight standing facilities. Prior to this decision, the Bank of Russia sequentially reduced interest rates on a number of liquidity provision operations from April 2013, particularly for the purpose of streamlining the upper bound of its interest rate corridor.

In order to improve the functioning of the money market through a partial release of marketable collateral raised by the Bank of Russia from liquidity provision operations, the Bank of Russia decided in July 2013 to launch auctions of 12-month loans secured with non-marketable assets or guarantees at a floating interest rate. These auctions are held irregularly. In September 2013, the Bank of Russia launched regular auctions of 3-month loans secured with non-marketable assets at a floating interest rate. The minimum spread over the Bank of Russia's key rate for these loan auctions was set at 0.25 percentage points.

Given greater exchange rate flexibility as well as external and internal macroeconomic trends, the use of reserve requirements for checking the speculative capital inflow became less relevant. Therefore, in February 2013 the

**Bank of Russia main interest rates (per cent p.a.)**

<table>
<tr><th rowspan="2">Purpose</th><th rowspan="2">Type of instrument</th><th rowspan="2">Instrument</th><th rowspan="2">Maturity</th><th colspan="5">Interest rate from</th></tr>
<tr><th>11.12.2012</th><th>3.04.2013</th><th>16.05.2013</th><th>11.06.2013</th><th>16.09.2013</th></tr>
<tr><td rowspan="6">Liquidity provision</td><td rowspan="4">Standing facilities (fixed rates)</td><td>Overnight loans</td><td>1 day</td><td>8.25</td><td>8.25</td><td>8.25</td><td>8.25</td><td rowspan="4">6.50</td></tr>
<tr><td>Repos, open market FX swaps (rouble leg), Lombard loans</td><td>1 day</td><td>6.50</td><td>6.50</td><td>6.50</td><td>6.50</td></tr>
<tr><td>Loans secured with gold</td><td>1 day</td><td>7.00</td><td>6.75</td><td>6.50</td><td>6.50</td></tr>
<tr><td>Loans secured with non-marketable assets and guarantees</td><td>1 day</td><td>7.25</td><td>7.00</td><td>6.75</td><td>6.75</td></tr>
<tr><td rowspan="2">Auction-based operations (minimum rates)</td><td>Auctions to provide loans secured with non-marketable assets</td><td>3 month</td><td>—</td><td>—</td><td>—</td><td>—</td><td>5.75*</td></tr>
<tr><td>Repo auctions</td><td>1 day, 1 week</td><td>5.50</td><td>5.50</td><td>5.50</td><td>5.50</td><td rowspan="2">5.50</td></tr>
<tr><td rowspan="2">Liquidity absorption</td><td>Auction-based operations (maximum rates)</td><td>Deposit auctions</td><td>1 week</td><td>5.00</td><td>5.00</td><td>5.00</td><td>5.00</td></tr>
<tr><td>Standing facilities (fixed rates)</td><td>Deposit operations</td><td>1 day, on call</td><td>4.50</td><td>4.50</td><td>4.50</td><td>4.50</td><td>4.50</td></tr>
<tr><td colspan="9">Memo item:</td></tr>
<tr><td colspan="4">Refinancing rate</td><td>8.25</td><td>8.25</td><td>8.25</td><td>8.25</td><td>8.25</td></tr>
</table>

** A floating interest rate is linked to a one-week auction interest rate on operations to provide and absorb liquidity.*
*Source: Bank of Russia.*

Bank of Russia equalised the required reserve ratios at 4.25%[3] for all credit institutions' liabilities. The impact of this decision on monetary policy stance and banking sector liquidity was neutral.

## *Use of monetary policy instruments*

In January-September 2013, against the backdrop of the banking sector structural liquidity shortage, credit institutions' demand for the Bank of Russia's refinancing operations was high, while the volume of liquidity-absorbing operations remained negligible.

The Bank of Russia provided liquidity to credit institutions largely through auctions, setting limits based on the liquidity forecast. Credit institutions continued to use overnight and one-week repo auctions as their primary means of obtaining liquidity from the Bank of Russia. As of 1 October 2013, the outstanding auction-based repo operations reached 2.4 trillion roubles (1.8 trillion roubles as of 1 January 2013), while the average daily amount outstanding in these operations since the start of the year stood at 1.8 trillion roubles (1.1 trillion roubles on average in 2012).

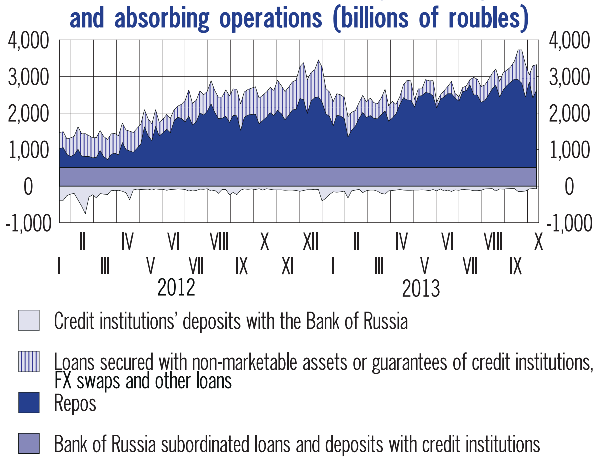
In 2013, credit institutions increased the use of Bank of Russia FX swaps as certain banks lacked securities eligible for repo transactions with the Bank of Russia and liquidity redistribution in the market was inadequate. The frequency of FX swaps increased and their average volume rose to 73.5 billion roubles in January-September 2013 from 45.6 billion roubles in the second half of 2012, when FX swaps had started to be conducted on a regular basis. At the same time, credit institutions continued to regard this instrument as a secondary source of liquidity provided by the Bank of Russia. They resorted to it only when tensions grew in the money market, in particular during the tax period.

In July 2013, the first auction of 12-month Bank of Russia loans secured with assets or guaranties at a floating interest rate was held. The amount of funds provided through the auction amounted to 306.8 billion roubles. In October 2013, auctions of three-month Bank of Russia loans secured with non-marketable assets at a floating interest rate were started to be held on a regular basis. The amount of funds provided through the first such auction amounted to 500 billion roubles. The use of these instruments will help alleviate marketable collateral scarcity and enable the Bank of Russia to steer money market rates more efficiently.

Outstanding loans secured with non-marketable assets or guaranties rose from 649.9 billion roubles to 863.7 billion roubles in January-October 2013, of which outstanding fixed-rate loans amounted to a mere 56.9 billion roubles. The volume of other refinancing operations at fixed interest rates (Lombard loans, overnight loans, loans secured with gold) was negligible in the period under review.

In 2013, the Bank of Russia took steps to facilitate access to refinancing instruments for credit institutions and upgrade the technology of conducting operations. The list of eligible collateral for liquidity-providing operations was extended. On 15 April 2013, the Bank of Russia introduced the collateral replacement option in repo transactions, thus facilitating for credit institutions the management of securities portfolios used in Bank of Russia operations. The second quarter of 2013 saw an introduction of a partial allocation of bids at repo auctions. This allowed the Bank of Russia to allocate the amount of funds equal to the maximum allotment already at the first repo auction (provided that there is sufficient demand).

**Main Bank of Russia liquidity providing and absorbing operations (billions of roubles)**




*Source: Bank of Russia.*

[3] *From April 2011 till February 2013, the required reserve ratios were set at 5.5% for credit institutions' rouble and foreign currency liabilities to non-resident corporate entities and 4.0% for credit institutions' rouble and foreign currency liabilities to households and other liabilities.*

# III. Monetary policy objectives and macroeconomic development scenarios

## III.1. Targets

The Bank of Russia's objective in the coming years is to gradually reduce consumer price growth. The inflation targets have been set at 5.0% in 2014, 4.5% in 2015 and 4.0% in 2016 with an accuracy of up to 0.5 percentage points.

Point targets have replaced target ranges, which were used in previous years. Compared to the target ranges, the point targets have the advantage of giving a clearer signal of the inflation rate regarded as desirable by the Bank of Russia. This should ensure economic agents' unambiguous understanding of monetary policy objectives. Both upward and downward deviations of inflation from the target are considered as undesirable by the Bank of Russia.

The inflation targets have been set taking into account the Bank of Russia's medium-term macroeconomic forecast and are considered as achievable under the baseline scenario (see Section III.2) without creating significant risks for sustainable economic growth. In particular, this forecast assumes lower indexation rates for the administered prices (tariffs) of natural monopolies, the absence of any significant negative shocks in the food market and the inertial nature of inflation expectations.

The inflation target has been set for the consumer price index, which is calculated using the prices of a wide range of goods and services. Therefore, the Bank of Russia's monetary policy decisions take into account all the factors that affect inflation dynamics. However, due to the lags in the monetary policy transmission, the Bank of Russia has limited possibilities to influence inflation in the short term under the shock scenario. Considering the high variability of inflation in Russia[1], the Bank of Russia has set an uncertainty band, reflecting the most probable scope of inflation fluctuations resulting from shocks. The width of the uncertainty band is set at 1.5 percentage points on either side.

Seeking to achieve the point inflation target, the Bank of Russia will not change its monetary policy stance in response to short-term deviations from the inflation target within the established range unless they jeopardise the medium-term target (such policy would result in higher volatility of interest rates, aggregate output and other indicators). However, the Bank of Russia will change its monetary policy stance in response to factors of any nature that in the Bank of Russia's judgement may potentially cause medium-term deviations from the inflation target. The speed of bringing inflation back to the target will be chosen in a way that is consistent with the absence of significant upside and downside risks to the economy.

[1] *The high variability of inflation is caused by a large share of volatile and administered components in the CPI: foodstuffs, excisable goods, as well as goods and services subject to administered prices. These components account for about 50% of the consumer goods basket. The prices of these categories of goods and services are subject to shocks more often than other categories.*

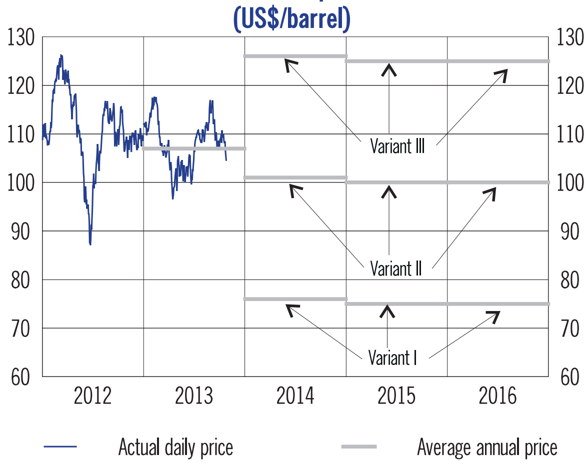
## III.2. Macroeconomic development scenarios for 2014 and for 2015-2016

The Bank of Russia has considered four monetary policy forecast variants for 2014-2016, of which one (variant II(b)) matches the first scenario of the Russian Government forecast. The other three (variants I, II(a) and III) have been developed by the Bank of Russia.

The variants differ in their assumptions regarding external conditions. Variants II(a) and II(b) assume that the world economic conditions will improve gradually and the average annual price of oil will remain close to its 2013 level, while variants I and III envisage a deviation in the average annual oil price of $25 up and down amid a faster and slower world economic recovery, respectively.

With regard to internal conditions, the variants assume the implementation of structural reforms outlined by the Russian Government (the reforms that were announced are expected to be formalised in corresponding regulations and decisions). Variant II(b) is based on the assumption of a relatively quick improvement of the business environment and the Russian economy's competitiveness, whereas the Bank of Russia's variants presume that the effect of structural reforms would be spread over a longer period of time and would not lead to a considerable increase in the private sector's investment activity in the coming three years. All the variants take into account changes in the procedure of indexing the administered prices of goods and services provided by infrastructure companies: administered tariffs for households in 2014-2016 are indexed at the rate equal to 0.7 times the previous year's inflation rate, while tariffs for other consumers are kept on hold in 2014 and indexed at the rate of the previous year's inflation in 2015 and 2016.

**Urals crude prices (US$/barrel)**




*Source: Thomson Reuters, Russian Ministry of Economic Development, Bank of Russia.*

All the variants presume that fiscal policy implementation in 2014-2016 will be based on existing budget rules. The Bank of Russia's forecasts of key macroeconomic variables also take into account the effect exerted on internal conditions by its monetary policy aimed at achieving inflation targets.

**Variants II(a)** and **II(b)** are based on the assumption that the average annual price of Urals crude would equal $101 per barrel in 2014 and stay at $100 per barrel in 2015 and 2016. Under these variants, the world economy is expected to recover gradually amid the relatively stable financial markets. According to international estimates, global growth may accelerate from 2.9% in 2013 to 3.6% in 2014. At the same time, possible QE tapering by the US Federal Reserve, the ongoing measures to reduce budget deficits undertaken by major advanced economies, as well as an observed decline in economic growth among emerging markets suggest that global economic growth is unlikely to accelerate considerably in 2014-2016.

As world energy prices are expected to stabilise and world food prices are forecast to grow moderately, inflation in the economies of Russia's major trading partners is predicted to stay at a sufficiently low level. In the absence of any significant changes in the rouble's nominal exchange rate, imported inflation will therefore have no significant impact on the rates of consumer price growth in Russia.

According to the Bank of Russia's forecast, the external demand's restraining influence on the Russian economy will be decreasing in 2014-2016. Nevertheless, limited possibilities for further increase in fuel and energy exports suggest that net exports will continue to make a negative contribution to GDP growth, despite normalisation of the economic situation in Russia's major trading partners.

Against the backdrop of slack external demand, domestic demand will continue to play a key role in generating Russian economic growth. A slowdown in inflation, the implementation of government investment projects, including investments from the National Wealth Fund, and the continued moderate growth in lending would support domestic demand. According to the Bank of Russia's estimates, loans to households and non-financial organisations will grow by about 15% annually, which is broadly consistent with their equilibrium dynamics, and will support economic growth without creating any risk of financial imbalances. A limited scope of possible increase in capacity utilisation and the unfavourable demographic situation (the contraction of the working-age population) will restrain economic growth in Russia. Fiscal policy based on budget rules and slowing budget expenditure growth will not lend considerable support to the economy. Variants II(a) and II(b) differ in their assumptions regarding the impact of structural reforms on the Russian economy, which results in differing projections of aggregate output growth rates in these scenarios.

The Bank of Russia considers **variant II(a)** as the baseline scenario. This variant assumes the delayed impact of structural changes on the economy, a gradual improvement of the investment climate, the persistently high economic uncertainty and the low profitability of Russian companies, which will restrain the private sector's investment activity. The efficiency of private and public investments is expected to remain low. Taking into account persistently moderate dynamics of the rouble exchange rate against major world currencies, import substitution is not predicted to accelerate noticeably, which will result in a considerable negative contribution of net exports to aggregate output growth. Considering the existing structural constraints, the Bank of Russia estimates that the potential output growth rates may amount to 2.0-3.0% in 2014-2016. Throughout 2014, the slight negative output gap is likely to persist. However, it is expected to be closed gradually in subsequent years. The Bank of Russia's monetary policy will take into account the sluggish inflation expectations of economic agents and the need to generate and reinforce a downward trend in their dynamics. A pronounced downward trend in inflation expectations and quicker attainment of medium-term inflation targets may create conditions for monetary policy easing.

Under this variant, GDP growth is expected to amount to 2.0% in 2014 and accelerate to 2.5% in 2015 and 3.0% in 2016 against the backdrop of the global economic recovery and economic agents' improved expectations. Fixed capital investment may rise by 3.0-3.8% in 2014-2016, considering the low rates of growth in the profits of Russian companies. Consumer demand will remain the main driving force of economic growth. Household spending on final consumption is expected to grow by 4.0-4.4% annually.

**Variant II(b)** differs from variant II(a) in its assumption of a comparatively quick recovery of economic activity. The increased competitiveness of Russian companies, import substitution and higher investment activity resulting from the improved business climate, production and transport infrastructure would be the main factors of economic growth. This will help turn investments into a major source of economic growth. Under this variant, fixed capital investment growth is expected to reach 3.9% in 2014 and accelerate to 5.6-6.0% in 2015-2016. Consumer spending is predicted to be relatively stable and rise by about 4.0% annually. Despite the accelerated growth in domestic demand, imports are expected to increase at an annual rate of 2.1-3.8%. As a result, the negative contribution of net exports to GDP growth in 2014-2016 will be reduced to the level close to zero. In this situation, GDP growth would accelerate to 3.0% in 2014, 3.1% in 2015 and 3.3% in 2016. The Bank of Russia estimates that under this macroeconomic scenario based on a relatively quick domestic demand recovery, monetary policy easing may be less probable compared with the baseline scenario.

Under **variant I**, the Bank of Russia assumes that the price of Urals crude will fall to $76 per barrel in 2014 as a result of a sharp deterioration in the world economy and stay at $75 per barrel in 2015-2016. Considering the vulnerability of the external and domestic markets, the Bank of Russia will focus on ensuring the stable functioning of the financial market and the banking sector, which is a necessary condition for monetary policy implementation. A consistent increase in the exchange rate flexibility will help the economy quicker adapt to changes in external conditions.

The Bank of Russia will be prepared to take necessary measures (including joint measures with the Russian Government) to maintain sufficient banking sector liquidity, calm the financial market and boost confidence in financial institutions. The Bank of Russia may also lend additional support to the Deposit Insurance Agency, if financial rehabilitation of certain banks is required.

This scenario envisages a considerable increase in the negative output gap in 2014 under the impact of external shocks. Under this scenario, pronounced deflationary pressure from domestic demand would offset the pro-inflation effect of the rouble's depreciation in the short term, allowing for easier monetary policy compared with the baseline scenario without creating risks for attaining medium-term inflation targets. Accommodative monetary policy would lend support to economic activity. As a result, economic growth is expected to recover to 1.8% in 2015 and 2016 after a fall in GDP by 1.0% in 2014. Considering a contraction in external and domestic demand and the deterioration of economic agents' sentiments, fixed capital investment is likely to shrink by 3.0% in 2014, with its growth recovering subsequently to about 2.0%.

**Variant III** is based on the assumption that the price of Urals crude will rise to $126 per barrel in 2014 and stay at $125 per barrel in 2015-2016 against the backdrop of a stronger global economic recovery compared with the baseline scenario. Economic activity in Russia is expected to increase in 2014 due to larger revenues from the exports of Russian commodities. This scenario is characterised by the highest inflation risks, despite the restraining effect of the rouble's presumed appreciation. Given greater demand-side inflation pressure, tighter monetary policy might be required compared with the baseline scenario to achieve inflation targets. GDP is expected to expand by 3.5% in 2014 and by 3.8-4.0% in 2015-2016 against the backdrop of relatively high investment and consumer activity.

All the variants do not rule out the possibility of risk materialisation, which may cause inflation deviation from the target and

**Russian balance of payments forecast for 2014-2016 (billions of US dollars)**

| | 2013 (estimate) | 2014 | | | | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $107 per barrel | Variant I ($76 per barrel) | Variant II(a) ($101 per barrel) | Variant II(b) ($101 per barrel) | Variant III ($126 per barrel) | Variant I ($75 per barrel) | Variant II(a) ($100 per barrel) | Variant II(b) ($100 per barrel) | Variant III ($125 per barrel) | Variant I ($75 per barrel) | Variant II(a) ($100 per barrel) | Variant II(b) ($100 per barrel) | Variant III ($125 per barrel) |
| Current account | 32 | 14 | 19 | 19 | 54 | 12 | 5 | 2 | 32 | 11 | -3 | -12 | 22 |
| Balance of goods and services | 111 | 84 | 99 | 99 | 142 | 79 | 85 | 83 | 121 | 76 | 79 | 71 | 112 |
| *Exports of goods and services* | *583* | *495* | *585* | *586* | *662* | *499* | *593* | *594* | *678* | *505* | *613* | *613* | *709* |
| *Imports of goods and services* | *-472* | *-411* | *-487* | *-486* | *-520* | *-420* | *-508* | *-510* | *-557* | *-429* | *-534* | *-543* | *-597* |
| Balance of primary and secondary income | -79 | -69 | -80 | -81 | -88 | -66 | -81 | -81 | -89 | -65 | -82 | -83 | -89 |
| Capital account | -10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance from current and capital accounts | 22 | 14 | 19 | 19 | 54 | 12 | 5 | 2 | 32 | 11 | -3 | -12 | 22 |
| Financial account (excluding reserve assets) | -36 | -45 | -14 | -14 | -9 | -35 | -4 | 1 | 11 | -15 | 11 | 21 | 21 |
| *General government and the central bank* | *19* | *5* | *6* | *6* | *6* | *5* | *6* | *6* | *6* | *5* | *6* | *6* | *6* |
| *Private sector (including net errors and omissions)* | *-55* | *-50* | *-20* | *-20* | *-15* | *-40* | *-10* | *-5* | *5* | *-20* | *5* | *15* | *15* |
| Change in reserve assets ("+" – decrease, "-" – increase) | 14 | 31 | -4 | -5 | -45 | 22 | -1 | -3 | -43 | 4 | -8 | -9 | -43 |

*Source: Bank of Russia.*

affect the setting of monetary policy parameters. In particular, these risks include shocks in the food market and unforeseen changes in the administered tariffs and final prices of housing and public utility services. Moreover, monetary policy will also take into account the dynamics of inflation expectations. In case of their steady reduction inflation targets might be achieved with more accommodative monetary policy, all else equal.

The forecast of Russia's balance of payments for 2014-2016 is based on the assumptions of the given scenario. In view of the transition to a floating exchange rate by 2015, the international reserves dynamics in 2015-2016 will be determined mainly by flows related to the replenishment and spending of the sovereign funds of the Russian Federation. In 2014, Bank of Russia foreign exchange interventions aimed at curbing the rouble's volatility under the floating exchange rate band arrangement will also have their effect on international reserves dynamics.

All the forecast variants assume a reduction in the current account surplus due to the stabilised export of goods, caused by slow growth in export quantities, and the ongoing rise in imports. Variants II(a) and II(b) expect a current account deficit in 2016.

A supposed reduction in oil prices from their current values to about $100 per barrel in 2014-2016 as per variants II(a) and II(b) is based on the premise that the US monetary authorities would gradually withdraw the monetary stimulus and that the risk appetite of world financial market participants would

**Monetary programme projections for 2014-2016 (billions of roubles)***

| | 1.01.2013 (actual) | 1.01.2014 (estimate) | 1.01.2015 | | | | 1.01.2016 | | | | 1.01.2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Variant I | Variant II(a) | Variant II(b) | Variant III | Variant I | Variant II(a) | Variant II(b) | Variant III | Variant I | Variant II(a) | Variant II(b) | Variant III |
| **Monetary base (narrow definition)** | **7,959.7** | **8,583** | **8,685** | **9,130** | **9,208** | **9,505** | **9,285** | **9,788** | **9,946** | **10,329** | **9,880** | **10,500** | **10,728** | **11,241** |
| – cash in circulation | 7,667.7 | 8,220 | 8,311 | 8,719 | 8,792 | 9,074 | 8,867 | 9,318 | 9,468 | 9,829 | 9,413 | 9,963 | 10,178 | 10,661 |
| – required reserves ** | 292.0 | 364 | 374 | 411 | 416 | 432 | 419 | 470 | 478 | 500 | 467 | 537 | 550 | 580 |
| **Net international reserves** | **15,766.7** | **15,370** | **14,434** | **15,506** | **15,509** | **16,742** | **13,751** | **15,528** | **15,607** | **18,055** | **13,623** | **15,783** | **15,868** | **19,370** |
| – billions of US dollars | 519.1 | 506 | 475 | 511 | 511 | 551 | 453 | 511 | 514 | 594 | 449 | 520 | 522 | 638 |
| **Net domestic assets** | **-7,807.0** | **-6,786** | **-5,749** | **-6,376** | **-6,302** | **-7,237** | **-4,465** | **-5,739** | **-5,660** | **-7,726** | **-3,743** | **-5,283** | **-5,140** | **-8,129** |
| Net credit to general government | -6,311.9 | -6,460 | -5,792 | -6,735 | -6,762 | -7,781 | -4,924 | -6,730 | -6,782 | -9,020 | -4,665 | -6,910 | -7,069 | -10,284 |
| – net credit to federal government | -4,587.9 | -4,936 | -4,268 | -5,211 | -5,238 | -6,257 | -3,400 | -5,206 | -5,258 | -7,496 | -3,141 | -5,387 | -5,546 | -8,760 |
| – Bank of Russia net credit to local governments and extra-budgetary funds | -1,724.0 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 | -1,524 |
| Net credit to banks | 1,497.7 | 2,733 | 3,436 | 3,461 | 3,572 | 3,615 | 4,116 | 4,147 | 4,289 | 4,381 | 4,691 | 4,796 | 5,124 | 5,237 |
| – gross credit to banks | 3,257.3 | 4,200 | 4,820 | 4,920 | 5,040 | 5,090 | 5,600 | 5,700 | 5,860 | 5,990 | 6,320 | 6,530 | 6,900 | 7,065 |
| – gross liabilities to banks and deposits | -1,759.5 | -1,467 | -1,384 | -1,459 | -1,468 | -1,475 | -1,484 | -1,553 | -1,571 | -1,609 | -1,629 | -1,734 | -1,776 | -1,828 |
| Other items | -2,992.8 | -3,059 | -3,393 | -3,102 | -3,112 | -3,070 | -3,657 | -3,156 | -3,168 | -3,087 | -3,769 | -3,168 | -3,194 | -3,082 |
| **Memo item:** | | | | | | | | | | | | | | |
| Money supply, national definition (annual growth rate), per cent | 11.9 | 12-14 | 2-5 | 11-13 | 12-14 | 16-18 | 8-12 | 12-14 | 13-15 | 14-18 | 10-12 | 12-15 | 13-16 | 14-18 |
| Loans to households and non-financial organisations (annual growth rate), per cent | 19.1 | 15-18 | 0-5 | 12-16 | 13-17 | 15-18 | 6-10 | 12-15 | 14-16 | 15-20 | 9-14 | 13-16 | 14-17 | 15-22 |

** Programme indicators, calculated at a fixed exchange rate, are based on the official exchange rate of the rouble, as of the beginning of 2013.*
*** Required reserves for liabilities in the currency of the Russian Federation deposited with the Bank of Russia.*
*Source: Bank of Russia.*

remain low. In the light of the above, the Bank of Russia predicts the retention of a financial account deficit in 2014. In addition, under the aforementioned variants a reduction in net private capital outflow is expected in 2015 as a result of a diminished current account surplus and increased exchange rate flexibility. The latter factor will ensure that a balance between the current and financial accounts is achieved with relatively small changes in international reserves, which are due, in particular, to income from reserves management. In 2016, a net private capital inflow is not ruled out.

Under variant I, corresponding to the deterioration in both domestic and external economic conditions, the Bank of Russia predicts a sustained financial account deficit, while variant III envisages a net private capital inflow in 2015 amid a growing appetite for risk among international investors and an increase in the attractiveness of investing in the Russian economy.

The Bank of Russia developed its monetary forecast for 2014-2016 based on money demand estimates consistent with the inflation targets, GDP and balance of payments forecasts, and the draft federal budget parameters for 2014-2016.

In the coming three years, a gradual increase in exchange rate flexibility and the Bank of Russia's transition to a free floating exchange rate in 2015, along with the implementation of fiscal policy based on budget rules will contribute to a consistent reduction in the influence exerted by the budgetary and foreign exchange channels on the money supply. Operations to replenish (spend) the sovereign funds will largely determine the dynamics of the net international reserves of monetary authorities. The monetary base growth will be mainly driven by the Bank of Russia's refinancing operations, while growth in gross credit to banks is expected under all the forecast variants.

The Bank of Russia will revise the parameters of the macroeconomic forecast on a regular basis and make necessary adjustments to the monetary policy parameters in order to achieve the inflation targets.

# IV. Monetary policy implementation in 2014-2016

## IV.1. Exchange rate policy

In 2014, the Bank of Russia will continue to implement its exchange rate policy without interfering with the rouble exchange rate developments driven by fundamental factors and without imposing limitations on the exchange rate of the national currency. In the period under review, the Bank of Russia will gradually increase exchange rate flexibility, inter alia by reducing the volume of interventions aimed at cushioning fluctuations in the rouble exchange rate and by increasing the sensitivity of the operational band borders to Bank of Russia interventions. This will enhance market participants' ability to adapt to exchange rate fluctuations that are caused by external shocks.

In 2014, the Bank of Russia will complete the creation of conditions necessary for the transition to a floating exchange rate regime, which means that the Bank of Russia will abandon its exchange rate-based operational indicators and focus on steering market interest rates to achieve the inflation targets. The Bank of Russia will continue to conduct operations in the domestic foreign exchange market related to the replenishment or spending of the sovereign funds and allowing it to translate the Federal Treasury's foreign currency demand or supply into the domestic foreign exchange market. The Bank of Russia will retain the right to conduct foreign exchange interventions for the purposes of banking sector liquidity management. This practice does not contradict the concept of a free floating exchange rate and is being applied successfully by advanced economies with sovereign funds. In addition, this regime does not rule out the possibility of conducting discretionary operations in the foreign exchange market to maintain financial stability in case of shocks.

Given its greater flexibility, the rouble exchange rate will be largely determined by market factors, including cross-border capital flows, which are subject to sharp and hard-to-predict fluctuations and which follow changes in the sentiment of financial market participants. As a result, rouble exchange rate dynamics will become more uncertain in the medium term, which will make it necessary to further develop the derivatives market for economic agents in both real and financial sectors to enhance their exchange rate risk management.

## IV.2. Monetary policy instruments and their application

In the course of the transition to an inflation targeting regime, the Bank of Russia will continue increasing the effectiveness of the interest rate channel of the monetary policy transmission mechanism, which is the primary channel the Bank of Russia uses to influence the economy.

The Bank of Russia will use a key rate as the main indicator of its monetary policy stance. By 1 January 2016, the Bank of Russia will equate the refinancing rate with the key rate. Before that date, the refinancing rate will play an auxiliary part and will not be regarded as a monetary policy indicator. The aim of the Bank of Russia liquidity management operations will be to keep overnight money market rates close to its key rate. Interbank lending will play a major role in the redistribution of liquidity among market participants.

The one-week auctions, whose interest rate is the Bank of Russia key rate, will continue to be a major instrument for managing banking sector liquidity. According to the Bank of Russia's estimates, the coming three years will witness credit institutions' high demand for Bank of Russia liquidity. Consequently, refinancing operations, i.e. one-week repo auctions, will remain a major instrument for banking sector liquidity management. In case of liquidity surplus (including a temporary one), one-week deposit auctions will play the role of a major instrument. The Bank of Russia will determine the maximum amount of liquidity provision (absorption) through these operations, based on the banking sector liquidity forecast, seeking to meet credit institutions' needs for funds to fulfil their reserve requirements and make payments.

In order to create conditions for more effective funds redistribution in the interbank market and raise the efficiency of credit institutions' own liquidity management, from 1 February 2014, the Bank of Russia will discontinue daily overnight repo auctions and will use repo auctions for terms of one to six days as a fine-tuning instrument. Operations for slightly longer terms may also be conducted in holiday periods. The Bank of Russia will take prompt decisions on conducting these operations, if the need arises for offsetting the effects of sharp changes in banking sector liquidity as a result of the impact of autonomous factors or credit institutions' changed demand for liquidity.

In order to keep money market rates within its interest-rate corridor the Bank of Russia will use its overnight standing facilities: refinancing facilities secured with a wide range of assets (securities, credit claims, promissory notes, guarantees, gold, foreign currency) and deposit facilities. Interest rates on these operations will determine the respective upper and lower bounds of the interest-rate corridor. Starting from 1 February 2014, the Bank of Russia will suspend all standing facilities for terms in excess of one day.

In addition to main auction-based refinancing operations and standing facilities, the Bank of Russia will hold regular auctions of three-month loans secured with non-marketable assets at a floating interest rate. As and when necessary, the Bank of Russia will also hold auctions of 12-month loans secured with non-marketable assets or guarantees at a floating interest rate and will timely inform the public about these auctions. The Bank of Russia's key rate will be used as a floating component when calculating the cost of auction-based loans extended to credit institutions. The Bank of Russia Board of Directors will set the minimum spread over the key rate. These operations will allow credit institutions to release partially the marketable collateral raised by the Bank of Russia from the main liquidity provision operations, which will enhance the efficiency of the money market's functioning. The conduct of operations at a floating rate will make the interest rate policy signal clearer, as the change in the Bank of Russia's key rate will be translated into the change in the cost of funds previously provided by the Bank of Russia to credit institutions.

The Bank of Russia may use outright purchases or sales of assets (i.e. securities, gold and foreign currency) as an additional instrument for managing banking sector liquidity.

The Bank of Russia will also consider the possibility of introducing other liquidity provision operations (committed liquidity facilities) to create conditions for the banking sector to comply with the short-term liquidity requirements of Basel III.

Ensuring the consistency of certain monetary policy operations and the functioning of the payment system and financial markets is among the priorities of the Bank of Russia in developing its instruments. The Bank of Russia will consider the possibility of combining refinancing operations with the same term and different types of collateral into a single auction. The Bank of Russia will continue to develop a single collateral pool, which will include such assets as securities on the Bank of Russia Lombard List, promissory notes, credit claims, precious metals, and other types of assets.

Considering the need to facilitate access to refinancing instruments for credit institutions, the Bank of Russia plans to further extend the list of eligible collateral for liquidity provision operations. The need of mitigating risks assumed by the Bank of Russia will also be considered.

The Bank of Russia will continue to develop and improve the application of the reserve requirements as an instrument of managing banking sector liquidity. Raising the required reserve averaging ratio is among measures that will enable credit institutions to manage liquidity more efficiently. This will be conducive to reducing interest rate volatility in the interbank market.

In order to minimise the budgetary operations' influence on banking sector liquidity, the Bank of Russia will further cooperate with the Russian Ministry of Finance and the Federal Treasury to upgrade the technology of managing budget accounts with the Bank of Russia. Conducting operations related to the replenishment or spending of the sovereign funds in the foreign exchange market will help mitigate their impact on banking sector liquidity. Within its competence, the Bank of Russia will promote targeting a single Federal Treasury account balance with the Bank of Russia.

The regulator will emphasise the importance of explaining to financial market participants the operational procedure and the application of monetary policy instruments. Increasing monetary policy transparency, credibility and predictability will help stabilise expectations with regard to interbank interest rates and reduce their volatility. In addition, this will enhance the pass-through of changes in the Bank of Russia rates, which is a major component of the monetary policy transmission mechanism.

# Glossary

### *Autonomous factors of the banking sector liquidity*

*Changes in the balance-sheet of a central bank which affect the liquidity of the banking sector, but are not the result of central bank operations to manage liquidity. These autonomous factors include changes in cash in circulation, changes in general government account balances with the Bank of Russia, Bank of Russia operations in the domestic foreign exchange market (excluding operations to manage banking sector liquidity), as well as changes in the required reserves of credit institutions as a result of changes in their liabilities.*

### *Averaging of required reserves*

*The right of a credit institution to meet the reserve requirements set by the Bank of Russia by maintaining a share of required reserves equal to the averaging ratio in a correspondent account with the Bank of Russia during a specified period.*

### *Banking sector liquidity*

*Credit institutions' funds held in correspondent accounts with the Bank of Russia to carry out payment transactions and to comply with the Bank of Russia's reserve requirements.*

### *Bank lending conditions index*

*A generalised indicator of changes in bank lending conditions, as calculated by the Bank of Russia based on the results of a quarterly survey among leading Russian banks operating in the credit market as follows: (proportion of banks reporting a significant tightening of lending conditions, as a percentage) + 0.5 x (proportion of banks reporting a moderate tightening of lending conditions, as a percentage) − 0.5 x (proportion of banks reporting a moderate easing of lending conditions, as a percentage) − (proportion of banks reporting a significant easing of lending conditions, as a percentage). Measured in percentage points.*

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

*The basis of Bank of Russia interest rate system. The interest rate corridor is structured as follows: the centre of the corridor is set by the Bank of Russia's key interest rate; the upper and lower bounds are symmetric relative to the key interest rate and are determined by interest rates on overnight standing facilities (deposit facility and refinancing facility).*

### *Bank of Russia key rate*

*Interest rate on main operations of the Bank of Russia to manage banking sector liquidity. The main monetary policy indicator.*

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

*Includes all of the components of the monetary aggregate M2 and foreign currency deposits of residents of the Russian Federation (organisations and individuals) placed in operating credit institutions.*

### *Consumer price index (CPI)*

*The CPI tracks changes over time in the overall price level of goods and services purchased by households for private consumption. It is calculated by the Federal State Statistics Service as the ratio of the value of a fixed set of goods and services at current prices to the value of the same set of goods and services at prices of a previous (reference) period. The CPI is calculated on the basis of data on the* *actual structure of consumer spending and is therefore one of the key indicators of household living costs.*

### Contractual committed liquidity facility of a central bank

*Contractual committed liquidity facility of a central bank is a refinancing instrument through which the volume of high-quality liquid assets in jurisdictions that do not have sufficient liquid assets may be expanded according to the Basel III methodology. These instruments do not comprise regular credit facilities. Contractual credit facility is an explicit agreement meeting the following requirements: the term of the committed liquidity facility should exceed 30 days; the contract must be irrevocable; a fee for the facility must be charged regardless of the amount drawn down.*

### Core inflation

*Inflation as measured on the basis of a core consumer price index (CCPI). The difference between the CCPI and the consumer price index (CPI) lies in the CCPI calculation method, which excludes a change in prices for a number of goods and services subject to the influence of administrative and seasonal factors (fruit and vegetables, fuel, passenger transportation services, communications services, and the majority of housing and public utility services).*

### 'Currency swap' operation

*A deal which consists of two legs: one party to the deal initially exchanges a certain amount in a domestic or foreign currency for an equivalent amount in another currency provided by the second party to the deal. Then, once the deal term has expired, the parties reverse-convert the currency (in the corresponding volumes) at a predetermined rate. Currency swaps are used by the Bank of Russia to provide credit institutions with refinancing in roubles.*

### Dollarisation of deposits

*Share of foreign currency deposits in total deposits in the banking sector.*

### Dual currency basket

*Operational indicator of the exchange rate policy of the Bank of Russia expressed in the national currency (in roubles) and made up of US dollars and euros (effective since February 2005). The rouble value of the dual currency basket is calculated as the sum of 0.55 US dollars and 0.45 euros expressed in roubles (effective since 8 February 2007).*

### Floating exchange rate regime

*Under this regime the exchange rate of the domestic currency is determined predominantly under the influence of market factors, and its path is not predictable. The central bank does not set targets for the level of, or changes in, the exchange rate. However, the central bank may conduct foreign exchange interventions to smooth out any excessive exchange rate fluctuations not associated with fundamental factors.*

### Floating interest rate on Bank of Russia operations

*An interest rate tied to the key rate of the Bank of Russia. If the Bank of Russia Board of Directors decides to change the key rate, starting from the corresponding date the floating interest rate on previously provided loans will be adjusted in line with the change in the key rate.*

### Free credit institution reserves

*These include balances of correspondent accounts in the currency of the Russian Federation, deposits of credit institutions with the Bank of Russia, and credit institutions' investments in Bank of Russia bonds.*

### Funds on general government's accounts

*Funds of the federal budget, budgets of constituent territories of the Russian Federation, local budgets, government extra-budgetary funds and extra-budgetary funds of constituent territories of the Russian Federation and local authorities deposited in accounts with the Bank of Russia.*

### Gross credit of the Bank of Russia

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

### Inflation targeting regime

*A monetary policy framework where the central bank's main aim is to guarantee price stability. Under this regime a quantitative inflation target is set and announced. The central bank is responsible for achieving this target. Typically, under an inflation targeting regime, the monetary policy influences the economy through interest rates. Decisions are made primarily on the basis of economic forecasts and projections of inflation dynamics. An important aspect of this regime is the practice of offering regular explanations to the public of the decisions adopted by the central bank, which guarantees its accountability and transparency.*

### Interest rate corridor

*See Bank of Russia interest rate corridor.*

### Monetary aggregate M2

*Total amount of cash in circulation and cashless funds of non-financial and financial (excluding credit) organisations and individuals who are residents of the Russian Federation in on-demand accounts and time deposit accounts opened in the banking system in the currency of the Russian Federation.*

### Monetary policy stance

*The characteristics of a monetary policy's impact on the economy. A tight stance suggests the restraining effect of the monetary policy on economic activity in order to reduce inflationary pressures, whereas a loose monetary policy stance suggests economic stimulation with possible upward pressure on inflation.*

### Monetary policy transmission mechanism

*The process which serves to transfer the effect of monetary policy decisions (in particular, changes in interest rates on central bank operations) on the economy as a whole and on price dynamics, in particular. The most important channel of monetary policy transmission is the interest rate channel. The impact of the latter is based on the influence of a central bank policy on changes in the interest rates at which economic agents may deposit and raise funds, and as a result on decisions regarding consumption, saving and investment and, thereby, on the aggregate demand, economic activity and inflation.*

### Money supply

*See Monetary aggregate M2.*

### 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 the currency of the Russian Federation (including the averaged amount of required reserves) and deposit* *account balances of credit institutions with the Bank of Russia, and investments by credit institutions in Bank of Russia bonds (at prices fixed as of the start of the current year).*

### Net private capital inflow/outflow

*The total balance of private sector operations involving foreign assets and liabilities reflected in the financial account of the balance of payments.*

### Nominal effective rouble exchange rate index

*The nominal effective rouble exchange rate index reflects changes in the exchange rate of the rouble against the currencies of Russia's major trading partners. It is calculated as the weighted average change in the nominal exchange rates of the rouble to the currencies of Russia's major trading partners. The weights are equal to the shares of Russia's foreign trade turnover with each of these countries in Russia's total foreign trade turnover with its main trading partners.*

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

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

### Non-price bank lending conditions

*Bank lending conditions aside from the cost of a loan to the borrower, such as maximum loan amount and lending term, collateral requirements and the financial standing of the borrower.*

### Open market operations

*Operations carried out on the initiative of a central bank. This type of operations includes auction-based refinancing and sterilisation operations (repo auctions, deposit auctions, etc.), as well as purchases and sales of financial assets (government securities, currency, gold).*

### Output gap

*Deviation of GDP from potential output, expressed as a percentage. Characterises the balance between demand and supply and may be regarded as 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), all else equal, inflation is expected to accelerate. A negative output gap is an indicator of an expected slowdown in price growth.*

### Potential output

*The aggregate level of output in the economy, achieved under normal utilisation of production factors with existing resource and institutional constraints. Reflects the volume of products that may be produced and sold without creating prerequisites to a change in price growth rates. The level of potential output is not linked to a certain level of inflation; it merely indicates the presence or absence of conditions for the inflation acceleration or deceleration.*

### Real effective rouble exchange rate index

*Calculated as the weighted average change in real exchange rates of the rouble to the currencies of Russia's major trading partners. The real exchange rate of the rouble to a foreign currency is calculated using the nominal exchange rate of the rouble to the same currency and the ratio of price levels in Russia to those in the corresponding country. When calculating the real effective exchange rate, weights are equal to the shares of Russia's foreign trade turnover with each of these countries in*

*Russia's total foreign trade turnover with its main trading partners. The real effective rouble exchange rate index reflects changes in the competitiveness of Russian goods in comparison to those of Russia's major trading partners.*

### *Repo operation*

*A deal which consists of two legs: one party to the deal initially sells securities to the other party in return for cash and then, once the deal term has expired, buys them back at a predetermined price. Repos are used by the Bank of Russia to provide credit institutions with rouble liquidity in exchange for collateral in the form of securities.*

### *Standing facilities*

*Operations carried out by the Bank of Russia to provide and absorb liquidity at fixed interest rates.*

### *Structural deficit of banking sector liquidity*

*The state of the banking sector characterised by a stable demand by credit institutions for liquidity provided through operations with the Bank of Russia. The reverse situation, characterised by a stable demand by credit institutions to deposit funds with the Bank of Russia is a structural liquidity surplus.*

# Appendix 1
# (Statistical tables)

Table 1

### Consumer prices by group of goods and services
### (month on corresponding month of previous year, per cent)

| | Inflation | Core inflation | Food price growth | Food price growth[1] | Vegetable and fruit price growth | Non-food price growth | Growth in non-food prices, excluding petrol prices | 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 |
| April | 7.2 | 5.7 | 8.8 | 7.7 | 18.3 | 5.1 | 4.9 | 8.1 |
| May | 7.4 | 5.9 | 9.2 | 8.0 | 19.1 | 5.0 | 4.9 | 8.3 |
| June | 6.9 | 5.8 | 8.0 | 7.9 | 8.2 | 4.9 | 4.9 | 8.1 |
| July | 6.5 | 5.6 | 6.8 | 7.4 | 1.3 | 4.8 | 4.6 | 8.4 |
| August | 6.5 | 5.5 | 6.5 | 7.2 | 0.8 | 4.9 | 4.5 | 8.7 |
| September | 6.1 | 5.5 | 6.3 | 7.2 | -1.4 | 4.7 | 4.4 | 7.8 |

[1] *Excluding vegetables and fruit.*
*Source: Rosstat, Bank of Russia.*

Table 2

## Consumer prices by group of goods and services (month on month, per cent)

| | Inflation | Core inflation | Food price growth | Food price growth[1] | Vegetable and fruit price growth | Non-food price growth | Growth in non-food prices, excluding petrol prices | 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 |
| Full 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 |
| Full 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 |
| April | 0.5 | 0.4 | 0.7 | 0.4 | 3.6 | 0.4 | 0.4 | 0.5 |
| May | 0.7 | 0.3 | 1.0 | 0.3 | 6.5 | 0.3 | 0.4 | 0.8 |
| June | 0.4 | 0.3 | 0.5 | 0.2 | 3.0 | 0.2 | 0.2 | 0.6 |
| July | 0.8 | 0.3 | 0.0 | 0.4 | -3.0 | 0.1 | 0.1 | 3.1 |
| August | 0.1 | 0.5 | -0.7 | 0.6 | -11.3 | 0.5 | 0.3 | 0.9 |
| September | 0.2 | 0.7 | 0.0 | 0.8 | -7.6 | 0.5 | 0.4 | 0.1 |

[1] *Excluding vegetables and fruit.*
*Source: Rosstat, Bank of Russia.*

# Appendix 2
# (Forecast of key macroeconomic indicators)

Table 1

**Russia's key macroeconomic indicators**
**(in constant prices, percentage change on previous year, unless indicated otherwise)**

| | 2011 | 2012 | 2013 (estimate) | Variant I | | | Variant II(a) | | | Variant II(6) | | | Variant III | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| Average annual price of Urals crude (US dollars per barrel) | 109 | 111 | 107 | 76 | 75 | 75 | 101 | 100 | 100 | 101 | 100 | 100 | 126 | 125 | 125 |
| GDP | 4.3 | 3.4 | 1.8 | -1.0 | 1.8 | 1.8 | 2.0 | 2.5 | 3.0 | 3.0 | 3.1 | 3.3 | 3.5 | 3.8 | 4.0 |
| GDP deflator | 15.5 | 8.5 | 6.0 | 5.1 | 4.9 | 4.9 | 5.4 | 5.2 | 5.2 | 5.4 | 5.4 | 5.5 | 5.6 | 5.4 | 5.4 |
| Industrial production | 4.7 | 2.6 | 0.7 | -1.0 | 0.6 | 1.0 | 1.2 | 1.6 | 2.0 | 2.2 | 2.3 | 2.0 | 2.7 | 3.0 | 3.2 |
| Fixed capital investment | 10.8 | 6.6 | 2.5 | -3.0 | 2.1 | 2.0 | 3.0 | 3.5 | 3.8 | 3.9 | 5.6 | 6.0 | 5.4 | 5.3 | 5.3 |
| Retail trade turnover | 7.1 | 6.3 | 4.2 | 0.0 | 2.5 | 2.5 | 4.3 | 4.5 | 4.5 | 4.0 | 4.4 | 4.7 | 5.0 | 5.2 | 5.5 |
| Real wages | 2.8 | 8.4 | 6.2 | 0.5 | 2.2 | 2.2 | 4.0 | 4.1 | 4.3 | 4.0 | 3.8 | 4.3 | 5.0 | 5.5 | 5.5 |

*Source: Rosstat, Russian Ministry of Economic Development, Bank of Russia.*

Table 2

**GDP by expenditure**
**(in constant prices, percentage change on previous year)**

| | 2011 | 2012 | 2013 (estimate) | Variant I | | | Variant II(a) | | | Variant III | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| GDP | 4.3 | 3.4 | 1.8 | -1.0 | 1.8 | 1.8 | 2.0 | 2.5 | 3.0 | 3.5 | 3.8 | 4.0 |
| Expenditure on final consumption | 4.8 | 4.8 | 2.7 | -0.1 | 1.6 | 1.6 | 2.9 | 3.0 | 3.2 | 3.4 | 3.8 | 4.1 |
| – households | 6.4 | 6.8 | 3.8 | 0.0 | 2.3 | 2.3 | 4.0 | 4.2 | 4.4 | 4.7 | 5.0 | 5.0 |
| Gross capital formation | 22.6 | 6.6 | 1.0 | -5.0 | 2.5 | 3.5 | 3.8 | 4.8 | 5.5 | 6.5 | 6.5 | 6.5 |
| – gross fixed capital formation | 10.2 | 6.0 | 3.0 | -3.0 | 2.1 | 2.0 | 3.0 | 3.5 | 3.8 | 5.6 | 5.4 | 5.4 |
| Net exports | -52.1 | -19.2 | -4.3 | 3.1 | -0.5 | -3.3 | -11.8 | -10.1 | -9.0 | -6.6 | -6.1 | -6.1 |
| – exports | 0.3 | 1.4 | 1.9 | -3.0 | 1.0 | 1.3 | 1.2 | 2.0 | 2.5 | 2.5 | 3.0 | 3.0 |
| – imports | 20.3 | 9.5 | 4.0 | -5.0 | 1.5 | 2.8 | 5.5 | 6.0 | 6.3 | 5.5 | 6.0 | 6.0 |

*Source: Rosstat, Bank of Russia.*

# Appendix 3
# (Economic indicators in BRICS, USA and eurozone)

Table 1

**Interest rates, inflation and economic growth rates in BRICS, USA and eurozone**[1]

| | Key (target) interest rate of the central bank, per cent | Interest rate on bank loans to non-financial sector for a term of up to 1 year/1 year, per cent | Inflation rate, month on corresponding month of previous year, per cent | GDP growth rates, quarter on corresponding quarter of previous year, per cent |
|---|---|---|---|---|
| Brazil | 9.5 | 28.0 | 5.9 | 3.3 |
| Russia | 5.5 | 9.3 | 6.1 | 1.2 |
| India | 7.75 | 10.3 | 9.8 | 4.4 |
| China | – | 6.0 | 3.1 | 7.5 |
| South Africa | 5.0 | 8.5 | 6.0 | 2.0 |
| USA | 0–0.25 | 3.3 | 1.5 | 1.6 |
| Eurozone | 0.5 | 3.6 | 1.1 | -0.6 |

*[1] Data on key (target) interest rates are given as of 29 October 2013, on interest rates on bank loans – as of 1 September 2013, on inflation rate – for September 2013 (excluding the USA, for the USA – for August 2013), and on GDP growth rates – for the second quarter of 2013.*
*Source: IMF, Bloomberg*