



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

**Quarterly  
Inflation  
Review**

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***2005 Q1***

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**Research and Information Department**



## Introduction

In 2005 Q1, consumer price inflation was higher than in the same period last year. Growth in paid service prices regulated at federal and regional levels adversely impacted Q1 consumer price dynamics. According to estimates, it was the biggest growth since the 1998 crisis.

This year, price formation has been affected by changes in tax legislation, which have reduced the overall tax burden on the economy, especially the manufacturing and service sectors, while increasing the taxation of the windfall profits received by the producers and exporters of raw materials.

In 2005 Q1, regional governments made payments to households from their budgets in connection with the replacement of in-kind benefits by cash allowances. However, the payments share in household total money income was insignificant.

Despite Q1 growth in energy prices on the world market, there was a fall in the price of petrol on the domestic consumer market.

The main causes of the accelerated consumer price increase in 2005 Q1 lay outside the monetary sphere. The effect of monetary factors on inflation in that period may be described as neutral. The slowing of growth in the money supply in the middle of last year on an annualised basis did not cause the money supply to put additional pressure on core inflation in the first quarter of the year. In the second, however, core inflation dynamics may be affected (other things being unchanged) by a short-term acceleration of M2 growth in the last few months of 2004 and cash expansion in April (before the May Day holidays) and June (the beginning of the summer holiday season). However, Q2 cash dynamics will depend not only on seasonal factors, but also growth in non-interest budget expenditures connected with the monetisation of social benefits.

The current rate of growth in the money supply may influence core inflation in the last few months of 2005. The continuation of the slowing of growth in the ruble supply on an annualised

basis is extremely important for the attainment of the desired core inflation rate in 2005.

The exchange rate policy pursued by the Bank of Russia had a favourable effect on core inflation. The ruble gained 1.1% against the US dollar on the domestic foreign exchange market last March as compared with December 2004. The stability of the nominal exchange rate of the ruble contained growth in the prices of imported consumer goods and, consequently, their domestically manufactured analogues. The effect of the exchange rate on non-food price dynamics was more significant than food price dynamics.

The measures taken to regulate the money supply and the increased role played by the budget factor helped sterilise a large part of free liquidity, which potentially threatened the chances for success in attaining the inflation target. In addition, the predominant trend in the ruble supply growth was the expansion of the low-liquidity ruble components (ruble time deposits). At the same time, the share of cash in the M2 aggregate contracted slightly and this along with other factors had a favourable effect on the money velocity and inflation dynamics.

The monetary situation in 2005 Q1 developed against the background of the slowing of economic growth, favourable external economic environment, growth in the demand for foreign currency-denominated assets and the increased influence of the budget developments due to the expansion of the Stabilisation Fund. As foreign currency continued to flow to the domestic foreign exchange market in quantity, the Bank of Russia made efforts to contain money supply growth and its monetary policy aimed to restrain the expansion of the monetary base and absorb excess liquidity. A large part of the money supply by the monetary authorities, formed through the inflow of foreign currency, was absorbed by the expanding Stabilisation Fund.

To absorb the growing volume of banking sector liquidity, in 2005 Q1, the Bank of Russia conducted daily fixed-rate deposit operations on

standard terms, continued to hold deposit auctions and intensified operations with its own bonds (OBR). These instruments used by the Bank of Russia to place free funds were in high demand by credit institutions.

As the level of banking sector liquidity remained high in January-March 2005, Bank of Russia instruments relating to the provision of liquidity, such as repo and currency swap operations, were not popular with credit institutions, but the value of intra-day and overnight loans extended

by the Bank of Russia increased significantly year on year.

The average cost of short-term funds set by the interest rate band in line with the Bank of Russia interest rate policy was basically unchanged in the first quarter. At the same time, the cost of funds borrowed by the real sector was slightly reduced in February and March and this along with other factors created conditions for moderate inflation expectations.

## Major Inflation Indicators

According to the Federal Statistics Service, consumer prices rose 5.3% in 2005 Q1 as against 3.5% in 2004 Q1. In January, consumer prices were up 2.6% month on month, in February 1.2% and in March 1.3% as against 0.8% in March 2004. Consumer price inflation in the moving 12-month period stood at an estimated 13.6% in March 2005.

**Core inflation** stood at 2.4% in 2005 Q1, as in 2004. In January, prices of this group of goods edged up 0.9% month on month, in February 0.7% and in March 0.8% as against 0.7% in March 2004. In March 2005, core inflation, measured in the moving 12-month period, stood at an estimated 10.5%.

Estimates show that growth in the prices of goods and services included in the core inflation calculation accounted for 1.9 percentage points, or 36.6% of overall consumer price growth in January-March 2005 as against 2.0 percentage points, or 55.3% in January-March 2004.

The high level of core inflation registered during the past two years is largely due to volatile, local and short-term factors.

**Food prices, excluding vegetable and fruit prices**, gained 3.1% in 2005 Q1 as against 3.2% in the same period last year. In March 2005, the prices of this group of products rose 1.1% as

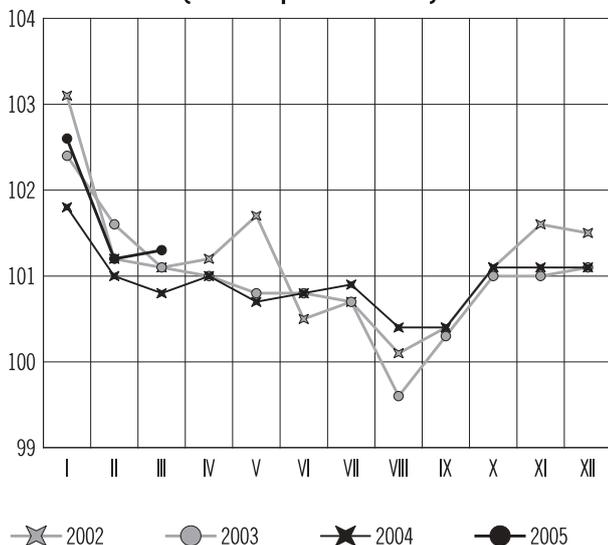
against 0.9% a year earlier. Estimates show that growth in January-March 2005 food prices, excluding vegetable and fruit prices, accounted for 1.3 percentage points, or 24.6% of overall consumer price growth, as compared with 1.6 percentage points, or 45.0% in the same period of 2004.

The price of granulated sugar inched up 0.4% last March (for the first time since July 2004 when it rose 9.1%). These figures testify to the high volatility of sugar prices amid the price instability of the world sugar market.

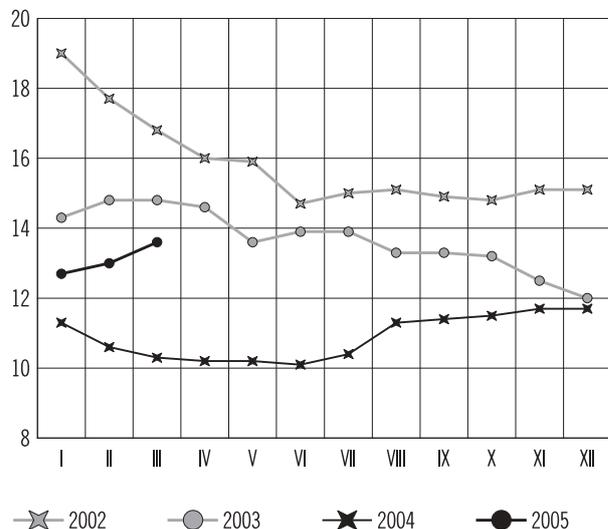
The most significant increase in food prices in 2005 Q1 was registered in meat and poultry prices, which gained 6.9% as against 2.7% in the same period of 2004. Growth in beef and pork prices in that period (11.4% and 6.7% respectively) was bigger than growth in poultry prices (3.2%). Meat prices were affected by the negative trends of 2004, but the beginning of this year saw some signs of improvement on the domestic meat market due to output growth and the expansion of meat imports.

The acceleration of growth in fish and seafood prices, registered in the second half of 2004, continued in January-March 2005. It was the result of the significant increase in import prices and decline in the output of fish products in 2004. Fish

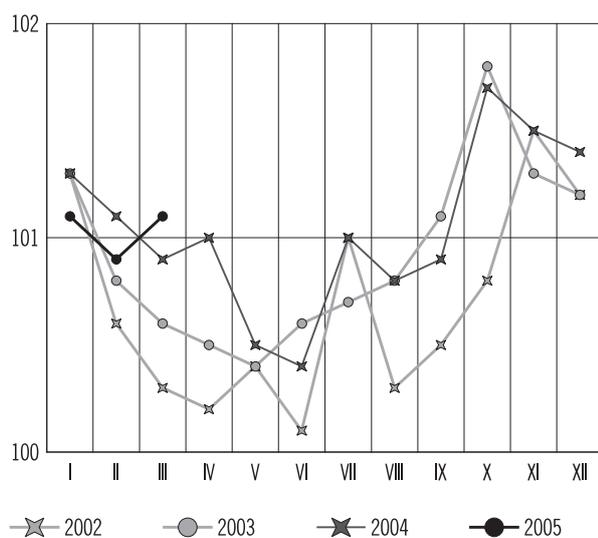
**Consumer prices**  
(as % of previous month)



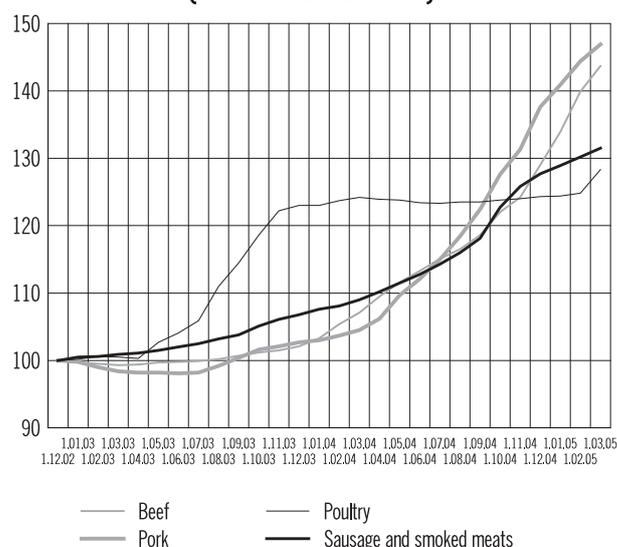
**Inflation in the moving 12-month period**  
(as % of corresponding month of previous year)



**Food prices, excluding vegetable and fruit prices  
(as % of previous month)**



**Meat and meat product prices  
(December 2002=100%)**



**Inflation rates on the consumer goods market as a whole (%)**

	Growth (March 2005 on December 2004)	Growth (March 2004 on December 2003)	Outcome
Prices of goods and services included in core inflation calculation	2.4	2.4	
of which:			
- food prices excluding vegetable and fruit prices	3.1	3.2	Slight retardation
- non-food prices	1.1	1.4	Retardation by 1.3 times
Prices of paid services provided to households	12.6	6.4	Acceleration by 2.0 times
of which:			
- prices of goods and services regulated at federal and regional levels	16.9	8.2	Acceleration by 2.1 times
Vegetable and fruit prices	24.0	10.1	Acceleration by 2.4 times

**Food price inflation rates (%)**

	Growth (March 2005 on December 2004)	Growth (March 2004 on December 2003)	Outcome
Bread and bakery products	1.2	9.1	Retardation by 7.6 times
Cereals and legumes	-1.2	4.3	
Pasta products	1.5	6.6	Retardation by 4.4 times
Meat and poultry	6.9	2.7	Acceleration by 2.6 times
Fish and seafood	6.3	1.0	Acceleration by 6.3 times
Milk and dairy products	3.1	3.0	Slight acceleration
Butter	2.6	1.1	Acceleration by 2.4 times
Sunflower oil	1.7	-0.2	
Granulated sugar	-0.8	2.5	
Alcoholic beverages	2.6	3.5	Retardation by 1.3 times

### Sugar Market: Current Situation and Outlook

According to the United Nations Food and Agricultural Organisation (FAO)\*, world sugar production is to increase by an estimated 2.1% year on year in the 2004/2005 agricultural year. World sugar consumption in 2005 is to grow 1% year on year. At the same time, sugar production is to decline 4.8% in CIS countries in the 2004/2005 agricultural year, while consumption is expected to rise 3.5%. This may cause sugar prices to rise in that region. CIS countries, especially Kazakhstan and Kirghizia, account for nearly 90% of Russia's sugar imports.

According to the World Bank forecast\*\*, sugar prices will be high in 2005. The price of raw sugar is expected to go up 20% year on year. At the same time, foreign experts predict growth in the production of sugar in Brazil, India and Mexico in the 2005/2006 agricultural year and a contraction in raw sugar imports by India and Egypt. This will contain sugar price growth on the world market. The price of raw sugar rose 40.6% on the London Commodity Exchange in January-March 2005 as compared with the same period of 2004 and the price of refined sugar was up 22.0%.

In the first three months of the year, the contract prices of raw sugar imported by Russia increased 27.3% year on year, while the amount of Russian raw sugar imports contracted 6.9%. The contract prices of refined sugar went up 9.0%, while the amount of refined sugar imports decreased 10%. Due to production growth in this country, sugar prices will hardly rise sharply.

\* December 2004.

\*\* April 2005.

and seafood prices rose 6.3% in 2005 Q1 as against 1.0% in the same period last year.

Growth in bread and bakery product prices slowed by 7.6 times and pasta products 4.4 times in the first quarter of the year.

Cereal and legume prices were down 1.2% and the price of granulated sugar dropped 0.8%.

**Non-food prices** inched up 1.1% in 2005 Q1 as against 1.4% in the same period a year earlier. The last time non-food price growth was so small in the first quarter was in 1998. In March 2005, non-food prices rose 0.4%. The most significant increase in non-food prices in the period under review was registered in knitwear prices, which went up 2.1%.

Petrol was down 1.6%, whereas in the same period last year it was up 0.6%.

Growth in the prices of major non-food products was smaller than in the same period last year. There was a 0.1% fall in the prices of television and radio sets.

Due to non-food price growth, overall increase in consumer prices stood at 0.4 percentage points, or 6.8%, in January-March 2005 as against 0.4 percentage points, or 10.3%, in the same period last year.

Overall, in the first quarter of the year, as last year, growth in food prices, excluding vegetable and fruit prices, was faster than growth in non-food prices.

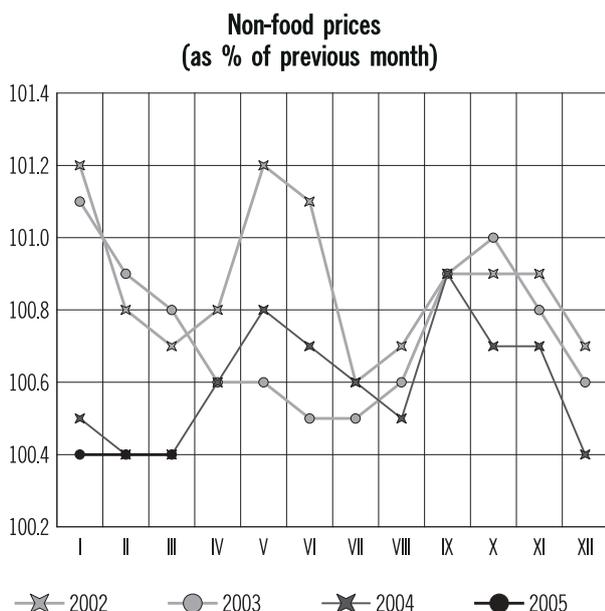
Major meat and poultry market indicators (% growth)

	Meat and poultry		Beef		Pork		Poultry	
	2005	2004	2005	2004	2005	2004	2005	2004
Food production (January-March as % of January-March of previous year)	3.3	6.8						
Livestock* and poultry production (January-March as % of January-March of previous year)								
- by all categories of farms	-2.8	-1.1						
- by agricultural enterprises	-0.9	4.1	-13.8	-6.4	-10.8	5.6	18.1	16.9
Imports** (January-March as % of January-March of previous year)								
- volume	12.7	-49.6					29.5	-47.8
- value	11.1	-43.5					31.8	-46.1
Prices (March as % of December of previous year)								
- producer prices	4.2	4.0	11.3	9.2	0.9	0.6	1.6	2.9
- livestock and poultry selling prices	4.8	4.9						
- consumer prices	6.8	2.7	11.4***	4.8***	6.7***	1.7***	3.2	0.9
- import prices**	-5.5	6.9					0.2	-4.7
Livestock population* as of end of month (March as % of March of previous year)			-7.6	-6.5	-7.1	-6.2		

\* Cattle and swine.

\*\* Estimate based on Rosstat's updated figures.

\*\*\* Excluding boneless meat.



As for **vegetables and fruit**, in the first quarter of the year, their prices rose more than twice as much as in the same period last year (24.0% as against 10.1%), but this growth was roughly the same as average first-quarter growth in 2001-2003 (23.9%). In March 2005, vegetable and fruit prices grew 11.2% as against 2.8% a year earlier. Estimates show that as a result of growth in vegetable and fruit prices in January-March 2005, headline inflation accelerated by 1.1 percentage points, or 21.3%, as against 0.5 percentage points, or 14.5%, in January-March 2004.

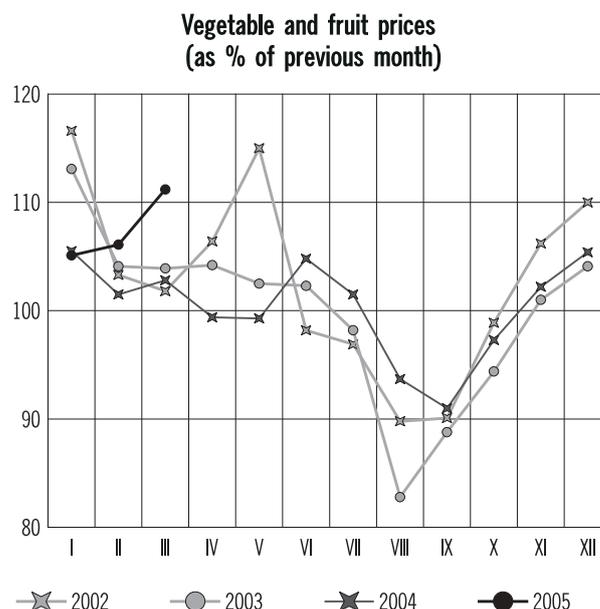
Consequently, significant growth in vegetable and fruit prices affected the **overall food prices**: in 2005 Q1, food prices increased 4.9% as against 3.8% a year earlier. In March 2005, food price growth stood at 2.1% as against 1.1% in March 2004.

Prices of the **paid services provided to households** were up 12.6% in 2005 Q1 as against 6.4% in the same period last year. The biggest increase in service prices in the first three months of the year was registered in rent and amenities prices (26.5% as against 13.1% a year earlier) and pre-school tuition fees (16.7% as against 8.4%).

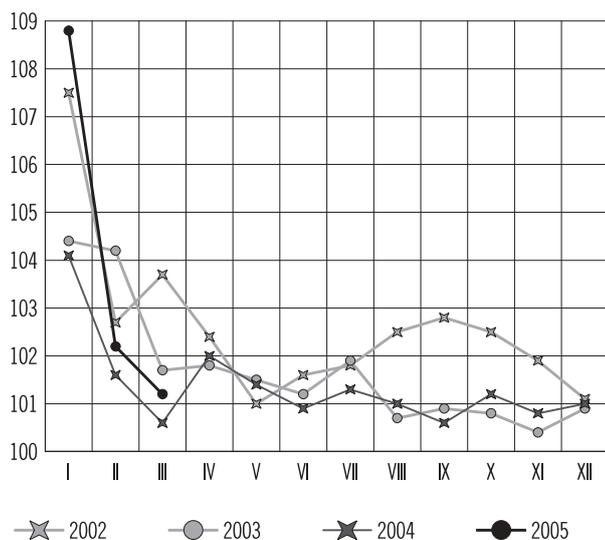
The increase in the prices of paid services provided to households in January-March 2005 far surpassed overall growth in the prices of goods, which stood at 3.3%. According to estimates, service price growth in 2005 Q1 accounted for 2.5 percentage points, or 47.4%, of overall consumer price growth (as against 1.1 percentage points, or 30.2%, in January-March 2004).

The analysis of the distribution of price increases in 2002-2005 (March on December of previous year) on the basis of a selection of more than 400 consumer goods and services, conducted without taking account of their weight coefficients, has shown that the evening out of the increases in the prices of most goods and services continued in 2005 Q1. Thus, the prices of 51.9% of all consumer goods and services grew in the range of 1-3% (as against 49.7% of all consumer goods and services in the same period last year). However, there was a slight acceleration of growth in the prices of goods and services in the main price growth range (the median increase was 2.1%, a rise of 0.2 percentage points on the same period in 2004). The distribution average increased by 1.1 percentage points as compared with January-March 2004 and stood at 3.8% as against 4.2% in the same period of 2003. The standard variation, which characterises the extent of deviation from the average, increased to 7.6% from 3.8% a year earlier and was bigger than in the previous three years. The excess was due to the significant increase in 2005 of the share of goods and services with a high rate of price growth. The past two years have been different from the previous years in that they have seen the prices of some goods and services decline.

Price growth (a sample average) was the biggest in the services and the smallest in non-food products in 2005 Q1. At the same time, the median values of price growth for the bulk of food



**Service prices  
(as % of previous month)**



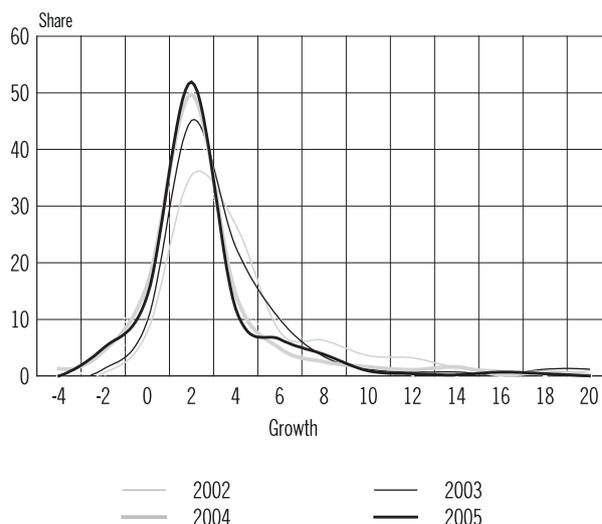
and non-food products differed slightly, although more than a year earlier. In the first quarter of the year, the standard variation characterising the extent of deviation of price increases from the average for both food products and paid services more than doubled year on year. As for non-food products, the standard variation decreased as compared with 2004 Q1, reflecting the evening out of the price dynamics of individual components of this group of goods.

The statistical analysis of food price increases showed that the distribution average and median values had grown in 2005 Q1 year on year. The standard variation increased due to significant growth in vegetable and fruit and meat prices.

The distribution of non-food price increases has a marked maximum and small dispersion, which means that the increases in the prices of most of the products in this group are within a small range. In the first quarter of the year, products whose prices increased by 1-3% accounted for 72.6% of all non-food products. This compares with 69.5% in the same period last year.

In 2005 Q1, the distribution of service price increases was characterised by an acute peak corresponding to the 4-8% increase range. Compared to 2004 Q1, the increase range in the price of most services shifted to the right and became narrower. The distribution of service price increases in the first quarter of the year had some typical characteristics that were registered in the previous years. First, it was a marked proportion of services whose prices had declined. The same

**Consumer goods and services price growth distribution  
(March as % of December of previous year)**

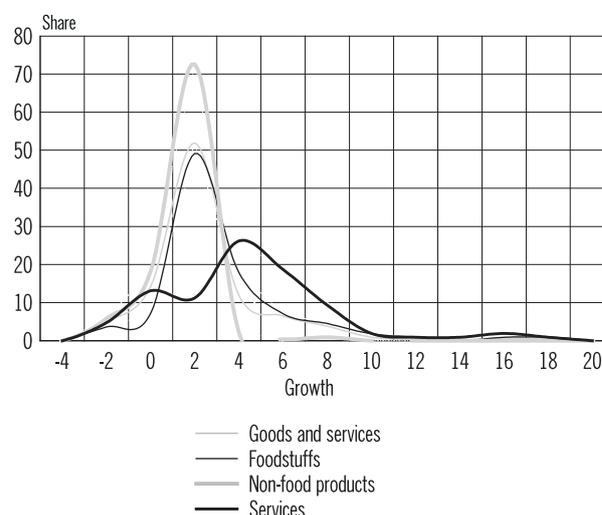


situation applied to 2004 Q1. Second, the distribution in the 0-10% price increase range was virtually the same as in 2003. Third, there was a fairly large share of services whose prices increased more than 20%, a distribution registered in the same period of 2002.

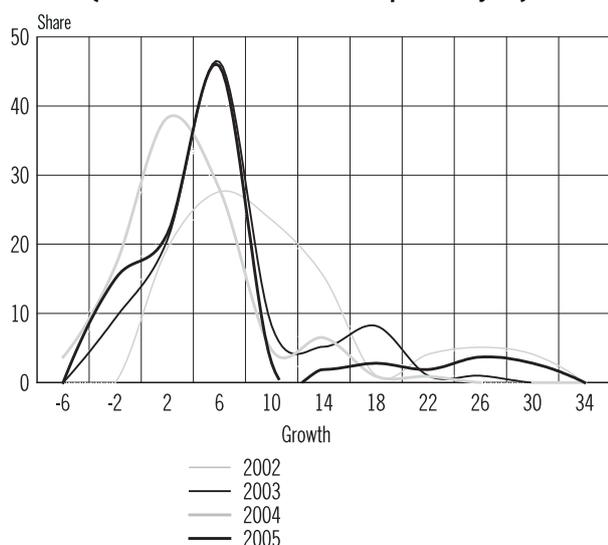
Rosstat data indicate that in all federal districts consumer price growth in 2005 Q1 was higher than last year. In the Central, Southern and Far Eastern Federal Districts consumer prices rose faster than in Russia as a whole by 0.2 percentage points, 1.3 points and 0.3 points respectively.

Estimates show that the differences between the constituent entities of the Russian Federation with respect to the cost of a fixed set of goods and services used by the Federal Statistics

**Price growth distribution by kind of consumer goods and services (March 2005 as % of December 2004)**



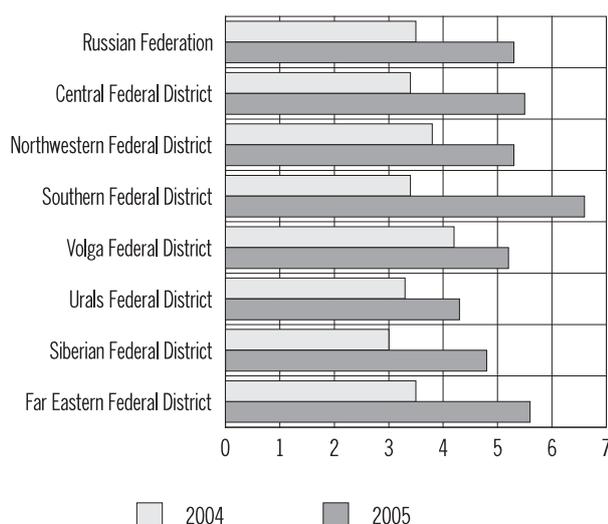
**Service price growth distribution  
(March as % of December of previous year)**



Service in the interregional comparisons of household purchasing power narrowed in 2004. In 2005 Q1, this tendency changed, however. The regional difference ratio<sup>1</sup> increased by 0.3 percentage points in March 2005 as compared with December 2004. These dynamics are largely due to the fact that unlike the situation in 2004, there was no slowing of consumer price growth in the Far Eastern Federal District, which has the most expensive basket.

In January-March 2005, as in 2004, vegetable and fruit prices demonstrated the most sig-

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



nificant differences in rates of growth by region. In the Far Eastern Federal District vegetable and fruit prices grew 10.6%, whereas in the Southern Federal District they rose 32.4%. However, rates of growth in non-food prices and food prices without vegetable and fruit prices were roughly the same in all federal districts.

Growth in service prices increased significantly in all federal districts in the first quarter of the year as compared with the same period of 2004. In the Far Eastern and Southern Federal Districts, for instance, service prices rose by 9.2 percentage points and 9.3 percentage points respectively (in Russia as a whole, service prices grew by 6.2 percentage points).

### External Conditions

#### World Economy and International Financial Markets

According to preliminary data of the US Department of Commerce's Bureau of Economic Analysis, US real GDP expanded 3.6% in January-March 2005 year on year as against 5.0% in January-March 2004. The slowing of GDP growth was due to the increase in the negative contribution of net exports to GDP growth. The expansion of individual consumption, government sector consumption and investment and investment in private sector housing construction slowed down amid the acceleration of growth in fixed capital investment in US private sector's production. In 2005 Q1, US industrial output growth rates were faster than in the same period last year, in the Economic and Monetary Union and Japan they were slower than last year and the United Kingdom registered a decline in production.

US inflation stood at 1.6% in March 2005 (as compared with December 2004) as against 1.7% in March 2004. Food prices slipped 0.3% as against 0.4% a year earlier, a decline largely due to a fall in vegetable and fruit prices. Prices of animal food products, excluding milk and dairy products, inched up 0.7% (in March 2004, they slipped 0.9%). Food price growth did not have much bearing on inflation, whereas the increase in the price of motor fuel did, although it slowed down sig-

<sup>1</sup> Regional difference ratio is calculated as the difference between the cost of a fixed set of goods and services in the most and least expensive regions relative to the national value of the same set of goods and services.

## World Economic Developments in 2005

According to the IMF World Economic Outlook, published in April 2005, the world's economic growth rates will slow down to 4.3% in 2005 from 5.1% in 2004. In the United States economic growth will slow down to 3.6% from 4.4%, in the eurozone to 1.6% from 2.1%\*, in Japan to 0.8% from 2.7%\*\* and in China to 8.5% from 9.5%. At the same time, the average annual rate of inflation in the industrialised nations is expected to remain unchanged from 2% in 2004 and 2.7% in the United States. Eurozone inflation is to slow to 1.9% from 2.1%\* in 2004. Inflation is also expected to continue to slow down in the emerging market countries, to 5.5% from 5.7% in 2004. The IMF expects consumer price growth to slow in China (to 3% from 3.9% in 2004) and accelerate in CIS countries, including Ukraine and Kazakhstan (inflation is to slow down in Belarus).

According to the IMF forecast, the average price of Brent, Dubai and WTI crude is to gain 23.2% in dollar terms in 2005 to stand at \$46.5 per barrel (in 2004, oil prices went up 30.7%). Consequently, the increase in oil prices in 2005 will remain a significant factor of inflation in the world, but its influence will gradually become less. The IMF predicts the slowing of growth in metal prices from 36.4% in 2004 to 14.7% in 2005 and a 4.7% fall in food prices in 2005 (in 2004, they rose 14.5%), while growth in the prices of manufactured goods in the industrialised nations is expected to slow down from 8.8% in 2004 to 6.2% in 2005.

According to the IMF forecast, the LIBOR on US dollar-denominated 6-month interbank deposits is to rise from 1.8% in 2004 to 3.3% in 2005, but remain unchanged at 0.1% on deposits denominated in the Japanese yen. The LIBOR on euro-denominated 3-month interbank deposits is expected to rise from 2.1% in 2004 to 2.3% in 2005. The IMF forecasts the dollar to fall to \$1.31 per euro in 2005 as against \$1.24 per euro in 2004.

\* Source: Eurostat.

\*\* Source: Institute for Economic and Social Studies.

nificantly (from 17.8% in January-March 2004 to 9.1% in the same period of 2005).

US core inflation<sup>2</sup> stood at 1.5% in March 2005 as compared with December 2004, whereas in March 2004 it was 1.3%. The increase amid the fall in the price of the entire set of goods and services included in the consumer goods basket may be regarded as evidence that the role of fundamental factors of inflation, such as growth in the aggregate demand for goods and services, has increased in the United States, while the effect of transient factors, such as price fluctuations on world commodity markets, has become less. At the same time, it should be noted that too big a contribution to US core inflation was made by the rise in the prices of one group of products, namely, cars. In addition, the increase in the prices of clothing and footwear, which also had a major effect on US core inflation, was caused by seasonal growth in the demand for this group of products.

Eurozone inflation stood at 0.4% in March 2005 as compared with December 2004 as against 0.7% in March 2004. Growth accelerated in the prices of food and energy products, particularly vegetables and fruit and liquid fuel. The level of prices of other goods and services, excluding al-

coholic beverages and tobacco products, declined 0.1%, whereas in March 2004, it rose 0.2%. Thus, the situation in the eurozone differed from that in the United States in that the temporary factors relating to the situation on some commodity markets had the most significant effect on eurozone inflation. However, the slowing of growth in consumer goods prices was common for the eurozone and the United States.

As for the emerging markets, which account for a large proportion of Russian trade turnover, inflation slowed significantly in March 2005 as compared with December 2004 in Belarus (2.6% as against 5.1%), Hungary (1.8% as against 3.8%), Slovakia (1.9% as against 5.4%) and the Czech Republic (0.8% as against 2.1%). In Ukraine, inflation accelerated to 4.4% from 2.2% in March 2004. Consumer price growth in China stood at 1.5% as against 1.2% in March 2004.

The US Federal Reserve raised the benchmark overnight interbank loan rate (federal funds rate) twice in 2005 Q1: in February, it increased it from 2.25% to 2.5% and in March from 2.5% to 2.75% (in 2004, this benchmark interest rate was raised by 1.25 percentage points). Since December 2004, it has exceeded the European Central

<sup>2</sup> Core inflation in the United States is understood as growth in the prices of goods and services included in the consumer goods basket, excluding food and energy products.

Bank's refinancing rate, which has not changed since July 2003.

The LIBOR rates on US dollar-denominated deposits with maturity periods from 1 month to 1 year increased by 0.4-0.7 percentage points in March 2005 as compared with December 2004. The yield on US government securities with terms to redemption from 2 to 5 years rose by 0.6-0.7 percentage points and the yield on US government securities with terms up to 10 years went up by 0.3 percentage points. The LIBOR rates on the dollar-denominated deposits with all terms and the yield on US treasury bills with all terms to redemption in March 2005 were higher than the LIBOR rates on the euro-denominated deposits and the yield on EMU government securities.

The dollar made gains against the major international reserve currencies on international financial markets in the first quarter of the year due to US economic growth and the increased yields on US dollar-denominated financial assets. The dollar rose 1.8% against the euro in March 2005 as compared with December 2004, 1.5% against the Japanese yen and 1.4% against the British pound. It also rallied against the currencies of some of Russia's leading trading partners (the Swiss franc, Swedish krona, Hungarian forint, Slovak koruna, Lithuanian litas, Latvian lat, Estonian

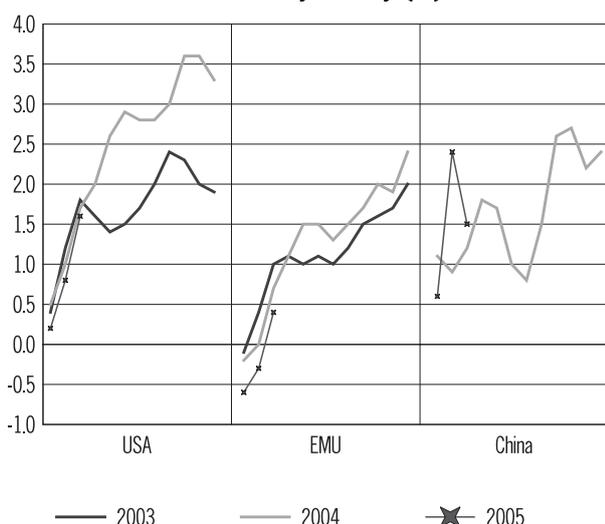
kroon and Kazakhstan tenge). At the same time, the dollar lost some of its value against the Belarusian ruble, Ukrainian hryvnia, Polish zloty, Romanian leu, Turkish lira, South Korean won, Indian rupee, Brazilian real and Israeli shekel).

The terms of Russia's trade with foreign countries continued to improve as Russian export prices grew faster than import prices.

The prices of Russia's major export commodities<sup>3</sup> continued to rise on world markets in 2005 Q1. Compared to 2004 Q1, the composite world price index, adjusted for the structure of Russian exports and calculated for commodities accounting for about 70% of their value, registered 1.37, according to Bank of Russia estimates (in 2004 Q1, it registered 1.06). In 2005 Q1 (March 2005 against December 2004), it stood at 1.22 as against 1.07 in 2004 Q1.

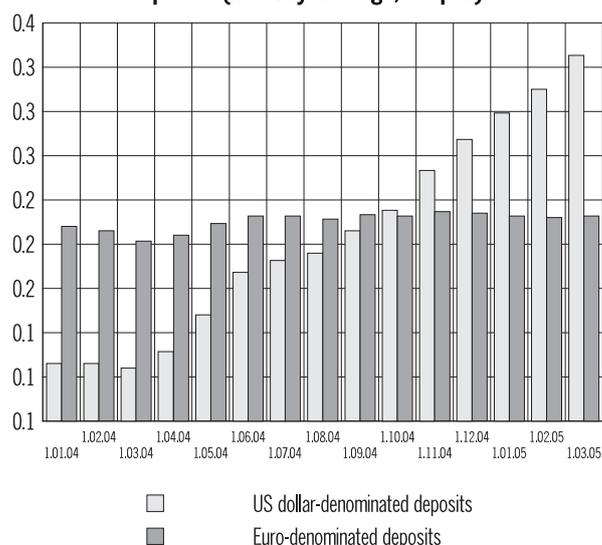
Energy price growth accelerated in the first quarter of the year. Compared to 2004 Q1, the average price of Urals crude rose 46.4% to \$43.1 per barrel (in 2004 Q1, it fell 0.9% year on year). In March 2005, the price of Urals increased 34.5% as compared with December 2004 and stood at \$48.3 per barrel. Last March, the price of Urals reached \$50.73 per barrel, the highest level registered since the beginning of exchange trade<sup>4</sup>.

**Inflation by country (%)\***



\* Consumer price growth compared to December of previous year.

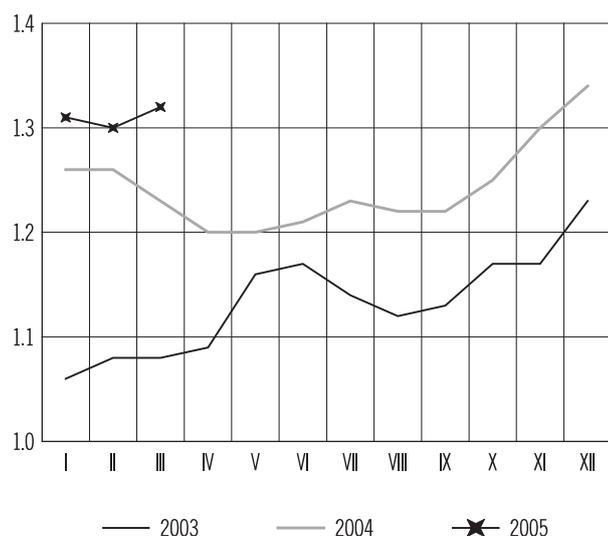
**LIBOR rates on 6-month US dollar- and euro-denominated deposits (monthly average, % p.a.)**



<sup>3</sup> Average prices are calculated on the basis of data provided daily by Reuters for oil, Petroleum Argus for petroleum products (petrol, diesel fuel and fuel oil) and the London Metal Exchange for non-ferrous metals (aluminium, copper and nickel). Average monthly prices of natural gas and ferrous metal price indices are monitored on the basis of data provided by the World Bank and other commodities on the basis of data provided by the International Monetary Fund.

<sup>4</sup> March 17 closing price, according to Reuters data.

**Euro versus US dollar**  
(monthly average, dollars per euro)



On the European market, the price of diesel fuel rose 54% in 2005 Q1 as compared with the same period last year, petrol gained 33%, fuel oil was up 27% and natural gas increased 42% (in 2004 Q1, the price of petrol was up 1.3% on the same period last year and natural gas 5.4%, while the price of fuel oil fell 14.1% and diesel fuel 6.5%).

Price growth on the world market for non-energy products slowed a little in the first quarter of the year as compared with the same period of 2004, but it was significant nonetheless. The ferrous metal price index registered 1.32 as against 1.34 in 2004 Q1. Non-ferrous metal prices rose 13% on average as against 33% in the first quarter of last year. In March 2005, ferrous metal prices were up 6% on average as compared with December 2004 (in March 2004, they rose 39%) and non-ferrous metal prices grew 10% as against 5% a year earlier.

Food prices<sup>5</sup> remained high on world markets in the first quarter of the year. Compared to the same period last year, the price of beef rose 15.6%, mutton 4.3%, refined sugar 22% and raw sugar 40.6%. The first quarter of 2005 saw a tendency towards the slowing of growth in meat and sugar prices. Compared to December 2004, the price of beef was up 1.7%, the price of mutton was down 1.9%, the price of refined sugar rose

7.0% and that of raw sugar was up 4.0% in March 2005.

Owing to favourable external economic conditions and the improved investment climate in this country, Russia's balance of payments remained stable in the first quarter of the year.

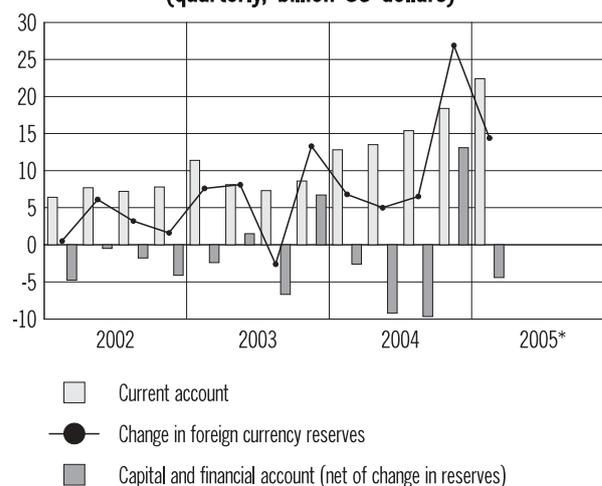
It had a current account surplus of \$22.4 billion and a trade surplus of \$28.1 billion, which represents an increase of almost 60% on the first quarter of last year. The favourable situation on world commodity markets led to the expansion of exports, which in the first quarter of the year grew 41% as compared with the same period in 2004 and stood at \$52.6 billion. Imports rose 24.8% to \$24.5 billion.

The 2005 Q1 deficit of the balance of services increased to \$2.9 billion from \$2.5 billion a year earlier and the deficit of the balance of investment incomes grew from \$2.3 billion in the first quarter of last year to \$2.5 billion in the first quarter of the year.

The capital and financial account deficit (net of the change in reserves) increased to \$4.4 billion as against \$2.6 billion in 2004 Q1.

Residents' foreign liabilities rose by \$12.7 billion in the first quarter of the year as against \$9.7 billion in the same period of 2004. At the same time, government sector and monetary authority liabilities contracted by about \$4 billion. Liabilities

**Major balance of payments components**  
(quarterly, billion US dollars)



\* 2005 Q1: estimate.

<sup>5</sup> Average prices of raw and refined sugar are calculated on the basis of data provided daily by the London Commodity Exchange. Average monthly prices of beef, mutton, oranges and bananas are monitored on the basis of data provided by the World Bank and other goods by the IMF.

of the private sector, which actively attracted foreign capital, expanded by more than \$16.6 billion (in 2004 Q1, they grew by \$9.6 billion).

Registered foreign assets (net of foreign exchange reserves) increased by \$17.1 billion in the first quarter of the year, mainly due to operations conducted by the private sector, whose assets expanded by \$14.1 billion.

As a result, there was a noticeable decline in net capital outflow from the private sector (from \$4.2 billion in 2004 Q1 to \$900 million in 2005 Q1). Net outflow of capital from the banking sector contracted from \$3.2 billion to \$2.9 billion. As for the non-financial enterprise and household sector, the net capital outflow of \$900 million in 2004 Q1 gave way to a net capital inflow of \$1.9 billion in 2005 Q1.

The increased inflow of foreign capital to the private sector was due to the improvement of the investment climate in Russia, which did not pass unnoticed by international rating agencies. In January 2005, Standard & Poor's raised Russia's rating to the investment grade (Moody's Investors Service and Fitch Ratings raised Russia's rating to the investment grade in 2003 and 2004).

The inflow of foreign exchange to this country led to the expansion of Russia's international reserves, which aggregated \$137.4 billion as of April 1, 2005. Over the period from the beginning of 2005, Russia's international reserves increased by \$12.8 billion (in the first three months of 2004, they grew by \$6.5 billion). The international reserves accumulated by Russia by the end of the first quarter of the year would be enough to finance imports for 13 months (9.6 months a year earlier).

### **Domestic Conditions**

Industrial output grew 3.9% in 2005 Q1 as against 7.4% in the same period last year. The slowdown was the result of the slowing of growth in the manufacturing sector to 5.3% from 9.6% in 2004 Q1 and in mining to 2.5% from 8.4%.

Agricultural output was down 0.3% on the same period last year (in 2004 Q1, it declined 1.4%).

Freight transport turnover increased 2.7% in 2005 Q1 as compared with the same period last year (in 2004, it expanded 7.4%). The freight turnover of railway transport grew 2.0%, auto-

mobile transport 9.0% and pipeline transport 3.1%.

Household real disposable money income rose 3.1% in 2005 Q1 as compared with the same period last year (in 2004 Q1, it increased 12.0%). The dynamics of real disposable money income in January-March 2005 were adversely impacted by its more significant seasonal month-on-month reduction in January due to fewer workdays in that month. Although they were slower than last year, the rates of growth in real consumer spending remained high. In 2005 Q1, they stood at an estimated 7.8%.

The expansion of domestic consumer and investor demand continued at the beginning of the year.

The tendency of nominal consumer expenses to grow faster than incomes, noted last year, persisted in 2005. The proportion of expenses on consumption in the structure of money income use in 2005 Q1 expanded as compared with the same period last year and stood at 74.2% (in 2004 Q1, it was 70.4%). The share of expenses on the purchase of goods increased by 2.7 percentage points year on year and stood at 56.7% and the proportion of expenses on services expanded by 1.1 percentage points to 17.5%. These developments caused consumer demand inflation to accelerate.

First-quarter growth in real consumer spending led to the expansion of retail sales, which increased as fast as in the same period of 2004. Unlike the situation last year, this year consumer expenses grew faster than fixed capital investment.

The conditions stimulating corporate investment activity remained in 2005 Q1. Fixed capital investment in that period grew 7.6% on the same period in 2004 (in January-March 2004, fixed capital investment increased 13.1%).

The situation on the labour market improved in 2005 Q1 as compared with the same period last year. Employment stood at 91.4% of the economically active population, while 8.6% were classified as unemployed according to the ILO methodology (in 2004 Q1, the respective percentages were 90.8% and 9.2%).

Inflation was affected by the price dynamics in industries turning out products that go straight to the consumer goods market. Growth

in production costs was a contributing factor. Estimates show that growth in producer prices in these industries in 2005 Q1 accounted for 0.85 percentage points of growth in the prices of goods and services included in the core inflation calculation.

The pressure put on consumer prices by costs, especially the cost of material resources, was less in 2005 Q1 than in the same period last year. Specifically, the increase in the mining price growth slowed down and approached the rates of producer price growth in the manufacturing sector. In March 2005, the mining price index registered 103.3% on December 2004, while the manufacturing producer price index stood at 102.8%. In March 2004, the respective percentages were 119.8% and 105.1%. Producer prices in the mining sector grew at moderate rates, despite the raising from January 1, 2005, of the tax on the production of natural gas (from 107 rubles to 135 rubles per 1,000 cubic metres) and oil (from 347 rubles to 419 rubles per tonne, that is, by 20.7% as against 2.1% from January 1, 2004). The slowing of these prices in 2005 Q1 was due to the reduction from February 1, 2005, of the export customs duty on crude oil and crude petroleum products derived from bituminous minerals from \$101 to \$83 per tonne.

The producer price index in the production and distribution of electricity, gas and water (in March 2005 against December 2004) rose slightly (by 0.2 percentage points) on the same period of 2004 and stood at 111.7%.

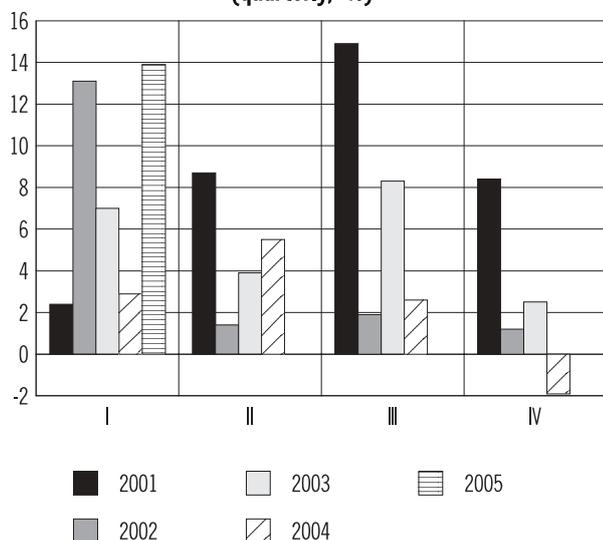
Freight transportation charges increased 13.9% in 2005 Q1 as against 2.9% in the same period of 2004. Railway transport fares rose 8.8% as against 12.6% in the same period last year.

In that situation, as Rosstat data show, the growth rate in profit net of loss of companies in the manufacturing sector was virtually the same as in the mining sector in January-February 2005 (143.4% and 142.4% respectively) and in the production and distribution of electricity, gas and water (126.6%).

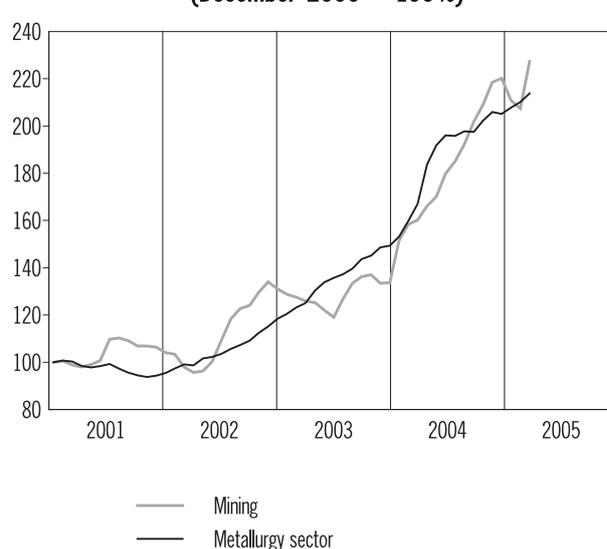
At the same time, price formation in the manufacturing sector, which is largely oriented to consumer demand, was continually affected by competition, including competition put up by importers. As a result, producer price growth in the production of foodstuffs, including beverages, tobacco, textiles and clothing, leather, leather goods and footwear was slower than in the manufacturing sector as a whole in 2005 Q1. The output of textiles and clothing and leather, leather goods and footwear in 2005 Q1 was lower than in the same period last year. According to Rosstat's data, profits (profit net of loss) of the companies producing foodstuffs, including beverages, and tobacco products in January 2005 declined by 2.6 times year on year and profits of the companies manufacturing leather, leather goods and footwear fell by 2.2 times. Unlike the situation in 2004, the production of textiles and sown garments was loss-making.

Producer prices in industry rose 4.3% in March 2005 as compared with December 2004 (a

**Growth in freight transportation charges (quarterly, %)**



**Producer prices in mining and metallurgy sector (December 2000 = 100%)**



**Real wage and real pension  
(1997 Q4 = 100%)**



8.9% increase was registered in the same period of 2004). One reason for such relatively small growth in industrial producer prices in 2005 Q1 was the reduction of mining costs by 5.8% in January-February (the cost of fuel and energy production fell by 7.7%).

The most significant growth in producer prices in the manufacturing sector in 2005 Q1 was registered in the production of machinery and equipment (4.6% as against 4.2% in 2004 Q1) and rubber and plastic goods (5.7% as against 0.8%).

In some manufacturing industries, whose output goes to the consumer goods market, there was no acceleration of producer prices at the beginning of the year as compared with the begin-

ning of 2004. In the food industry, for example, producer price growth slowed to 1.1% in March 2005 as compared with December 2004 as against 4.5% in the same period of 2004, 1.4% as against 4.7% in the textile and garment industry and 2.6% as against 2.7% in the production of leather, leather goods and footwear.

According to Rosstat's preliminary data, real wage rose 7.4% in 2005 Q1 year on year (in 2004 Q1, it increased 15.0%). At the same time, real pension dynamics still lag GDP growth and in this sense have not yet reached the 1997 Q4 level. Real pension increased 6.6% in 2005 Q1 as compared with the same period last year (in 2004 Q1, real pension grew 7.0%).

In 2005 Q1, the average monthly nominal imputed wage rose 21.4% year on year and stood at 7,560 rubles (in January-March 2004, it increased 27.3%).

According to the Institute of the Economy in Transition (IEPP), in 2005 Q1, the inflationary expectations of managers of leading industrial enterprises were slightly lower than in the same period of 2004. In January-March 2005, growth in selling prices was expected by 28-38% of respondents as against 33-37% in the same period of 2004. In January 2005, this ratio stood at 38%, in February 33% and in March 28%. These figures testify to the tendency towards the reduction of inflationary expectations due to the fact that the peak of price growth was in the first few months of 2005 and producers do not plan any price increases soon.

# Quantitative and Qualitative Monetary Indicators

## Exchange Rate

The favourable external economic conditions of the first quarter of the year stimulated the inflow of foreign exchange earnings to the domestic market. However, it is the change of the euro/dollar rate on world currency markets that continued to exert the main influence on the ruble exchange rate dynamics. Although there was no single trend in the correlation between these two currencies, the first quarter of the year saw an end to the euro's massive rally registered in the last months of 2004. In that situation, the Russian foreign exchange market registered a slight rise of the US dollar against the ruble (by 0.4%) and a significant decline (by almost 5%) of the euro against the ruble. As a result, as of April 1, 2005, the dollar was worth 27.8548 rubles and the euro 36.0274 rubles.

January saw the ruble slide against the US dollar by 1.3%, but in February the ruble recovered and gained 1.5%. In March, the dollar started to rally against the ruble again and the Russian currency lost 0.6% of its value. The average monthly dollar/ruble rate in January was 27.94 rubles to the dollar, in February 27.97 rubles and in March 27.62 rubles.

After the euro's major rise on the Russian foreign exchange market in 2004 Q1, the euro fell

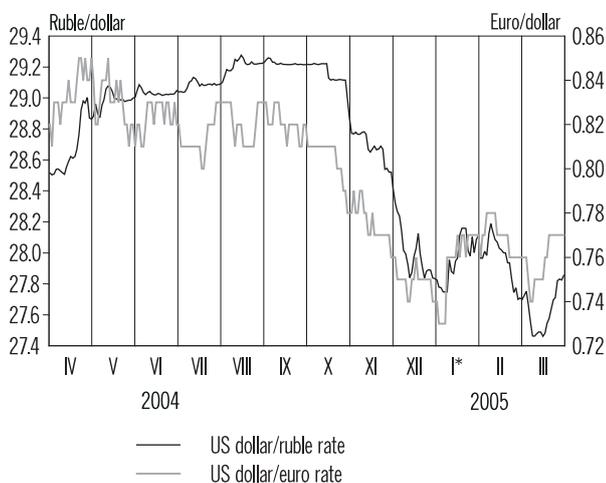
against the ruble in the first quarter of the year as the European currency lost against the dollar. January saw the euro lose 3.3% against the ruble, in February the euro gained slightly (0.4%), but in March it fell 1.9%. The average monthly euro/ruble rate stood at 37.05 rubles to the euro in January, 36.39 rubles in February and 36.49 rubles in March.

On February 1, 2005, the Bank of Russia began to use as the operating benchmark of its exchange rate policy a currency basket filled by 10% with euros and 90% with dollars. On March 15, it changed the structure of this two-currency basket, increasing the euro's share to 20% and reducing the dollar's share to 80%. The adoption of this benchmark signified the lessening of the intraday volatility of the ruble's rate against foreign currencies of importance for Russia.

In 2005 Q1, the ruble continued to rally against the dollar and euro in real terms and in March the real ruble/dollar rate index registered 4.7% on December 2004 and real ruble/euro rate index 6.8%.

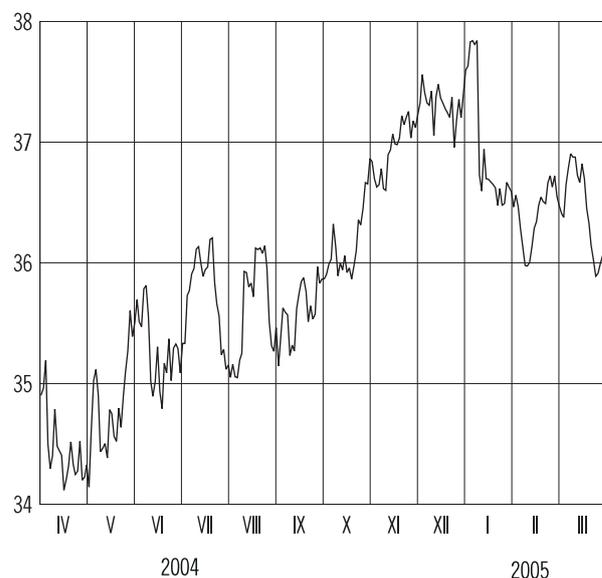
The significant increase in the ruble's real effective rate in 2005 Q1 (5.1% compared to December 2004) was due to Russia's economic growth and large trade surplus (the ruble's real effective rate rose 4.7% during 2004). The dy-

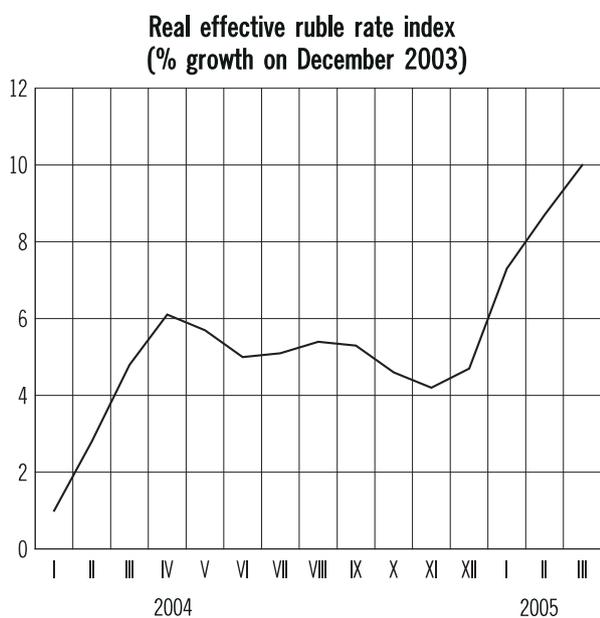
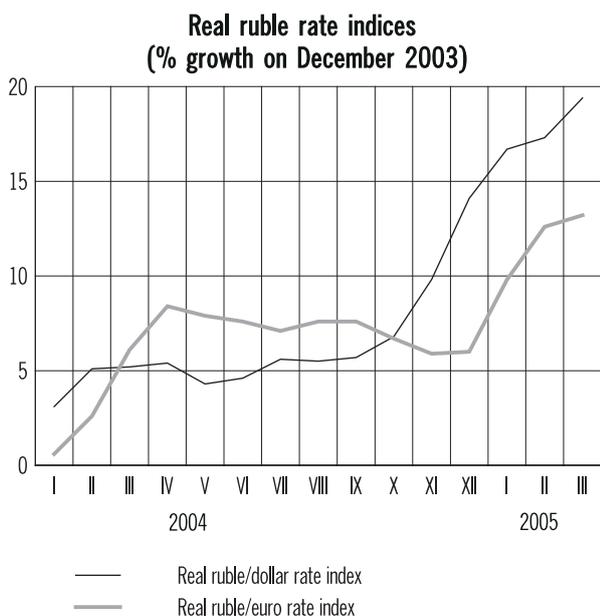
**US dollar/ruble and US dollar/euro rate**



\* Change in dollar/ruble and euro/ruble rate on January 1.1 was largely due to the fact that there was no trading on Russian currency exchanges in the period from January 1 to 11 in connection with New Year holidays.

**Euro/ruble nominal rate**





namics of this indicator in 2005 Q1 were also seriously affected by the inflation rate (5.3% as against 3.4% in 2004 Q4).

As there was no single trend in the correlation between the US and European currencies on international foreign exchange markets in 2005 Q1, the dollar/ruble and euro/ruble rates changed different ways, creating uncertainty about their future dynamics among Russian market participants.

### Interest Rates

The average price of short-term funds, set by the Bank of Russia interest rate band, did not change much in 2005 Q1 as compared with the previous quarter. The high level of commercial

banks' ruble liquidity and relatively stable nominal rate of the ruble against the dollar stimulated financial market participants' interest in ruble-denominated assets. As inflation ran at fairly rapid rates, there was no single trend in interest rate dynamics in January-March.

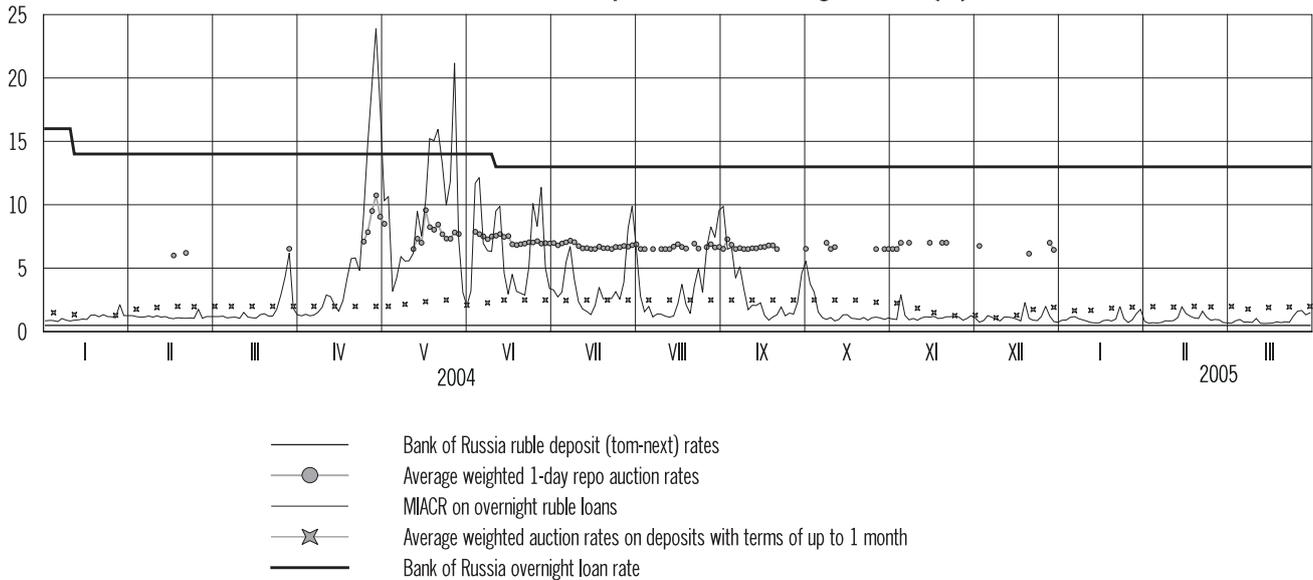
The Bank of Russia made no changes in interest rates on the deposit operations conducted on standard terms in 2005 Q1. The lower limit of the interest rate band was set by the interest rate on tom-next deposits, which accounted for the largest share of the funds taken from credit institutions on deposit (the interest rate stood at 0.5% p.a.). The upper limit of the band was set by the Bank of Russia overnight loan rate, which also remained unchanged at 13% p.a. The average weighted interest rates at deposit auctions in 2005 Q1 were a little higher than in the previous quarter at 1.95% p.a. on 4-week deposits and 3.18% p.a. on 3-month deposits. The average weighted yield on Bank of Russia bonds (OBR) ranged from 3.8% p.a. to 4.7% p.a.

In 2005 Q1, money market interest rates and interest rates on commercial bank operations remained within the Bank of Russia interest rate band. The MIACR on overnight ruble loans on the interbank market in that period varied between 0.65% and 2% p.a. (in the previous quarter, it ranged from 1.08% to 1.15% p.a.).

The market interest rate on loans extended to non-financial enterprises for all terms rose significantly in January month on month (by 0.9 percentage points to 10.9% p.a.). In the subsequent months, this rate fell slightly and in March it stood at 10.7% p.a. As for the term structure of interest rates, 6- to 12-month loans remained the most expensive credit resources for enterprises in January and February and in March it was loans extended for 1-3 years. Compared to 2004 Q4, the price of 6- to 12-month loans rose by 0.1 percentage points in 2005 Q1 and the price of 1- to 3-year loans increased by 2.5 percentage points.

The most significant decline in interest rates in February and March was registered in loans extended for terms over 3 years (it fell from 14.4% p.a. in January to 10.3% p.a. in March). As a result, the price of loans in this term category was lower than the price of loans in any other term category in 2005 Q1 (except interest rates on loans with terms up to 1 month). This fact serves to show

## Rates on Bank of Russia operations and overnight MIACR (%)



that market participants anticipate a decline in interest rates on loans in the medium and long term.

High demand for loans in the household sector and little competition allow banks to keep interest rates on loans to individuals higher than on loans to enterprises. In 2005 Q1, the interest rate on loans extended to the household sector for all terms declined to 20.0% p.a. as against 20.5% p.a. in December 2004. Compared to 2004 Q4, the average interest rate on loans extended to households for all terms fell by 0.7 percentage points in 2005 Q1, while the biggest decrease (by 2.7 percentage points) was registered in interest rates on 1- to 3-month loans.

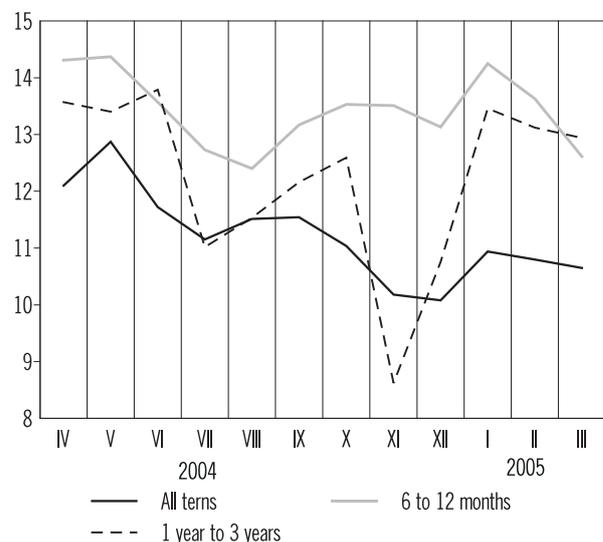
Interest rates on household time deposits last January were higher than in December 2004, but in February-March they slipped by 0.45 percentage points, staying higher than in December 2004, however. The average interest rate on household time deposits rose by half a percentage point in 2005 Q1 as compared with 2004 Q1 and stood at 8.9% p.a. As was the case in the previous quarter, the highest yield was on deposits with terms from 6 months to 1 year, although their average quarterly yield fell slightly (by 0.1 percentage points). The most significant reduction (by 1.4 percentage points) in average quarterly interest rates in 2005 Q1 as compared with the previous quarter was registered in 1- to 7-day deposits and the biggest increase (by 0.8 percentage points) in deposits with terms from 1 year to 3 years.

In 2005 Q1, the yield curve on banks' lending operations retained its rising slope but it be-

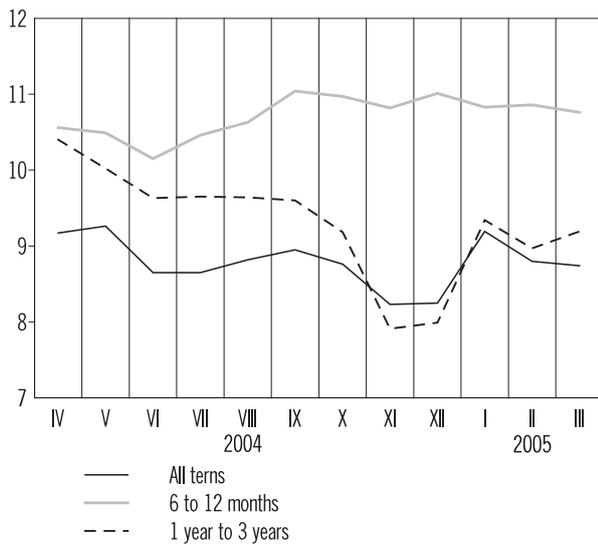
came gentler due to the evening out of interest rates on deposits with terms longer than 3 months. The positive incline in the up to 90 days sector increased a little. The term structure of interest rates on banks' lending operations shows that market participants' inflationary expectations remain moderate.

A minor upward trend in yield dynamics prevailed on the federal loan bond (OFZ) market in 2005 Q1. In January-March, OFZ bond yields fluctuated within 0.18 percentage points and by the end of the period the government bond market portfolio effective indicator gained 0.2 percentage points as compared with the end of December 2004 and stood at 8.0% p.a. Compared to 2004 Q1, the average quarterly effective market

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



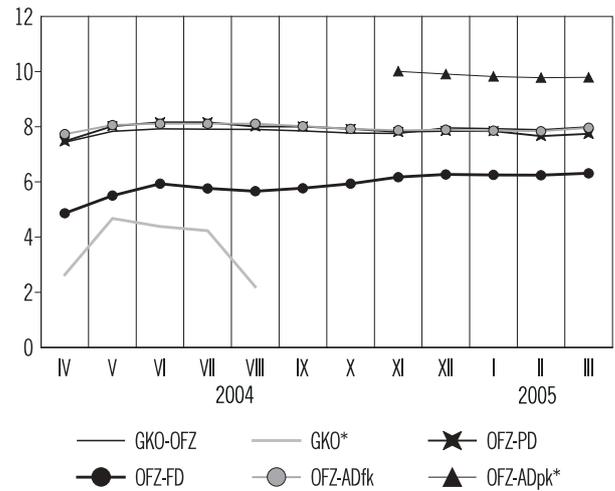
**Interest rates on household ruble deposits (% p.a.)**



portfolio indicator rose by 0.1 percentage points in 2005 Q1 and stood at 7.9% p.a.

OFZ yields remained in direct proportion with the bond maturities in the period under review. The minor yield fluctuations in the first quarter of the year had no effect on the shape of the OFZ bond yield curve, which retained its rising slope in the up to 8 years section. The over 8 years section was almost flat due to the low liquidity of these instruments and because it was impossible to precisely evaluate the risk involved in investing for such a long period of time. By the end of March, the yield curve became a little steeper as the yields on the shortest-dated government bonds fell. No inflation risk premium was included in the price of short-term government bonds. The

**GKO-OFZ portfolio average monthly yield (% p.a.)**

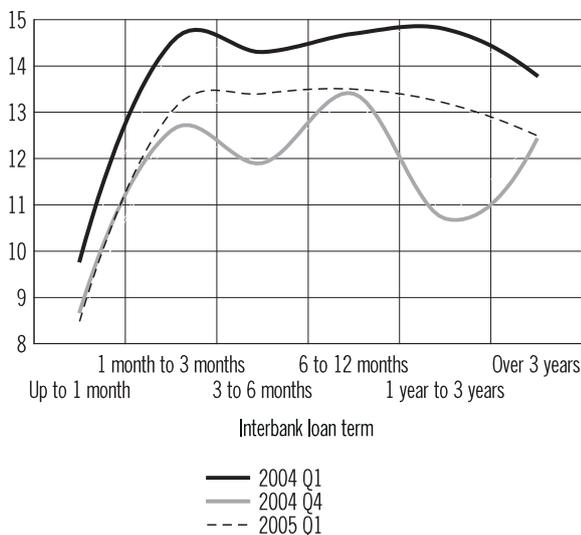


\*GKO bonds were redeemed in August 2004; OFZ-ADpk bonds were floated in November 2004.

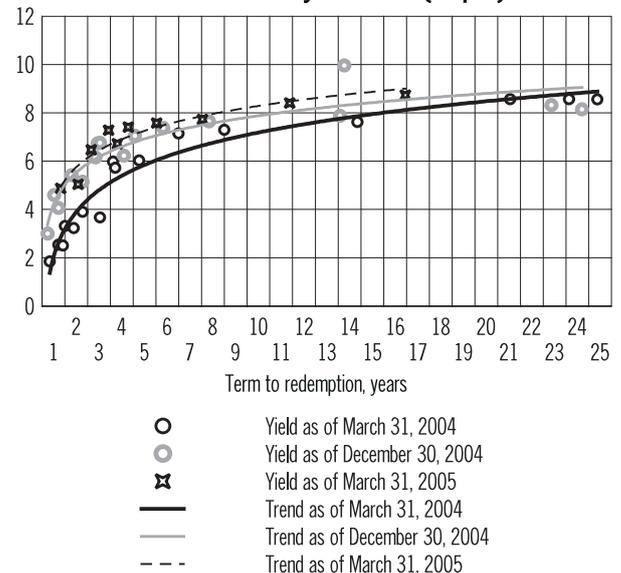
medium- and long-term inflationary expectations of market participants were unchanged from the previous quarter. The inflation risk of investing in medium-term government bonds was moderate. As for the risk of investing in papers with terms to redemption longer than 5 years, market participants determine it on the basis of the evaluation of the risk involved in investing in medium-term issues.

The volatility of price indicators for most of the ruble-denominated financial market instruments remained moderate in the first quarter of the year. The interest rate structure by instrument remained balanced. The yield curves for the key financial instruments had a normal shape, which means that the yield on financial instruments was

**Bank lending yield curve (loans to corporate borrowers, % p.a.)**



**GKO-OFZ effective yield curve (% p.a.)**



in direct proportion with their maturity periods amid the relatively stable short- and medium-term inflation expectations of Russian financial market participants.

The long-term inflationary expectations are hard to evaluate with certainty owing to the small scale of operations with long-dated instruments, but the fact that the yield curves on the longest-term instruments were either almost flat or descending indicates that the prevailing sentiment on the market is that interest rates will fall in the long run.

### Money Supply

Annualised M2 growth slowed to 30.8% by the end of the first quarter of the year from 35.8% at the beginning of the year. In January-March 2005, M2 expanded 2.6%, slightly lower than the first-quarter average increase since 1999. Although the tendency towards the slowing of annualised growth in the money supply continued in the first two months of the year, in March 2005, M2 grew faster than in March 2004. Taking into consideration the April dynamics, this may indicate an end to this tendency and the emergence of an additional factor of uncertainty about core inflation at the end of 2005 and the beginning of 2006.

The gap between the rates of growth in M2 and GDP<sup>1</sup>, which narrowed significantly last year, further contracted slightly in the first quarter of the year. Its contraction contributes to the lessening of the inflationary pressure if the dynamics of the velocity of money are economically justified. Overall, the first-quarter reduction of the velocity of money by 2.3% (as against 5.6% in the same period of 2004) had a balancing effect on the correlation between the expansion of the money supply and economic growth. At the same time, the slight slowing in reduction of the velocity of money, registered since the second half of 2004, continues and at present the dynamics of the velocity of money are deviating from the medium-term trend due to some factors, such as instability of the demand for the national currency, the slowing of the de-dollarisation of the economy and changes in the structure of the money supply.

The analysis of the dynamics of the gap between the rates of growth in GDP and M2X, a broader monetary aggregate comprising economic agents' non-cash foreign currency funds, indicates that monetary factors may put more pressure on inflation in the coming period. However, this will only happen if the process of de-dollarisation, which affects the correlation between M2 and M2X growth, continues. Since 2003, GDP growth has lagged M2 growth more significantly than M2X growth and in the past half-year the gap between GDP and M2X growth rates has widened.

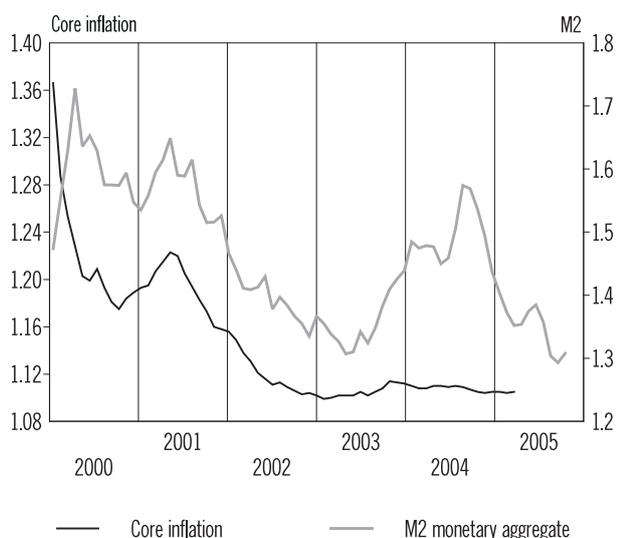
The money aggregate in the monetary survey definition (similar to the M1 aggregate), which comprises the most liquid transactional components of the money supply, reflects the economic situation and liquidity preferences. In 2005 Q1, its dynamics were chiefly affected by the slowing of growth of the cash component of this aggregate (M0 cash growth slowed from the annualised 33.8% to 27.1% in January-March 2005).

Overall, following the seasonal pattern of the previous few years, cash contracted 3.5% in 2005 Q1 (in 2004 Q1, it expanded 1.6%). Household demand for foreign currency, which rose compared to 2004 Q1, and the slowing of growth in household real money income were the main factors behind the change of the M0 aggregate in 2005 Q1.

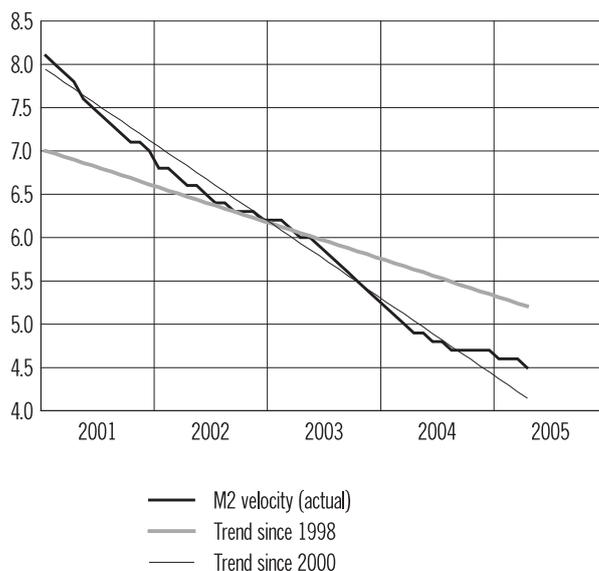
As was the case in the previous years, the M0 aggregate expanded significantly in December 2004 and its growth was followed by a surge of consumer prices in January 2005. In December 2004, cash growth was faster than in December 2003 (15.2% as against 14.5%), largely due to the fact that budget expenditures that month increased more than in December 2003. According to monetary survey data, almost 290 billion rubles were written down from the government accounts with the Bank of Russia last December, far more than in December 2003 (about 125 billion rubles). At the same time, December 2004 consumer spending grew faster than in December 2003 and this could also put more significant upward pressure on inflation dynamics in January 2005.

<sup>1</sup> This gap characterises the part of money supply growth that exceeds the amount necessary for the financing of the expanded volume of transactions. Its increase may testify to the inflationary pressure of money supply growth on price dynamics.

**Core inflation and M2 with 7-month lag  
(month on month of previous year)**



**M2 velocity**



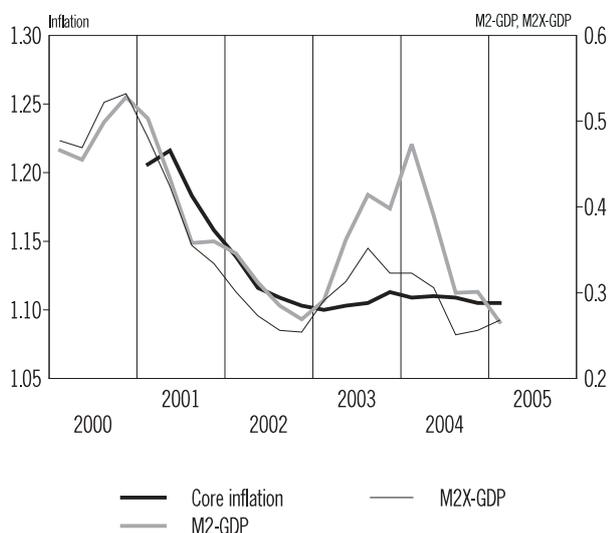
The non-cash component of M1 is comprised by about 80% of non-financial enterprise sector funds and its growth reflects this sector's increased demand for money to conduct transactions and service the payment turnover. In 2005 Q1, funds in accounts and demand deposits grew faster than in the same period last year. The annualised rate of growth (month on month of the previous year) in non-cash transaction money was virtually unchanged at 27-28%, while the rate of cash growth slowed down.

As cash and funds in transactional accounts contracted, the annualised rate of growth in the money aggregate in the monetary survey definition slowed from 30.5% as of the beginning of the year to 27.4% as of April 1, 2005. The rates of

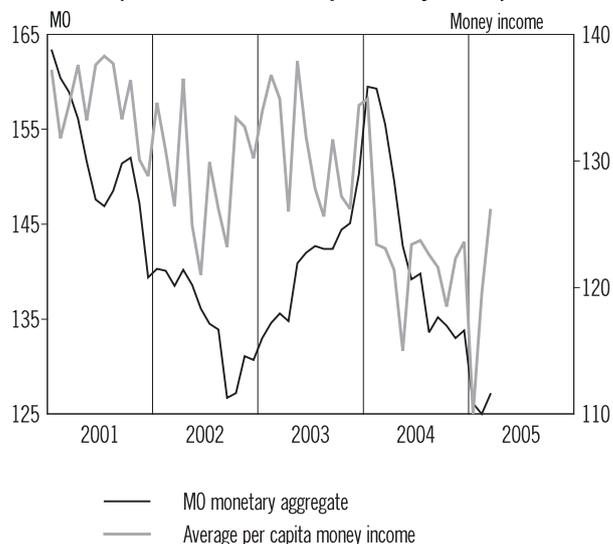
growth in quasi-money, the aggregate comprising less liquid components of the money supply, used by economic agents as savings, in 2005 Q1 were slower than last year but far surpassed the money aggregate dynamics. The slowing of the annualised rate of growth in quasi-money by April 2005 (to 35.7% from 37.6% at the beginning of the year) was less significant than the slowing of the money aggregate and it was due to the accelerated growth of the foreign currency component of quasi-money. Foreign currency deposits increased faster than in the same period last year and their growth surpassed that of the ruble-denominated time deposits.

Instability of economic agents' currency preferences and the corresponding fluctuations in

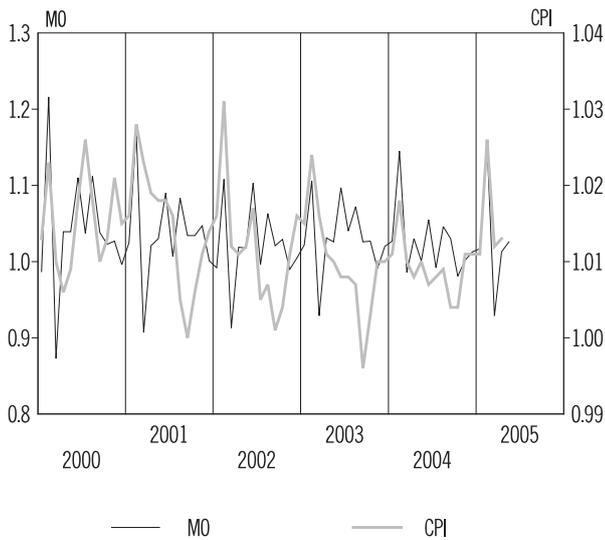
**Core inflation and gap between money supply and GDP growth rates (quarter on quarter of previous year)**



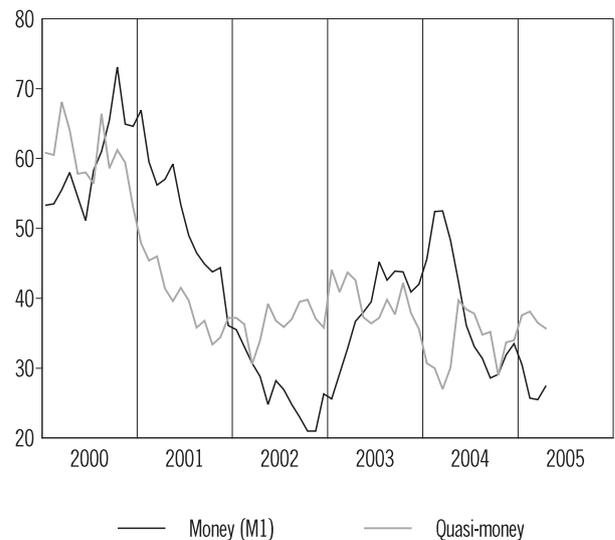
**M0 and household money income  
(month on month of previous year, %)**



**MO (with 1-month lag) and consumer price index (month on month)**



**Money and quasi-money (month on month of previous year, %)**



the demand for rubles and foreign exchange, which stimulated the reciprocal flow of ruble and foreign currency funds, were among the factors that determined the monetary aggregate dynamics in 2005 Q1. That is why the slowing of the annual rates of growth in the M2X aggregate (from 33.7% as of January 1, 2005, to 31.2% as of April 1, 2005) was less significant than the slowing of growth in the ruble aggregates (M0, M1 and M2), while the dynamics of M2Y aggregate, which comprises cash and non-cash foreign currency assets of non-financial agents, had a climbing path.

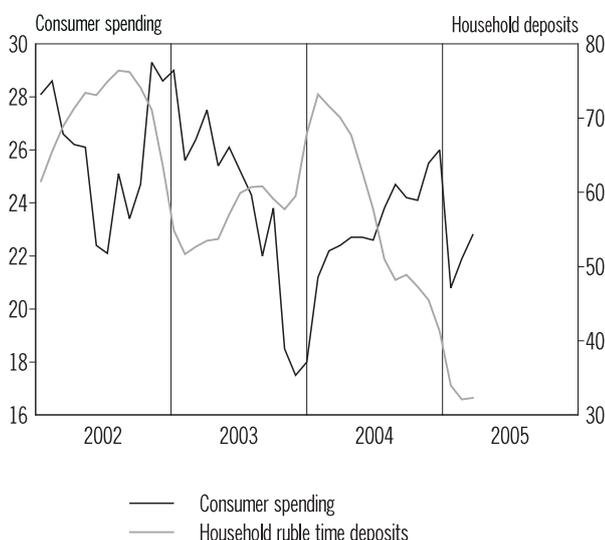
The accelerated growth of foreign currency deposits in 2005 Q1, despite the contraction of cash foreign exchange, brought about an upward

trend in the dynamics of the notional broad aggregate M2Y, which increased by an annualised 25.1% as of April 1, 2005, as against 24.3% as of the beginning of the year and 19.9% as of the same date in 2004.

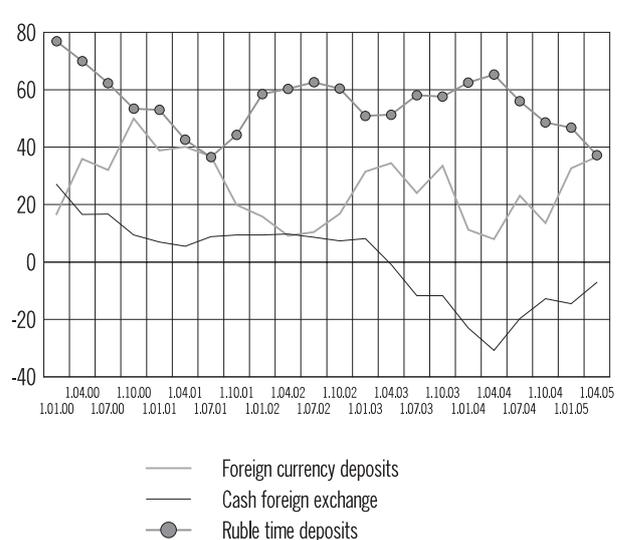
The dollarisation coefficient, which is a measure of the foreign currency component of the money supply in the monetary survey definition (M2X), rose by a percentage point to 18.6% in 2005 Q1, whereas in the same period of 2004 it fell by 0.6 percentage points. At the same time, the ruble component remained the largest component of quasi-money (62.1% as of April 1, 2005, and 61.8% as of January 1, 2005).

The slowing of the Russian economy's de-dollarisation is also reflected in the changes in the

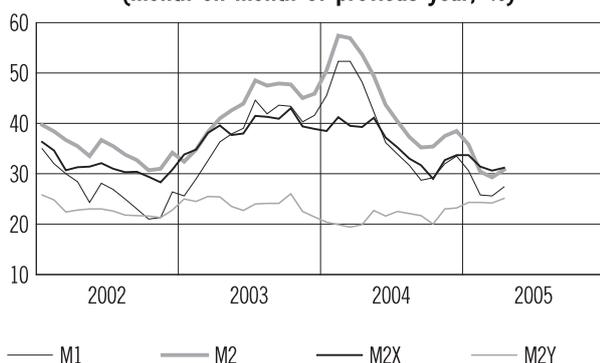
**Consumer spending and household ruble time deposits (month on month of previous year, %)**



**Individual components of notional broad aggregate M2Y (month on month of previous year, %)**



**Monetary aggregates  
(month on month of previous year, %)**



Definitions of aggregates:

M1 = M0 + current accounts and demand deposits;

M2 = M1 + time deposits in rubles;

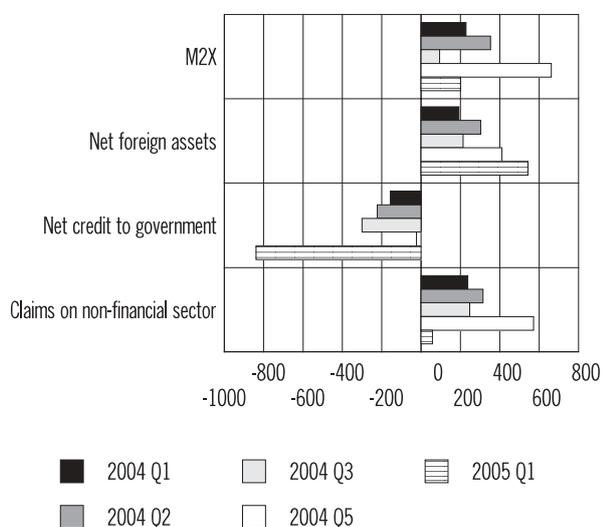
M2X (money supply in the monetary survey definition) = M2 + foreign currency deposits;

M2Y (notional broad aggregate) = M2X + an estimated amount of cash foreign exchange in the non-banking sector.

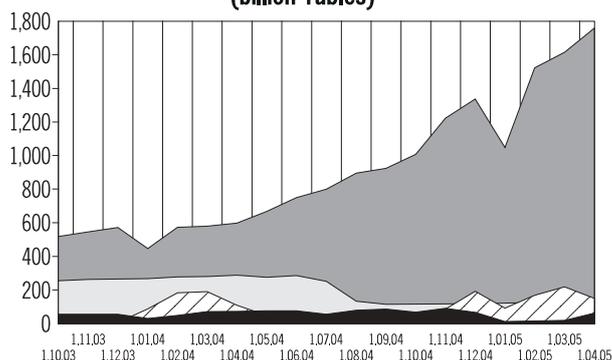
structure of the M2Y aggregate. In 2005 Q1, the share of the foreign currency component of this notional broad aggregate expanded by 0.2 percentage points, mainly as a result of growth in the share of foreign currency deposits. At the same time, the share of all foreign currency funds in the broad aggregate M2Y in 2005 Q1 was smaller than in the same period last year.

Enterprise and household sector funds attracted by banks in rubles and foreign currency, which are the principal source of growth in lending, expanded by an annualised 32.8% as of April 1, 2005, lagged growth in credit to the real sector, which stood at 43.8% as of the same date. At the same time, the increase in banking sector

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



**Absorbed banking sector liquidity  
(billion rubles)\***



- Funds in government accounts with the Bank of Russia
- ▨ Credit institutions' required reserves with the Bank of Russia
- ▧ Credit institutions' deposits with the Bank of Russia
- Bank of Russia obligations on modified repo operations and Bank of Russia bonds

\* As of the 1st day of each month.

claims on the non-financial sector was not a major source of growth in the money supply in 2005 Q1: in January-March 2005, it equalled only 57.7 billion rubles (it was four times this amount in 2004 Q1). The dynamics of monetary indicators were determined above all by the continued expansion of banking sector net foreign assets, caused primarily by the Bank of Russia purchases of foreign currency on the domestic market.

The broad monetary base contracted 5.5% in 2005 Q1, whereas in 2004 Q1 it expanded 1.2%. The ratio of credit institutions' funds in correspondent accounts with the Bank of Russia decreased during January-March from 20.4% to 14.5% (in the same period last year, it contracted from 15.9% to 12%). The ratio of credit institutions' funds absorbed by the Bank of Russia by conducting operations with Bank of Russia bonds and operations to repurchase securities and by taking banks' funds on deposit expanded from 4.5% to 9.6% of the monetary base and taking into account credit institutions' required reserves, from 9.6% to 15.5%.

Significant growth in funds in general government accounts, caused by the expansion of the federal government's Stabilisation Fund, had a major restraining effect on month supply growth. In 2005 Q1, the Stabilisation Fund grew faster than in 2004 Q4 and in 2004 Q1 (246.2 billion rubles as against 172.5 billion rubles and 142.6 billion rubles respectively).

# Statistical Addendum

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

	Monthly inflation	Core inflation	Food price growth	Food price growth net of vegetable prices	Vegetable and fruit price growth	Non-food price growth	Service price growth
<b>2003</b>							
January	2.4	1.2	2.5	1.3	13.1	1.1	4.4
February	1.6	0.9	1.2	0.8	4.1	0.9	4.2
March	1.1	0.7	1.0	0.6	3.9	0.8	1.7
April	1.0	0.6	1.0	0.5	4.2	0.6	1.8
May	0.8	0.6	0.7	0.4	2.5	0.6	1.5
June	0.8	0.6	0.8	0.6	2.3	0.5	1.2
July	0.7	0.7	0.4	0.7	-1.8	0.5	1.9
August	-0.4	0.7	-1.4	0.8	-17.2	0.6	0.7
September	0.3	1.1	-0.2	1.1	-11.2	0.9	0.9
October	1.0	1.4	1.1	1.8	-5.6	1.0	0.8
November	1.0	1.1	1.2	1.3	1.0	0.8	0.4
December	1.1	1.0	1.5	1.2	4.1	0.6	0.9
Full year (December on December)	12.0	11.2	10.2	11.8	-4.2	9.2	22.3
<b>2004</b>							
January	1.8	0.9	1.6	1.3	5.5	0.5	4.1
February	1.0	0.8	1.1	1.1	1.5	0.4	1.6
March	0.8	0.7	1.1	0.9	2.8	0.4	0.6
April	1.0	0.8	0.8	1.0	-0.6	0.6	2.0
May	0.7	0.6	0.4	0.5	-0.7	0.8	1.4
June	0.8	0.5	0.8	0.4	4.8	0.7	0.9
July	0.9	0.8	1.0	1.0	1.5	0.6	1.3
August	0.4	0.7	0.1	0.8	-6.3	0.5	1.0
September	0.4	0.9	0.0	0.9	-9.0	0.9	0.6
October	1.1	1.3	1.4	1.7	-2.7	0.7	1.2
November	1.1	1.1	1.5	1.5	2.2	0.7	0.8
December	1.1	1.0	1.7	1.4	5.4	0.4	1.0
Full year (December on December)	11.7	10.5	12.3	13.1	3.3	7.4	17.7
<b>2005</b>							
January	2.6	0.9	1.4	1.1	5.1	0.4	8.8
February	1.2	0.7	1.4	0.9	6.1	0.4	2.2
March	1.3	0.8	2.1	1.1	11.2	0.4	1.2

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

	Monthly inflation	Core inflation	Food price growth	Food price growth net of vegetable prices	Vegetable and fruit price growth	Non-food price growth	Service price growth
<b>2003</b>							
January	2.4	1.2	2.5	1.3	13.1	1.1	4.4
February	4.1	2.1	3.7	2.2	17.8	2.0	8.8
March	5.2	2.8	4.8	2.8	22.4	2.8	10.6
April	6.2	3.4	5.8	3.3	27.6	3.5	12.6
May	7.1	4.0	6.5	3.8	30.8	4.1	14.2
June	7.9	4.7	7.4	4.4	33.7	4.6	15.6
July	8.7	5.4	7.8	5.1	31.4	5.1	17.8
August	8.3	6.2	6.3	6.0	8.7	5.7	18.7
September	8.6	7.3	6.1	7.1	-3.4	6.6	19.7
October	9.7	8.9	7.3	9.1	-8.9	7.7	20.7
November	10.8	10.1	8.6	10.4	-7.9	8.6	21.2
December	12.0	11.2	10.2	11.8	-4.2	9.2	22.3
<b>2004</b>							
January	1.8	0.9	1.6	1.3	5.5	0.5	4.1
February	2.8	1.7	2.8	2.3	7.1	0.9	5.8
March	3.5	2.4	3.8	3.2	10.1	1.4	6.4
April	4.6	3.2	4.7	4.2	9.5	2.0	8.5
May	5.3	3.8	5.2	4.8	8.7	2.8	10.0
June	6.1	4.3	6.0	5.2	13.9	3.4	11.0
July	7.1	5.1	7.1	6.2	15.6	4.0	12.5
August	7.6	5.8	7.2	7.1	8.3	4.6	13.6
September	8.0	6.8	7.2	8.0	-1.4	5.5	14.3
October	9.3	8.1	8.7	9.9	-4.0	6.3	15.7
November	10.5	9.3	10.4	11.5	-1.9	7.0	16.6
December	11.7	10.5	12.3	13.1	3.3	7.4	17.7
<b>2005</b>							
January	2.6	0.9	1.4	1.1	5.1	0.4	8.8
February	3.9	1.7	2.8	2.0	11.5	0.7	11.2
March	5.3	2.4	4.9	3.1	24.0	1.1	12.6

**Consumer prices by group of goods and services  
(total for quarter, %)**

	Inflation	Core inflation	Food price growth	Food price growth net of vegetable prices	Vegetable and fruit price growth	Non-food price growth	Service price growth
<b>2002</b>							
Q1	5.4	2.8	4.2	2.1	22.6	2.7	14.5
Q2	3.4	1.5	3.0	0.7	20.1	3.1	5.1
Q3	1.2	2.3	-1.4	1.8	-21.6	2.1	7.3
Q4	4.3	3.2	4.9	3.6	15.5	2.5	5.5
<b>2003</b>							
Q1	5.2	2.8	4.8	2.8	22.4	2.8	10.6
Q2	2.6	1.8	2.5	1.6	9.3	1.8	4.5
Q3	0.6	2.5	-1.2	2.6	-27.8	1.9	3.6
Q4	3.1	3.6	3.9	4.3	-0.8	2.4	2.1
<b>2004</b>							
Q1	3.5	2.4	3.8	3.2	10.1	1.4	6.4
Q2	2.5	1.8	2.1	1.9	3.5	2.0	4.3
Q3	1.8	2.4	1.2	2.7	-13.4	2.0	3.0
Q4	3.4	3.5	4.7	4.7	4.8	1.8	3.0
<b>2005</b>							
Q1	5.3	2.4	4.9	3.1	24.0	1.1	12.6

**INFLATION GROWTH STRUCTURE (in percentage points)**

**Inflation growth over period since start of year due to changes in prices  
by group of goods and services**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
<b>2003</b>							
January	0.7	0.3	0.8	0.7	2.4	1.0	1.4
February	1.1	0.5	1.5	0.9	4.1	1.7	2.4
March	1.4	0.8	1.8	1.2	5.2	2.3	2.9
April	1.7	1.0	2.2	1.4	6.2	2.8	3.4
May	1.9	1.1	2.4	1.6	7.1	3.3	3.8
June	2.2	1.3	2.7	1.8	7.9	3.8	4.1
July	2.6	1.4	3.1	1.6	8.7	4.4	4.3
August	3.0	1.6	3.2	0.5	8.3	5.0	3.2
September	3.6	1.8	3.4	-0.2	8.6	6.0	2.7
October	4.5	2.1	3.5	-0.5	9.7	7.2	2.5
November	5.2	2.4	3.6	-0.4	10.8	8.2	2.6
December	5.9	2.5	3.8	-0.2	12.0	9.1	2.9
<b>2004</b>							
January	0.6	0.1	0.7	0.3	1.8	0.8	1.0
February	1.2	0.2	1.0	0.4	2.8	1.4	1.4
March	1.6	0.4	1.1	0.5	3.5	2.0	1.6
April	2.1	0.5	1.4	0.5	4.6	2.6	1.9
May	2.4	0.8	1.7	0.4	5.3	3.1	2.2
June	2.6	0.9	1.9	0.7	6.1	3.5	2.6
July	3.1	1.1	2.1	0.8	7.1	4.2	2.9
August	3.5	1.3	2.3	0.4	7.6	4.7	2.8
September	4.1	1.5	2.5	-0.1	8.0	5.5	2.5
October	5.0	1.7	2.7	-0.2	9.3	6.6	2.7
November	5.8	1.9	2.9	-0.1	10.5	7.6	2.9
December	6.5	2.0	3.0	0.2	11.7	8.5	3.3
<b>2005</b>							
January	0.5	0.1	1.8	0.2	2.6	0.7	1.9
February	0.8	0.2	2.3	0.5	3.9	1.3	2.6
March	1.3	0.4	2.5	1.1	5.3	1.9	3.3

\* Excluding vegetables and fruit.

\*\* Growth in the prices of goods and paid services excluded from the calculation of the base consumer price index.

**Monthly inflation growth due to changes in prices  
by group of goods and services**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
<b>2003</b>							
January	0.7	0.3	0.8	0.7	<b>2.4</b>	1.0	1.4
February	0.4	0.2	0.7	0.2	<b>1.6</b>	0.7	0.9
March	0.3	0.2	0.3	0.2	<b>1.1</b>	0.6	0.5
April	0.3	0.2	0.3	0.3	<b>1.0</b>	0.5	0.5
May	0.2	0.2	0.3	0.2	<b>0.8</b>	0.4	0.4
June	0.3	0.1	0.2	0.1	<b>0.8</b>	0.5	0.3
July	0.3	0.1	0.4	-0.1	<b>0.7</b>	0.5	0.2
August	0.4	0.1	0.1	-1.1	<b>-0.4</b>	0.6	-1.0
September	0.5	0.2	0.2	-0.6	<b>0.3</b>	0.9	-0.6
October	0.9	0.3	0.1	-0.3	<b>1.0</b>	1.2	-0.1
November	0.6	0.2	0.1	0.0	<b>1.0</b>	0.9	0.1
December	0.6	0.2	0.2	0.2	<b>1.1</b>	0.8	0.3
<b>2004</b>							
January	0.6	0.1	0.7	0.3	<b>1.8</b>	0.8	1.0
February	0.5	0.1	0.3	0.1	<b>1.0</b>	0.6	0.4
March	0.4	0.1	0.1	0.1	<b>0.8</b>	0.6	0.2
April	0.5	0.2	0.4	0.0	<b>1.0</b>	0.6	0.3
May	0.3	0.2	0.2	0.0	<b>0.7</b>	0.5	0.2
June	0.2	0.2	0.2	0.3	<b>0.8</b>	0.4	0.4
July	0.5	0.1	0.2	0.1	<b>0.9</b>	0.6	0.3
August	0.4	0.2	0.2	-0.4	<b>0.4</b>	0.5	-0.1
September	0.5	0.3	0.1	-0.5	<b>0.4</b>	0.7	-0.3
October	0.9	0.2	0.2	-0.1	<b>1.1</b>	1.0	0.2
November	0.7	0.2	0.1	0.1	<b>1.1</b>	0.9	0.2
December	0.6	0.1	0.1	0.3	<b>1.1</b>	0.8	0.3
<b>2005</b>							
January	0.5	0.1	1.8	0.2	<b>2.6</b>	0.7	1.9
February	0.4	0.1	0.5	0.3	<b>1.2</b>	0.6	0.7
March	0.4	0.1	0.2	0.6	<b>1.3</b>	0.6	0.7

\* Excluding vegetables and fruit.

\*\* Growth in prices of goods and paid services excluded from the calculation of the base consumer price index.

## CONTRIBUTION TO INFLATION GROWTH (%)

Contribution to inflation growth over period since start of year  
by group of goods and services

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
<b>2003</b>						
January	27.5	12.4	31.6	28.5	40.6	59.4
February	26.7	13.4	37.1	22.8	41.8	58.2
March	27.3	14.9	35.3	22.5	44.2	55.8
April	27.0	15.3	34.7	23.1	44.9	55.1
May	26.9	15.9	34.5	22.7	46.1	53.9
June	28.1	16.0	33.7	22.2	47.9	52.1
July	29.7	16.2	35.2	18.8	50.2	49.8
August	36.5	19.1	38.9	5.5	60.7	39.3
September	41.6	21.2	39.3	-2.1	69.1	30.9
October	46.7	21.6	36.4	-4.7	74.3	25.7
November	48.5	21.7	33.6	-3.8	76.3	23.7
December	49.1	21.0	31.7	-1.8	75.9	24.1
<b>2004</b>						
January	35.8	7.6	40.3	16.3	43.2	56.8
February	42.3	9.0	35.4	13.3	50.0	50.0
March	45.0	10.3	30.2	14.5	55.3	44.7
April	46.1	11.7	31.5	10.7	57.5	42.5
May	45.3	14.2	32.2	8.5	58.5	41.5
June	42.3	15.3	30.7	11.8	57.2	42.8
July	43.5	15.3	29.9	11.3	58.8	41.2
August	47.0	16.5	30.8	5.7	62.6	37.4
September	50.9	19.1	30.9	-0.9	68.4	31.6
October	54.2	18.7	29.3	-2.3	70.9	29.1
November	55.4	18.3	27.2	-1.0	72.0	28.0
December	55.7	17.1	25.7	1.5	72.0	28.0
<b>2005</b>						
January	17.5	4.9	68.3	9.3	28.0	72.0
February	21.6	6.3	58.0	14.0	33.3	66.7
March	24.6	6.8	47.4	21.3	36.6	63.4

\* Excluding vegetables and fruit.

\*\* Growth in prices of goods and paid services excluded from the calculation of the base consumer price index.

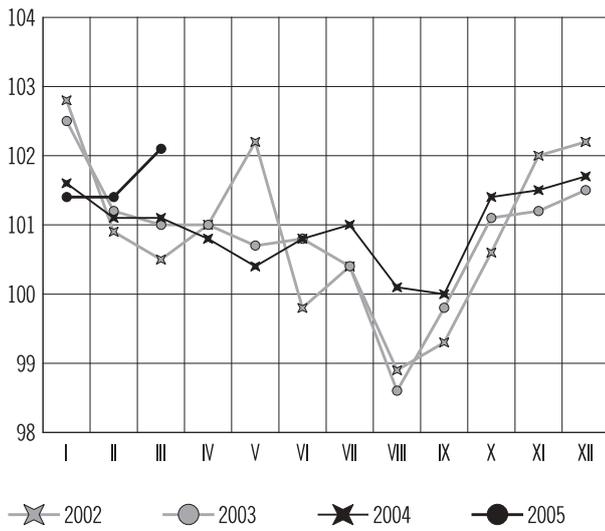
**Contribution to monthly inflation growth  
by group of goods and services**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
<b>2003</b>						
January	27.5	12.4	31.6	28.5	40.6	59.4
February	25.5	15.0	45.0	14.6	43.7	56.3
March	29.7	20.3	28.3	21.7	53.0	47.0
April	25.5	17.2	31.6	25.7	48.7	51.3
May	25.9	21.2	33.1	19.8	55.3	44.7
June	38.4	16.6	26.9	18.1	62.7	37.3
July	46.8	18.9	50.7	-16.4	74.7	25.3
August	<i>Estimate impossible for negative value</i>					
September	164.8	72.9	50.5	-188.3	270.6	-170.6
October	86.6	25.6	14.2	-26.4	114.6	-14.6
November	63.8	23.3	8.4	4.5	94.1	5.9
December	53.8	14.2	15.1	16.9	71.7	28.3
<b>2004</b>						
January	35.8	7.6	40.3	16.3	43.2	56.8
February	53.5	11.5	26.8	8.1	61.8	38.2
March	54.6	14.8	11.5	19.2	74.2	25.8
April	49.6	17.1	36.3	-2.9	65.1	34.9
May	40.1	29.6	35.6	-5.2	64.9	35.1
June	22.7	22.7	21.0	33.7	48.2	51.8
July	50.3	15.8	25.3	8.8	68.1	31.9
August	101.5	35.8	46.0	-83.3	122.3	-22.3
September	117.0	63.9	34.1	-115.0	164.9	-64.9
October	75.6	16.9	19.0	-11.5	86.8	13.2
November	63.4	15.6	12.0	9.0	79.4	20.6
December	56.7	7.1	13.1	23.1	71.7	28.3
<b>2005</b>						
January	18.1	4.6	67.6	9.7	28.0	72.0
February	30.9	8.4	35.9	24.7	44.4	55.6
March	33.4	7.4	16.4	42.8	46.0	54.0

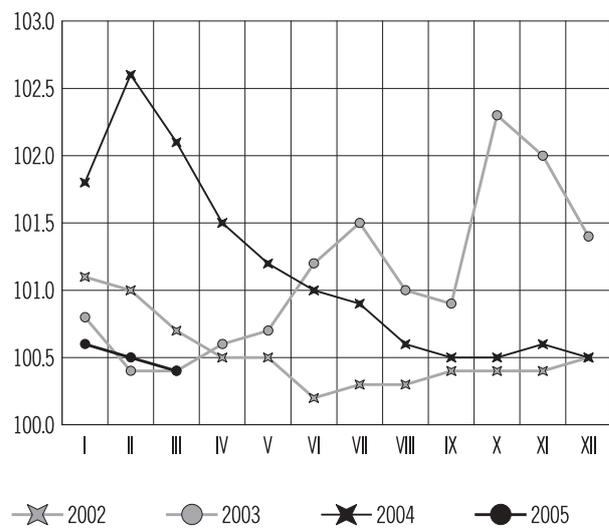
\* Excluding vegetables and fruit.

\*\* Growth in prices of goods and paid services excluded from the calculation of the base consumer price index.

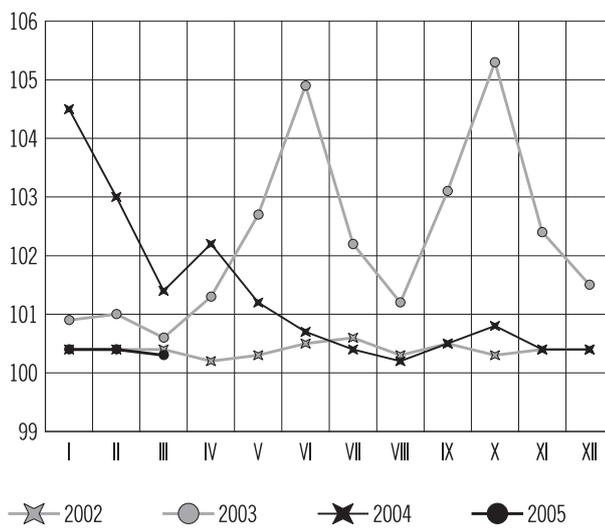
**Food prices, total**  
(as % of previous month)



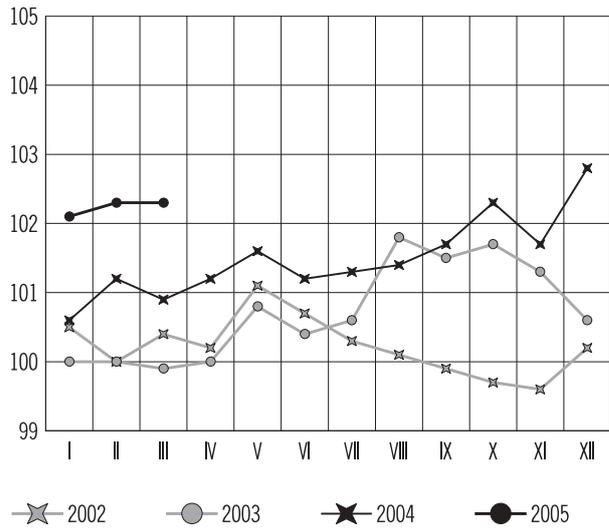
**Pasta prices**  
(as % of previous month)



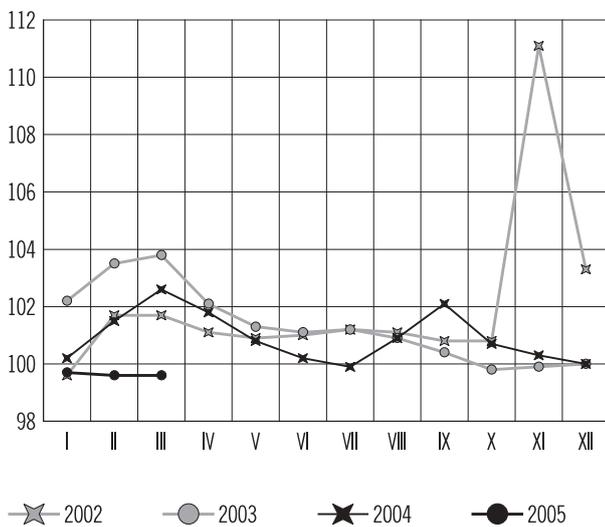
**Bread and bakery product prices**  
(as % of previous month)



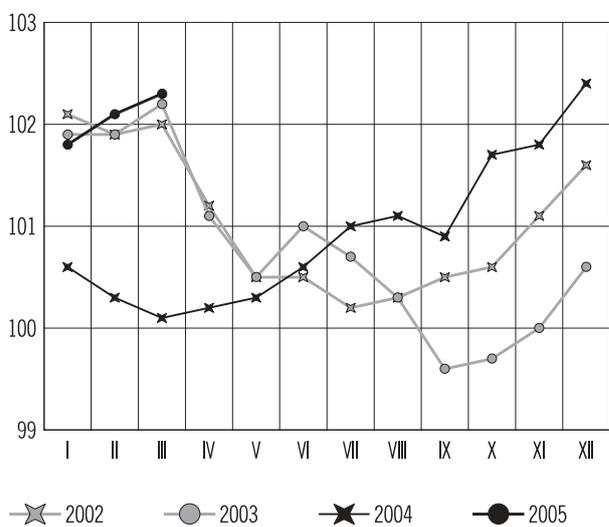
**Meat and poultry prices**  
(as % of previous month)



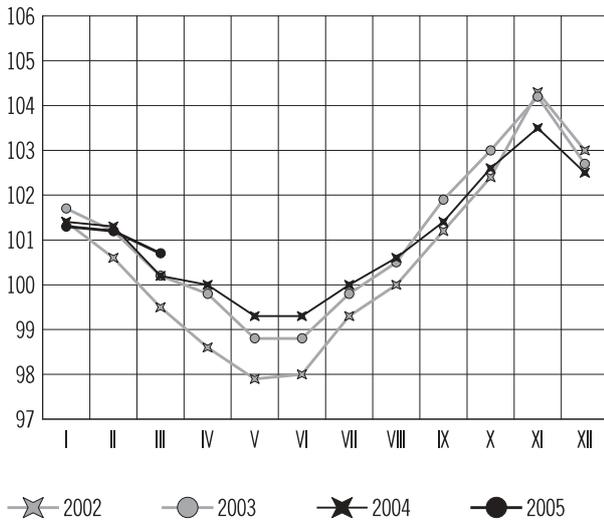
**Cereal and legume prices**  
(as % of previous month)



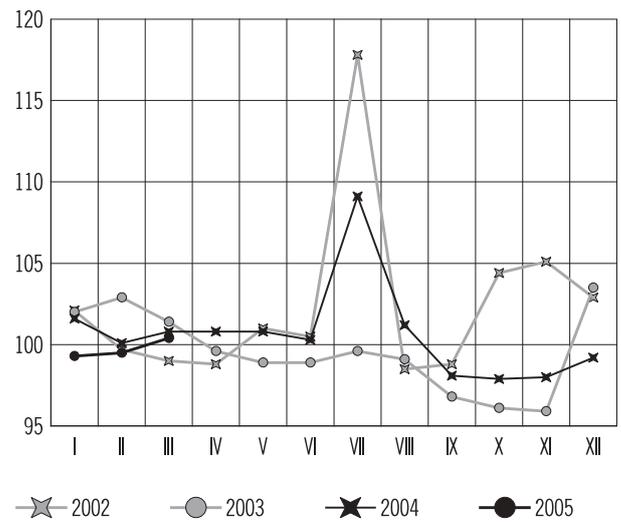
**Fish and seafood prices**  
(as % of previous month)



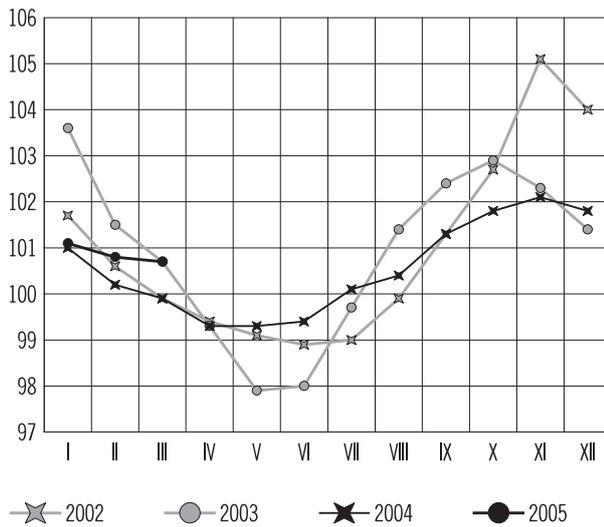
**Milk and dairy product prices  
(as % of previous month)**



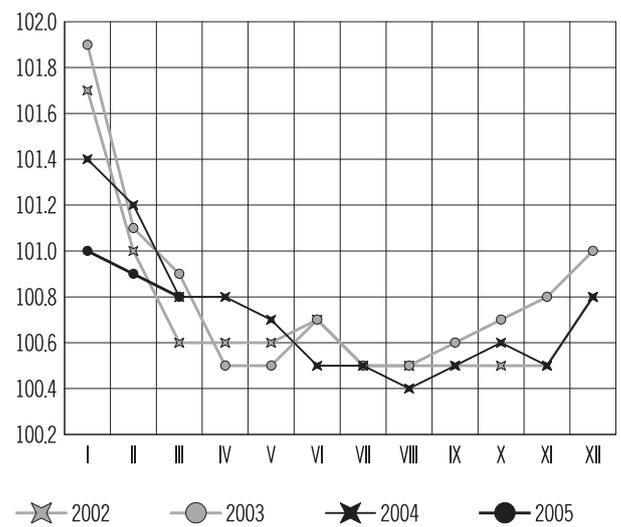
**Granulated sugar prices  
(as % of previous month)**



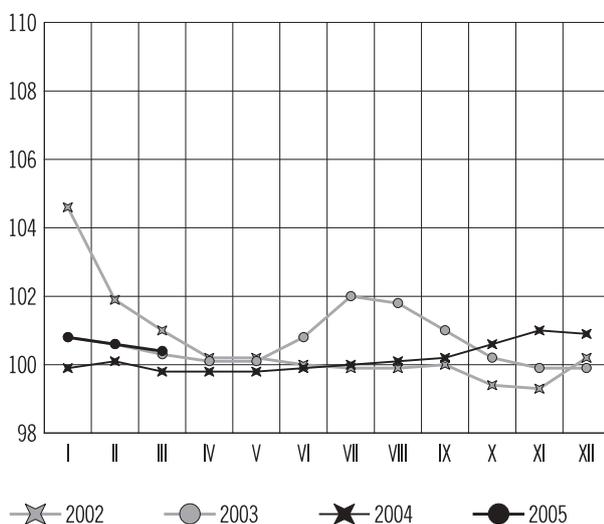
**Butter prices  
(as % of previous month)**



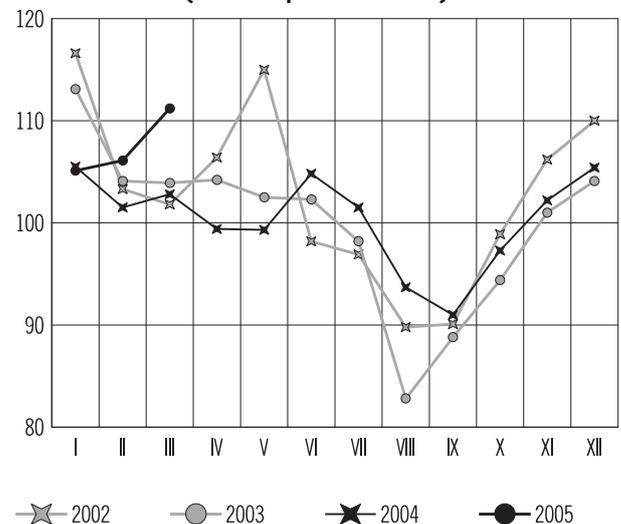
**Alcoholic beverage prices  
(as % of previous month)**



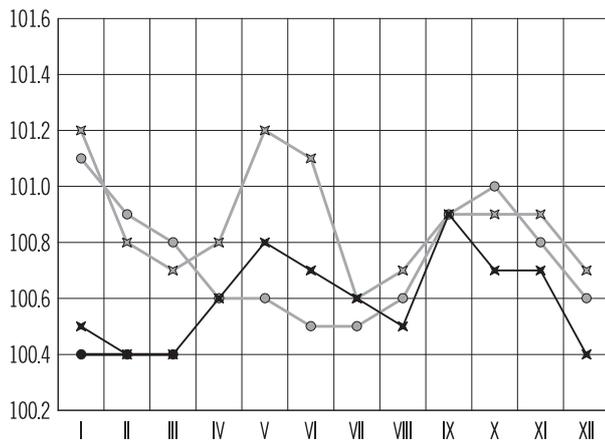
**Sunflower oil prices  
(as % of previous month)**



**Vegetable and fruit prices  
(as % of previous month)**

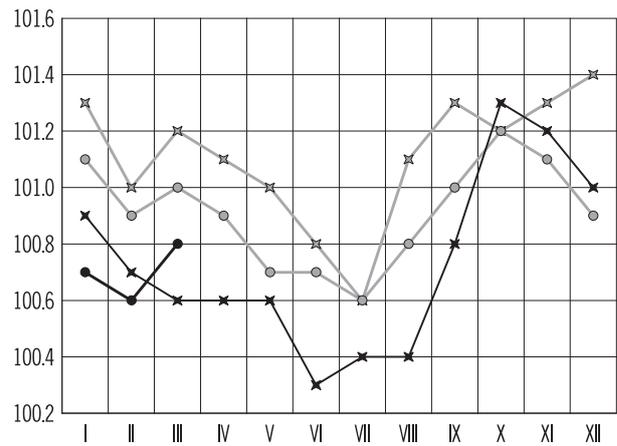


**Non-food prices, total**  
(as % of previous month)



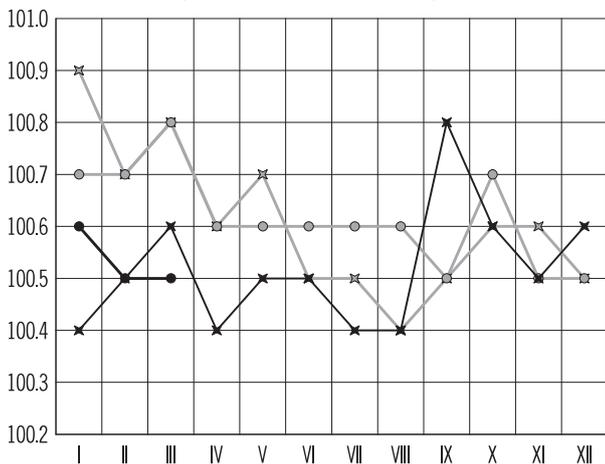
☆ 2002   ● 2003   ✱ 2004   ● 2005

**Knitwear prices**  
(as % of previous month)



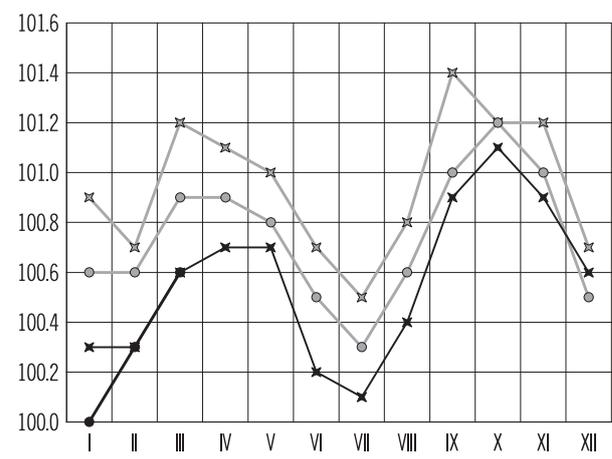
☆ 2002   ● 2003   ✱ 2004   ● 2005

**Fabrics prices**  
(as % of previous month)



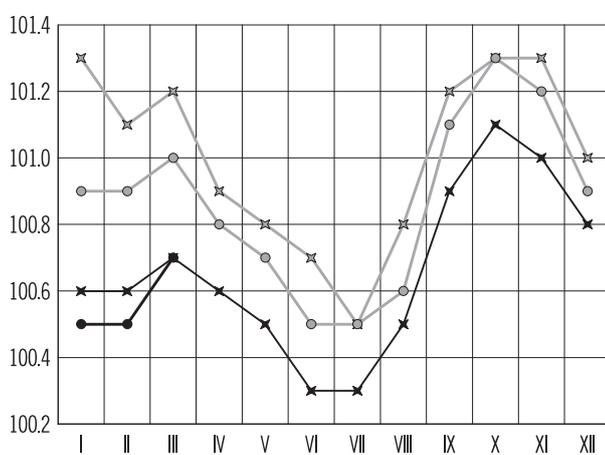
☆ 2002   ● 2003   ✱ 2004   ● 2005

**Footwear prices**  
(as % of previous month)



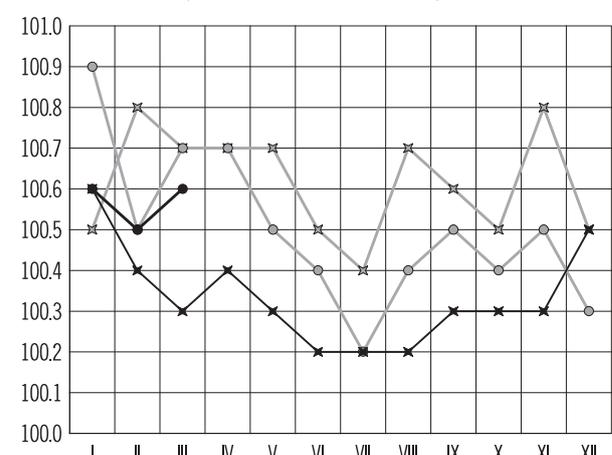
☆ 2002   ● 2003   ✱ 2004   ● 2005

**Clothing and underwear prices**  
(as % of previous month)



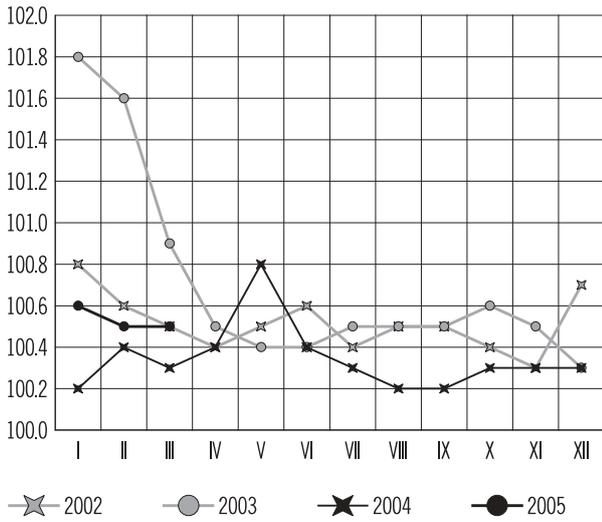
☆ 2002   ● 2003   ✱ 2004   ● 2005

**Detergent prices**  
(as % of previous month)

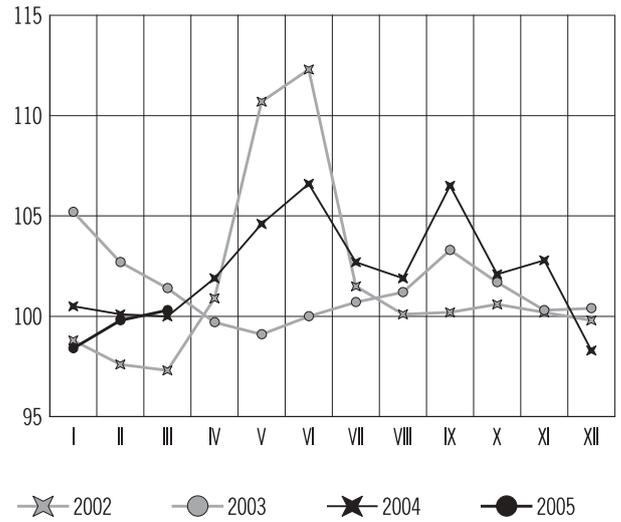


☆ 2002   ● 2003   ✱ 2004   ● 2005

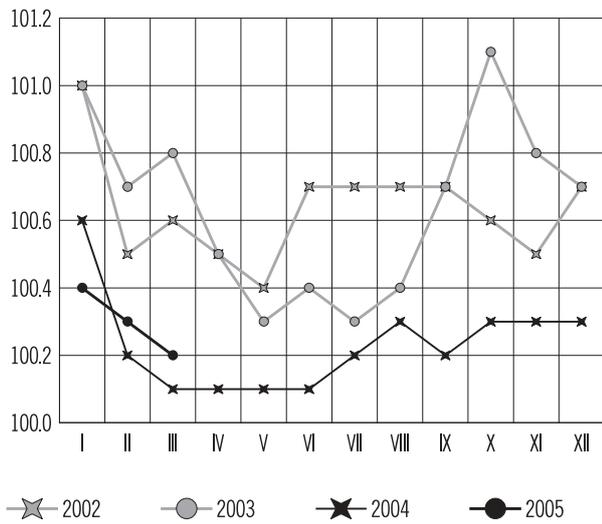
**Tobacco prices**  
(as % of previous month)



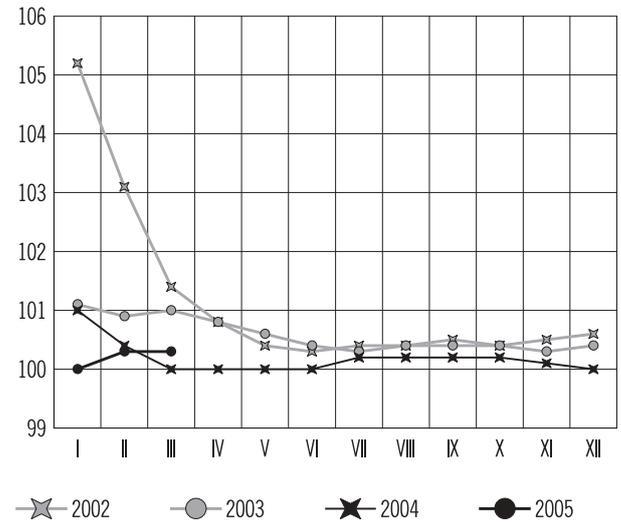
**Petrol prices**  
(as % of previous month)



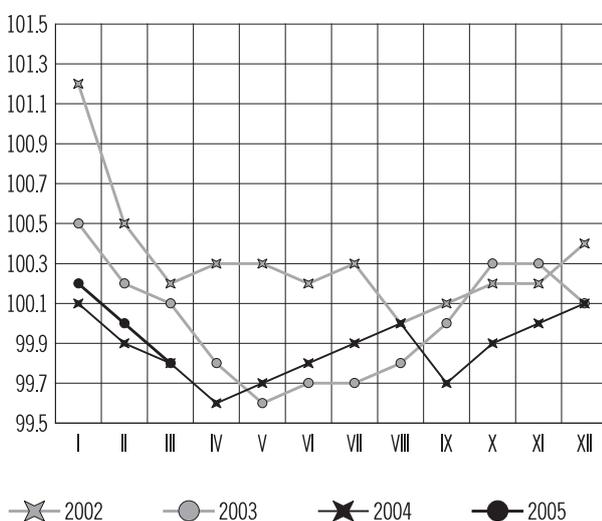
**Household electric appliances prices**  
(as % of previous month)



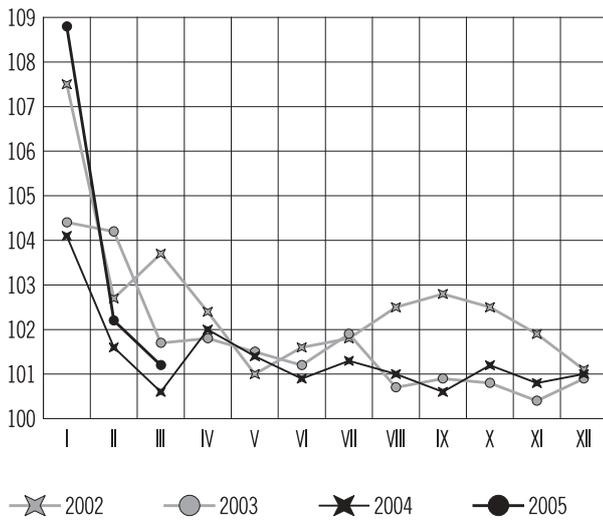
**Medicine prices**  
(as % of previous month)



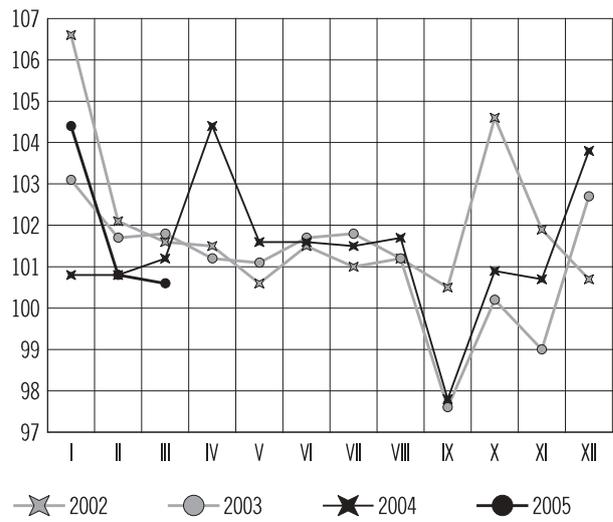
**TV and radio set prices**  
(as % of previous month)



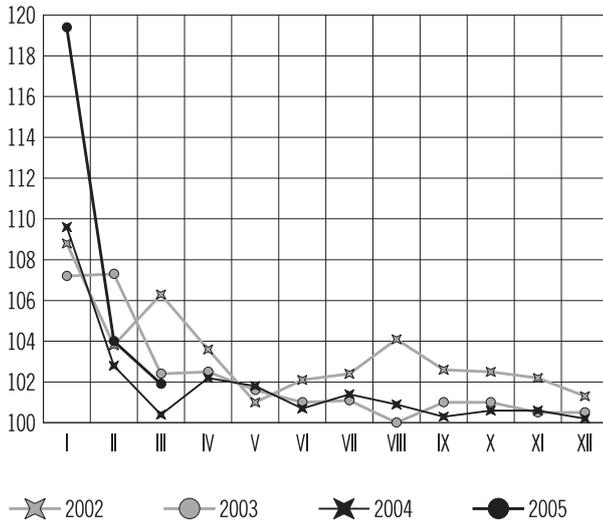
**Paid service prices**  
(as % of previous month)



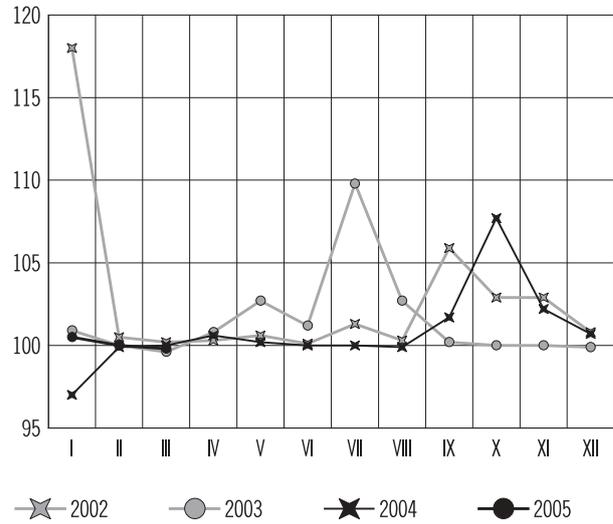
**Passenger transport fares**  
(as % of previous month)



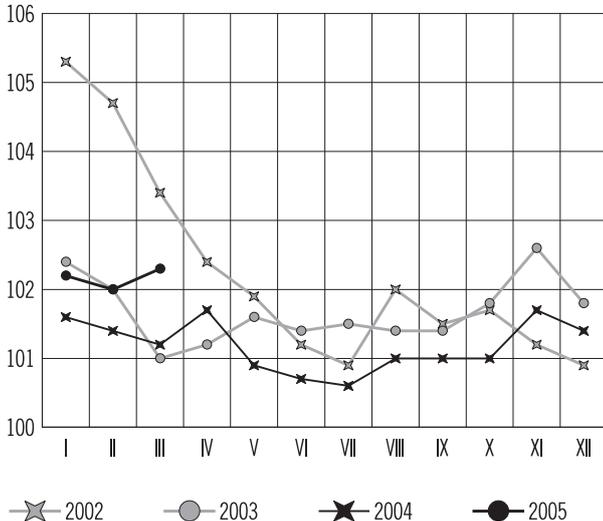
**Rent and amenities prices**  
(as % of previous month)



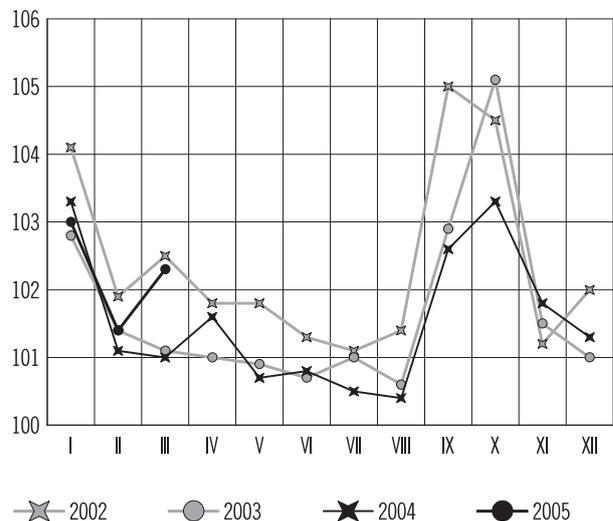
**Communication fees**  
(as % of previous month)



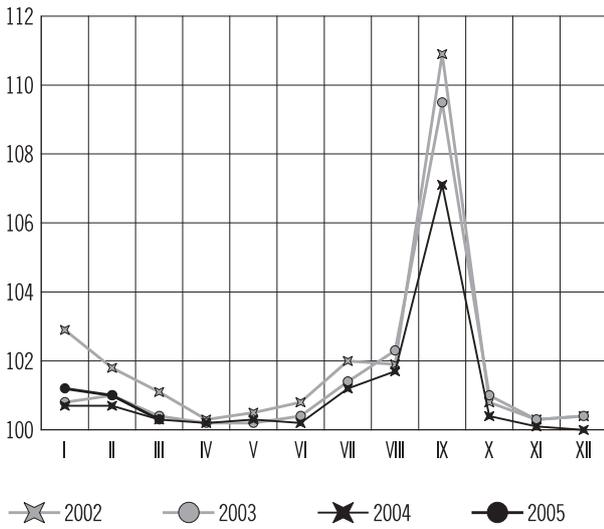
**Healthcare prices**  
(as % of previous month)



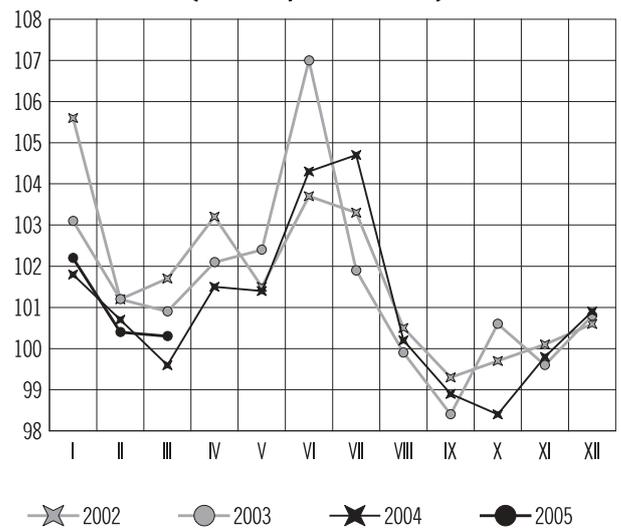
**Cultural service prices**  
(as % of previous month)



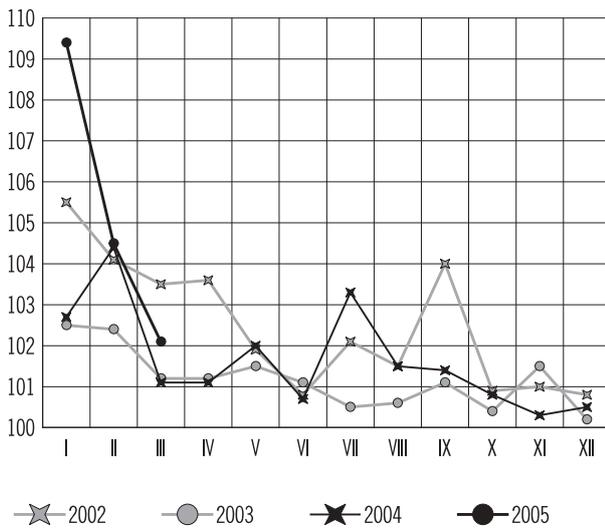
**Education fees  
(as % of previous month)**



**Sanatorium and health resort accommodation prices  
(as % of previous month)**



**Pre-school tuition fees  
(as % of previous month)**



**Everyday service prices  
(as % of previous month)**

