



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

# **Quarterly Inflation Review**

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**2005 Q3**

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**Research and Information Department**



## Introduction

In recent years, global factors have started to play a more significant role in inflation in some countries. Price dynamics in each country increasingly reflect the aggregate world balance of demand and supply. Prices grow in most countries but increasing globalization intensifies international competition and this factor restricts inflation. At the same time, inflation can intensify during some periods under the impact of objective factors that affect pricing in particular countries. These factors include, in particular, the growth of world oil prices observed in the past few years.

A higher-than-expected price growth was registered in many countries in 2005. For example, the US consumer price growth reached its highest level in January-September 2005 since 1990. In the USA, Great Britain and eurozone countries, the growth of inflation accelerated in January-September 2005 due to the rise in energy prices.

Russia also registered higher-than-expected consumer price inflation in the first nine months of 2005. It was attributable to factors typical of other countries (first of all, the growth of energy prices) and specific short-term factors unrelated to general world trends or monetary policy. A considerable increase in the prices of paid services, including federally and regionally administered prices, pertains first of all to these factors.

Core inflation in Russia declined at a lower-than-expected rate to conform to the 2005 inflation target. Unlike other countries, foodstuffs prevail in the core inflation structure (and also in the consumer price index as a whole) in Russia. Therefore, the basic consumer price index in Russia is more volatile and is affected by non-fundamental factors. Core inflation failed to decrease more considerably in 2005 due to the fast growth of some food prices, especially meat and fish prices. The 2005 inflation growth in many countries was not attributable to the accelerated rise in food prices. In Russia, however, the accelerated growth of meat and poultry prices, registered last year, continued to persist in 2005, despite a slower increase in food prices as a whole. Since 2004, Russia has introduced quotas on meat imports to stimulate the development of domestic produc-

tion and protect it from the competition of imported goods. The continued fast growth in meat and poultry prices indicates the persisting imbalances of demand and supply. However, this process is objective because the domestic market is still underdeveloped.

The trend of the past few years towards the slower growth in non-food prices continued in 2005 and it corresponded to the general inflation fall.

Therefore, the factors that restrained the slowing of core inflation were largely linked with the situation on some local commodity markets. This sphere mainly depends on the efficiency of foreign trade regulation measures, steps to develop and protect the domestic market and structural changes and is less dependent on the Bank of Russia's monetary policy. Nevertheless, monetary conditions largely shape inflationary background.

The inflow of foreign currency into the domestic market within the framework of the Bank of Russia's managed floating exchange rate regime generates a large-scale increase in money supply, which contributes to inflation in general, especially affecting the core inflation.

The slowing of annualised M2 growth observed in 2004 continued to persist in early 2005. Despite the seasonal short-term acceleration in money supply growth in late 2004, the monetary sphere did not exert any additional pressure on inflationary processes at the start of 2005. Core inflation in the first half of 2005, taking into account the existing lags for money supply growth, was determined by the monetary conditions of the previous months rather than by the current conditions of that period.

The accelerated annualised money supply growth in 2005 Q2 and Q3 complicates the efforts to achieve the 2005 adjusted inflation target and may affect inflationary processes in the first half of 2006. Therefore, the resumption of slower growth in the annual rates of ruble supply is important to achieve the desired level of core inflation next year.

The monetary accommodation measures along with the stronger role of the Stabilisation Fund of the Russian Federation (hereinafter referred to as the Stabilisation Fund) sterilise a considerable part of free liquidity. In addition, low-liquid ruble components (time deposits) prevail in the ruble supply increase, which is important from the viewpoint of weakening the inflationary consequences of monetary growth. At the same time, the declining share of cash in the M2 monetary aggregate, which persisted for most of the reporting period, has a positive effect on inflation dynamics and the velocity of money.

The Bank of Russia conducted operations with its own bonds (OBR bonds) and daily fixed

rate deposit operations on standard terms, and also held deposit auctions as major sterilisation instruments. At the same time, in 2005 Q3 (especially in July and August), credit institutions showed relatively strong demand for Bank of Russia's instruments relating to the provision liquidity (mainly repo operations, and also intraday and overnight credits).

In 2005 Q4, core inflation will be affected (other conditions being unchanged) by the money supply growth that accelerated in 2005 Q2, foreign exchange rate dynamics, and also by the seasonal increase in non-interest budget expenditures (even despite the budget's continued sterilising function).

## Major Inflation Indicators

According to the Federal Statistics Service, consumer prices rose 8.6% in January-September 2005 as against 8.0% in January-September 2004.

Inflation equalled 0.6% in 2005 Q3 (5.3% in 2005 Q1 and 2.6% in 2005 Q2). Consumer prices rose 0.5% in July month on month and 0.3% in September, while they dropped 0.1% in August. Consumer price inflation in the moving 12-month period equalled 12.3% in September 2005 as against 13.7% in June 2005.

**Core inflation** stood at 6.3% in September 2005 as compared with December of the previous year (it was 6.8% in January-September 2004). The prices of goods and services included in the core inflation calculation grew 1.8% in 2005 Q3 (2.4% in 2005 Q1 and 1.9% in 2005 Q2). The prices of this group of goods and services rose 0.5% in July and August month on month and 0.8% in September. Core inflation in the moving 12-month period stood at an estimated 10.0% in September 2005 as against 10.6% in June 2005.

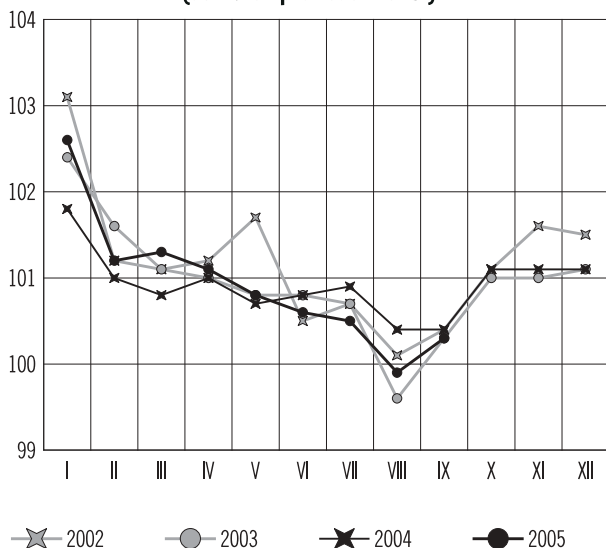
Estimates show that growth in the prices of goods and services included in the core inflation calculation in January-September 2005 accounted for 5.0 percentage points, or 58.3% of overall consumer price growth as against 5.5 percentage points, or 68.4%, in January-September 2004.

The relatively high level of core inflation registered in the past two years is due to volatile, local and short-term rather than long-term factors.

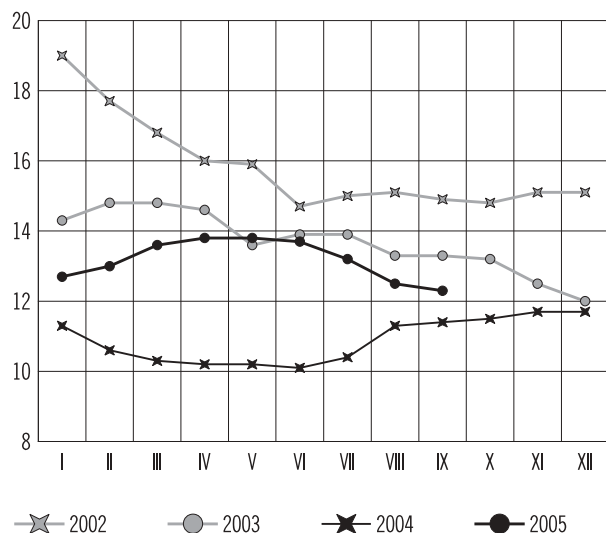
**Food prices, excluding vegetable and fruit prices**, grew 7.2% in January-September 2005 as against 8.0% in the same period last year. They rose 3.1% in 2005 Q1, 2.4% in 2005 Q2 and 1.6% in 2005 Q3. In January-September 2005, growth in food prices, excluding vegetable and fruit prices, accounted for an estimated 3.0 percentage points, or 35.1%, of overall consumer price growth as against 3.8 percentage points, or 47.0%, in the same period of 2004.

The most significant growth in January-September 2005 was registered in the prices of meat and poultry, which increased 17.6% as compared with 11.7% in the same period last year. This year, the growth of poultry prices accelerated considerably compared with the same period of 2004 (they rose 21.9% in the first nine months of 2005 as compared with 0.5% in January-September 2004). In January-September 2005, poultry prices grew faster than beef and pork prices apparently due to stronger consumer demand for cheaper poultry. Meat and poultry prices grew amid the expansion of meat imports (beef, pork and poultry). The domestic beef and pork output declined

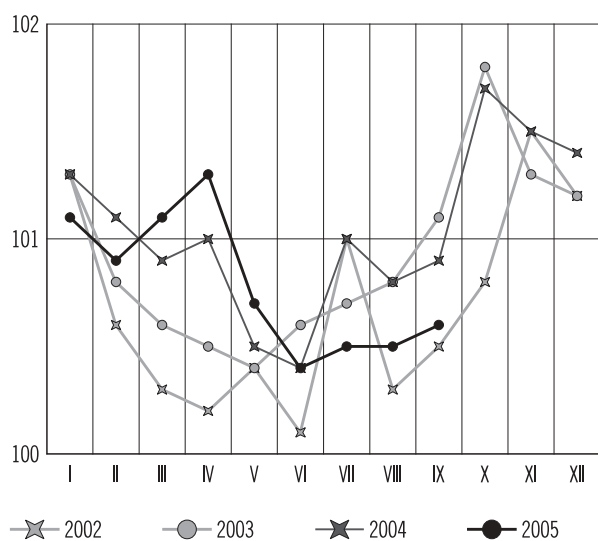
**Consumer prices**  
(as % of previous month)



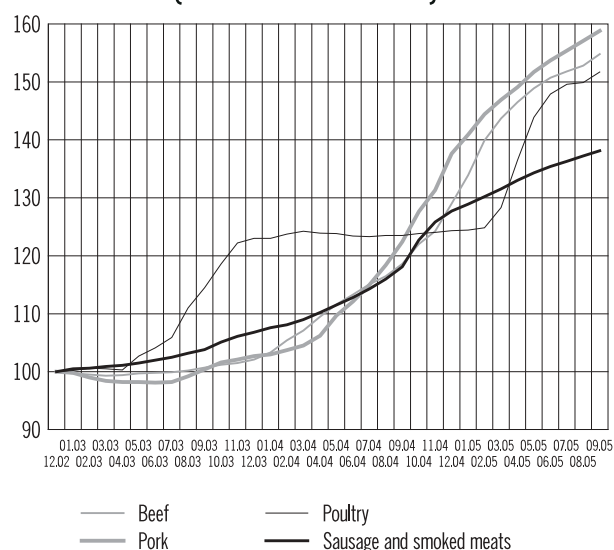
**Inflation in the moving 12-month period**  
(as % of corresponding month of previous year)



**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 (September 2005 on December 2004)	Growth (September 2004 on December 2003)	Outcome
Prices of goods and services included in core inflation calculation	6.3	6.8	Retardation by 1.1 times
Including:			
- Food prices, excluding vegetable and fruit prices	7.2	8.0	Retardation by 1.1 times
- Non-food prices	4.5	5.5	Retardation by 1.2 times
Prices of paid services provided to households	18.5	14.3	Acceleration by 1.3 times
Including:			
- Prices of goods and services administered at federal or regional levels	21.7	16.1	Acceleration by 1.3 times
Vegetable and fruit prices	6.2	-1.4	

**Food price inflation rates (%)**

	Growth (September 2005 on December 2004)	Growth (September 2004 on December 2003)	Outcome
Bread and bakery products	2.2	14.8	Retardation by 6.7 times
Cereals and legumes	0.4	10.5	Retardation by 26.3 times
Pasta	1.9	12.8	Retardation by 6.7 times
Meat and poultry	17.6	11.7	Acceleration by 1.5 times
Fish and seafood	11.5	5.3	Acceleration by 2.2 times
Milk and dairy products	4.7	3.6	Acceleration by 1.3 times
Butter	3.8	1.0	Acceleration by 3.8 times
Sunflower oil	2.6	-0.4	
Granulated sugar	2.2	13.0	Retardation by 5.9 times
Alcoholic beverages	6.0	6.8	Retardation by 1.1 times

in January-September 2005 year on year while the domestic poultry production expanded. The accelerated growth of meat and poultry prices affected the dynamics of fish and seafood prices. In the first nine months of the year, fish and seafood prices rose 11.5% (5.3% in the same period of 2004).

Year on year, the most significant slowdown in January-September 2005 was registered in the prices of bread and bakery products (by 6.7 times) and pasta (by 6.7 times) due to the results of grain harvesting in 2005 and the lower prices of agricultural producers. As of the beginning of October 2005, farms of all categories thrashed 78.9 million tonnes of grain, an increase of 3.4% on the same period last year. Agricultural producer prices for cereals fell 10.4% in January-September 2005 (they rose 16.5% in January-September 2004).

In January-September 2005, as last year, food prices, excluding vegetable and fruit prices, grew faster than non-food prices.

**Non-food prices** rose 4.5% in September 2005 on December 2004 (5.5% in the same period of 2004), the slowest growth in the prices of this group of products for January-September in the past ten years. Non-food prices increased 1.1% in 2005 Q1, 1.3% in 2005 Q2 and 2.1% in 2005 Q3. In addition to petrol, the most significant growth in non-food prices in the first nine months of 2005 was registered in the prices of building materials (by 7.5%) and knitwear (by 5.4%).

Petrol price dynamics were unstable in the first half of 2005: petrol prices were observed to go up and down during this period. In 2005 Q3, the growth of petrol prices accelerated. The prices of petrol rose 7.9% in September 2005 month on month. Petrol prices grew 15.1% in January-September 2005 (27.3% in the same period of 2004). The growth of petrol prices slowed down sharply in the last ten days of September. On September 19, 2005, major oil companies introduced a moratorium on price growth, and after that petrol prices rose 1.6% (6.2% in the first 19 days of September).

The prices of fabrics, knitwear, footwear, clothes and underwear grew slower than in January-September 2004. Television and radio prices were observed to decline by 1.3%.

Estimates show that non-food price growth accounted for 1.5 percentage points, or 17.1%, of overall consumer price growth in January-September 2005 as against 1.7 percentage points, or 21.1%, in January-September 2004.

**Vegetable and fruit prices** rose 6.2% in January-September 2005 (they fell 1.4% in the same period last year). At the same time, the increase in vegetable and fruit prices in January-September 2005 was below the average growth figure in January-September 2001-2003 (9.1%). According to estimates, as a result of growth in vegetable and fruit prices in January-September 2005 headline inflation accelerated by 0.3 percentage points, or 3.0%. In January-September 2004, the

Major meat and poultry market indicators (% growth)

	Meat and poultry		Beef		Pork		Poultry	
	2005	2004	2005	2004	2005	2004	2005	2004
Meat production (January-September as % of January-September of previous year)	1.4***	2.3***	-20.8	-13.7	-12.8	-8.2	17.3	18.4
Livestock* and poultry production (January-September as % of January-September of previous year)								
- by farms of all categories	-1.2	1.0						
- by agricultural enterprises	1.4	2.1	-12.1	-7.7	-3.6	-4.5	17.5	18.8
Imports** (January-September as % of January-September of previous year)								
- volume	25.9	-9.8	32.2	4.4	19.8	-21.7	25.0	-10.9
- value	31.9	0.8	33.4	22.3	28.6	-10.2	32.5	-9.0
Prices (September as % of December of previous year)								
- producer prices	12.4	13.7	17.5	27.2	0.9	20.9	20.7	-1.1
- livestock and poultry selling prices	16.7	15.2						
- consumer prices	17.6	11.7	20.0****	16.0****	15.4****	19.2****	21.9	0.5
- import prices**	13.1	5.3	6.6	10.1	10.5	9.6	10.8	-1.6
Livestock population* as of the end of month (September as % of September of previous year)			-6.9	-6.4	-7.1	-12.5		

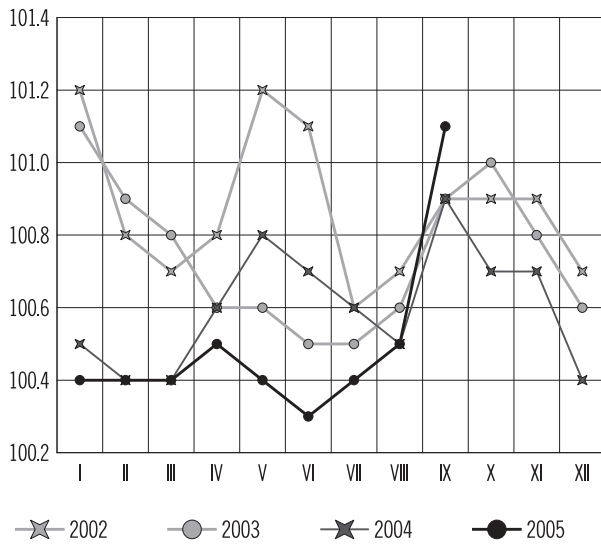
\* Cattle and swine.

\*\* The estimate is based on Rosstat's figures.

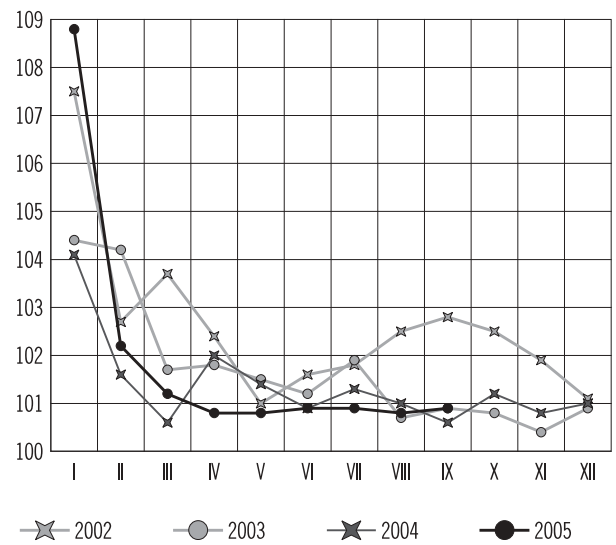
\*\*\* Including 1st category subproducts.

\*\*\*\* Except boneless meat.

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



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

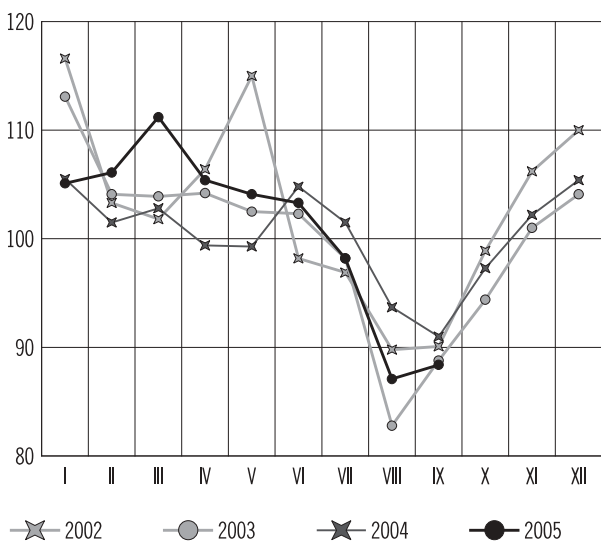


contribution of vegetable and fruit prices to overall consumer price growth was negative due to their decline over that period and stood at -0.1 percentage points, or -0.8%.

**Food prices** as a whole grew 7.1% in September 2005 on December 2004 (they increased 7.2% in January-September 2004). Food prices rose 4.9% in 2005 Q1 and 3.5% in 2005 Q2 and fell 1.4% in 2005 Q3.

**The prices of paid services provided to households** were up 18.5% in January-September 2005 as against 14.3% in January-September 2004. The prices of paid services grew 12.6% in 2005 Q1, 2.6% in 2005 Q2 and 2.6% in 2005 Q3.

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



The most significant increase over that period was registered in rent and amenities prices (by 31.2% as against 21.8% a year ago) and pre-school tuition fees (by 27.0% as against 19.7% in the same period last year).

Growth in paid service prices in January-September 2005 was over three times faster than overall growth in the prices of goods, which stood at 6.0% (2.2 times faster in January-September 2004). Estimates indicate that growth in paid service prices in January-September 2005 accounted for 3.9 percentage points, or 44.9%, of overall consumer price growth as against 2.6 percentage points, or 32.7%, in January-September 2004. The prices of services administered at regional and municipal levels rose by an estimated 21.4% in January-September 2005 as against 16.1% in the same period of 2004.

**The analysis of the distribution of increases in the prices** of goods and services in 2002-2005 (September on December of previous year) was based on a selection of more than 400 consumer goods and services and made without taking account of their weight coefficients in consumer expenses.

In the past four years, the prices of more than a half of consumer goods and services included in the selection grew within the range of 2-10% in January-September. In 2004-2005, price growth distribution was observed to slightly shift towards smaller values. In 2005, as in the previ-

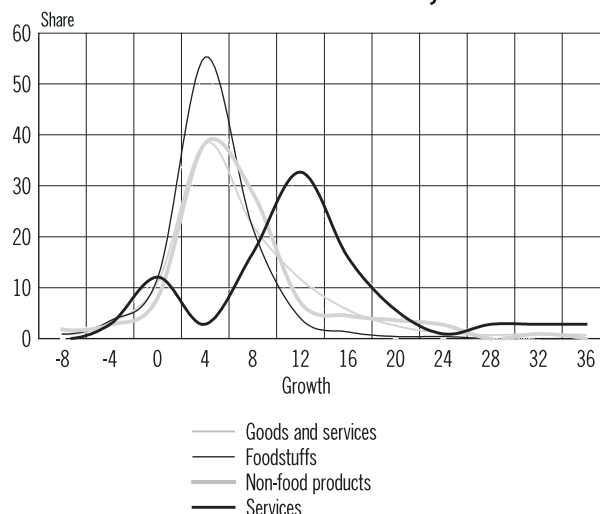


ous year, major growth (38%) in the prices of goods and services was within the range of 2-6% or 1.5 and 1.6 times more than in 2002 and 2003 respectively. Nevertheless, the share of quickly appreciating goods and services was more considerable than in the previous two years.

The distribution median characterising the range of growth in the prices of the bulk of goods and services was unchanged in January-September 2005 (5.7%) as compared with the same period last year. The distribution average increased by 0.4 percentage points year on year and stood at 7.3% (8.8% in the same period last year). The standard deviation, which characterises the extent of price growth difference from the average, rose to 8.3% from 6.7% a year ago and was larger than in 2003. This situation was attributable to a considerable increase in the share of goods and services with a high rate of price growth. It was typical for the past two years that some goods and services registered deflation.

In the first nine months of 2005, services registered the largest and non-food products the smallest price growth in the sample average. The median values reflecting increases in the prices of the bulk of food and non-food products did not differ significantly compared to average values. In January-September 2005, the standard deviation for foodstuffs was actually unchanged and increased by 1.6 times for services year on year. The standard deviation for non-food products decreased compared to the first nine months of

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

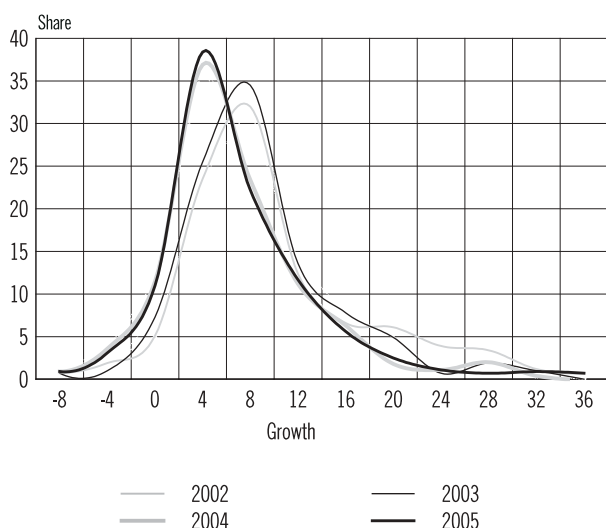


2004 as the price dynamics of some components in this product group evened out.

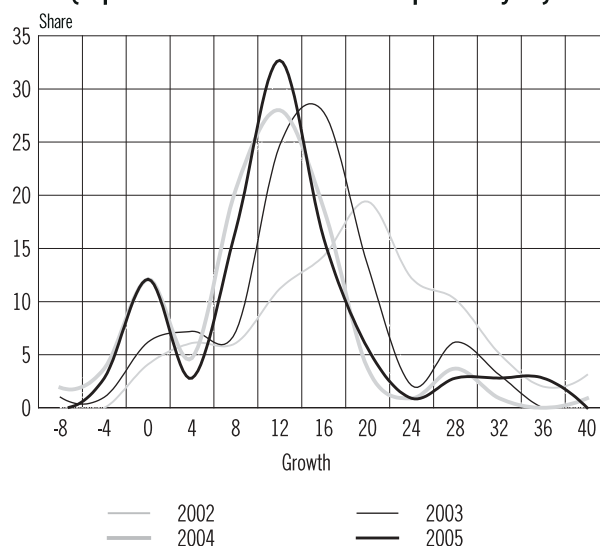
A statistical analysis of food price increases indicated a rise in the distribution average and the distribution median in January-September 2005 year on year. In January-September 2005, the prices of two thirds of all food products grew within the range of 2-10%.

The distribution of non-food price increases was characterised by a pronounced maximum and small dispersion reflecting the extent of growth deviation from the average. Therefore, the increases in the prices of most goods in this group remained within a narrow range. Thus, in Janu-

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



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



ary-September 2005, goods in the 2-6% price growth range accounted for 55.3% of all non-food products. In the same period of 2004, this price growth range accounted for 50.9% of goods. The standard deviation decreased by 1 percentage point to 4.4%.

The distribution of service price increases in January-September 2005 was characterised by a peak corresponding to the 10-14% growth range. The range of increases in the prices of the bulk of paid services shifted towards higher price growth as compared with last year. In 2005, there was a relatively large share of services with the price growth of over 30% (6.5% in 2005 as compared with 1.8% in 2004). In the past two years, there was a considerable share of services (12%) with actually unchanged prices in January-September. The share of services, which registered a fall in prices, decreased in January-September 2005 year on year.

According to Rosstat's data, in the first nine months of 2005, consumer prices in all **federal districts of Russia** grew faster than last year. Consumer prices in the North-Western, Southern, Urals and Far Eastern Federal Districts grew faster than in Russia as a whole by 0.4 percentage points, 0.9 points, 0.5 points and 1.7 points respectively.

According to estimates, differences between the constituent members of the Russian Federation with respect to the cost of a fixed set of goods and services used by the Federal Statis-

tics Service for interregional comparisons of household purchasing power narrowed in 2004. In 2005, this tendency changed. The regional difference ratio<sup>1</sup> increased in the first nine months of 2005 to 45.2% from 41.5% in December 2004. These dynamics are largely attributable to the fact that the Far Eastern Federal District having the most expensive consumer basket registered its largest growth.

In January-September 2005, vegetable and fruit prices demonstrated the largest differences in growth rates by region. Thus, vegetable and fruit prices grew 15.3% in the Far Eastern Federal District and 1.1% in the Volga Federal District. Growth in the prices of non-food products and foodstuffs, excluding vegetables and fruit, was, on the contrary, roughly the same in all federal districts.

In the first nine months of 2005, growth in the prices of paid services provided to households accelerated considerably in all federal districts as compared with the same period last year. The largest increase was registered in the Southern and the Far Eastern Federal Districts where the prices of paid services grew by 10.0 and 9.6 percentage points respectively (in Russia as a whole, service prices rose by 4.2 percentage points).

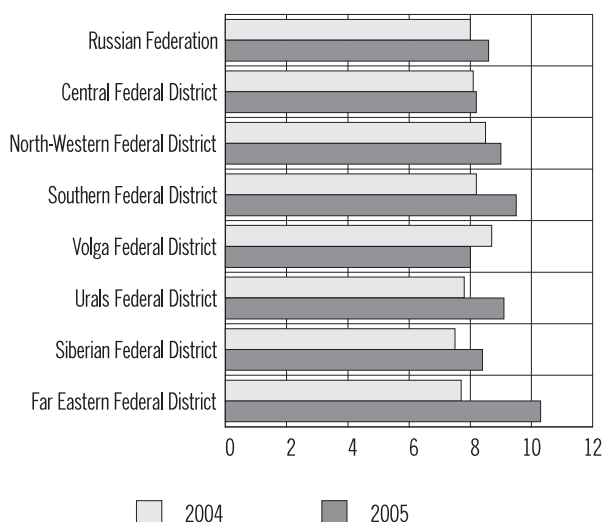
## External Conditions

### World Economy and International Financial Markets

The world economy continued to grow in January-September 2005 but this growth was slower as compared with the first nine months of 2004. Rising oil prices, relatively low US dollar rate and higher US interest rates were the factors that restricted world economic growth in the first nine months of 2005. According to preliminary data, US real GDP grew 3.6% in January-September 2005 year on year as against 4.4% in January-September 2004. Real GDP rose by an estimated 1.3% in the eurozone countries in the first nine months of 2005 as against 1.9% in the same period last year, by 2.2% in Japan (3.4%) and by 9.4% in China (9.5%).

**The US trade deficit** widened by almost \$88 billion in January-September 2005 year on

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



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

year as imports grew faster than exports. In particular, the US deficit in trade with China increased by almost 1.3 times to 25% of the US total trade deficit. The growing imbalance in the US-Chinese trade adversely affected the trade balances and economies of the US other leading partners, including the eurozone countries and Japan. Their currencies (unlike the yuan) appreciated considerably in nominal terms against the US dollar in 2002-2004 and made their goods less competitive. The slower growth of imports into China indicates that the expansion of domestic demand in China has started to play a less significant role in world economic growth.

**US inflation** equalled 4.5% in September 2005 on December 2004 (3% in September 2004). The growth of energy prices was a decisive factor contributing to the US general consumer price growth during that period. Its contribution exceeded by two times the contribution of core inflation<sup>2</sup>. The contribution of food price increases to consumer price growth was insignificant. Food prices rose 1.5% as against 1.7% in September 2004. The slower growth was largely due to a fall in vegetable and fruit prices (by 4%). The prices of animal products, excluding milk and dairy products, rose 1.1% (1.3% in September 2004). Higher motor fuel prices, which accelerated sharply (from 26.1% in September 2004 on December 2003 to 54.8% in September 2005 on December 2004) was the most serious inflationary factor. The prices of energy products used in the housing and communal service sector<sup>3</sup> increased 16.3% in September 2005 on December 2004 (9.4% in September 2004).

**US core inflation** measured 1.8% in September 2005 on December 2004 (2% in September 2004). The higher housing charges, which grew 2.1% (2.8% in September 2004), were a significant factor contributing to the general increase in consumer prices. Medical service charges and the prices of medicine-related goods rose 3.1% (3.4% in September 2004). Lower core inflation suggests that the fundamental economic factors linked with stronger consumer demand for goods

and services had a less significant effect on the price growth rates in the USA from December 2004 to September 2005 than in the same period last year. The US Federal Reserve's tight monetary policy (from June 2004 to September 2005, US short-term interest rates were raised by 2.75 percentage points) helped the monetary authorities to curb inflation. The accelerated general consumer price growth amid lower core inflation in the USA was caused by a sharp increase in energy prices in 2005 Q3, especially in September (after the hurricanes hit the US South-Eastern coast).

**Inflation in the eurozone countries** equalled 1.9% in September 2005 on December 2004 as against 1.7% in September 2004. The growth of energy prices, which rose 15.4% (7.2% in September 2004), was the principal inflationary factor in the eurozone economies. This factor accounted for about two thirds of the general consumer price growth. In particular, the prices of fuels and lubricants for transport vehicles were up 22.9% (12.7% in September 2004); the prices of energy products used in the housing and communal service sector grew 6.2% (1% in September 2004). The growth of food prices equalled 0.1% in September 2005 on December 2004 (food prices were unchanged in September 2004 on December 2003). Vegetable and fruit prices dropped 1.8% (4.4% in September 2004) while meat and meat product prices rose 0.7% (0.1% in September 2004).

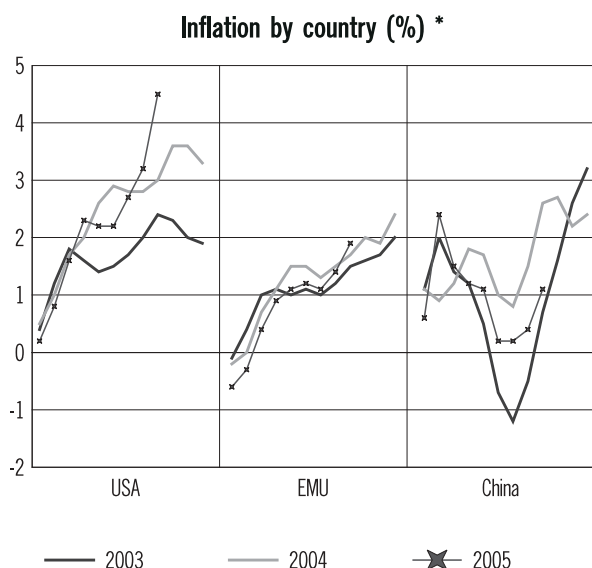
**Core inflation in the eurozone countries<sup>4</sup>** equalled 0.6% in September 2005 on December 2004 (1.2% in September 2004). Therefore, fundamental economic factors had a less significant effect on the general consumer price growth in December 2004-September 2005 than in December 2003-September 2004. The exchange rate dynamics in the first nine months of 2005 did not restrict eurozone inflation (the euro depreciated against the dollar in September 2005 on December 2004).

As for emerging market economies accounting for a considerable share of Russia's trade turnover, **inflation was observed to fall consid-**

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

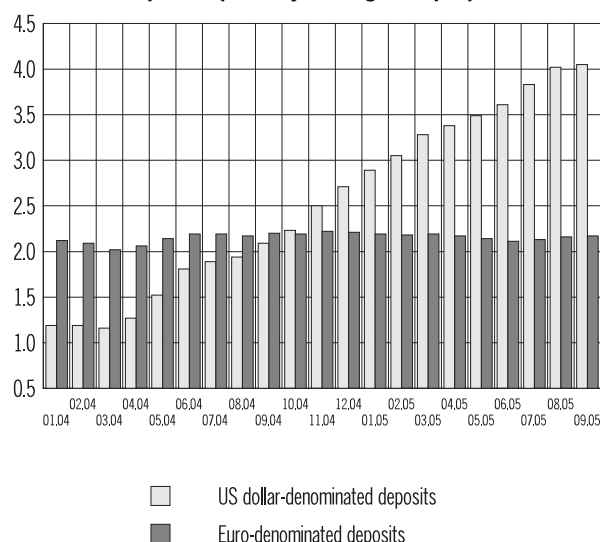
<sup>3</sup> Heating oil, boiler fuel, coal, town gas and electricity.

<sup>4</sup> Core inflation in the eurozone countries is understood as growth in the prices of goods and services included in the consumer goods basket, excluding foodstuffs, alcoholic beverages, tobacco and energy products.



\* Consumer price growth on December of previous year.

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



erably in September 2005 as compared with December 2004 in Belarus (4.6% as against 9% in September 2004), in Slovakia (2.4% as against 6.2%), in Poland (0.6% as against 3.3%), in Hungary (3.3% as against 5%), in Brazil (4% as against 5.5%) and in China (1.1% as against 2.6%). Inflation in China decreased as the growth of food prices slowed down considerably. Inflation accelerated to 7.1% from 5.6% in September 2004 in Ukraine and to 5% from 3.8% in Kazakhstan.

In January-September 2005, the US Federal Reserve **raised its target for the overnight interbank loan rate** (federal funds rate) six times: from 2.25% to 2.5% in February, to 2.75% in March, to 3% in May, to 3.25% in June, to 3.5% in August and to 3.75% in September. In 2004, this target was raised by 1.25 percentage points. Since December 2004, it has exceeded the European Central Bank's refinancing rate, which has not changed since June 2003.

**LIBOR rates on US dollar-denominated deposits** with maturities from one month to one year rose by 1.2-1.4 percentage points in September 2005 on December 2004. The yields on US treasuries rose by 0.7-0.9 percentage points for papers with maturities from two to three years, by 0.4 percentage points for papers with five-year maturity and were unchanged for papers with ten-year maturity. LIBOR rates on US dollar-denominated deposits with all terms and the yields on US Federal Treasury bonds with all maturities were

higher in September 2005 than LIBOR rates on euro-denominated deposits and the yields on eurozone securities.

In the first nine months of 2005, the dollar appreciated against the major international reserve currencies on foreign financial markets due to US economic growth, higher yields of dollar-denominated financial assets and the negative results of the EU Constitution referendums in France and the Netherlands. The dollar gained 8.1% against the euro, 6.3% against the Japanese yen and 5.9% against the British pound in September 2005 on December 2004. The dollar also appreciated against some other currencies significant for the Russian economy (the Swiss franc, Polish zloty, Kazakh tenge, Swedish krona, Hungarian forint, Czech koruna, Slovak koruna, Lithuanian litas, Latvian lat, Estonian kroon and Israeli shekel). The dollar depreciated against the Belarussian ruble, Chinese yuan, Ukrainian hryvnia, Turkish lira, South Korean won, Indian rupee, Brazilian real and Romanian leu). On July 21, 2005, the People's Bank of China revalued the national currency by 2.1% to 8.11 yuans per dollar.

**Foreign Trade**

In January-September 2005, the terms of Russia's trade with foreign countries were considerably better than in the same period of 2004 as export prices grew faster than import prices.

In January-September 2005, the growth in the world prices of Russia's major export com-

modities<sup>5</sup> accelerated. According to Bank of Russia estimates, the world price composite index adjusted for the structure of Russian exports of commodities that account for over 70% of their value equalled 1.36 in January-September 2005 year on year as against 1.21 in January-September 2004. The price index was 1.39 in September 2005 on December 2004 (1.26 in September 2004).

The growth of energy prices accelerated in the first nine months of 2005. The price of Urals crude rose 48.2% in January-September 2005 year on year to \$49.3 per barrel (23.1% in January-September 2004). In August 2005, oil prices reached their record high for the entire history of observations. The record level was reached on August 12, when the price of Urals crude equalled \$62.8 per barrel<sup>6</sup>. The price of Urals crude stood at \$57.8 per barrel on average in September 2005 or 61.1% higher than in December of the previous year (34.0% higher in September 2004).

The prices of natural gas and petroleum products on the European market grew at about the same rates as oil prices in January-September 2005. The prices of natural gas and petroleum

products in Europe were on average 47% higher than in the same period of 2004. The prices of diesel fuel on the European market went up 52%, fuel oil 46% and petrol 29%. The price of natural gas in Europe rose 31% in September 2005 on December 2004 and the prices of petroleum products increased 64% on average (the price of fuel oil grew 100%, diesel fuel 52% and petrol 49%).

The growth of world non-energy prices slowed down; however, they continued to register high growth rates. Ferrous metal prices rose 16% in January-September 2005 year on year (54% in January-September 2004). Non-ferrous metal prices increased 12% on average (33% in January-September 2004). The prices of aluminium were up 10% (20%), copper 24% (65%) and nickel 13% (58%). Ferrous metal prices grew 7.7% on average in September 2005 on December 2004 (53% in September 2004) and non-ferrous metal prices went up 2.4% (2.2%).

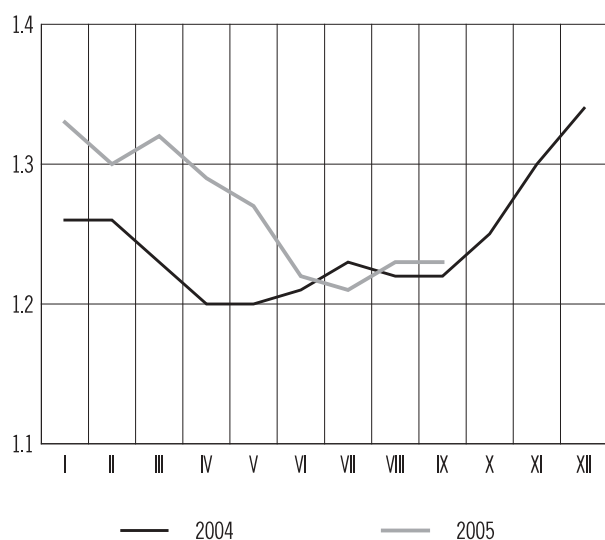
World food prices<sup>7</sup> remained at a high level in the first nine months of 2005. The prices of beef rose 6.3%, refined sugar 20.0% and raw sugar 29.2% in January-September 2005 year on year. Pork prices increased 0.5% while poultry prices went down 2.1% in January-August 2005 year on year.

The prices of beef rose 2.2% in September 2005 on December 2004 (18.3% in September 2004), refined sugar 30.5% (21.0%) and raw sugar 11.6% (24.9%). Pork prices went down 3.5% in August 2005 on December 2004 (they rose 56.2% in August 2004) and poultry prices grew 1.6% (16.1% in August 2004).

## Balance of Payments

The favourable price situation on major export markets and the growth of external demand for Russian commodities had a positive effect on Russia's balance of payments. According to preliminary estimates, **the current account surplus**

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



<sup>5</sup> Average prices are calculated on the basis of data provided daily by the international organisations: Reuters for oil, Petroleum Argus for petroleum products (petrol, diesel fuel and fuel oil), the London Metal Exchange for non-ferrous metals (aluminium, copper and nickel), the London Commodity Exchange for sugar. The average monthly prices of natural gas, beef and ferrous metal price indices are calculated on the basis of data provided by the World Bank while the average monthly prices of pork and poultry are based on data from the International Monetary Fund.

<sup>6</sup> Closing price according to data provided by Reuters.

<sup>7</sup> The average prices of raw and refined sugar are calculated on the basis of data provided daily by the London Commodity Exchange; the average monthly prices of beef and mutton are based on data from the World Bank; the prices of other commodities are based on data from the International Monetary Fund.

rose to \$69.1 billion in the first nine months of 2005 (\$41.6 billion in the same period of 2004).

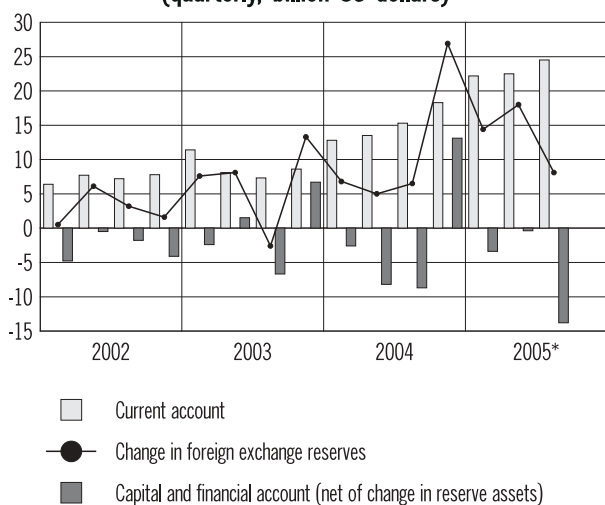
**The exports of commodities** reached their record level for the nine months of the year for the entire period of observations since 1994, totalling \$178.4 billion or 38.4% more than in January-September 2004 (\$128.9 billion). The value of exported fuel and energy products (oil, petroleum products and natural gas) increased 50%. **The imports of goods** grew 27.7% to \$85.6 billion in the first nine months of 2005 as against \$67.0 billion in January-September 2004. As exports grew faster than imports, Russia's trade surplus increased by almost 1.5 times to \$92.8 billion in January-September 2005 year on year (\$61.9 billion in January-September 2004).

The trade in services deficit rose to \$10.3 billion in January-September 2005 from \$10.1 billion in January-September 2004. The export of services is estimated at \$18.0 billion and the import of services at \$28.3 billion.

The investment income deficit widened to \$12.2 billion in January-September 2005 from \$9.1 billion in January-September 2004.

**Residents' foreign liabilities** increased by \$28.8 billion as against \$14.4 billion in January-September 2004. The liabilities of the government sector and monetary authorities contracted by \$19.5 billion (by \$3.7 billion in January-September 2004) while the liabilities of the private sector, which actively attracted foreign capital, expanded by \$48.3 billion (by \$18.2 billion in January-September 2004).

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



\* 2005 Q3: estimate.

**The liabilities of the non-financial enterprise sector** grew by \$36.0 billion, the largest increment for the period of observations since 1994. They increased by 2.1 times faster in January-September 2005 than in January-September 2004. Liabilities in the form of credits and loans continued to prevail in the structure of foreign investment to this sector. They rose by \$17.4 billion in January-September 2005 (by \$11.0 billion in January-September 2004) and accounted for 48% of foreign investment to the non-financial enterprise sector. Direct foreign investment to that sector grew by 2.9 times to an estimated \$14.2 billion (40% of foreign investment to that sector) and portfolio investment increased by 3.2 times to \$4.5 billion (12%).

The intensified foreign capital inflow to the private sector was attributable to the improvement of investment climate in Russia, after which international rating agencies raised Russia's rating (Standard & Poor's took a relevant decision in January 2005, Fitch Ratings - in August and Moody's Investors Service - in October).

**Residents' foreign assets** (net of reserve assets) registered high growth rates: they increased by \$45.0 billion in January-September 2005 as against \$32.7 billion in January-September 2004. The value of claims on non-residents by the government sector and monetary authorities increased by \$5.1 billion (by \$0.7 billion in the same period of 2004) while private capital outflow from Russia grew to \$40.1 billion (\$31.8 billion). Capital outflow from the banking sector rose to \$11.7 billion (\$6.4 billion) and the investment of the non-financial enterprise and household sector abroad totalled \$28.4 billion, a slight change as compared with January-September 2004 (\$25.4 billion).

As a result of all private sector operations, **net capital outflow** contracted to \$2.8 billion in January-September 2005 (\$17.5 billion in January-September 2004). Net capital outflow from the sector of non-financial enterprises and households was estimated at \$3.4 billion (\$11.9 billion). Net capital outflow by banks equalling \$5.6 billion in January-September 2004 gave way to net capital inflow (\$0.7 billion) in January-September 2005.

**Russia's international reserve assets** reached \$159.6 billion as of October 1, 2005. According to an estimate, their amount would be

enough to finance the imports of goods and services during 12.6 months (9.3 months as of the beginning of October 2004).

**Russia's foreign debt** calculated by the international methodology was estimated at \$230.3 billion as of July 1, 2005 and rose 7.1% or by \$15.2 billion as compared with January 1, 2005. The foreign debt of the government and monetary authorities declined 5.1% or by \$5.4 billion while the private sector's foreign debt rose 18.8% or by \$20.6 billion. The share of the private sector's debt in Russia's total foreign debt increased from 51% to 56%. The growth of the private sector's foreign liabilities was largely attributable to an increase in the debt of non-financial enterprises, especially their debt on loans.

### Internal Conditions

In January-September 2005, the macroeconomic situation was characterised by the growth of production in the key economic sectors, the expansion of consumer spending and the high level of investment activity. **Output in the key sectors of the economy** rose 5.7% in January-September 2005 as against 7.2% in January-September 2004.

Industrial production expanded 4.0% in the first nine months of 2005 (7.4% in the same period of 2004). The slowing of industrial output growth during that period was due to the year-on-year slowdown of production growth in the manufacturing sector (from 8.9% in January-September 2004 to 6.1% in January-September 2005) and in mining (from 7.2% to 1.0%).

Agricultural output increased 2.6% in January-September 2005 year on year (3.2% in January-September 2004).

Freight transport's turnover expanded 2.4% in January-September 2005 as compared with the same period of 2004 (7.1% in January-September 2004). The freight turnover of railway transport increased 2.4%, automobile transport 8.6% and pipeline transport 2.4%.

In January-September 2005, **household real disposable money income** grew 9.3% year on year (8.6% in January-September 2004).

The growth of nominal and real wages, typical of the past two years, continued in 2005 as the minimum pay was increased from 600 to 720 rubles since January 1, 2005 and from 720 to 800

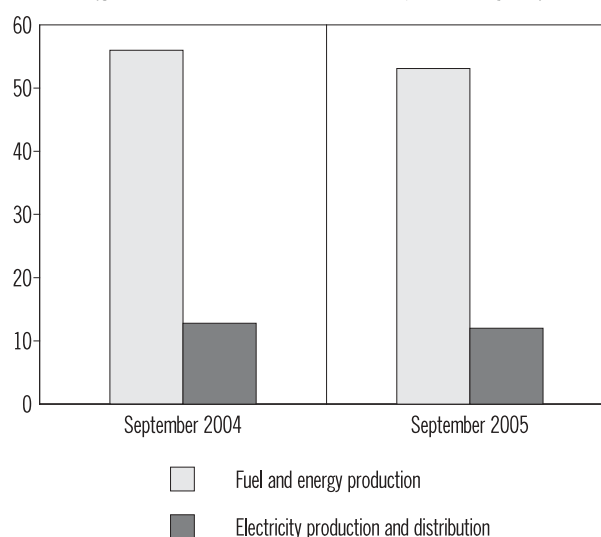
rubles since September 1, 2005. According to preliminary data, the average monthly nominal imputed wage increased 8.7% in real terms in January-September 2005 year on year (13.2% in January-September 2004) and stood at 8,189 rubles.

According to preliminary data, the average monthly pension rose 8.5% in real terms in January-September 2005 year on year (6.1% in January-September 2004) and equalled 2,306 rubles. Pension grew as the basic part of pension increased by 240 rubles since March 1, 2005 to 900 rubles. Pension also grew as its basic and insurance parts went up 6% and 10.8% respectively since August 1, 2005.

As was the case in 2004, **consumer spending** continued to grow faster than household money income in January-September 2005. According to an estimate, consumer spending increased 25.1% in January-September 2005 as compared with the same period of 2004 (23.0% in January-September 2004). The growing consumer demand amid the persisting gap between wage and labour productivity was conducive to price growth.

Despite the growth of household money income, the share of household expenses on goods and services continued to be considerable. Thus, this share was 72.6% in January-September 2005 as against 71.1% in the same period last year. At the same time, the share of expenses on services rose to 17.6% from 16.8% in January-September 2004. The relatively high rates of growth in the

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



prices of paid services contributed to the increase of this share.

The public propensity for **organised savings** increased by 0.1 percentage points in January-September 2005 year on year and stood at 10.1%.

The situation observed in January-September 2005 contributed to the active investment activity of organisations. **Fixed capital investment** expanded 9.9% in the first nine months of 2005 as compared with the same period of 2004 (it grew 11.5% in January-September 2004).

**The situation on the labour market** improved in January-September 2005 as compared with the same period of 2004. Employment stood at 92.6% of the total economically active population and 7.4% were classified as unemployed according to ILO methodology (91.8% and 8.2% respectively in January-September 2004).

In January-September 2005, the pressure put on consumer prices by **costs** (especially the costs of material resources) was less significant than in January-September 2004 but continued to be considerable. Mining prices rose 45.9% in September 2005 on December 2004 (51.0% in September 2004) amid the rise in oil prices and the increase in basic tax rates for oil and gas production from January 1, 2005. As last year, producer prices in the mining sector grew faster than in the manufacturing industries. Manufacturing producer prices rose 7.2% in January-September 2005 as against 18.2% in January-September 2004.

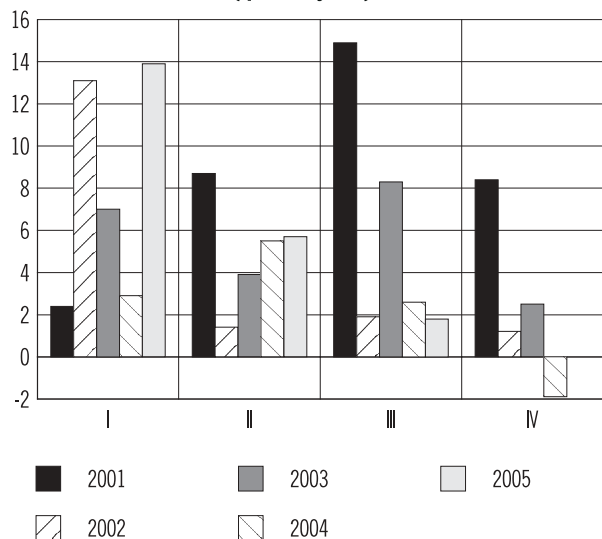
The prices of the production and distribution of electricity, gas and water grew 12.8% in September 2005 on December 2004 or by 0.2 percentage points faster than in the same period last year.

Freight transportation charges rose 22.5% in the first three quarters of 2005 (11.4% in the same period of 2004). Railway transport fares increased 13.3% as against 12.6% in the same period last year.

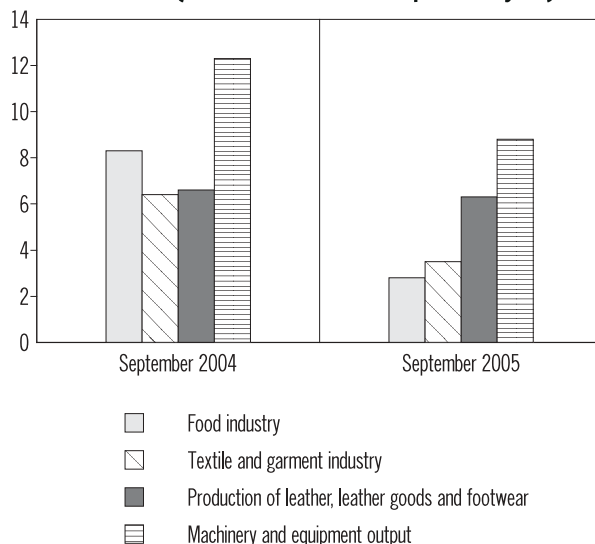
According to Rosstat's updated figures, in January-September 2005, the growth rate in **profit net of loss** of companies in the mining sector stood at 79.0%, in manufacturing industries 21.0% and in the production and distribution of electricity, gas and water 61.0%.

Competition, including one put up by importers, continued to affect pricing in manufacturing industries largely oriented to consumer demand. Thus, producer prices in the production of foodstuffs (including beverages) and tobacco, textiles and clothing, leather, leather articles and footwear grew slower in January-September 2005 than in manufacturing industries as a whole. In the first nine months of 2005, output in the textile and garment industry and the production of leather, leather goods and footwear was smaller than in the same period last year. According to Rosstat's data, in January-July 2005, profits (profits net of losses) of companies producing foodstuffs (including beverages) and tobacco increased 6.1% year on year and profits of companies manufac-

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

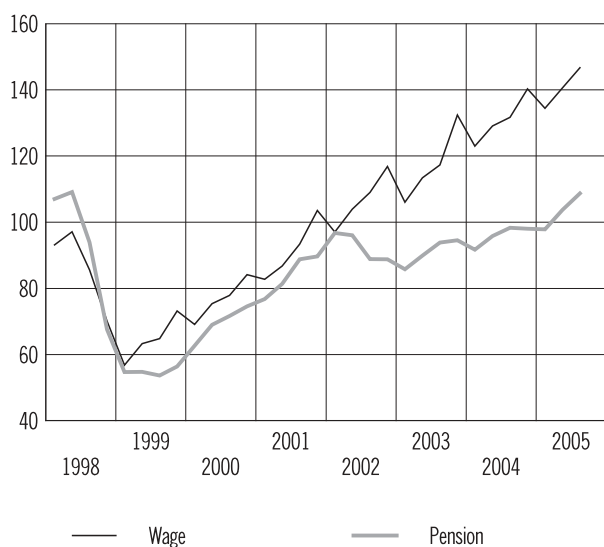


**Producer price growth in some manufacturing industries (as % of December of previous year)**





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



turing leather, leather goods and footwear rose 25.9%. The textile and garment industry operated at a loss unlike the situation in January-July 2004.

The price growth in manufacturing industries, which turn out goods for the consumer goods market, did not accelerate in the first nine months of 2005 as compared with the same period last year. Thus, the growth of producer prices slowed down from 8.3% in January-September

2004 to 2.8% in January-September 2005 in the food industry, from 6.4% to 3.5% in the textile and garment industry and from 6.6% to 6.3% in the production of leather, leather goods and footwear.

According to estimates, growth in the prices of producers, which turn out goods directly for the consumer goods market, accounted for 2.3 percentage points of growth in the prices of goods and services included in the core inflation calculation in January-September 2005 (4.5 percentage points in January-September 2004).

According to data of the Institute for the Economy in Transition, the **inflationary expectations** of managers of leading industrial enterprises were somewhat lower on average in the first nine months of 2005 than in the same period last year. Thus, in January-September 2005, 17-38% of the respondents expected selling prices to grow as against 24-40% in the first nine months of 2004. Lower inflationary expectations were observed in 2005 (from 38% in January to 17% in September) as prices largely grew in the first nine months of 2005 and most respondents do not expect the prices of their products to rise in the near future.



## Quantitative and Qualitative Monetary Indicators

### Exchange Rate

The dollar and the euro depreciated against the ruble on the Russian foreign exchange market in 2005 Q3. Considerable exchange rate fluctuations in Q3 reflected the situation on world foreign exchange markets.

The dollar's appreciation against the ruble observed for most of the previous quarter came to a halt in early July. Although the US currency started to weaken, the dollar/ruble average rate appreciated 1.5% in 2005 Q3. The average monthly **dollar/ruble rate** gained 0.6% in July month on month and stood at 28.69 rubles to the dollar. It depreciated 0.7% in August (to 28.48 rubles to the dollar) and 0.4% in September (to 28.36 rubles to the dollar). The dollar depreciated on the Russian foreign exchange market due to the speculative sentiments of its players reflecting the situation on the world foreign exchange markets. The dollar weakened against the euro and other currencies due to the unstable situation in the USA caused by the hurricane and the rise in world oil prices to \$70 per barrel.

The **euro's depreciation against the ruble** slowed down in 2005 Q3 due to the appreciation of the single European currency in early August and September. The average monthly euro/ruble rate stood at 34.58 rubles to the euro in July (a decline of 0.4% month on month), 35.02 rubles

to the euro in August (an increase of 1.3%) and 34.84 rubles to the euro in September (a fall of 0.5%). The average monthly euro/ruble rate depreciated 1.7% in 2005 Q3 as a whole.

In 2005 Q3, the Bank of Russia adjusted again the structure of its **currency basket**: on August 1, it set the dollar/euro basket at the ratio of 6.5 to 3.5.

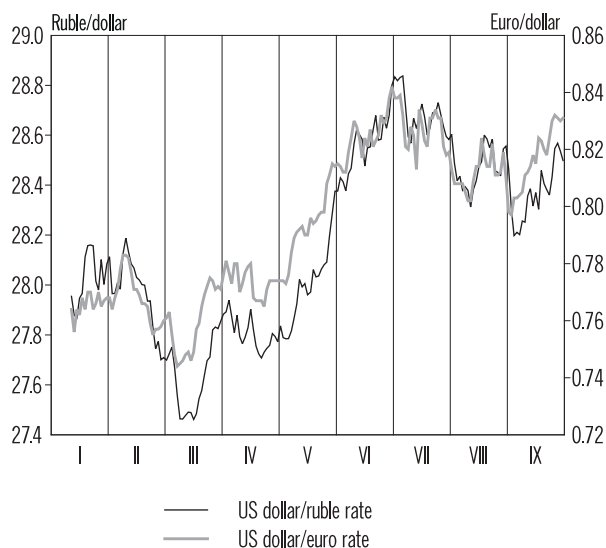
The Bank of Russia continued to participate in forex trade on the domestic market being oriented mainly to world currencies' fluctuations and the structure of its currency basket. As a result, the ruble appreciated 0.4% against the currency basket at the end of the quarter.

In 2005 Q3, **the ruble's real rate against the euro** continued its appreciation, which began in December 2004, however, this growth slowed down. The ruble's real rate against the euro rose 2.4% in 2005 Q3 as a whole (5.3% in Q1 and 5.9% in Q2).

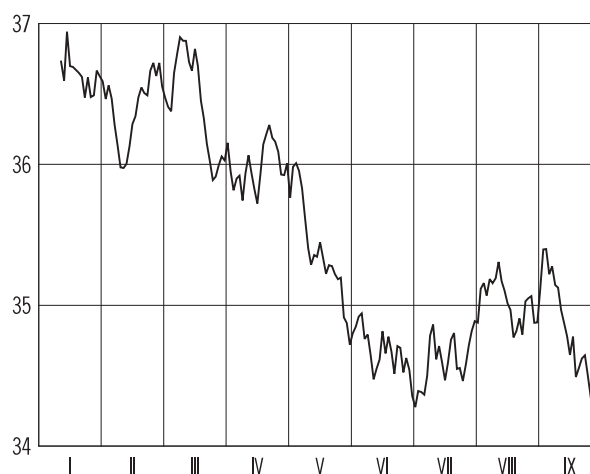
**The ruble's real rate against the dollar** depreciated 1.5% in 2005 Q3 quarter on quarter. During the third quarter, the ruble's real rate was observed to appreciate against the dollar only in August (0.1%). In July and August 2005, it depreciated 0.6% and 0.5% respectively.

In 2005 Q3, **the ruble's real effective rate** grew slower against foreign currencies: it appreciated 0.8% quarter on quarter as against 3.7%

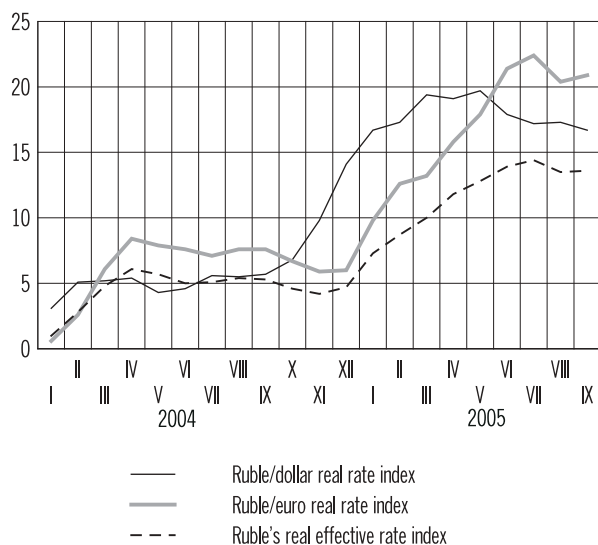
US dollar/ruble and  
US dollar/euro rate in 2005



Euro/ruble rate in 2005



**Ruble's real and real effective rate indices against foreign currencies (as % of December 2003)**



in Q2. The ruble's real effective rate fell 0.8% in August and rose 0.4% in July and 0.1% in September. The considerable appreciation of the ruble's real effective rate has been observed since December 2004. During three quarters of 2005, the ruble's real effective rate has appreciated 8.3%.

In 2005 Q3, the Bank of Russia took measures to smooth the sharp fluctuations of foreign exchange rates against the ruble within the framework of the managed floating exchange rate regime. As a result, Russia's international reserve assets grew by \$7.9 billion or 5.3% in 2005 Q3. As Russia made foreign debt payments during the period, the growth of international reserve assets slowed down as compared with the previous quarter (they grew 10.3% in 2005 Q2).

International reserve assets contracted 4.6% in July and expanded 3.5% in August and 6.5% in September. On the whole, Russia's international reserve assets have grown by more than \$35 billion or about 28.1% since the beginning of the year.

### Interest Rates

As commercial banks' ruble liquidity increased and the ruble/dollar nominal rate was relatively stable in 2005 Q3, financial market participants displayed interest in investing in ruble-denominated assets. Amid the seasonal slowdown of inflation, there was no single trend in interest rate dynamics in July-September 2005 while the volumes of operations in the major segments of the financial market expanded.

The limits of **the interest rate band on Bank of Russia operations** were unchanged in 2005 Q3 and equalled 0.5% p.a. on tom-next deposits and 13% p.a. on overnight credits. The average-weighted interest rates remained at 2.0% p.a. on deposit auctions for a term of 4 weeks and equalled 3.7% p.a. on deposit auctions for a term of 3 months or slightly higher as compared with the previous quarter. The average-weighted yield on Bank of Russia bonds (OBR) ranged from 3.8% p.a. to 4.63% p.a.

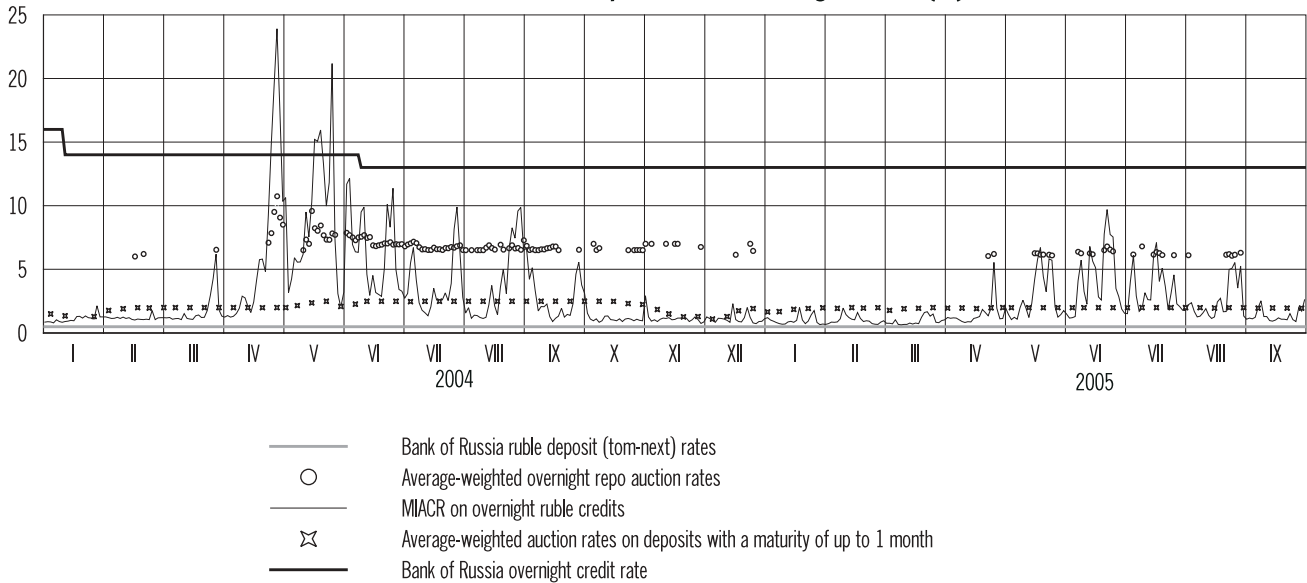
The average rate on repo operations as the major market instrument of liquidity provision equalled 6.2% in 2005 Q3 and was slightly lower than in the previous quarter.

Money market interest rates and rates on commercial banks' operations were within the Bank of Russia's interest rate band in 2005 Q3. The **MIACR** on overnight ruble credits ranged from 0.9% p.a. to 7.1% p.a. in July-September (from 0.8% p.a. to 9.7% p.a. in the previous quarter).

The market **interest rate on credits extended to non-financial enterprises** with all maturities dropped by 0.9 percentage points in July month on month to 10.3% p.a. In the subsequent months, this interest rate was observed to rise and stood at 10.7% p.a. in September. In 2005 Q3, the price of credits with all maturities fell by 0.28 percentage points on average, quarter on quarter, after the interest rates on 1-year credits dropped by 0.41 percentage points on average. At the same time, the interest rates on 1 to 3-year credits rose by 1.49 percentage points on average. 1 to 3-year loans remained the most expensive credit resources in July and August.

The growing demand for credits from households, along with high cost of consumer lending and easier competition, enables banks to keep interest rates on credits to individuals higher than on credits to enterprises. In September, **the interest rate on credits to households** with all maturities rose to 20.7% p.a. from 19.6% p.a. in June. As compared with Q2, the average quarterly interest rate on credits to households with all maturities increased by 0.7 percentage points in Q3 to 20.4% p.a., registering the highest increase on 3 to 6-month credits (by 2.9 percentage points to 22.5% p.a.). Credits with a maturity of over 3 years were the only credits granted to households whose price fell in Q3 as compared with Q2: their aver-

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

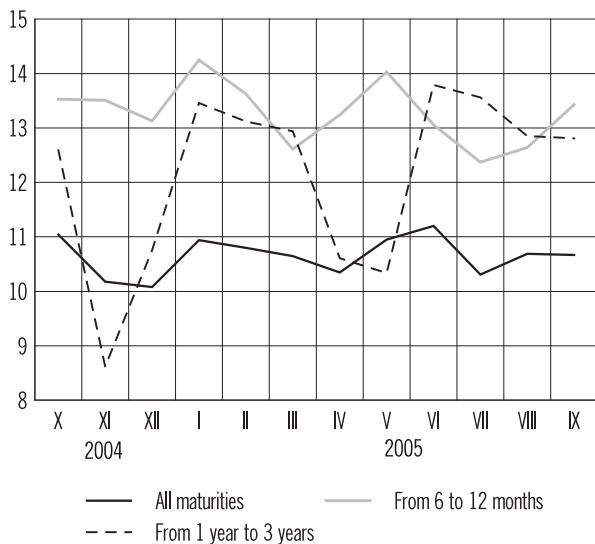


age quarterly rate dropped by 0.5 percentage points to 17.2% p.a.

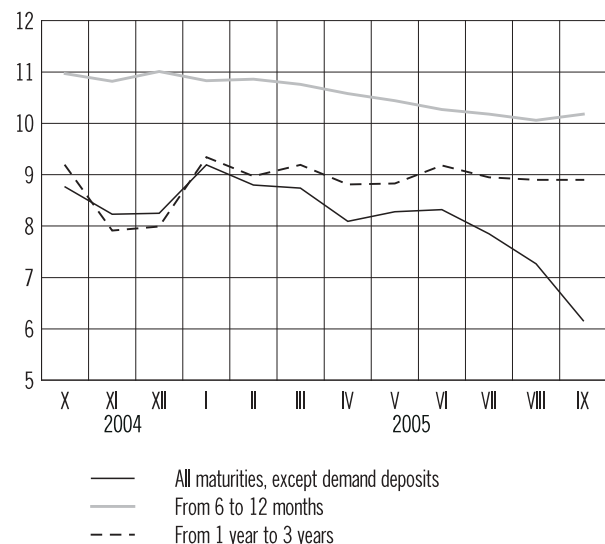
**The interest rate on household time deposits** dropped to 6.2% p.a. in September as against 8.3% p.a. in June. The average interest rate on household time deposits was 7.1% p.a. in 2005 Q3 or 1.1 percentage points lower than in 2005 Q2. As before, deposits with a maturity of 6 to 12 months registered the highest interest rates in 2005 Q3 while their average quarterly values fell by 0.3 percentage points. As compared with Q2, deposits with a maturity of 1-7 days registered the largest decline in average quarterly rates (by 1.6 percentage points) in Q3 due a considerable fall in interest rates on the money market.

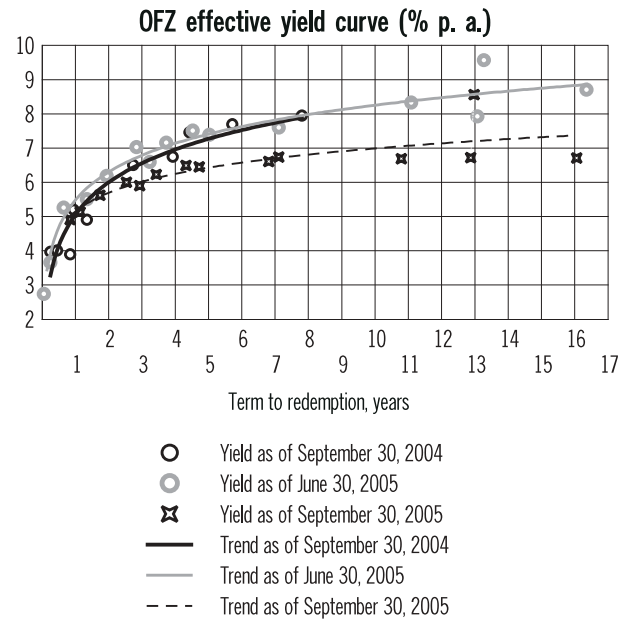
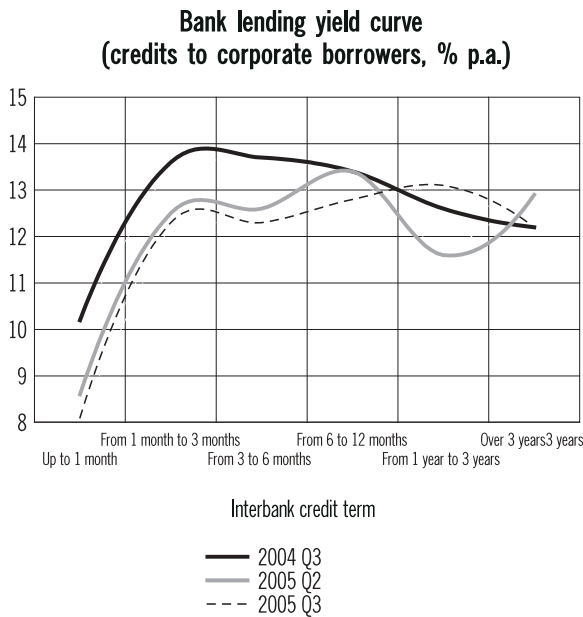
The yield curve of banks' lending operations retained its rising slope in 2005 Q3. However, the curve's slope flattened due to lower interest rates on banks' lending operations with a maturity of 6 to 12 months and higher interest rates on operations with a maturity of 1 to 3 years. The interest rates on banks' lending operations with a maturity of up to 1 year went down in Q3 quarter on quarter, as a result, the yield curve in this sector moved downward. The curve's positive incline in the 3 months to 1 year sector slightly narrowed while the curve's slope in the over 1 year sector changed its direction. The term structure of interest rates on banks' lending operations shows that market operators' short-term inflationary expectations slightly weakened.

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



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





**The yield on government bonds** was stable in July and was observed to fall considerably in August-September. The prices of the longest-dated issues grew at the fastest rate. The yields of OFZ bonds fluctuated within the range of 0.86 percentage points in 2005 Q3. The average quarterly effective indicator of the OFZ market portfolio dropped to 7.70% p.a. in Q3 from 8.04% p.a. in Q2. The effective indicator of the OFZ market portfolio fell by 0.83 percentage points by the end of September as compared with the end of June to 7.19% p.a.

The government bond yield curve kept its rising slope in the reporting period. A decrease in yields in Q3 caused the curve to move downwards. In the reporting period, the yield curve slope flat-

tened as the yields of instruments with different maturities evened out. At the end of September, the rising yield curve sector was limited to 7 years to maturity. As before, the OFZ bonds yield curve in the over 11 years sector deviated noticeably from the flattened yield curve line due to debt depreciation of these issues (their yields are directly proportional to duration instead of their term to redemption). No inflation risk premium was included in the prices of short-term government bonds. The medium- and long-term inflationary expectations of OFZ bond market players decreased. Investors' assessments of the reliability and liquidity of ruble-denominated government bonds for all terms were actually unchanged.

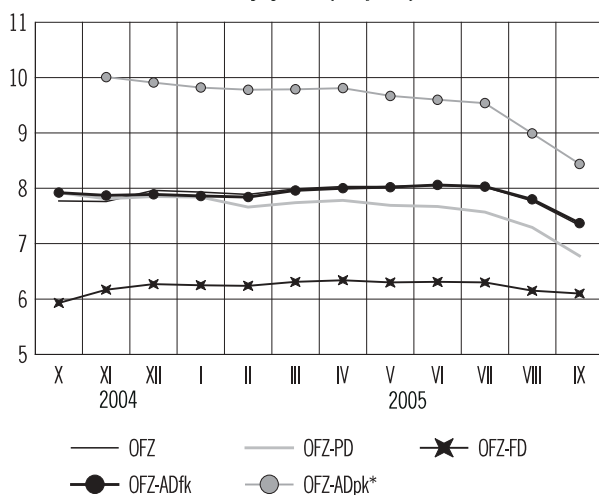
In 2005 Q3, the interest rate structure by instrument remained balanced enough. The yield curves of key financial instruments had a normal shape suggesting that the yield on financial instruments was in direct proportion to their maturity periods. **The inflationary expectations** of Russian financial market players were slightly lower.

### Money Supply

In 2005 Q3, annualised **M2** growth increased to 42% from 33.6% as of July 1, 2005. In July-September 2005, the M2 growth was seasonally slower than in the second quarter and equalled 7.4%. However, this growth considerably exceeded the M2 increase in the same period last year and the third quarter average growth since 1999.

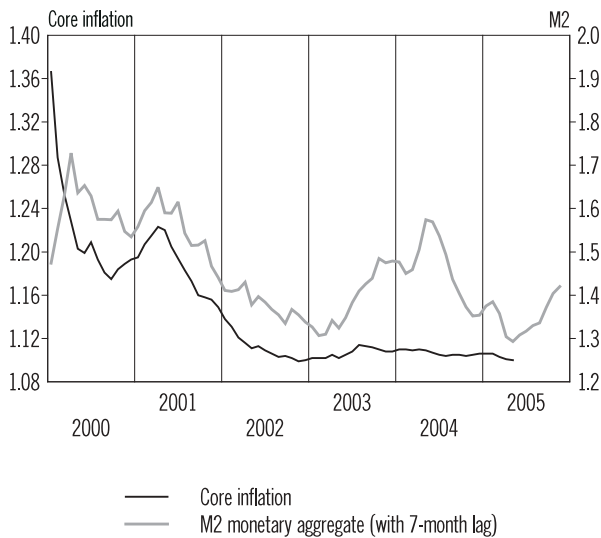
Annualised M2 growth accelerated in 2005 Q2 and Q3 and exceeded demand for ruble sup-

### OFZ portfolio average monthly yield (% p. a.)

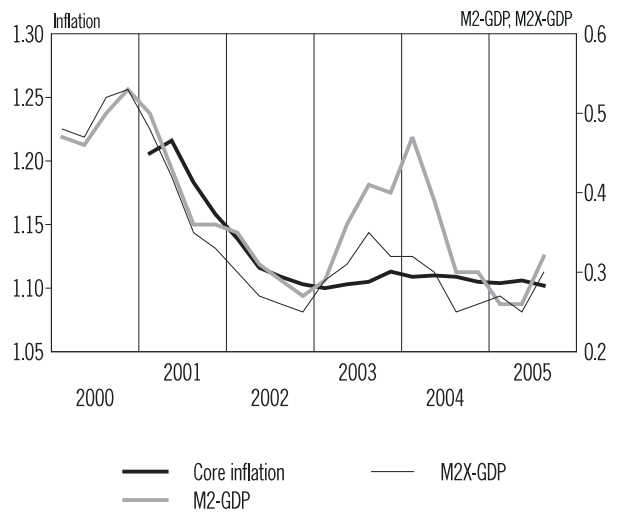


\* OFZ-ADpk bonds were floated in November 2004.

**Core inflation and M2  
(month on month of previous year)**



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



ply projected for 2005 (28-32%). Money supply may exert upward pressure on prices. Taking account of existing lags, major influence on core inflation will be exerted since 2005 Q4.

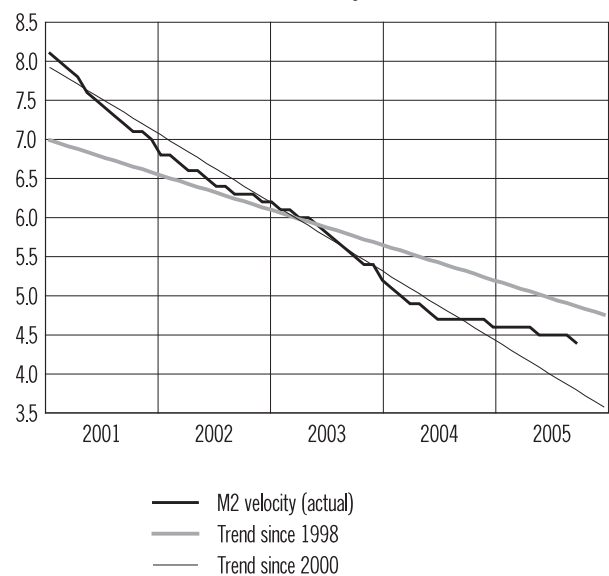
The current money supply growth will affect core inflation in the first half of 2006. According to estimates, M2 grew slower in October 2005 than in October 2004 and, therefore, the trend towards the accelerated money supply growth may be reversed. At the same time, the intensity of the seasonal peak of money supply growth in December will have considerable influence in this process. Given that the trend towards the slower annualised M2 growth continues to persist, the monetary pressure on inflation processes can weaken by the end of the first half of 2006. Core inflation influenced by the monetary dynamics of the previous months will reach 8.5-9% by early January 2006.

The gap between M2 and GDP growth rates<sup>1</sup>, which sharply narrowed in the previous year, increased in 2005 Q3 quarter on quarter. The gap between the growth rates of GDP and the M2X broader monetary aggregate comprising economic agents' foreign currency non-cash funds also widened in 2005 Q3. Money velocity dynamics are essential to assess the influence of this gap on inflation. In July-September 2005, money velocity fell 1.7% (0.6% in 2004 Q3). Therefore, the slowing of decline in money velocity observed from the second half of 2004 came

to a halt and in Q3 money velocity declined faster under the influence of money supply structural changes and the persisting demand for foreign currency. The money velocity dynamics deviated from the medium-term trend. This can be interpreted as increased inflationary pressure, given that the annualised money supply growth stays at the current level.

**The money aggregate in the monetary survey definition** (similar to the M1 aggregate), which includes the most liquid transactional components of money supply, reflects economic situation and liquidity preferences. In 2005 Q3, as compared with Q2, its dynamics were largely de-

**M2 velocity**



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

terminated by the accelerated growth of the aggregate's non-cash component.

Following the seasonal trends of the past few years, **cash** growth slowed down in 2005 Q3 quarter on quarter to 5.5%. At the same time, as in 2005 Q2, the M0 grew faster in July-September 2005 year on year. As a result, cash grew faster in the first nine months of 2005 (13.4%) than in the same period last year (12.8%).

Annualised M0 growth increased from 29.4% to 34.6% in July-September 2005 as against 26.1% in January 2005 but was lower than in the same period last year.

Cash growth was largely attributable to the continued increase in household money income. In particular, non-interest expenditures of the consolidated budget grew faster over that period than last year.

Households' persisting demand for foreign currency cash restrained cash growth. Households' net demand for foreign currency cash was higher in 2005 Q1 and Q2 than in the same periods of 2004 but lower in 2005 Q3. At the same time, it should be noted that households' strong demand for foreign currency cash in 2004 Q3 was largely caused by the unstable situation in the banking sector due to the crisis of confidence in banks.

Households' net demand for foreign currency cash was higher in the first nine months of 2005 than in the respective periods of 2001-2003.

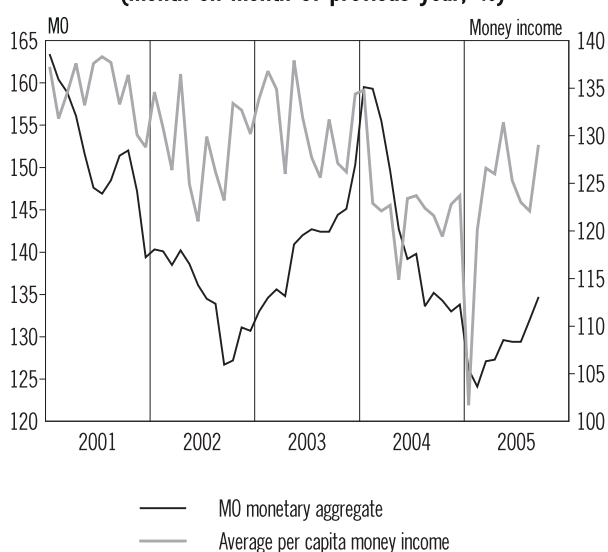
At the same time, despite the increase in the annualised cash growth in January-September 2005, the cash share in the M2 structure was less

considerable in the first nine months of 2005 than in the previous years. This was to a certain extent attributable to the resumed growth of time deposits denominated in the national currency resulting from the increase in household money income. At the same time, the persisting increase in annualised M0 growth (in particular, due to the accelerated growth of budget non-interest expenditures) can make it more difficult for the government to achieve inflation targets both this year and next year.

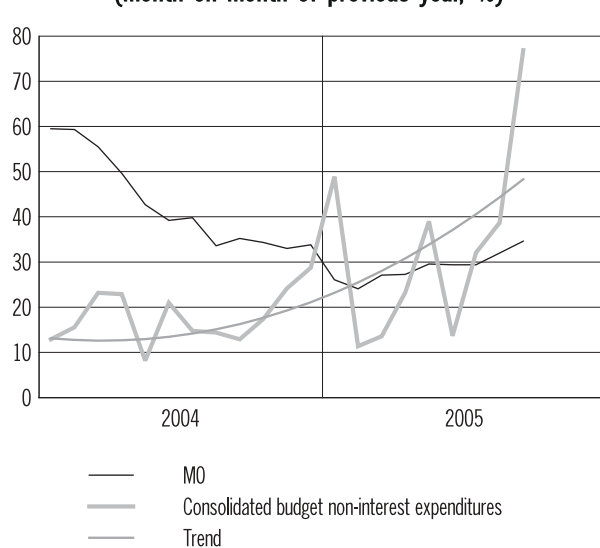
The annualised growth rates in the **M1 non-cash component** exceeded cash growth rates in 2005 Q3; they increased from 29.8% to 45.3% and were considerably higher than in the same period last year. The M1 non-cash component is comprised by about 80% of non-financial enterprise sector funds and its increase reflects economic agents' rising demand for money to conduct transactions and service the payment turnover.

As funds in transactional accounts and cash somewhat accelerated, the rates of growth in the money aggregate in the monetary survey definition grew from an annualised 29.1% as of October 1, 2004 to 39.6% as of October 2005. The growth rates in **quasi-money** (it comprises less liquid components of money supply used by economic agents as savings) were considerably higher in 2005 Q3 than in the same period last year (39% as of October 1, 2005 as against 29% as of October 1, 2004) and were about the same as the growth rates in the money aggregate.

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



**M0 and consolidated budget non-interest expenditures  
(month on month of previous year, %)**





The quasi-money dynamics that emerged by the beginning of October were determined by the faster growth in time deposits representing **the ruble component of quasi-money**. In July-September, the annualised growth rates in time deposits accelerated by 5 percentage points to 46.4% but failed to exceed the growth rates as of the beginning of the year and as of the same date in 2004. The resumed acceleration of annualised growth in time deposits denominated in the national currency implies that money supply growth exerts weaker pressure on inflation.

The rates of growth in **foreign currency deposits** representing the other component of quasi-money were unstable in 2005 Q3 but as a whole remained at the level of the previous quarter.

Economic agents' unsteady currency preferences and the respective change in demand for the national currency and foreign exchange causing the reciprocal flow of ruble and foreign currency funds were among the factors that determined the monetary aggregate dynamics in 2005 Q3. The rates of growth in the ruble monetary aggregates (M1 and M2) accelerated more considerably as compared with the dynamics of the M2X and M2Y aggregates, which include non-financial agents' foreign currency. Thus, the rates of growth in M2X increased from an annualised 32.4% as of July 1, 2005 to 39.3% as of October 1, 2005. The rates of growth in M2Y accelerated by almost 4 percentage points in annual terms in July-September 2005. The dynamics of the M2Y no-

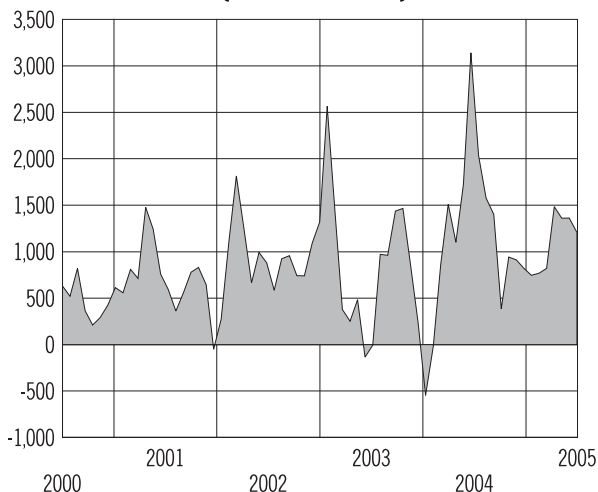
tional broad aggregate continued to demonstrate a long-term upward trend. The annualised M2Y growth rates were faster as of October 1, 2005 (29.4%) than as of the beginning of the year (24.4%) and as of the same date last year (20%).

The **dollarisation coefficient**, the share of the foreign currency component of the money supply in the monetary survey definition (M2X), was unchanged in 2005 Q3, equalling 18.1% as of October 1, 2005 (in the same period last year, it rose by 0.7 percentage points to 19.6%). At the same time, the ruble component of quasi-money continued to predominate in M2X (29.7% as of October 1, 2005 as against 28.3% as of October 1, 2004).

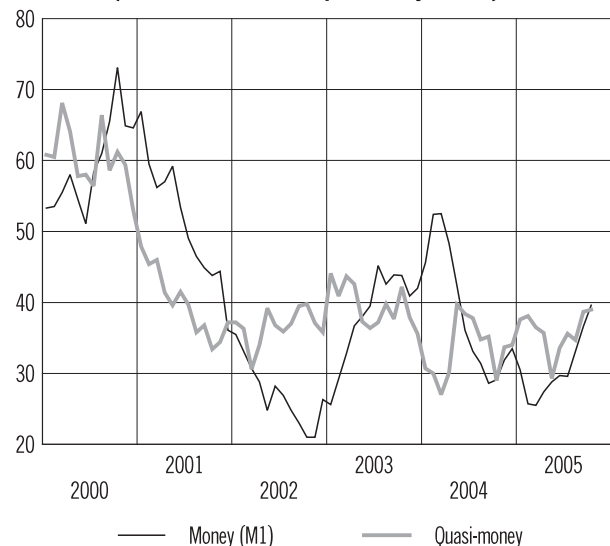
The development of the process of the Russian economy's dedollarisation is also characterised by changes in the M2Y aggregate structure. Thus, the share of the foreign currency component of this notional broad aggregate dropped by 1.1 percentage points in 2005 Q3 largely due to a contraction in the share of foreign currency cash. The share of all foreign currency funds in the M2Y broad aggregate was smaller in 2005 Q3 than in the same period last year.

The dynamics of enterprise and household funds drawn by banks in rubles and foreign currency (an annualised 41.1% as of October 1, 2005), which serve as the basis for the expansion of lending, matched the increase in loans to the real sector (41.1% as of October 1, 2005). At the same time, in 2005 Q3, the growth in **the banking**

Household net demand for foreign currency cash  
(million US dollars)



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

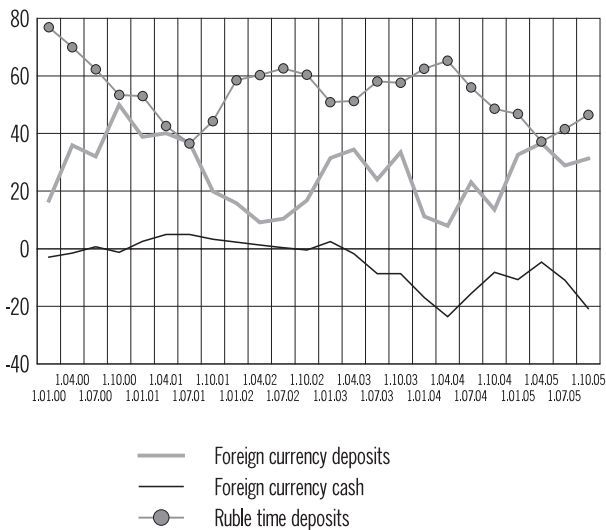


**sector's claims on the non-financial sector of the economy** was slightly slower than in the previous quarter (it totalled 448 billion rubles in July-September) but faster than a year ago. The role of credit to non-financial enterprises and households as a source of aggregate money supply expansion increased in 2005 Q3.

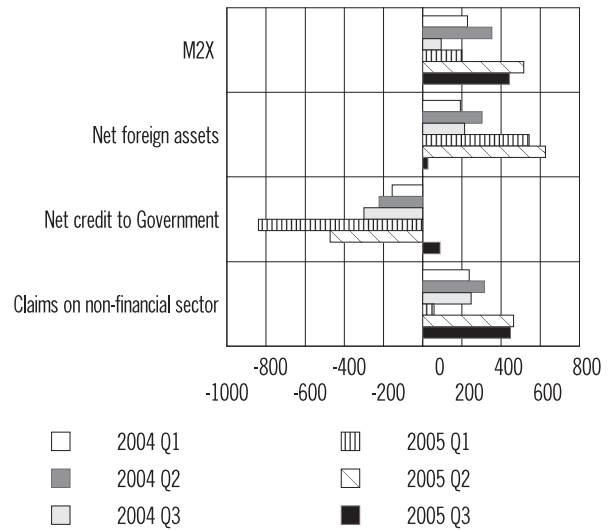
The large-scale **increase in the general government deposits**, caused by the expansion of the Stabilisation Fund, had a serious restraining effect on money supply growth during the first three quarters of 2005. The Stabilisation Fund totalled 960.7 billion rubles as of October 1, 2005.

**The monetary base** (broad definition) contracted 6.7% in January-September 2005 as compared with 4.5% in the same period last year. In July-September 2005, the monetary base rose 10.2% (it narrowed 4.8% in 2004 Q3). The share of credit institutions' funds in correspondent accounts with the Bank of Russia increased in July-September from 12.2% to 14.9% (it also slightly expanded in the same period last year). The share of credit institutions' funds absorbed by the Bank of Russia through its deposits and OBR operations rose from 5.5% to 5.9% in the monetary base over the quarter and from 11.4% to 12.1% taking into account the credit institutions' required reserves.

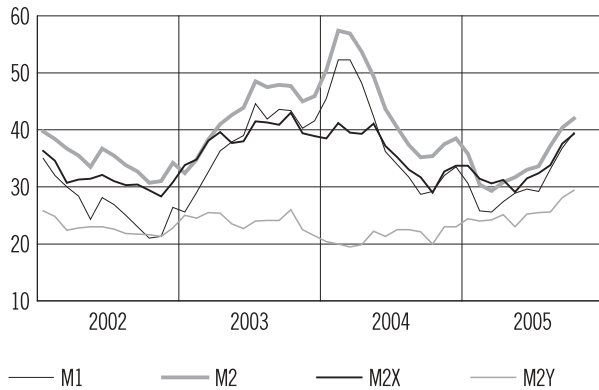
**Individual components of M2Y notional broad aggregate (month on month of previous year, %)**



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



**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 monetary aggregate) = M2X + an estimated amount of foreign exchange cash in the non-banking sector.

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



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

# Statistical Addendum

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

	Monthly inflation	Core inflation	Food price growth	Growth in food prices 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
April	1.1	0.9	1.7	1.3	5.4	0.5	0.8
May	0.8	0.6	1.1	0.7	4.1	0.4	0.8
June	0.6	0.5	0.7	0.4	3.3	0.3	0.9
July	0.5	0.5	0.3	0.5	-1.8	0.4	0.9
August	-0.1	0.5	-1.0	0.5	-12.9	0.5	0.8
September	0.3	0.8	-0.7	0.6	-11.6	1.1	0.9

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

	Monthly inflation	Core inflation	Food price growth	Growth in food prices 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
April	6.5	3.3	6.7	4.4	30.8	1.6	13.5
May	7.3	4.0	7.9	5.1	36.1	2.1	14.4
June	8.0	4.4	8.6	5.5	40.6	2.4	15.4
July	8.5	5.0	8.9	6.1	38.0	2.8	16.5
August	8.3	5.5	7.8	6.6	20.2	3.4	17.4
September	8.6	6.3	7.1	7.2	6.2	4.5	18.5

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

	Inflation over period	Core inflation*	Food price growth*	Growth in food prices net of vegetable prices*	Vegetable and fruit price growth	Non-food price growth*	Service price growth*
<b>2003</b>							
January	14.3	9.9	10.7	8.5	29.3	10.7	32.3
February	14.8	10.0	11.0	8.8	30.4	10.9	34.2
March	14.8	10.2	11.6	9.2	33.1	11.0	31.6
April	14.6	10.2	11.5	9.5	30.4	10.8	30.8
May	13.6	10.2	9.9	9.5	16.2	10.2	31.4
June	13.9	10.5	11.0	10.1	21.1	9.6	30.9
July	13.9	10.2	10.9	9.8	22.7	9.5	31.1
August	13.3	10.5	10.7	10.3	13.1	9.4	28.8
September	13.3	10.8	11.3	11.0	11.5	9.4	26.4
October	13.2	11.4	11.9	12.1	6.5	9.4	24.3
November	12.5	11.3	11.0	11.8	1.2	9.3	22.5
December	12.0	11.2	10.2	11.8	-4.2	9.2	22.3
<b>2004</b>							
January	11.3	11.0	9.2	11.7	-10.7	8.6	21.9
February	10.6	10.8	9.2	12.0	-12.9	8.0	18.9
March	10.3	10.8	9.2	12.2	-13.8	7.6	17.5
April	10.2	11.0	9.1	12.7	-17.8	7.6	17.8
May	10.2	11.0	8.9	12.9	-20.4	7.8	17.7
June	10.1	10.9	8.8	12.6	-18.4	7.9	17.4
July	10.4	11.0	9.5	12.9	-15.7	8.0	16.7
August	11.3	10.9	11.1	12.9	-4.6	8.0	17.0
September	11.4	10.7	11.3	12.7	-2.2	8.1	16.8
October	11.5	10.5	11.7	12.7	0.9	7.8	17.3
November	11.7	10.4	12.0	12.9	2.0	7.6	17.7
December	11.7	10.5	12.3	13.1	3.3	7.4	17.7
<b>2005</b>							
January	12.7	10.4	12.1	12.9	3.0	7.3	23.1
February	13.0	10.4	12.4	12.6	7.6	7.2	23.8
March	13.6	10.5	13.5	12.9	16.4	7.1	24.6
April	13.8	10.6	14.5	13.2	23.4	7.0	23.1
May	13.8	10.6	15.2	13.3	29.3	6.6	22.4
June	13.7	10.6	15.1	13.4	27.5	6.3	22.4
July	13.2	10.3	14.2	12.9	23.4	6.2	21.9
August	12.5	10.1	12.9	12.5	14.7	6.1	21.6
September	12.3	10.0	12.1	12.1	11.3	6.3	22.0

\* Bank of Russia's estimate.

### Inflation Growth Structure (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	0.2	0.8	0.2	1.8	0.8	1.0
February	1.1	0.3	1.1	0.3	2.8	1.4	1.4
March	1.5	0.4	1.2	0.4	3.5	2.0	1.6
April	2.0	0.6	1.5	0.4	4.6	2.6	1.9
May	2.2	0.8	1.8	0.4	5.3	3.1	2.2
June	2.4	1.0	2.0	0.6	6.1	3.5	2.6
July	2.9	1.2	2.3	0.7	7.1	4.2	2.9
August	3.3	1.4	2.5	0.4	7.6	4.7	2.8
September	3.8	1.7	2.6	-0.1	8.0	5.5	2.5
October	4.6	1.9	2.9	-0.2	9.3	6.6	2.7
November	5.4	2.1	3.0	-0.1	10.5	7.6	2.9
December	6.1	2.3	3.2	0.1	11.7	8.5	3.3
<b>2005</b>							
January	0.4	0.1	1.8	0.2	2.6	0.7	1.9
February	0.8	0.2	2.3	0.5	3.9	1.3	2.6
March	1.3	0.4	2.6	1.0	5.3	1.9	3.3
April	1.9	0.5	2.8	1.3	6.5	2.7	3.8
May	2.1	0.7	3.0	1.5	7.3	3.1	4.1
June	2.3	0.8	3.2	1.7	8.0	3.5	4.5
July	2.5	0.9	3.4	1.6	8.5	3.9	4.5
August	2.8	1.1	3.6	0.8	8.3	4.4	4.0
September	3.0	1.5	3.9	0.3	8.6	5.0	3.6

\* Excluding vegetables and fruit.

\*\* Growth in the prices of goods and paid services excluded from the core inflation calculation.

**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	2.4	1.0	1.4
February	0.4	0.2	0.7	0.2	1.6	0.7	0.9
March	0.3	0.2	0.3	0.2	1.1	0.6	0.5
April	0.3	0.2	0.3	0.3	1.0	0.5	0.5
May	0.2	0.2	0.3	0.2	0.8	0.4	0.4
June	0.3	0.1	0.2	0.1	0.8	0.5	0.3
July	0.3	0.1	0.4	-0.1	0.7	0.5	0.2
August	0.4	0.1	0.1	-1.1	-0.4	0.6	-1.0
September	0.5	0.2	0.2	-0.6	0.3	0.9	-0.6
October	0.9	0.3	0.1	-0.3	1.0	1.2	-0.1
November	0.6	0.2	0.1	0.0	1.0	0.9	0.1
December	0.6	0.2	0.2	0.2	1.1	0.8	0.3
<b>2004</b>							
January	0.6	0.2	0.8	0.2	1.8	0.8	1.0
February	0.5	0.1	0.3	0.1	1.0	0.6	0.4
March	0.4	0.1	0.1	0.1	0.8	0.6	0.2
April	0.4	0.2	0.4	0.0	1.0	0.6	0.3
May	0.2	0.2	0.3	0.0	0.7	0.5	0.2
June	0.2	0.2	0.2	0.2	0.8	0.4	0.4
July	0.4	0.2	0.3	0.1	0.9	0.6	0.3
August	0.4	0.2	0.2	-0.3	0.4	0.5	-0.1
September	0.4	0.3	0.1	-0.4	0.4	0.7	-0.3
October	0.8	0.2	0.2	-0.1	1.1	1.0	0.2
November	0.7	0.2	0.2	0.1	1.1	0.9	0.2
December	0.6	0.1	0.2	0.2	1.1	0.8	0.3
<b>2005</b>							
January	0.4	0.1	1.8	0.2	2.6	0.7	1.9
February	0.4	0.1	0.5	0.3	1.2	0.6	0.7
March	0.5	0.1	0.3	0.5	1.3	0.6	0.7
April	0.5	0.2	0.2	0.3	1.1	0.7	0.4
May	0.3	0.1	0.2	0.2	0.8	0.5	0.3
June	0.2	0.1	0.2	0.2	0.6	0.4	0.3
July	0.2	0.1	0.2	-0.1	0.5	0.4	0.1
August	0.2	0.2	0.2	-0.6	-0.1	0.4	-0.5
September	0.2	0.4	0.2	-0.6	0.3	0.6	-0.4

\* Excluding vegetables and fruit.

\*\* Growth in the prices of goods and paid services excluded from the core inflation calculation.

### 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	33.8	8.6	43.5	14.0	43.2	56.8
February	40.0	10.2	38.3	11.5	50.0	50.0
March	42.9	11.7	32.8	12.7	55.3	44.7
April	43.5	13.3	34.0	9.2	57.5	42.5
May	42.4	15.9	34.4	7.3	58.5	41.5
June	39.8	17.2	32.9	10.1	57.2	42.8
July	40.9	17.3	32.1	9.8	58.8	41.2
August	43.8	18.4	32.8	4.9	62.6	37.4
September	47.0	21.1	32.7	-0.8	68.4	31.6
October	50.2	20.8	31.0	-1.9	70.9	29.1
November	51.5	20.4	28.9	-0.8	72.0	28.0
December	52.1	19.2	27.5	1.2	72.0	28.0
<b>2005</b>						
January	17.0	4.8	70.2	8.0	27.1	72.9
February	21.2	6.2	60.4	12.1	33.4	66.6
March	24.5	6.8	50.0	18.7	36.7	63.3
April	28.6	8.1	43.8	19.5	41.1	58.9
May	29.3	9.2	41.2	20.2	43.1	56.9
June	29.0	9.8	40.5	20.8	44.1	55.9
July	30.1	10.9	40.7	18.3	46.5	53.5
August	33.2	13.2	43.6	9.9	52.3	47.7
September	35.1	17.1	44.9	3.0	58.3	41.7

\* Excluding vegetables and fruit.

\*\* Growth in the prices of goods and paid services excluded from the core inflation calculation.



**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 is 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	33.8	8.6	43.5	14.0	43.2	56.8
February	50.7	13.1	29.1	7.1	61.8	38.2
March	52.8	17.0	13.3	16.9	74.2	25.8
April	45.7	19.0	38.2	-2.9	65.1	34.9
May	35.7	32.6	36.6	-4.9	64.9	35.1
June	22.1	25.8	23.1	29.1	48.2	51.8
July	47.5	17.6	27.3	7.5	68.1	31.9
August	89.6	37.7	44.9	-72.2	122.3	-22.3
September	100.3	67.0	30.2	-97.5	164.9	-64.9
October	70.5	18.9	20.3	-9.7	86.8	13.2
November	60.7	18.0	13.8	7.5	79.4	20.6
December	55.8	9.0	15.5	19.7	71.7	28.3
<b>2005</b>						
January	17.0	4.8	70.2	8.0	27.1	72.9
February	30.0	9.2	40.0	20.8	46.5	53.5
March	33.6	8.4	20.9	37.0	46.1	53.9
April	46.7	14.1	15.8	23.4	60.9	39.1
May	34.9	18.4	20.6	26.1	60.1	39.9
June	25.7	15.5	32.1	26.6	54.6	45.4
July	48.4	29.6	43.6	-21.6	86.0	14.0
August	<i>Estimate is impossible for negative value</i>					
September	92.7	141.5	83.9	-218.1	243.9	-143.9

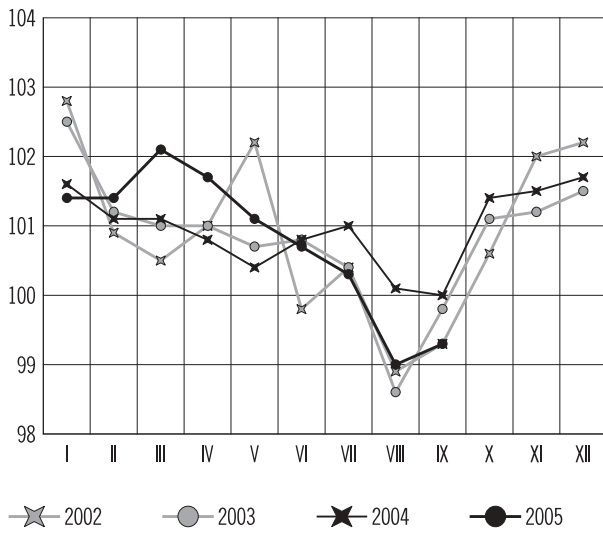
\* Excluding vegetables and fruit.

\*\* Growth in the prices of goods and paid services excluded from the core inflation calculation.

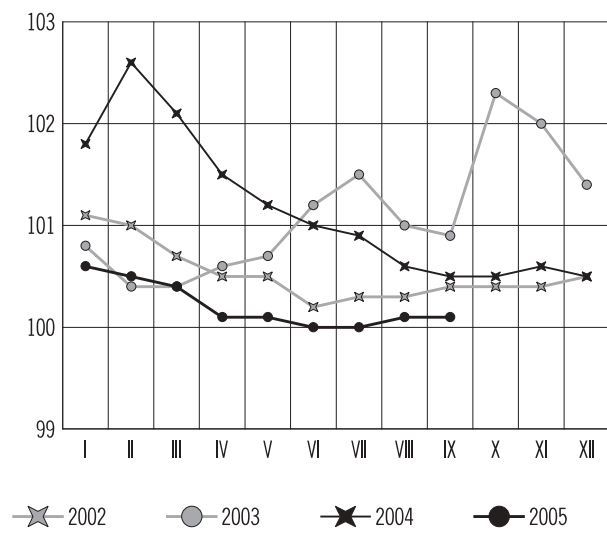
## Major monetary indicators in 2005

	1.01.05	1.02.05	1.03.05	1.04.05	1.05.05	1.06.05	1.07.05	1.08.05	1.09.05	1.10.05
<b>Cash (M0), bn rubles</b>	<b>1,534.8</b>	<b>1,425.2</b>	<b>1,444.1</b>	<b>1,481.7</b>	<b>1,565.8</b>	<b>1,582.3</b>	<b>1,650.7</b>	<b>1,701.8</b>	<b>1,703.3</b>	<b>1,740.7</b>
monthly growth rates, %	15.2	-7.1	1.3	2.6	5.7	1.1	4.3	3.1	0.1	2.2
growth rates since start of year, %		-7.1	-5.9	-3.5	2.0	3.1	7.6	10.9	11.0	13.4
share in M2 structure, %	35.2	34.0	33.5	33.1	34.1	33.7	33.5	34.1	33.2	32.9
<b>Non-cash funds (M2-M0), bn rubles</b>	<b>2,828.5</b>	<b>2,765.1</b>	<b>2,867.3</b>	<b>2,992.9</b>	<b>3,021.0</b>	<b>3,106.4</b>	<b>3,276.7</b>	<b>3,283.9</b>	<b>3,432.7</b>	<b>3,552.1</b>
monthly growth rates, %	8.5	-2.2	3.7	4.4	0.9	2.8	5.5	0.2	4.5	3.5
growth rates since start of year, %		-2.2	1.4	5.8	6.8	9.8	15.8	16.1	21.4	25.6
<b>M2 monetary aggregate, bn rubles</b>	<b>4,363.3</b>	<b>4,190.3</b>	<b>4,311.4</b>	<b>4,474.6</b>	<b>4,586.8</b>	<b>4,688.6</b>	<b>4,927.4</b>	<b>4,985.8</b>	<b>5,136.0</b>	<b>5,292.8</b>
monthly growth rates, %	10.7	-4.0	2.9	3.8	2.5	2.2	5.1	1.2	3.0	3.1
growth rates since start of year, %		-4.0	-1.2	2.6	5.1	7.5	12.9	14.3	17.7	21.3
growth rates (month on month of previous year, %)	35.8	30.4	29.3	30.8	31.7	33.0	33.6	37.2	40.4	42.0
foreign currency deposits, bn rubles	935.1	993.6	1,033.2	1,024.9	1,007.7	1,054.9	1,090.6	1,101.5	1,154.4	1,167.9
monthly growth rates, %	0.9	6.3	4.0	-0.8	-1.7	4.7	3.4	1.0	4.8	1.2
growth rates since start of year, %		6.3	10.5	9.6	7.8	12.8	16.6	17.8	23.5	24.9
share in money supply structure in monetary survey definition, %	17.6	19.2	19.3	18.6	18.0	18.4	18.1	18.1	18.4	18.1
<b>Money supply in monetary survey definition, bn rubles</b>	<b>5,298.7</b>	<b>5,184.8</b>	<b>5,344.4</b>	<b>5,499.6</b>	<b>5,594.0</b>	<b>5,743.0</b>	<b>6,015.9</b>	<b>6,087.4</b>	<b>6,286.5</b>	<b>6,458.4</b>
monthly growth rates, %	8.9	-2.2	3.1	2.9	1.7	2.7	4.8	1.2	3.3	2.7
growth rates since start of year, %		-2.2	0.9	3.8	5.6	8.4	13.5	14.9	18.6	21.9
M2 money velocity (in annualised terms)	4.6	4.6	4.6	4.6	4.6	4.5	4.5	4.5	4.5	4.4
change since start of year, %		-0.3	-0.9	-1.5	-1.3	-1.9	-2.6	-2.7	-3.4	-4.3
Monetisation (M2 aggregate), %	21.6	21.7	21.8	21.9	21.9	22.0	22.2	22.2	22.3	22.5
Monetary base (broad definition)	2,386.3	2,150.1	2,266.0	2,256.1	2,243.5	2,269.1	2,308.8	2,347.9	2,423.4	2,545.1
monthly growth rates, %	14.5	-9.9	5.4	-0.4	-0.6	1.1	1.7	1.7	3.2	5.0
growth rates (on accrual basis), %		-9.9	-5.0	-5.5	-6.0	-4.9	-3.2	-1.6	1.6	6.7
Multiplier (for monetary base in broad definition)	1.8	2.0	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1
change since start of year, %	9.0	6.6	4.1	8.5	11.8	13.0	16.7	16.1	15.9	13.7

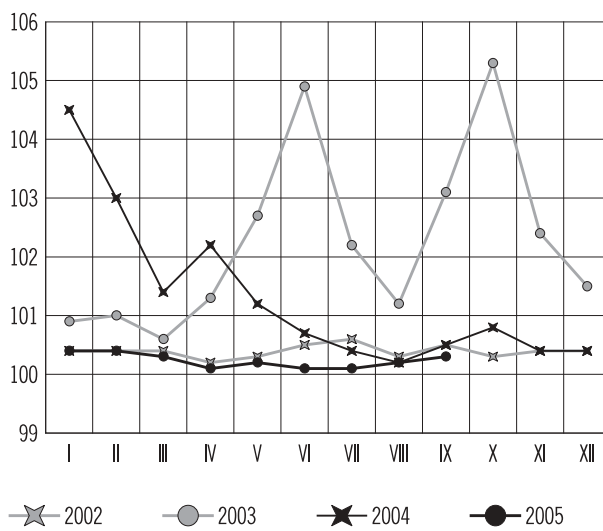
**Food prices, total**  
(as % of previous month)



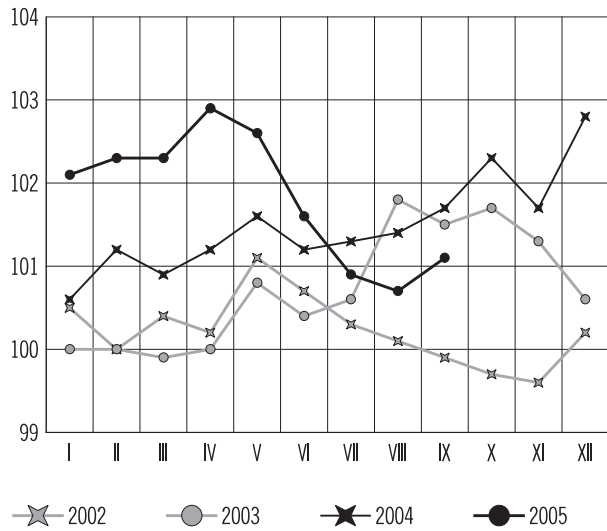
**Pasta prices**  
(as % of previous month)



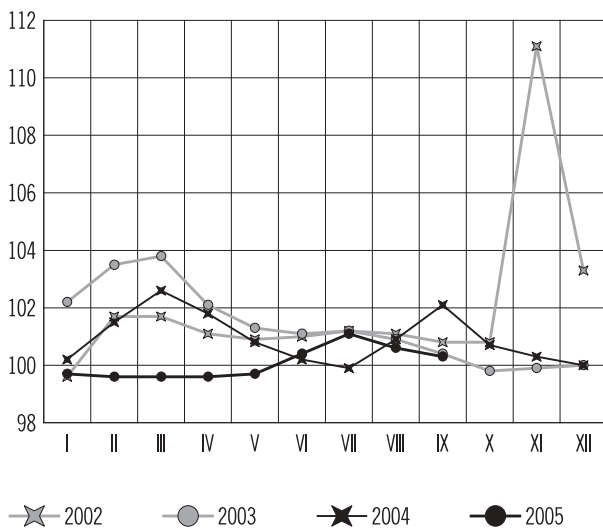
**Bread and bakery product prices**  
(as % of previous month)



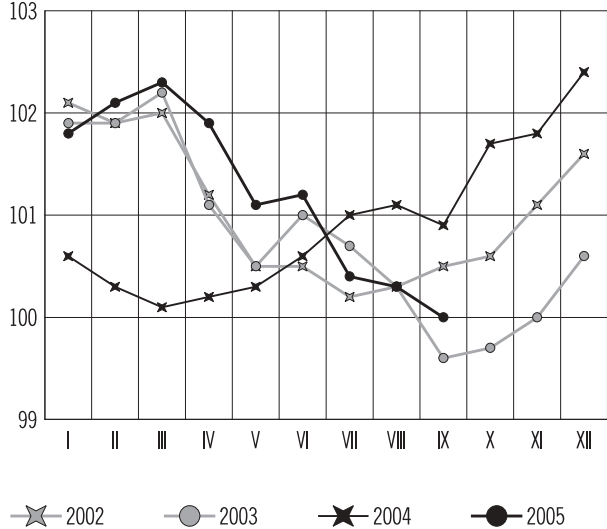
**Meat and poultry prices**  
(as % of previous month)



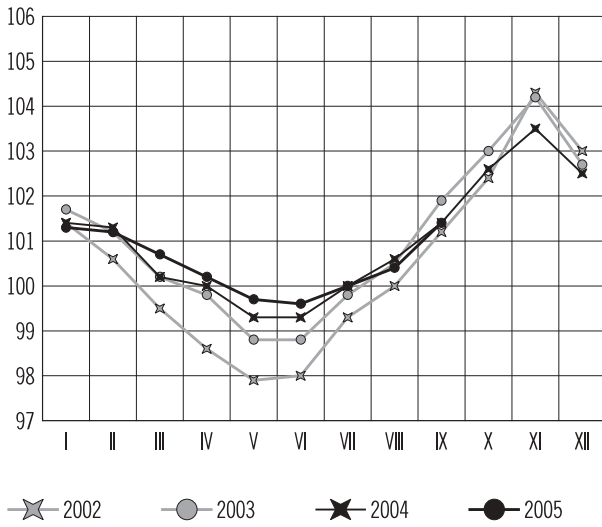
**Cereal and legume prices**  
(as % of previous month)



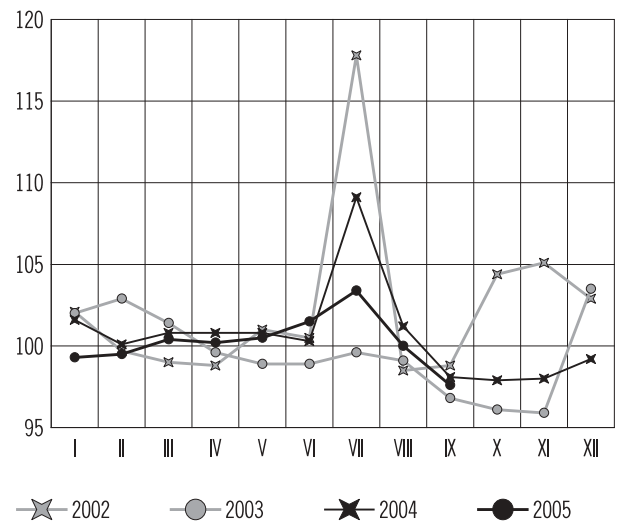
**Fish and seafood prices**  
(as % of previous month)



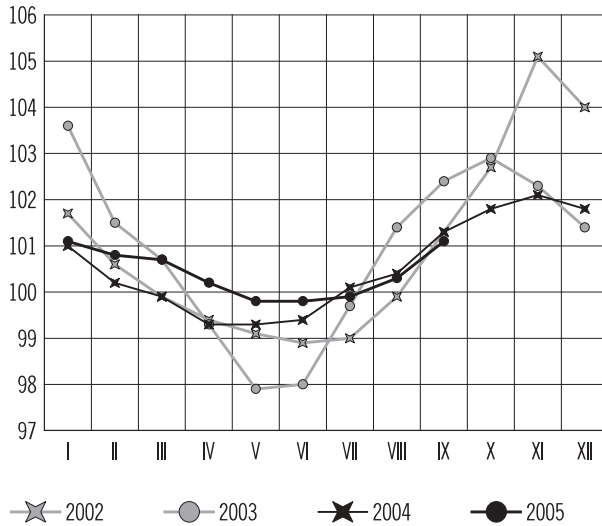
**Milk and dairy product prices  
(as % of previous month)**



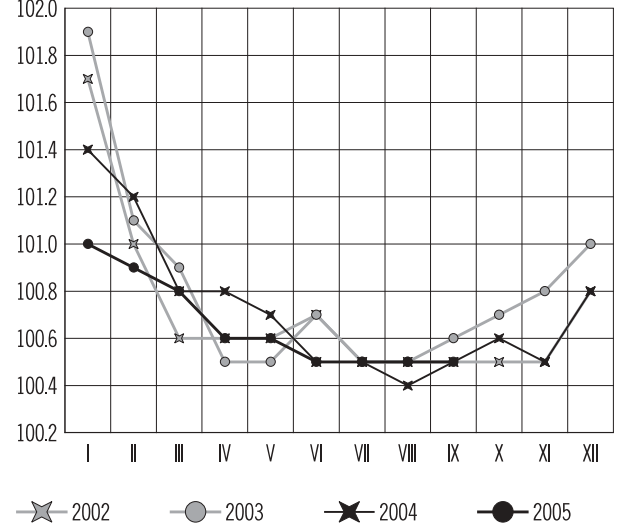
**Granulated sugar prices  
(as % of previous month)**



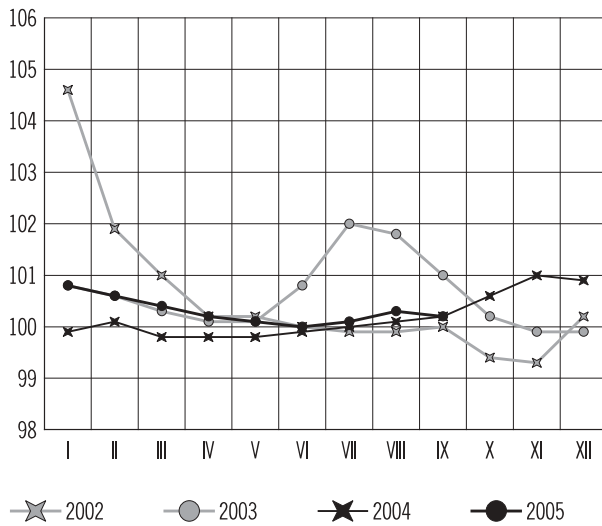
**Butter prices  
(as % of previous month)**



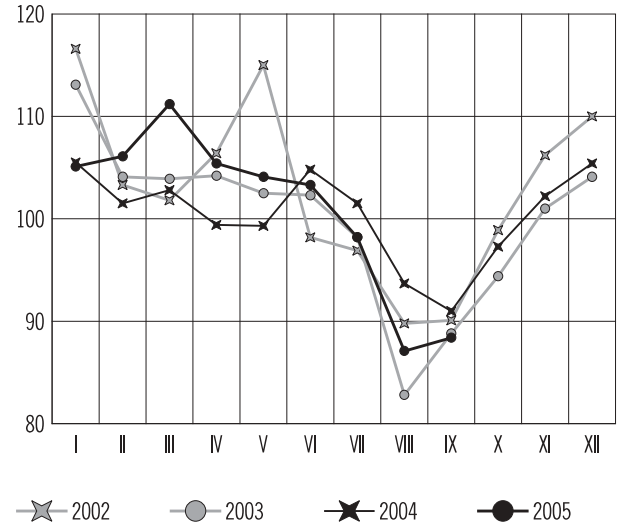
**Alcoholic beverage prices  
(as % of previous month)**



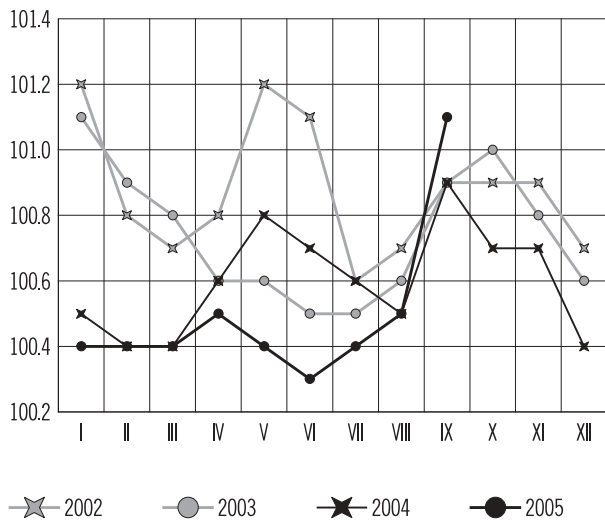
**Sunflower oil prices  
(as % of previous month)**



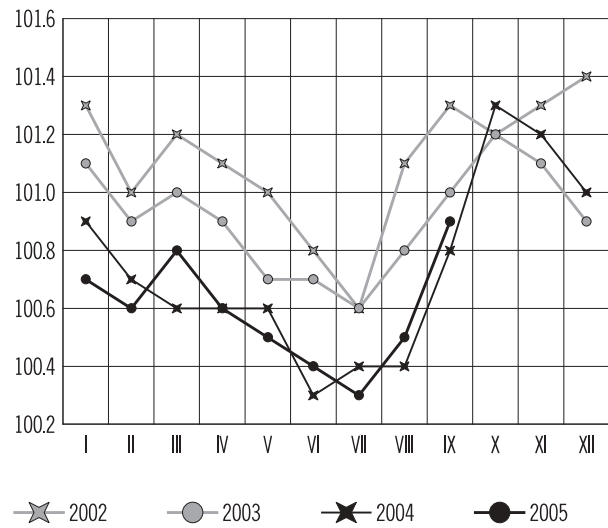
**Vegetable and fruit prices  
(as % of previous month)**



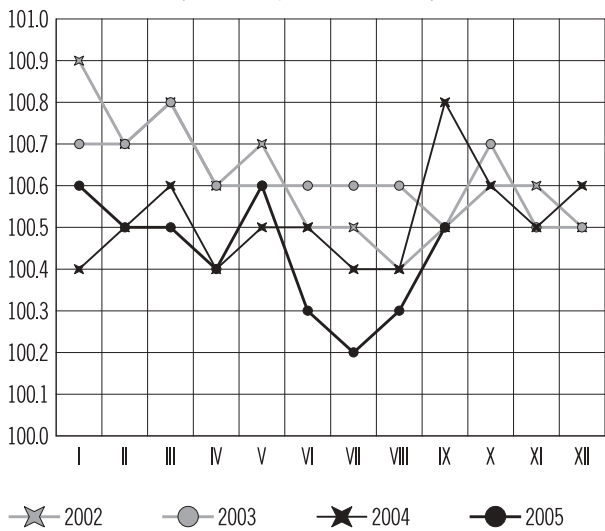
**Non-food prices, total**  
(as % of previous month)



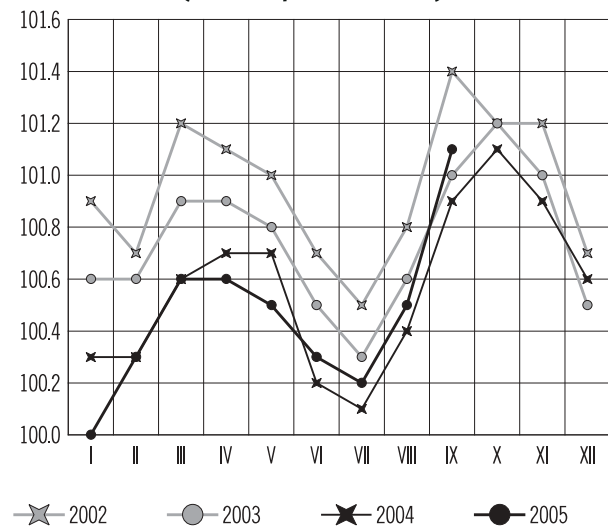
**Knitwear prices**  
(as % of previous month)



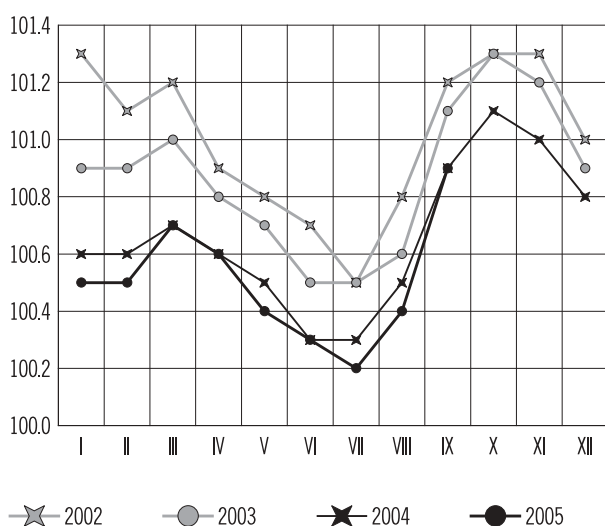
**Fabrics prices**  
(as % of previous month)



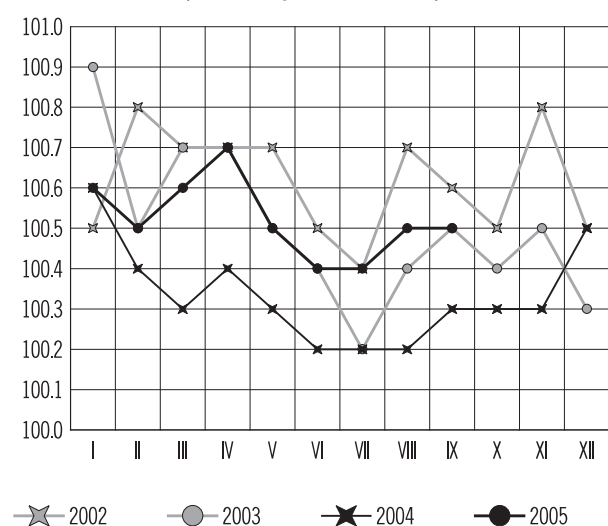
**Footwear prices**  
(as % of previous month)



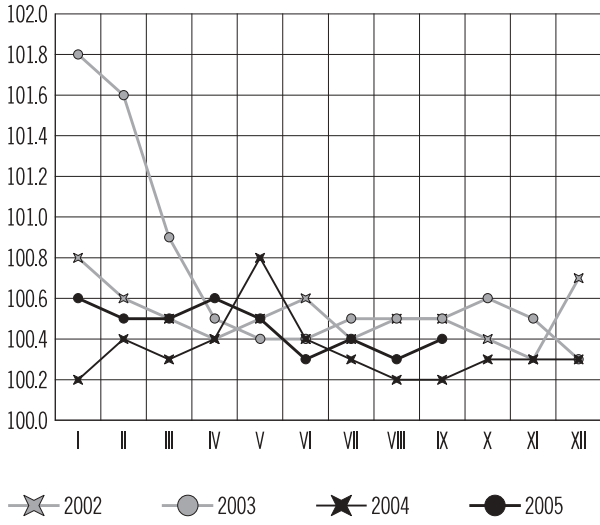
**Clothing and underwear prices**  
(as % of previous month)



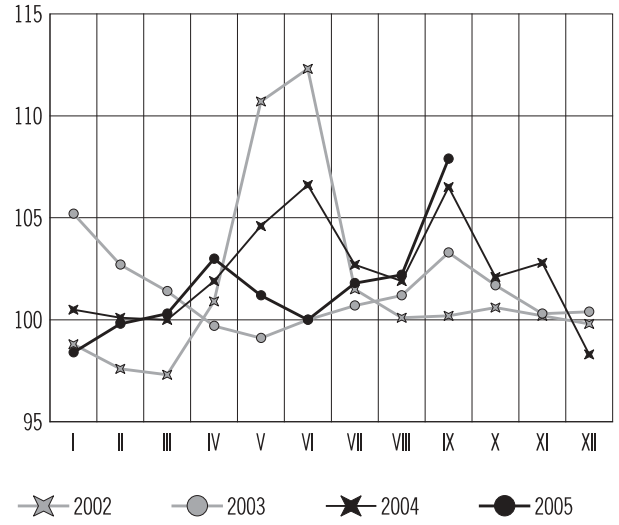
**Detergent prices**  
(as % of previous month)



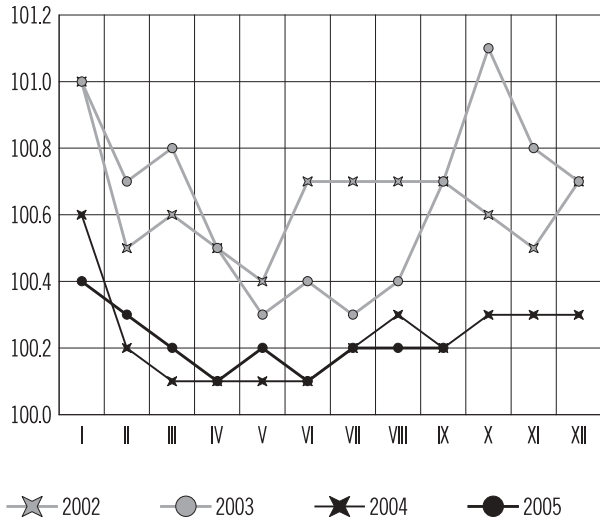
**Tobacco prices**  
(as % of previous month)



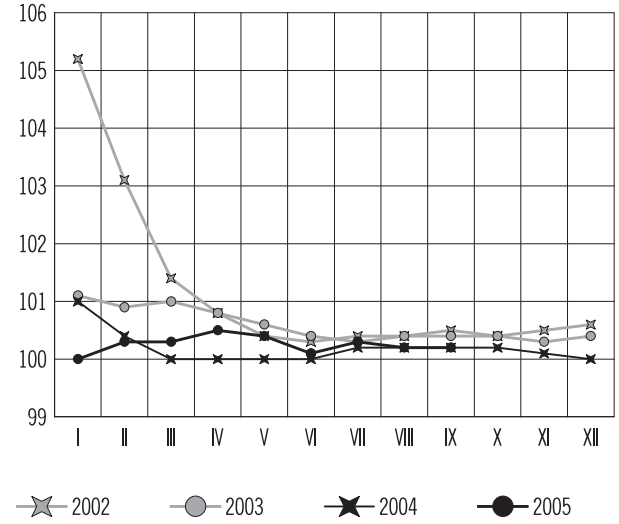
**Petrol prices**  
(as % of previous month)



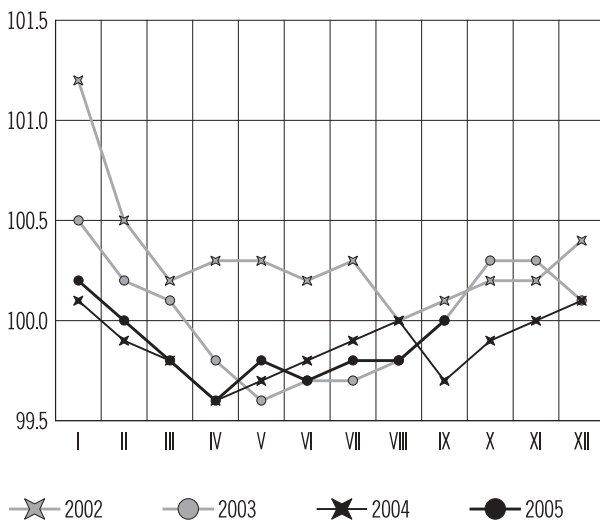
**Household electric appliances prices**  
(as % of previous month)



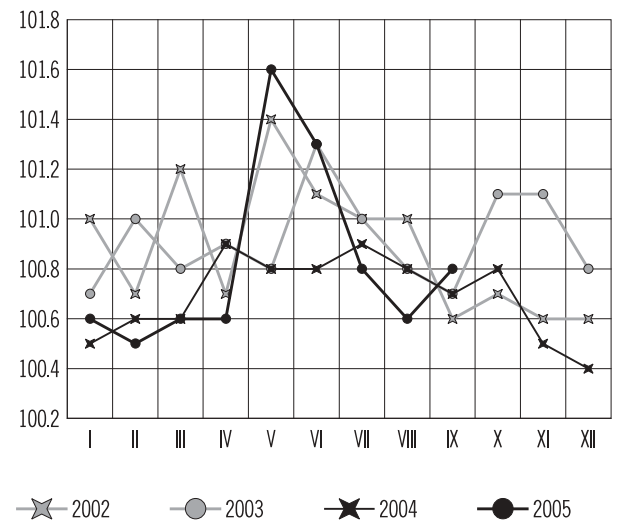
**Medicine prices**  
(as % of previous month)



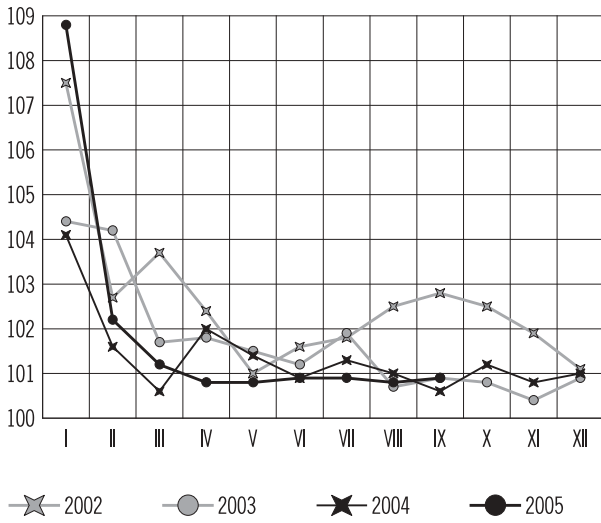
**TV and radio set prices**  
(as % of previous month)



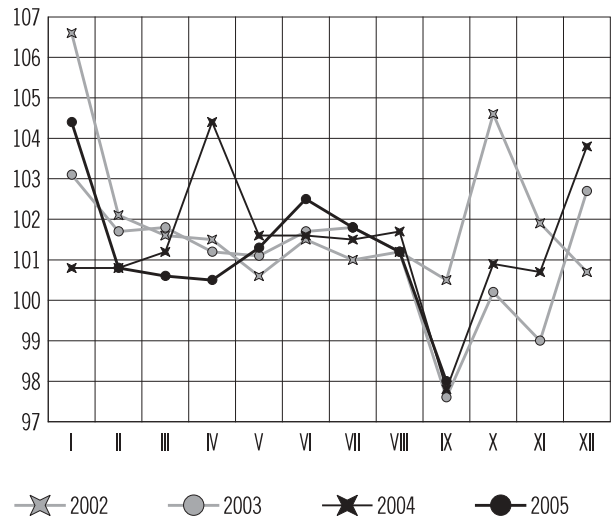
**Building materials prices**  
(as % of previous month)



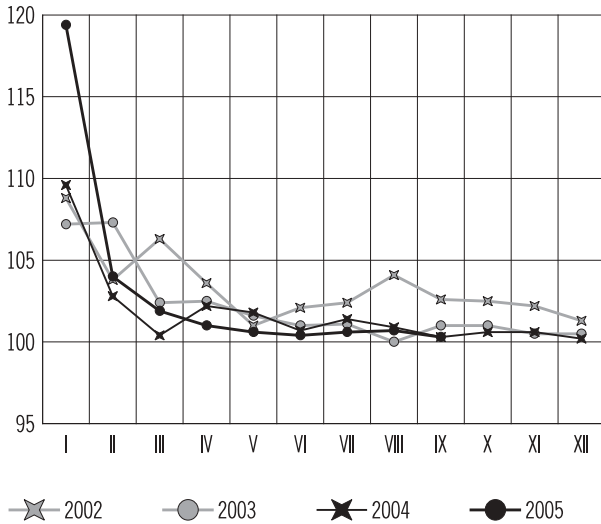
**Paid service prices  
(as % of previous month)**



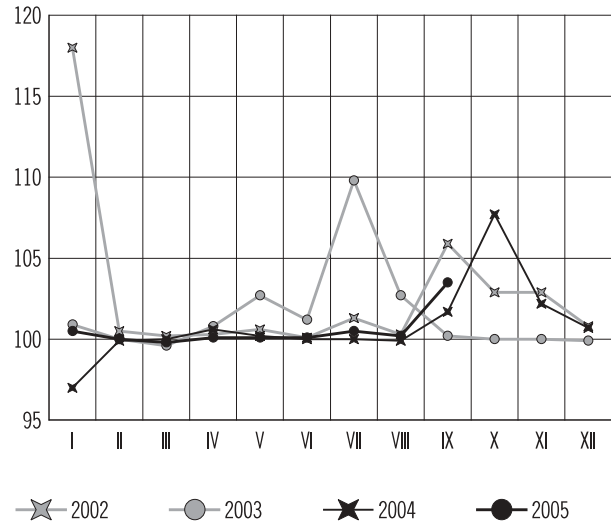
**Passenger transport fares  
(as % of previous month)**



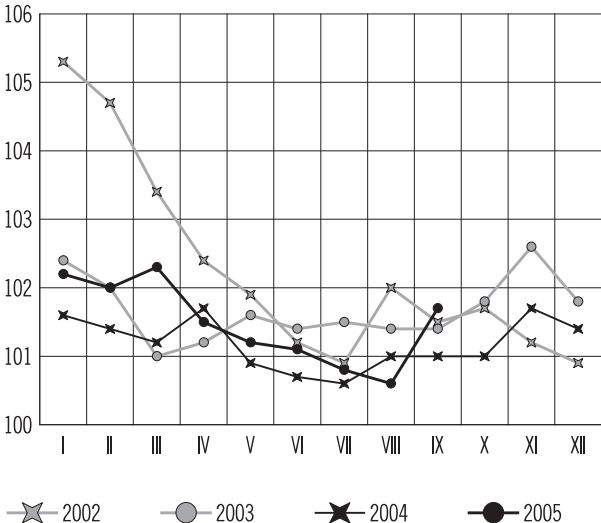
**Housing and communal service prices  
(as % of previous month)**



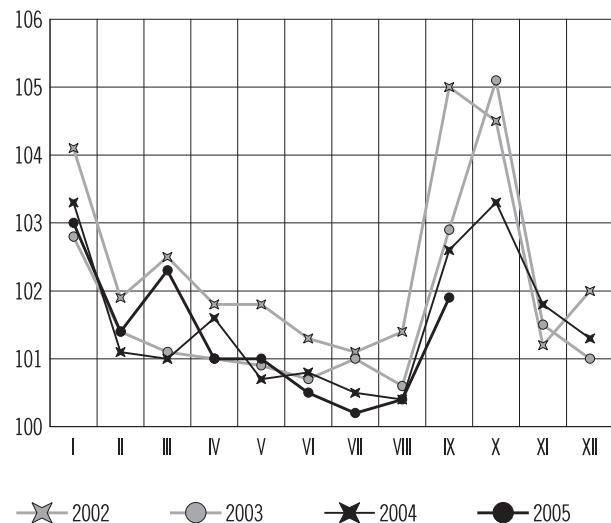
**Communication fees  
(as % of previous month)**



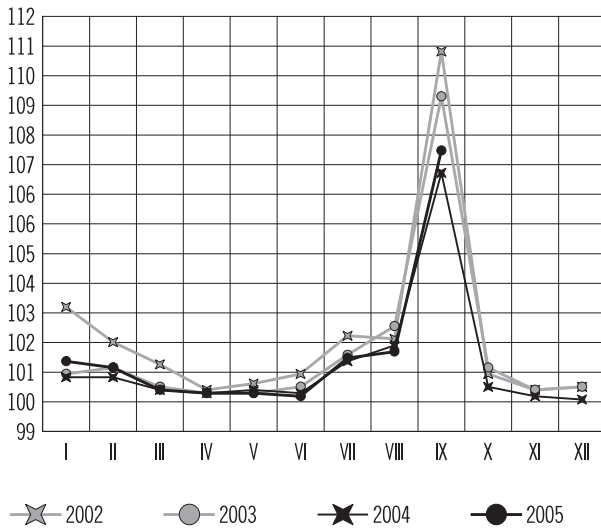
**Healthcare prices  
(as % of previous month)**



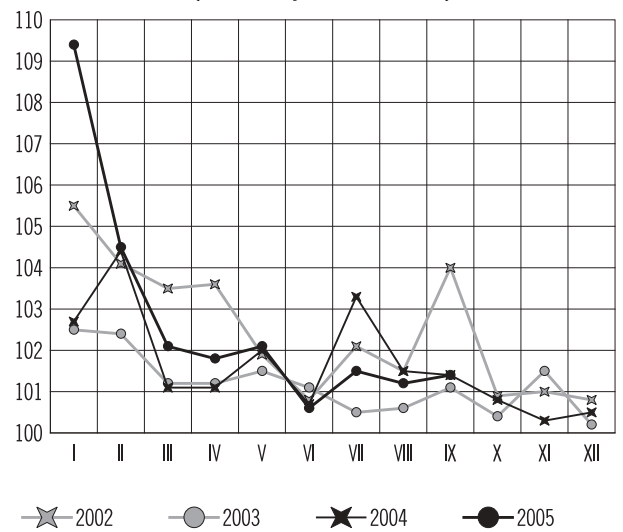
**Cultural service prices  
(as % of previous month)**



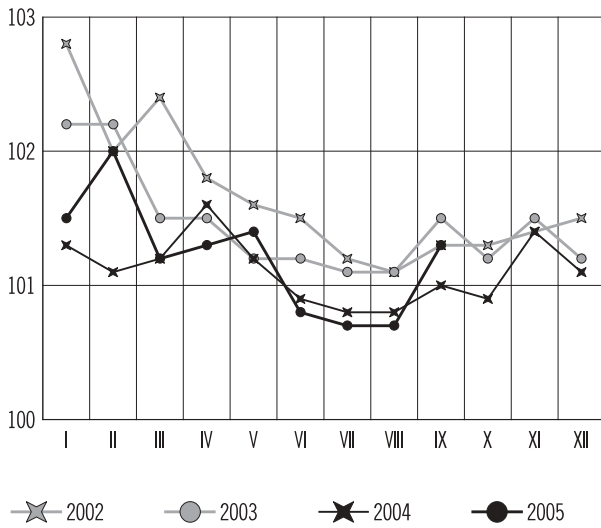
**Education fees  
(as % of previous month)**



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



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



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

