



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

**Quarterly
Inflation
Review**

2005 Q4

Introduction	1
Inflation Dynamics	3
Quantitative and Qualitative Monetary Indicators	17
Statistical Addendum	25

Research and Information Department

Introduction

Consumer price inflation slowed to 10.9% in 2005 from 11.7% a year earlier.

As consumer prices until May 2005 rose faster than in 2004, the annualised inflation rate that month accelerated by 2.1 percentage points, as compared with December 2004.

Consumer price inflation in 2005 was adversely impacted by significant growth in service prices, including the prices regulated at the regional and municipal levels. To stem their growth, the Russian parliament made amendments to the Federal Law on the Principles of Administering Housing and Utility Prices and the Federal Tariff Service issued an order setting limits on growth in housing and utility prices for each region. The strict compliance with these standards will help prevent the unjustified raising of prices and favourably affect the overall consumer price dynamics.

The continued growth in the world price of oil in 2005 led to significant increases in energy prices in many countries. It was a major factor of inflation in the eurozone and the United States.

In Russia, high oil prices led to considerable growth in petrol prices in 2005. A temporary ban imposed in September 2005 by the leading Russian oil companies on petrol price growth until the end of the year somewhat mitigated this process. As a result, petrol prices in 2005 grew more slowly than in 2004.

The measures taken by the Russian Government and Bank of Russia to reduce inflation produced the desired result. In the third quarter of 2005, consumer prices gained 0.6% against 1.8% in the same period of 2004 and in the fourth quarter the difference was 1.3 percentage points. As a result, in 2005 as a whole inflation slowed by 0.8 percentage points year on year.

The slowing of inflation was due to the considerable reduction of core inflation, which testifies to the positive effect on price dynamics of the factors controlled by the Bank of Russia policy.

At the same time, core inflation in Russia is so structured that it is becoming less susceptible to growth in the money supply. Unlike the situation in other countries, in Russia food products

with their volatile prices account for the largest part of core inflation and in the Consumer Price Index as a whole. Growth in food prices in 2005 slowed more significantly than in non-food prices and this factor made a significant contribution to the reduction of inflation.

In the early months of 2005 the trend towards the slowing of the annualised rate of growth in the M2 aggregate, which was registered in 2004, continued. As money supply growth accelerated in the second and third quarters of 2005, the money supply growth projection for 2005 was exceeded. In the fourth quarter the monetary dynamics slowed down. Allowing for the lags that had formed by the end of 2005, the money supply dynamics along with other factors will determine the monetary conditions of inflation in February-September 2006. If the annualised money supply growth continues to slow down, the effect of the monetary conditions on inflation may decrease and become moderate from the middle of 2006. However, this does not rule out the cumulative effect of the accelerated money supply growth in the second and third quarters of 2005, which may provoke price growth over a longer period.

The monetary regulation measures taken and the increased role of the Russian Government's stabilisation fund helped sterilise a large part of excess liquidity. In addition, the low-liquidity ruble components (time deposits) account for most of growth in the ruble supply and this represents a significant factor from the viewpoint of alleviating the inflationary consequences of monetary growth. At the same time, the trend towards the contraction of cash in the M2 structure, registered for most of the period under review, exerts a favourable influence on inflation dynamics and the velocity of money.

As the sterilising role of the stabilisation fund increased, the role of the Bank of Russia instruments used to sterilise excess liquidity somewhat decreased in 2005. At the same time, credit institutions' demand for these instruments was unabated during the year. The principle instru-

ments used by the Bank of Russia to absorb spare banking sector liquidity were the daily deposit operations conducted on standard terms and conditions at fixed interest rates, deposit auctions, the sale of government securities from the Bank of Russia's own portfolio without a commitment of reverse repurchase and operations with Bank of

Russia bonds (OBR). At the same time, there were periods when credit institutions' demand for Bank of Russia refinance instruments increased. Liquidity shortages were mostly eliminated by conducting repo operations, extending intraday and overnight loans, carrying out currency swap operations and providing Lombard loans.

Inflation Dynamics

Consumer prices

According to the Federal State Statistics Service (Rosstat), consumer prices rose 10.9% in 2005 against 11.7% in 2004.

In the fourth quarter of 2005 inflation stood at 2.1% (against 5.3% in Q1, 2.6% in Q2 and 0.6% in Q3). However, in October consumer prices gained 0.6% month on month, in November 0.7% and in December 0.8%.

The slowing of inflation in 2005 was due to the significant reduction of **core inflation**, which stood at 8.3% in 2005 against 10.5% in 2004. In the fourth quarter, the prices of goods and services included in the calculation of core inflation rose 1.9% (against 2.4% in Q1, 1.9% in Q2 and 1.8% in Q3).

Growth in the prices of goods and services included in the calculation of the base consumer price index in 2005 accounted for an estimated 6.6 percentage points, or 60.5%, of overall consumer price growth (against 8.5 percentage points, or 72.0%, in 2004).

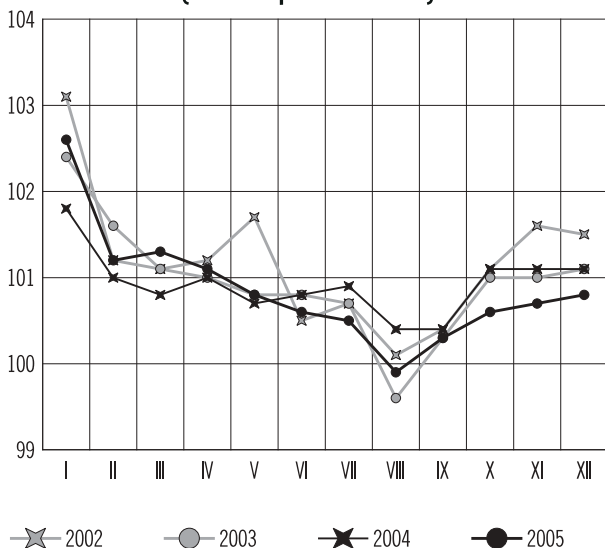
Unlike 2004, the year 2005 saw food price growth slow down significantly. **Food prices, excluding vegetable and fruit prices**, gained 9.1% in 2005 against 13.1% in 2004. Fourth-quarter price growth stood at 1.8% (Q1 growth was 3.1%, Q2 growth 2.4% and Q3 growth 1.6%). Growth

in food prices, excluding vegetable and fruit prices, accounted for an estimated 3.8 percentage points, or 35.2%, of overall consumer price growth (against 6.1 percentage points, or 52.1%, in 2004).

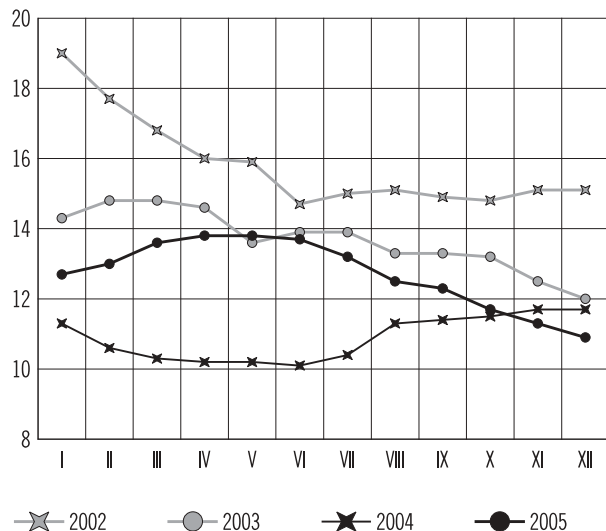
The most significant growth in prices in 2005 was registered in meat and poultry prices, which rose 18.6% (against 19.6% in 2004). Growth in poultry prices accelerated considerably in 2005 as compared with 2004 (18.2% against 1.1%). Poultry prices in 2005 rose faster than pork prices but slower than beef prices. It appears that as domestic production and imports increased, meat and poultry price dynamics were affected by the shift in consumer demand in favour of cheaper poultry throughout the whole year. At the end of 2005, demand for poultry fell due to the bird flu scare and poultry prices went down 1.5% in November and 1.7% in December.

In 2004 Russia began to set quotas in meat imports in order to stimulate domestic production and protect it from foreign competitors. The continuation of considerable growth in meat and poultry prices serves to show that the imbalances in demand and supply remain. Nevertheless, it is an objective process connected with inadequate development of the domestic market. On December 5, 2005, the Russian Government passed Resolution No. 732, which for the first time set

Consumer prices
(as % of previous month)



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



Consumer price inflation (%)

	Growth (December 2005 on December 2004)	Growth (December 2004 on December 2003)	Outcome
Prices of goods and services included in core inflation calculation	8.3	10.5	Retardation by 1.3 times
of which:			
food prices, excluding vegetable and fruit prices	9.1	13.1	Retardation by 1.4 times
non-food prices	6.4	7.4	Retardation by 1.2 times
Prices of paid services provided to households	21.0	17.7	Acceleration by 1.2 times
of which:			
prices of goods and services administered at regional or municipal level	23.9	19.6	Acceleration by 1.2 times
Vegetable and fruit prices	14.3	3.3	Acceleration by 4.3 times

Food price inflation rates (%)

	Growth (December 2005 on December 2004)	Growth (December 2004 on December 2003)	Outcome
Bread and bakery products	3.0	16.7	Retardation by 5.6 times
Cereals and legumes	0.2	11.6	Sharp retardation
Pasta	1.9	14.6	Retardation by 7.7 times
Meat and poultry	18.6	19.6	Retardation by 1.1 times
Fish and seafood	12.7	11.5	Acceleration by 1.1 times
Milk and dairy products	10.5	12.8	Retardation by 1.2 times
Butter	8.2	6.8	Acceleration by 1.2 times
Sunflower oil	2.1	2.1	
Granulated sugar	-0.1	7.5	
Alcoholic beverages	7.6	8.7	Retardation by 1.1 times

meat import quotas for four years in advance. This may help foreign trade companies to implement a more balanced policy in respect to imports, cushioning undesirable supply-related market fluctuations.

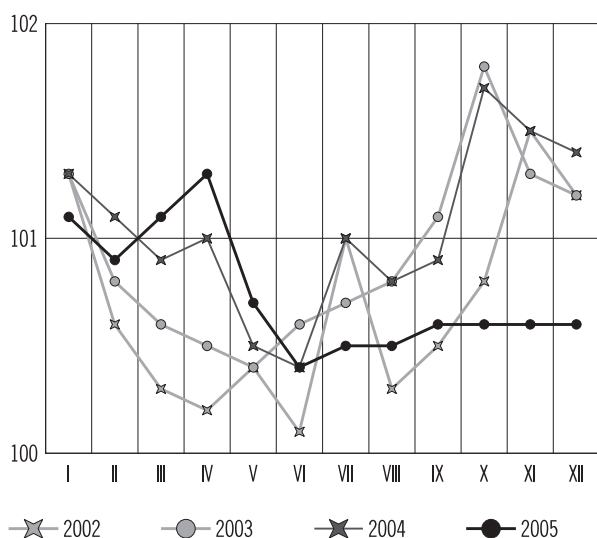
According to Rosstat, domestic meat production in 2005 increased 2.9% year on year. Meat imports continued to grow amid moderate growth in the contract prices of imported meat. In January-November 2005, imports of meat (net of

poultry) increased 33.3% as compared with the same period of 2004, while poultry imports rose 23.0%. Growth in beef imports was largely due to the reduction from 60% to 40% of import duties on beef imported in excess of the established quotas. Imports of beef in excess of the quota increased more than 1.7 times over in the 11 months of 2005, as compared with the same period in 2004, and surpassed by far beef imported in excess of the quota during the entire year 2004. In the 11 months of 2005, the contract prices of beef rose 1.6% on average, as compared with the same period of 2004, poultry 6.0% and pork 7.0%.

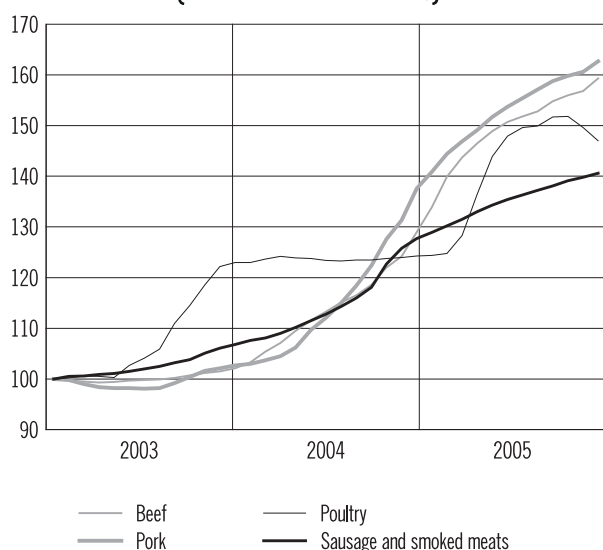
There was a considerable rise in the prices of fish and seafood (12.7%) and milk and dairy products (10.5%). In 2004 the prices of these products rose 11.5% and 12.8%, respectively.

Granulated sugar was the only major food product whose price fell (by 0.1%) in 2005 (in 2004 the price of granulated sugar rose 7.5%). These price dynamics differed from those of the world's sugar markets. Sugar prices continued to rise on the world market in 2005. According to the London Commodity Exchange's data, the price of raw sugar rose 35.4% in December 2005 relative to December 2004 and the price of refined sugar

Food prices net of vegetable and fruit prices (as % of previous month)



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



was up 33.5% (a year earlier sugar prices increased 40.0% and 22.2%, respectively).

The most significant slowing of price growth in December 2005 as compared with December 2004 was registered in bread and bakery products (by 5.6 times), pasta (by 7.7 times) and cereals and legumes, which was partly due to the fall in agricultural producer prices. Grain producer prices dropped 14.1% in 2005, whereas in 2004 they rose 11.7%.

Some foodstuffs, such as meat, fish, bread and bakery products, pasta and cereals, sugar and confectionery, are characterised by significant price volatility. If we exclude these volatile components from the consumer goods basket used in calculating the basic consumer price index, its

growth in 2005 will be estimated at 7.5%, or 0.8 percentage points down on core inflation (in 2004 it was 8.7%, or 1.8 percentage points down on core inflation).

In 2005 as a whole, as in 2004, food prices, excluding vegetable and fruit prices, rose faster than non-food prices.

Non-food prices went up 6.4% in 2005 against 7.4% in 2004. It is the smallest full-year growth in the prices of this group of products in the past ten years. In the fourth quarter of 2005 non-food prices increased 1.8% (against 1.1% in Q1, 1.3% in Q2 and 2.1% in Q3). Apart from petrol, the biggest growth in non-food prices was registered in the prices of building materials (9.1%) and knitwear (8.6%).

Petrol price dynamics were unstable in the first quarter of 2005, when petrol prices both went up and came down. In the third quarter petrol price growth accelerated, but on September 19 the top Russian oil companies promised to freeze prices at their filling stations. In December, the price of petrol edged up 0.1% month on month and full-year petrol price growth stood at 15.8% against 31.3% in 2004.

Growth in the prices of fabrics, knitted garments, footwear, clothes and underwear was slower than in 2004. Prices of TV and radio sets fell 0.8%.

According to estimates, growth in non-food prices accounted for 2.1 percentage points, or 19.2% of overall consumer price growth (against 2.3 percentage points, or 19.2%, in 2004).

Major meat and poultry market indicators (% growth)

	Meat and poultry		Beef		Pork		Poultry	
	2005	2004	2005	2004	2005	2004	2005	2004
Meat production (January-December as % of January-December of previous year)	2.9*	5.9*						
Livestock** and poultry production (January-December as % of January-December of previous year)								
- by farms of all categories;	-1.7	0.7						
- by agricultural enterprises	1.8	1.5	-11.9	-7.8	-1.1	-5.0	17.7	17.6
Imports*** (January-November as % of January-November of previous year)								
- volume	27.9	-9.5	37.1	9.6	28.2	-19.1	23.0	-10.1
- value	35.9	0.4	39.3	27.6	37.2	-7.3	30.4	-7.8
Prices (November as % of December of previous year)								
- producer prices	12.0	22.0	18.0	33.8	2.3	41.5	17.5	-0.5
- livestock and poultry selling prices	15.2	23.6						
- consumer prices	18.6	19.6	23.6****	26.3****	18.2****	34.0****	18.2	1.0
- import prices***	12.0	2.4	5.7	4.3	6.8	8.2	3.2	-2.2
Livestock population** as of end of month (December as % of December of previous year)			-6.1	-7.8	-1.2	-16.1		

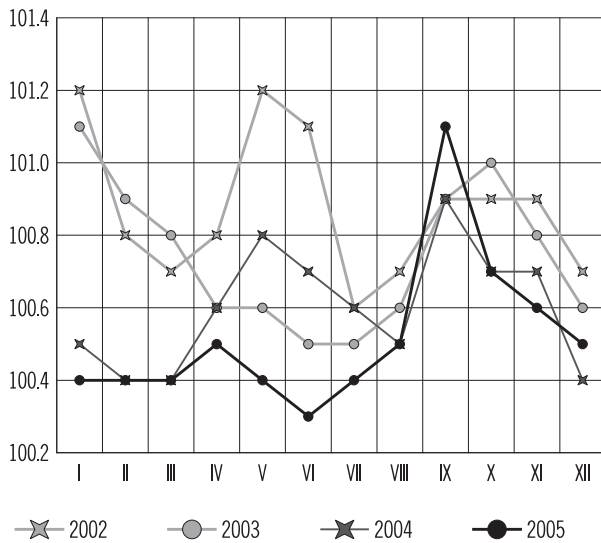
* Including first-grade by-products.

** Cattle and swine.

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

**** Excluding boneless meat.

Non-food prices
(as % of previous month)



Vegetable and fruit prices increased 14.3% in 2005 against 3.3% in 2004. However, in 2005 vegetable and fruit prices grew less than the annualised average in 2001-2003 (18.9%). Growth in vegetable and fruit prices accounted for an estimated 0.6 percentage points of the general rate of inflation (5.4% of overall consumer price growth). In 2004, growth in vegetable and fruit prices accounted for 0.1 percentage points, or 1.2%, of overall consumer price growth.

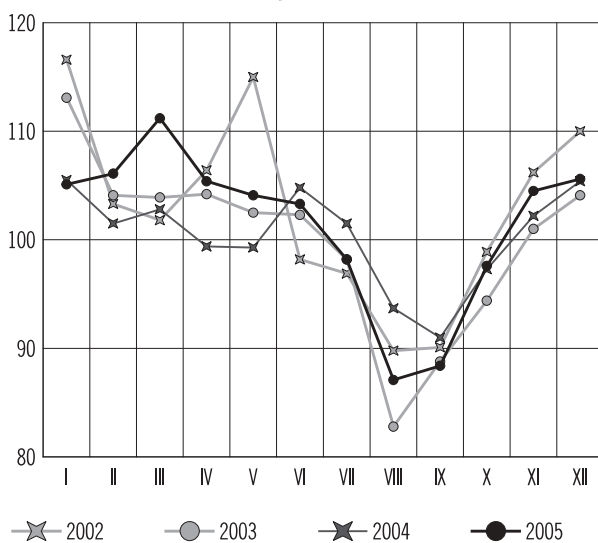
Overall growth in food prices in 2005 stood at 9.6% against 12.3% in 2004. In the fourth

quarter of 2005 food prices increased 2.3% (against 4.9% in Q1 and 3.5% in Q2; in Q3 they fell 1.4%).

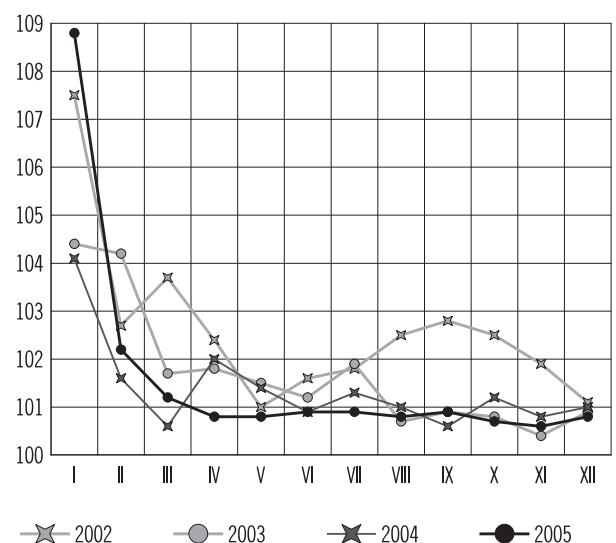
Service prices rose 21.0% in 2005 against 17.7% in 2004. In 2005 Q1 service prices increased 12.6%, in Q2 2.6%, in Q3 2.6% and in Q4 2.2%. The biggest increase in 2005 was registered in housing and utility prices, which rose 32.7% against 23.5% in 2004. The price of housing was up 36.1% and that of utilities 31.5%. The amendments to the Federal Law on the Principles of Regulating Tariffs Set by House Maintenance and Utility Services and the Federal Tariff Service's Order No. 853-e/4, dated December 29, 2005, came into force in 2006, setting limits on growth in housing and utility charges for each region and establishing the procedure for monitoring their dynamics. As for other major types of services, the most significant increase was registered in 2005 in pre-school tuition fees, which rose 32.1% against 21.6% in 2004.

Growth in service prices in 2005 exceeded by 2.6 times overall growth (by 8.2%) in the prices of goods (1.7 times in 2004). According to estimates, growth in service prices in 2005 accounted for 4.4 percentage points, or 40.2%, of overall consumer price growth (3.2 percentage points, or 27.5%, in 2004). At the same time, service prices regulated at the regional and municipal levels rose by an estimated 23.9% in 2005 against 19.6% in 2004.

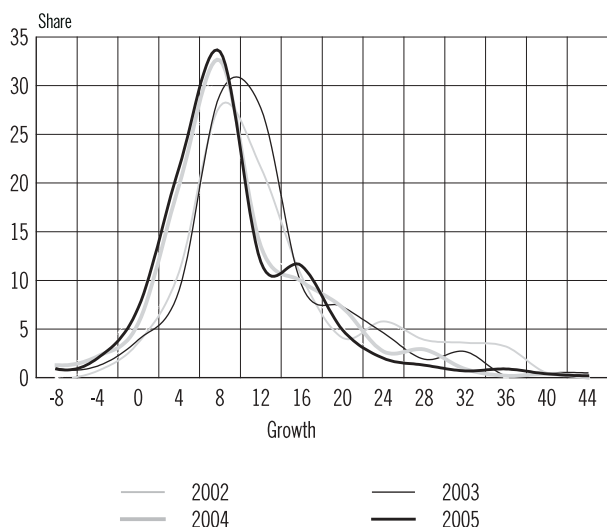
Vegetable and fruit prices
(as % of previous month)



Service prices
(as % of previous month)



Consumer price growth distribution (December on December of previous year) in 2002-2005



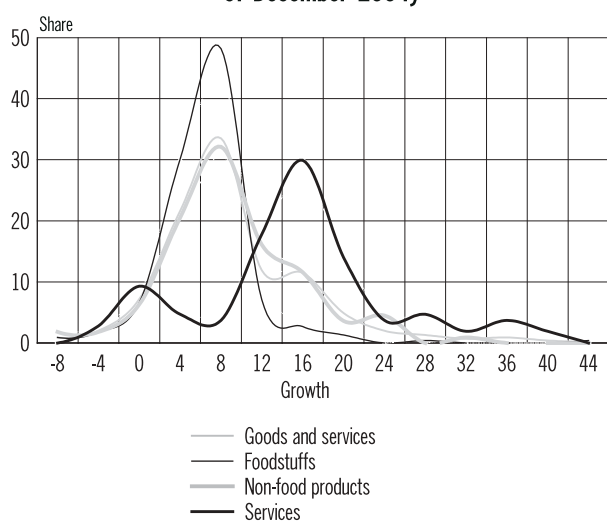
The analysis of the distribution¹ of consumer price increases (December on December of previous year) in 2002-2005 was made for a sample comprising more than 400 consumer goods and services without taking into account their weights in consumer spending.

Throughout the past two years increases in the prices of more than a half of all consumer goods and services have not exceeded 2-10% (6-14% in 2002-2003).

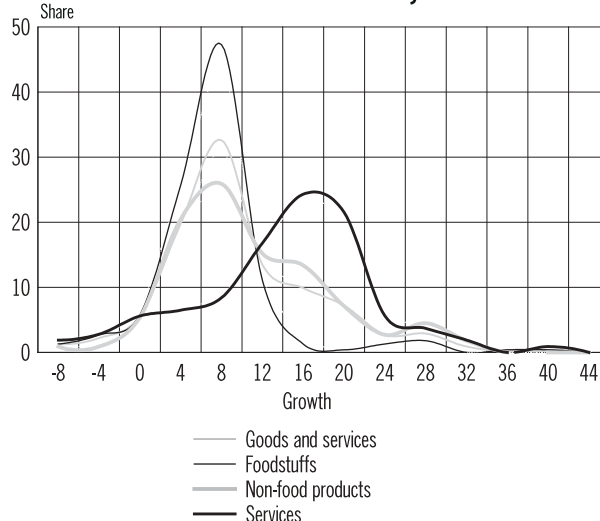
The last few years have seen a sustained trend towards the reduction of the sample average and median. The median, which in this kind of distribution characterises growth in the prices of most of the goods and services in 2005, stood at 8% against 8.5% in 2004, while the average decreased by 0.2 percentage points year on year, to 9.6%. The standard deviation, characterising the extent to which price increases differed from the average, increased to 8.8% from 7.9% a year earlier and reached the 2003 level. The dispersion of price increases expanded despite the fact that the standard deviation in the commodity groups decreased by 1.3 times in non-food products and 1.2 times in food products. The increase in the standard deviation for the sample as a whole was due to the fact that the standard deviation in the services sector grew by 1.7 times and also the significant difference between the average price increases in the services sector (16.2%) and the non-food products sector (6.7%). A year earlier the respective percentages were 14.1% and 7.5%. In 2005 the median was the highest in the services sector and the lowest in the non-food products sector.

The statistical analysis of price increases in the food products sector has shown that in 2005 the distribution average and median increased as

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



Price growth distribution by kind of consumer goods and services (December 2004 as % of December 2003)



¹ This distribution has been built on the basis of a smoothed histogram. The length of the interval (4 percentage points) was selected so that each interval included a sufficient number of observations, while the histogram reflected the qualitative characteristics of the sample distribution.

compared with the previous year. More than two-thirds of all food products were in the 2-14% price growth range in 2005.

The distribution of price increases in the non-food products sector is characterised by a pronounced maximum and small standard deviation. Consequently, the increases in the prices of most of the goods in this group stay within a narrow range. The goods whose prices rose in the 2-10% range in 2005 accounted for 78% of all non-food products (73% in 2004). There were few goods (2.2% of the total in 2005 against 4.4% in 2004) whose prices rose more than 18% in 2005. The standard deviation declined by 1.3 percentage points to 4.9% as price differences decreased within this group of commodities.

The distribution of service price increases in 2005 had a peak that corresponded to the 14-18% price growth range. The range of increases in the prices of most of the paid services provided to the population remained virtually unchanged. However, the share of services whose prices increased more than 34% expanded to 7.5% in 2005 against 1% in 2004. The share of services whose prices changed slightly increased 70% in 2005 year on year, to almost 10%. As a result of this price distribution, the standard deviation in 2005 increased by 4.4 percentage points year on year, to 12.6%, but it was 0.4 percentage points down on 2002.

According to Rosstat data, in most of **Russia's federal districts** consumer prices in 2005 grew less than in 2004. The exceptions were the Southern, Urals and Far Eastern Federal Districts. In the North-Western, Southern, Urals and Far Eastern Federal Districts consumer prices rose faster than in Russia as a whole by 0.3 percentage points, 1.2 points, 0.8 points and 2.4 points, respectively.

While in 2004 the differences between the various Russian regions and territories in terms of the cost of a fixed set of goods and services used by the Federal State Statistics Service to compare the purchasing power of the population by region decreased, in 2005 this trend changed. The regional difference ratio² increased to 45.8% in 2005 against 41.5% in December 2004 as the Far

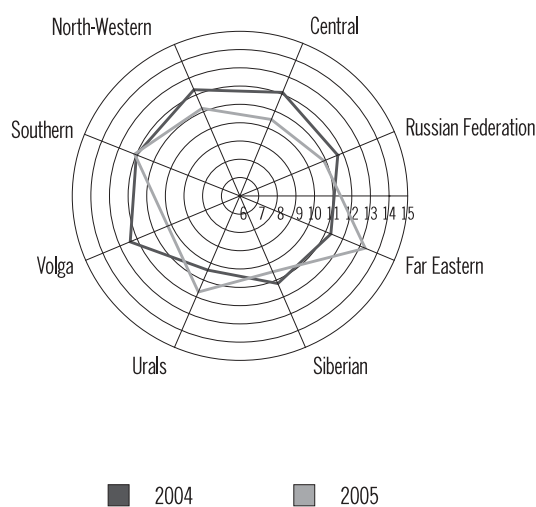
Eastern Federal District, which has the most expensive basket, registered the most significant growth in its price.

Vegetable and fruit price increases differed most significantly by region. In the Southern Federal District, for instance, vegetable and fruit prices gained 19.9%, whereas in the Urals Federal District they rose 5.1%. In the meantime, growth in non-food prices and food prices, excluding vegetable and fruit prices, was roughly the same in all regions.

Growth in service prices accelerated considerably in 2005 year on year in all regions except the Volga Federal District. The most significant increase in service prices was registered in the Southern and Far Eastern Federal Districts (8.1 percentage points and 9.8 percentage points, respectively, against 3.3 percentage points in Russia as a whole). At the same time, in the Volga Federal District growth in service prices slowed down by 0.4 percentage points year on year.

According to data provided by the Institute of the Economy of the Transitional Period, the **inflationary expectations** of managers of the leading industrial enterprises in 2005 were on average a little lower than in 2004. Thus, 17-42% of respondents predicted growth in selling prices in 2005 against 24-40% in 2004. The first ten

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



² 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.

months of 2005 saw the inflationary expectations decline (from 38% in January to 18% in October) due to significant growth in the prices of products in the main types of activity in the early months of 2005. At the end of 2005, as at the end of 2004, the inflationary expectations increased significantly. While in November 29% of respondents predicted growth in the prices of their products, in December 42% of respondents did so. This may serve as an indication that seasonal price growth will accelerate in the beginning of 2006.

Producer Prices

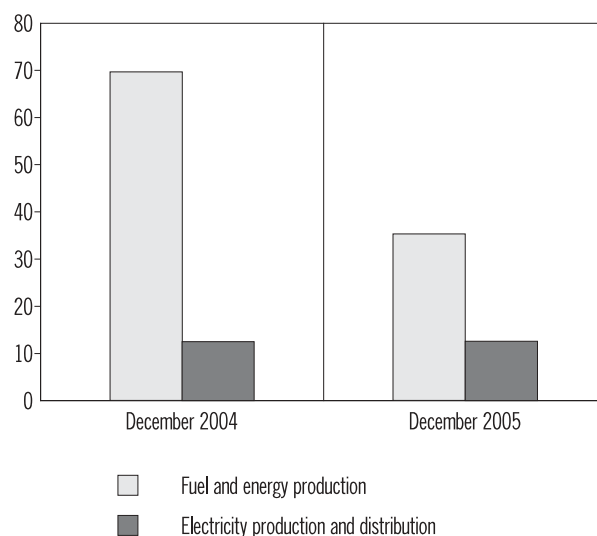
Industrial producer prices gained 13.4% in 2005 against 28.8% in 2004. The main contribution to producer price growth (6.1 percentage points, or 45.8%) was made in 2005, as in 2004 (12.9 percentage points, or 44.8%), by growth in producer prices in the mining sector. Growth in producer prices in this sector was 2.3 times faster than in industry as a whole (31.0%), while fuel and energy producer prices rose 35.3% (64.7% and 69.7% in 2004).

In 2005 the most significant producer price growth in the manufacturing sector was registered in the production of petroleum products (26.7%) and other non-metal mineral products (16.7%). In 2004 these indicators stood at 50.6% and 15.8%, respectively.

Competition, especially by importers, continued to affect price formation in the manufacturing sector, which is largely oriented to consumer demand. This became apparent as producer prices in the production of food, including beverages, tobacco, textile and clothing and leather, leather goods and footwear in 2005 grew more slowly than in the manufacturing sector as a whole. In the last two manufacturing industries there was a fall in output in 2005 as compared with 2004.

In the manufacturing industries whose output goes to the consumer goods market, there was no acceleration in price growth in 2005 as compared with 2004. In December 2005, as compared with December 2004, growth in the producer prices of foodstuffs, including beverages, and tobacco slowed to 4.0%, in textile and clothing production to 4.2% and in the production of leather, leather goods and footwear to 5.6%. In

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

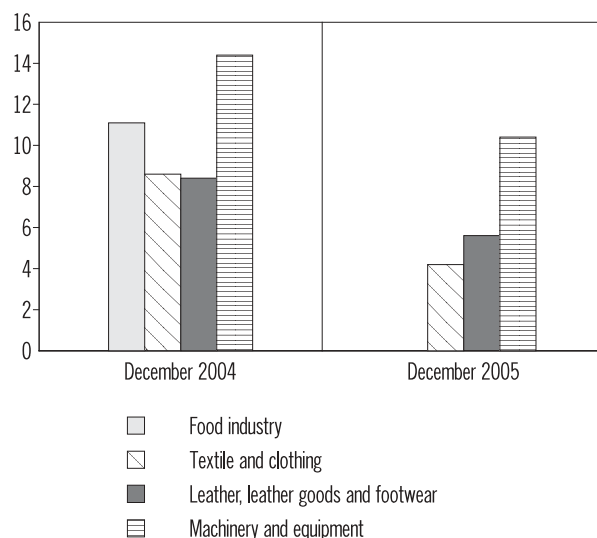


2004, producer prices in these types of activity rose 11.1%, 8.6% and 8.4%, respectively.

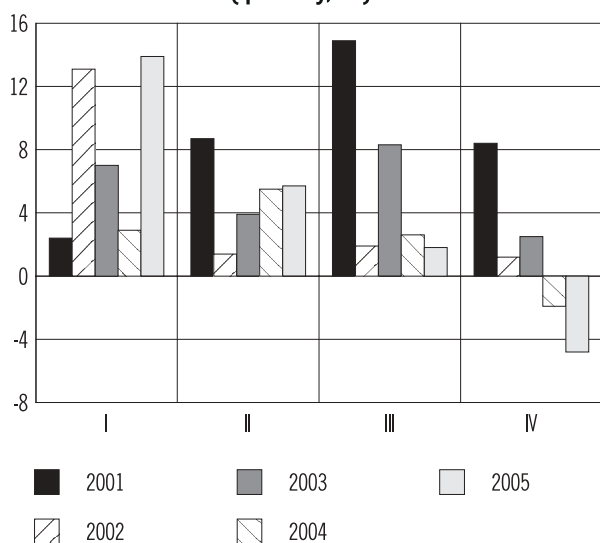
It has been estimated that growth in producer prices in industries whose output goes directly to the consumer goods market in 2005 accounted for 2.9 percentage points of growth in the prices of goods and services included in the calculation of core inflation (6.7 percentage points in 2004).

Producer prices in the production, transmission and distribution of electricity in 2005 rose 11.5% against 12.5% in 2004, freight transportation charges increased 16.6% against 9.3% and railway fares went up 13.3% against 12.6%.

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



Growth in freight transportation charges (quarterly, %)



There has been moderate growth in **communication fees for corporate entities** over the past two years. After their fall in 2003 by 2.7%, they rose 1.9% in 2004 and 2.2% in 2005.

Growth in the prices of **building materials** slowed to 12.1% in 2005 from 14.9% in 2004, despite the considerable acceleration of growth in cement prices (from 14% to 36.3%).

Agricultural producer prices rose 3.0% in 2005 against 17.7% in 2004, that is, slowed down by 5.9 times. The slowdown was due to the fall in crop growers' prices and the slowing of livestock breeders' prices.

Despite significant growth in vegetable and potato producer prices, crop growers' prices de-

creased 6.1%, mainly due to the fall in grain growers' prices, which declined 14.1%, whereas in 2004 these prices rose 12.5% and 11.7%, respectively).

Livestock breeder prices rose 9.0% in 2005 against 21.1% in 2004, mainly due to the increase in cattle and poultry producer prices, as was the case a year earlier. In 2005, prices of these products increased 15.2% against 23.6% in 2004. Egg producer prices were down 13.8% in 2005, whereas in 2004 they rose 29.5%.

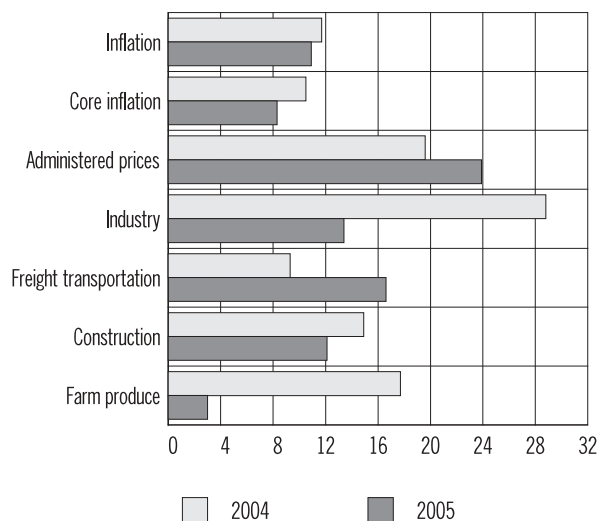
Demand

Domestic demand

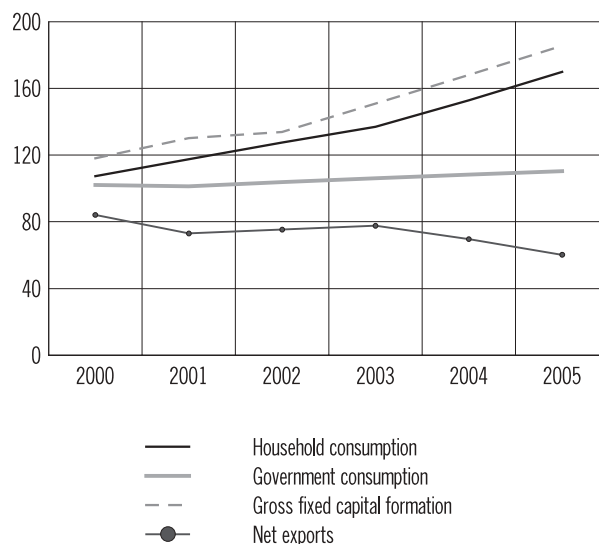
Russia's GDP expanded 6.4% in 2005 against 7.2% in 2004. According to estimates, economic growth rates in Russia in 2005 were 1.5 times higher than the world economic growth rates projected by the IMF and World Bank (4.3-4.4%). Economic development parameters in 2005 were primarily determined by the consumer and investor components of domestic demand.

Growth in spending on household sector final consumption stood at 11.1%, exceeding the 2000-2004 annual average by 1.3 times. Sustained economic growth and the increased social guarantees provided by government contributed to the continued rapid growth in real disposable money income in 2005 (8.8%), which ensured a high level of consumer expenses. Thus, spending on household sector final consumption grew faster than income, increasing the inflationary pressure on the consumer goods market.

Price growth in the economy (December as % of December)



GDP consumption (1999 = 100%)



Growth in household sector money income stimulated the expansion of retail trade turnover, in which sales of non-food products grew faster than sales of food products. The average annualised rate of inflation on the consumer food market in 2005 was faster than growth in non-food prices. As non-food price growth slowed and the living standards rose in 2005 compared to 2004, the level of retail sales of these products remained high.

Government expenditures on final consumption increased 1.8% in 2005 against 2.1% in 2004. The tight government spending policy was a major factor of price control in 2005.

Gross capital formation increased 11.4% in 2005 against 11.6% in 2004 and fixed capital investment grew 10.5%. In 2005, as in 2004, the biggest investments were made in transport and communications and the manufacturing and mining sectors (according to data for the first nine months of 2005, investments in these types of activity accounted for 60.9% of total fixed capital investment by large and medium-sized companies). The share of the manufacturing sector in total investment expanded from 18% in January-September 2004 to 19% in the same period of 2005, while the share of fuel and energy production contracted from 16.9% to 14.6%.

In the past few years the structure of fixed capital investment by type has been characterised

by a fairly large share of investments in the active part of fixed assets (in January-September 2005 it stood at 36.8% against 38% in the same period of 2004). Considerable investments in machinery and equipment facilitated the technical retooling of fixed assets and became a major factor of growth in labour productivity and created conditions for price control.

Net exports of goods and services declined 13.4% in 2005 (in 2004 they fell 10.3%) as imports grew considerably faster than exports. Imports continued to rise rapidly in 2005, although not as fast as in 2004 (16.2% against 22.2%, respectively), while exports expanded 5.6% against 11.9% in 2004.

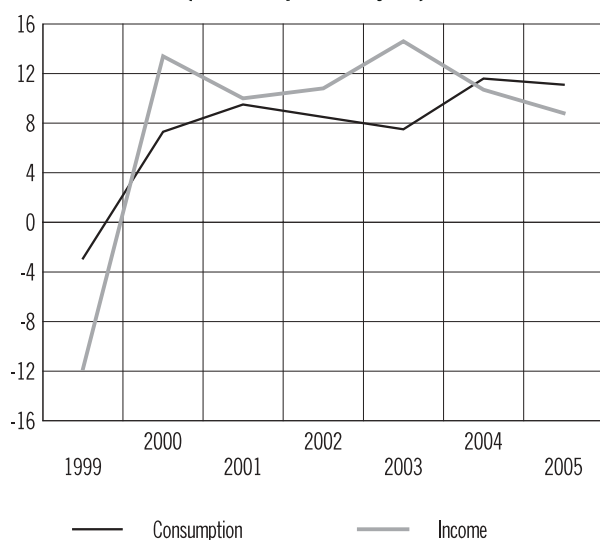
The dynamics of the various elements of GDP final consumption testify to the changed role of domestic and foreign demand in overall economic growth. The contribution of the domestic factors to GDP growth continued to increase in 2005. According to estimates, a large part of GDP growth was due to increase in household sector consumer expenses. Gross capital formation's contribution to GDP dynamics increased as compared with the previous year, while net exports' contribution to GDP dynamics was negative, slowing the rate of economic growth.

Foreign demand

World economy and international financial markets

World economic growth continued in 2005, although it was slower than in 2004. According to IMF and World Bank estimates³, the world production of goods and services increased 4.3-4.4% against 5-5.1% in 2004. The main reason for the slowing of world economic growth in 2005 was the increase in the world market price of oil, which far surpassed the price levels registered in the periods of greatest instability on the world oil market in the late 1970s and early 1980s and in 2004. According to preliminary data, US real GDP expanded 3.5% in 2005 against 4.2% in 2004. Eurozone GDP growth is estimated by the IMF and World Bank at 1.1-1.2% against 2.1% in 2004. According to preliminary data released by China's State Statistical Bureau, in 2005 the Chinese economy grew 9.9% against 10.1% in 2004.

**Household consumption and real money income
(as % of previous year)**



³ *World Economic Outlook (IMF), September 2005; Global Economic Prospects (World Bank), November 2005*

The US trade deficit increased by \$99 billion in January-November 2005 as imports grew faster than exports. The deficit in US trade with China, for example, expanded 25% to one-quarter of the United States' total trade deficit. Growth in US domestic demand stimulated the economies of the United States' trading partners. China and the member countries of the EU, NAFTA and OPEC increased sales on the US market. At the same time, the increased imbalance in US-China trade had a negative effect on trade and the economies of the United States' less competitive trading partners (specifically, Chinese producers forced other Asian producers from the US engineering products market). A bumper harvest reduced China's needs in imported foodstuffs, while the lifting of multilateral quotas in textile trade stimulated Chinese textile exports. These factors along with the increased exports of Chinese machinery and equipment led to a sharp rise in China's trade surplus in 2005, which expanded by almost \$70 billion year on year, according to preliminary data. In the eurozone, imports grew faster than exports, causing the trade surplus to contract.

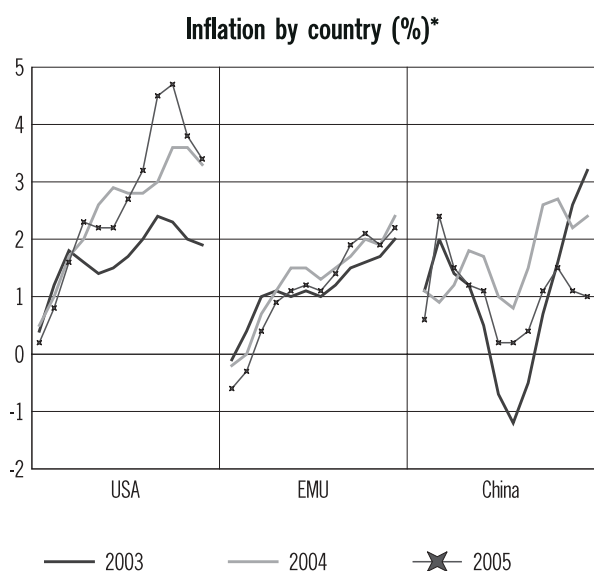
US inflation stood at 3.4% in December 2005 as compared with December 2004 (in December 2004 it stood at 3.3%). Core inflation⁴ was the major factor of the change in the general level

of consumer prices in the United States in the period under review. The second most important factor was growth in energy prices. Core inflation had a decisive effect on the change in the general level of consumer prices in the United States in the first half of 2005 and growth in energy prices in the period from July to October, while in November both factors had the same effect.

Growth in food prices made a comparatively small contribution to the change in the general level of US consumer prices throughout 2005. Food prices rose 2.3% in December 2005 year on year (against 2.7% in December 2004). The slowdown in food price growth was largely due to the stabilisation of vegetable and fruit prices, which increased 0.6% in December 2005 year on year against 7.9% in December 2004. The prices of animal food products, except milk and dairy products, gained 1.4% against 1.1% in December 2004.

US core inflation stood at 2.2% in December 2005 as compared with December 2004 (in December 2004 it also stood at 2.2%). By and large, there is reason to believe that the raising of the interest rates by the Federal Reserve in 2005 proved to be an effective means of containing core inflation. A minor year-on-year rise in the general level of consumer prices in 2005 (December on December) amid stable core inflation in the United States was the result of growth in the price of energy used for household needs.

Eurozone inflation stood at 2.2% in December 2005 as compared with December of the previous year (in December 2004 it was 2.4%). The most important factor of eurozone inflation was the 11.2% increase in energy prices (in December 2004 energy prices rose 7%). The second most important factor was core inflation⁵. Motor fuel and lubricant prices rose 13.5% against 11.1% in December 2004 and the price of energy used in the household sector gained 8.5% against 2.4% a year earlier. Food price growth accelerated to 1.2% in December 2005 year on year from 0.5% in December 2004. Vegetable and fruit prices rose 1.1% (in December 2004 they fell 2.1%) and prices of meat and meat products gained 1.2% against 1.5% in December 2004.



* Consumer price growth on December of previous year.

⁴ Core inflation in the United States signifies growth in the prices of goods and services included in the consumer goods basket, except foodstuffs and energy products.

⁵ Core inflation in the eurozone countries is growth in the prices of goods and services included in the consumer goods basket, excluding foodstuffs, alcoholic beverages, tobacco and energy products.

Eurozone core inflation slowed to 1.3% in December 2005 as compared with the same period a year earlier (in December 2004 it stood at 1.9%). The fundamental economic factors did not create any objective conditions conducive to the acceleration of inflation in the eurozone in 2005. Nevertheless, in late 2005 the European Central Bank (ECB) raised the refinance rate for the first time in three years. It did so because in some months of 2005, especially in September and October, growth in energy prices caused eurozone inflation to exceed by far the medium-term target the ECB seeks to achieve through its monetary policy (the ECB is set to keep inflation close to consumer price growth of 2% in each reporting month relative to the same month of the previous year).

As for the emerging market countries, which account for substantial portions of Russia's trade turnover, **inflation slowed down significantly** in December 2005 year on year in Belarus (to 8% from 14.6% in December 2004), Poland (to 0.6% from 4.4%), Slovakia (to 3.7% from 6%), Hungary (to 3.5% from 5.6%), Ukraine (to 10.3% from 12.3%), Brazil (to 5.7% from 7.6%), China (to an estimated 1.6% from 2.4%) and Turkey (to 7.7% from 9.3%). The reduction of inflation in China was due to the significant slowing of growth in food prices, caused by growth in the supply of foodstuffs on the domestic market as a result of a good harvest and the expansion of livestock production (in 2004 China had a bad harvest, which led to a rise in food prices and forced

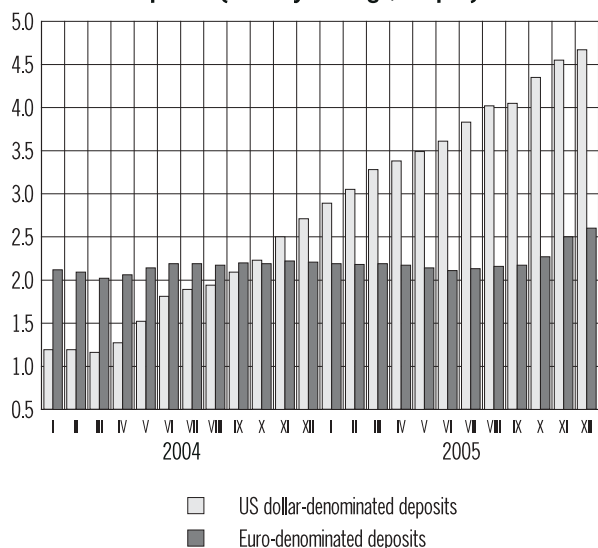
the country to import food). Inflation accelerated in India to 5.6% from 3.8% in December 2004 and in Kazakhstan to 7.5% from 6.7%.

The US Federal Reserve **raised the benchmark overnight interbank interest rate** (federal funds rate) eight times in 2005: from 2.25% to 2.5% in February, 2.75% in March, 3% in May, 3.25% in June, 3.5% in August, 3.75% in September, 4% in November and 4.25% in December. In 2004 the federal funds rate was raised by 1.25 percentage points. Since December 2004 it has exceeded the ECB's refinance rate, which in December 2005 was raised from 2% to 2.25%.

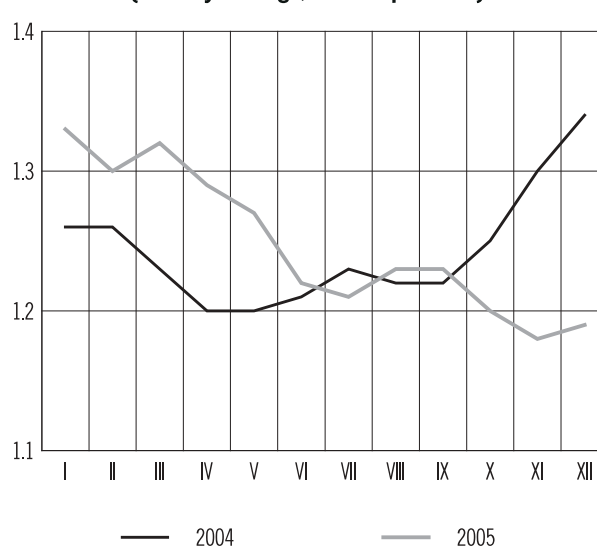
LIBOR rates on US dollar-denominated deposits with terms from one month to one year increased by 1.8-2.0 percentage points in December 2005 year on year. The yield on two- and three-year US treasuries rose by 1.2-1.4 percentage points and the yield on five- and ten-year treasuries increased by 0.2-0.8 percentage points. LIBOR rates on US dollar-denominated deposits with all terms to redemption and the yield on US treasuries with all terms to redemption in December 2005 were higher than LIBOR rates on euro-denominated deposits and the yield on eurozone government securities.

The US dollar appreciated against other international reserve currencies on international financial markets in 2005 on economic growth in the United States, increased yield on US dollar-denominated financial assets and the negative outcome of the EU Constitution referenda in

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



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



France and the Netherlands. In December 2005 the dollar appreciated 11.4% against the euro year on year, 12.3% against the yen and 9.4% against the pound sterling. It also made gains **against some other currencies of importance for the Russian economy**, such as the Swiss franc, Polish zloty, Kazakhstan tenge, Swedish krona, Hungarian forint, Czech koruna, Slovak koruna, Lithuanian litas, Latvian lat, Estonian kroon, Romanian leu, Israeli shekel and Indian rupee. At the same time, the dollar depreciated against the Belarussian ruble, Chinese yuan, Ukrainian hryvnia, Turkish lira, South Korean won and Brazilian real. The People's Bank of China on July 21, 2005, revalued the yuan by 2% to 8.11 yuan to the US dollar.

External economic conditions

Demand for Russia's major raw material export commodities, especially energy products, increased in 2005. The major factor of growth in the demand for oil was its increased consumption in China and other dynamically developing countries of Asia. According to experts' estimates⁶, the world economy's demand for oil increased 1.3-1.5% in 2005, while the demand for oil in the developing countries of Asia rose by an estimated 2.0-4.1% (1.5-6.2% in China), in OECD countries by 0.2-0.6% and other countries by 2.7-2.8%.

The sharp rise in the price of oil in 2005, as in 2004, was largely due to the imbalance between the rates of growth in the demand for oil and the ability of the oil producing countries quickly to increase the supply of oil on the world market. The average price of Brent, Dubai and WTI crude in 2005 rose 41% year on year, to \$53.4 per barrel (compared to 1980, when an historical high was registered, oil prices increased 44% in 2005).

The situation on world commodity markets was good for Russian exporters in 2005. Growth in the prices of major Russian export commodities⁷ was the biggest in three years. The composite world price index, adjusted for the structure of

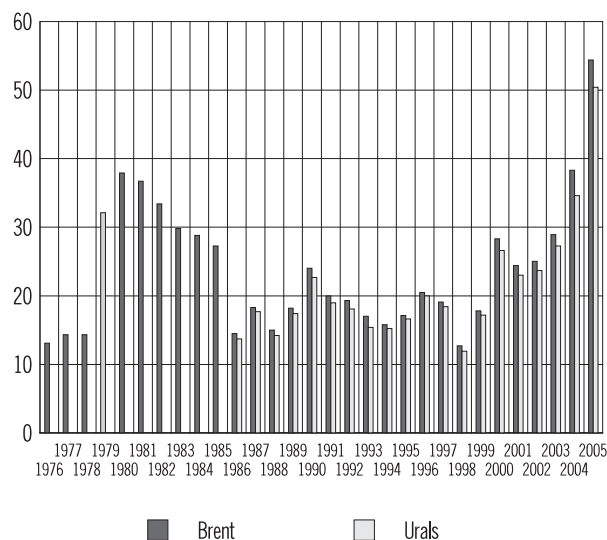
Russian exports and calculated for commodities accounting for more than 70% of their value, registered 1.36 in December 2005 relative to the same period of the previous year (in December 2004 it stood at 1.25).

Energy prices rose at particularly rapid rates. The price of Urals crude went up 50.1% in December 2005 year on year, to \$53.9 per barrel (in December 2004 it rose 25.9%). The price of natural gas on the European market was up 49.5% (it rose 26.2% a year earlier), fuel oil 78.6% (7.4%), diesel fuel 27.6% (47.8%) and premium petrol 40.8% (24.5%).

Despite increased demand, growth in non-energy prices slowed down in 2005. In December 2005 these prices rose 9.5% on average year on year against 24.3% a year earlier. At the same time, ferrous metal prices went up 7.7% (against 53.9% in December 2004) and non-ferrous metals gained 14.3% (against 7.8%).

Food prices⁸ on world markets, whose sharp rise was a major factor of inflation in many countries in 2004, mostly steadied in 2005 but nonetheless remained high. This particularly applies to

World market oil prices (\$/barrel)



⁶ Estimates by the OECD International Energy Agency, US Energy Information Administration and Organisation of Petroleum Exporting Countries (December 2005-January 2006).

⁷ Average prices have been calculated on the basis of data provided daily by the following news agencies and exchanges: Reuters for oil, Petroleum Argus for petroleum products (petrol, diesel fuel and fuel oil) and the London Metal Exchange for non-ferrous metals (aluminium, copper and nickel). Average monthly prices of natural gas and ferrous metal price indices have been calculated on the basis of data provided by the World Bank and other goods on the basis of data provided by the IMF.

⁸ Average prices have been calculated on the basis of data provided daily by the London Commodity Exchange for raw and refined sugar and average monthly prices of beef on the basis of data provided by the World Bank.

meat prices, which grew in 2003-2004 and for most of 2005. However, the trend towards growth in meat prices began to change on the world market in 2005. While in December 2003 the price of beef rose 17.1% year on year and in December 2004 it was up 10.8%, in December 2005 it was down 2.0%. Pork and poultry prices increased 11.5% and 12.2% in December 2003 and 48.3% and 6.7% in December 2004, respectively, whereas in December 2005 the price of pork fell 15.9% and poultry was down 3.2% year on year.

Sugar prices rose in 2004 and 2005 on growth in world demand and bad weather in some regions of the world. Sugar production and stocks in the 2003/2004 and 2004/2005 agricultural years contracted⁹. Growth in sugar prices accelerated significantly in 2005 year on year and may become a major factor of inflation. The price of refined sugar increased 22.2% in December 2004 year on year and 33.5% in December 2005; the price of raw sugar rose 40.0% and 35.4%, respectively.

As export prices rose faster than import prices in Russia, the terms of Russia's trade with foreign countries¹⁰ in 2005 were considerably better than in 2004. Growth in the terms of trade index accelerated compared to 2004.

The favourable price situation on major export markets affected export dynamics significantly. In 2005, exports grew 33.9% to \$245.3 billion against \$183.2 billion in 2004. The value of fuel and energy exports (oil, petroleum products and natural gas) increased 50%, while the value of other exports rose 15%. Export volumes mostly expanded slightly, while oil exports contracted 2.0% in 2005 year on year, according to Rosstat data.

Imports increased 28.5% to \$125.1 billion in 2005 against \$97.4 billion in 2004. Growth in imports was largely due to the expansion of import volumes, while growth in import prices slowed down in 2005 as compared with 2004. At the same time, preliminary figures show that the prices of

imported investment goods fell slightly, while the rates of growth in the contract prices of food imports remained unchanged from the previous year on average.

Thus, the dynamics of import prices in Russia had no significant upward effect on inflation.

Supply

Output dynamics influenced the change in added value in the main types of economic activity. Compared to 2004, added value increased at rapid rates in 2005 in construction (by 9.7%) and wholesale and retail trade (by 12.3%). At the same time, growth slowed down in gross added value in transport and communications (from 10.5% to 6.1%), mining (from 7.2% to 1.8%) and manufacturing (from 6.6% to 4.4%). Growth accelerated in gross added value in the production and distribution of electricity, gas and water, real estate operations, education, financial activities and government.

Industrial output increased 4.0% in 2005 against 8.3% in 2004. The mining sector's contribution in overall production growth declined slightly in 2005 due to the slowing of growth in fuel and energy production and the reduction of the production of other raw materials. Industrial production growth in 2005, as in 2004, was largely ensured by the expansion of output in the manufacturing sector, especially significant growth in the production of electrical, electronic and optical equipment, transport vehicles and foodstuffs.

In accordance with the trend calculated on the basis of GDP dynamics in the post-crisis period, the average annual growth in potential output¹¹ is 6.6%. Positive in 2004, the **production gap**¹² corresponding to these potential output dynamics became negative in 2005. A negative gap indicates an excess of potential supply over actual demand and the reduction of inflationary pressure on the economy, which corresponds to more significant decline in consumer price inflation than in the previous year.

⁹ World Bank estimate, October 2005.

¹⁰ The ratio between export and import prices.

¹¹ Potential output corresponds to the state of economic equilibrium, which does not cause inflation to accelerate, and characterises the supply-side potential of the economy.

¹² Production gap is the difference between actual and potential outputs relative to potential output.

Labour Market

The number of people employed in the economy in 2005 continued to increase, as in 2004 (there was a fall in 2003). In 2005, the number of jobholders rose 1.3% against 1.7% in 2004. Production expanded faster than job numbers due to increased labour productivity, which grew by an estimated 5% in 2005 against 5.4% in 2004. Thus, the intensive factors of growth remained important, containing price growth in the economy.

Wage increased at rapid rates in 2005, faster than labour productivity. At the same time, al-

though the gap between growth in real wage and labour productivity narrowed in 2005 as compared with 2004 (it widened in 2004), it remained considerable, creating conditions for further price increases.

The number of jobless calculated according to the ILO methodology continued to decline and in 2005 it fell 6% against 3.9% in 2004. As of the end of December 2005, the total number of unemployed accounted for 7.7% of the economically active population (against 8.3% a year earlier.)

Quantitative and Qualitative Monetary Indicators

Exchange rate

Against the background of favourable external economic conditions and considerable inflow of exporters' foreign currency earnings, the dollar/ruble rate mostly followed the changes in the dollar/euro rate on international markets.

Over the year, although there were several periods when the ruble appreciated against the dollar, **the dollar gained against the ruble**. The most significant gains were made by the dollar in the period from the middle of March to the middle of July, when the dollar appreciated by 1.37 rubles, or 5%, whereas in the remaining periods the exchange rate fluctuated considerably. In 2005 the dollar appreciated by 3.7%, or 1.04 rubles, and as of January 1, 2006, it stood at 28.7825 rubles. The average dollar/ruble rate fell 1.8% year on year to 28.28.

In the fourth quarter of 2005, the average dollar/ruble rate rose 0.7%, or 19 kopecks, gaining 0.6% in October, 0.7% in November and 0.2% in December. In real terms the ruble lost (0.2%) to the dollar in October only, whereas in November it appreciated by 0.8% and in December 1%.

In December there were periods of the dollar's considerable decline against the ruble (by 34 kopecks from December 9 to 20 and by 7 kopecks from December 23 to 31). The dollar's de-

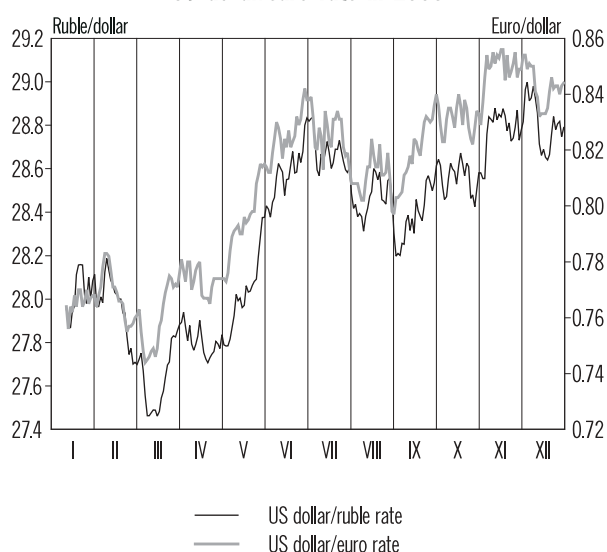
preciation against the ruble at the end of 2005 was caused by the corresponding changes in the dollar/euro rate on international markets. The dollar's decline in that period was also precipitated by foreign exchange traders' expectations of an end to the FRS rate hikes.

On the domestic euro market, the **euro/ruble rate** changed differently from the dollar/ruble rate in 2005, which was also the result of the euro/dollar dynamics on international markets. In 2005 as a whole, the nominal rate of the euro against the ruble fell 9.7%, or 3.66 rubles, and as of January 1, 2006, it stood at 34.1850. The average annual rate of the euro against the ruble was 35.26, down 1.6% on 2004.

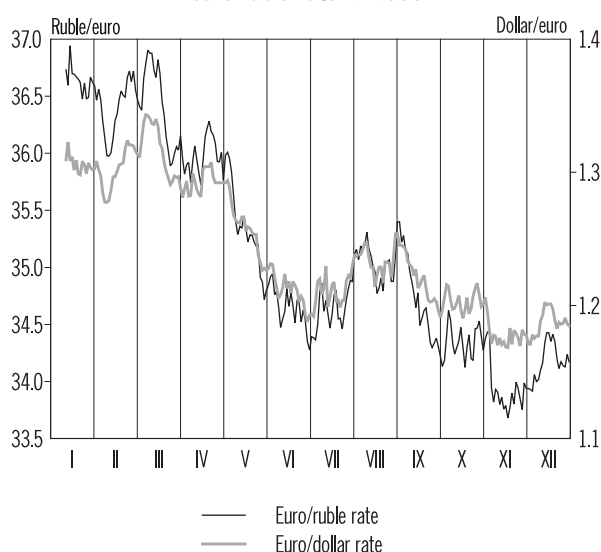
In the fourth quarter of 2005, the nominal rate of the euro against the ruble fell 1.9%, or 65 kopecks. Meanwhile, in October the average rate of the euro against the ruble fell 1.4% and in November 1.2%, whereas in December the euro gained 0.5%. The ruble/euro dynamics in real terms mostly followed the changes in the nominal rate: in October the ruble gained 1.9% in real terms, in November 2.1% and in December it remained unchanged.

On February 1, 2005, the Bank of Russia began to calculate the **operational benchmark of the exchange rate policy** on the basis of the ruble

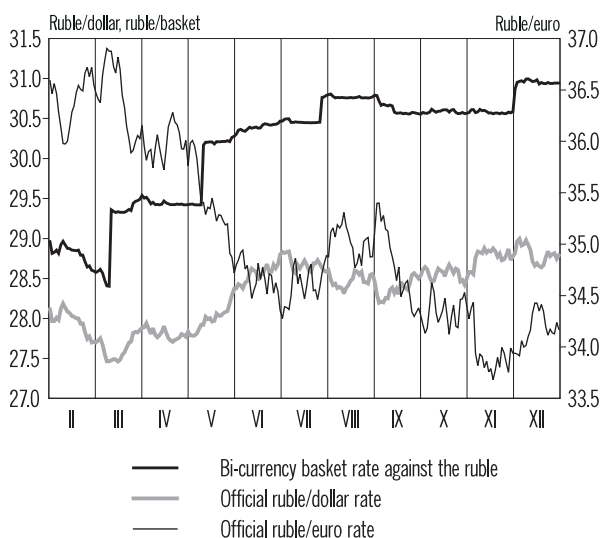
Nominal US dollar/ruble and US dollar/euro rate in 2005



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



Bi-currency basket rate and exchange rates of basket currencies against the ruble



value of the currency basket comprised of the dollar and the euro. That decision was aimed at lessening the intraday volatility of the ruble rate against the dollar and the euro and reducing foreign exchange market players' speculative activity. During 2005 the Bank of Russia changed several times the structure of the bi-currency basket (it did so on March 15, May 16, August 1 and December 2), gradually expanding the euro's share to match it with its weight in Russia's foreign trade turnover. By the end of 2005, the bi-currency basket was 40% euros and 60% dollars.

The real effective rate of the ruble against foreign currencies rose 10.5% in 2005

Indices of real and real effective ruble rates against foreign currencies in 2005 (as % of December 2004)



year on year due to Russia's large trade surplus. The inflation rate also had a significant effect on the dynamics of this indicator in 2005. The most significant growth in the real effective rate of the ruble was registered in the first half of the year: in the first quarter the ruble appreciated 4.1% quarter on quarter and in the second 3.7%. In the second half of the year growth in the real effective rate of the ruble slowed down: in the third quarter it was 0.8% and in the fourth 1.5%.

Interest rates

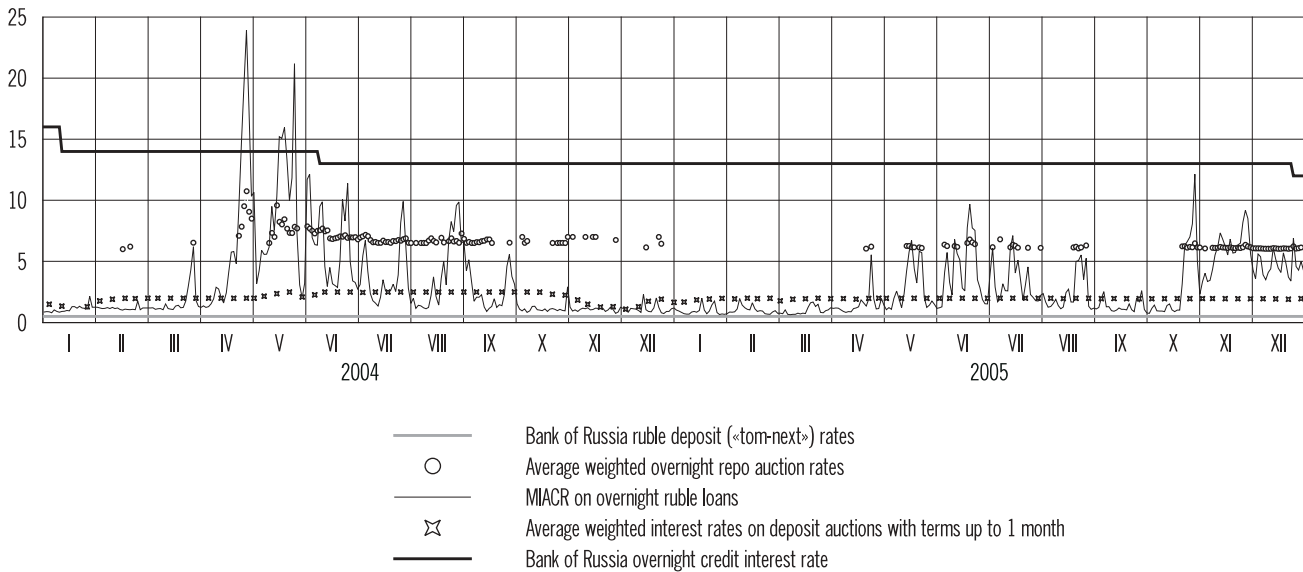
There was no single interest rate trend on the Russian financial market in the fourth quarter of 2005. The increased expectations of the ruble's devaluation amid rebounding inflation after its slowing in the third quarter caused interest rates to rise. At the same time, the persistently high level of banking sector ruble liquidity and the favourable foreign trade situation kept up the demand for ruble assets high and, consequently, caused interest rates to fall. Interest rate dynamics in various segments of the market depended on what factors affected the market situation the most.

The lower limit of the **Bank of Russia interest rate band** was unchanged in the fourth quarter at 0.5% p.a. on «tom-next» deposits, while the upper one (overnight credit rate) fell from 13% to 12% p.a. Average weighted interest rates at four-week deposit auctions ranged from 1.91% to 1.98% p.a. (a little lower than the previous quarter's level) and interest rates on three-month deposits were in the range of 3.7% to 4.5% p.a. The average interest rate on repo operations, the principal market instrument used in providing liquidity in the fourth quarter, remained virtually unchanged at 6.26%.

Money market interest rates remained within the Bank of Russia interest rate band in the fourth quarter of 2005. **The MIACR** on overnight ruble-denominated credit ranged between 0.75% and 12.1% p.a. in October-December (in the third quarter it varied between 0.9% and 7.1% p.a.)

Yields had a tendency to fall in all segments of the ruble government bond market in the fourth quarter of 2005. The OFZ market's average quarterly effective market portfolio indicator decreased from 7.7% to 7.1% p.a. At the end of the quarter, the **effective OFZ market portfolio**

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



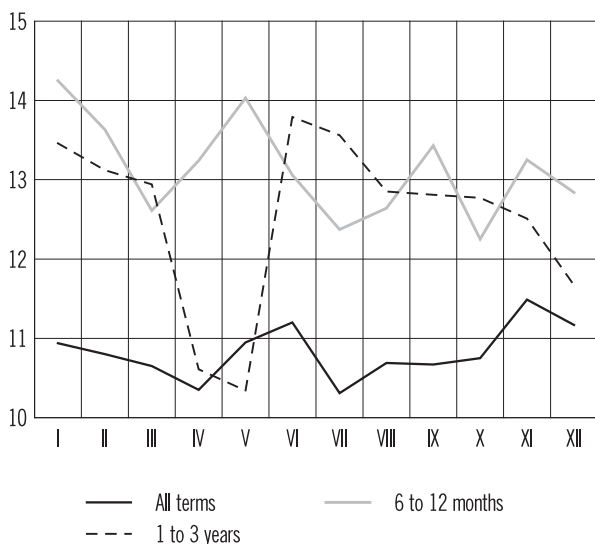
indicator stood at 6.8% p.a., 0.4 percentage points down on the end of the third quarter.

The average **interest rate on loans extended to non-financial enterprises** for all terms in October inched up by 0.1 percentage points from September to 10.8% p.a. It rose by 0.7 percentage points in November but fell by 0.3 percentage points in December. The fourth-quarter average stood at 11.1% p.a., exceeding by half a percentage point the third-quarter average. This growth was due to a sharp rise (by 1.4 percentage points) in interest rates on loans with terms up to one month. Interest rates on longer-term loans either remained unchanged or declined in the fourth quarter.

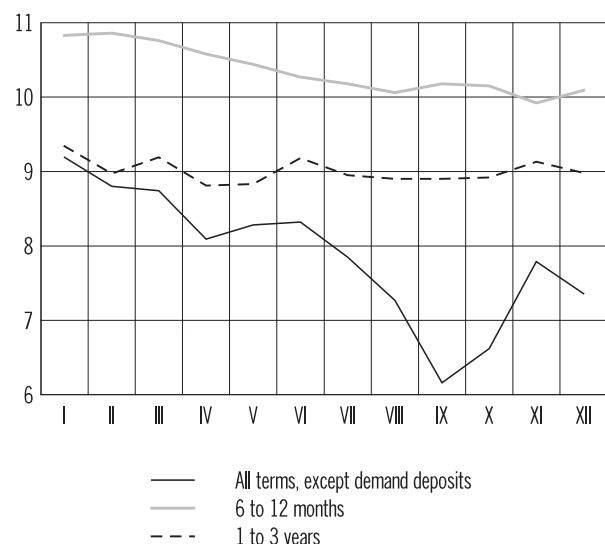
Growth in the demand for credit in the household sector along with the increased cost of consumer credit services and not-so-fierce competition allow banks to keep **interest rates on credit to the household sector** higher than interest rates on credit to the enterprise sector. The average quarterly interest rate on credit to the household sector for all terms in 2005 Q4 increased by 0.3 percentage points quarter on quarter, to 20.7% p.a. The most significant growth in interest rates was registered in the shortest-term sector, whereas longer-term rates grew more slowly or decreased.

The average **interest rate on household time deposits** in the fourth quarter gained 0.2

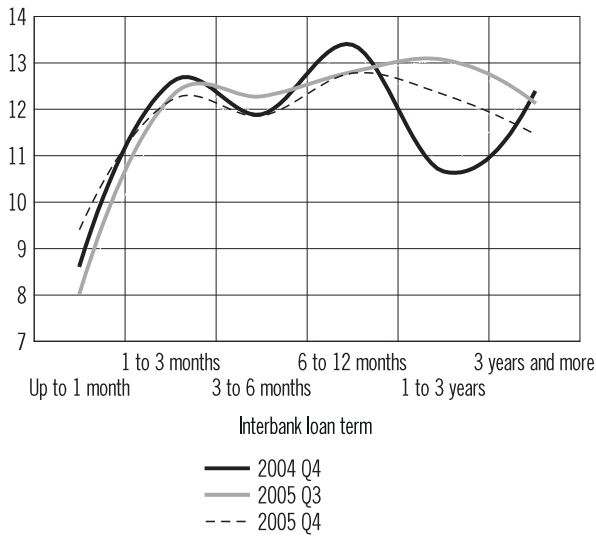
Interest rates on ruble loans to non-financial enterprises in 2005 (% p.a.)



Interest rates on ruble deposits to households in 2005 (% p.a.)



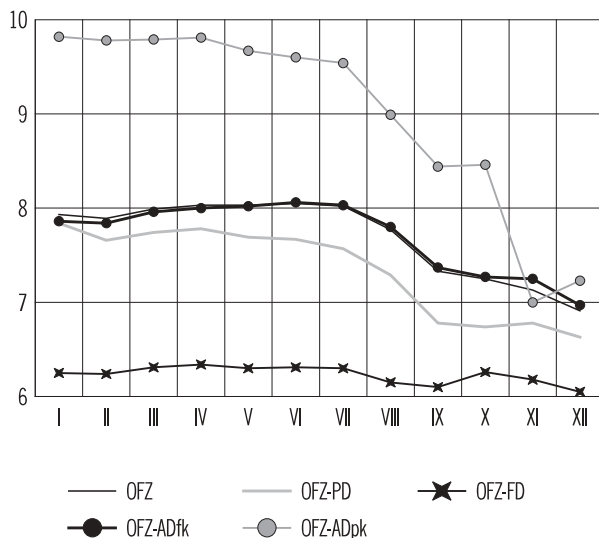
**Yield curve on bank lending operations
(loans to corporate borrowers, % p.a.)**



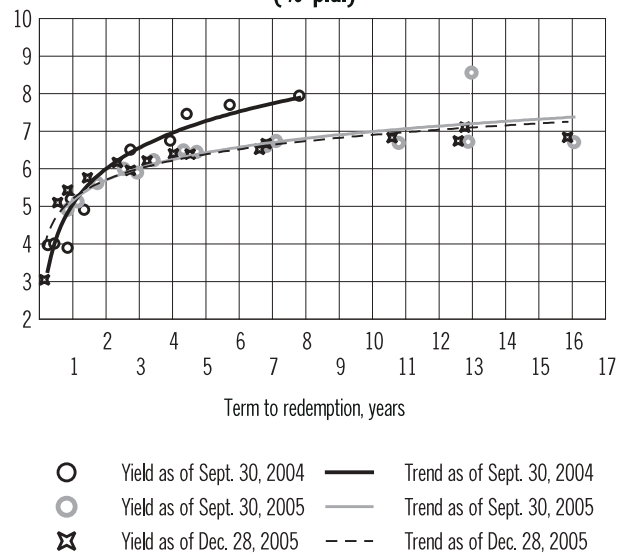
percentage points quarter on quarter and stood at 7.3% p.a. As in the third quarter, deposits with terms from six months to one year had the highest interest rates. However, the average interest rate on these deposits remained unchanged from the third quarter at 10.1% p.a. Interest rates on deposits with other terms fluctuated moderately.

The yield curve on bank lending operations in the fourth quarter, as before, had a negative inclination in the three- to six-month and longer-term credit. At the same time, the curve flattened in the shortest-term segment but rose even more steeply in the longest-term segment, probably reflecting the expectations of a fall in medium-term interest rates.

**OFZ portfolio average monthly yield
in 2005 (% p.a.)**



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



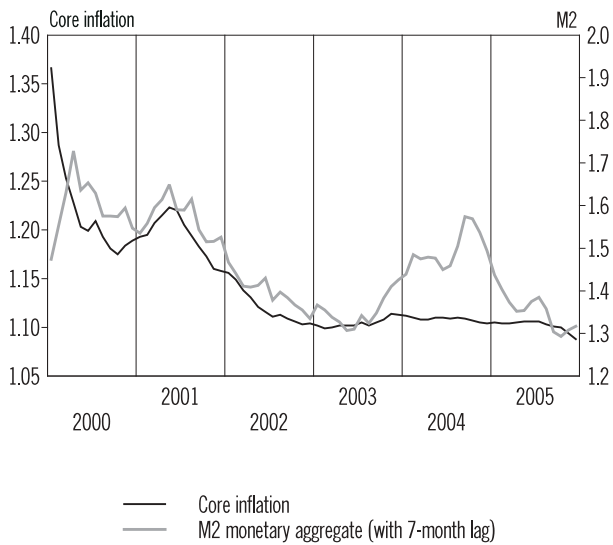
The government bond yield curve retained its rising shape in the fourth quarter. The fall in yields during the quarter caused the curve to move down. Its inclination continued to decrease as the yield on longer-term bonds declined faster than the yield on shorter-term bonds. As before, in the 11-year-plus segment the OFZ yield curve deviated considerably from the flattened yield curve due to the debt depreciation of these bond issues (their yield depends on duration rather than maturity).

The changes in the interest rate structure by term of instrument, registered in the fourth quarter, were caused by both inflation dynamics and inflationary expectations. The accelerated growth in the shortest-term interest rates was due to the quarter-on-quarter acceleration of inflation in the fourth quarter of 2005. The significant decrease in interest rates on longer-term loans and deposits and the accelerated decline in the yield on long-term ruble government bonds could reflect the persistent long-term expectations of the slowing of inflation.

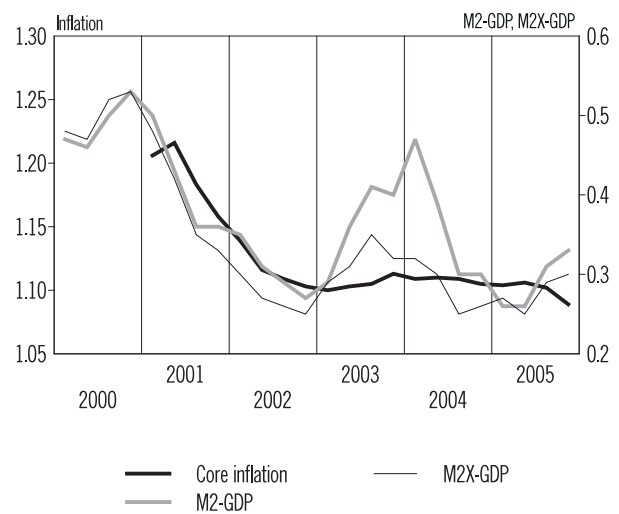
Money

The annualised **M2** growth rate slowed in the fourth quarter and **at the end of 2005 it stood at 38.6%**, 42% down on October 1, 2005. In October-December 2005, M2 growth was bigger than in the previous quarter due to the recurrent seasonal factors and stood at 14.2%. This represents a decrease from the fourth quarter of 2004 and from the average fourth-quarter growth

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



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



since 1999. Nevertheless, as a result of the acceleration of M2 growth in the second and third quarters, full-year M2 growth in 2005 was bigger than in 2004, when M2 expanded 35.8%, and exceeded M2 growth projections for 2005 (20-32%).

Cash growth was slower than M2 growth and the gap between M0 and M2 increases was wider than in any other year since 2000. Slower rates of M0 growth reflect favourable changes in the M2 structure and the structure of M2 growth from the viewpoint of its influence on inflation.

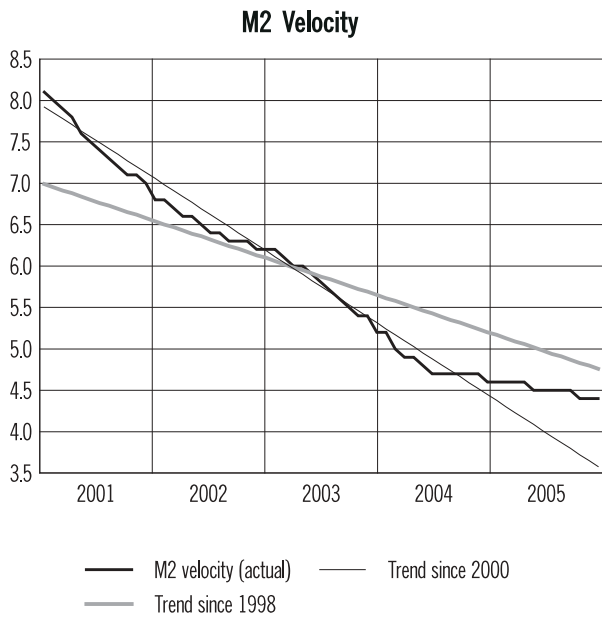
Allowing for the lags, the 2005 rates of growth in the money supply will affect core inflation in the first three quarters of 2006. If M2 growth continues to slow down on an annualised basis, the monetary pressure on inflation may only decrease by the end of the first half of the next year.

The gap between M2 and GDP growth rates¹, which narrowed considerably in 2004, continued to contract in the first half of 2005. However, in the third and fourth quarters of 2005 it widened quarter on quarter, in the fourth quarter less than in the third. The gap between the rates of growth in GDP and the broader monetary aggregate M2X, which comprises non-cash foreign exchange kept by economic agents, remained almost unchanged in the fourth quarter. As a re-

sult, the gap between the rates of economic growth (in terms of GDP) and the money supply (in terms of both M2 and M2X) was wider at the end of 2005 than at the end of 2004. The dynamics of the velocity of money are important for the assessment of the effect of this gap on inflation. In 2005, the velocity of money in terms of the M2 aggregate decreased 6.1% against 10.2% in 2004. In the fourth quarter of 2005 the velocity of money declined more than 2% (it declined a little less in the fourth quarter of 2004). As a result, the trend towards the slowing of decline in the velocity of money, registered since the second half of 2004, continued by and large, but in the fourth quarter it decreased somewhat faster than in the first half of 2005 due to the structural changes in the money supply and persistent demand for foreign exchange. A further slowing of the velocity of money may even the inflationary potential of the widening gap.

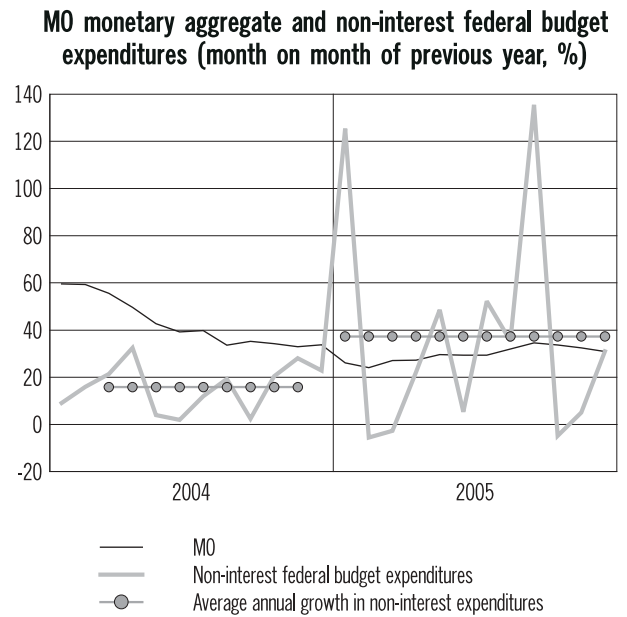
The aggregate Money in the monetary survey definition, which is similar to the M1 aggregate and comprises the most liquid transactional components of the money supply, reflects the economic situation and liquidity preferences. In 2005 it grew more than in 2004. Growth in cash and demand accounts in the fourth quarter of 2005 was a little slower than in the same period of 2004 but almost twice as fast as in the previ-

¹ The gap characterises the part of monetary growth that exceeds the amount necessary to finance the increased volume of transactions. The expansion of the gap may testify to the inflationary pressure by money supply growth on price dynamics.



ous quarter. At the same time, unlike the situation in the third quarter, the aggregate's dynamics were mostly due to the acceleration of growth in its cash component, which corresponds to the recurrent seasonal dynamics of cash.

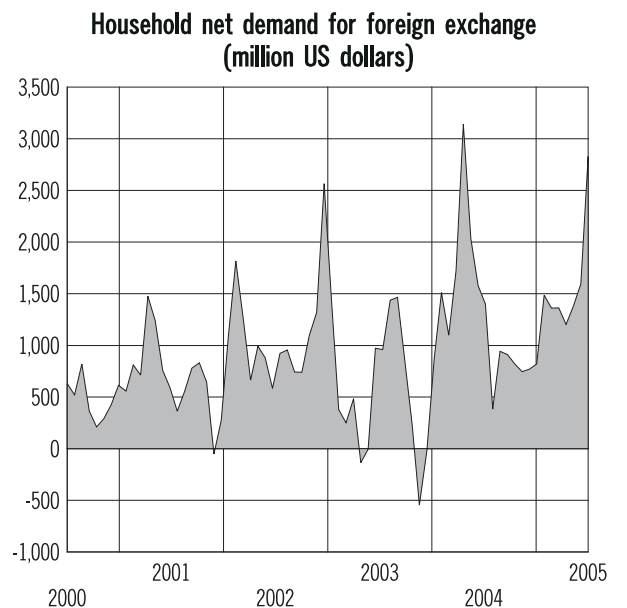
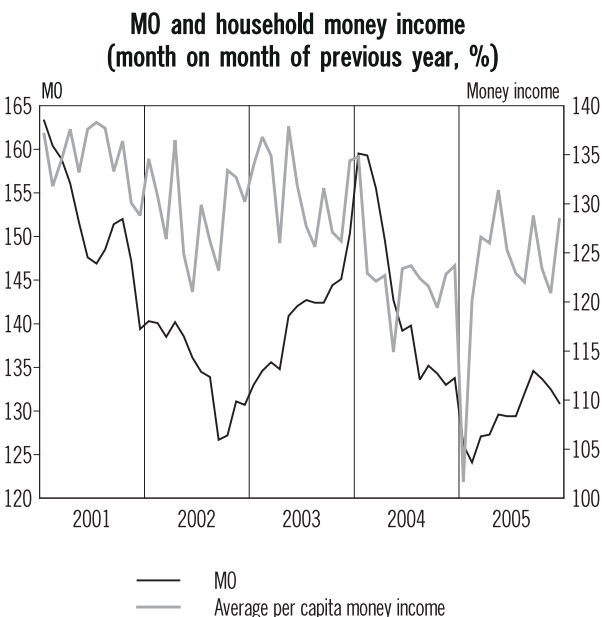
As usual, cash growth in the fourth quarter of 2005 was the biggest of the year (15.4%) but it was smaller than in the fourth quarter of 2004 (18.6%). There was a trend towards growth in the M0 aggregate in the moving 12-month period from February to October 2005, but in October-December this aggregate contracted. Overall, cash growth in 2005 was smaller than in 2004 (30.9% against 33.8%) and it was mostly due to the continued increase in household income and year-on-



year increment in non-interest budget expenditures relative to GDP (15.2% against 14.7%).

The household sector unabated demand for foreign exchange contained cash growth. In the fourth quarter and in 2005 as a whole household sector demand for foreign exchange was higher than in 2000-2004.

The non-cash component of the M1 aggregate increased faster than cash in 2005 (by 41% against 27% in 2004). In the fourth quarter of 2005 its annualised growth rates fell (from 45.2% as of October 1, 2005) but were higher than in the same period of 2004. The non-financial enterprise sector's funds account for about 80% of the non-cash component of M1 and its growth



is indicative of economic agents' increased demand for money they need to conduct transactions and service the payment turnover.

As a result of the acceleration of growth in funds in transaction accounts, the annualised rate of growth in the **Money** aggregate in the monetary survey definition increased to 35.6% as of January 1, 2006, and was higher than at the beginning of the previous year (30.5%).

The rates of growth in **Quasi-money**, the aggregate comprising the least liquid components of the money supply used by economic agents as savings, slowed in the fourth quarter from 39% as of October 1, 2005, to 37.2% as of January 1, 2006. The October-December Quasi-money dynamics were the result of growth in the **ruble component of Quasi-money**, that is, time deposits. In the fourth quarter, time deposits increased 13.8%, but their annualised growth slowed by 2 percentage points to 44.2%. In 2005 as a whole, growth in time deposits denominated in the national currency was somewhat smaller than in 2004 but far surpassed growth in foreign currency-denominated deposits. Further growth in ruble time deposits will be very important from the viewpoint of mitigating the inflationary consequences of money supply growth.

The rate of growth in **foreign currency deposits**, another component of Quasi-Money, was slow (less than 1%) in the fourth quarter, but in 2005 as a whole it was considerably slower than in 2004 (21.5% against 32.6%, respectively).

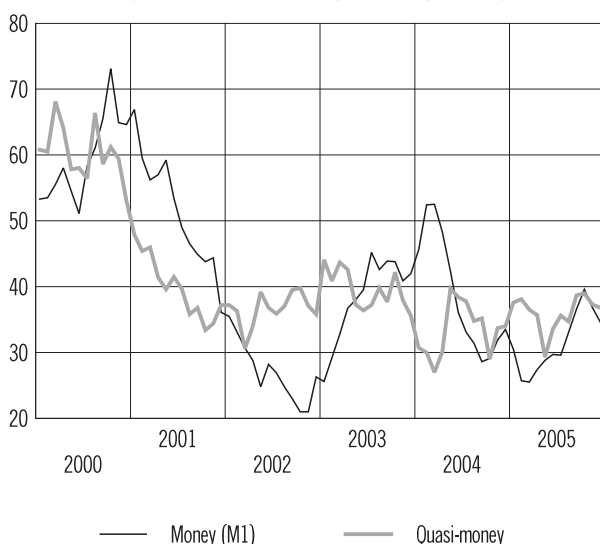
Instability of economic agents' asset currency preferences and the corresponding fluctuations in demand for the national and foreign currency, which caused rubles and foreign exchange to flow back and forth, was one of the factors that determined the dynamics of the monetary aggregates in 2005. The fourth quarter saw the slowing of the annual rates of growth in the ruble aggregates and the M2X aggregate, whereas the broad monetary aggregate M2Y, which comprises foreign exchange, had a trend to grow. At the same time, growth in the ruble aggregates M1 and M2 slowed down more than the M2X aggregate, which comprises non-financial agents' non-cash foreign currency assets (its annualised growth rate slowed from 39.3% as of October 1, 2005, to 36.3% as of January 1, 2006). Annualised growth in M2Y in October-December accelerated by one percentage point and in 2005 as a whole this aggregate continued to expand and, moreover, it did so faster than other aggregates (31% as of January 1, 2006, against 25% as of January 1, 2005).

The ratio of dollarisation, that is, the share of the foreign currency component in the money supply in the monetary survey definition (M2X), in the fourth quarter of 2005 declined from 18.1% as of October 1, 2005, to 16.3% as of January 1, 2006 (in the same period of 2004 it fell by 2 percentage points to 17.6%). In 2005 as a whole, the ratio of dollarisation decreased a little more than in 2004. At the same time, the ruble component of Quasi-money continued to predominate in M2X, accounting for 30.2% as of January 1, 2006, against 28.6% a year earlier.

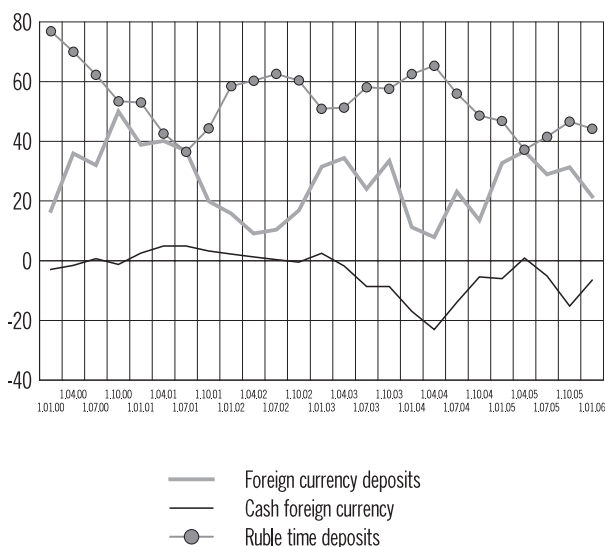
The de-dollarisation process in the Russian economy is also characterised by changes in the M2Y structure. The share of the foreign currency component of this broad monetary aggregate contracted by 2 percentage points, mainly due to the reduction of the share of foreign currency deposits (in the fourth quarter of 2004 it contracted by more than 4 percentage points). In 2005 as a whole, the share of all foreign currency funds in the broad monetary aggregate M2Y contracted by 4 percentage points to 25% (a more significant contraction was registered in 2004).

The rates of growth in enterprise and household sector funds attracted by banks in rubles and foreign currency (38.5% as of January 1, 2006) were slower than the expansion of credit to the

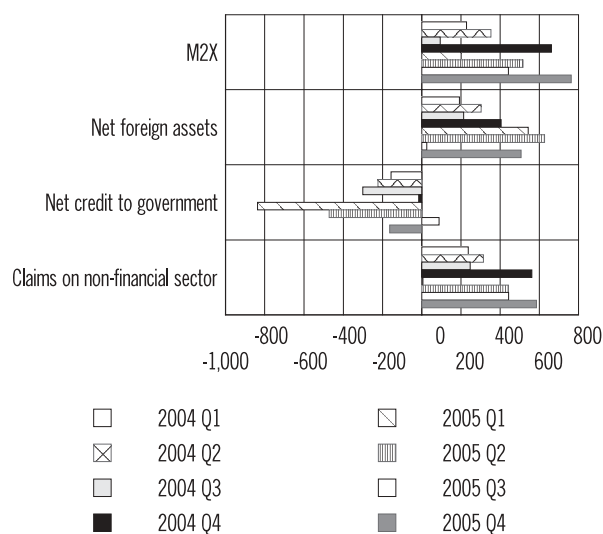
Money and Quasi-Money
(month on month of previous year, %)



Individual M2Y components
(month on month of previous year, %)



Sources of money supply growth
(change over quarter, billion rubles)

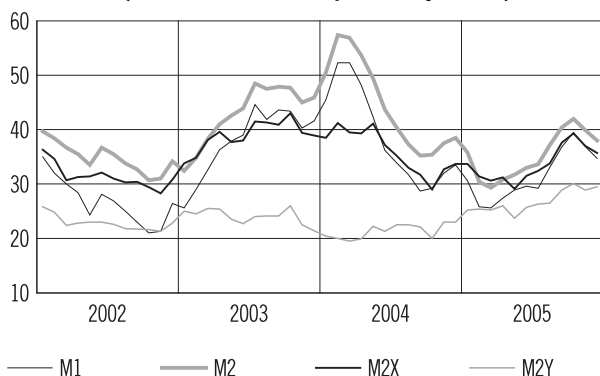


real sector (40.3% as of January 1, 2006, according to preliminary data). At the same time, growth in **banking sector claims on the non-financial sector** (585,2 billion rubles) in the fourth quarter of 2005 was faster than in the previous quarter and the same quarter of 2004. However, the importance of credit to the non-financial enterprise and household sector as a source of growth in the aggregate money supply decreased in the fourth quarter and in 2005 as a whole.

Money supply growth in 2005 was effectively contained by the massive **accumulation of funds in general government accounts**, caused by the expansion of the stabilisation fund, which reached 1,237 billion rubles as of January 1, 2006.

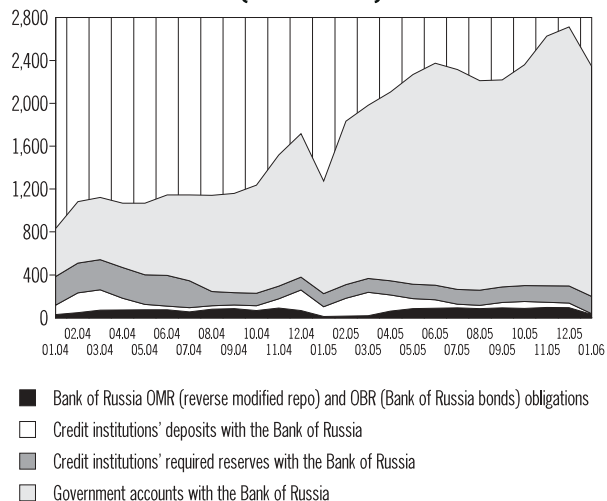
The broad **monetary base** expanded 22.4% in 2005 as a whole (it increased 24.3% in 2004). The monetary base expanded 14.8% in the fourth quarter of 2005 against 30.2% in the same period of 2004. The share of funds in credit institutions' correspondent accounts with the Bank of Russia contracted from 20.2% to 17.5% in 2005, whereas in 2004 it expanded by more than 4 percentage points. The share of credit institutions' funds immobilised by the Bank of Russia by taking banks' funds on deposit and conducting operations with Bank of Russia bonds (OBR) contracted from 4.2% to 1.4% of the monetary base in 2005 and with credit institutions' required reserves from 9.4% to 6.9%.

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



Definitions of aggregates:
 $M1 = M0 + \text{current accounts and demand deposits}$
 $M2 = M1 + \text{ruble time deposits}$
 $M2X, \text{ money supply in the monetary survey definition} = M2 + \text{foreign currency deposits}$
 $M2Y, \text{ notional broad monetary aggregate} = M2X + \text{evaluation of foreign currency in the non-banking sector}$

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
2003							
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
2004							
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
2005							
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
October	0.6	0.7	0.4	0.6	-2.4	0.7	0.7
November	0.7	0.6	0.9	0.6	4.5	0.6	0.6
December	0.8	0.6	1.1	0.6	5.6	0.5	0.8
Full year (December on December)	10.9	8.3	9.6	9.1	14.3	6.4	21.0

**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
2003							
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
2004							
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
2005							
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
October	9.2	7.1	7.5	7.8	3.6	5.2	19.3
November	10.0	7.7	8.4	8.4	8.3	5.9	20.0
December	10.9	8.3	9.6	9.1	14.3	6.4	21.0

**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*
2003							
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
2004							
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
2005							
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
October	11.7	9.4	11.0	10.9	11.6	6.3	21.4
November	11.3	8.9	10.3	9.9	14.1	6.3	21.2
December	10.9	8.3	9.6	9.1	14.3	6.4	21.0

* Bank of Russia estimate.

Inflation growth structure (percentage points)

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
2003							
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
2004							
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
2005							
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
October	3.3	1.7	4.0	0.1	9.2	5.6	3.6
November	3.6	1.9	4.2	0.3	10.0	6.1	3.9
December	3.8	2.1	4.4	0.6	10.9	6.6	4.3

* Excluding vegetables and fruit.

** Growth in prices of goods and paid services not included in calculation of base consumer price index.

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
2003							
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
2004							
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
2005							
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
October	0.3	0.2	0.2	-0.1	0.6	0.5	0.0
November	0.2	0.2	0.1	0.2	0.7	0.5	0.3
December	0.3	0.2	0.2	0.2	0.8	0.4	0.4

* Excluding vegetables and fruit.

** Growth in prices of goods and paid services not included in calculation of base consumer price index.

Contribution to Inflation Growth (%)

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
2003						
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
2004						
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
2005						
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
October	35.9	18.6	43.9	1.6	60.9	39.1
November	35.6	19.2	41.8	3.4	61.1	38.9
December	35.2	19.2	40.2	5.4	60.5	39.5

* Excluding vegetables and fruit.

** Growth in prices of goods and paid services not included in calculation of base consumer price index.

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
2003						
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 can't be made 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
2004						
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
2005						
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 can't be made for negative value</i>					
September	92.7	141.5	83.9	-218.1	243.9	-143.9
October	47.2	40.9	29.7	-17.8	96.4	3.6
November	31.6	26.1	18.2	24.1	63.1	36.9
December	31.1	18.5	22.2	28.2	53.5	46.5

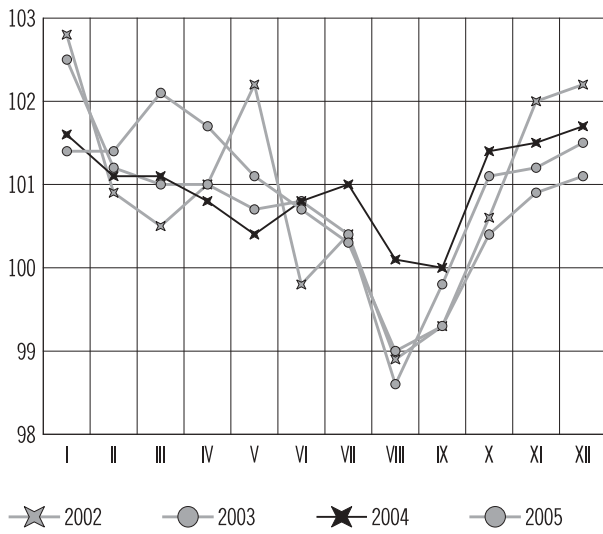
* Excluding vegetables and fruit.

** Growth in prices of goods and paid services not included in calculation of base consumer price index.

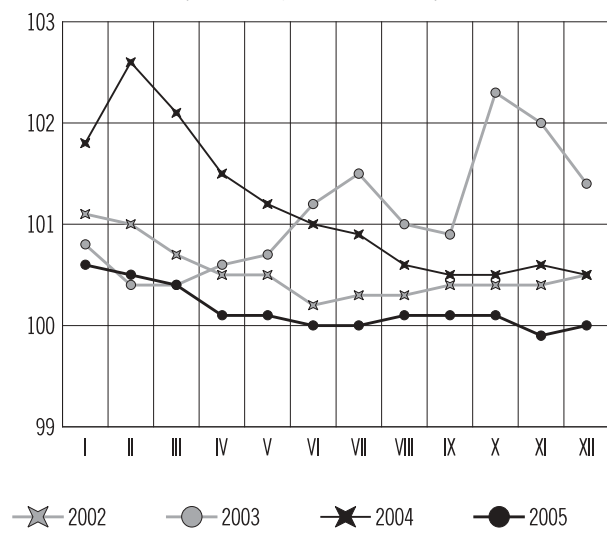
Major monetary indicators in 2005

	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	1.11.05	1.12.05	1.01.06
Cash (M0), billion rubles	1,534.8	1,425.2	1,444.1	1,481.7	1,565.8	1,582.3	1,650.7	1,701.8	1,703.3	1,740.7	1,752.0	1,765.8	2,009.2
monthly rates of growth, %	15.2	-7.1	1.3	2.6	5.7	1.1	4.3	3.1	0.1	2.2	0.6	0.8	13.8
rates of growth since start of year, %		-7.1	-5.9	-3.5	2.0	3.1	7.6	10.9	11.0	13.4	14.2	15.1	30.9
share in M2 structure, %	35.2	34.0	33.5	33.1	34.1	33.7	33.5	34.1	33.2	32.9	33.0	32.5	33.2
Non-cash funds (M2-M0), billion rubles	2,828.5	2,765.1	2,867.3	2,992.9	3,021.0	3,106.4	3,276.7	3,283.9	3,432.7	3,552.1	3,561.9	3,670.4	4,036.3
monthly rates of growth, %	8.5	-2.2	3.7	4.4	0.9	2.8	5.5	0.2	4.5	3.5	0.3	3.0	10.0
rates of growth since start of year, %		-2.2	1.4	5.8	6.8	9.8	15.8	16.1	21.4	25.6	25.9	29.8	42.7
M2 monetary aggregate, billion rubles	4,363.3	4,190.3	4,311.4	4,474.6	4,586.8	4,688.6	4,927.4	4,985.8	5,136.0	5,292.8	5,314.0	5,436.1	6,045.6
monthly rates of growth, %	10.7	-4.0	2.9	3.8	2.5	2.2	5.1	1.2	3.0	3.1	0.4	2.3	11.2
rates of growth since start of year, %		-4.0	-1.2	2.6	5.1	7.5	12.9	14.3	17.7	21.3	21.8	24.6	38.6
rates of growth (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	39.9	38.0	38.6
Foreign currency deposits, billion 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	1,171.4	1,171.7	1,178.2
monthly rates of growth, %	0.9	6.3	4.0	-0.8	-1.7	4.7	3.4	1.0	4.8	1.2	0.3	0.0	0.6
rates of growth since start of year, %		6.3	10.5	9.6	7.8	12.8	16.6	17.8	23.5	24.9	25.3	25.3	26.0
share in money supply structure by monetary survey methodology, %	17.6	19.2	19.3	18.6	18.0	18.4	18.1	18.1	18.4	18.1	18.1	17.7	16.3
Money supply by monetary survey methodology, billion rubles	5,298.7	5,184.8	5,344.4	5,499.6	5,594.0	5,743.0	6,015.9	6,087.4	6,286.5	6,458.4	6,482.7	6,604.8	7,221.1
monthly rates of growth, %	8.9	-2.2	3.1	2.9	1.7	2.7	4.8	1.2	3.3	2.7	0.4	1.9	9.3
rates of growth since start of year, %		-2.2	0.9	3.8	5.6	8.4	13.5	14.9	18.6	21.9	22.3	24.6	36.3
M2 velocity (annualised average)	4.6	4.6	4.6	4.6	4.6	4.5	4.5	4.5	4.5	4.5	4.4	4.4	4.4
change since start of year, %													-6.1
Monetisation (by M2 aggregate), %	21.6			21.9			22.2			22.4			22.6
Broad monetary base	2,380.3	2,144.1	2,259.9	2,250.1	2,237.5	2,263.1	2,302.8	2,341.9	2,417.4	2,538.9	2,483.3	2,527.8	2,914.1
monthly rates of growth, %	14.3	-9.9	5.4	-0.4	-0.6	1.1	1.8	1.7	3.2	5.0	-2.2	1.8	15.3
rates of growth on accrual basis, %		-9.9	-5.1	-5.5	-6.0	-4.9	-3.3	-1.6	1.6	6.7	4.3	6.2	22.4
Multiplier (by broad monetary base)	1.83	1.95	1.91	1.99	2.05	2.07	2.14	2.13	2.12	2.08	2.14	2.15	2.07
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	16.7	17.3	13.2

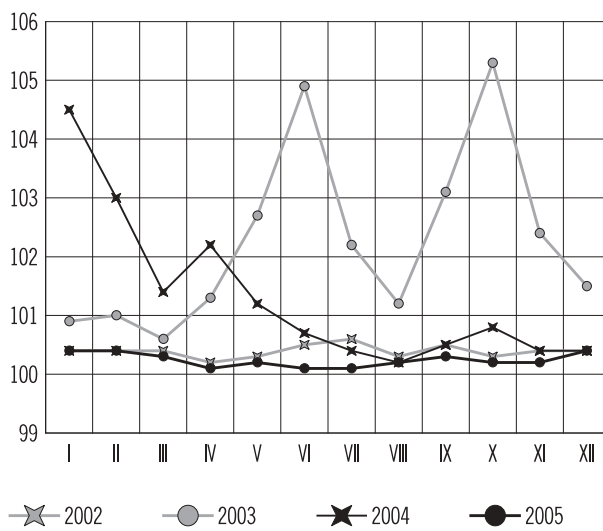
Food prices, total
(as % of previous month)



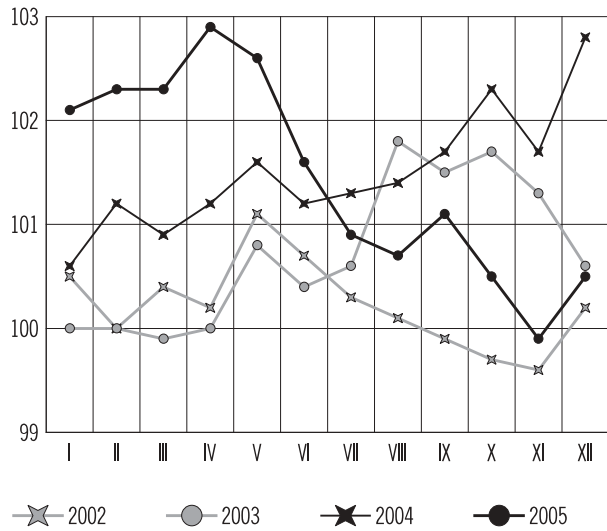
Pasta prices
(as % of previous month)



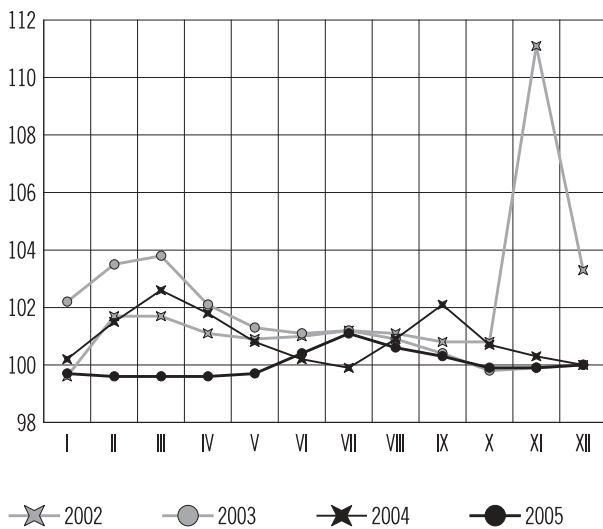
Bread and bakery product prices
(as % of previous month)



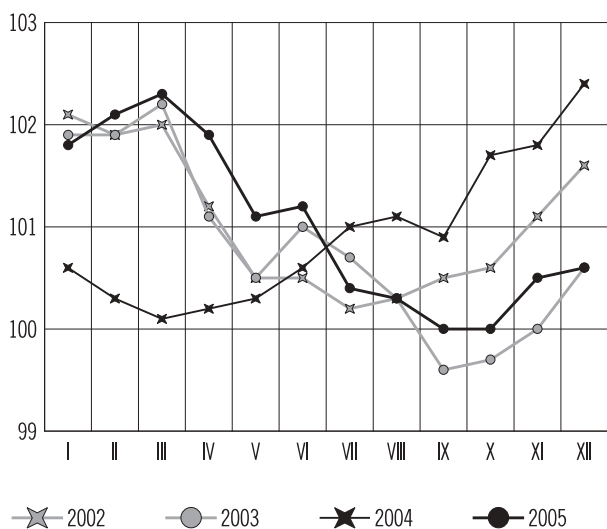
Meat and poultry prices
(as % of previous month)



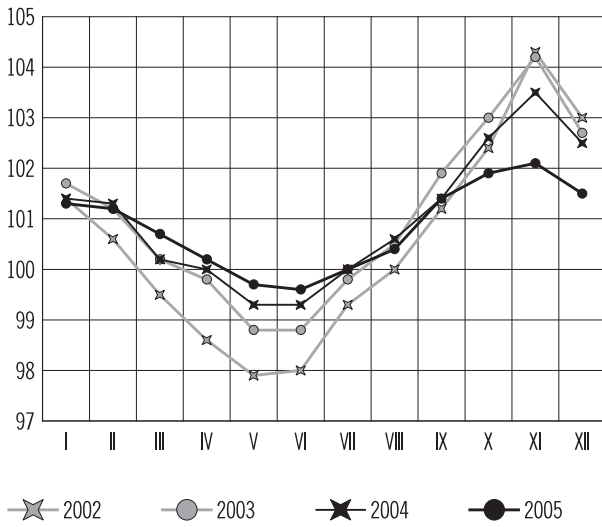
Cereal and legume prices
(as % of previous month)



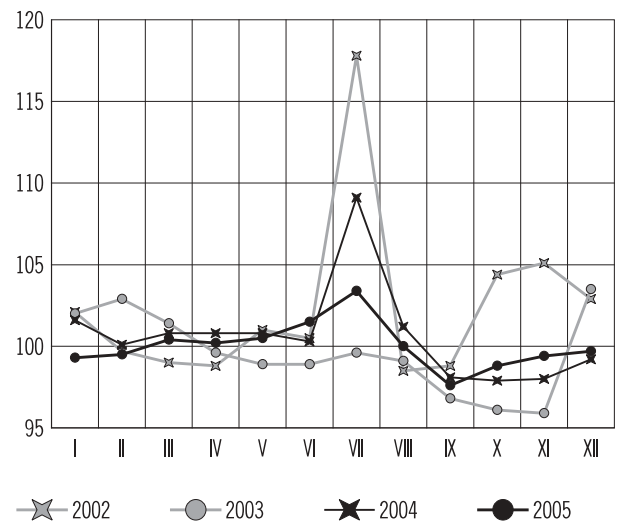
Fish and seafood prices
(as % of previous month)



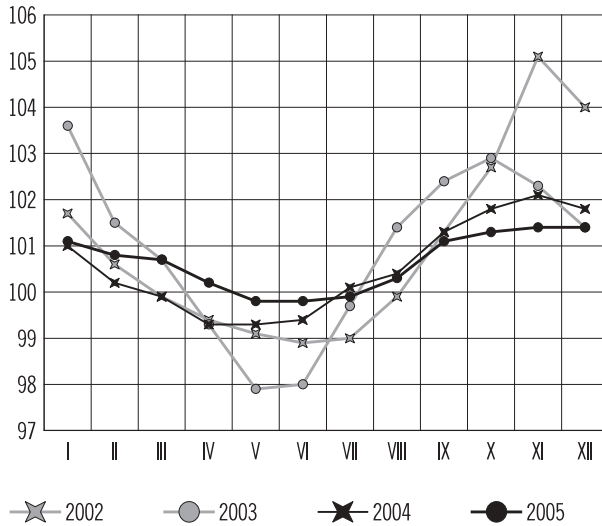
Milk and dairy product prices
(as % of previous month)



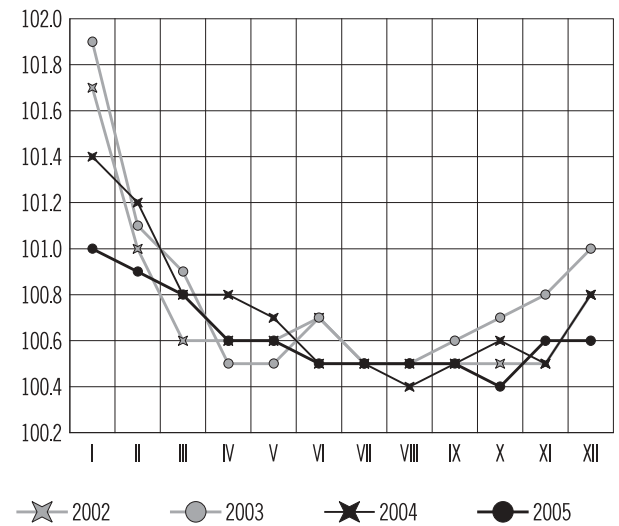
Granulated sugar prices
(as % of previous month)



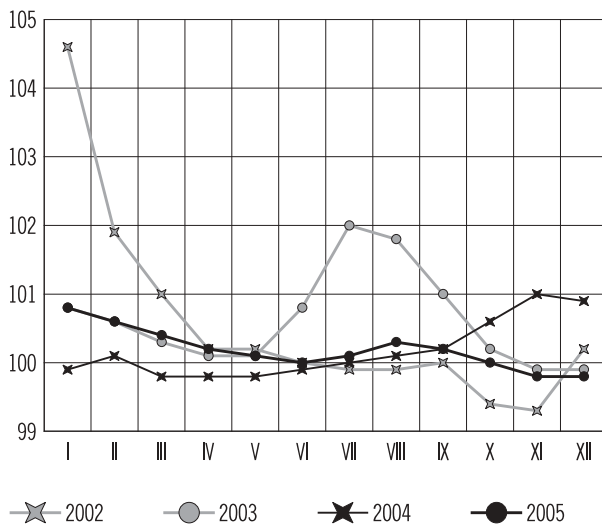
Butter prices
(as % of previous month)



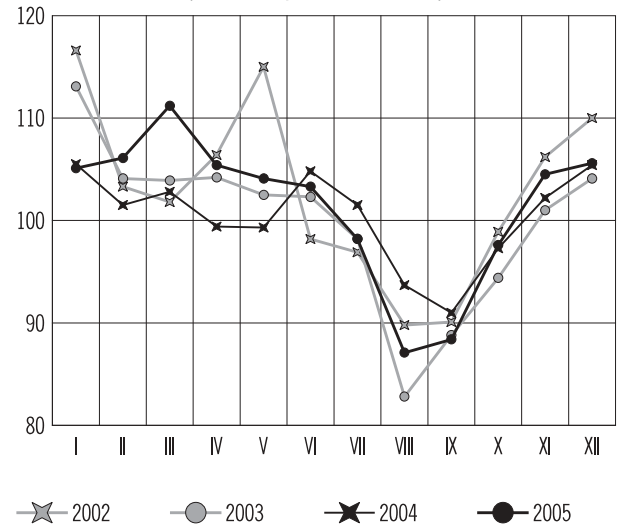
Alcoholic beverage prices
(as % of previous month)



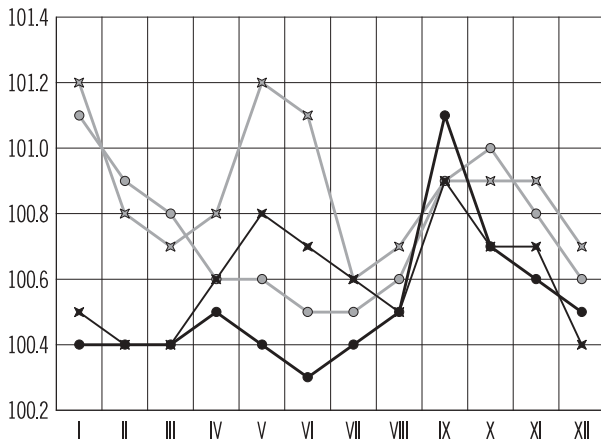
Sunflower oil prices
(as % of previous month)



Vegetable and fruit prices
(as % of previous month)

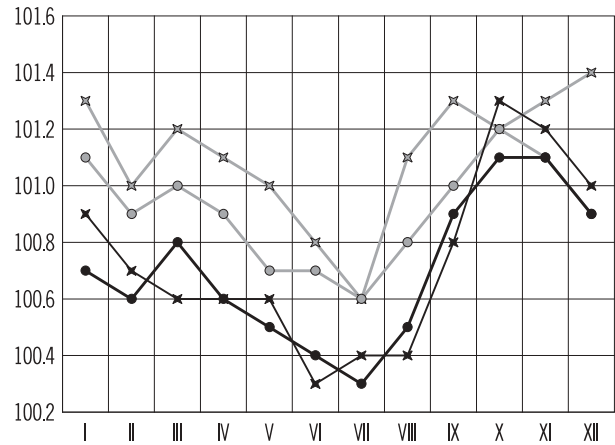


Non-food prices, total
(as % of previous month)



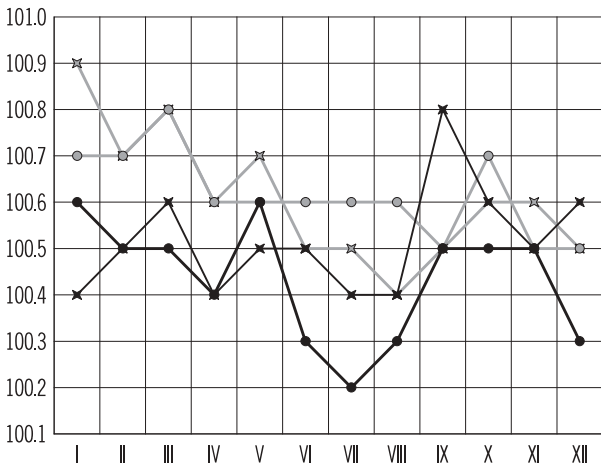
—x— 2002 —o— 2003 —x— 2004 —●— 2005

Knitwear prices
(as % of previous month)



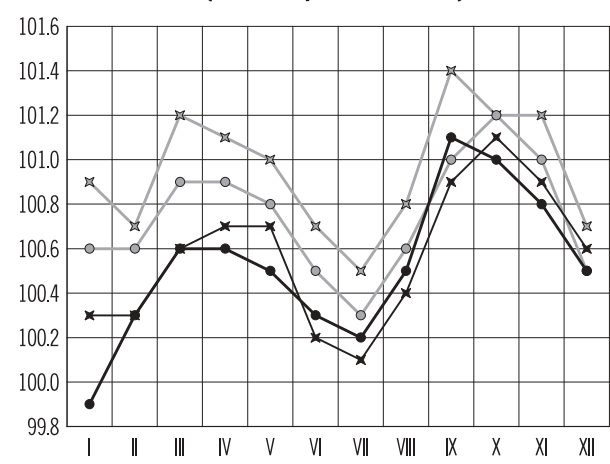
—x— 2002 —o— 2003 —x— 2004 —●— 2005

Fabrics prices
(as % of previous month)



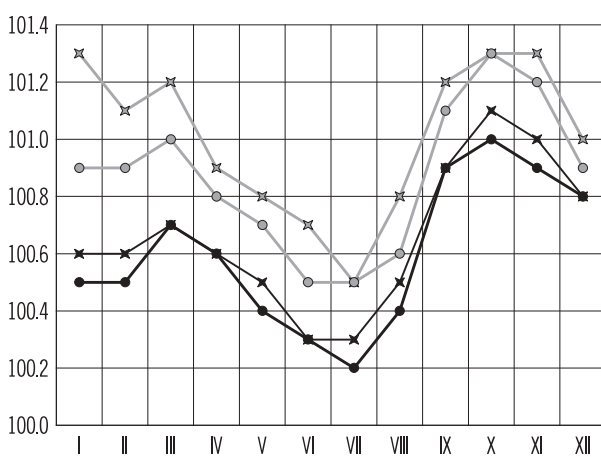
—x— 2002 —o— 2003 —x— 2004 —●— 2005

Footwear prices
(as % of previous month)



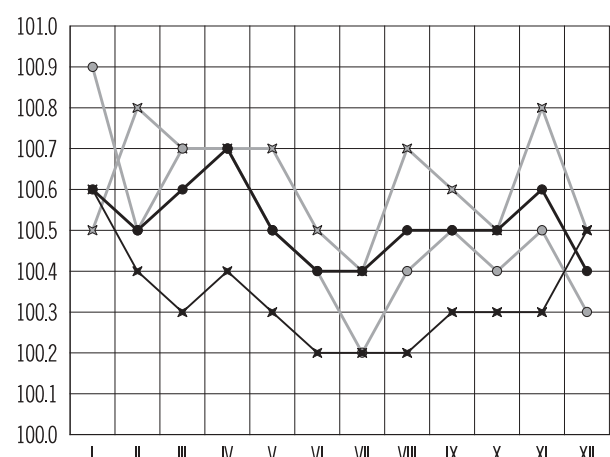
—x— 2002 —o— 2003 —x— 2004 —●— 2005

Clothing and underwear prices
(as % of previous month)



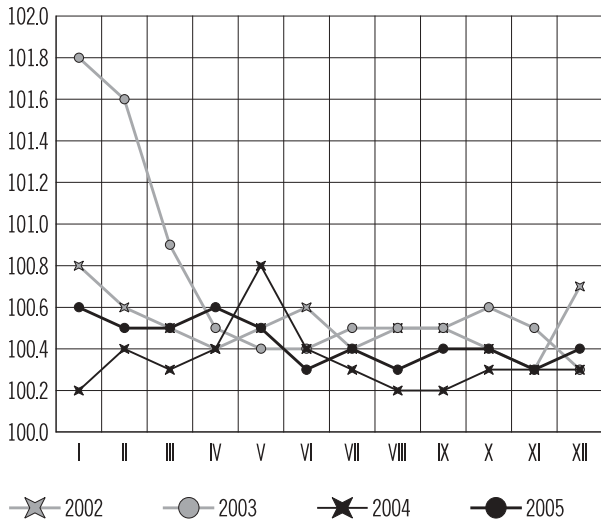
—x— 2002 —o— 2003 —x— 2004 —●— 2005

Detergent prices
(as % of previous month)

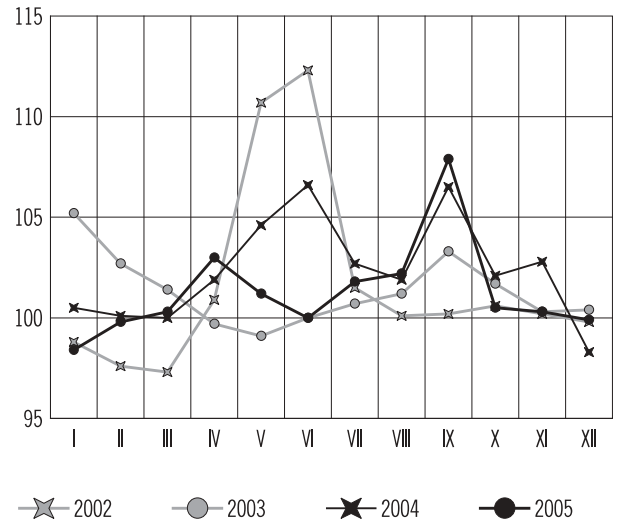


—x— 2002 —o— 2003 —x— 2004 —●— 2005

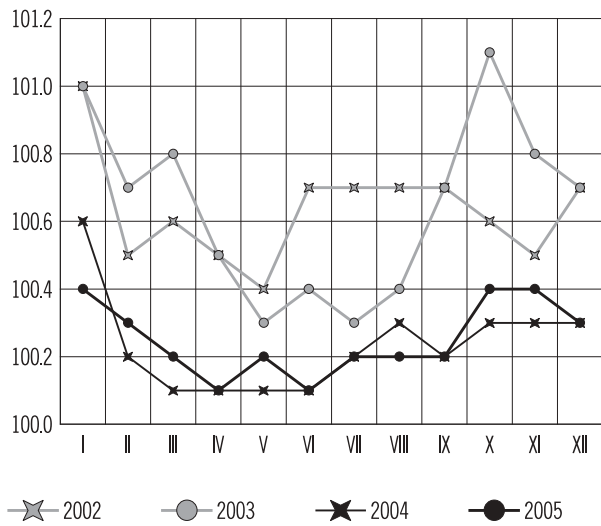
Tobacco prices
(as % of previous month)



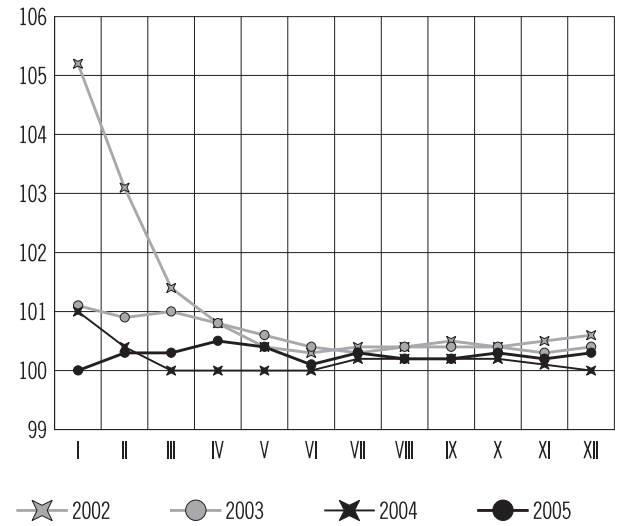
Petrol prices
(as % of previous month)



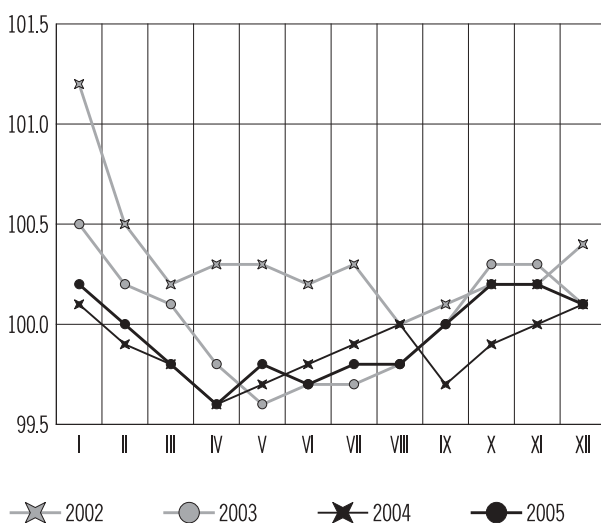
Household electric appliances prices
(as % of previous month)



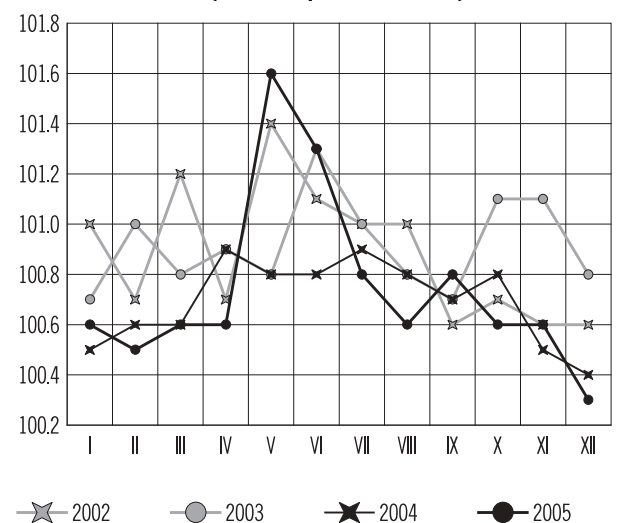
Medicine prices
(as % of previous month)



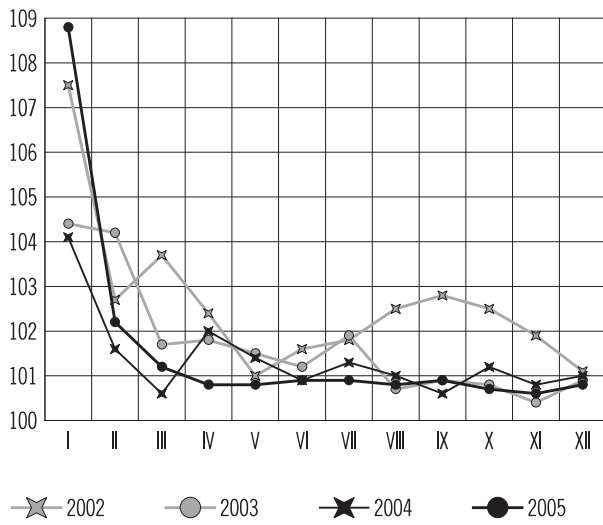
TV and radio set prices
(as % of previous month)



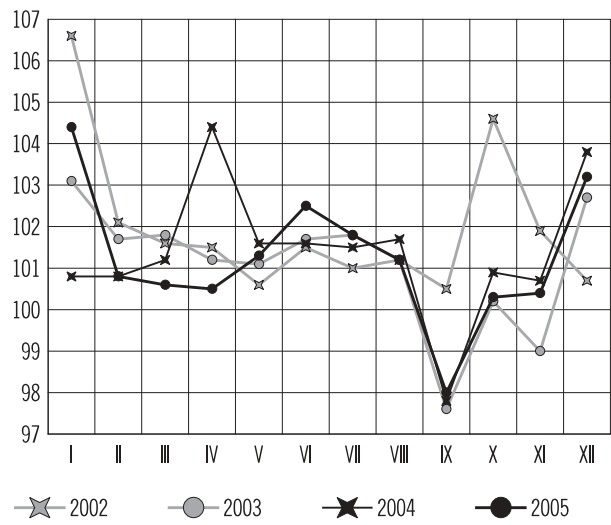
Building materials prices
(as % of previous month)



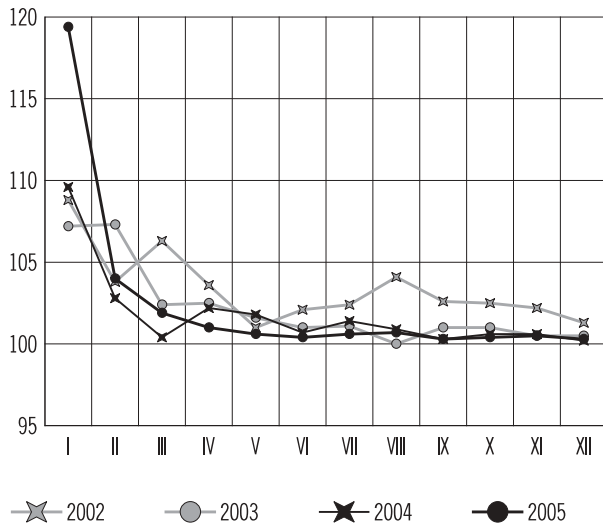
**Paid service prices
(as % of previous month)**



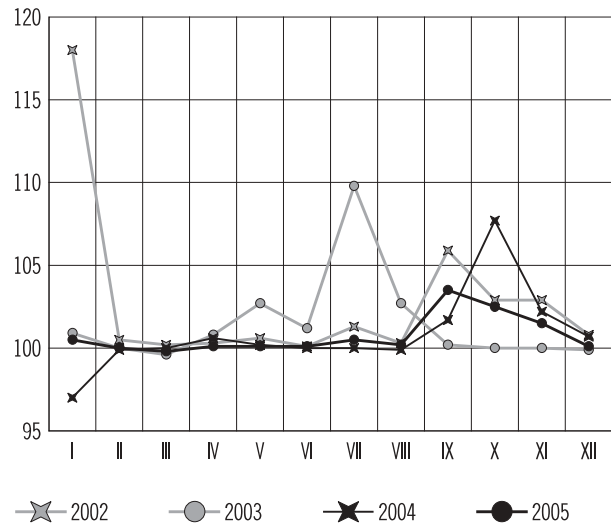
**Passenger transport fares
(as % of previous month)**



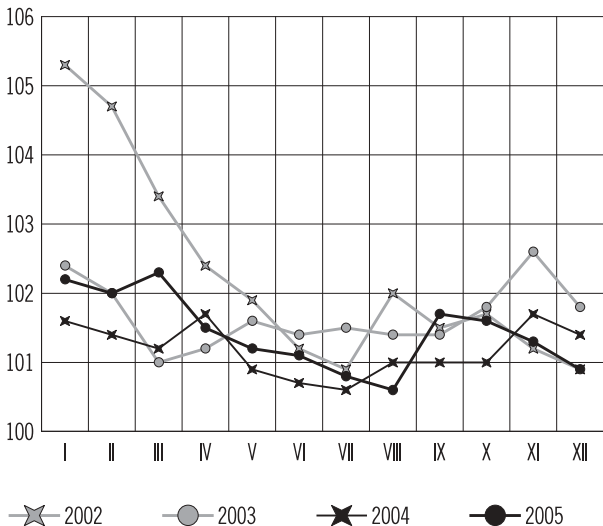
**Housing and utility prices
(as % of previous month)**



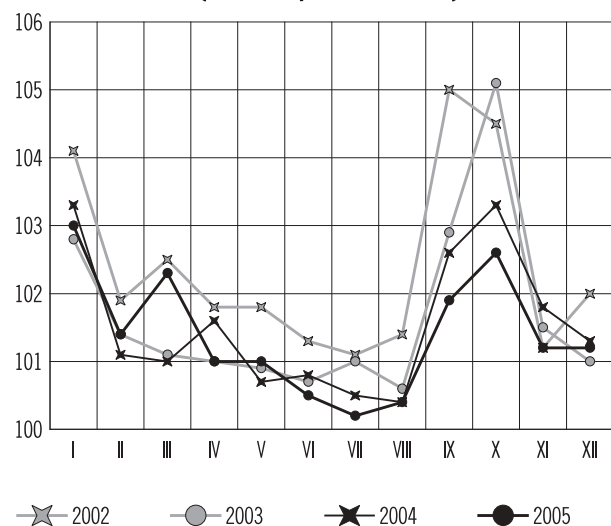
**Communication fees
(as % of previous month)**



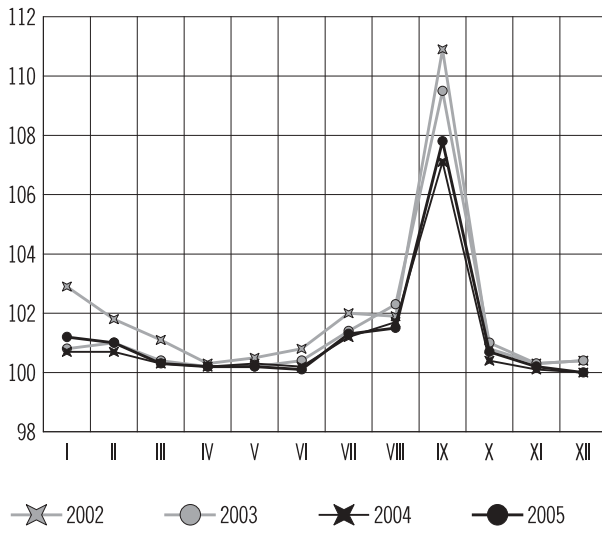
**Healthcare prices
(as % of previous month)**



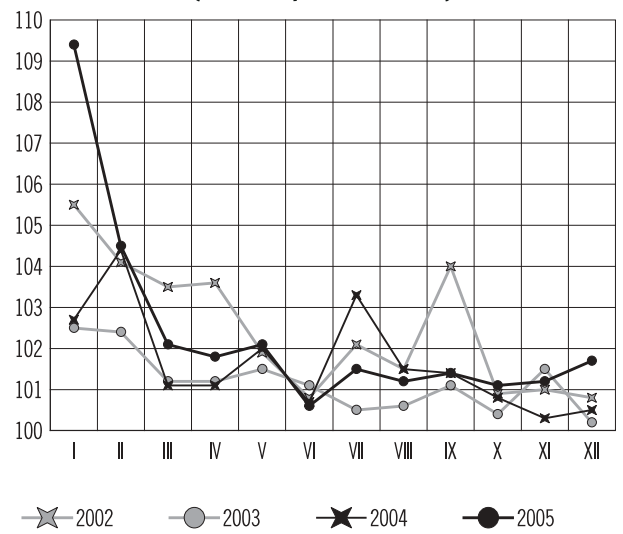
**Cultural service prices
(as % of previous month)**



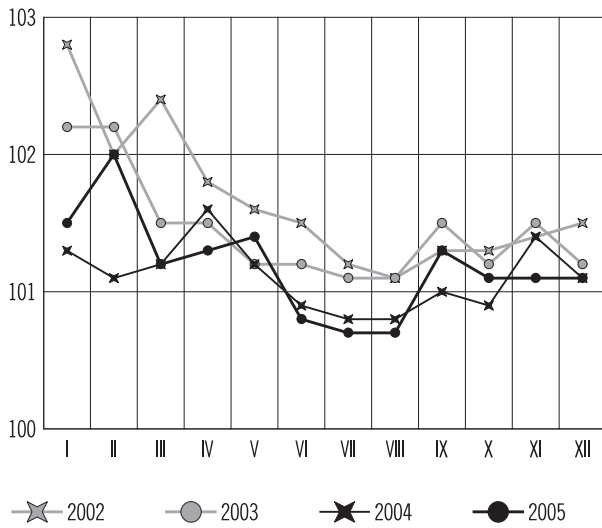
**Education fees
(as % of previous month)**



**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)**

