



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

**Quarterly  
Inflation  
Review**

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***2008 Q1***

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**Research and Information Department**

*Quarterly Inflation Review currently issued by the Bank of Russia's Research and Information Department is a document primarily aimed at analysing the latest consumer price trends. Inflation surveys published in countries implementing inflation targeting offer projected inflation estimates to study potential inflation deviation from the target, analyse the reasons for such deviation and outline the central bank's measures to steer inflation towards the target. The Research and Information Department carries out work to develop an analysis and forecast system similar to those used by central banks implementing inflation targeting. As the methods of analysis and forecast improve, quarterly inflation reviews will be expanded and complemented with respective sections.*

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## Introduction

Consumer price growth accelerated in Russia in January-March 2008. Core inflation increased, and the prices of goods and services not included in the official calculation of the core consumer price index grew faster. Consumer prices increased 4.8% in the first quarter of 2008 as against 3.4% in the same period of 2007. The faster consumer price growth was largely attributable to the acceleration of growth in food prices and the prices of paid services provided to households. Food prices, excluding vegetable and fruit prices, increased 4.0% in January-March 2008 while vegetable and fruit prices grew 20.6%, which actually corresponds to the average annual vegetable and fruit price growth in 2001-2007. Service prices grew 7.5% or slightly slower than in the same period last year; however, the negative effect of growth in service prices on inflation remained considerable.

As growth in consumer prices accelerated, the Bank of Russia took measures to tighten monetary conditions for the economy. The Bank of Russia started gradually to raise interest rates to restrain inflation and make money supply grow slower. This move was also aimed at reducing inflationary expectations of market participants. The refinance rate and some other interest rates on Bank of Russia operations were raised by 0.25% in February. Another rise in interest rates took place in April. Higher required reserve ratios for credit

institutions' liabilities in force since March 1 (after their temporary reduction in November 2007), along with an increase in the averaging ratio, also contributed to slower growth in money supply.

As the conditions for foreign borrowings deteriorated, the Bank of Russia took active measures to provide liquidity to credit institutions, increasing the volume of refinancing. At the same time, large volumes of operations to absorb liquidity and low money market rates were evidence of the banking sector's sufficient liquidity in the first quarter. The Bank of Russia interest rate band remained unchanged, whereas the range of MIACR fluctuations increased, while the average quarterly MIACR on overnight ruble loans was lower in the first quarter of 2008 than in the previous quarter. Banks' interest rates on deposits and loans increased in the first quarter but had no marked effect on credit aggregates dynamics.

Growth in monetary aggregates slowed down amid a significant decrease in Bank of Russia currency interventions due to a net outflow of capital from the private sector in the first quarter. Monetary aggregate M2 grew slower from the second half of 2007 partly due to deceleration in the growth of demand for the national currency. However, money supply continued to grow rapidly. Positive monetary gaps suggest that inflation risks posed by money supply will persist in the medium and long term.

# Inflation Dynamics

## Consumer prices

According to the Federal State Statistics Service (Rosstat), consumer prices rose 4.8% in January-March 2008 as against 3.4% in the same period of 2007. Consumer prices grew 13.3% in March 2008 and 12.9% in the first quarter of 2008, year on year.

**Core inflation** equalled 3.2% in the first quarter of 2008 as against 1.7% in the first quarter of 2007 and an estimated 12.7% in March 2008 as compared with March 2007.

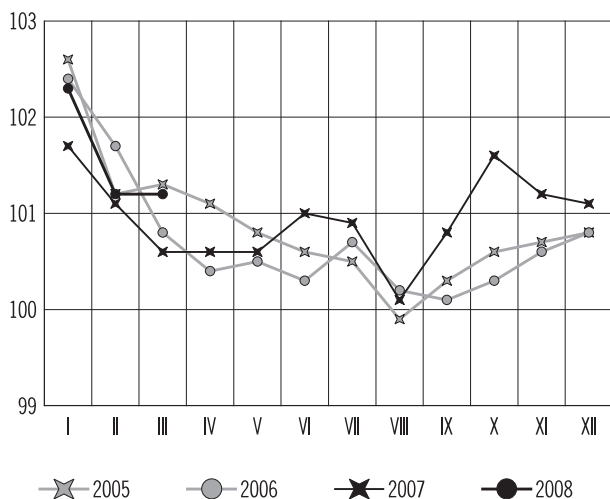
Growth in the prices of goods and services included in the calculation of the core consumer

price index accounted for an estimated 2.5 percentage points, or 52.7%, of overall consumer price growth in the first quarter of 2008 as against 1.3 percentage points, or 38.3%, in January-March 2007.

Growth in the prices of foodstuffs and paid services provided to households made the principal contribution to the acceleration of inflation. **Food prices** grew 5.7% in the first quarter of 2008 as against 2.6% in the first quarter of 2007.

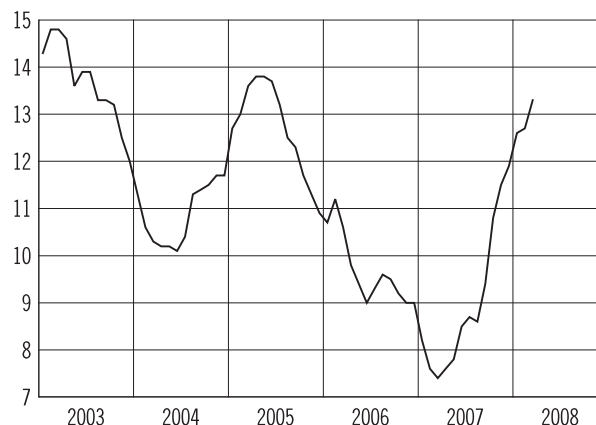
**Food prices, excluding vegetable and fruit prices**, grew 4.0% in January-March 2008 as against 1.7% in January-March 2007, and this

Consumer prices (as % of previous month)



Source: Rosstat.

Consumer prices (as % of corresponding month of previous year)



Source: Rosstat.

## Consumer price inflation (%)

	Growth (March 2008 on December 2007)	Growth (March 2007 on December 2006)	
Prices of goods and services, total	4.8	3.4	Acceleration of growth by 1.4 percentage points
of which:			
- food prices	5.7	2.6	Acceleration of growth by 3.1 percentage points
- food prices, excluding vegetable and fruit prices	4.0	1.7	Acceleration of growth by 2.3 percentage points
- non-food prices	2.0	1.1	Acceleration of growth by 0.9 percentage points
- prices of paid services provided to households	7.5	8.0	Slowing of growth by 0.5 percentage points
Prices of goods and services included in core inflation calculation :	3.2	1.7	Acceleration of growth by 1.5 percentage points

Source: Rosstat.

growth accounted for an estimated 1.4 percentage points, or 29.7%, of overall consumer price growth in the first quarter of 2008 as against 0.6 percentage points, or 17.8%, in the first quarter of 2007.

The prices of most basic food products grew considerably faster in January-March 2008 than in January-March 2007. In particular, the prices of bread and bakery products increased 8.3% in the first quarter of 2008 as against 2.2% in the same period a year earlier while pasta prices went up 10.1% (1.8% in the first quarter of 2007). The prices of these food products grew amid grain interventions carried out by the government on the domestic market from late October 2007 and the persistence of high export duties on grain.

World food prices were registered to grow in January-March 2008. The prices of wheat increased 19% and maize 29% on the US market in March 2008 on December 2007 while rice prices in Thailand soared 56%.

The prices of milk and dairy products went up 5.5% in January-March 2008 as against 1.9% in January-March 2007, while the price of butter grew 4.6% (1.9% in the first quarter of 2007), sunflower oil 6.6% (0.1% in the same period of 2007) and granulated sugar 7.8% (granulated sugar prices dropped 4.9% in the first quarter of 2007).

The world prices of vegetable fats also continued to grow. In particular, the price of sunflower oil increased 27% on the European market in March 2008 as compared with December 2007.

Growth in world sugar prices came to a halt in March as the prices of raw sugar declined 0.9% and white sugar 1.9% as compared with February. However, the prices of raw sugar increased 30% and white sugar 18% in January-March 2008.

The prices of meat and poultry, and also fish and seafood registered moderate growth on the domestic market in the first quarter of 2008. Meat and poultry prices grew 2.6% in January-March 2008 as against 0.9% in January-March 2007 while fish and seafood prices increased 2.4% (3.3% in the same period of 2007). In the moving 12-month period, the prices of meat and poultry, fish and seafood, granulated sugar and alcoholic beverages registered the smallest growth in March 2008 (from 8.5% to 10.1%) while the prices of other basic food products grew in the range of 25.2-62.2%.

World beef prices started to grow in the first quarter of 2008, increasing 3.7% in March and 11.6% from the beginning of the year (world beef prices declined 2.3% in March 2007 compared to December 2006).

**Vegetable and fruit prices** rose 20.6% in January-March 2008 as against 11.2% in January-March 2007. The increase in vegetable and fruit prices in the first quarter of 2008 actually corresponded to the average growth figure for the previous seven years. Growth in vegetable and fruit prices in January-March 2008 accounted for an estimated 0.8 percentage points of headline inflation (16.6% of overall consumer price growth). In

**Food price inflation (%)**

	Growth (March 2008 on December 2007)	Growth (March 2007 on December 2006)	
Food products	5.7	2.6	Acceleration of growth by 3.1 percentage points
Bread and bakery products	8.3	2.2	Acceleration of growth by 6.1 percentage points
Cereals and legumes	5.0	4.5	Acceleration of growth by 0.5 percentage points
Pasta	10.1	1.8	Acceleration of growth by 8.3 percentage points
Meat and poultry	2.6	0.9	Acceleration of growth by 1.7 percentage points
Fish and seafood	2.4	3.3	Slowing of growth by 0.9 percentage points
Milk and dairy products	5.5	1.9	Acceleration of growth by 3.6 percentage points
Butter	4.6	1.9	Acceleration of growth by 2.7 percentage points
Sunflower oil	6.6	0.1	Acceleration of growth by 6.5 percentage points
Granulated sugar	7.8	-4.9	
Vegetables and fruit	20.6	11.2	Acceleration of growth by 9.4 percentage points
Alcoholic beverages	3.0	2.0	Acceleration of growth by 1.0 percentage points

Source: Rosstat.

the first quarter of 2007, growth in vegetable and fruit prices accounted for 0.4 percentage points, or 12.5%, of overall consumer price growth.

**Growth in non-food prices** accelerated to reach 2.0% in the first quarter of 2008 (in the previous four years, growth in non-food prices did not exceed 1.4% in January-March and equalled 1.1% in the first quarter of 2007).

The biggest growth in January-March 2008 was registered in tobacco products (3.9% as against 2.9% in the first quarter of 2007) and motor petrol (3.2% as against a 0.9% decrease in the same period of 2007). The prices of building materials, medicines, washing liquids and detergents demonstrated high growth rates as they increased 2.7-2.8% in the first quarter of 2008 as compared with 1.0-2.2% in the first quarter of 2007.

Growth in non-food prices accounted for 0.7 percentage points or 14.7% of overall consumer price growth in January-March 2008 as compared with 0.4 percentage points or 11.6% in the first quarter of 2007.

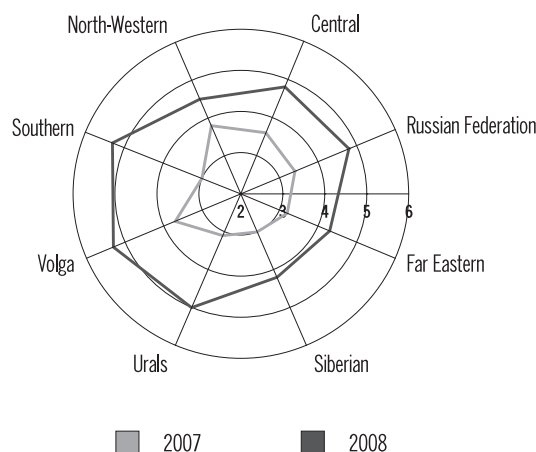
**The prices of paid services provided to households** grew 7.5% in January-March 2008 as against 8.0% in January-March 2007 and accounted for an estimated 1.9 percentage points, or 39.0%, of overall consumer price growth (2.0 percentage points or 58.1% of headline inflation in the first quarter of 2007).

Housing and utility prices rose 13.5% in the first quarter of 2008 as against 12.7% in the same period last year. Passenger transport fees grew 8.1% in January-March 2008 as against 6.7% in January-March 2007. Communication fees dropped 0.2% in the first quarter of 2008 whereas in the first quarter of 2007 they grew 10.4%. Regulated prices of paid services grew by an estimated 9.5% in the first quarter of 2008 or 1.1 percentage points slower than in the same period last year.

Growth in the prices of paid services provided to the public in January-March 2008 was 3.6 percentage points faster than overall growth in the prices of goods (6.1 percentage points faster in January-March 2007).

According to Rosstat, consumer price growth

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



Source: Rosstat.

in all **federal districts** in January-March 2008 was faster than in the same period last year.

Estimates show that the difference between various Russian regions and territories in terms of the price of a fixed set of goods and services used by the Federal State Statistics Service for interregional comparisons of the purchasing power of the population became less pronounced in January-March 2008. The regional difference ratio<sup>1</sup> in that period decreased to 38.6% from 43.3% in the first quarter of 2007.

The rates of growth in non-food prices and food prices, excluding vegetable and fruit prices, were roughly the same in all federal districts in January-March 2008. The rates of growth in vegetable and fruit prices differed considerably by region in the first quarter of 2008. In the Southern Federal District, for instance, vegetable and fruit prices increased 23%, whereas in the Far Eastern Federal District they rose 10.8%.

Growth in the prices of paid services provided to the public slowed down in January-March 2008 as compared with the same period of 2007, in all the districts except for the Urals Federal District.

### Housing prices

In January-March 2008, housing prices increased 2.3% on the primary market and 6.7% on the secondary market as compared with the fourth quarter of the previous year<sup>2</sup>. In January-

<sup>1</sup> The regional difference ratio is calculated by the Bank of Russia as the difference between the price 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.

<sup>2</sup> As of end of period.



March 2007, housing prices grew 6.5% on the primary market and 7.0% on the secondary market.

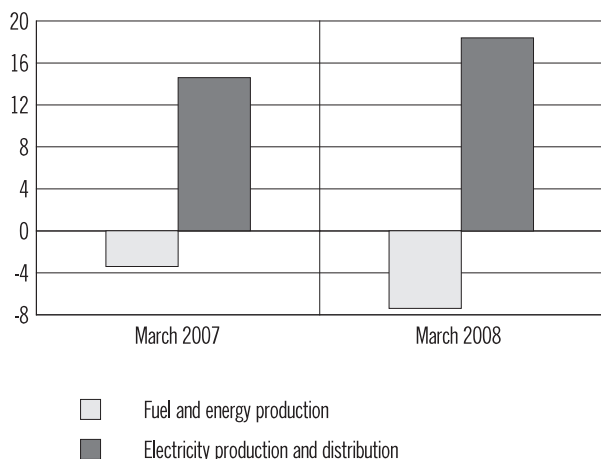
Growth in housing prices was accompanied by a considerable decrease in growth of housing construction. In particular, the pace of new housing commissioning grew 51.1% in the first quarter of 2007, year on year, whereas in the first quarter of 2008 it slowed down to 7.8%. The steady growth in household incomes and the development of mortgage lending helped households finance a noticeable share of housing construction in January-March 2008 (52.2%).

### Producer prices

**Industrial producer prices** rose 3.0% in January-March 2008 as against 1.7% in January-March 2007. The acceleration of growth in producer prices was due to their increase in manufacturing industries and in the production and distribution of electricity, gas and water. At the same time, producer prices in the mining sector, in particular, in the fuel and energy sector, were observed to decline.

Producer prices in the mining sector fell 6.2% in the first quarter of 2008 as against 2.8% in the same period of 2007. A more considerable decline was registered in fuel and energy producer prices, which decreased 7.4% (3.4% in January-March 2007). The growth of prices in the mining sector, except the fuel and energy sector, accelerated to 7.0% in January-March 2008 as against 1.1% in January-March 2007.

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



Source: Rosstat.

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



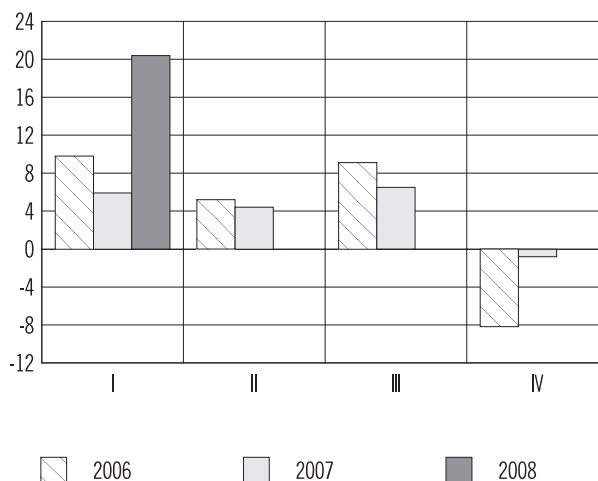
Source: Rosstat.

The contribution of producer prices in the mining sector to overall producer price growth was negative and equalled an estimated -1.7 percentage points in January-March 2008 (which was tantamount to the equivalent containment of industrial producer price growth in that period). In January-March 2007, this contribution accounted for an estimated -0.6 percentage points.

Producer prices in the manufacturing sector increased 4.0% in the first quarter of 2008 as against 0.9% in the first quarter of 2007.

In the manufacturing industries whose output goes directly to the consumer goods market, price growth acceleration in January-March 2008, as compared with the same period of 2007, was

**Freight transportation charges (quarterly, %)**



Source: Rosstat.

registered in the production of food, including beverages, and tobacco (5.5% as against 1.7%), and also in textile and clothing production (4.6% as against 3.1%). Price growth slightly slowed down in the production of leather, leather goods and footwear in the first quarter of 2008 as compared with the first quarter of 2007.

According to estimates, in January-March 2008, growth in producer prices in industries whose output goes directly to the consumer goods market accounted for 1.5 percentage points or 48.4% of growth in the prices of goods and services included in the calculation of core inflation (0.6 percentage points or 16.1% in the same period of 2007).

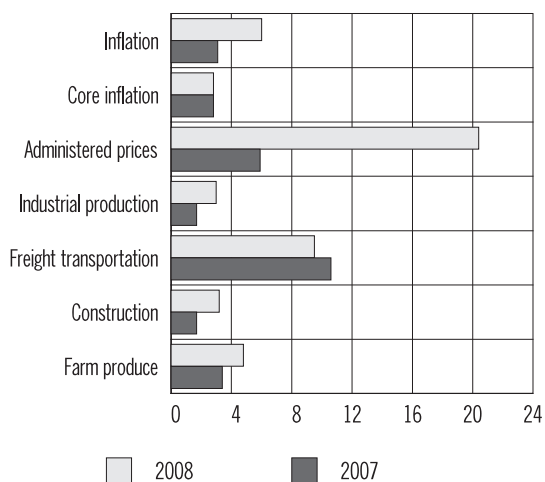
Prices in the production, transmission and distribution of electricity rose 18.9% in the first quarter of 2008 as against 14.0% in the same period of 2007.

**Freight transportation charges** increased 20.4% in the first three months of the year as against 5.9% in January-March 2007. Railway fares were up 11.5% in the period under review (7.7% in January-March 2007).

**Communication fees for corporate entities** grew 10.0% in January-March 2008 as against 4.0% in the first quarter of 2007.

Producer prices in the **construction sector** rose 2.8% in the first quarter of 2008 (the same growth was registered in the first quarter of 2007).

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



Source: Rosstat.

**Agricultural producer prices** increased 6.0% in January-March 2008 (3.1% in January-March 2007) largely due to growth in producer prices in the crop-growing sector, which rose 9.9% (6.7% in the same period last year). The most significant growth in the first quarter of 2008 was registered in vegetable prices, which climbed 32.6% as against 23.6% in the first quarter of 2007.

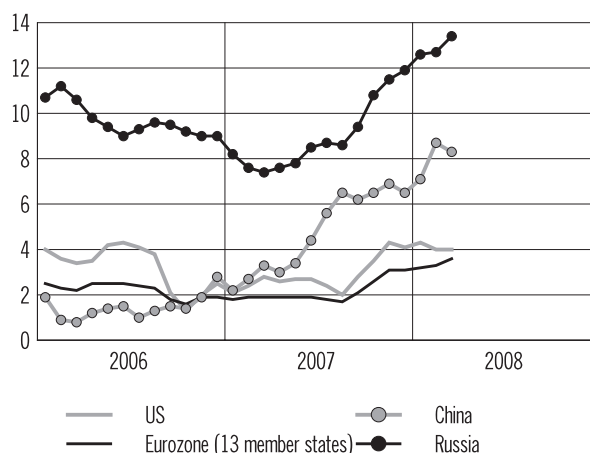
The prices of livestock products increased 3.2% in January-March 2008 (0.8% in January-March 2007). Cattle and poultry prices grew 1.1% in the first quarter of 2008 whereas in the first quarter of 2007 they dropped 0.5%.

The acceleration of growth in agricultural producer prices had a negative effect on food price dynamics on the consumer market.

### Inflation in some countries of the world<sup>3</sup>

*Inflation in the countries that are the major exporters of goods to Russia accelerated to 2.4% in the first quarter of 2008 (March on December of the previous year) from 1.1% in January-March 2007. Price growth accelerated in most of the countries that account for a large portion of Russian imports. The biggest contribution to growth in aggregate inflation in the countries that are the major exporters of goods to Russia was made by the acceleration of price growth in Ukraine (to*

Consumer prices by country (%)\*



\* Consumer price growth on corresponding month of previous year

Source: Bureau of Labor Statistics at the US Department of Labor, Statistical Office of the European Communities (EUROSTAT), China's National Bureau of Statistics, and Rosstat.

<sup>3</sup> Based on data provided by the Bureau of Labor Statistics at the US Department of Labor, the Statistical Office of the European Communities (EUROSTAT) and national statistical offices of other countries. Contribution of individual factors to US and eurozone inflation has been evaluated by the Bank of Russia.

9.7% from 1.3% in the first quarter of 2007). Aggregate inflation was also affected by the acceleration of price growth in Belarus and China. As before, growth in energy and food prices was the factor behind the accelerated inflation in foreign countries.

Inflationary pressure showed the signs of weakening in the United States. Overall consumer price growth was somewhat slower in January-March 2008 (1.7%) than in the same period of 2007 (1.8%). The contribution of food price growth was unchanged from the first quarter of 2007 while the contribution of core inflation to overall consumer price growth decreased. In the eurozone, on the contrary, inflation accelerated to 0.9% in the first quarter of 2008 (March on December of the previous year) from 0.4% in the first quarter of 2007 due to a bigger contribution of the changes in energy prices and, to a lesser extent, due to the contribution of core inflation.

### Foreign trade

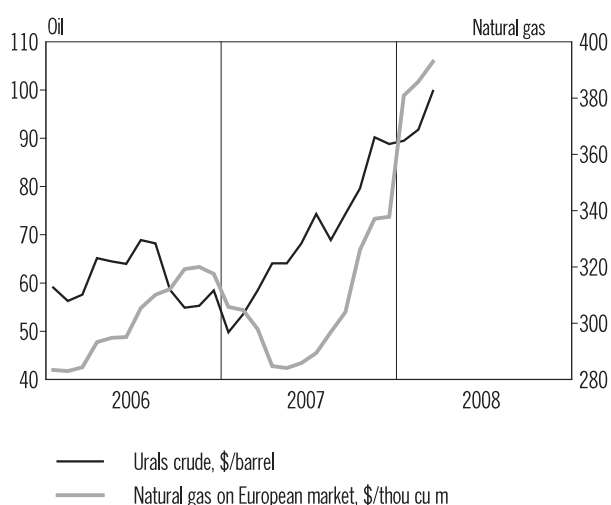
The price situation for the major Russian export commodities on world markets in January-March 2008 was favourable. World market prices of Russian exports<sup>4</sup> were on average higher than in the same period last year, especially energy prices that grew 57.7% while non-energy prices climbed 6.6% on average.

World oil prices were largely observed to increase in the first quarter of 2008. The main reasons for the rise in oil prices on the world market were the weakening of the US dollar against other major world currencies, strong investor demand, growth in China's oil imports, the tough position taken by the OPEC member countries on the oil production quotas, and also interrupted oil deliveries as a result of terrorist attacks on oil pipelines, interruptions in the operation of oil refineries, and tense geopolitical and unfavourable climatic conditions. World oil prices were observed to rise to \$105.6 per barrel in January-March 2008. As a result, the price of Urals crude increased 73.7% in the first quarter of 2008 year on year to \$93.7 per barrel, according to Bank of Russia estimates. Petroleum product prices were on average 70.8% higher than in the first quarter of 2007 while the prices of natural gas in Europe climbed 27.7%.

World ferrous metal prices increased 27.6% in the first quarter of 2008 as compared with the first quarter of 2007 while the prices of iron ore grew 66% and copper 31%. World aluminium and nickel prices dropped 2% and 30%, respectively. The prices of other Russian raw material exports, except timber, were higher than in January-March 2008.

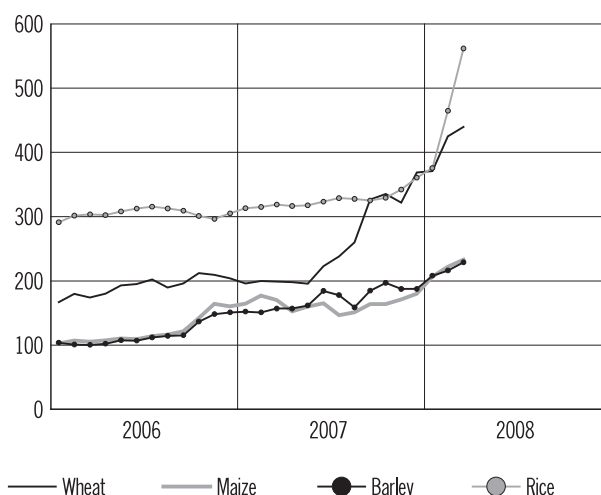
The world prices of food products and agricultural raw materials continued to increase in

World oil and natural gas prices



Source: Reuters, World Bank.

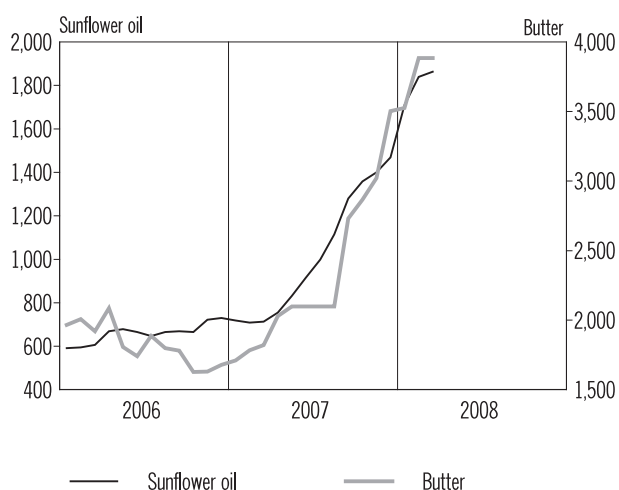
World grain prices (\$/tonne)



Source: World Bank.

<sup>4</sup> 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). Data on average monthly prices of natural gas and ferrous metal price indices were provided by the World Bank, and on other goods, by the International Monetary Fund.

### World animal and vegetable fat prices (\$/tonne)



Source: World Bank, VNIKI (All-Russia Market Research Institute).

January-March 2008 due to rapidly growing demand (especially from rapidly developing Asian nations as well as from African countries), reduction of stocks, and larger use of agricultural raw materials for the production of bio-fuel.

The prices of Russia's major food imports<sup>5</sup> were observed to grow on world markets in the first quarter of 2008. The growth of world demand for food from the consumer sector and industry, the increased costs of the agrarian sector, and changes in the food structure in Asian countries created prerequisites for price increases. The price

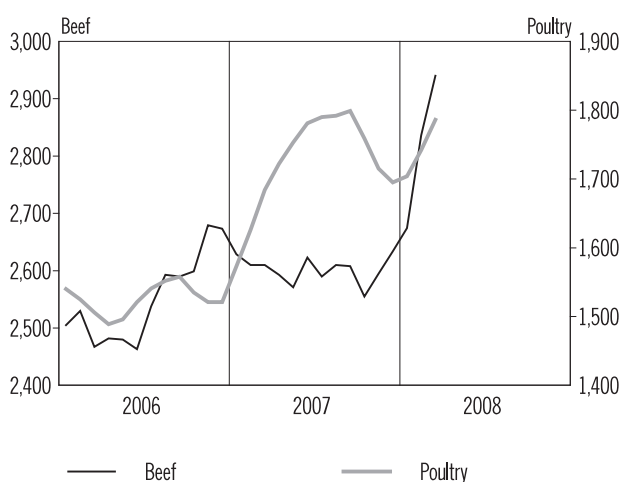
growth was also due to a decrease in food and agricultural raw material stocks, unfavourable weather conditions and dependence on the energy market (the use of food raw materials for the production of ethanol), and the unstable geopolitical situation in some regions of the world.

The prices of grain, sunflower oil, butter, milk and dairy products, vegetables and fruit grew considerably in the first quarter of 2008 as compared with the first quarter of 2007. The prices of poultry, beef and raw sugar also went up.

The prices of US wheat increased 110% and Canadian wheat 170% in the first quarter of 2008 as compared with the first quarter of 2007. The price of Thai rice grew 50%, Canadian barley 40% and American maize 30%. The prices of sunflower oil on the European market increased 150%, butter 110% and raw sugar 9%. Meat prices were observed to grow in the first quarter of 2008 as beef and poultry prices rose 7% year on year. Vegetable and fruit, and beverage prices also registered growth. In particular, the world prices of bananas went up 37% and oranges 35%, while coffee prices grew 26% and tea prices 14%. The contract prices of imported milk increased 90% in January-March 2008 as compared with January-March 2007.

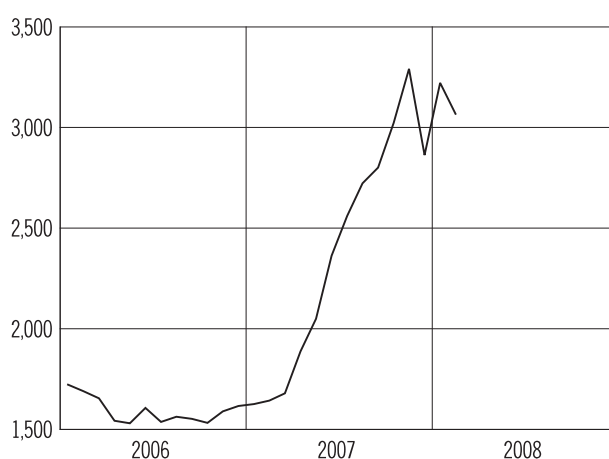
Growth in the prices of exported products was considerably faster in January-March 2008

### World meat prices (\$/tonne)



Source: World Bank.

### Milk contract import prices (\$/tonne)



Source: Rosstat.

<sup>5</sup> Average prices of raw and refined sugar have been calculated on the basis of data provided daily by the London Commodity Exchange. Average monthly prices of grains are based on data reported by the World Bank, butter, beef and poultry by the International Monetary Fund and sunflower oil by the All-Russia Market Research Institute's Bulletin of Commercial Information (VNIKI).



Source: Rosstat.

than growth in import prices, a process that shows that the terms of Russia's trade with foreign countries<sup>6</sup> improved as compared with January-March 2007.

Russia's foreign trade surplus increased in the first quarter of 2008 year on year as exports grew faster than imports. Russia's trade balance surplus<sup>7</sup> increased 63.8% to \$47.5 billion in the period under review (it decreased 20.5% to \$29.0 billion in January-March 2007).

### **Foreign trade in some countries<sup>8</sup>**

According to international trade forecasts for 2008, developed countries, which consume a large part of raw materials, materials and industrial products exported by other countries, will continue to demonstrate relatively slow growth in imports. At the same time, a favourable price situation is predicted in 2008 as a whole for goods traded by emerging economies, especially for the countries exporting energy products as they can benefit from the improved terms of trade resulting from faster growth in export prices as compared with import prices.

Growth in world energy prices since the middle of 2007 was mainly responsible for the increase in value of mineral fuel imports by the European Union and the United States, including

imports from Russia, in January-February 2008 as compared with the same period of 2007. The imports of Russian commodities by the CIS countries were also influenced by growth in oil and natural gas prices.

## **Demand**

### **Domestic demand**

GDP expanded by an estimated 8% in the first quarter of 2008 year on year, a slightly higher figure than in January-March 2007. Domestic demand demonstrated high growth rates. The positive influence of consumer demand on the expansion of the output of goods and services was limited by competitive imports. The share of imports in the retail trade commodity resources in January-March 2008 expanded by a percentage point as compared with the same period a year earlier and stood at 47%. The share of food imports decreased from 37% to 36.8%, while the share of non-food imports expanded by 1.2 percentage points to 54.5%. According to estimates, the domestic demand for imports grew faster than the demand for domestic products.

The expansion of domestic demand due to growth in revenues in various sectors of the economy facilitated dynamic growth in the import of investment and consumer goods. Bank of Russia estimates show that the import of investment goods necessary for economic development grew faster than the import of consumer goods (the latter mostly increased due to rapid growth in the import of cars, household appliances and other non-food products).

Imports from non-CIS states - especially from Asia-Pacific Economic Cooperation (APEC) member countries, and primarily from China - grew faster than overall imports<sup>9</sup> in January-March 2008. Imports from EU member countries also grew faster than overall imports. Imports from the CIS, especially Ukraine, registered slow growth, while imports from Uzbekistan, Turkmenistan and Georgia decreased.

Growth in the import of goods in January-

<sup>6</sup> The ratio between export and import price indices.

<sup>7</sup> According to a balance of payments estimate as of April 4, 2008.

<sup>8</sup> According to the US Department of Commerce Bureau of the Census, the Statistical Office of the European Communities (EUROSTAT) and the IMF (World Economic Outlook, April 2008).

<sup>9</sup> According to data provided by the Federal Customs Service of Russia.



**GDP consumption (growth as % of corresponding period of previous year)\***

	2006					2007				
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year
GDP	6.3	7.4	7.5	8.0	7.4	7.4	8.1	7.3	9.5	8.1
Final consumption	8.2	8.6	9.2	9.7	8.9	10.4	10.6	10.5	11.0	10.6
Of which:										
- households	10.3	10.4	11.5	12.4	11.2	12.4	12.7	12.8	13.1	12.8
Gross capital formation	13.0	23.7	16.4	19.8	18.3	24.9	25.9	18.1	23.6	22.6
Net exports	-7.1	-14.3	-21.5	-22.8	-15.6	-23.1	-29.2	-41.0	-20.4	-28.1
- exports	8.9	6.6	6.1	7.7	7.3	3.8	5.3	4.4	11.3	6.4
- imports	24.0	22.2	19.1	22.9	21.9	28.4	28.9	26.4	26.1	27.3

\* Quarterly data have not been revised or matched with the full-year figures; they are to be updated in March 2008.  
Source: Rosstat.

March 2008 was largely due to the expansion of import volumes. However, growth in import volumes was slower than in January-March 2007. As a year earlier, import prices increased far less than import volumes. The acceleration of growth in import prices in the first quarter of 2008 was caused by a considerable increase in food and agricultural raw material prices. The rise in the prices of some import products, particularly foodstuffs, provoked price growth on the domestic market. Rapid growth in the import of machinery and equipment, especially motor cars, contributed to the significant increase in the cost of imports.

Household spending on final consumption increased 12.8% in 2007 as against 11.2% in 2006. Economic growth, the financial stability of enterprises and the provision of more secure government social guarantees in the first quarter of 2008 led to a 13% increase in real money income. The share of wages and salaries in household money income expanded from 69.4% to 70.5% in the first quarter of 2008, while the share of incomes from entrepreneurial activities contracted. The structure of household income use also changed slightly in January-March 2008: the share of consumer spending expanded from 74.1% to 75.4%, while the share of compulsory payments and duties decreased from 12.8% to 12.3% and the share of organised savings dropped from 9.8% to 8.2%. The share of foreign exchange purchase grew by 1.7 percentage points to 6.9%. Therefore, people preferred to spend more on consumption than increase organised savings amid accelerating inflation and low deposit interest rates.

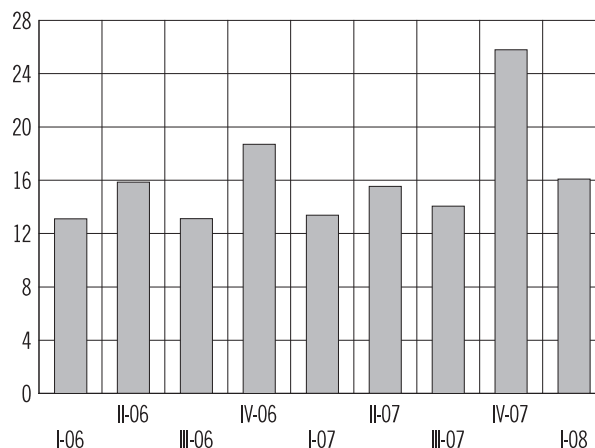
Rapid increase in consumer spending stimulated retail trade, which accelerated its turnover growth to 16.7% in January-March 2008 from 14.6% in January-March 2007, while the value

of paid services provided to the public rose 6.8% (8.7% in January-March 2007). Transport, municipal and communications services accounted for most of the value of paid services.

Government expenditures on final consumption increased 5.0% in 2007 as against 2.5% in 2006. The increase in non-interest federal budget expenditures relative to GDP, the uneven spending of budget funds during the year and, as a consequence, the build-up of expenditures at the end of the year stimulated inflation, especially in the second half of 2007. At the same time, by absorbing additional revenues from oil exports into its Stabilisation Fund, the Russian Government checked growth in consumer prices.

According to Federal Treasury data, federal budget expenditures stood at 15.2% of GDP in January-March 2008 (14.0% in January-March 2007). Non-interest expenditures made up 14.5% of GDP (as against 13.4% in January-

**Non-interest federal budget expenditures (as % of GDP)**



Source: Federal Treasury (Treasury of Russia).

March 2007), the highest ratio since 2000. The increase in non-interest expenditures was mostly due to growth in social spending. Larger expenditures in the first quarter of 2008 were also attributable to measures taken by the Finance Ministry to level out cash expenditures during the year. The federal budget execution in terms of non-interest expenditures was 18.0% of the level written down in the 2008 federal budget law as amended, which represents the highest figure for the past three years (14.1% in the same period of 2007).

In accordance with the new principles enforced in 2008 to manage federal budget revenues received from the payment of export duties and taxes on crude oil and natural gas, oil and natural gas revenues in the first quarter of 2008 were channelled in full into forming the oil and natural gas revenue fund in the federal budget. Therefore, the Reserve Fund and the Sovereign Wealth Fund, as compared to the mechanism of forming the Stabilisation Fund of the Russian Federation, were not replenished in the first quarter of 2008. At the same time, the value of funds on the government's deposit accounts with the Bank of Russia grew by 988.9 billion rubles in the first quarter of 2008 (an increase of 284.3 billion rubles or 40.3% as compared with the same period of 2007), and continued to have absorbing effect on liquidity dynamics.

The federal budget surplus stood at 6.8% of GDP in January-March 2008, which represents a decrease of 0.3 percentage points as compared with the same period of 2007. The decline in the federal budget surplus in 2007 and early 2008, resulting from growth in budget expenditures, can be viewed as an indicator of fiscal policy easing. The expansion of domestic demand caused by this factor can exert extra inflationary pressure in 2008.

Gross capital formation increased 22.6% in 2007 as against 18.3% in 2006. Investment activity remained high in January-March 2008. Fixed capital investment expanded 20.2% in the first quarter of 2008 as against 22.8% in the first quarter of 2007. The largest sums were invested in the mining sector, transport and communications.

Investments in machinery, equipment and transport vehicles accounted for more than a third of total investments. About one fifth thereof was used to acquire imported equipment. Imports of

machinery, equipment and transport vehicles increased 54.9% in 2007 as against 51.3% in 2006. Growth in engineering imports helps modernise production and introduce technological innovations and, consequently, raise labour productivity, control price growth in the economy, and create conditions for sustainable economic growth.

Fixed capital investment was largely financed (by 58.5%) by raising funds in 2007. Growth in revenues in the economy led to the expansion of the share of budget funds in investment financing (from 20.2% to 21.2%). The share of bank loans in investment financing stood at 9.4% (as against 9.5% in 2006).

According to data compiled by Rosstat in the course of studying investment activity, the principal objective of investment in 2007 was to replace worn-out technology, enhance the efficiency of production and expand production capacity. The major obstacles to growth in investment were the shortage of own funds, big risks and high interest rates on bank loans.

As imports grew considerably faster than exports, net exports of goods and services decreased 28.1% in 2007.

As a result, high investment activity and growth in household incomes stimulated economic growth. At the same time, growing demand caused production to exceed its natural (potential) level and, consequently, contributed to the acceleration of price growth on the consumer goods market.

### **Foreign demand<sup>10</sup>**

*According to IMF estimates, world production growth will slow to 3.7% in 2008 from 4.9% in 2007. GDP growth in the countries that account for a substantial part of Russian exports slowed to an estimated 3.6% in January-March 2008 from 5.1% in the first quarter of 2007 and is expected to decelerate further to 3.2% in 2008 (as against 4.6% in 2007). Demand in foreign countries has been adversely affected by the unfavourable situation on the real estate market and in the construction sector, increased credit risks and volatility on financial markets. Expected changes in external conditions can lead to the slowing of growth in demand for industrial products and raw materials, including energy and metals.*

The value of Russian exports increased in

<sup>10</sup> According to data compiled by the national statistical offices of Russia's trading partners.

January-March 2008 year on year, largely due to growth in the value of oil, petroleum products and natural gas exports resulting from a significant rise in energy prices. Contract export prices grew considerably faster in January-March 2008 than in the first quarter of 2007. The exports of goods<sup>11</sup> increased 50.7% to \$108.1 billion in January-March 2008 year on year. Export volumes grew more slowly than export prices. Exports of goods to the EU, especially Italy and Poland, and APEC member countries, particularly the Republic of Korea and Japan, rose faster than overall exports of goods<sup>12</sup> in January-March 2008. Meanwhile, growth in exports to CIS countries slowed down.

### Supply

The economic situation in Russia in 2007 was characterised by the year-on-year acceleration of production growth in many types of economic activity. The manufacturing sector, trade, education and healthcare increased their contribution to value added growth in 2007 as compared with 2006, whereas the mining sector's contribution decreased. This process indicates that the Russian economy has become less susceptible to the fluctuating external economic conditions and the role of the services sector has increased.

Output in most types of economic activity continued to increase in the first quarter of 2008. Output in the key types of activity increased 8.7% in January-March 2008 (as against 8% in the first quarter of 2007). The most rapid rates of growth were registered in the construction sector and retail trade. Retail trade turnover expanded 16.7% in January-March 2008 as against 14.6% in January-March 2007, while growth in the construction sector stood at 28.9% as against 17.2% a year earlier. Growth in freight transport turnover accelerated to 4.2% from 3.2% in the same period last year.

Industrial output expanded 6.2% in January-March 2008 as against 7.2% in January-March 2007. The year-on-year deceleration of production growth in January-March 2008 was largely due to the slowing of growth in output in manufacturing industries (from 12.8% in the first quarter of 2007 to 8.7% in the first quarter of 2008) and also in the mining sector (from 4% to 0.7%).

The expansion of supply had a favourable effect on price dynamics in the economy. Agricultural output increased 4.5% in January-March 2008 as against 3.4% in January-March 2007. There was a rise in the output of major livestock products, including cattle and poultry (by 8.9%) and milk (by 2.1%). As a result, the output of meat and meat products increased 13.5% in January-March 2008 year on year (of which the production of meat and premium-quality by-products, grew 19.7%). Growth in livestock producer prices was moderate and stood at 3.2% in January-March 2008. Nevertheless, this growth was faster than in the same period last year (0.8%).

Growth in agricultural producer prices accelerated to 6% in the first quarter of 2008 as against 3.1% in the first quarter of 2007, with price growth in crop production quickening to 9.9% as against 6.7%, respectively. Especially high was the increase in potato prices (by 20%) and vegetable prices (by 32.6%).

The rate of production capacity utilisation has increased persistently in recent years. The Centre for Economic Studies has estimated that the rate of production capacity utilisation in industry stabilised at 70% in the second and third quarters of 2007, exceeding by 2 percentage points the rate registered in the third quarter of 2006. The highest capacity utilisation rate was registered at the pulp-and-paper enterprises specialising in the book publishing and printing business (80%) and enterprises turning out rubber and plastic products (79%) and other non-metal mineral products (77%). The lowest capacity utilisation rate was registered at enterprises producing foodstuffs (63%) and coke and petroleum products (62%).

Estimates show that the production gap between actual and potential output was positive in the first quarter of 2008, which is a sign of high inflationary pressure in the economy.

### Labour market

One factor of the acceleration of inflation was growth in the number of people employed in the economy in early 2008. In January-March 2008, the number of jobholders rose by 1.9% as against 2.2% in the same period last year.

Labour productivity increased by an esti-

<sup>11</sup> According to a balance of payments estimate as of April 4, 2008.

<sup>12</sup> According to data provided by the Federal Customs Service of Russia.



mated 5.5% in 2007 (as against 6.5% in 2006), restraining price growth in the economy. According to estimates, labour productivity in the services sector grew faster than in the production of goods in 2007 as compared with the previous year. Growth in the services sector considerably exceeded growth in the manufacturing sector. The number of people employed in the services sector increased in 2007 year on year, whereas the manufacturing sector registered a fall in job numbers.

Estimates show that in January-March 2008, as in the previous years, real wages grew faster (by 14%) than labour productivity. At the same time, the gap between growth in real wages and growth in labour productivity narrowed as compared with the same period last year.

The share of wages in the GDP structure by source of income expanded from 44.1% in 2006 to 45.6% in 2007.

Wages continued to differ widely in different types of activity in early 2008. The highest average monthly wage in January-March 2008 was

registered in the financial sector (41,481 rubles) and fuel and energy production (34,956 rubles). They exceeded the national average by 2.8 and 2.3 times, respectively. The lowest wages were registered in agriculture, hunting and forestry (6,503 rubles), the textile and clothing industry (7,204 rubles), and the production of leather, leather goods and footwear (8,332 rubles). These made up, respectively, 43.2%, 47.9% and 55.4% of the national average monthly wage. Below-average wages were characteristic in the types of activity that were funded, to a large extent, from the federal budget (education, utility, social and other services and healthcare).

The number of unemployed, calculated according to the ILO-recommended methodology, continued to fall in January-March 2008 as it decreased by 10% (as against 8.5% in January-March 2007). The total number of jobless stood at 6.3% of the economically active population (as against 7% in the first quarter of 2007).

## Monetary Conditions

### Exchange rate

Judging by the evaluation of Russia's balance of payments, the current account surplus amounted to \$39.0 billion in the first quarter of 2008 as against \$25.0 billion in the fourth quarter of 2007. The ongoing turmoil on international financial markets provoked a net capital outflow of \$24.9 billion from the private sector of the Russian economy in January-March 2008.

The Bank of Russia remained, in this situation, the net buyer of foreign exchange, cushioning fluctuations of the operational benchmark – cost of the bi-currency basket, whose composition remained unchanged from the fourth quarter of 2007 (0.45 euros and 0.55 US dollars). The Bank of Russia's operations contributed to growth in Russia's international reserves, which increased by \$30.6 billion in the first quarter of 2008 (by \$51.0 billion in the fourth quarter of 2007) to \$507.0 billion as of April 1, 2008.

**The nominal ruble/dollar rate** gained less in the first quarter of 2008 than in the previous quarter (1.6% as against 3.5%). Until mid-February, the ruble/dollar rate fluctuations were characterised by different dynamics accompanied by technical exchange rate readjustments. Despite the prevailing trend towards the US dollar weakening attributable to the threat of a credit crisis, the US currency was helped on many occasions by

the publication of positive reports on the US macroeconomic situation and also by statements of some US officials. In particular, in January, the US Treasury provided data on the growth of capital inflow into the US economy while Ben Bernanke, Chairman of the US Federal Reserve System, spoke about the need to step up fiscal measures to support the economy. However, starting from mid-February, a clearly expressed trend towards the US dollar's depreciation was observed amid slower growth in the US economy. As a result, the prices of futures contracts reflected increased probability that the US Federal Reserve would cut its key interest rate. Eventually, the value of the US currency was adversely affected by the US Federal Reserve's decisions to cut the federal funds rate by a total of 1 percentage point. In March, monthly growth in the ruble's appreciation against the US dollar in nominal terms accelerated to 3.3%. As a result, the ruble rose to 23.52 against the dollar by the end of the first quarter of 2008.

**The nominal ruble/euro rate** fell by 1.6% in the first quarter of 2008 as compared with the fourth quarter of 2007 (in 2007 Q4 it declined by 1.9%). **The nominal rate of the ruble against the bi-currency basket** fell by 0.2% in the first quarter of 2008, whereas in the fourth quarter of 2007 it gained 0.6%.

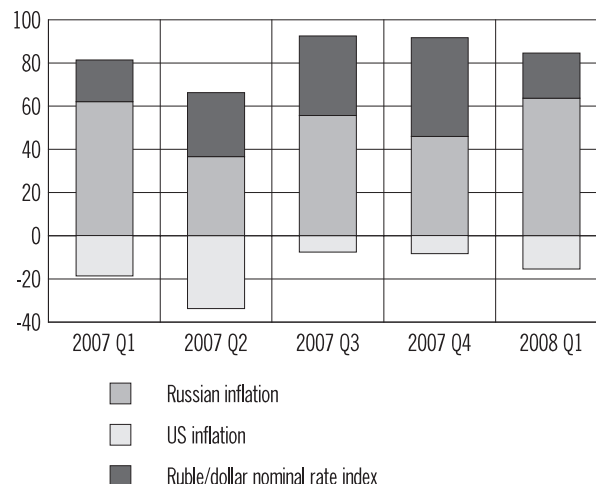
### The nominal effective rate of the ruble

Nominal ruble/US dollar and ruble/euro rate in 2008 Q1



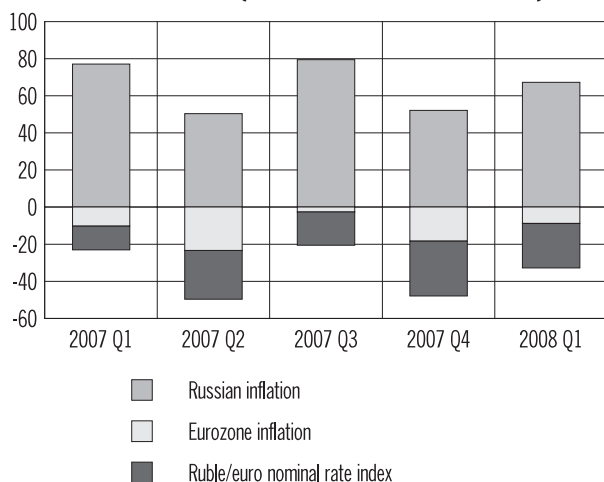
Source: Bank of Russia, Reuters.

Decomposition of change in real ruble/US dollar rate in 2007-2008 (as % of real ruble rate index)



Source: Bank of Russia, Reuters.

**Decomposition of change in real ruble/euro rate in 2007-2008 (as % of real ruble rate index)**

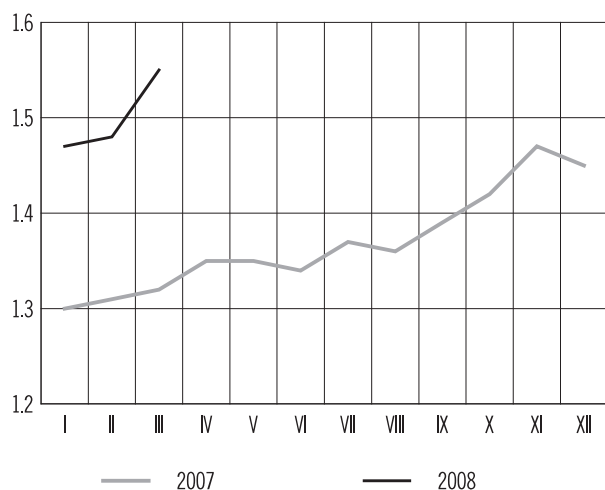


Source: Bank of Russia, Reuters.

against foreign currencies fell by 0.8% in the first quarter of 2008 (as against 0.6% in the fourth quarter of 2007). **The real effective rate of the ruble** gained 1.7% (as against 0.7% in the previous quarter). The faster appreciation of the real effective rate of the ruble in January-March 2008 than that of the nominal effective rate was due to higher inflation in Russia as compared with its leading trading partners.

**The real ruble/dollar rate** appreciated 5.1% in the first quarter of 2008 (as against 6.2% in the fourth quarter of 2007). The relative contribution of the nominal ruble rate and Russian inflation to the strengthening of the real ruble/dollar rate gradually became more even during 2007, whereas in January-March 2008 it was significant

**Average monthly euro/US dollar rate (\$/euro)**



Source: Reuters.

consumer price growth in the Russian economy that proved to be a prevailing factor again.

**The ruble/euro real exchange rate** gained 2.1% in the first quarter of 2008 as against 0.6% in the fourth quarter of 2007. Relatively higher domestic inflation remained the main factor of ruble/euro real exchange rate dynamics.

The weakening of the US dollar against the ruble in the first quarter of 2008 contributed to the slowing of consumer price inflation in Russia by about 0.08 percentage points. However, its effect was entirely offset by the strengthening of the nominal rate of the euro against the ruble. Calculations show that a slight decrease in the nominal rate of the ruble against the bi-currency basket in January-March 2008 will bring about a slight upward pressure on inflation during 2008 and, according to estimates, it will not amount to more than 0.05 percentage points.

**On the international currency market**, the dollar depreciated against the currencies of most of Russia's trading partners in the first quarter of 2008. It lost the most against some European currencies (the Swiss frank, the Czech and Slovak koruna and the Polish zloty) and the Japanese yen. Compared to December 2007, in March 2008 the dollar lost more than 6% against the euro, more than 4% against the yuan, and about 11% against the yen. The devaluation of the dollar against the euro resulted from higher interest rates in the eurozone as compared with the United States. As China broadened the range of the yuan's intraday fluctuations against the US dollar from mid-2007, the yuan strengthened more rapidly in early 2008 as compared with the first quarter of 2007. The Ukrainian hryvnia remained unchanged against the dollar in the first quarter of 2008. The National Bank of Belarus formulated the task to maintain a stable rate of the Belarusian ruble against the dollar as a guideline for its exchange rate policy in 2008.

## Interest rates

### Money market and Bank of Russia interest rates

As before, the objective of the US Federal Reserve in early 2008 was to maintain stability in the financial sector. In the first quarter of 2008, it cut the benchmark federal funds rate from 4.25% to 2.25% p.a. (in April, the rate was cut to 2%

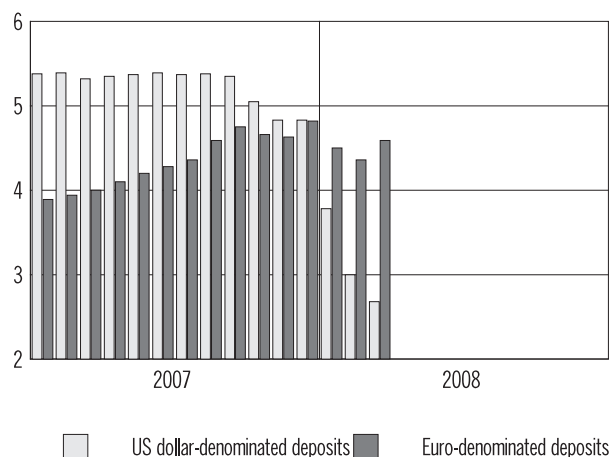
p.a.). The European Central Bank maintained the refinancing rate at 4% p.a. due to increased inflation risks in the eurozone. The Bank of England in the first quarter of 2008 cut the refinancing rate from 5.5% to 5% p.a. Sweden, Poland, Hungary and the Czech Republic raised interest rates. LIBOR rates fell by 1.9-2.2 percentage points on the dollar-denominated deposits with terms from one month to one year in January-March 2008 (March on December 2007) and were largely unchanged on the euro-denominated deposits. LIBOR rates on the dollar-denominated deposits were lower than LIBOR rates on the euro-denominated deposits with the same terms.<sup>1</sup>

The Bank of Russia took a decision to raise interest rates on its operations from February 4, 2008 to curb inflation and further reduce growth in money supply. The overnight credit rate setting the upper limit of the Bank of Russia interest rate band was raised from 10% to 10.25% p.a. The interest rate on standard "tom-next" deposit operations setting the lower limit of the Bank of Russia interest rate band was increased from 2.75% to 3% p.a.

The minimum repo auction interest rates with different terms were set as follows: overnight at 6.25% p.a., seven days at 6.75% p.a. and 90 days at 9.75% p.a.

Interest rates on Bank of Russia standard "spot-next" and "call" deposit operations were raised to 3% p.a., and on standard "one-week" and "spot-week" deposit operations to 3.5% p.a.

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



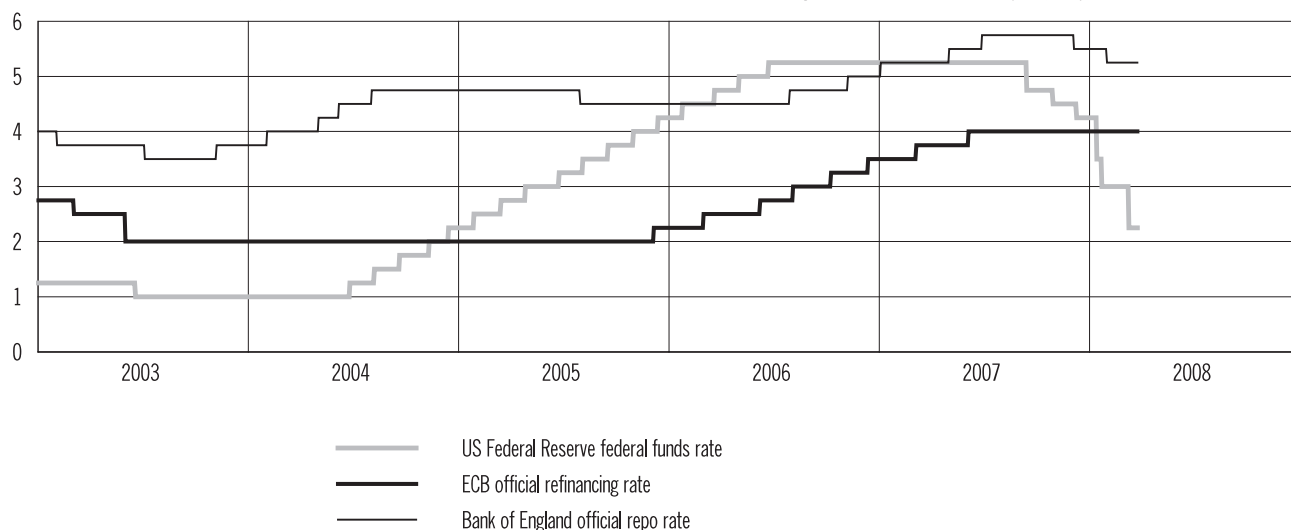
Source: Reuters.

The interest rates on other operations of the Bank of Russia were also changed.

The average weighted one-day repo auction rate ranged from 6.01% to 6.60% p.a. in the first quarter of 2008 (in the fourth quarter of 2007, it varied between 6.03% and 6.70% p.a.).

In January-March 2008, the average weighted interest rate at the 4-week deposit auctions ranged from 4.02% to 4.29% p.a. (in the fourth quarter of 2007, it varied between 4.01% and 4.19%) and at the 3-month deposit auctions from 4.65% to 4.81% p.a. (from 4.90% to 4.95% p.a. in the fourth quarter of 2007). The average weighted yield at the Bank of Russia bond (OBR)

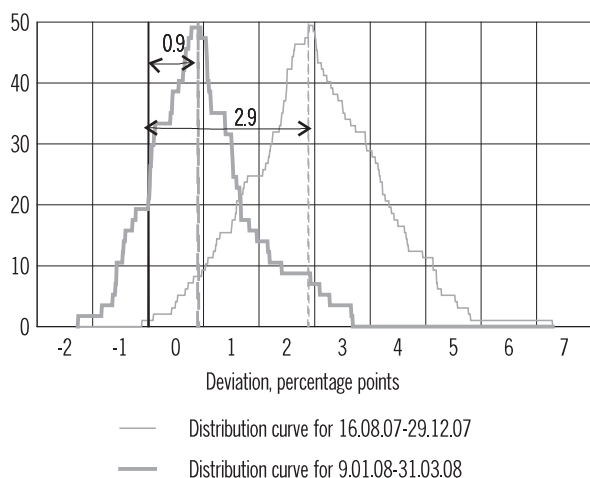
**European Central Bank, Federal Reserve and Bank of England interest rates (% p.a.)**



Source: ECB, Federal Reserve and Bank of England.

<sup>1</sup> Source: Reuters.

**Folded distribution curve for cumulative frequencies of MIACR deviation from Bank of Russia deposit rates (%)**

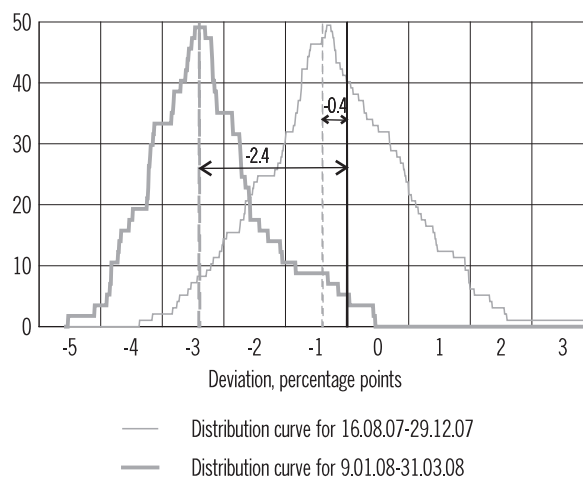


Source: Bank of Russia.

auctions ranged from 4.73% to 5.45% p.a. (in the fourth quarter of 2007, it varied between 5.06% and 5.30% p.a.).

Folded cumulative frequency distribution curves were used to analyse the deviations of money market short-term interest rates (MIACR rates<sup>2</sup>) from interest rates on the largest Bank of Russia operations (deposit and repo rates<sup>3</sup>). The distribution curves drawn for the first quarter of 2008 were compared with the ones drawn for the period from August 16 to December 29, 2007.

**Folded distribution curve for cumulative frequencies of MIACR deviation from Bank of Russia repo rates (%)**

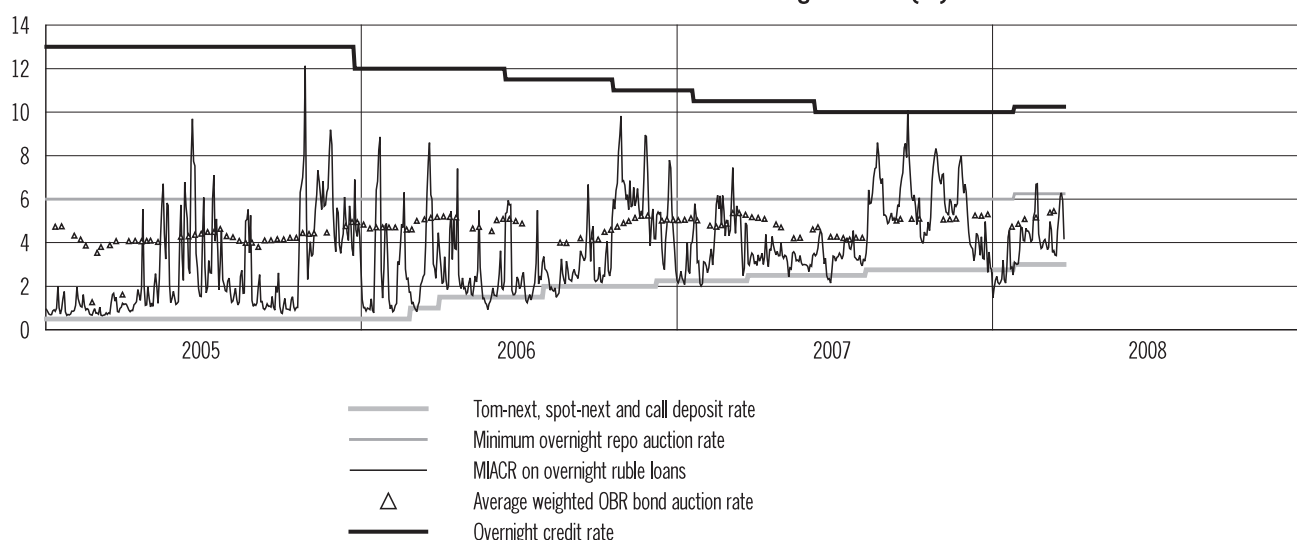


Source: Bank of Russia.

The dynamics of MIACR deviation from interest rates on the Bank of Russia operations testified to the fact that the MIACR rate was considerably closer to the Bank of Russia deposit interest rate in the first quarter of 2008 than in the second half of 2007. In particular, the MIACR median deviation from the Bank of Russia deposit rate decreased considerably in the first quarter of 2008 and stood at 0.9 percentage points (as against 2.9 percentage points in August-December 2007).

At the same time, the MIACR deviation from

**Bank of Russia interest rates and overnight MIACR (%)**

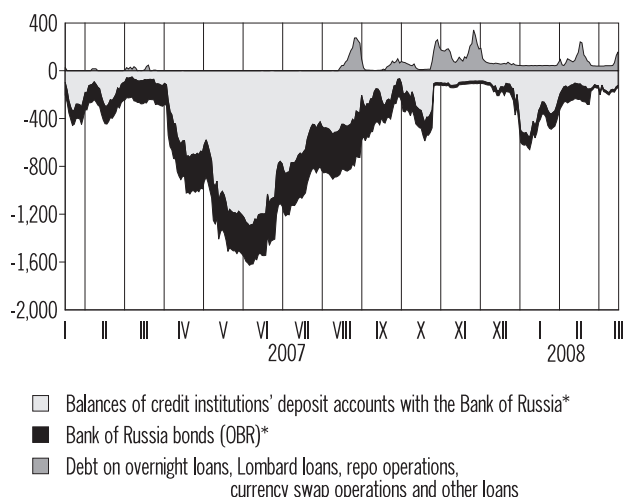


Source: Bank of Russia.

<sup>2</sup> Average weighted interest rate on overnight interbank ruble-denominated loans on the Moscow market (extended mostly without security).

<sup>3</sup> Interest rate on "tom-next," "spot-next" and "call" deposits, which sets the lower limit of the Bank of Russia interest rate band, has been used as the deposit rate. The minimum overnight repo auction interest rate was assumed as the repo rate (6% until February 4, 2008 and 6.25% p.a. after February 4, 2008).

**Bank of Russia major operations (billion rubles)**



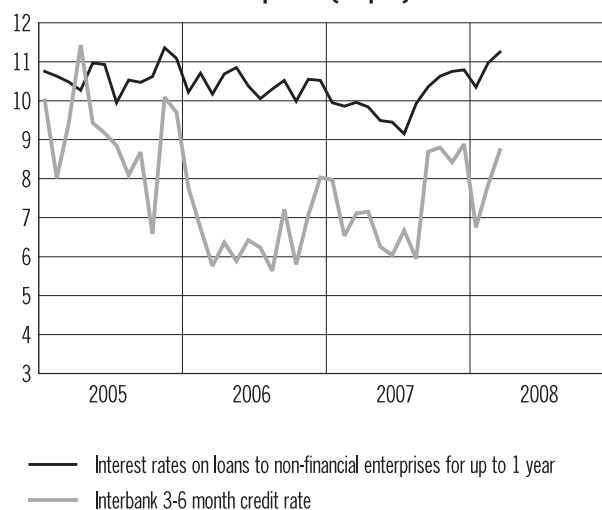
\* Increase - (-).  
Source: Bank of Russia.

the Bank of Russia repo rate increased considerably in the first quarter of 2008 and stood at -2.4 percentage points as against -0.4 percentage points in August-December 2007. This change shows that banks have become more active in using liquidity absorption operations as compared with the previous period.

Therefore, the dynamics of MIACR deviation from the Bank of Russia rates suggests that liquidity on the money market contributed to the fact that MIACR was on average lower in the first quarter of 2008 as compared to the fourth quarter of 2007. The average daily value of the Bank of Russia debt on instruments used to absorb credit institutions' temporarily surplus funds increased to 333.9 billion rubles in the first quarter of 2008 as against 223.4 billion rubles in the fourth quarter of 2007. At the same time, credit institutions' debt to the Bank of Russia on liquidity instruments dropped on average in January-March 2008 to 65.9 billion rubles as against 100.7 billion rubles in the fourth quarter of 2007.

**The interest rate on overnight ruble loans on the interbank market remained within the Bank of Russia interest rate band during most of the first quarter of 2008. On some days in the first half of the quarter, the interbank rate dropped below the Bank of Russia rate on ruble-denominated "tom-next" deposits. The overnight ruble-denominated MIACR range of fluctuations narrowed slightly to 1.47-6.71% p.a. in 2008 Q1 from 2.63-8.32% in 2007 Q4. The average MIACR on overnight**

**Interest rates on interbank loans and loans to non-financial enterprises (% p.a.)**

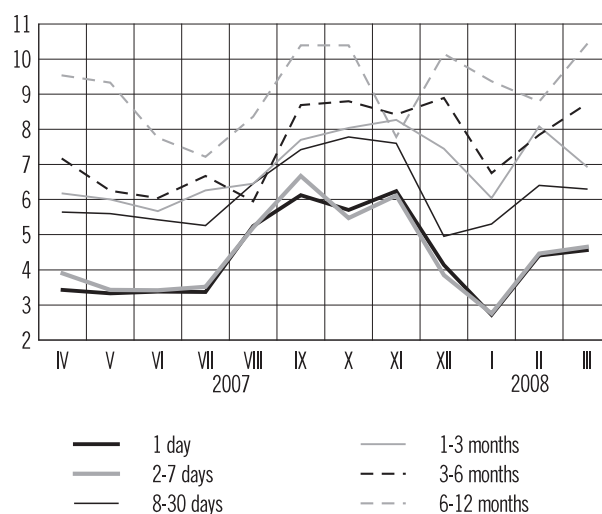


Source: Bank of Russia.

ruble-denominated loans stood at 3.79% p.a. in 2008 Q1 as against 5.43% p.a. in 2007 Q4. Decline in the level of the overnight interbank ruble loan rate as compared with the previous quarter, which continued to fluctuate within a wide range, was attributable to the absence of any noticeable ruble liquidity deficit and the relatively high cost of external funding for credit institutions observed from the second half of 2007.

The fact that credit institutions did not experience any significant shortage of liquid ruble resources also affected longer-term interbank loan rates. The average interest rate on interbank ruble loans with terms from one to three months fell from 7.9% p.a. in the fourth quarter of 2007 to

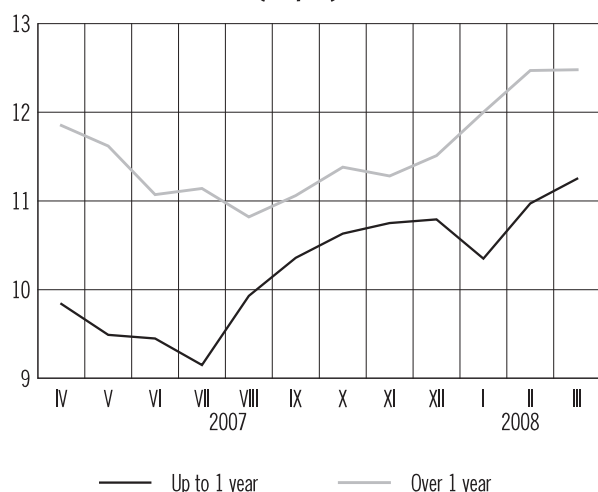
**Interest rates on interbank ruble loans (% p.a.)**



Source: Bank of Russia.



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

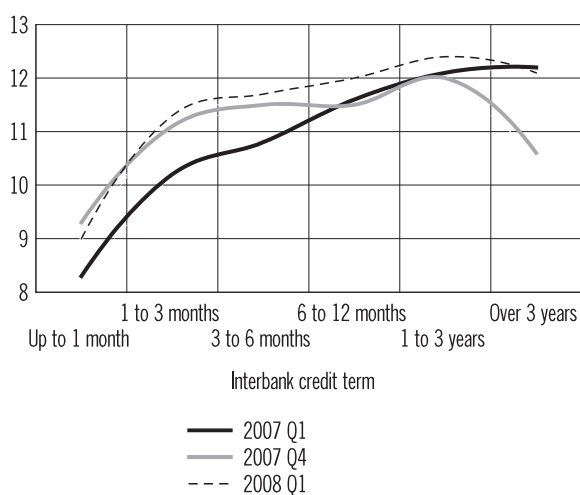


Source: Bank of Russia.

7.0% p.a. in the first quarter of 2008, with terms from three to six months it dropped from 8.7% p.a. to 7.8% p.a. and with terms from six to twelve months it climbed from 9.4% p.a. to 9.5% p.a., respectively. The average spread between interest rates on interbank ruble loans with terms of three to six months and overnight loans stood at 3.9 percentage points in January-March 2008 (as against 3.3 percentage points in the fourth quarter of 2007).

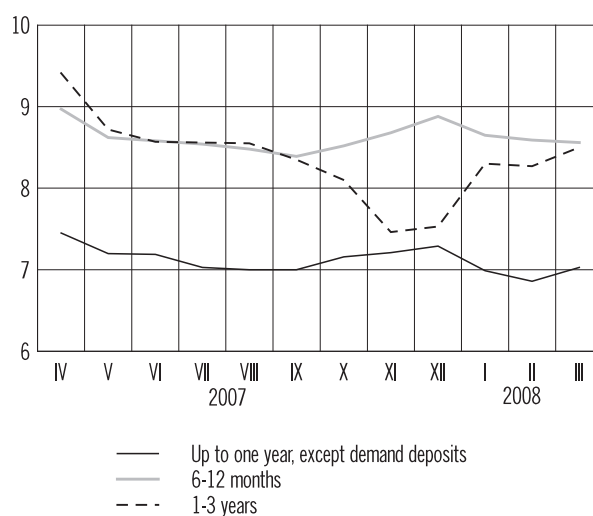
The cost of **bank credit to non-financial enterprises** was affected by the high cost of external funding, growing demand for credit resources and the Bank of Russia's decision to raise the refinancing rate since February 4. The average

### Yield curve for ruble loans to non-financial enterprises (% p.a.)



Source: Bank of Russia.

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



Source: Bank of Russia.

interest rate on short-term loans to non-financial enterprises increased by 13 basis points in the first quarter of 2008 as compared with the fourth quarter of 2007 and reached 10.9% p.a., and the long-term credit rate increased by 93 basis points to 12.3% p.a. Compared to the previous quarter, the first quarter of 2008 saw the yield curve for loans to non-financial enterprises move up in the over-1-month segment, and it moved down in the shorter-term segment. As a result, the gradient of the yield curve for loans to non-financial enterprises increased, suggesting that the persistent medium-term inflationary expectations of credit market participants remained unchanged.

The average interest rate on **loans to households** with terms of up to one year rose by 127 basis points in the first quarter of 2008 as compared with the fourth quarter of 2007 and stood at 20.9% p.a., and the rate on loans with terms longer than one year increased by 33 basis points to 15.1% p.a. Compared to the fourth quarter of 2007, in January-March 2008 the average interest rate **on household deposits** with terms of up to one year decreased by 26 basis points and stood at 7.0% p.a. whereas the rate on deposits with terms of one to three years rose by 66 basis points to 8.4% p.a.

### Asset prices

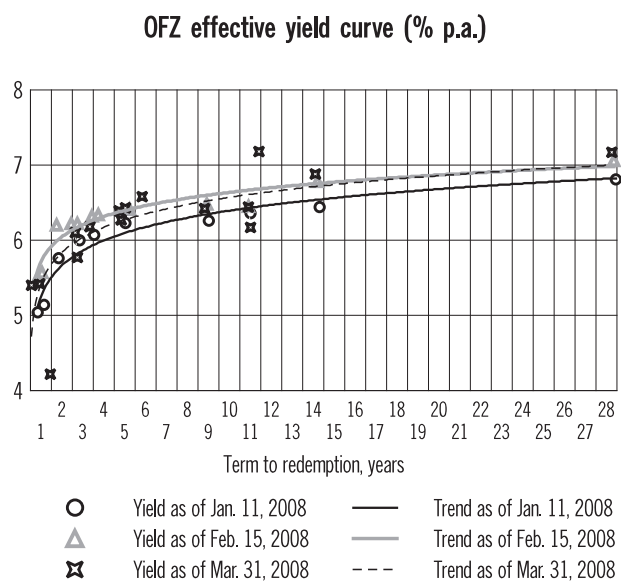
In the first quarter of 2008, yields on the **federal loan bond (OFZ) market** demonstrated an upward dynamics. By the end of the first quarter, the OFZ market portfolio effective indicator had

increased by 31 basis points as compared with the end of the previous quarter and stood at 6.84% p.a. The average quarterly market portfolio effective indicator rose by 13 basis points and stood at 6.71% p.a.

The OFZ yield curve retained its rising direction in the first quarter of 2008. In mid-February, it moved up relative to the beginning of January, reflecting OFZ yield growth after the Bank of Russia's decision to raise the refinancing rate. By the end of March, the OFZ yield curve had become steeper due to the fall in yields on short-term government bonds and the growth of yields on longer-term instruments. This change reflects some growth in risk premiums on OFZ bond operations amid investors' persistent future inflationary expectations.

In the first quarter of 2008, the **Russian stock market** demonstrated a considerable price downturn attributable to capital outflow from the domestic stock market influenced by negative developments on international financial markets. The average quarterly levels of Russia's major stock indices RTS and MICEX declined by 7.4% and 9.5%, respectively, in 2008 Q1 as compared with 2007 Q4.

Against the decline of Russia's major stock indices in the first quarter of 2008, the stock price dynamics varied considerably by the sectors of the economy. In the period under review, a downturn in stock prices was registered in telecommunications, consumer goods and retail trade, financial,

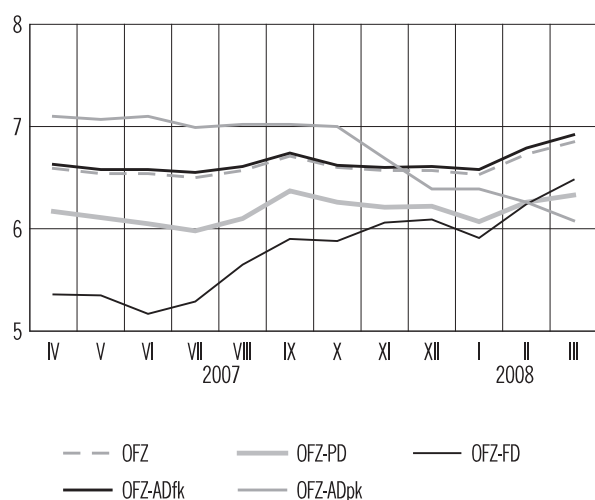


Source: Bank of Russia.

energy, and oil and gas sectors, the downward trend being most pronounced – judging by average quarterly indicators – in the financial sector. That was mainly due to the global decline in the banking sector stock prices caused by the continued crisis on the world financial market. At the same time, there was an increase in the stock prices of major Russian companies in industrial sector and metallurgy largely attributable to their lesser sensitivity to global price fluctuations, as compared with the highly liquid stocks in other sectors of the economy.

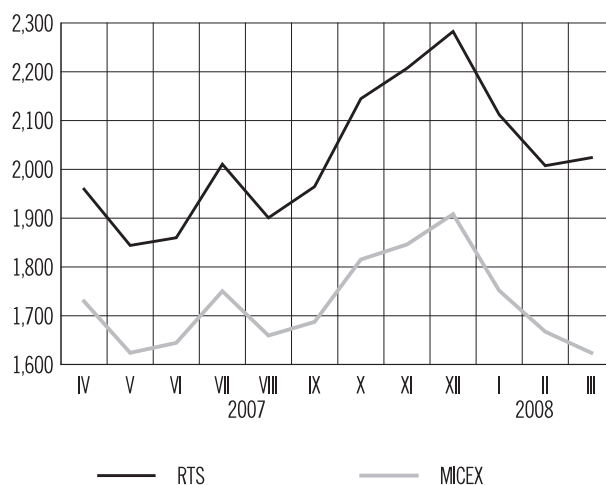
Judging by the good fundamentals of the Russian economy, the stock prices of Russian com-

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



Source: Bank of Russia.

Russia's major stock indices (points)\*



\* Monthly averages.  
Source: Bank of Russia.



panies that demonstrated a downtrend in January-March have a potential for growth in the second quarter of 2008.

## Monetary aggregates

The slowdown in the annual growth in **money supply**, which began in the second half of 2007, continued in the first quarter of 2008, affected by both the dynamics of money demand and the conditions of money supply.

Despite a persistently rapid economic growth, **the demand for money** may increase slower in 2008 as compared to the previous year due to some factors restraining its growth.

The slowdown in consumer price growth in the previous years contributed to the accumulation of financial assets by households. However, the price growth that accelerated in the second half of 2007 and continued into the first quarter of 2008 adversely affected the public propensity for organised savings.

The process of the economy's de-dollarisation has been a major factor of the increased demand for the domestic currency in the past few years. However, in 2007 and the first quarter of 2008 growth in foreign currency-denominated deposits accelerated considerably, and net sales of foreign cash (largely euros) to households through banks increased significantly at the end of 2007 and in the first months of 2008 – partly due to a considerable appreciation, in nominal terms, of the euro against the ruble, as well as cuts in interest rates on the largest household

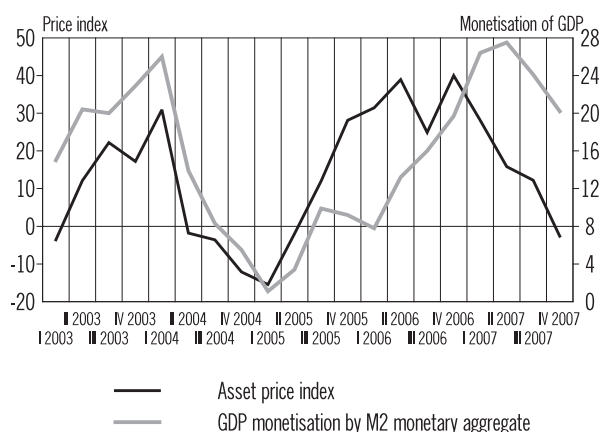
ruble-denominated deposits during most of 2007. Growth in foreign currency savings (both in cash and non-cash forms) also exerted downward pressure on the dynamics of savings denominated in the domestic currency.

Faster growth in the demand for money than economic growth (and, consequently, the increase in the monetisation of the economy) in the previous years was due to the asset price dynamics. In the past few years, asset prices were observed to grow considerably more rapidly than consumer prices prompting the economy's extra transactional need for money and decelerating the velocity of money. However, a slowdown in the growth of asset prices (and, along with it, a less intensive fall in the velocity of money) that began in 2007 and, according to estimates, continued into the first quarter of 2008, restrained the increase in the demand for money.

Therefore, given that this situation persists, growth in the demand for the domestic currency is likely to slow down this year as compared with the previous year.

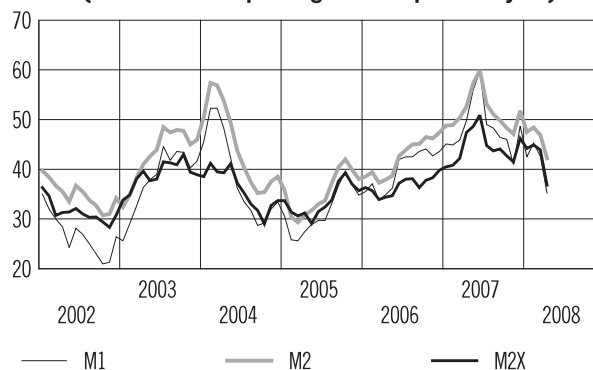
The annual rate of growth in money supply slowed down in the first quarter of 2008 amid a considerable fall in the volume of Bank of Russia currency interventions as compared with the first quarter of 2007. A significant net outflow of capital from the private sector in the first quarter of 2008 cut considerably the inflow of foreign currency channelled through the capital account. The value of funds on the government's deposit ac-

**Asset price index\* (in real terms) and monetisation of the economy (as of end of period, as % of corresponding period of previous year)**



\* Geometric average of the RTS index (in ruble terms) and housing price index.  
Source: Bank of Russia, Rosstat.

**Monetary aggregates (as % of corresponding date of previous year)**



Definition of aggregates:

M1 - cash in circulation (M0) and demand deposits;

M2 = M1 + ruble accounts of resident non-financial enterprises and resident individuals;

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

Source: Bank of Russia.

counts with the Bank of Russia grew faster in the first quarter of 2008 as compared with the same period last year. That is why, despite the year-on-year acceleration of growth in the value of the credit institutions' claims on non-financial enterprises and households in the first quarter of 2008, a considerable decrease in the Bank of Russia currency interventions amid the continued accumulation of funds on the government's deposit accounts with the Bank of Russia slowed down growth in money supply. As a result, the annual rate of growth in **monetary aggregate M2** declined in the first quarter of 2008 (except January) to 42.2% as of April 1, 2008 from 47.5% as of January 1, 2008 and 52.6% as of April 1, 2007.

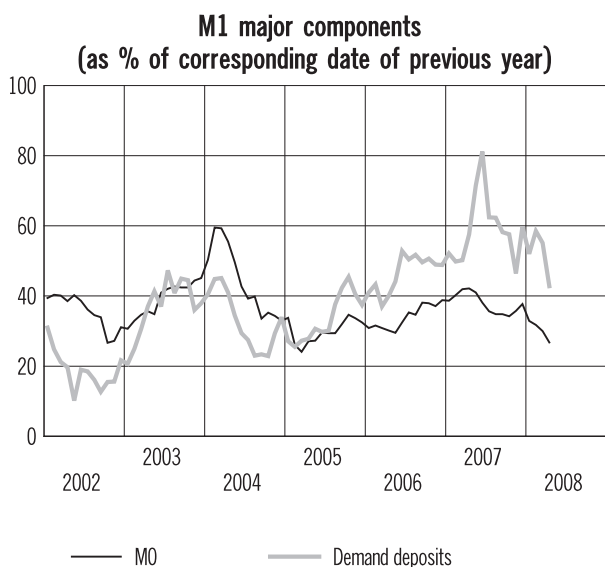
The rate of growth in the supply of money remains high despite a slowdown observed in the second half of 2007 and in the first quarter of 2008. Monetary gaps remained on positive ground as of the beginning of 2008, after a continued increase during the past eighteen months. According to preliminary estimates, the monetary gaps did not narrow in the first quarter of 2008 and therefore, the risk of growth in the money supply persisted and this may affect price stability in the medium and long term.

As in the previous year, the biggest contribution to the annualised M2 growth in the first quarter of 2008 was made **by monetary aggregate M1** (cash in circulation and demand deposits). At the same time, the annualised rate of growth in M1, which largely reflects the transac-

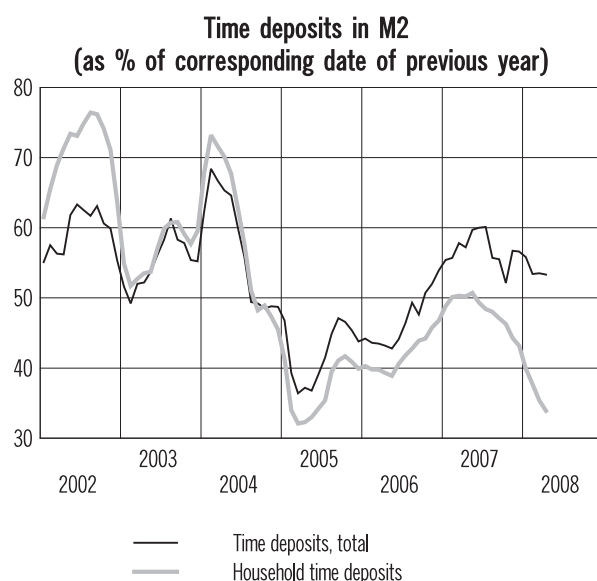
tional needs in the economy, fell in the first quarter of the year from 42.5% as of January 1, 2008 to 35.2% as of April 1, 2008 and was considerably slower than in the same period a year earlier (49,8%). The trend of a significant slowdown in cash growth observed in 2007 – amid rapid growth, year-on-year, in the value of individuals' payment for goods and services with bank cards – continued into the first quarter of 2008. Apart from that, the increased value of foreign cash purchase by households at the end of 2007 and at the beginning of 2008 may have also contributed to a certain extent to slower growth in cash supply. As a result, the annualised M0 growth slowed down to 26.8% as of April 1, 2008 from 42.1% a year earlier.

The dynamics of funds on demand deposits largely reflected the flow of funds on the accounts of non-financial enterprises as the demand deposits are mostly created from non-financial enterprise funds. In the absence of clearly expressed trends, the annual rates of growth in demand deposits fell in the first quarter from 52% as of January 1, 2008 to 42.8% as of April 1, 2008 (as compared with 57.5% as of April 1, 2007) due to their significant decrease in the last month of the quarter. The slowdown in the annual rates of growth was attributable to a certain extent to rapid growth in the value of demand deposits in the same period of the previous year.

The annual rates of growth in the total value of **ruble-denominated time deposits** stood at

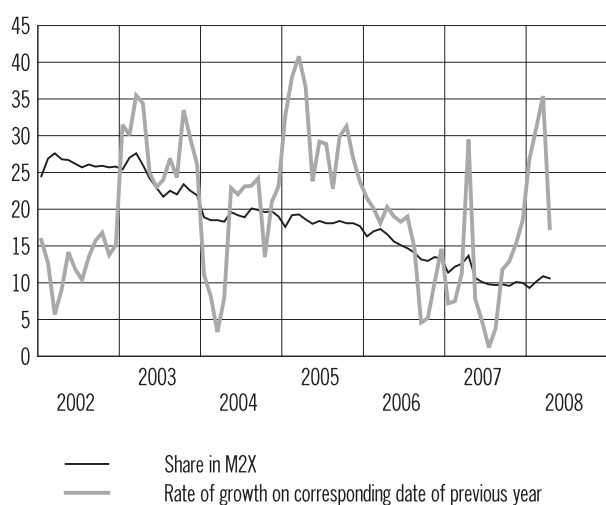


Source: Bank of Russia.



Source: Bank of Russia.

### Foreign currency deposits and their share in M2X (%)

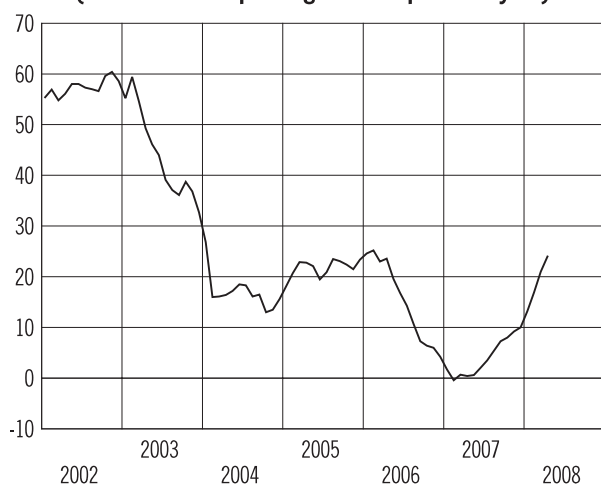


Source: Bank of Russia.

53.3% as of April 1, 2008 and were higher than the growth rates of other monetary aggregates due to the continued significant increase in the value of non-financial enterprises' time deposits, which grew more than 150% as compared with the same date a year earlier. Despite such a significant increase in the value of funds on non-financial enterprise time deposits, annualised growth in the total value of time deposits (including household deposits) was slower in the first quarter of 2008 than in the first quarter of 2007.

Growth in the value of time deposits decelerated due to a considerable slowdown of growth in the value of **household time deposits**, which

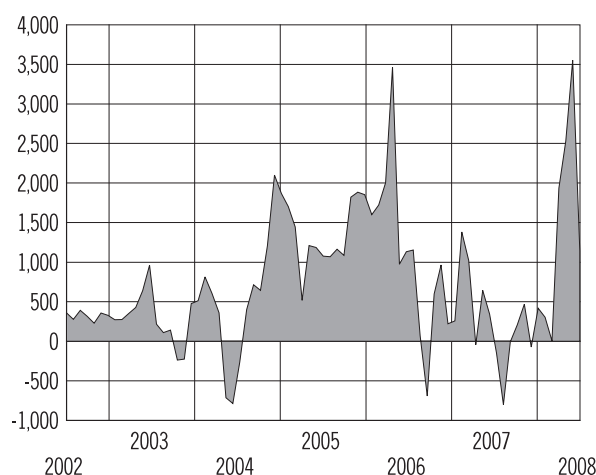
### Household foreign currency deposits (as % of corresponding date of previous year)



Source: Bank of Russia.

<sup>4</sup> Credit aggregates in rubles and foreign currency are considered here and below.

### Net sales of foreign currency cash to household through exchange offices (million US dollars)



Source: Bank of Russia.

started in 2007 and continued into the first quarter of 2008. In particular, the annualised growth in the value of household time deposits slowed down to 33.9% as of April 1, 2008 from 39.9% as of January 1, 2008 and 50.2% as of April 1, 2007.

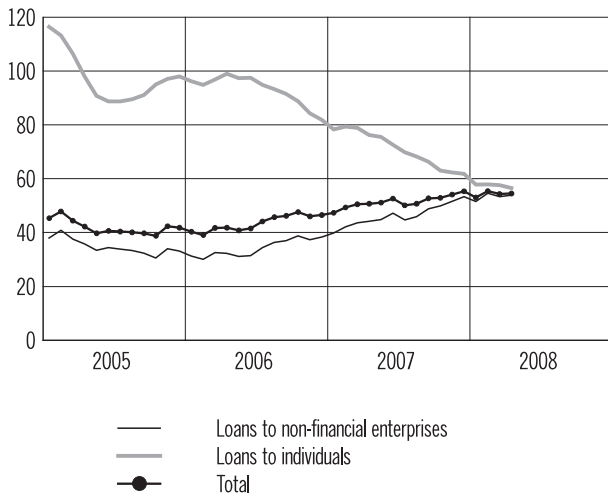
The trend of growth in the value of **foreign currency deposits**, observed in the second half of 2007, continued in January-February 2008. The annual rate of growth in the total value of foreign currency deposits fell sharply in March 2008 largely due to a significant slowdown of growth in foreign currency deposits of non-financial enterprises – possibly resulting from corporate foreign debt payments, which were mostly made in March 2008. From the second quarter of 2007, household foreign currency deposits demonstrated – amid an accelerated nominal appreciation of the euro against the ruble – a steady trend towards growth which continued in January-March 2008.

The dynamics of the nominal euro/dollar and euro/ruble rates also contributed to the increase in household demand for cash euros. As a result, the net sales of **foreign currency cash**, especially euros, to households grew considerably at the end of 2007 and during the first months of 2008.

### Credit aggregates

The dynamics of credit aggregates<sup>4</sup> did not show any sustainable trend in the first quarter of 2008 and, therefore, no conclusion can be made

Loans to non-financial enterprises and individuals (as % of corresponding date of previous year)



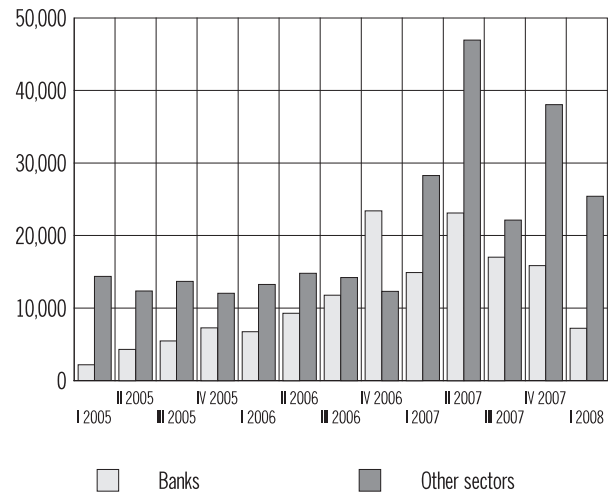
Source: Bank of Russia.

at the moment about the impact of the increased costs of domestic and foreign borrowings on the credit activity of economic agents.

The annual rates of growth in loans to non-financial enterprises and individuals in January-March 2008 were on the whole the same as at the beginning of the year (54.5% as of April 1, 2008). The structure of loans also remained stable.

The borrowing conditions on the domestic and foreign markets did not improve in the first quarter of 2008. Higher risk premiums resulting from continued world market instability became one of the reasons for the increase in the cost of loans for Russian borrowers on global markets. In particular, risk premiums for unsecured loans on

Growth in liabilities to non-residents in banking and other sectors (million US dollars)



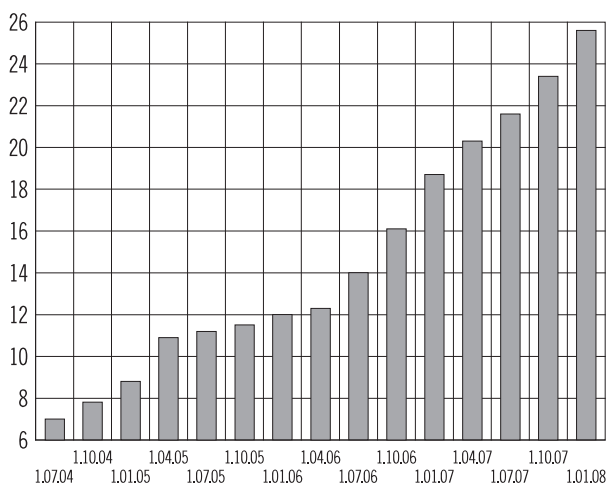
Source: Bank of Russia.

the European money market fluctuated within a wide range from August 2007 and increased in January-March 2008. The spread between interest rates on short- and long-term loans also increased after its fall in early 2008.

Deteriorated borrowing conditions had a considerably weaker impact on the foreign borrowings of Russian non-financial enterprises than on Russian bank borrowings (growth in foreign liabilities of credit institutions slowed down considerably in the first quarter of 2008).

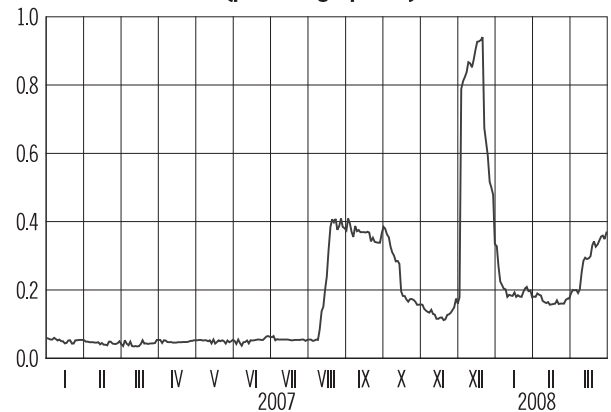
The increased cost of borrowings on the domestic market, which manifested itself in the growth of interest rates on loans, had on the whole no marked effect on the dynamics of loans ex-

Housing loans in total household loans (%)



Source: Bank of Russia.

Spread between Euribor\* and Europe rates\*\* (percentage points)



\* Euribor - interest rate on unsecured overnight loans on the European money market  
 \*\* Europe - interest rate on secured overnight loans on the European money market.

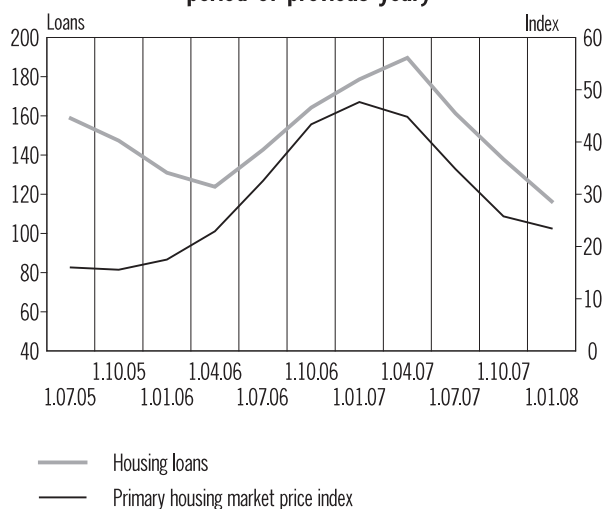
Source: European Central Bank (ECB).

**Spread between interest rates on long-term and short-term loans on European money market in January-March 2008 (percentage points)**



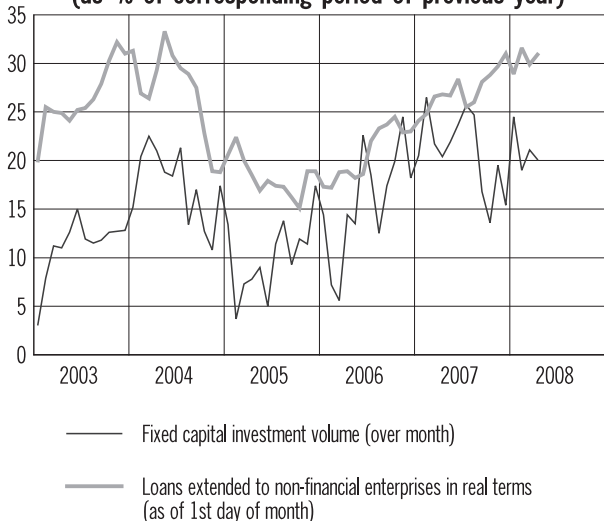
Source: European Central Bank (ECB).

**Housing loans and housing prices (as % of corresponding period of previous year)**



Source: Bank of Russia, Rosstat.

**Investment activity and loans to non-financial enterprises (as % of corresponding period of previous year)**



Source: Bank of Russia, Rosstat.

tended to non-financial enterprises in the first quarter of 2008. Amid the persistently rapid growth in investment activity, the annual growth in credit to non-financial enterprises remained high and stood at 53.9% as of April 1, 2008.

Although the annual growth in housing loans extended to households decreased amid slower growth in prices on the primary housing market, the loans extended to individuals remain the most rapidly growing component in total lending to the economy. After their significant fall in 2007, the annual rates of growth in housing loans to individuals stabilised in the first quarter of 2008 and stood at 56.5% as of April 1, 2008 (as against 76.2% a year earlier). The volume of housing loans continues to grow more rapidly as compared with other loans to households. The share of housing loans in total household loans exceeded 25% as of January 1, 2008.

# Statistical Addendum

Table 1

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

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices, excluding petrol prices**	Service price growth
<b>2006</b>								
January	2.4	0.8	2.0	1.0	11.3	0.4	0.5	6.2
February	1.7	1.2	3.0	1.9	12.6	0.5	0.5	1.0
March	0.8	0.7	1.2	0.9	3.2	0.4	0.4	0.7
April	0.4	0.4	0.3	0.3	-0.3	0.3	0.3	0.6
May	0.5	0.4	0.5	0.2	2.6	0.4	0.4	0.6
June	0.3	0.3	0.0	0.1	-0.6	0.3	0.3	0.7
July	0.7	0.5	0.9	0.7	2.7	0.4	0.3	0.6
August	0.2	0.6	-0.5	0.7	-10.0	0.8	0.5	0.8
September	0.1	0.8	-0.6	0.6	-11.0	0.8	0.6	0.5
October	0.3	0.5	0.0	0.4	-4.1	0.6	0.7	0.4
November	0.6	0.6	0.8	0.6	2.7	0.6	0.6	0.5
December	0.8	0.7	1.1	0.8	3.6	0.5	0.5	0.7
Full year (December on December)	9.0	7.8	8.7	8.5	10.3	6.0	5.7	13.9
<b>2007</b>								
January	1.7	0.6	0.9	0.6	4.1	0.4	0.4	4.7
February	1.1	0.5	0.8	0.5	3.6	0.3	0.4	2.6
March	0.6	0.5	0.8	0.5	3.2	0.4	0.4	0.6
April	0.6	0.5	0.8	0.5	3.1	0.4	0.4	0.5
May	0.6	0.3	1.0	0.1	7.8	0.4	0.3	0.5
June	1.0	0.4	1.7	0.4	12.2	0.3	0.3	0.6
July	0.9	0.9	1.4	1.4	1.9	0.4	0.4	0.6
August	0.1	1.1	-0.6	1.6	-16.1	0.6	0.5	0.5
September	0.8	1.6	1.0	2.2	-8.8	0.8	0.8	0.4
October	1.6	2.1	3.3	3.5	0.9	0.9	0.9	0.1
November	1.2	1.1	1.9	1.5	6.2	0.9	0.8	0.6
December	1.1	0.9	1.6	1.2	5.6	0.7	0.5	0.9
Full year (December on December)	11.9	11.0	15.6	14.9	22.2	6.5	6.4	13.3
<b>2008</b>								
January	2.3	1.1	1.9	1.2	8.3	0.6	0.6	5.4
February	1.2	1.0	1.7	1.3	5.1	0.6	0.6	1.4
March	1.2	1.1	2.0	1.5	5.9	0.7	0.7	0.6

\* Excluding vegetable and fruit prices.

\*\* Since March 2005 - Bank of Russia estimate.

Note: Tables 1 to 7 are based on Rosstat data and Bank of Russia calculations.

Table 2

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

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices, excluding petrol prices**	Service price growth
<b>2006</b>								
January	2.4	0.8	2.0	1.0	11.3	0.4	0.5	6.2
February	4.1	2.0	5.0	2.9	25.3	0.9	0.9	7.2
March	5.0	2.8	6.2	3.9	29.3	1.3	1.3	8.0
April	5.4	3.2	6.5	4.2	28.9	1.6	1.6	8.6
May	5.9	3.6	7.0	4.4	32.3	2.0	2.0	9.3
June	6.2	3.9	7.0	4.5	31.5	2.3	2.3	10.0
July	6.9	4.5	8.0	5.2	35.0	2.7	2.7	10.7
August	7.1	5.1	7.4	6.0	21.6	3.5	3.2	11.5
September	7.2	5.9	6.7	6.6	8.2	4.3	3.8	12.0
October	7.5	6.5	6.7	7.0	3.7	5.0	4.5	12.5
November	8.2	7.1	7.5	7.6	6.5	5.5	5.2	13.0
December	9.0	7.8	8.7	8.5	10.3	6.0	5.7	13.9
<b>2007</b>								
January	1.7	0.6	0.9	0.6	4.1	0.4	0.4	4.7
February	2.8	1.1	1.8	1.1	7.8	0.7	0.8	7.4
March	3.4	1.7	2.6	1.7	11.2	1.1	1.2	8.0
April	4.0	2.2	3.3	2.1	14.7	1.5	1.7	8.6
May	4.7	2.5	4.3	2.3	23.6	1.9	2.0	9.1
June	5.7	3.0	6.1	2.7	38.6	2.2	2.3	9.8
July	6.6	3.9	7.6	4.1	41.2	2.6	2.8	10.5
August	6.7	5.0	7.0	5.8	18.5	3.2	3.3	11.1
September	7.5	6.7	8.1	8.1	8.1	4.0	4.2	11.6
October	9.3	8.9	11.6	11.9	9.0	4.9	5.1	11.7
November	10.6	10.1	13.7	13.5	15.7	5.8	5.9	12.4
December	11.9	11.0	15.6	14.9	22.2	6.5	6.4	13.3
<b>2008</b>								
January	2.3	1.1	1.9	1.2	8.3	0.6	0.6	5.4
February	3.5	2.1	3.6	2.5	13.9	1.2	1.2	6.8
March	4.8	3.2	5.7	4.0	20.6	2.0	1.9	7.5

\* Excluding vegetable and fruit prices.

\*\* Since March 2005 - Bank of Russia estimate.

Table 3

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

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices, excluding petrol prices**	Service price growth
<b>2006</b>								
January	10.7	8.2	10.2	9.1	21.1	6.5	6.0	18.1
February	11.2	8.7	11.9	10.1	28.4	6.6	6.1	16.7
March	10.6	8.7	10.9	10.0	19.2	6.7	6.1	16.1
April	9.8	8.2	9.4	9.0	12.7	6.4	6.0	15.9
May	9.4	7.9	8.7	8.5	11.1	6.4	6.0	15.6
June	9.0	7.8	8.0	8.1	7.0	6.4	6.0	15.3
July	9.3	7.8	8.7	8.3	11.9	6.3	5.9	15.0
August	9.6	7.9	9.2	8.5	15.6	6.6	6.0	15.0
September	9.5	7.9	9.3	8.5	16.4	6.2	5.8	14.5
October	9.2	7.8	8.8	8.3	14.4	6.1	5.7	14.1
November	9.0	7.8	8.7	8.3	12.4	6.0	5.7	13.9
December	9.0	7.8	8.7	8.5	10.3	6.0	5.7	13.9
<b>2007</b>								
January	8.2	7.7	7.6	8.0	3.1	6.0	5.7	12.3
February	7.6	6.9	5.3	6.6	-5.1	5.8	5.6	14.2
March	7.4	6.7	4.9	6.2	-5.2	5.8	5.6	14.0
April	7.6	6.8	5.4	6.3	-1.9	5.9	5.8	13.9
May	7.8	6.7	5.9	6.3	3.0	5.9	5.7	13.8
June	8.5	6.9	7.7	6.6	16.2	5.9	5.7	13.7
July	8.7	7.3	8.3	7.4	15.3	5.9	5.8	13.7
August	8.6	7.8	8.3	8.3	7.5	5.7	5.8	13.4
September	9.4	8.7	10.0	10.0	10.2	5.8	6.1	13.4
October	10.8	10.3	13.6	13.4	15.9	6.0	6.3	13.1
November	11.5	10.9	14.9	14.4	19.8	6.3	6.4	13.2
December	11.9	11.0	15.6	14.9	22.2	6.5	6.4	13.3
<b>2008</b>								
January	12.6	11.5	16.7	15.6	27.1	6.8	6.6	14.1
February	12.7	12.1	17.6	16.4	29.1	7.0	6.8	12.7
March	13.3	12.7	19.1	17.5	32.5	7.4	7.1	12.7

\* Excluding vegetable and fruit prices.

\*\* Since March 2005 - Bank of Russia estimate.



Table 4

## Inflation growth over period since start of year due to price changes by group of goods and services (percentage points)

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
<b>2006</b>							
January	0.4	0.2	1.5	0.4	<b>2.4</b>	0.6	1.8
February	1.1	0.3	1.7	1.0	<b>4.1</b>	1.5	2.6
March	1.5	0.5	1.9	1.2	<b>5.0</b>	2.1	2.9
April	1.6	0.6	2.0	1.1	<b>5.4</b>	2.5	2.9
May	1.7	0.7	2.2	1.3	<b>5.9</b>	2.7	3.1
June	1.8	0.8	2.4	1.2	<b>6.2</b>	3.0	3.2
July	2.0	0.9	2.5	1.4	<b>6.9</b>	3.4	3.5
August	2.3	1.2	2.7	0.9	<b>7.1</b>	3.9	3.2
September	2.6	1.5	2.9	0.3	<b>7.2</b>	4.6	2.6
October	2.7	1.7	3.0	0.1	<b>7.5</b>	5.0	2.5
November	3.0	1.9	3.1	0.3	<b>8.2</b>	5.5	2.7
December	3.3	2.0	3.3	0.4	<b>9.0</b>	6.1	3.0
<b>2007</b>							
January	0.2	0.1	1.2	0.2	<b>1.7</b>	0.5	1.2
February	0.4	0.3	1.8	0.3	<b>2.8</b>	0.9	1.9
March	0.6	0.4	2.0	0.4	<b>3.4</b>	1.3	2.1
April	0.8	0.5	2.1	0.6	<b>4.0</b>	1.7	2.3
May	0.8	0.7	2.3	0.9	<b>4.7</b>	1.9	2.7
June	1.0	0.8	2.4	1.5	<b>5.7</b>	2.3	3.4
July	1.5	0.9	2.6	1.6	<b>6.6</b>	3.0	3.6
August	2.1	1.1	2.7	0.7	<b>6.7</b>	3.9	2.8
September	3.0	1.4	2.9	0.3	<b>7.5</b>	5.3	2.3
October	4.3	1.7	2.9	0.3	<b>9.3</b>	7.0	2.3
November	4.9	2.0	3.1	0.6	<b>10.6</b>	7.9	2.7
December	5.4	2.3	3.3	0.9	<b>11.9</b>	8.7	3.2
<b>2008</b>							
January	0.4	0.2	1.3	0.3	<b>2.3</b>	0.8	1.5
February	0.9	0.4	1.7	0.5	<b>3.5</b>	1.6	1.9
March	1.4	0.7	1.9	0.8	<b>4.8</b>	2.5	2.3

\* Excluding vegetables and fruit.

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

Table 5

**Monthly inflation growth due to price changes by group of goods and services (percentage points)**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
<b>2006</b>							
January	0.4	0.2	1.5	0.4	<b>2.4</b>	0.6	1.8
February	0.7	0.2	0.2	0.5	<b>1.7</b>	0.9	0.7
March	0.4	0.1	0.2	0.2	<b>0.8</b>	0.6	0.3
April	0.1	0.1	0.1	0.0	<b>0.4</b>	0.3	0.0
May	0.1	0.1	0.1	0.1	<b>0.5</b>	0.3	0.2
June	0.0	0.1	0.2	0.0	<b>0.3</b>	0.2	0.1
July	0.3	0.1	0.2	0.1	<b>0.7</b>	0.4	0.3
August	0.3	0.2	0.2	-0.5	<b>0.2</b>	0.5	-0.3
September	0.2	0.3	0.1	-0.5	<b>0.1</b>	0.6	-0.5
October	0.1	0.2	0.1	-0.2	<b>0.3</b>	0.4	-0.1
November	0.2	0.2	0.1	0.1	<b>0.6</b>	0.5	0.2
December	0.3	0.1	0.2	0.1	<b>0.8</b>	0.5	0.3
<b>2007</b>							
January	0.2	0.1	1.2	0.2	<b>1.7</b>	0.5	1.2
February	0.2	0.1	0.7	0.1	<b>1.1</b>	0.4	0.7
March	0.2	0.1	0.1	0.1	<b>0.6</b>	0.4	0.2
April	0.2	0.1	0.1	0.1	<b>0.6</b>	0.4	0.2
May	0.1	0.1	0.1	0.3	<b>0.6</b>	0.2	0.4
June	0.2	0.1	0.2	0.6	<b>1.0</b>	0.3	0.6
July	0.5	0.1	0.2	0.1	<b>0.9</b>	0.7	0.2
August	0.6	0.2	0.1	-0.8	<b>0.1</b>	0.8	-0.7
September	0.8	0.3	0.1	-0.4	<b>0.8</b>	1.3	-0.5
October	1.3	0.3	0.0	0.0	<b>1.6</b>	1.6	0.0
November	0.5	0.3	0.2	0.2	<b>1.2</b>	0.8	0.4
December	0.5	0.2	0.2	0.2	<b>1.1</b>	0.7	0.5
<b>2008</b>							
January	0.4	0.2	1.3	0.3	<b>2.3</b>	0.8	1.5
February	0.4	0.2	0.3	0.2	<b>1.2</b>	0.8	0.4
March	0.5	0.3	0.2	0.3	<b>1.2</b>	0.8	0.3

\* Excluding vegetables and fruit.

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

Table 6

## Contribution to inflation growth over period since start of year by group of goods and services (%)

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
<b>2006</b>						
January	16.0	6.1	59.5	18.3	24.5	75.5
February	27.2	7.7	40.9	24.1	37.2	62.8
March	30.1	9.1	37.6	23.2	42.4	57.6
April	30.5	10.3	37.9	21.3	45.7	54.3
May	29.3	11.8	37.2	21.8	46.7	53.3
June	28.6	12.9	38.3	20.2	48.4	51.6
July	29.6	13.5	36.7	20.2	49.7	50.3
August	32.7	16.8	38.5	12.1	55.4	44.6
September	35.7	20.2	39.6	4.5	63.4	36.6
October	36.3	22.4	39.4	2.0	66.7	33.3
November	36.2	22.9	37.8	3.2	67.3	32.7
December	36.5	22.5	36.4	4.5	67.1	32.9
<b>2007</b>						
January	13.4	8.3	69.0	9.3	29.5	70.5
February	14.9	9.2	65.3	10.6	31.3	68.7
March	17.8	11.6	58.1	12.5	38.3	61.7
April	19.6	13.5	52.9	14.1	42.8	57.2
May	18.0	14.3	48.3	19.4	41.6	58.4
June	17.6	13.7	42.7	26.0	40.4	59.6
July	22.9	13.9	39.2	23.9	45.8	54.2
August	31.7	16.9	40.8	10.6	58.5	41.5
September	39.3	18.7	37.9	4.1	69.9	30.1
October	46.6	18.6	31.1	3.7	75.4	24.6
November	46.3	19.2	28.8	5.7	74.5	25.5
December	45.7	19.4	27.8	7.2	72.8	27.2
<b>2008</b>						
January	18.9	9.3	58.1	13.7	36.2	63.8
February	25.1	12.1	47.9	14.9	46.1	53.9
March	29.7	14.7	39.0	16.6	52.7	47.3

\* Excluding vegetables and fruit.

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

Table 7

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
<b>2006</b>						
January	16.0	6.1	59.5	18.3	24.5	75.5
February	43.4	10.0	14.0	32.6	55.8	44.2
March	43.9	15.8	21.6	18.7	67.5	32.5
April	35.8	27.0	41.3	-4.2	90.9	9.1
May	16.1	27.6	29.9	26.4	57.3	42.7
June	15.3	34.9	59.7	-10.0	81.6	18.4
July	37.6	19.0	23.4	20.0	60.9	39.1
August	140.5	132.4	97.9	-270.7	249.5	-149.5
September	269.8	290.1	128.8	-588.7	678.9	-578.9
October	51.0	73.9	34.6	-59.5	145.8	-45.8
November	34.7	29.1	19.3	16.9	74.1	25.9
December	39.6	19.0	23.2	18.2	64.4	35.6
<b>2007</b>						
January	13.4	8.3	69.0	9.3	29.5	70.5
February	17.1	10.6	59.7	12.6	34.2	65.8
March	31.4	22.7	24.5	21.4	70.7	29.3
April	30.0	24.6	22.3	23.1	69.6	30.4
May	8.4	19.5	20.6	51.6	34.4	65.6
June	15.8	10.7	17.0	56.5	35.1	64.9
July	55.9	15.7	17.4	10.9	79.2	20.8
August	724.2	250.9	165.2	-1,040.4	1,016.5	-916.5
September	99.9	33.4	14.7	-48.0	160.7	-60.7
October	78.5	18.2	1.2	2.1	99.3	0.7
November	43.6	23.6	13.3	19.5	67.8	32.2
December	39.2	21.6	19.2	20.0	56.7	43.3
<b>2008</b>						
January	18.9	9.3	58.1	13.7	36.2	63.8
February	36.8	17.4	28.5	17.3	64.8	35.2
March	43.2	22.6	12.8	21.4	72.2	27.8

\* Excluding vegetables and fruit.

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

Table 8

## Russia's key macroeconomic and financial indicators

		Year	Q1	Q2	Q3	Q4	
<b>Macroeconomic indicators</b>							
GDP	over period since start of year, billion rubles	2005	4,460	9,540	15,413	21,625	
		2006	5,845	12,206	19,487	26,880	
		2007	6,748	14,497	23,324	32,987	
	over period since start of year, as % of corresponding period of previous year	2005	105.5	105.9**	106.0**	106.4	
		2006	106.3	106.9**	107.1**	107.4	
		2007	107.4	107.7**	107.6**	108.1	
	as % of corresponding quarter of previous year	2005	105.5	106.2	106.1	107.5	
		2006	106.3	107.4	107.5	108.0	
		2007	107.4	108.1	107.3	109.5	
Industrial output indices	as % of corresponding quarter of previous year	2006	104.1	106.6	106.9	107.5	
		2007	107.2	107.1	105.5	105.7	
		2008	106.2				
	over period since start of year, as % of corresponding period of previous year	2006	104.1	105.3	105.9	106.3	
		2007	107.2	107.1	106.6	106.3	
		2008	106.2				
Agricultural output	as % of corresponding quarter of previous year	2006	102.1	101.8	101.4	110.4	
		2007	103.4	104.3	103.0	103.1	
		2008	104.5				
	over period since start of year, as % of corresponding period of previous year	2006	102.1	101.9	101.6	103.6	
		2007	103.4	104.0	103.4	103.3	
		2008	104.5				
Fixed capital investment	over period since start of year, billion rubles	2006	658.4	1,676.0	2,963.3	4,730.0	
		2007	916.6	2,365.7	4,129.3	6,626.8	
		2008	1,295.9				
	as % of corresponding quarter of previous year	2006	108.8	117.7	116.1	120.3	
		2007	122.8	124.2	118.2	120.6	
		2008	120.2				
Retail trade turnover	over period since start of year, billion rubles	2006	1,857.2	3,925.3	6,162.6	8,711.9	
		2007	2,254.7	4,793.3	7,588.4	10,853.0	
		2008	2,936.0				
	as % of corresponding quarter of previous year	2006	111.4	113.6	115.3	115.3	
		2007	114.6	115.6	116.6	116.6	
		2008	116.7				
Federal budget on accrual basis, as of end of period	revenue	billion rubles	2006	1,399.1	2,938.1	4,561.0	6,278.9
			2007	1,421.9	3,245.7	5,087.6	7,781.1
			2008	1,932.7			
		as % of GDP	2006	24.0	24.1	23.4	23.4
			2007	21.1	22.4	21.8	23.6
			2008	22.0*			
	expenditure	billion rubles	2006	823.2	1,854.7	2,866.5	4,284.8
			2007	945.6	2,169.7	3,464.3	5,986.6
			2008	1,332.7			
		as % of GDP	2006	14.1	15.2	14.7	16.0
			2007	14.0	15.0	14.8	18.2
			2008	15.2*			
Federal budget surplus on accrual basis, as of end of period	billion rubles	2006	575.9	1,083.4	1,694.6	1,994.1	
		2007	476.3	1,076.1	1,623.2	1,794.5	
		2008	600.0				
	as % of GDP	2006	9.9	8.9	8.7	7.4	
		2007	7.1	7.4	7.0	5.4	
		2008	6.8*				

Note. Table 8 is based on data compiled by the Bank of Russia, Federal State Statistics Service and on Federal Treasury reported data. From April 2006, pursuant to Bank of Russia Ordinance No. 1660-U, dated February 17, 2006, the calculation of interest rates on bank lending and deposit operations includes data reported by bank branches.

Table 8 (continued)

		Year	Q1	Q2	Q3	Q4	
<b>Socio-economic indicators</b>							
Nominal imputed average monthly per employee wage	rubles	2006	9,397	10,401	10,949	12,203	
		2007	11,876	12,993	13,494	15,742	
		2008	15,508				
	as % of corresponding quarter of previous year	2006	122.3	125.1	125.1	125.2	
		2007	127.3	125.9	124.0	129.3	
		2008	128.7				
	over period since start of year , as % of corresponding period of previous year	2006	122.3	123.7	124.1	124.3	
		2007	127.3	126.6	125.7	126.7	
		2008	128.7				
Real imputed average monthly per employee wage	as % of corresponding quarter of previous year	2006	110.3	114.3	114.3	114.8	
		2007	118.2	116.6	113.9	116.1	
		2008	114.0				
Household money income	per capita monthly average, rubles	2006	8,200.0	9,933.9	10,253.3	12,316.8	
		2007	9,901.4	11,953.8	12,700.8	15,604.6	
		2008	12,484.9				
Household real disposable money income	as % of corresponding quarter of previous year	2006	109.9	115.5	114.5	113.7	
		2007	110.0	109.1	111.8	111.0	
		2008	110.0				
	over period since start of year, as % of corresponding period of previous year	2006	109.9	...	...	113.5	
		2007	110.0	109.5	110.4	110.7	
		2008	110.0				
Household spending, as % of income	purchase of goods and payment of services	2006	73.1	67.7	71.0	65.6	
		2007	74.1	69.4	71.3	65.8	
		2008	75.4				
	compulsory payments and contributions	2006	10.8	10.3	10.4	10.5	
		2007	12.8	12.4	12.0	13.0	
		2008	12.3				
	growth in savings	2006	11.1	10.7	8.3	11.3	
		2007	9.8	8.5	6.8	10.6	
		2008	8.2				
	foreign exchange purchase	2006	7.4	7.0	7.2	6.0	
		2007	5.2	5.3	5.2	5.2	
		2008	6.9				
	cash on hand	2006	-2.5	4.3	3.2	6.7	
		2007	-1.9	4.4	4.7	5.4	
		2008	-2.8				
	Average imputed pension	total, rubles	2006	2,539	2,727	2,800	2,839
			2007	2,846	3,091	3,108	3,299
			2008	3,823			
Real imputed pension	as % of corresponding quarter of previous year	2006	107.8	107.2	103.7	102.5	
		2007	104.1	104.9	102.0	104.3	
		2008	119.0				
	over period since start of year, as % of corresponding period of previous year	2006	107.8	107.5	106.1	105.1	
		2007	104.1	104.5	103.6	103.8	
		2008	119.0				
Total number of unemployed (calculated by ILO methodology)	million	2006	5.7	5.5	5.0	5.0	
		2007	5.2	4.5	4.3	4.3	
		2008	4.7				
	as % of economically active population	2006	7.8	7.4	6.7	6.8	
		2007	7.0	6.0	5.7	5.6	
		2008	6.3				

Table 8 (continued)

		Year	Q1	Q2	Q3	Q4	
<b>Foreign economic activities</b>							
Price of Urals crude	over period since start of year, \$/barrel	2006	57.7	61.1	62.5	60.9	
		2007	54.0	59.7	64.0	69.5	
		2008	93.7				
	as % of corresponding period of previous year	2006	134.0	134.7	126.7	120.9	
		2007	93.5	97.7	102.4	114.1	
		2008	173.7				
Exports of goods	over period since start of year, \$ billion	2006	67.3	143.9	223.7	303.6	
		2007	71.8	155.6	245.3	355.5	
		2008	108.1**				
	as % of corresponding period of previous year	2006	134.1	131.1	128.1	124.5	
		2007	106.5	108.1	109.6	117.1	
		2008	150.7				
Imports of goods	over period since start of year, \$ billion	2006	30.9	69.7	112.3	164.3	
		2007	42.8	95.5	153.9	223.4	
		2008	60.7**				
	as % of corresponding period of previous year	2006	120.1	126.4	128.2	131.0	
		2007	138.6	137.1	137.0	136.0	
		2008	141.8				
Current account (over period since start of year), \$ billion		2006	30.4	54.7	78.6	94.4	
		2007	22.9	37.8	53.3	78.3	
		2008	37.0**				
Net capital outflow (inflow) by private sector (over period since start of year), \$ billion		2006	-5.6	15.0	27.4	41.9	
		2007	13.5	67.4	60.4	81.2	
		2008	-22.8**				
Foreign investment in Russia's non-financial sector (Rosstat data)		over period since start of year, \$ billion	2005	6.0	16.5	26.8	53.6
			2006	8.8	23.4	35.3	55.1
			2007	24.6	60.3	87.9	120.9
		as % of corresponding period of previous year	2005	97.6	86.9	92.1	132.4
			2006	146.0	141.9	131.7	102.7
			2007	2.8 times	2.6 times	2.5 times	2.2 times
of which	direct	over period since start of year, \$ billion	2005	1.9	4.5	6.6	13.1
			2006	3.8	6.4	10.3	13.7
			2007	9.8	15.8	19.6	27.8
		as % of corresponding period of previous year	2005	130.0	131.0	118.1	138.8
			2006	2.0 times	143.6	155.5	104.6
			2007	2.5 times	2.5 times	191.3	2.0 times
	portfolio	over period since start of year \$ billion	2005	0.1	0.2	0.4	0.5
			2006	0.2	0.5	0.7	3.2
			2007	0.2	1.1	1.5	4.2
		as % of corresponding period of previous year	2005	89.9	135.2	160.5	136.3
			2006	2.9 times	2.9 times	182.3	7.0 times
			2007	85.8	? 2.2?	? 2.3?	131.8
	other	over period since start of year, \$ billion	2005	4.0	11.8	19.9	40.1
			2006	4.7	16.5	24.4	38.2
			2007	14.7	43.4	66.7	89.0
		as % of corresponding period of previous year	2005	87.3	76.7	85.2	130.5
			2006	117.2	139.1	122.8	95.3
			2007	3.1 times	2.6 times	2.7 times	2.3 times
Russia's international reserves (as of end of period), \$ billion		2006	205.9	250.6	266.2	303.7	
		2007	338.8	405.8	425.4	476.4	
		2008	507.0				
Real ruble exchange rate indices, last month of quarter (as % of December of previous year)***		ruble vs. US dollar	2006	6.9	10.0	12.1	16.7
			2007	2.3	3.8	8.1	15.0
			2008	6.5			
		ruble vs. euro	2006	6.5	4.9	6.0	5.6
			2007	3.1	4.1	4.5	5.8
			2008	0.6			
		effective rate	2006	6.2	7.0	7.9	7.4
			2007	2.7	3.3	3.8	5.1
			2008	1.5			

Table 8 (continued)

		Year	Q1	Q2	Q3	Q4
<b>Financial market indicators (including Sberbank rates)</b>						
Average for period						
Overnight interbank credit rate, % p.a.	in rubles	2006	3.2	2.8	2.6	5.1
		2007	3.9	3.4	4.9	5.4
		2008	3.9			
	in US dollars	2006	4.4	4.8	5.2	5.2
		2007	5.2	5.2	5.1	4.5
		2008	3.2			
OFZ yields****, % p.a.	2006	6.8	6.9	6.8	6.7	
	2007	6.6	6.6	6.6	6.6	
	2008	6.7				
Interest rate on household time deposits, % p.a.	up to 1 year in rubles	2006	8.3	7.9	7.6	7.7
		2007	7.4	7.3	7.0	7.2
		2008	7.0			
	over 1 year in rubles	2006	7.6	5.2	5.2	5.4
		2007	7.9	7.5	7.1	6.8
		2008	7.4			
	up to 1 year in US dollars	2006	5.6	5.7	5.7	5.9
		2007	5.4	5.3	5.2	5.2
		2008	5.1			
	over 1 year in US dollars	2006	6.2	4.6	5.0	5.5
		2007	6.8	6.6	6.4	7.0
		2008	6.9			
Interest rate on credit to non-financial institutions, % p.a.	up to 1 year in rubles	2006	10.4	10.6	10.3	10.4
		2007	9.9	9.6	9.8	10.7
		2008	10.9			
	over 1 year in rubles	2006	12.7	12.7	12.5	12.1
		2007	12.1	11.5	11.0	11.4
		2008	12.3			
	up to 1 year in US dollars	2006	8.6	8.4	8.6	8.5
		2007	8.7	8.8	8.4	9.1
		2008	8.1			
	over 1 year in US dollars	2006	10.5	10.2	10.4	10.0
		2007	10.3	10.1	9.3	9.8
		2008	9.3			
Interest rate on ruble promissory notes discounted by banks, % p.a.	2006	12.9	8.7	9.2	9.7	
	2007	9.5	8.9	10.8	10.8	
	2008	10.7				
MICEX rate in 'tomorrow' trades, rubles/\$	2006	28.0733	27.1897	26.8053	26.591	
	2007	26.3056	25.8599	25.5043	24.6525	
	2008	24.2286				
As of end of quarter						
RTS index, points	2006	1,434.99	1,494.63	1,549.99	1,921.92	
	2007	1,935.72	1,897.70	2,071.80	2,290.51	
	2008	2,053.93				
Refinance rate, % p.a.	2006	12	11.5	11.5	11	
	2007	10.5	10	10	10	
	2008	10.25				



Table 8 (end)

	Year	1.01	1.04	1.07	1.10	
<b>Monetary indicators</b>						
M0, billion rubles	2006	2,009.2	1,928.8	2,233.4	2,400.8	
	2007	2,785.2	2,741.2	3,027.5	3,220.9	
	2008	3,702.2	3,475.5			
M2, billion rubles	2006	6,044.7	6,169.4	7,090.8	7,750.7	
	2007	8,995.8	9,412.6	10,857.7	11,494.0	
	2008	13,272.1	13,382.9			
Net foreign assets of monetary authorities and credit institutions, billion rubles	2006	4,867.9	5,433.6	6,221.1	6,281.9	
	2007	6,905.3	7,957.8	8,746.3	9,084.6	
	2008	9,912.0	10,462.5			
Domestic claims, billion rubles	2006	4,460.8	4,129.4	4,256.2	4,944.1	
	2007	5,727.7	5,696.9	6,241.6	6,670.5	
	2008	8,224.3	8,319.6			
Money (monetary survey definition), billion rubles	2006	3,858.5	3,855.9	4,479.3	4,856.1	
	2007	5,598.4	5,774.3	6,676.5	7,088.4	
	2008	7,974.3	7,801.0			
Quasi-money (monetary survey definition), billion rubles	2006	3,362.6	3,537.0	3,825.5	4,041.1	
	2007	4,548.3	5,120.2	5,352.7	5,605.4	
	2008	6,653.8	7,106.2			
Foreign currency deposits, billion rubles	2006	1,178.2	1,225.9	1,221.0	1,153.2	
	2007	1,155.4	1,490.6	1,183.7	1,212.4	
	2008	1,366.1	1,547.0			
Broad monetary base, billion rubles	2006	2,914.2	2,721.4	3,287.0	3,486.0	
	2007	4,122.4	4,210.2	5,139.1	4,587.2	
	2008	5,513.3	4,871.4			
Balances in correspondent accounts, billion rubles	2006	508.6	320.0	430.9	443.7	
	2007	638.1	518.1	528.7	576.3	
	2008	802.2	596.3			
M2 velocity	annual average	2006	4.4	4.3	4.2	4.0
		2007	3.8	3.6	3.4	3.2
		2008	3.1	3.0*		
	change since start of year, %	2006	-6.5	-1.4	-4.8	-8.3
		2007	-13.2	-6.1	-12.2	-16.3
		2008	-18.8	-4.0*		
Monetisation of the economy (by M2 aggregate), %	2006	22.7	23.0	23.8	24.7	
	2007	26.1	27.8	29.8	31.2	
	2008	32.2	33.5*			
Money multiplier	by broad monetary base	2006	2.1	2.3	2.2	2.2
		2007	2.2	2.2	2.1	2.5
		2008	2.4	2.8		
	change since start of year, %	2006	13.2	9.3	4.0	7.3
		2007	5.2	2.5	-3.2	14.8
		2008	10.3	14.1		
Foreign exchange rates	rubles per UD dollar	2006	28.78	27.70	26.94	26.78
		2007	26.33	26.01	25.82	24.95
		2008	24.55	23.52		
	rubles per euro	2006	34.19	33.63	34.24	33.98
		2007	34.70	34.69	34.72	35.35
		2008	35.93	37.07		

\* Preliminary data.

\*\* Estimate.

\*\*\* Appreciation of the ruble (+), depreciation of the ruble (-).

\*\*\*\* Effective indicator of the OFZ market portfolio.



