



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

Inflation Review

Second Quarter ♦ 2004

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Research and Information Department

Major Inflation Indicators

According to the Federal Statistics Service, consumer prices rose 6.1% in 2004 H1 as against 7.9% in 2003 H1. The last time consumer prices grew less in the first half (4.1%) was in 1998.

In 2004 Q2, consumer prices increased 2.5% as against 3.5% in 2004 Q1: in April they rose 1.0%, in May 0.7% and in June 0.8%. In June 2004, consumer price inflation stood at 10.1% as against 13.9% a year earlier.

Core inflation stood at 4.3% in the first half of 2004 as against 4.7% in 2003 H1. In 2004 Q1, growth in the prices of goods included in the core inflation calculation amounted to 2.4% and in 2004 Q2, it was 1.8%.

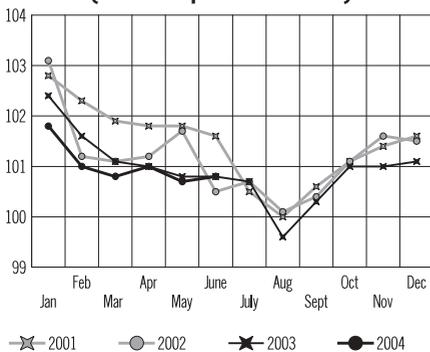
In June 2004, core inflation accelerated to 10.9% year on year as against 10.5% in June 2003. The high rate of inflation registered during the past two years was largely due to local volatility rather than any long-term trend.

A major factor of the slowing of growth in the prices of goods and services included in the calculation of core inflation was the reduction of non-food price increases. In the meantime, high rates of growth in food prices, especially bread and bakery product prices, which soared due to a poor grain harvest in 2003, had a stimulating effect on core inflation.

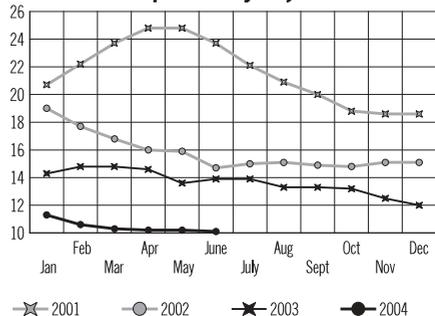
Calculated without taking account of foodstuffs such as bread and bakery products, pasta and flour, whose prices have been extremely volatile in recent years, core inflation in June 2004 increased 3.5% as compared with December 2003. This means that it was by 0.8 percentage points slower than the overall core inflation. In the same period of 2002, when the situation on the grain market was better, core inflation without these foodstuffs was by 0.2 percentage points faster than core inflation calculated taking these foodstuffs into account.

Estimates show that growth in the

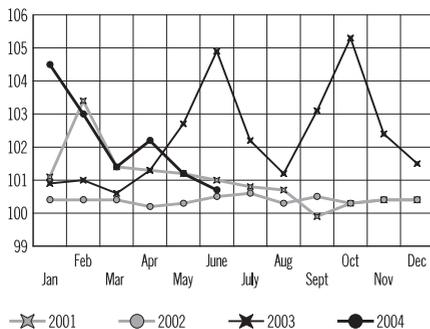
**Consumer price dynamics
(as % of previous month)**



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



Bread and bakery product price dynamics (as % of previous month)



prices of goods and services included in the calculation of the base consumer price index, in 2004 H1 accounted for 3.5 percentage points, or 57.2%, of overall increment in consumer goods prices as against 3.8 percentage points, or 47.9%, in the same period of 2003.

Non-food prices rose 3.4% in 2004 H1 as against 4.6% in 2003 H1. The last time first-half non-food prices grew less (1.3%) was in 1998. At the same time, in 2004 Q2, non-food prices rose faster than in 2004 Q1 (2.1% as against 1.4%). After a slight rise in 2004 Q1 (by 0.6%), in Q2 petrol prices increased at a constantly accelerating pace (in April they increased 1.9% month on month,

Russia expects a rise in grain production in 2004. According to the Ministry of Agriculture, Russia's gross grain harvest this year may be in the range of 73 million to 76 million tonnes (in 2003, it was 67.2 million tonnes), which represents an increase of 9-13% on the previous year.

Possible growth in the country's gross harvest is evidenced by data on the harvesting of grain crops, which proceeds at a faster pace than last year (by August 1, 2004, farmers had harvested grain from 16.9% of the total area sown to grain crops as against

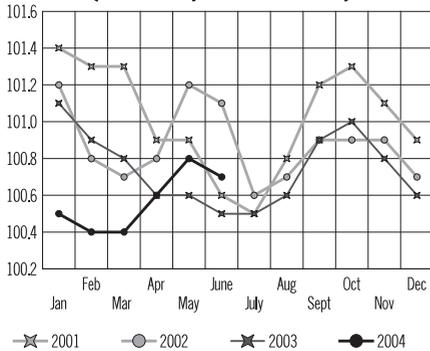
10.9% in 2003). The average grain yield this year stands at 32.2 centners per hectare as against 24.6 centners per hectare a year earlier. At the same time, grain stocks remain inadequate. As of July 1, 2004, agricultural, procurement and processing enterprises had a total grain stock of 6.9 million tonnes. As compared with July 1, 2003, grain stocks decreased by 25.8% to 75.9% of the four-year average. Procurement and processing enterprises note the most significant reduction in the stocks of food rye (by 58.1%) and rice (73%).

Table 1

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

	Growth in January-June 2004	Growth in January-June 2003	Result
Prices of goods and services included in core inflation calculation	4.3	4.7	Retardation by 1.1 times
of which:			
food prices excluding vegetable and fruit prices	5.2	4.4	Acceleration by 1.2 times
non-food prices	3.4	4.6	Retardation by 1.4 times
Service prices	11.0	15.6	Retardation by 1.4 times
of which:			
prices of goods and services regulated at federal and regional levels	13.3	18.7	Retardation by 1.4 times
Vegetable and fruit prices	13.9	33.7	Retardation by 2.4 times

Non-food price dynamics (as % of previous month)



in May 4.6% and in June 6.6%). Such significant growth in the price of petrol was due, to some extent, to high world energy prices. In the first half, the most significant increase in non-food prices was registered in the price of petrol, which went up 14.2% as against 8.4% in 2003 H1), knitwear (3.8%) and clothes and underwear (3.3%).

Growth in the prices of most non-food products in 2004 H1 was smaller than in 2003 H1 and there was a 1.0% fall in the prices of TV and radio sets.

Estimates show that in the first half of 2004, non-food price increases accounted for 0.9 percentage points, or 15.3%, of overall consumer price growth as against 1.3 percentage points, or 16.0%, in 2003 H1.

In 2004 H1, growth in food prices, excluding vegetable and fruit prices, was faster than growth in non-food prices.

Food prices as a whole rose 6.0% in 2004 H1 as against 7.4% in 2003 H1; Q1 growth stood at 3.8% and Q2 at 2.1%.

Food price growth, measured without taking account of vegetable and fruit prices, stood at 5.2% in 2004 H1 as against 4.4% in 2003 H1; Q1 growth was 3.2% and Q2 1.9%.

In 2004 H1, growth in the prices of this group of products accounted for 2.6 percentage points, or 42.2%, of overall con-

Table 2

Food price inflation (%)

	January-June 2004 growth	January-June 2003 growth	Result
Bread and bakery products	13.6	11.8	Acceleration by 1.2 times
Cereals and legumes	7.3	14.5	Retardation by 2.0 times
Pasta products	10.6	4.1	Acceleration by 2.6 times
Meat and poultry	6.9	1.1	Acceleration by 6.3 times
Fish and seafood	2.1	8.9	Retardation by 4.2 times
Milk and dairy products	1.6	0.5	Acceleration by 3.2 times
Butter	-0.9	0.8	--
Sunflower oil	-0.8	2.6	--
Granulated sugar	4.4	3.7	Acceleration by 1.2 times
Alcoholic beverages	5.4	5.7	Retardation by 1.1 times

sumer price increase as against 2.2 percentage points, or 28.1%, in 2003 H1.

The second quarter saw bread and bakery product price growth slow down (April growth stood at 2.2%, May 1.2% and June 0.7%), which may be partly due to the expectations of a better harvest. The area sown to grain crops that are to be harvested this year expanded 4.1% as compared to 2003.

However, in 2004 H1 the prices of bread and bakery products and pasta products rose more than any other food prices, except vegetable and fruit prices (by 13.6% and 10.6% respectively). Compared to 2003 H1, the prices of bread and bakery products and pasta products accelerated by 1.2 times and 2.6 times respectively. This is the result of a bad grain harvest in Russia and Europe in 2003 and the increase in selling prices, which rose 26.4% in 2004 H1 as against 11.3% in 2003 H1 amid the continued scarcity of grain stocks. At the same time, the output of bread and bakery products declined 3.6%.

Meat and poultry prices rose 6.9% in 2004 H1 as against 1.1% in 2003 H1, as livestock and poultry selling prices increased

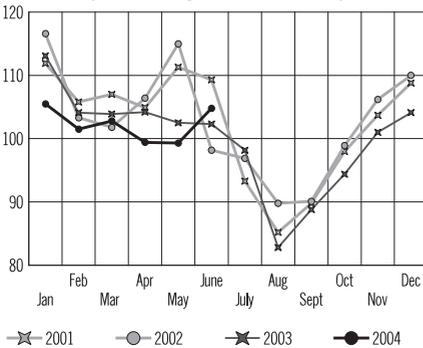
10.6% in the first half of the year as against 0.1% in the same period last year.

Growth in the prices of some foodstuffs slowed as compared with 2003 H1 (growth in fish and seafood prices decreased by 4.2 times and cereal and legume price growth slowed by half). The first half of the year saw a fall in the price of sunflower oil (by 0.8%) and butter (by 0.9%).

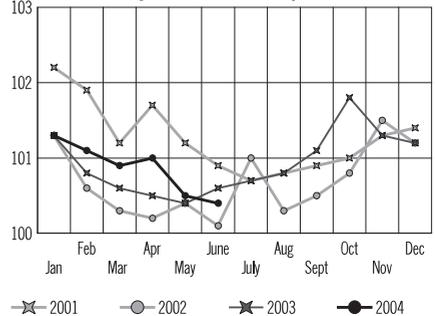
Food price dynamics were largely affected by growth in producer prices in the food industry, which rose 7.2% in 2004 H1 as against 5.0% in 2003 H1, and in agriculture. Selling prices of farm produce increased 9.5% in 2004 H1 as against 1.9% in 2003 H1.

Vegetable and fruit prices grew 13.9% in 2004 H1 as against 33.7% in 2003 H1, the smallest first-half growth in 10 years. After a fall in April and May (by 0.6% and 0.7% respectively), vegetable and fruit prices rose 4.8% in June. According to estimates, first-half growth in vegetable and fruit prices raised the general rate of inflation by 0.7 percentage points, or 11.8%. In 2003 H1, growth in vegetable and fruit prices pushed consumer prices up by 1.8 percentage points, or 22.2%.

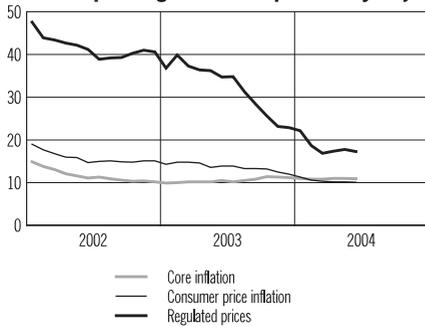
Vegetable and fruit price dynamics (as % of previous month)



Dynamics of food prices, excluding vegetable and fruit prices (as % of previous month)



Core and consumer price inflation and regulated price dynamics (as % of corresponding month of previous year)



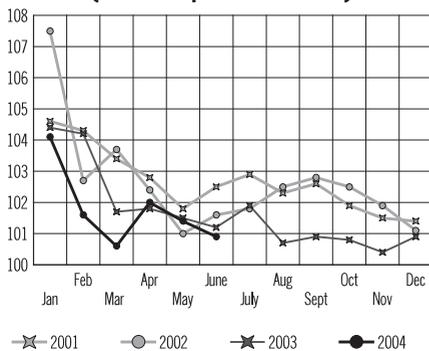
Service prices rose 11.0% in 2004 H1 as against 15.6% in the same period last year. First-quarter growth stood at 6.4% and second-quarter 4.4%. The slowdown in service prices was due to **the slowing of growth in the government-regulated prices of services provided to the public.** In June 2004, these prices rose by an estimated 13.3%, as compared with December 2003, as against 18.7% a year earlier. Special mention should be made of the slowing of growth in rent and communal amenities charges.

Communal service charges rose 18.6% in 2004 H1 as against 23.7% in 2003 H1 and passenger transport fares increased 10.9% as against 11% respectively. Growth slowed in the prices of many services in 2004 H1, except the prices charged by cultural and pre-school education establishments, which grew 8.7% and 12.5% respectively as against 8.1% and 10.3% in the same period last year. Communication fees were down 2.3%, the first price downturn in the sector in 10 years.

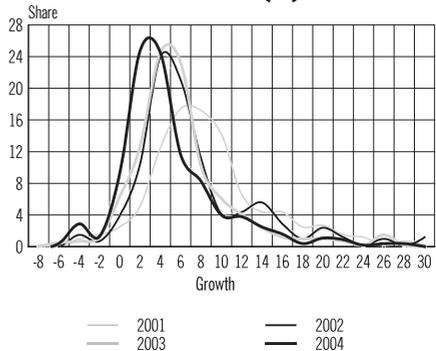
The increase in the prices of services provided to the public in 2004 H1 exceeded overall growth in the prices of goods, which stood at 4.9%. Service price increases in 2004 H1 accounted for 1.9 percentage points, or 30.7%, of overall consumer price growth as against 2.7 percentage points, or 33.7%, in 2003 H1.

The analysis of the distribution of goods and services price increases in the first half of 2001-2004, made on the sampling of more than 400 types of consumer goods and services without taking account of their weights in consumer expenses, testified to constant decline in the average rate

Service price dynamics (as % of previous month)



First-half consumer price growth distribution (%)



of price growth¹. At the same time, this decline differed from year to year.

Compared to 2002 H1, inflation in 2003 H1 slowed as a result of the contraction of the share of goods and services with a high rate of price growth. This phenomenon reflects the process of evening out of price dynamics of different groups of goods and services, which is a sign of macroeconomic stability. At the same time, the range of increase in the prices of most consumer goods and services was virtually unchanged in 2003 and the relative stability of the distribution median (5.3% as against 5.6% in 2002) bears this out.

In the first half of the year the situation changed slightly. Inflation slowed due to the slowing of growth in the prices of goods and services in the main growth range, a process which proved the effectiveness of the reduction of inflation, because the price slowdown affected a wide range of goods and services.

Closer rates of growth in relative prices of foodstuffs, non-food products and services were a positive inflation development, although this process has not yet become a sustained one.

Price growth (the average for a sampling of goods) was the biggest in services and the smallest in non-food products. At the same time, price growth medians for the bulk of food and non-food products did not differ much.

The statistical analysis of food price growth indicates that the 2004 H1 decrease of the sample average was the result of the slowing of growth in vegetable and fruit prices.

At the same time, the price growth range of most food products narrowed as

differences in food price dynamics became less. On the other hand, products in the price growth range of 9-12% accounted for a large part of all food products due to significant growth in bread and bakery product and pasta prices, caused by the poor grain harvest in 2003, and the continued scarcity of grain stocks this year. This price growth range also included meat products², despite their moderate price dynamics in 2003 H1.

The distribution of non-food price increases is characterised by a prominent maximum and low dispersion. Consequently, the increases in the prices of most products in this group stay within a narrow range. Thus, in 2004 H1, the products whose prices rose by 0-6% accounted for 81.4% of the entire range of non-food products. In the same period last year, the main price growth range was 2-8% and it accounted for 80.8% of all goods.

The slowing of growth in the prices of goods in this group in 2004 H1 was due to the slowing of growth in the prices of non-food products in the main growth range. At the same time, the share of products whose prices rose by more than 6% remained small and could not create a reserve for potential decline in inflation.

The distribution of service price increases in 2004 H1 is characterised by three local highs. The first is in the 7-9% range and reflects the price dynamics of most consumer services. The second reflects a relatively slow rate of growth in education fees, which rose 2.4% in 2004 H1. This year was different from the previous years in that its third local high corresponded to the deflation growth range, which included the communication services.

¹ Price growth distribution shown in the chart is based on a smoothed histogram, using 20 growth ranges with a width of 2% each.

² Excluding poultry, sausage and canned meat.

Factors of inflation

Several factors affected consumer prices in 2004 H1.

World market conditions

World market conditions are essential not only for output and price dynamics in various sectors of the economy, but also for the inflow of foreign currency earnings to the country's domestic foreign exchange market.

The average level of world market prices of major Russian export commodities, adjusted for the structure of Russian exports, rose 12.1% in 2004 H1 as compared to 2003 H1, according to Bank of Russia estimates. The price of Urals crude was up 15.3%, petrol 22.7%, diesel fuel 13%, fuel oil 1.0% and natural gas in Europe 1.6%. Non-ferrous metal prices increased 34% (the price of aluminium was up 20%, copper 67% and nickel 63%).

The rising prices of energy products and other raw materials on the world market and the gap between domestic and world prices allow Russian producers to continue to raise prices on the domestic market.

The favourable price situation on world commodity markets for Russian exporters and the expansion of demand for goods and services exported by Russia led to a rise in exports and growth in the Russian trade surplus.

In 2004 H1, Russian exports increased 25.1% year on year to \$78.6 billion and imports grew 24.7% to \$42.3 billion. **Russia's trade surplus** amounted to \$36.3 billion, an increase of 25.7% on 2003 H1's \$28.9 billion.

Exports grew as a result of not only price increases, but also the expansion of export volumes. The principal contribution to growth in the value of exports in 2004 H1

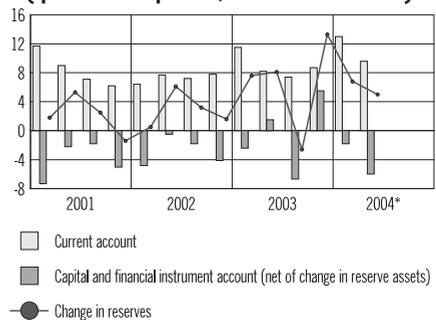
was made by oil, ferrous and non-ferrous metals and machinery, equipment and transport vehicles. There was also a rise in exports of petroleum products, natural gas, chemical raw materials and mineral fertiliser and timber products. The latest data indicate that the share of energy products in the total value of exports contracted, while that of ferrous and non-ferrous metals expanded.

Imports grew largely due to the increase in the purchases of investment goods, which grew by about 1.4 times over. The expansion of consumer goods imports by almost one-quarter was the result of growth in imports of non-food consumer goods and some foodstuffs.

The terms of trade between Russia and other countries in 2004 H1 were better than a year earlier: according to a preliminary estimate, they improved by 13-14% due to the accelerated growth in export prices.

According to preliminary data, **Russia's current account surplus** increased by \$2.9 billion in 2004 H1 year on year and stood at \$22.6 billion, or 8.8% of GDP as against 10.3% of GDP in 2003 H1. The main factor

Major balance of payments components (quarter on quarter, billion US dollars)



* 2004 Q2: estimate.

of growth was considerable expansion of exports.

The capital and financial account deficit (net of the changes in reserve assets) rose from \$900 million in 2003 H1 to \$7.8 billion in 2004 H1, according to preliminary data. The private sector's net capital outflow, measured taking into account illegal capital flight, increased to \$5.5 billion (there was a net capital inflow of \$3.8 billion in 2003 H1).

Net inflow of foreign investments to the private sector of the Russian economy increased 7.8% to \$16.6 billion in 2004 H1, according to preliminary balance of payments data; of this, net inflow of foreign investments to the non-financial enterprise sector rose 44% to \$17.3 billion. The inflow of foreign direct investments to the non-financial enterprise sector rose by an estimated 34% to \$8.6 billion, foreign capital inflow in the form of credit and loans increased by 19% to \$7.4 billion and foreign capital inflow in the form of portfolio investments grew to \$1.3 billion (there was an outflow of portfolio investments of \$600 million in 2003 H1).

An increased attractiveness of placing investments abroad was conducive to the growing outflow of private capital from the country. According to estimates, in 2004 H1 investments in foreign economies rose by 2.3 times year on year to \$19.2 billion. Dedollarisation of the Russian economy slowed down. The non-financial enterprise sector and household savings in foreign currency decreased in 2004 H1 by an estimated \$2.7 billion as against \$3.9 billion in 2003 H1.

Russia's international reserves expanded by \$11.3 billion in 2004 H1 (2003 H1 growth stood at \$16.6 billion) and as of July 1, 2004, they amounted to \$88.2 billion as against \$64.4 billion as of July 1, 2003. As

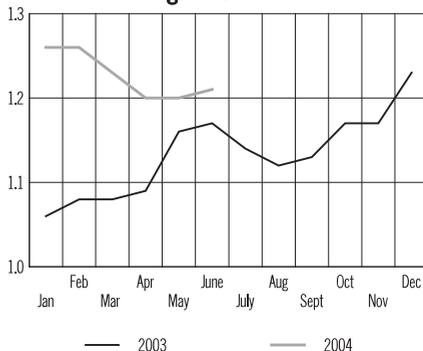
of the end of 2004 H1, Russia's international reserves were enough to finance imports for 9.4 months as against 8.6 months a year earlier.

International financial markets

In the first half of the year, the US monetary authorities switched to the policy of gradually raising interest rates in order to keep inflation at bay. Britain has pursued a similar policy since the autumn of 2003. Short-term interest rates in the Economic and Monetary Union (EMU) were on average lower than last year and in Japan they stayed close to nil. The economic upturn in the industrialised nations amid budget deficits brought about a rise in yields on medium-term financial assets denominated in major world currencies. As a result of growth in yields on US treasury bills in the first half of the year, the differences in yields on assets denominated in dollars and euros changed. The yield on the dollar-denominated US treasury bills with maturity from 2 to 10 years in June exceeded the yield on the euro-denominated EMU government securities with the same maturity.

In the first half of the year, the dollar

US dollar average monthly rate against euro



lost 11% of its value against the euro as compared to the same period in 2003, 13.2% against the British pound, 9.5% against the Japanese yen and 6.7% against the Swiss franc. The dollar's depreciation in the first half of the year as compared with the same period last year was attributable to the depreciation of the US currency in 2003 caused by a large current account deficit and the US economic authorities' efforts to use the weakened dollar as a means of boosting the competitiveness of US goods and stimulating business activity and employment. In the first half of the year, however, currency exchange rates began gradually to stabilise as economic growth in the United States exceeded that of the eurozone, the yield on the dollar-denominated financial assets increased and the US Federal Reserve tightened its monetary policy.

The level of share prices on the stock markets of North America, Europe, Asia and Latin America rose in the first half of 2004 as compared with the same period last year. The increase was due to the world economic upturn and improved corporate profit forecasts. The obstacles to more significant growth in share prices on the world's stock markets was the escalation of tension in Iraq, a rise in terrorist activity in the world, significant price growth on the world oil market and the tightening of the monetary policy in some countries.

Domestic supply and demand

Consumer price inflation in the first half of the year was accompanied by the **heightened production and investment activity**. Output in the key branches of the economy rose 7.9% in 2004 H1 compared to 2003 H1, the highest growth rate in three years (in 2001 H1 it stood at 5.6%, in 2002 H1 at 3.7% and in 2003 H1 at 7.1%). There

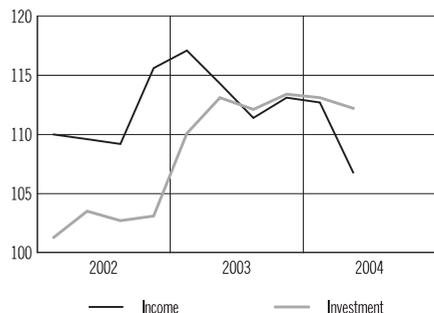
was a rise in output in industry, construction and transport and retail and wholesale trade turnovers expanded significantly. At the same time, there was a decline in agricultural production.

Industrial output grew 7.4% in 2004 H1 as compared to 2003 H1 (2003 H1 growth stood at 6.8%). Rapid rates of production growth were registered by investment industries: 14.9% in machine-building, 8.5% in the building materials industry, 8.2% in the fuel sector and 9.1% in the chemical and petrochemical industry. In the first half of last year, the most rapid rates of production growth were registered in the fuel and ferrous metallurgy sectors (by 10.0% and 9.5% respectively), machine-building (by 7.6%) and the building materials industry (5.6%).

Transport's freight turnover expanded 7.3% in 2004 H1 year on year (2003 H1 growth stood at 7.5%). The freight turnover of rail transport increased 8.7%, automobile transport 5.5% and pipeline transport 7.8%.

There was a rise in business activity in the construction branch in the first half of the year. The volume of construction work

Real disposable money income and fixed capital investment dynamics (as % of corresponding quarter of previous year)



done by contract in 2004 H1 expanded 14.2% year on year (in 2003 H1, it grew 14.3%).

At the same time, agricultural output decreased 1.2% in 2004 H1 year on year (in 2003 H1, agricultural production contracted 0.3%).

It is important for the analysis of inflation to evaluate potential economic growth (the output of goods and services), because production growth at a rate exceeding potential production growth may testify to excessive demand and the increased inflation pressure on the economy. Potential output of goods and services characterises the supply side of the economy. The output gap is the percentage difference between actual and potential output levels.

Taking into consideration statistical problems and specifics in the evaluation of output factors, it is meaningful to use with regard to the Russian economy the expert method of determining potential output and the output gap and its influence on price dynamics. According to estimates, potential output growth rates in Russia are currently faster than actual ones and a negative output gap leads to the gradual slowing of inflation.

In the first half of the year, **investor and consumer demand continued to grow rapidly**. Fixed capital investment rose 12.6% on the first half of 2003 (2003 H1 growth stood at 11.8%).

Real disposable money income increased 9.8% in 2004 H1, as compared to the first half of last year (in 2003 H1 it grew 15.6%). In 2004 Q2, real disposable money income rose 7.2% year on year as against 14.3% a year earlier.

The continued increase in household income led to growth in consumer expenses, which rose by an estimated 10.8% in 2004

H1 year on year as against 9.6% in 2003 H1. At the same time, expenses on goods and services accounted for a larger percentage of household income than in 2003 H1, causing consumer prices to rise.

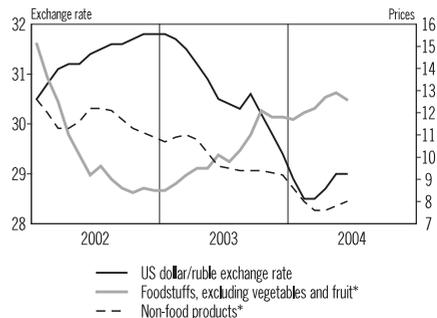
The situation on the labour market somewhat improved in the first half of the year as compared to the first half of last year. In January-June 2003, the number of jobs in the Russian economy declined, whereas in the first half of this year it rose, while the number of jobless fell (2003 H1 saw a rise in the number of unemployed). In the first half of the year, 91.5% of the economically active population were employed and 8.5% were classified as unemployed, according to the ILO methodology (91.3% and 8.7% respectively in 2003 H1). Compared to the first half of last year, job numbers rose by an estimated 1.2%, while the total number of unemployed declined 0.5%.

The increase in job numbers led to consumer price growth, but the rise in labour productivity contained this process.

Exchange rate

The exchange rate policy pursued by the Bank of Russia continued to play a positive

US dollar/ruble rate dynamics and price dynamics of individual groups of products



* Month on corresponding month of previous year, %

role in curbing inflation. Although in March-June 2004 the ruble lost some of its value against the dollar in nominal terms, in June the ruble's nominal rate against the dollar was 1.4% higher than in December 2003.

The ruble's nominal rise against the dollar was restrained by growth in the prices of imported consumer goods and, consequently, their domestically produced analogues. The influence of the exchange rate dynamics on non-food price dynamics was stronger than on food price dynamics. Since domestically produced foodstuffs stand up well to imports on the Russian market in terms of both quality and prices, the exchange rate dynamics mainly affected producer prices in the food industry, which uses imported raw materials more than any other Russian industry. As for the price dynamics of non-food products, which are not particularly competitive, they were more susceptible to exchange rate fluctuations.

Imports accounted for 42% of the retail trade in 2004 Q1, a decrease of 2 percentage points on 2003 Q1, and 35% of foodstuffs, which also represents a contraction by 2 percentage points from 2003 Q1.

Calculations show that the ruble's nominal rally against the dollar in the first half slowed core inflation by 0.3-0.4 percentage points.

Costs

Producer price growth accelerated in industry as industrial output expanded. In the first half of the year, **industrial producer price growth** exceeded consumer price growth by 2.9 times (it was 1.5 times slower in the same period last year). Industrial producer prices rose 17.7% in 2004 H1 as against 5.1% in 2003 H1.

Producer price growth accelerated in the food industry, from 5.0% in 2003 H1 to

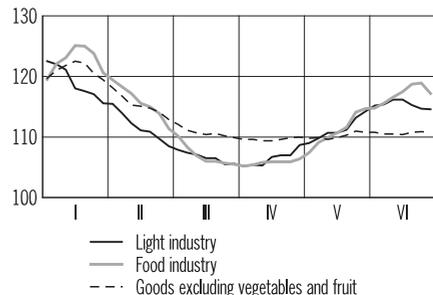
7.2% in 2004 H1. Since this industry's output goes directly to the consumer goods market, the acceleration had a negative effect on consumer price dynamics. In light industry, producer price growth slowed to 5.4% from 6.0% in 2003 H1. The increased profitability of large and medium-sized enterprises in light industry, registered in 2004 Q1, was a factor of moderate growth in prices.

Producer price growth also accelerated in the construction branch (from 4.9% in 2003 H1 to 6.2% in 2004 H1), which was caused by producer price growth in the machine-building and building materials industries. In 2004 H1, producer prices in these industries rose 9.8% and 11.9% respectively (as against 5.9% and 11.1% in 2003 H1).

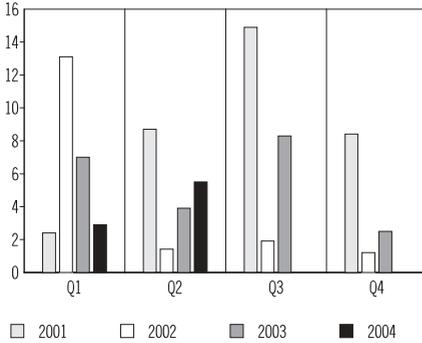
Producer price growth accelerated in agriculture amid production decline in this branch.

Consumer price inflation was also affected by **price dynamics in the cost-creating industries**, which directly influence enterprises' costs. Producer prices rose significantly in 2004 H1 in the fuel sector (by 34.8%) and electric power industry (by

Producer price dynamics in light and food industries and commodity price dynamics excluding vegetable and fruit prices (monthly change as % of same month of previous year)



Growth in freight transportation charges (% change per quarter)



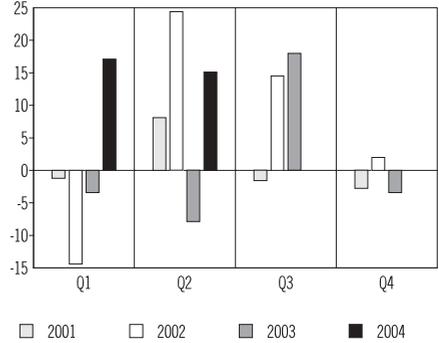
11.4%) (in 2003 H1, producer prices in the fuel sector declined 11.0% and in the electric-power industry they increased 13.0%). Freight transportation rates rose 8.5% in 2004 H1 as against 11.2% in 2003 H1. Growth in rail transport fares in 2004 H1 was unchanged from 2003 H1 at 12.6%.

The average monthly **wage** stood at 6,411 rubles in 2004 H1 as against 5,048 rubles in the same period last year, a growth of 26.1%, and in real terms it increased 14.2% against 9.5% in 2003 H1.

As in the previous years, wages differed significantly from sector to sector. The highest wages were, as before, in the fuel and energy sector and the sphere of finance, credit and insurance, while the lowest were in agriculture, sectors that were mostly financed by the state (education, culture and the arts) and light industry.

It should be noted, however, that the most rapid growth in wages at large and medium-sized enterprises in the first half of the year, as compared with the same period last year, was registered in healthcare, physical culture and social security, agriculture and culture and the arts. Wage increases in the electric power industry and

Producer price growth in fuel sector (% change per quarter)



fuel sector were a little smaller than in the social sphere, but they were roughly the same as in industry as a whole.

Overall, wages rose quite rapidly, exceeding growth in labour productivity. At the same time, the gap between wage increases and growth in labour productivity widened as compared to the first half of 2003, indicating that remuneration was not linked to performance and could provoke further growth in prices.

Other factors

Russia continued to run a **budget surplus** in the first half of 2004, which allowed the government to cut down on borrowings on the domestic market and reduce inflation growth.

According to the Finance Ministry, federal budget revenue stood at 20.6% of the GDP in 2004 H1, expenditure 15.9% and the federal budget surplus 4.7% (as against 3.1% in the same period last year).

Relatively low **inflationary expectations** were a major factor of the slowing of price growth. According to the polls conducted by the Russian Government's Centre for Economic Studies, the inflationary

expectations of the managers of core industrial enterprises in the first half of the year were lower than in the first half of 2003. Imminent growth in selling prices was predicted in that period by 29-34% of respondents as against 31-35% in 2003 H1.

The rate of utilisation of production capacity is not unimportant for inflation in the economy. According to the managers of

core industrial enterprises polled, the average rate of utilisation of production capacity in 2004 Q2 stood at 58%, an increase of one percentage point on Q1, and it could hardly cause inflation to accelerate. There is a reserve of unused production capacity at present, which can be put into operation if demand for Russian staples rises or if new products are launched.

Monetary Indicators as a Factor of Inflation

The second quarter of the year saw the increase in monetary indicators slow down, and as a result first-half money supply dynamics can be regarded as moderate, taking into consideration Russia's rapid economic growth rates. In March 2004, the tendency towards the accelerated growth of the ruble supply (M2 aggregate), registered since 2003, had stopped and a downward trend began to emerge: as of July 1, 2004, the M2 aggregate expanded at an annualised rate of 40.6% as against 48.5% a year earlier. Overall, 2004 Q2 growth in the money supply stood at 7.8% as against 18% in 2003 Q2: in April and May ruble supply growth rates were markedly slower than the past few years' average and in June it expanded far more than in the previous months due to seasonal factors.

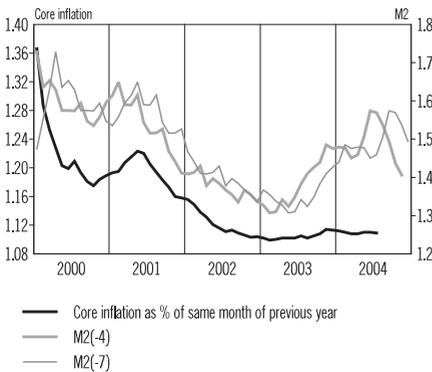
This slowing of growth in the ruble supply will ease its pressure on core inflation by the end of this year and at the beginning of next. At the same time, the cumulative ef-

fect of rapid rates of growth in the money supply, registered during the previous three quarters, may cause prices to rise in the second half of the year.

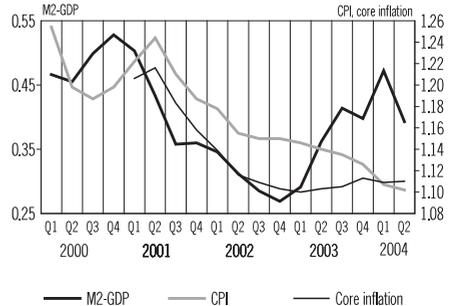
Inflation had no tendency to increase in the first half of the year and its dynamics followed the projected path, by and large, as demand for money rose due to higher-than-expected economic growth rates. However, while overall consumer price growth slowed down as compared to the same period last year, the rate of core inflation in the 12-month moving period remained virtually unchanged by July. This situation may be an evidence of potential pressure exerted by the monetary factor on the general rate of inflation in the coming period.

The gap between the M2 and GDP growth rates, which characterises the part of monetary growth that exceeds the amount necessary to finance the increased volume of transactions, narrowed in Q2 but

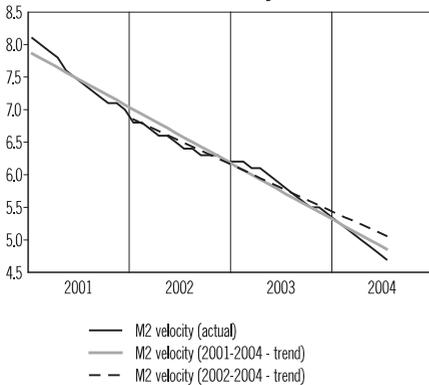
Core inflation and M2 dynamics



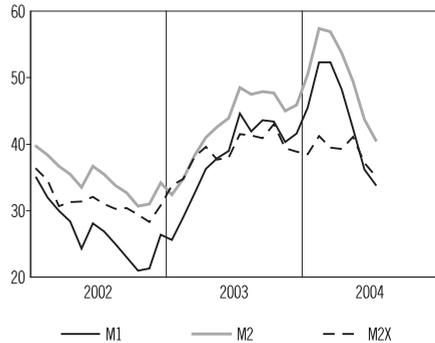
The gap between money supply and GDP dynamics, core inflation and consumer prices (quarter on quarter of previous year)



M2 velocity



Monetary aggregates' annual growth rates in 2002-2004 (%)



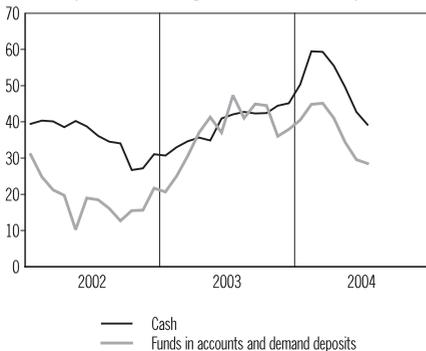
was considerably wider than last year. Accordingly, if the velocity of money declines to a level that will balance out money growth and the objective rise in the demand for money, core inflation dynamics will slow down, causing the general consumer price index to fall.

As the velocity of M2 declined more than it was expected to judging by its trend since the beginning of the year, it had a restraining effect on price growth. This ex-

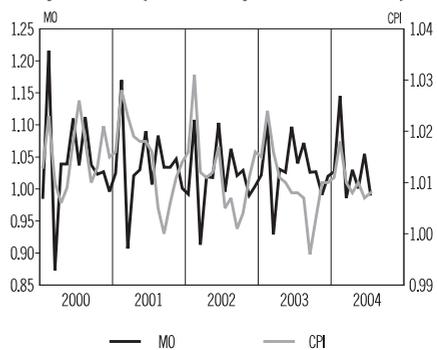
plains partly the moderate inflation dynamics.

The slowing of growth in March and in the second quarter of the year was typical of the ruble aggregates M1 and M2. The dynamics of the aggregates that comprise foreign currency (M2X and the notional broad aggregate M2Y) were different. The annual rates of growth of the M2X aggregate, which includes foreign currency deposits, also slowed down, but to a consid-

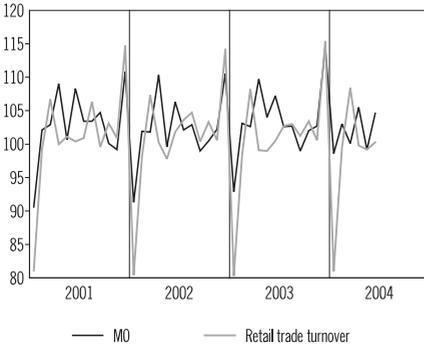
M1 components (annualised growth rates, %)



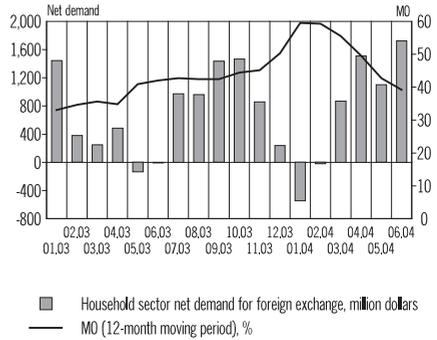
MO dynamics (with 1-month lag) and CPI dynamics (as % of previous month)



**MO and retail trade turnover
(as % of previous month)**



**MO and household sector net demand
for foreign exchange**



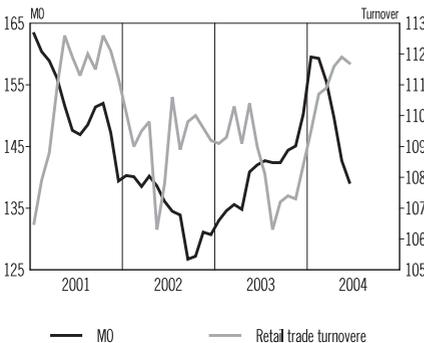
erably lesser extent, from 41.5% as of July 1, 2003, to 35.2% as of July 1, 2004. The annualised growth path of the M2Y aggregate, which comprises an estimated amount of foreign exchange in the non-financial enterprise and household sectors, tended to rise, but its growth rates as of July 1, 2004, were slower than in the same period last year (22.5% as against 24%).

The dynamics of the M1 aggregate, which includes transactional components of the money supply, such as cash, household

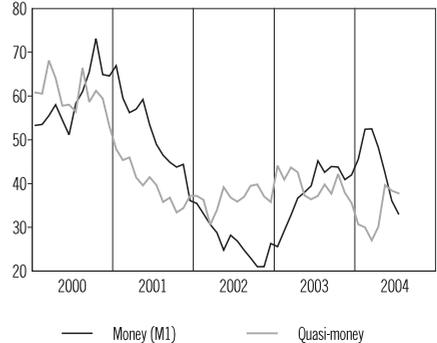
and non-financial enterprise sector current and settlement accounts and demand deposits, slowed down significantly year on year, declining in 2004 Q2 from an annualised 48% to 34%.

The reduction was caused by the slowing of growth of both components of M1. By July, MO growth rates were slower than 2003 Q2 rates: 39.2% against 42% on an annualised basis. However, the expansion of the share of cash in M1 (from 50.4% as of July 1, 2003, to 52.4% a year later) indicates

**MO and retail trade turnover
(annualised rates of growth, %)**



**Money and quasi-money aggregates
(annualised growth rates, %)**



that cash grew more rapidly than non-cash transactional money. The slowing of the latter's growth was more significant: funds in accounts and demand deposits increased by an annualised 28.5% as of July 1, 2004, as against 47.3% a year earlier.

Moderate M0 cash growth in 2004 Q2 did not cause consumer prices to rise.

Overall, in April-June, cash expanded 9.5%, a rate less than half the average second-quarter growth rate of the previous five years. The reduction of M0 growth rates, uncharacteristic of the second quarter of this year, was largely due to the recovery and subsequent growth in the household sector's demand for foreign exchange and the moderate slowing of growth in household income, which in the second quarter of the year rose less than in the same period last year. On the other hand, the fact that cash continued to account for a larger part of the money supply indicates that demand for cash remained amid significant growth in consumer spending and retail trade turnover.

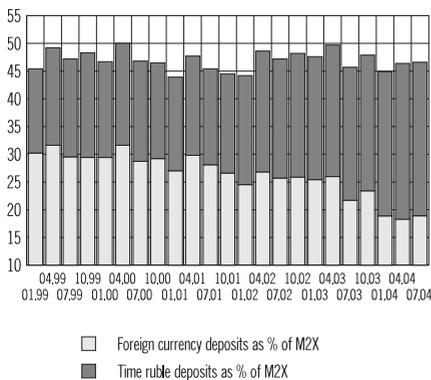
As the nominal rate of the ruble slightly eased against the dollar in 2004 Q2 and the situation in the banking sector was volatile

in June, household sector net purchases of foreign currency rose sharply: in April-June the household sector bought more than \$2.5 billion of foreign currency (household sector net purchases of foreign currency were negative in the same period last year) and this affected the dynamics of cash rubles in circulation.

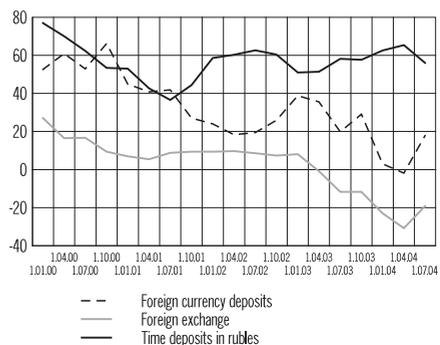
Against the backdrop of the downward trends of cash and transaction accounts, at the end of 2004 Q2 the rates of growth of the M1 aggregate (it is similar to the "money" aggregate in the monetary survey definition) were slower than those of quasi-money, the savings component of the broad money supply M2X (the opposite was true a year earlier). In the 12-month moving period, the "money" aggregate increased 33.1% as of July 1, 2004, as against 45.2% as of July 1, 2003, while quasi-money grew 37.8% as against 37.2% a year earlier.

The acceleration of growth in the quasi-money aggregate, which comprises funds used by economic agents as savings, was the result of the similar dynamics of the ruble and foreign currency components. At the same time, in the second quarter, unlike the preceding period, foreign currency depos-

Change in quasi-money structure (%)



Quasi-money components and foreign exchange (annualised growth rates, %)



its grew faster than the time deposits in rubles, but this did not bring about any significant changes in the structure of quasi-money, however. The acceleration of the dynamics of foreign currency deposits caused their share in M2X to slightly expand in April-June, but the ruble component of quasi-money continued to dominate its structure.

The household and enterprise sector's time bank deposits in rubles accounted for 27.7% of the M2X aggregate as of July 1, 2004, as against 24% a year earlier, while the share of foreign currency deposits contracted by nearly 3 percentage points to 18.9%.

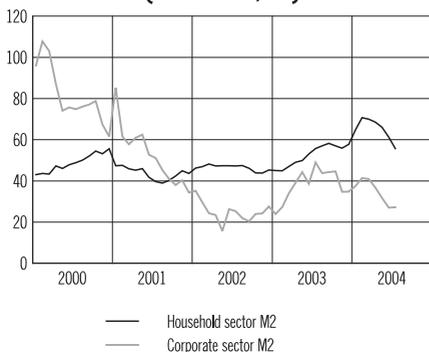
The acceleration of growth in foreign currency deposits (11.7% in Q2 as against 2.7% in Q1) was accompanied by the change of the trend and in the dynamics of the value of foreign exchange in the non-banking sector of the economy: after a contraction by \$3.2 billion in Q1, in April-June it grew by about \$500 million, according to a preliminary balance of payments estimate (in 2003 Q2, it contracted by \$2.4 billion). A slight fall of the ruble in nominal terms in

the second quarter of the year and the devaluation expectations and negative developments in the banking sector led to the resumption and growth of economic agents' demand for assets denominated in foreign currency. At the same time, the ruble's relatively stable and gradual dynamics contained consumer price growth.

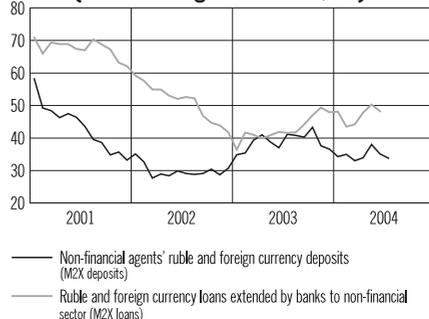
As in 2003 H1, the increase in time ruble deposits was chiefly due to growth in household sector funds, especially deposits with terms from 1 year to 3 years, although their growth slowed in the second quarter.

The expansion of the time ruble component (it grew about 7% in 2004 Q2 as against 13.5% in 2003 Q2) accounted for nearly one-third of M2 growth in April-June 2004. The share of the non-cash transaction component was almost the same. Although the dynamics of the non-cash ruble supply in the household sector and non-financial enterprise sector were basically alike, growth in household funds slowed down more significantly than growth in non-financial enterprise funds. As a result, the share of the household sector funds in the non-cash component of the M2 aggregate

**Growth in M2 deposits by sector
(annualised, %)**



**M2X deposits and loans
to non-financial enterprise sector
(annualised growth rates, %)**



contracted slightly, but household funds continued to prevail as a source of resources for banks.

Time ruble and foreign currency deposits taken on by banks from enterprises and households, which, on the one hand, absorb surplus liquidity and, on the other hand, provide a basis for the expansion of lending volumes, increased by 172 billion rubles, or 8.8% in 2004 Q2 as against 2.8% a year earlier. Banking sector's lending buoyancy, which led to the expansion of the aggregate money supply, was a major source of growth in the money supply in the second quarter of the year (claims on private sector enterprises amounted to more than 300 billion rubles in April-June 2004). At the same time, the dynamics of monetary indicators were affected by the continued increase in banking sector net foreign assets.

Eventually, the declining path of monetary indicators, which became established in the second quarter, may be considered an encouraging development per se, because it may alleviate the pressure of money supply growth on core inflation by the end of the year, provided that seasonal peaks in cash dynamics and budget spending are

avoided at the end of the year. However, the factors behind the slowing of the ruble supply dynamics, especially structural changes caused by renewed preference for foreign currency assets, may lead to instability of the future dynamics of monetary indicators.

The extreme susceptibility of the foreign currency component of the broad money supply, which includes foreign currency deposits and foreign exchange held by non-financial agents, to the changes in the ruble's nominal rate against the dollar may have significant effect on the dynamics of the ruble component of the money supply. The currency replacement processes make it increasingly difficult for the monetary authorities accurately to predict the dynamics of monetary indicators, because the foreign currency component of the broad money supply does not lend itself to any accurate assessment or direct control by the central bank, reducing the predictability of the ruble component of the money supply. The recovery and strengthening of confidence in the banking sector and national currency will help improve the structure of money supply growth.

Financial Market Indicators of Importance for Inflation

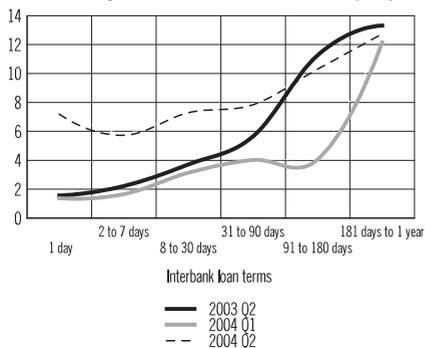
The term structure of interest rates on the ruble financial instruments with different maturities in the second quarter of the year reflected considerable fluctuations in the demand for money and its supply. The principal factors that affected financial market interest rates in the period under review were, as before, the level of banking sector liquidity, the issuer's policy on the GKO-OFZ government securities market and the dynamics of the US dollar's nominal rate against the ruble.

The second quarter of the year saw a rise in interest rates on interbank ruble loans as the quarter's average level of commercial banks' liquidity declined. Interest rates on loans with terms up to 6 months increased significantly, but it did not mean a rise in market participants' inflationary expectations. It was rather the result of the increased distrust between money market participants, caused by the deterioration of the financial condition of some small and

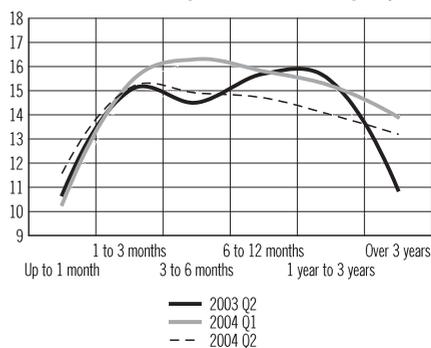
medium-sized banks. The decline in market participants' mutual confidence adversely affected the effectiveness of the redistribution of ruble liquidity between Russian banks, causing interbank lending rates to rise and interbank loan market turnovers to contract. Interest rates on the longest-term loans changed slightly. The interbank loan yield curve continued to rise gently in the second quarter, while **the term structure of interbank interest rates in April-June reflected, as before, a relatively low and stable level of market participants' inflationary expectations.**

The bank lending yield curve remained convex, retaining its positive slope in the up to 3 months section. However, the fall in interest rates on operations for terms longer than 3 months in the second quarter, provoked by the expectations of a seasonal slowing of inflation in the third quarter, caused this section of the yield curve to move down while retaining its slightly nega-

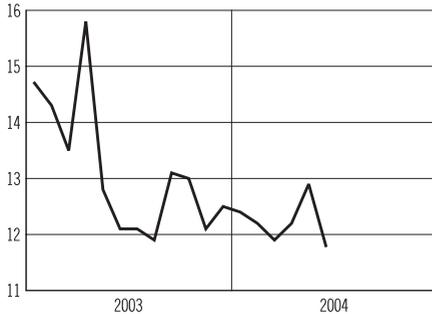
Interbank loan yield curve (average monthly MIACR ruble rates, % p.a.)



Bank lending yield curve (loans to non-financial enterprise sector, % p.a.)



Average monthly interest rate on loans to non-financial enterprises for all terms (% p.a.)



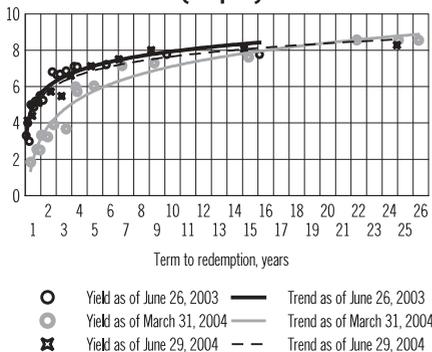
itive slope. The bank lending yield curve **may indicate medium-term expectations of a further moderate fall in interest rates in this segment of the Russian market and a possible drop in the inflation rate.**

The GKO-OFZ yield curve continued to rise in the second quarter. As government securities market turnovers contracted by more than half quarter on quarter, the yield on the instruments with maturities up to 9 years increased significantly, while the yield on longer-term securities was almost un-

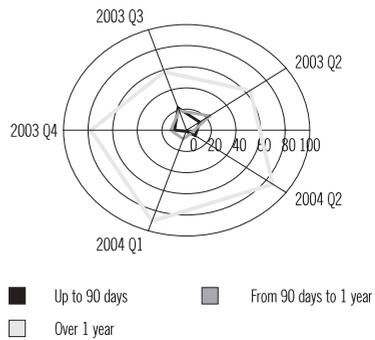
changed. **Short-term government bond prices did not include any inflation risk premium,** while the current level of yield was determined by the structure of demand on the money market. The medium- and long-term inflationary expectations of market participants were unchanged from the previous quarter. **Investments in medium-term government bonds involve moderate inflation risk, with the risk of investing in securities with maturities longer than 5 years determined on the basis of the former.**

GKO-OFZ secondary market turnovers contracted in the second quarter to 900 million rubles a day from 1.9 billion rubles a day in the first quarter. As tension escalated on the money market, the share of government bonds with maturities up to 3 months in total GKO-OFZ secondary market turnover increased almost 8 times over quarter on quarter. The share of government bonds with a maturity from 3 months to 1 year contracted almost by half, while that of medium- and long-term papers was virtually unchanged owing to the high liquidity of the indicative OFZ-AD bond issues. **The GKO-OFZ turn-**

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



GKO-OFZ turnover structure by term to redemption (%)



over structure in April–June reflected the change in government securities market participants’ priorities amid relatively low inflationary expectations.

* * *

The analysis of the term structure of interest rates on the segments of the financial market under review shows that the volatility of price indicators for most of the ruble-denominated instruments of the financial market was moderate in the second quarter. In this situation, the yield curves of the major ruble-denominated instruments of the Russian market retained their informative value, especially as a pointer to market participants’ inflationary expectations.

The structure of interest rates by term remained stable in the period under review. **The yield curves of key financial instruments tended to rise, reflecting stability of Russian financial market participants’ short- and medium-term inflationary expectations.**

As for the long-term inflationary expectations, they are impossible to evaluate accurately due to the small scale of operations with long-term financial instruments. **The fact that the yield curves of various long-term instruments remained almost flat in the second quarter may indicate a certain degree of inertia in market participants’ expectations.**

Statistical Addendum

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

	Monthly inflation	Food price growth	Growth in food prices, excluding vegetable prices	Vegetable and fruit price growth	Non-food price growth	Core inflation	Service price growth
2003							
January	2.4	2.5	1.3	13.1	1.1	1.2	4.4
February	1.6	1.2	0.8	4.1	0.9	0.9	4.2
March	1.1	1.0	0.6	3.9	0.8	0.7	1.7
April	1.0	1.0	0.5	4.2	0.6	0.6	1.8
May	0.8	0.7	0.4	2.5	0.6	0.6	1.5
June	0.8	0.8	0.6	2.3	0.5	0.6	1.2
July	0.7	0.4	0.7	-1.8	0.5	0.7	1.9
August	-0.4	-1.4	0.8	-17.2	0.6	0.7	0.7
September	0.3	-0.2	1.1	-11.2	0.9	1.1	0.9
October	1.0	1.1	1.8	-5.6	1.0	1.4	0.8
November	1.0	1.2	1.3	1.0	0.8	1.1	0.4
December	1.1	1.5	1.2	4.1	0.6	1.0	0.9
Full year (December on December)	12.0	10.2	11.8	-4.2	9.2	11.2	22.3
2004							
January	1.8	1.6	1.3	5.5	0.5	0.9	4.1
February	1.0	1.1	1.1	1.5	0.4	0.8	1.6
March	0.8	1.1	0.9	2.8	0.4	0.7	0.6
April	1.0	0.8	1.0	-0.6	0.6	0.8	2.0
May	0.7	0.4	0.5	-0.7	0.8	0.6	1.4
June	0.8	0.8	0.4	4.8	0.7	0.5	0.9

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

	Inflation over period	Food price growth	Growth in food prices, excluding vegetable prices	Vegetable and fruit price growth	Non-food price growth	Core inflation	Service price growth
2003							
January	2.4	2.5	1.3	13.1	1.1	1.2	4.4
February	4.1	3.7	2.2	17.8	2.0	2.1	8.8
March	5.2	4.8	2.8	22.4	2.8	2.8	10.6
April	6.2	5.8	3.3	27.6	3.5	3.4	12.6
May	7.1	6.5	3.8	30.8	4.1	4.0	14.2
June	7.9	7.4	4.4	33.7	4.6	4.7	15.6
July	8.7	7.8	5.1	31.4	5.1	5.4	17.8
August	8.3	6.3	6.0	8.7	5.7	6.2	18.7
September	8.6	6.1	7.1	-3.4	6.6	7.3	19.7
October	9.7	7.3	9.1	-8.9	7.7	8.9	20.7
November	10.8	8.6	10.4	-7.9	8.6	10.1	21.2
December	12.0	10.2	11.8	-4.2	9.2	11.2	22.3
2004							
January	1.8	1.6	1.3	5.5	0.5	0.9	4.1
February	2.8	2.8	2.3	7.1	0.9	1.7	5.8
March	3.5	3.8	3.2	10.1	1.4	2.4	6.4
April	4.6	4.7	4.2	9.5	2.0	3.2	8.5
May	5.3	5.2	4.8	8.7	2.8	3.8	10.0
June	6.1	6.0	5.2	13.9	3.4	4.3	11.0

Inflation Growth Structure

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

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

* Excluding vegetables and fruit.

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

	Foodstuffs*	Non-food products	Core inflation	Paid services	Vegetables and fruit	Inflation over month, %
2003						
January	0.7	0.3	1.0	0.8	0.7	2.4
February	0.4	0.2	0.7	0.7	0.2	1.6
March	0.3	0.2	0.6	0.3	0.2	1.1
April	0.3	0.2	0.5	0.3	0.3	1.0
May	0.2	0.2	0.4	0.3	0.2	0.8
June	0.3	0.1	0.5	0.2	0.1	0.8
July	0.3	0.1	0.5	0.4	-0.1	0.7
August	0.4	0.1	0.6	0.1	-1.1	-0.4
September	0.5	0.2	0.9	0.2	-0.6	0.3
October	0.9	0.3	1.2	0.1	-0.3	1.0
November	0.6	0.2	0.9	0.1	0.0	1.0
December	0.6	0.2	0.8	0.2	0.2	1.1
2004						
January	0.6	0.1	0.8	0.7	0.3	1.8
February	0.5	0.1	0.6	0.3	0.1	1.0
March	0.4	0.1	0.6	0.1	0.1	0.8
April	0.5	0.2	0.6	0.4	0.0	1.0
May	0.3	0.2	0.5	0.3	0.0	0.7
June	0.2	0.2	0.4	0.2	0.3	0.8

* Excluding vegetables and fruit.

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

	Foodstuffs*	Non-food products	Core inflation	Paid services	Vegetables and fruit
2003					
January	27.5	12.4	40.6	31.6	28.5
February	26.7	13.4	41.8	37.1	22.8
March	27.3	14.9	44.2	35.3	22.5
April	27.0	15.3	44.9	34.7	23.1
May	26.9	15.9	46.1	34.5	22.7
June	28.1	16.0	47.9	33.7	22.2
July	29.7	16.2	50.2	35.2	18.8
August	36.5	19.1	60.7	38.9	5.5
September	41.6	21.2	69.1	39.3	-2.1
October	46.7	21.6	74.3	36.4	-4.7
November	48.5	21.7	76.3	33.6	-3.8
December	49.1	21.0	75.9	31.7	-1.8
2004					
January	35.8	7.6	43.2	40.3	16.3
February	42.3	9.0	50.0	35.4	13.3
March	45.0	10.3	55.3	30.2	14.5
April	46.1	11.7	57.5	31.5	10.7
May	45.2	14.2	58.5	32.2	8.5
June	42.2	15.3	57.2	30.7	11.8

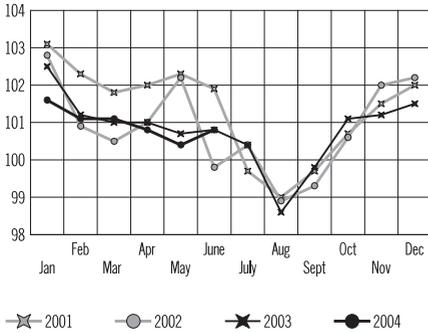
* Excluding vegetables and fruit.

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

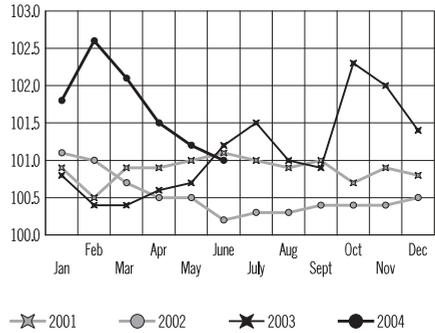
	Foodstuffs*	Non-food products	Core inflation	Paid services	Vegetables and fruit
2003					
January	27.5	12.4	40.6	31.6	28.5
February	25.5	15.0	43.7	45.0	14.6
March	29.7	20.3	53.0	28.3	21.7
April	25.5	17.2	48.7	31.6	25.7
May	25.9	21.2	55.3	33.1	19.8
June	38.4	16.6	62.7	26.9	18.1
July	46.8	18.9	74.7	50.7	-16.4
August	<i>estimate is impossible for negative value</i>				
September	164.8	72.9	270.6	50.5	-188.3
October	86.6	25.6	114.6	14.2	-26.4
November	63.8	23.3	94.1	8.4	4.5
December	53.8	14.2	71.7	15.1	16.9
2004					
January	35.8	7.6	43.2	40.3	16.3
February	53.5	11.5	61.8	26.8	8.1
March	54.6	14.8	74.2	11.5	19.2
April	49.6	17.1	65.1	36.3	-2.9
May	39.1	30.1	64.9	36.2	-5.4
June	22.8	22.7	48.2	21.0	33.6

* Excluding vegetables and fruit.

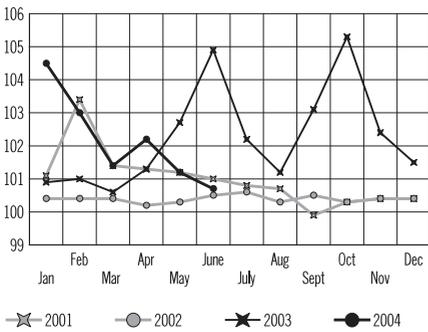
Food price dynamics, total
(as % of previous month)



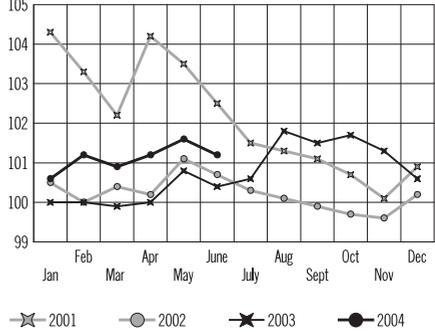
Pasta price dynamics
(as % of previous month)



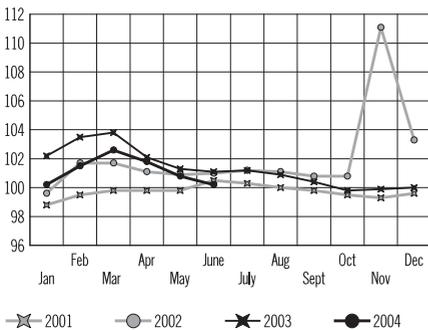
Bread and bakery product price dynamics
(as % of previous month)



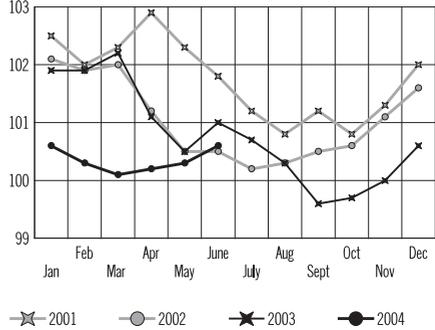
Meat and poultry price dynamics
(as % of previous month)



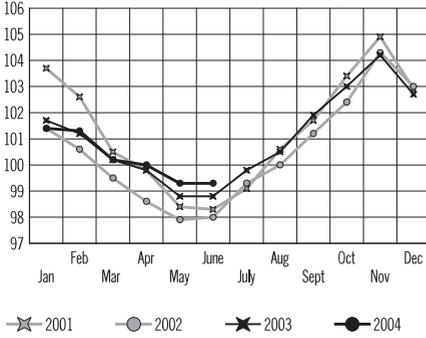
Cereal and legume price dynamics
(as % of previous month)



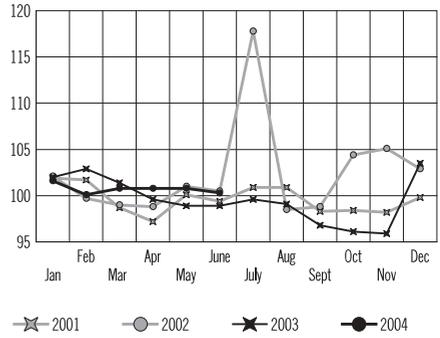
Fish and seafood price dynamics
(as % of previous month)



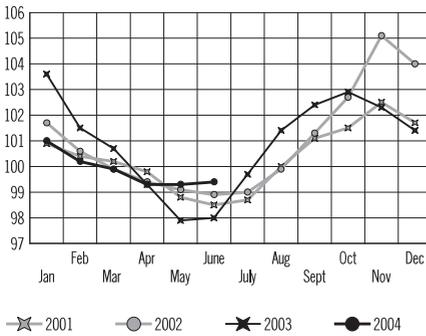
**Milk and dairy product price dynamics
(as % of previous month)**



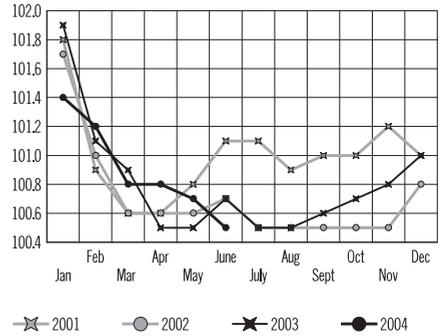
**Granulated sugar price dynamics
(as % of previous month)**



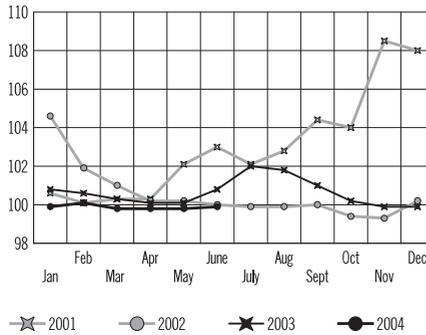
**Butter price dynamics
(as % of previous month)**



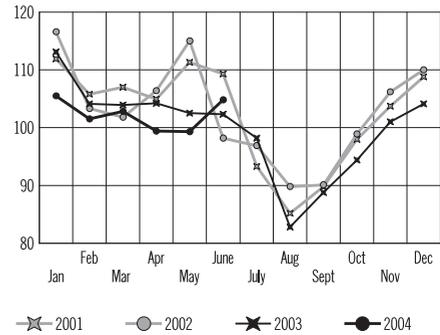
**Alcohol price dynamics
(as % of previous month)**



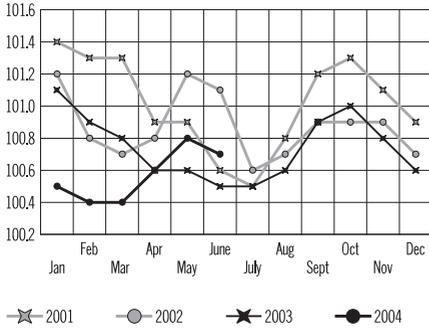
**Sunflower oil price dynamics
(as % of previous month)**



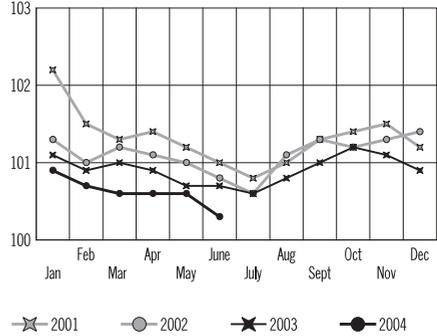
**Vegetable and fruit price dynamics
(as % of previous month)**



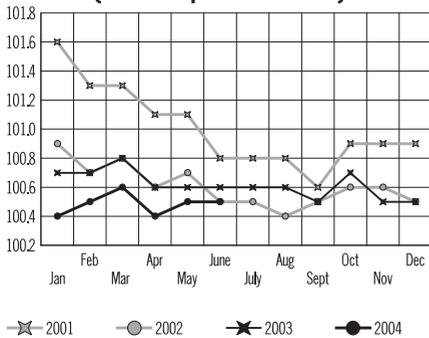
Non-food price dynamics, total
(as % of previous month)



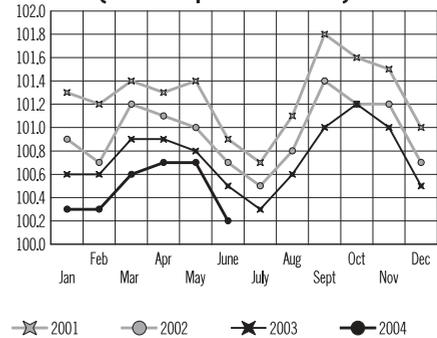
Knitwear price dynamics
(as % of previous month)



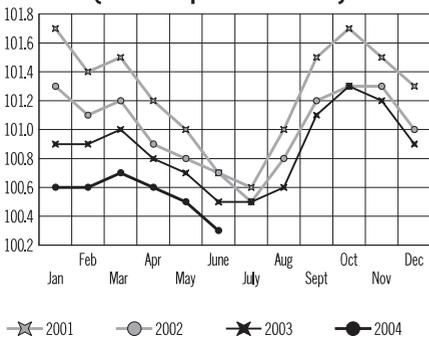
Fabrics price dynamics
(as % of previous month)



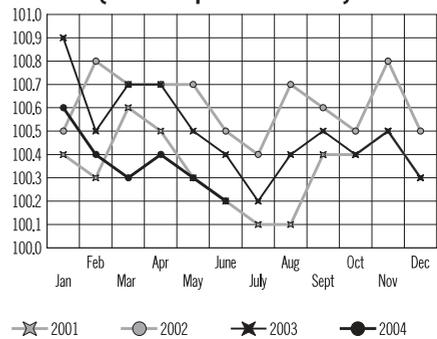
Footwear price dynamics
(as % of previous month)



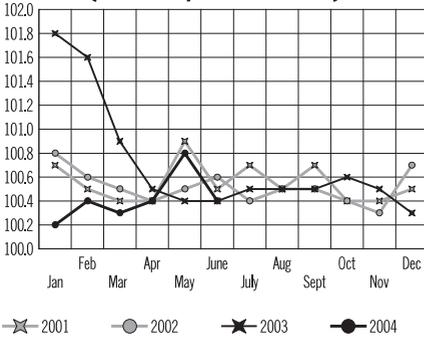
Clothes and underwear price dynamics
(as % of previous month)



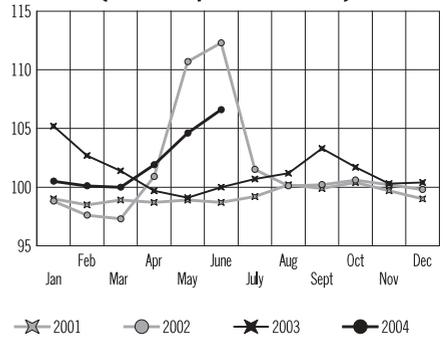
Detergent and cleaner price dynamics
(as % of previous month)



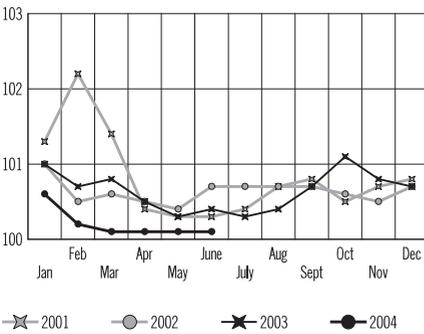
Tobacco price dynamics (as % of previous month)



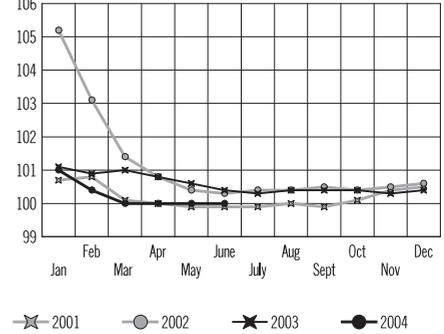
Petrol price dynamics (as % of previous month)



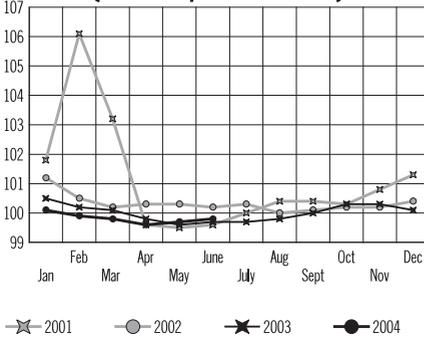
Household electric appliances price dynamics (as % of previous month)



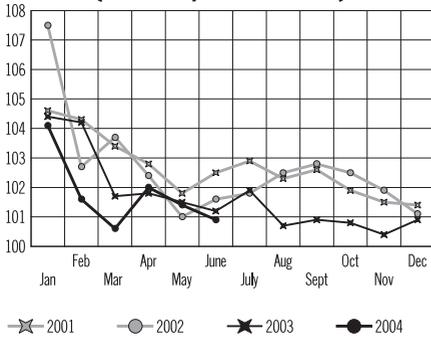
Medicine price dynamics (as % of previous month)



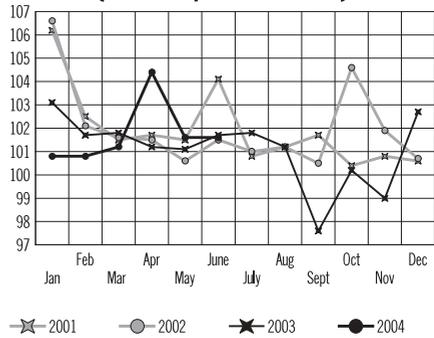
TV and radio price dynamics (as % of previous month)



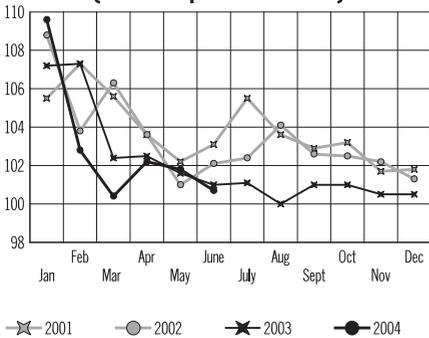
Service price dynamics
(as % of previous month)



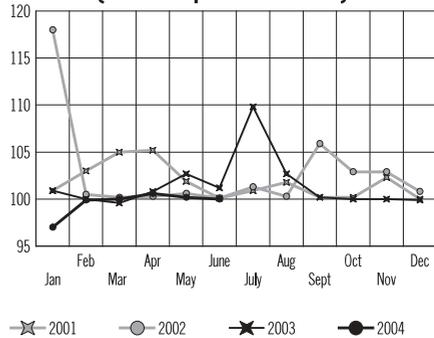
Passenger transport fare dynamics
(as % of previous month)



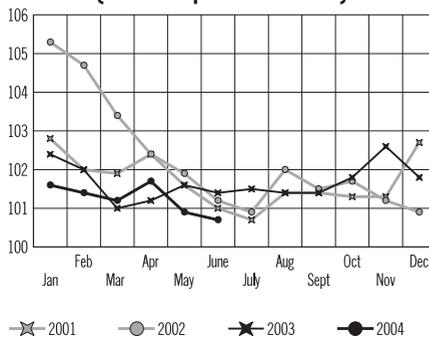
Rent and communal service price dynamics
(as % of previous month)



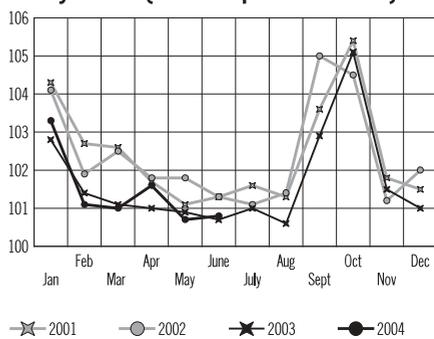
Communication fee dynamics
(as % of previous month)



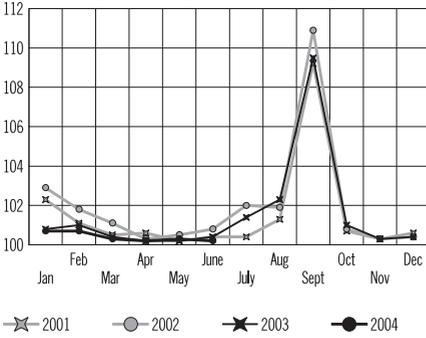
Healthcare price dynamics
(as % of previous month)



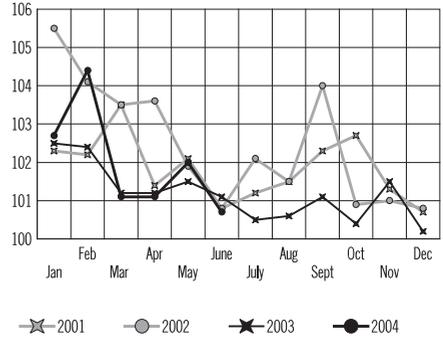
Entertainment and recreation price dynamics
(as % of previous month)



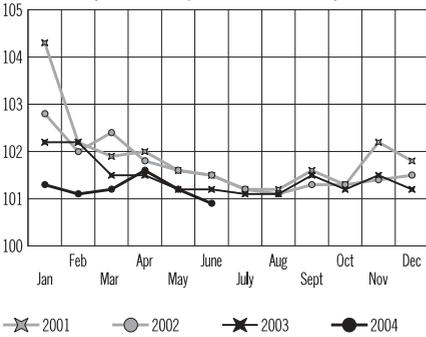
**Education fee dynamics
(as % of previous month)**



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



**Everyday service price dynamics
(as % of previous month)**



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

