



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

# **Quarterly Inflation Review**

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***2004 Q4***

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**Research and Information Department**



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## Introduction

The world energy prices were observed to grow considerably in 2004. This factor and the unstable supply of some goods had an adverse effect on inflation in a number of countries. In Russia, these processes took the form of the accelerated growth of petrol and food prices, which prompted a relatively high increase in consumer prices as a whole.

The high world energy prices contributed to the stepped-up development of domestic industries. The economic growth went along with the rise in wages and employment. The increased public propensity for consumption expanded demand for consumer goods and services and, consequently, provided upward pressure on consumer prices. The slower growth of labour productivity compared with 2003 restricted the possibility of slowing inflation. The trend towards the growth in the prices of paid services exceeding the growth in the prices of goods observed in the past few years also had an adverse effect on inflation.

Given a relatively high share of imports in the retail trade turnover, the appreciation of the national currency contained growth in the prices of imported consumer goods and, consequently, their domestic analogues. The exchange rate fluctuations exerted more noticeable influence on the price dynamics of non-food products than on the price dynamics of foodstuffs. As Russian foodstuffs continued to be highly competitive on the domestic market in 2004 due to both traditional quality and price, the exchange rate dynamics largely affected them through producer prices in the food industry, the industry that uses imported raw materials more than any other industry. As

for non-food prices, the exchange rate affected them directly owing to their lower competitiveness.

The main reasons for the higher-than-projected consumer price growth in 2004 were outside the monetary sphere.

The growth of ruble supply in 2003-2004 did not bring about any significant inflationary consequences as it went along with the expansion of demand for money due to high economic growth rates, the increased monetisation of the economy and its de-dollarisation. The increase of less liquid ruble components (time ruble deposits) prevailed in the structure of the money supply growth. At the same time, the share of cash in the M2 aggregate did not expand. This situation, coupled with other factors, exerted influence on money velocity and the inflation dynamics.

The money supply dynamics in 2004 reflected the monetary and exchange rate policy pursued by the Bank of Russia, and also the government's budget policy towards the formation and build-up of the Stabilisation Fund of the Russian Federation. As foreign currency continued to flow into the domestic market in large amounts, the Bank of Russia took measures to contain money supply growth and its monetary policy was aimed at restricting the expansion of the monetary base and absorbing the banking sector's excess liquidity. About a half of the monetary authorities' money supply created by an inflow of foreign currency was absorbed through the mechanism of money accumulation in the Stabilisation Fund of the Russian Federation.

Along with its daily fixed-rate deposit operations on standard terms, in 2004 Q4 the Bank of Russia continued to hold deposit auctions and auctions to place its own bonds, and also carried out operations to sell bonds from its trade portfolio without a commitment of reverse repurchase to absorb growing banking liquidity. In Q4 credit institutions showed stronger demand for Bank of Russia instruments to place their available funds while the range of market instruments offered to soak up liquidity expanded through operations with the Bank of Russia's own bonds (OBR). Sales volumes

at modified reverse repo auctions contracted sharply as the money market, in particular, offered alternative and more attractive instruments to credit institutions to place their available funds.

The prevailing money supply path in Russia will not affect core inflation significantly in the first half of 2005, considering the existing lag between them. However, this path suggests uncertainty about the stable dynamics of monetary indicators in the future. To some extent, this is due to the lag's fluctuations and the possible change of its length.

## Major Inflation Indicators

According to the Federal State Statistics Service (Rosstat), consumer prices rose by 11.7% in December 2004 as compared with December 2003. Therefore, despite its fall on 2003 (12%), inflation exceeded the official target in 2004 (8-10%). Consumer prices rose by 3.5% in 2004 Q1, 2.5% in Q2, 1.8% in Q3 and 3.4% in Q4. Inflation stood at 10.9% on average in 2004 as against 13.7% a year earlier.

**Core inflation** equalled 10.5% in December 2004 as compared to December of the previous year (it was 11.2% in the same period of 2003). Prices of the goods included in the core inflation calculation grew by 2.4% in 2004 Q1, 1.8% in Q2, 2.4% in Q3 and 3.5% in Q4.

Estimates show that growth in the prices of goods and services included in the calculation of core inflation in 2004 accounted for 8.5 percentage points, or 72.0%, of overall consumer price growth as against 9.1 percentage points, or 75.9%, in 2003. Thus, core inflation's contribution to

overall consumer price growth was smaller than last year.

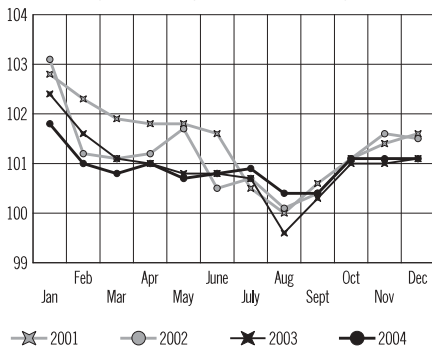
The high level of core inflation registered in the past two years has been caused mostly by volatile, short-term rather than long-term factors.

In 2004, a major factor of the slowing growth in the prices of goods and services included in the calculation of core inflation was the reduction of the growth rate for non-food prices. At the same time, the fast growth in the prices of foodstuffs, especially the prices of meat and poultry, bread and bakery products, contributed to higher core inflation.

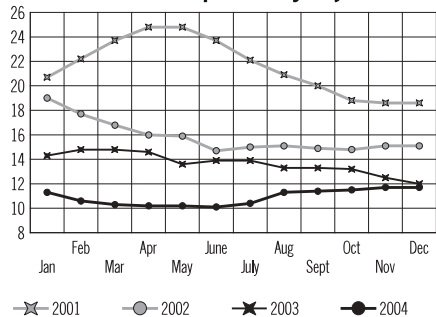
The price dynamics of foodstuffs in 2004 were affected by the growth of meat prices on the world market, the lower meat supply on the domestic market and by a poor grain harvest in Russia and Europe in 2003.

**Non-food prices** rose by 7.4% in December 2004 as compared with December 2003 (in the same period of 2003 they in-

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



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



creased by 9.2%). The prices of non-food products grew by 1.4% in 2004 Q1, 2.0% in Q2, 2.0% in Q3 and 1.8% in Q4. The most significant increase from among non-food products in 2004 was registered in the price of petrol, which grew by 31.3% and considerably exceeded the growth in prices of major non-food products. After its considerable growth in 2004 Q2 and Q3 (by 13.6% and 11.4% respectively), the price of petrol increased by 3.2% in Q4. The significant price rise reflected high world energy prices and, correspondingly, the rapid growth of prices in the oil-extracting and oil-refining industries. In 2003, petrol appreciated by 16.8%.

The prices of major non-food products grew slower in 2004 than in 2003. Television and radio set prices were observed to drop (by 1.5%) in December 2004 as compared with December 2003.

Estimates show that in 2004 non-food price growth accounted for 2.0 percentage points, or 17.1%, of overall consumer price growth as against 2.5 percentage points, or 21.0%, in 2003.

As was the case in 2003, food prices, excluding vegetable and fruit prices, grew faster than non-food prices in 2004.

In December 2004, **food prices as a whole** rose by 12.3% as compared with December 2003 as against 10.2% in the same period of the previous year. Food price growth stood at 3.8% in 2004 Q1, 2.1% in Q2, 1.2% in Q3 and 4.7% in Q4.

**Food price growth calculated without taking account of vegetable and fruit**

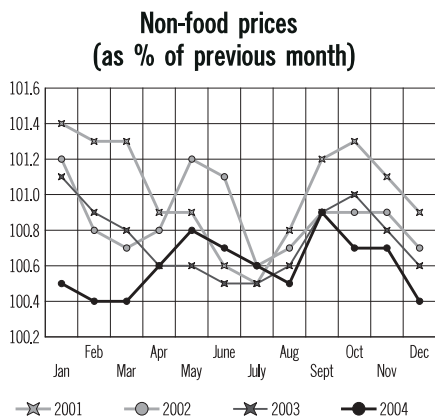


Table 1

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

	Growth (December 2004 on December 2003)	Growth (December 2003 on December 2002)	Result
Food prices excluding vegetable and fruit prices	13.1	11.8	Acceleration by 1.1 times
Non-food prices	7.4	9.2	Retardation by 1.2 times
Prices of goods and services included in core inflation calculation	10.5	11.2	Retardation by 1.1 times
Prices of paid services provided to households	17.7	22.3	Retardation by 1.3 times
Prices of services regulated at federal or regional levels*	19.6	22.9	Retardation by 1.2 times
Vegetable and fruit prices	3.3	-4.2	

\* Bank of Russia estimate.

prices accelerated to 13.1% in December 2004 as compared with December 2003 (11.8%). Growth stood at 3.2% in 2004 Q1, 1.9% in Q2, 2.7% in Q3 and 4.7% in Q4.

In 2004, growth in the prices of this group of products accounted for an estimated 6.5 percentage points, or 55.7%, of overall price increment on the consumer goods market as against 5.9 percentage points, or 49.1%, in the same period of 2003.

The most significant growth in December 2004 as compared with December 2003 was registered in the prices of meat and poultry, bread and bakery products and pasta. Although the prices of bread and bakery products grew less in 2004 than in 2003 (16.7% as against 30.4%), this growth was significant and was due to a poor grain harvest in Russia and Europe in 2003.

The price of granulated sugar increased by 9.1% in July 2004 month on month and by 1.2% in August. In the subsequent months, the price of granulated sugar was observed to decline. These dynamics reflected a high level of price volatility for this

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

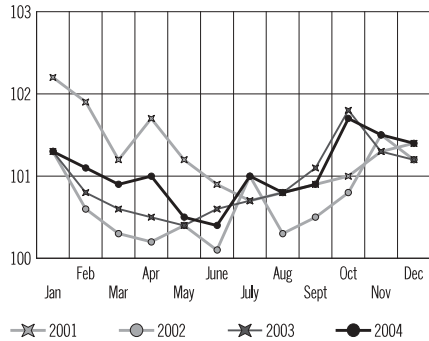


Table 2

**Food price inflation (%)**

	Growth (December 2004 on December 2003)	Growth (December 2003 on December 2002)	Outcome
Bread and bakery products	16.7	30.4	Retardation by 1.8 times
Cereals and legumes	11.6	17.0	Retardation by 1.5 times
Pasta	14.6	14.0	Slight acceleration
Meat and poultry	19.6	8.9	Acceleration by 2.2 times
Fish and seafood	11.5	9.9	Acceleration by 1.1 times
Milk and dairy products	12.8	13.1	Slight retardation
Butter	6.8	11.4	Retardation by 1.7 times
Sunflower oil	2.1	7.6	Retardation by 3.6 times
Granulated sugar	7.5	-5.6	
Alcoholic beverages	8.7	9.9	Retardation by 1.1 times

product due to the unstable world market situation.

Meat and poultry prices rose by 19.6% in December 2004 as compared with December 2003 (they grew by 8.9% in 2003 as a whole). At the same time, the dynamics of meat and poultry prices were different. Beef and pork prices rose by 26.3% and 34.0% respectively in December 2004 as compared with December 2003 (beef prices were up 2.1% in 2003 and pork gained 2.6%), while poultry prices inched up 1.1% as against 22.9% in 2003. The gap between the rates of growth in meat and poultry prices, created by the accelerated increase in poultry prices from May to November 2003, became smaller from the start of 2004.

Growth in the prices of some foodstuffs in December 2004 as against December 2003 slowed down as compared with the same period of 2003 (growth in sunflower oil prices slowed by 3.6 times, butter by 1.7 times, cereals and legumes by 1.5 times).

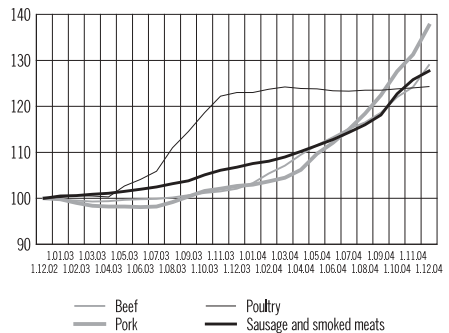
The food price dynamics reflected the growth of producer prices in the food industry, which rose by 11.4% in 2004 (by

14.8% in 2003), and the growth of agricultural producer prices. The selling prices of farm produce increased by 17.7% in 2004 as against 24.7% in 2003.

**Vegetable and fruit prices** rose by 3.3% in December 2004 as compared with December 2003 (they were down 4.2% in 2003).

Vegetable and fruit price dynamics in 2004 were less volatile than they have been in the last few years. In June 2004, vegetable and fruit prices rose by 13.9% as compared with December 2003 (in the same period of 2003, they increased by 33.7%). It was the

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



**On 2004 Grain Harvest**

According to preliminary figures of the Federal State Statistics Service, the gross grain harvest equalled 78.0 million tonnes in 2004, which is 16.2% more than in 2003 and 10% less than in 2002. The grain harvest averaged 68.5 million tonnes in 1996-2001. The harvest of grain grew due to both the expansion of the sowing areas (by 3.8%) to 43.6 million hectares and the increase of crop yields (by 5.5%) to 18.8 centners per hectare.

The share of wheat rose to 58.2% in the structure of grain crops in 2004 as against 50.8% a year earlier. The wheat harvest totalled 45.3 million tonnes, or 33% more than in 2003; the gross wheat harvest increased largely due to the growth of wheat yields by 22.8%. The relative quality of wheat in the

2004 harvest dropped and the share of milling wheat declined to 72% as against 74% in the previous year.

A poor harvest of rye was gathered in 2004 as a result of the reduction of sowing areas due to the considerable loss of winter crops in the Upper Reaches of the Volga River and in the Urals, i.e., in the traditional rye-growing regions. Rye yields declined by 14.7%.

The most significant growth in 2004, as compared with the previous year, was registered in gross maize harvest, which increased by 63.7% while maize yields went up 30.9%.

By its Regulation No. 1545-r, dated December 1, 2004, the Government of Russia took a decision to make purchase interventions in the amount of up to 4.9 billion rubles in 2004 to stabilise the grain market given the surplus supply on the domestic market.



Table 3

## Major bread and bakery product market indicators (% growth)

	2004	2003
Bread and bakery product output (January-December as % of January-December of previous year)*	-3.6	-4.7
Gross grain harvest		
- by farms of all kinds	16.2	-22.6
Wheat imports (growth, January-December as % of January-December of previous year)		
- volume	by 2.1 times	by 2.4 times
- value*	by 3.0 times	by 2.9 times
Prices (December as % of December of previous year)		
- producer prices	17.2	32.8
- grain selling prices	11.7	65.0
- consumer prices	16.7	30.4
- wheat import prices*	-0.6	95.2

\* Estimate based on Rosstat data for respective years.

smallest growth registered in this period in ten years. Therefore, the low level of vegetable and fruit prices in the first half of 2004 precluded any significant decline in these prices typical of July-October. In the second half of 2004, vegetable and fruit prices decreased by a lowly 9.3% as against 28.4% in the same period of 2003.

According to estimates, in 2004, the growth of vegetable and fruit prices accounted for a rise in the general rate of inflation by 0.2 percentage points, or 1.5%. In 2003, the downward contribution of the decline in vegetable and fruit prices to consumer price growth stood at 0.2 percentage points, or 1.8%.

Excluding such products as bread and bakery products, pasta, flour, meat (beef and pork), poultry and petrol from the consumer price index, this aggregate's growth in December 2004 as compared with December 2003 was slower than inflation by an estimated 1.2 percentage points (in 2003, it was also slower by 1.2 percentage points). The downward contribution of the exclusion

of meat and poultry in 2004 was 0.6 percentage points (it was upward in 2003 and stood at 0.2 percentage points); bread and bakery products, pasta and flour 0.3 percentage points (1.3 percentage points in 2003) and petrol 0.3 percentage points (0.1 percentage points in 2003).

Prices of the **paid services provided to the public** rose 17.7% in December 2004 as compared with December 2003 (22.3% in 2003). In 2004 Q1 they increased by 6.4%, Q2 by 4.3%, Q3 by 3.0% and Q4 by 3.0%. The slowing of growth in paid service prices was due to the slowing of government-regulated service prices, which in December 2004 increased by an estimated 19.6% as compared with December 2003 as against 22.9% a year earlier. As for the government-regulated prices, mention should be made first of all of the slowing of growth in rent and amenities charges.

Nevertheless, growth in rent and amenities prices was most significant in 2004 at 23.5% as against 28.7% in 2003. There was a considerable rise in pre-school

Table 4

**Major meat and poultry market indicators (% growth)**

	Meat and poultry		Beef		Pork		Poultry	
	2004	2003	2004	2003	2004	2003	2004	2003
Food production (January-December as % of January-December of previous year)*	1.2	10.5						
Livestock** and poultry production (January-December as % of January-December of previous year)								
- by farms of all kinds	-0.3	4.9						
- by agricultural enterprises	2.0	8.0	-7.6	1.8	-5.2	15.5	18.7	12.4
Imports* (January-December as % of January-December of previous year)								
- volume	-6.8	-11.5					-7.6	-15.8
- value	2.8	-6.5					-5.0	-16.0
Prices (December as % of December of previous year)								
- producer prices	22.0	12.1	33.8	1.3	41.5	6.1	-0.5	25.8
- livestock and poultry selling prices	23.6	9.2						
- consumer prices	19.6	8.9	26.3***	2.1***	34.0***	2.6***	1.1	22.9
- import prices*	6.8	5.5					0.2	2.5
Livestock population* as of end of month (December as % of December of previous year)			-6.7	-6.7	-11.1	-7.8		

\* Estimate based on Rosstat data for respective years.

\*\* Livestock and pigs.

\*\*\* Except boneless meat.

**On the state of the world and domestic meat markets**

As the growth of world meat supply slowed down due to a considerable increase in demand, beef prices, according to the World Bank's data, for low- and medium-income countries rose by 10.8% in December 2004 as compared with December 2003 (by 17.1% in December 2003 on December 2002). The prices of beef rose by 26.9% on average in 2004 as compared with 2003.

The growth of the contract prices for meat imported into Russia (excluding poultry) was observed in the last three years. Year on year, they increased by 10.3% in 2002, 6.1% in 2003 and 13.9% in 2004. Overall, the contract prices of meat (excluding poultry) rose by a third in the last three years.

The contract prices of poultry were observed to grow in 2002 and 2004. Year on year, they rose by 8.4% in 2002, declined by 0.2% in 2003 and went up by 2.8% in 2004. As a result, they rose by 11.2% in the last three years.

The volume of meat imports into Russia (excluding poultry) dropped by 6.3% in 2003 after it had grown by 30% in 2002 year on year and declined by another 6.0% in 2004. The volume of poultry imports was observed to contract in the last three years (by 1.2% in 2002, 15.8% in 2003 and 7.6% in 2004). The import volumes of meat (including poultry) fell by 6.8% in 2004 year on year and by 11.5% in 2003 after their 11.1% growth in 2002. As a result, the import volumes of meat (including poultry) contracted by 17.5% in the last two years.

On the whole, the supply of meat (including poultry) on the domestic market (meat production and meat imports) fell by an estimated 3% in 2004 year on year (it also declined by 3% in 2003). The share of imported meat on the domestic market decreased to 56% in 2004 (to 58% in 2003).

Many factors exerted influence on the domestic market. In the last few years, the livestock population was observed to decline steadily in the farms of all kinds. As of the beginning of January 2005, the livestock population fell by 6.7% year on year

(also by 6.7% as of the beginning of 2004 and by 2.1% as of the beginning of 2003). The pig population declined by 11.1% as of that date (by 7.8% as of the beginning of 2004 and was observed to grow by 8% as of the beginning of 2003). The reduction of the livestock population in agricultural organisations was more considerable as of the beginning of January 2005: the population of livestock fell by 10.3% and that of pigs by 15.8%.

As the livestock population declined, the farms of all kinds reduced livestock production in 2004. Agricultural organisations reduced cattle raising for slaughter by 7.6% and pig production by 5.2%.

The tense situation with agricultural output in 2004 accelerated the growth of the selling prices of livestock products by 1.7 times as a whole year on year (December on December). The growth of livestock and poultry selling prices accelerated more considerably, by 2.6 times to 23.6%. The price growth acceleration in cattle breeding has been observed for the second consecutive year. In 2003, the selling prices of livestock products rose by 12.4% (in 2002, they remained at the December 2001 level) while cattle and poultry selling prices went up by 9.2% (in 2002, they remained also at the 2001 level).

Food industry enterprises increased the production of meat, including 1<sup>st</sup> category subproducts by 1.2% in 2004 (by 10.5% in 2003 and by 8.5% in 2002). Beef output fell by 13.9% in 2004 year on year and pork production by 10.4%. In 2003, their production was observed to rise by 0.5% and 25.6% respectively.

The growth of the producer prices of meat in the food industry accelerated considerably in 2004.

As the producer prices of meat increased by 22% as against 12.1% in 2003 (they dropped in 2002), beef prices rose by 33.8% and pork prices by 41.5% (by 1.3% and 6.1% respectively in 2003). Therefore, growth in the producer prices of beef accelerated by 26 times and the producer prices of pork by 6.8 times in 2004 year on year.

The accelerated growth of the producer prices of meat led to the accelerated growth of consumer prices in 2004 as compared with 2003. Thus, the consumer prices of 1<sup>st</sup> category beef rose by 26.3% in 2004 as against 2.1% a year earlier and the consumer prices of pork went up 34.0% as against 2.6%. In 2003, beef prices grew slower than in 2002 (2.1% as against 3.1%) while the growth of pork prices was actually at the level of the previous year (2.6% as against 2.5%).

The reduction of beef and pork production on the whole contributed to the accelerated growth of producer prices in the food industry. As a result, the growth of consumer prices also accelerated. The consumer price dynamics follow changes in producer prices.

The rise in living standards and the expansion of consumer demand are the factors that influence consumer price dynamics. In 2004, retail meat and poultry sales rose by 6.0%, including poultry sales by 7.2% year on year (meat and poultry sales increased by 6.1% in 2003). A trend towards growth in the purchasing power of an average per capita money income was observed in the last few years with regard to beef (except boneless meat). Thus, this indicator increased by 16.6% in 2002 year on year, 29.7% in 2003 and 7% in 2004.

tuition fees (21.6%). Despite the significant growth of communications service charges in the last four months of 2004, they rose 9.9% over the year (the lowest figure for the last ten years). The supply of communications services offered to the public expanded 19.0% in 2004 as compared with 2003.

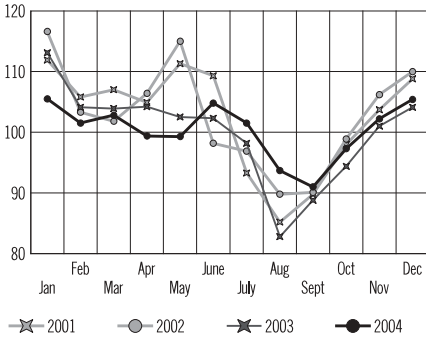
Growth in paid service prices in 2004 was faster than growth in the prices of goods, which stood at 10.3%. Estimates indicate that growth in paid service prices in 2004 accounted for 3.0 percentage points,

or 25.7%, of overall consumer price growth as against 3.8 percentage points, or 31.7%, in 2003.

The analysis of the distribution of increases in the prices of goods and services in 2001-2004 (December on December of previous year), based on a selection of more than 400 kinds of consumer goods and services and made without taking account of their weights in consumer expenses, revealed a continuous decline in the average rate of price growth<sup>1</sup>. However, each year's decline had its specifics.

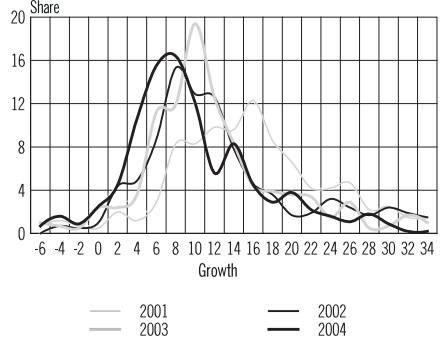
<sup>1</sup> Price growth distributions shown in the charts are based on a smoothed histogram. Twenty growth ranges with a span of 2% each have been used.

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



In 2003, inflation slowed as compared with 2002 due to a contraction of the share of goods and services with a fairly high rate of price growth. This phenomenon characterises the process of price dynamics between different groups of goods and services evening out and reflects macroeconomic stability. At the same time, the range of growth in the prices of the bulk of consumer goods and services remained virtually

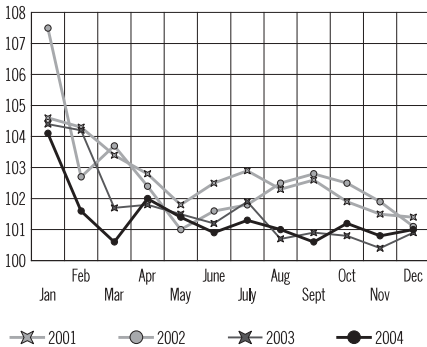
### Consumer goods and services price growth distribution in 2001-2004 (%)



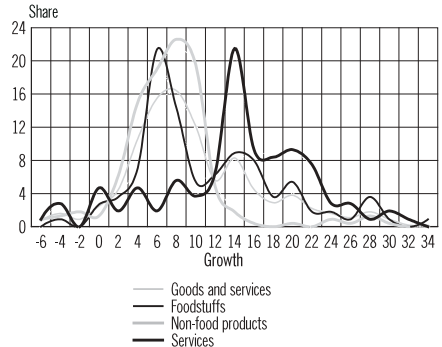
unchanged in 2003 as the slight change of the distribution median<sup>2</sup> (10.5% as against 11.4% in 2002) indicates.

In 2004, inflation slowed not so intensively as a year earlier. Nevertheless, growth in the prices of goods and services in the principal growth range was observed to slow (the median value stood at 8.5% or 2 percentage points more than in the previous year). This phenomenon confirms the stable

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

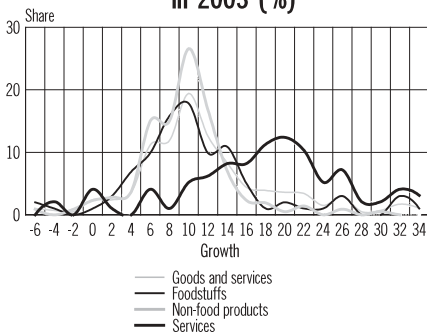


### Price growth distribution by kind of consumer goods and services in 2004 (%)



<sup>2</sup> The median value of a multitude of growth values, i.e., 50% of the price growth values are above the median and 50% of the price growth values are below the median.

### Price growth distribution by kind of consumer goods and services in 2003 (%)



nature of inflation reduction because the price slowdown affected a broad range of goods and services.

In 2004, the biggest growth (a sample average) was registered in service prices, and the smallest in non-food prices. However, there was little difference between the price growth medians calculated for the bulk of foodstuffs and non-food products.

A statistical analysis of food price increases indicates a fall in the sample average in 2004. As compared with 2003, the form of distribution changed. In 2003, the bulk of foodstuffs (79.2%) were within the 1-17% price growth range while in 2004 this range expanded to 3-21% and included 80.2% of all foodstuffs. At the same time, the distribution of food price increases was characterised by two local highs within the 6% and 15% growth ranges. The second growth range included bread and bakery products, pasta and flour whose prices demonstrated relatively fast growth in the first half of 2004 due to a poor grain harvest in 2003. The share of products with a high price growth increased. Meat and meat products dominated this group of foodstuffs.

The distribution of non-food price increases was characterised by a pronounced maximum and small dispersion reflecting the extent of growth deviation from the average value. Therefore, the increases in the prices of most goods in this group remained within a narrow range. Thus, in 2004, goods in the 1-11% price growth range accounted for 82.3% of all non-food products. In the same period of 2003, the principal price growth range was 5-15% and goods in this range accounted for 80.4%.

Slowing growth in the prices of goods in this group in 2004 was due to slowing growth in the prices of non-food products in the main growth range. At the same time, as a result of growth in petrol prices, the share of non-food products whose prices rose significantly expanded compared to the previous year.

The distribution of service price increases in 2004 is characterised by a sharp peak corresponding to the 13-15% growth range and a considerable shift of the median as compared to the 2003 figure. The share of services reflecting a high price growth fell considerably. At the same time, as was the case in 2003, the share of services whose prices rose insignificantly continued to be quite large.

In 2004, the standard deviation reflecting the price growth difference from the average value narrowed for both foodstuffs and paid services as compared with 2003 but was still larger than for non-food products. The standard deviation for non-food products increased as compared with 2003 due to the fast growth of petrol prices, which considerably exceeded the growth of prices of most goods.

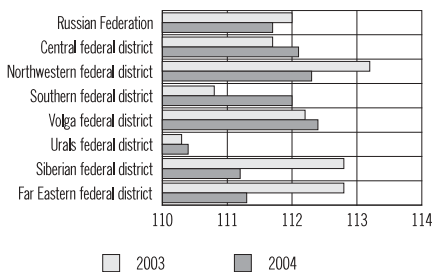
Although consumer prices rose by 11.7% in Russia as a whole in December 2004 as compared with December 2003 (by 12.0%

in 2003), inflation in some federal districts was higher than in the previous year. Thus, consumer prices in the Central, Southern, Volga and Urals federal districts grew faster than in 2003 by 0.4, 1.2, 0.2 and 0.1 percentage points respectively.

According to estimates, differences between constituent members of the Russian Federation with respect to the cost of a fixed set of goods and services used by the Federal State Statistics Service for inter-regional comparison of household purchasing power tended to narrow in 2004. The regional difference ratio<sup>3</sup> decreased from 43% in 2003 to 41% in 2004. Such dynamics are largely due to the slower increase in consumer prices in the Far Eastern federal district where the consumer basket is the most expensive and the faster growth of consumer prices in the Southern and Volga federal districts where the consumer basket is the cheapest.

As was the case in 2003, vegetables and fruit were characterised by the largest dispersion of price growth rates in constituent members of the Russian Federation in 2004.

### Consumer prices by constituent member of Russian Federation in 2003-2004 (December as % of December of previous year)



Thus, vegetable and fruit prices were observed to decline by 0.1% in the Siberian federal district and rise by 5.6% in the Central federal district. Growth in the prices of non-food products and foodstuffs, excluding vegetables and fruit, was, on the contrary, about the same in all the federal districts.

In 2004, the rates of growth in the prices of paid services provided to households slowed down considerably in the Siberian federal district (by 9.5 percentage points) year on year, whereas the respective figure for the Russian Federation as a whole was 4.6 percentage points.

### External economic conditions

World economic growth accelerated in 2004 as compared with 2003. In the IMF's estimate (the World Economic Outlook, September 2004), the world production of goods and services expanded by 5% (by 3.9% in 2003) and registered the largest growth for the past 28 years (this growth did not exceed 4.8% per annum from 1977 to 2003). According to preliminary data of the US Department of Commerce's Bureau of Economic Analysis, US real GDP increased by 4.4% in 2004 (by 3% in 2003).

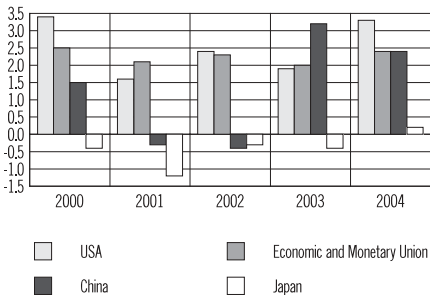
The stimulating economic policies pursued by many countries, the improvement of corporate financial performance and the growth in employment reinvigorated world business activity in 2004. The expansion of final domestic demand largely resulting from increased fixed capital investment played a significant role in the acceleration of growth in the production of goods and services in developed countries in 2004. In particular, as the dollar depreciated against the currencies of most countries, US trading partners, in 2004, the expansion of fi-

<sup>3</sup> The regional difference ratio is calculated as the difference between the cost of a fixed set of goods and services in the most expensive and the cheapest region related to the federal cost of this set.

nal domestic demand in these states was a major factor of the increase in economic growth rates. In the IMF's estimate, final domestic demand in the group of industrialised nations rose by 3.2% as compared with 2.2% in 2003.

Higher inflation observed in the group of industrialised nations and in emerging economies in 2004 was due, first of all, to dynamic economic growth and the increase of demand for goods and services. In the USA, these factors led to an increase in the base consumer price index, which excludes the prices of energy products and food-stuffs.

### Inflation in some countries of the world in 2000-2004 (%)\*



\* Consumer price growth in December of reporting year on December of previous year.

#### On some aspects of the Federal Reserve's monetary policy

The transition of the US Federal Reserve to a tighter monetary policy was logical during a cyclic surge of the US economy, which officially was recognised to start in November 2001. In 2003, the fears of deflation due to insufficient investment and the slow payroll growth in the US economy prevented the Federal Reserve from commencing a restrictive cycle in its policy. In 2004, these fears ceased to be relevant. On the contrary, inflation rose considerably under the influence of larger domestic demand, and also temporary situational factors related to the

The growth of food prices, especially meat prices, was a significant inflationary factor in the world in 2004. The increase of world oil prices played a large role in this process. The US dollar's depreciation stimulated the increase of prices on the US market of consumer goods and services but contained inflation in the countries whose currencies gained against the greenback.

In 2004, the US Federal Reserve raised five times its target for the overnight inter-bank loan rate (the federal funds rate): from 1% to 1.25% in June, to 1.5% in August, to 1.75% in September, to 2% in November and to 2.25% in December. The raising of this target in June 2004 was its first change from June 2003: last time the federal funds rate was raised in May 2000 while in January 2001 – June 2003 it was reduced by 5 percentage points. Meanwhile, the official refinancing rate of the European Central Bank has not been changed since June 2003. In December 2004, for the first time since April 2001, the US federal funds rate exceeded the refinancing rate of the European Central Bank.

LIBOR rates on US dollar-denominated deposits with terms from one month to one year rose by 0.3-0.8 percentage points on average in 2004 as compared with the previous year (in 2003, they dropped by 0.6-

dollar's depreciation and the increase of energy and food prices.

Traditionally, the increase in oil prices is accompanied by the fall of the US dollar due to the role of the USA as the main consumer and a large net importer of energy products. At the start of the fourth quarter of 2004, world oil prices reached an unprecedentedly high level. At the same time, the reports on positive shifts in the US economy and the rise of US interest rates failed to give any significant support to the dollar on world forex markets during that period. From mid-November to the end of 2004, the US dollar exchange rate to the single European currency was over \$1.3 to the euro.

0.8 percentage points). The yield on US treasury bonds with maturity from two to ten years rose by 0.3-0.7 percentage points (it fell by 0.6-1 percentage points in 2003). In December 2004, LIBOR rates on US dollar-denominated deposits with all terms and the yields on US treasury bonds with all maturities were higher than LIBOR rates on euro-denominated deposits and the yields on EMU securities (in December 2003, they were lower, on the contrary). The growth of interest rates in industrialised nations contained the flow of speculative capital into Russia.

In 2004, the dollar lost 10.1% on average against the euro as compared with 2003. The dollar also depreciated against the Japanese yen, British pound and many other currencies, including the currencies of Russia's leading trading partners, such as the Swiss franc, Danish krone, Swedish krona, Hungarian forint, Polish zloty, Czech koruna, Slovak koruna, Lithuanian litas, Latvian lat, Estonian kroon, Romanian leu, Turkish lira, Kazakhstan tenge, South Korea's won and Indian rupee. The dollar rate against the Ukrainian hryvnia in 2004 was virtually the same as in the previous

year. The dollar appreciated against the Belarusian ruble.

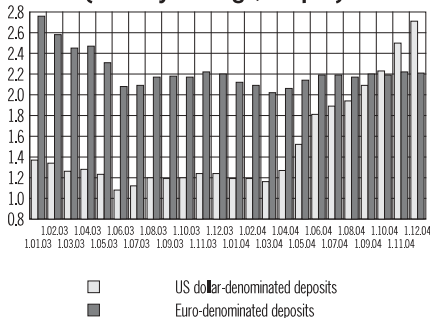
A fundamental factor of the US dollar's depreciation was the expansion of the US current account deficit, which increased the doubts of forex market players about the country's ability to finance it adequately in the future through an inflow of capital to the US economy. The accelerated growth of world oil prices in the autumn of 2004 sharply undermined confidence in the dollar. As a result, the exchange rate of the dollar against other major world currencies in 2004 was lower than in 2003 despite the dollar's significant gains in the period from mid-February to mid-May 2004.

The terms of Russia's trade with foreign countries in 2004 improved as compared with 2003 due to the accelerated growth in export prices.

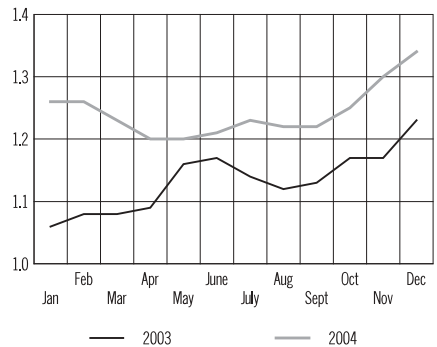
The world economic situation affected directly the dynamics of consumer prices and prices in various branches of the economy and exerted indirect influence on production dynamics and supply and demand on the country's forex market.

The situation on world commodity markets was extremely favourable for Russian

**LIBOR rates on six-month US dollar- and euro-denominated deposits in 2003-2004 (monthly average, % p.a.)**



**US dollar average monthly rate against the euro**





exporters in 2004. According to Bank of Russia estimates, the average level of world market prices of major Russian exports, adjusted to their structure, rose by 21% in 2004 as compared with 2003. The price of Urals crude grew 26.8% to \$34.6 per barrel, the price of petrol increased 37%, diesel fuel 36%, fuel oil 3% and natural gas in Europe 9.5%. Non-ferrous metal prices increased by 30% as the price of aluminium gained 20%, copper 61% and nickel 44%.

As the world prices of energy products and other raw materials went up, Russian producers raised the prices of their analogues on the domestic market.

The favourable price situation on world commodity markets for Russian exporters and the increased demand for goods and services exported by Russia led to a growth in exports and an increase of the country's trade surplus.

According to preliminary balance of payment data, exports expanded by 39.9% in 2004 year on year to \$182 billion and imports grew by 24.7% to \$94.8 billion. The trade surplus reached a record high of \$87.2 billion, an increase of 45.6% on 2003 when it stood at \$59.9 billion.

Oil and ferrous metals accounted for most of the growth in the value of exports in 2004. Exports of petroleum products, non-ferrous metals, natural gas and engineering goods also increased. According to the latest statistics of the Federal Customs Service and the Federal State Statistics Service, the share of energy products in the total value of exports slightly increased, while the share of ferrous metals expanded considerably.

Imports grew mostly due to greater imports of investment goods. Consumer goods imports rose chiefly as a result of growth in

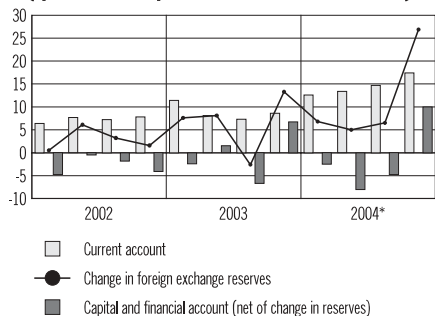
the import of non-food consumer goods and some foodstuffs.

The current account surplus reached a record high as it increased by an estimated \$22.8 billion in 2004 as compared with 2003 to \$58.2 billion or 10% of GDP as against 8.2% of GDP in 2003. The significant increase in exports was the main reason for growth.

The capital and financial account deficit (net of the changes in reserves) rose from \$800 million in 2003 to an estimated \$5.4 billion in 2004. The private sector's net capital outflow increased to \$7.8 billion from \$1.9 billion in 2003.

According to balance of payments data, the inflow of foreign investment to the private sector of the Russian economy fell to \$31 billion in 2004 from \$33.3 billion in 2003, as the banking sector's foreign debt obligations in 2004 grew less than in 2003. However, foreign capital inflow to the non-financial enterprise sector increased to \$24 billion as against \$22.1 billion in 2003. Foreign direct investment in the non-financial enterprise sector stood at an estimated \$6.6 billion as against \$7.5 billion in 2003, while

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



\* 2004 Q4: estimate.

foreign capital inflow in the form of credits and loans amounted to \$13.8 billion as against \$15.1 billion in 2003. At the same time, capital inflow in the form of portfolio investments accounted for \$3.6 billion, whereas in 2003 there was a portfolio investment outflow of \$400 million.

Private capital outflow increased as investing abroad became more attractive. Private sector investments in foreign economies increased to an estimated \$29.9 billion in 2004 as against \$26.9 billion in 2003. At the same time, capital outflow from the non-financial enterprise and household sectors totalled \$25.9 billion or the same amount as in 2003, while capital outflow from the banking sector increased to \$4 billion from \$1 billion in 2003. The de-dollarisation of the Russian economy continued. In 2004, the amount of foreign currency cash accrued by the non-financial enterprise and household sectors contracted by \$2.9 billion (in 2003, it fell by \$6.6 billion).

Russia's international reserves rose by a record amount of \$47.6 billion in 2004 (in 2003, they expanded by \$29.1 billion) and as of January 1, 2005, they aggregated \$124.5 billion as against \$76.9 billion as of January 1, 2004. By the end of 2004, Russia had sufficient gold and currency reserves to finance imports for 11.6 months as compared with 8.9 months a year earlier.

### **Domestic economic conditions**

A high level of production and investment activity influenced consumer price inflation in 2004.

GDP growth equalled 7.1% in 2004 as against 7.3% in 2003.

Industrial production expanded by 6.1% in 2004 year on year (by 7% in 2003). The slowing of industrial output growth in 2004

was largely due to the year-on-year slowdown of production growth in the fuel sector (by 1.3 times), ferrous metallurgy sector (by 1.8 times), non-ferrous metallurgy sector (by 1.7 times) and food industry (by 1.3 times). These sectors account for over 50% of entire industrial output. At the same time, production growth accelerated in the machine-building industry from 9.4% in 2003 to 11.7% in 2004, the chemical and petrochemical industry from 4.4% to 7.4% and the wood-paper industry from 1.5% to 3%.

Agricultural output increased by 1.6% in 2004 as against 1.3% in 2003. However, in the first half of 2004, agricultural production declined by 1.2% as against 0.6% in January-June 2003.

Transport freight turnover in 2004 increased by 6.2% as compared with the previous year (2003 growth stood at 7.7%). Railways increased their freight turnover by 8%, automobile transport 5.2% and pipeline transport 6.2%.

Investor and consumer demand remained high in 2004. Fixed capital investment grew by 10.9% year on year (in 2003, it increased 12.5%).

In 2004, as in the past few years, the sectors that were the major recipients of investments were the fuel sector, transport and the housing and utilities sector. In January-September 2004, these sectors received 50.6% of all investments made by large and medium-sized enterprises and organisations (in January-September 2003, these sectors accounted for 54.2%). As for the structure of the sources of fixed capital investment, 47.4% were investors' own funds and 52.6% were borrowed funds (in January-September 2003, the respective percentages were 46.2% and 53.8%). The share of budget funds contracted significantly, from 18.8% in the first nine months of 2003 to

16.9% in the first half of 2004. At the same time, the share of bank loans expanded from 5.2% to 7.7%. This is the highest level for the nine months of the year since 1997.

In 2004, gross capital formation relative to GDP remained at the level of 2003 and equalled 18.3% (18.0% in 2002). At the same time, gross capital formation growth slightly accelerated year on year. In 2004, gross capital formation increased by 13.9% as compared with 13.2% in 2003.

Real disposable money income in 2004 rose by 7.8% as compared with the previous year (in 2003, it increased 14.9%). The continued growth of household money income contributed to greater consumer spending.

The increase in public propensity for consumption in 2004 put upward pressure on consumer prices. As the problems of some large lending institutions aggravated in April-July 2004 and the public confidence in the banking sector as a whole eroded while yields from investment in US dollar cash were persistently low, consumer spending rose significantly in 2004 2H. In particular, the rates of growth in retail trade turnover in 2004 Q3 and Q4 reached their maximum values for these periods since 1998 (112.5% and 113.6% respectively as compared with the same periods of 2003). According to figures of the Federal State Statistics Service, the growth in household spending on final consumption totalled 111.3% in 2004 and exceeded the 2003 level by 3.8 percentage points.

The situation on the labour market improved in 2004 compared to 2003. The number of jobs in the economy increased and the number of jobless declined in 2004 as compared to 2003. Of the total economically active population, 91.8% were gainfully employed in 2004 and 8.2% were clas-

sified as unemployed according to ILO methodology (91.4% and 8.6% respectively in 2003).

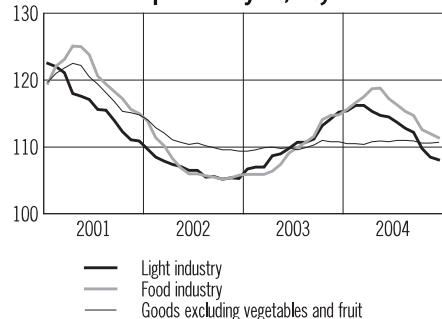
Job growth created conditions for consumer price increases, but growth in labour productivity contained this process.

Inflation was affected by price dynamics in industries whose output goes directly to the consumer goods market and was accompanied by growth in production costs. According to estimates, producer price growth in these industries accounted for 8.6 percentage points of growth in the prices of goods and services included in the core inflation calculation in 2004.

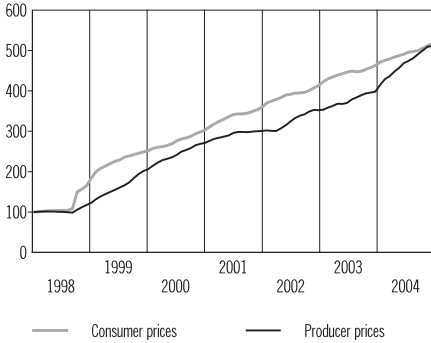
Production cost dynamics were the result of growth in industrial producer prices, which rose by 28.3% in December 2004 as compared with December 2003 (they increased 13.1% in the same period of 2003). Quite rapid growth in industrial producer prices was caused by growth in the world prices of energy products and other raw materials.

Overall, analysis shows that industrial producer price growth and consumer price growth slow down. Despite their different year-to-year dynamics, in December 2004,

**Producer prices and consumer prices of goods (month on month of previous year, %)**



### Consumer and industrial producer prices (December 1997 = 100%)



industrial producer prices increased by 5.1 times as compared with December 1997 and consumer prices rose also as much over that period (by 5.2 times).

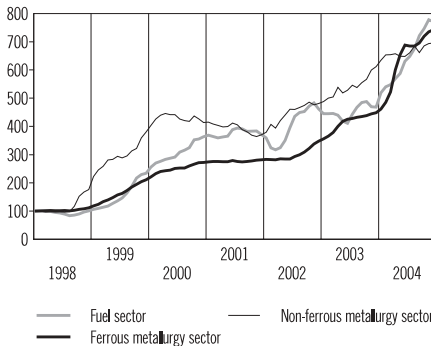
The most significant growth in producer prices in December 2004 as compared with December 2003 was registered in the fuel sector (64.7% as against 1.4% in the same period of 2003) and ferrous metallurgy sector (65.8% as against 28.8%). At the same time, producer prices in the electric-power industry grew less than in 2003 (11.5% as against 13.9%). Therefore, the dynamics of

producer prices in these industries kept their main features in 2004. In the past few years, the most significant growth in producer prices was registered in the fuel sector and metallurgy sector. In December 2004, as compared with December 1997, producer prices in these sectors rose by 7.0-7.7 times. The price growth in other industries was relatively moderate and ranged from 3.5 to 4.6 times. The smallest growth in producer prices was observed in the electric-power industry.

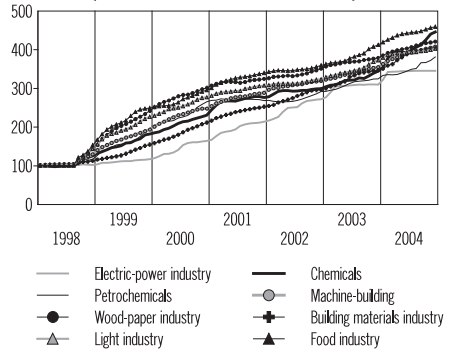
Growth in freight transportation charges in December 2004 stood at 9.3% as compared with December 2003 (23.5% in the same period of 2003). At the same time, railway fares increased by 12.6% as against 26.5% in the same period of 2003.

According to preliminary data of the Federal State Statistics Service, real wages increased 10.8% in 2004 year on year as against 10.9% in 2003. The excess of real wage growth over growth in the production of goods and services amid the widening gap between labour productivity and wage dynamics is a factor of additional inflationary pressure on the economy. At the same time, the dynamics of real pensions contin-

### Producer prices in fuel and metallurgy sectors (December 1997 = 100%)



### Producer prices in industries (December 1997 = 100%)



ued to lag behind GDP growth and have not yet recovered to the 1997 Q4 level. In 2004, the growth of this indicator equalled 5.5% as compared with the previous year (4.5% in 2003).

The average monthly nominal imputed wage in 2004 stood at 6,828 rubles, an increase of 22.9% (it was observed to grow by 26.1% in 2003).

In 2004, the low level of competition on the Russian market of hydrocarbons and metals and the increase in the world prices of these products led to a faster growth of producer prices in the oil industry and the metallurgy sector than price growth in most sectors of the economy. The increase in fuel and raw material prices was a factor of growth in costs in all the sectors of the economy.

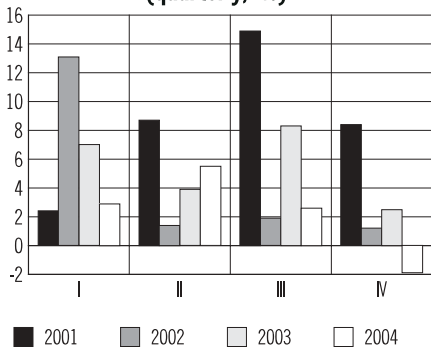
The increase of oil extraction tax and oil export duties due to growth in world oil prices exerted additional influence on the rise of costs in oil production. The share of taxes and duties in the sector's costs rose from 36.4% in January-September 2003 to 42.7% in January-September 2004. The growth of costs in the sector, where eight vertically integrated companies produce

about 90% of oil and control the sales market, was neutralised by the increase of the sector's producer prices. According to estimates, production profitability in the oil industry as a whole increased from 17.3% in January-September 2003 to 23.3% in January-September 2004.

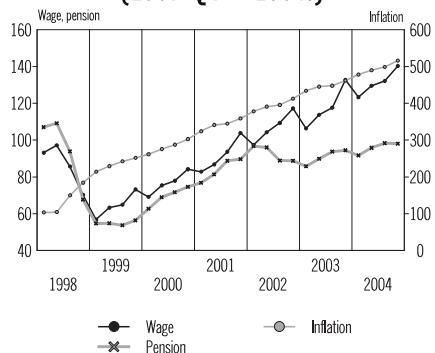
Ferrous and non-ferrous metallurgy sectors where producer prices are also largely influenced by the pricing policy of vertically integrated companies registered an increase in production profitability from 15.7% to 24.1% and from 18.3% to 23.8% respectively. The considerable excess of profitability in the oil industry and metallurgy sector over the industry's average (12.1%) is a proof of insufficiently developed competition in these sectors, which exerts steady pressure on costs in all the sectors of the Russian economy.

Pricing policy in the light and food industries, on the contrary, is formulated in the conditions of competition, including from imported goods. This factor restricts the short-term growth of consumer prices and creates stimuli for an increase in production efficiency, which leads to the reduction of costs and, therefore, prices in the

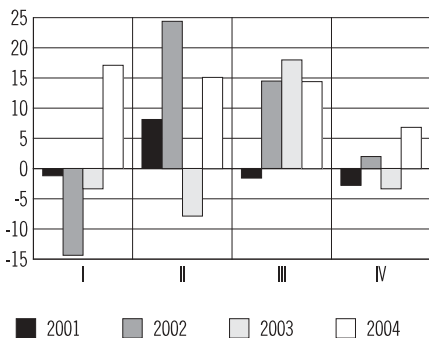
**Growth in freight transportation charges (quarterly, %)**



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



### Fuel sector producer price growth (quarterly, %)



long-term perspective. However, production modernisation was impeded by the low financial potential of these sectors. Estimates indicate that in the first nine months of 2004, the production profitability of large and medium-sized enterprises in the food industry fell by 0.3 percentage points to 5% while light industry continued to operate at a loss (0.6%). At the same time, the faster growth in fuel and raw material prices in 2004 did not result in any sharp growth of production costs in these industries and the cost structure remained virtually unchanged suggesting that enterprises used resource-recovery technologies.

The rate of production capacity utilisation affects, to a certain extent, inflation dynamics in the economy. According to surveys of managers at key industrial enterprises, the average rate of production capacity utilisation in December 2004 was 58%. The highest rates of production capacity utilisation were registered in the fuel sector (82%), ferrous metallurgy sector (79%) and wood-paper industry (74%), and the lowest in machine-building and metalworking (49%), light industry (52%) and the food industry (53%). At present, there is a backlog of unused production capacity, which can be utilised if demand for traditional goods rises or new products are manufactured.

Relatively low inflationary expectations were a major factor responsible for moderate price growth both in industry and on the consumer market. According to surveys conducted by the Russian Government's Centre for Economic Studies, the inflationary expectations of managers at key industrial enterprises in 2004 were slightly lower on average than in 2003. The growth of selling prices in the near future was predicted by 29-35% of the respondents as against 31-35% in 2003.

## Quantitative and Qualitative Monetary Indicators

### Exchange rate

In 2004 Q4, the ruble exchange rate dynamics continued to be influenced by the high world prices of energy products and a strong foreign trade surplus. Changes in the dollar/euro rate on the world markets reflecting the rise of the single European currency against the US dollar also had a major effect on the exchange rate dynamics on the Russian forex market during that period. As a result, in 2004 Q4, the ruble was observed to gain significantly against the dollar and weaken against the euro.

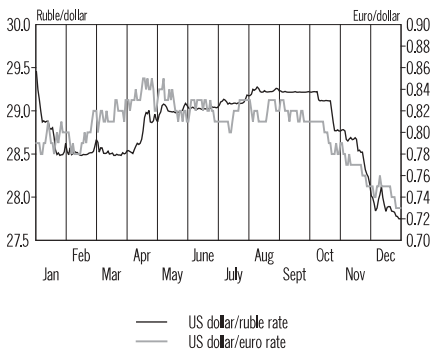
As the dollar fell against the euro on the world markets in 2004 Q4, the expectations of the national currency's appreciation against the dollar to the level of 27.5-28.0 rubles to the dollar by the end of 2004 considerably increased the amount of speculative forex trading. As a result, the ruble rose significantly against the dollar and weakened in relation to the euro.

On the whole, the ruble's nominal rate against the dollar increased by 1.47 rubles

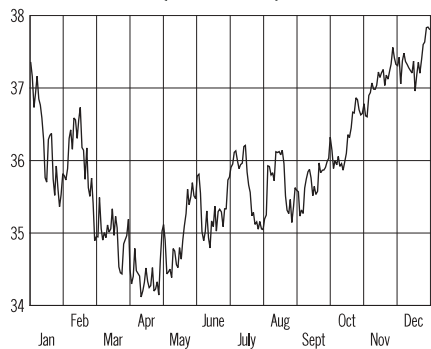
over the quarter or by 5.3% to 27.7487 rubles as of January 1, 2005. Since the start of 2004, the national currency had strengthened by 1.70 rubles or by 6.1%. The nominal rate of the ruble against the US dollar increased by 1.6% in October, 2.2% in November and 1.4% in December. The average exchange rates changed by 0.5%, 1.7% and 2.4% respectively over these months suggesting the intensification of the ruble's rally by the end of 2004. The ruble gained 4.3% against the greenback in real terms in 2004 Q4 as compared with 2004 Q3.

In 2004 Q4, the ruble's nominal rate weakened against the single European currency in the euro segment of the Russian forex market following the world trends of the euro's rise against the US currency. The continuous rise of the euro rate on the Russian forex market was observed throughout the quarter. The most significant fall of the ruble exchange rate against the single European currency was registered in Novem-

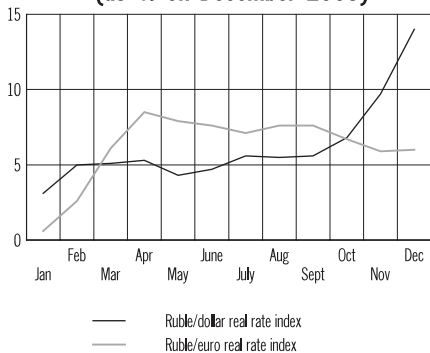
**US dollar/ruble and US dollar/euro nominal rate in 2004**



**Euro/ruble nominal rate in 2004 (rubles/euro)**



### Real ruble rate indices in 2004 (as % on December 2003)



ber when it declined by 0.68 rubles or 1.8%. The Russian national currency weakened by 0.62 rubles (1.7%) against the euro in October month on month and by 0.51 rubles (1.4%) in December.

The ruble's average rate against the euro declined by 1.7% in October, 2.1% in November and 0.7% in December. The ruble depreciated against the single European currency by 1.2% in real terms in 2004 Q4 as compared with 2004 Q3. Since the beginning of 2004, the euro rate had grown by 0.74 rubles (by about 2%). As of January 1,

2005, the nominal rate of the ruble against the euro stood at 37.8409.

In 2004 Q4, the ruble's real effective rate against foreign currencies declined by 0.8% quarter on quarter. On the whole, the ruble's real effective rate grew by 4.7% against foreign currencies in 2004 (December on December).

### Interest rates

The average price of short-term funds determined by the Bank of Russia interest rates corridor tended to decrease in 2004. This situation created conditions for the consistent reduction of interest rates on bank loans extended to non-financial borrowers and greater affordability of credit resources for the real sector of the economy and reflected positive inflationary expectations.

The interest rates on deposit operations carried out on standard terms were not reviewed by the Bank of Russia in 2004 Q4 and shaped the lower boundary of the interest rates corridor. The rate on tom-next deposits accounting for the largest share of credit institutions' funds placed on deposits equalled 0.5%. The Bank of Russia overnight

### Rates on Bank of Russia operations and overnight MIACR in October 2003 - December 2004 (%)





loan rate, the upper boundary of the corridor, was unchanged. The average weighted interest rate at four-week deposit auctions equalled 1.59% p.a. in Q4 and 3.05% p.a. at three-month deposit auctions. The average weighted yield on Bank of Russia bonds (OBR) ranged within 4.2-5.7%. The rates of liquidity provision on repo operations changed within the range of 6.1-7%.

The Bank of Russia refinancing rate remained unchanged at 13% in 2004 Q4.

As the banking sector liquidity increased in 2004 Q4, interest rates on the money market and the rates on commercial banks' operations continued to fall within the interest rate corridor. The average quarterly MIACR on overnight interbank ruble loans declined by over three times in Q4 as compared with Q3.

The average weighted rate on loans to non-financial enterprises with all maturities fell from 11.0% p.a. in October to 10.1% p.a. in December. In January-December 2004, this interest rate dropped by 2.3 percentage points.

The term structure of interest rates on ruble-denominated financial instruments with different maturity periods was deter-

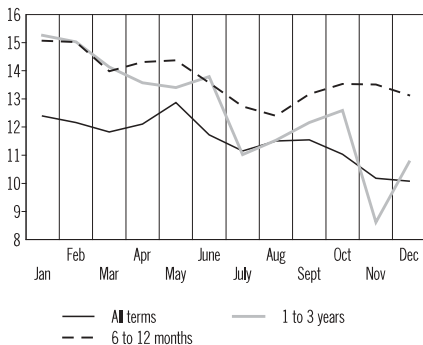
mined in the fourth quarter of 2004 by fluctuating money demand and supply in the main segments of the financial market given real inflation exceeding the projected 2004 inflation target. Loans with a term of 6 to 12 months were the most expensive credit resources for enterprises in the fourth quarter (13.4% p.a. on average over the quarter) in the structure of interest rates by maturity. Loans with such maturity appreciated by 0.6 percentage points in Q4 as compared with Q3, although their cost dropped by 1.9 percentage points as a whole in 2004.

The most dynamic decline in 2004 was registered in the interest rates on loans with a term of one to three years (by 4.5 percentage points in January-December). As a result, the cost of loans with such maturity was the lowest in the fourth quarter as compared to other maturities (except interest rates on loans with a term of up to one month). This fact reflected the market players' expectations of a further decline in interest rates on loans in the medium-term perspective.

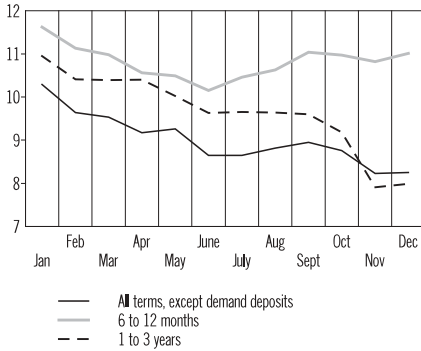
The strong demand for loans from households along with insufficient competition enabled banks to maintain higher interest rates on loans to individuals as compared with loans to enterprises. In 2004 Q4, the interest rate on loans with all terms was unchanged on the whole (20.5% p.a.). As compared with Q3, the average interest rate on loans to households rose by 1.3 percentage points in Q4 and by 1.9 percentage points in January-December 2004.

The general trend towards the fall of market interest rates was also observed on the deposit market. The average interest rate on household time deposits dropped from 8.8% p.a. to 8.3% p.a. in 2004 Q4 and by 2.0 percentage points since the beginning of the year. Banks reduced most actively

### Interest rates on ruble loans to non-financial enterprises in 2004 (% p.a.)



### Interest rates on household ruble deposits in 2004 (% p.a.)

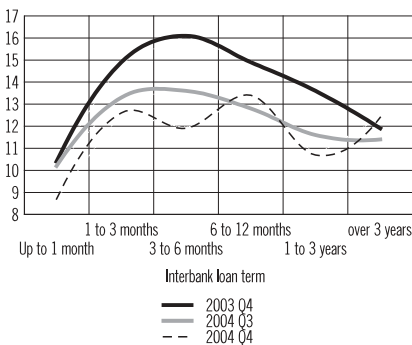


their interest rates on long-term deposits. The interest rate on household deposits with a term of one to three years fell by 1.2 percentage points to 8.0% p.a. in Q4 and by 3.0 percentage points in 2004 on the whole.

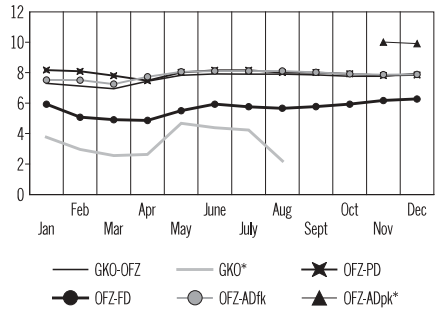
During 2004, deposits with a term of six to 12 months registered the highest interest rates. The average interest rate on the deposits with such maturity was 0.2 percentage points higher in Q4 than in Q3.

The yield curve of banks' lending operations in the fourth quarter of 2004 became more salient. The slight increase in interest

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



### GKO-OFZ portfolio average monthly yield in 2004 (% p.a.)

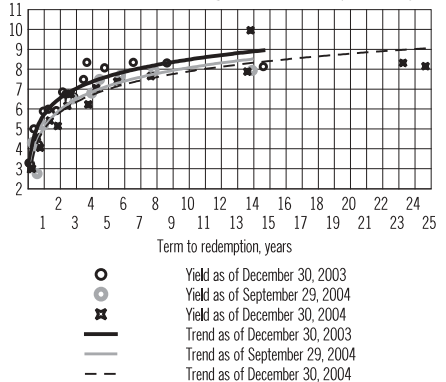


\*GKO bonds redeemed in August 2004, OFZ-ADpk bonds issued in November 2004.

rates on operations with terms from six months to a year in October-December caused this sector of yield curve to move upwards. The shape and the shift of the yield curve of banks' lending operations can be regarded as evidence of some decrease in market players' medium-term inflationary expectations.

Yields on government securities were observed to decline from the start of 2004 till the end of March, when they registered the lowest value (6.6% p.a.). After that, following the flotation of three long-term

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



OFZ issues (with maturities in 2025, 2028 and 2029) from the Bank of Russia portfolio, the yields on government bonds were observed to grow and then stabilise at 7.9% p.a. in December. The yields on the government bond portfolio fluctuated within a range of 1.5 percentage points in 2004.

As turnovers on the secondary government securities market increased by 30% in Q4 as compared with Q3, the GKO-OFZ yield curve retained its rising slope. No inflation risk premium was included in the price of short-term government bonds while the ensuing yield level was determined by the structure of demand on the money market. The medium- and long-term inflationary expectations of market players were unchanged from the previous quarter.

The price indicator volatility of most ruble-denominated financial instruments was moderate in the fourth quarter of 2004. There were no serious imbalances in the interest rate structure by instrument with different maturity periods. The yield curves of key financial instruments mostly had a rising slope, reflecting the relatively stable nature of the short- and medium-term inflationary expectations of Russian financial market players. That the yield curves of the various longest-term instruments remained almost flat in 2004 Q4 may testify to a certain degree of inertia in market players' expectations.

### Money supply

In 2004, M2 growth rates slowed to 35.8% from 50.5% a year earlier. In 2004 Q4, money supply registered its largest growth over the year, as it grew by 17.1% (16.7% in 2003 Q4). The increase corresponded to the seasonal fluctuations of

money supply dynamics caused by the December peak growth.

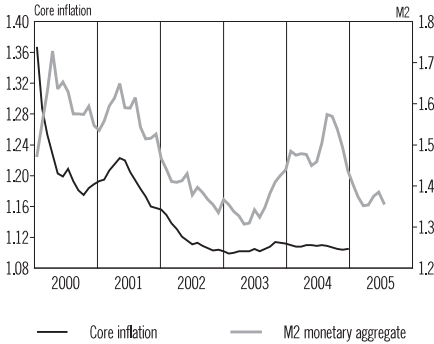
The cumulative effect of the accelerated growth of money supply in 2003 and in the first two months of 2004 exerted upward pressure on core inflation dynamics throughout 2004. Since there is a lag between M2 money supply growth and core inflation, this pressure reached a peak in the third quarter of 2004 (July-October). However, as this trend changed in March 2004 and M2 growth started to slow down (from 57.4% to 35.4% from March to September 2004) after a long period of acceleration, the upward pressure on prices was alleviated. This was also facilitated by inflation's reduced susceptibility to changes in the dynamics of monetary indicators. Nevertheless, core inflation growth accelerated in the second half of 2004 largely due to reasons outside the monetary sphere. The slowing of the annualised rates of growth in the ruble supply, registered from March to August 2004 and observed to resume in December 2004, can slightly reduce its pressure on core inflation in the first half of 2005, given that other factors remain unchanged.

The gap between M2 and GDP growth rates<sup>1</sup> grew narrower in 2004; it reached the 2003 Q1 level in the third quarter of 2004 and was virtually unchanged in the fourth quarter of 2004. Its contraction contributes to weaker inflationary pressure, given the adequate dynamics of the velocity of the economically sound path.

The greater-than-expected fall in M2 velocity in the first half of the year contained price growth in 2004, balancing out the correlation between the expansion of the

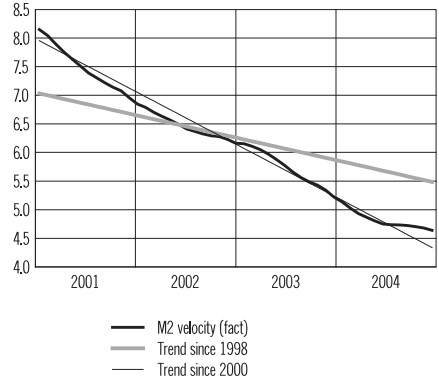
<sup>1</sup> This gap characterises the part of monetary growth that exceeds the level necessary to finance the increased amount of transactions. Its increase can serve as evidence of the inflationary pressure of money supply growth on inflation.

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



money supply and economic growth. In the second half of 2004, some factors, especially instability in the demand for the domestic currency caused the dynamics of money velocity to deviate noticeably from the medium-term trend. On the whole, money velocity slowed down by 11% in 2004 as against 15% in 2003. The above change in the trend of the money velocity dynamics may require a tighter monetary policy in 2005.

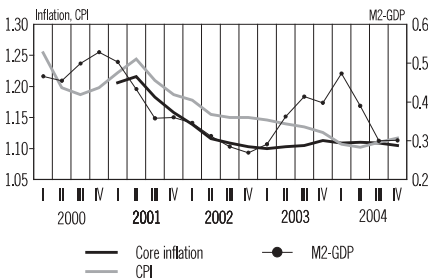
**M2 velocity**



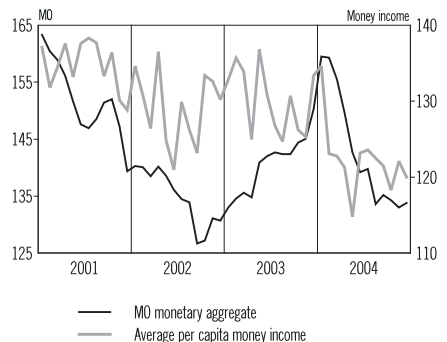
The rates of cash growth (M0 monetary aggregate) equalled 33.8% as against 50.3%.

The intra-year cash dynamics largely retained their seasonal fluctuations of the past years. At the same time, the ruble's depreciation against the US dollar in April-September 2004, and also instability in the banking sector, which prompted the summer crisis of confidence and an outflow of deposits from banks, led to a noticeable in-

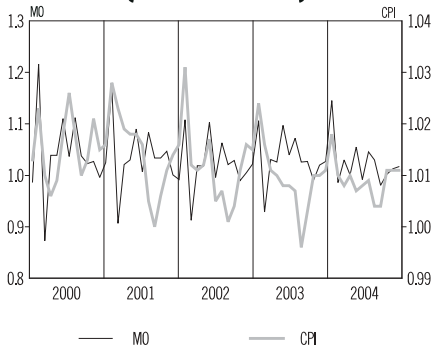
**Gap between money supply and GDP growth rates, core inflation and consumer prices (quarter on quarter of previous year)**



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



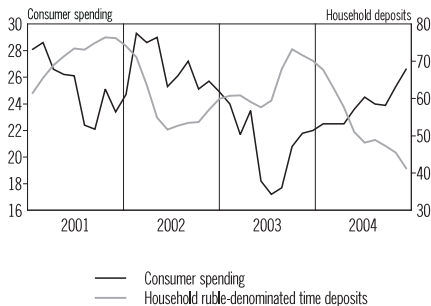
**MO (with 1-month lag) and CPI (month on month)**



crease in household demand for cash for foreign exchange during that period. As households' net purchases of foreign exchange expanded, growth in cash rubles kept by individuals slowed down and M0 grew considerably less in 2004 Q2 and Q3 (9.5% and 1.4%) as compared with 2003 Q2 and Q3 (22.3% and 4.4%), and also in 2004 as a whole.

Therefore, the influence of cash growth on inflation was, most likely, less considerable in 2004 than in the previous year.

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

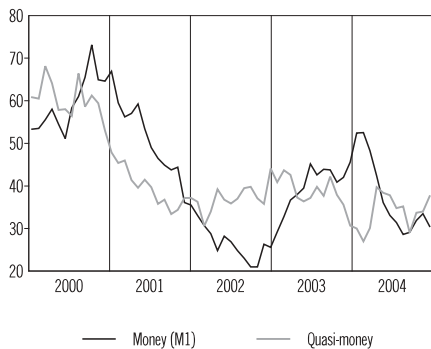


Against the backdrop of the downward trends in the dynamics of cash and funds in transaction accounts, the rates of growth in the money aggregate in the monetary survey definition slowed to 30.5% by the end of 2004 from 45.6% a year earlier.

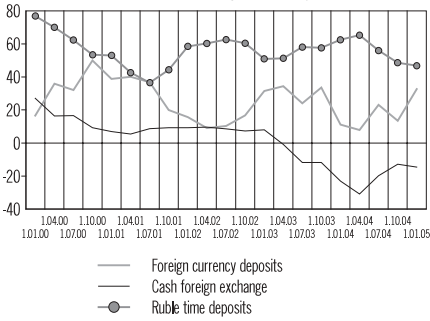
The growth rates of quasi-money, the aggregate that comprises less liquid components of the money supply used by economic agents as savings, were higher in 2004 than in the previous year. This aggregate showed unstable intra-year dynamics. Its growth accelerated from 30.7% in 2003 to 37.6% in 2004 due to a faster increase in the foreign currency component as compared with 2003. Nevertheless, ruble-denominated deposits grew faster than foreign currency deposits.

The change in economic agents' demand for the domestic currency and foreign exchange, which intensified the mutual inter-flow of ruble and foreign currency funds, was one of the factors determining the dynamics of monetary aggregates in 2004. That is why, the dynamics of the ruble monetary aggregates (M0, M1 and M2) differed from the dynamics of the aggregates, which included non-financial agents' for-

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



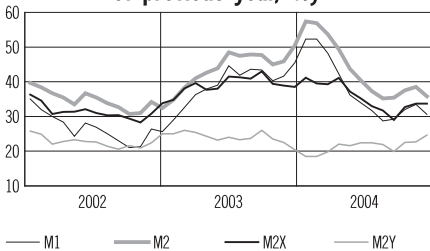
**Some components of broader contingent aggregate M2Y (month on month of previous year, %)**



eign currency-denominated assets. The rate of growth of M2X, the aggregate comprising money and quasi-money, slowed from an annualised 38.5% as of January 1, 2004, to 33.7% as of January 1, 2005. It was considerably less significant than the slowing of M2 growth.

As the growth of foreign currency deposits accelerated, despite a decline in the

**Monetary aggregates' growth rates in 2002-2004 (month on month of previous year, %)**



*Definitions of aggregates:*

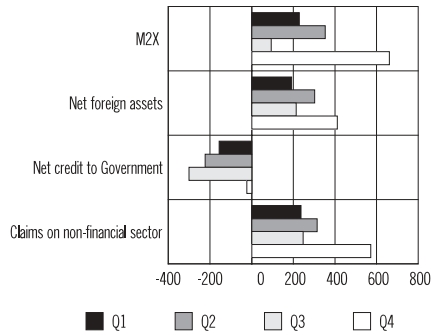
M1 = M0+current accounts and demand deposits;

M2 = M1+time deposits in rubles;

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

M2Y is the broader contingent monetary aggregate = M2X+an estimated amount of foreign exchange in the non-banking sector.

**Sources of money supply growth in 2004 (change over quarter, billion rubles)**

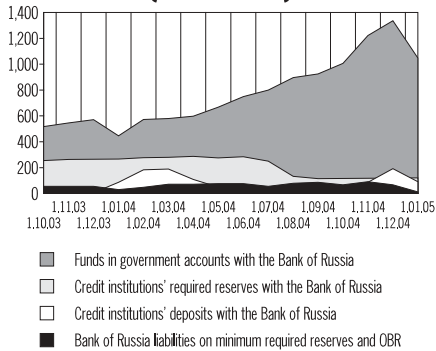


value of cash foreign currency, the dynamics of broader contingent aggregate M2Y comprising both cash and non-cash foreign currency funds demonstrated an upward trend in 2004 as a whole. The annualised M2Y growth accelerated in the fourth quarter and was faster in 2004 than in the previous year (24.6% and 20.4% respectively).

The M2X rate of dollarisation, the share of the foreign currency component in the money supply structure in the monetary survey definition, dropped by 1.3 percentage points in 2004 to 17.6% (it fell by 6.5 percentage points in 2003). The ruble component of quasi-money continued to predominate in M2X (28.6% as of January 1, 2005, as against 26% as of January 1, 2004).

The slowing of the Russian economy's de-dollarisation in 2004 was also characterised by changes in the structure of the M2Y aggregate. The lower M2Y rate of dollarisation largely reflects the flow of economic agents' funds from foreign currency-to ruble-denominated assets. Against the backdrop of the opposite dynamics of foreign currency deposits and cash foreign ex-

### Absorbed banking sector liquidity (billion rubles)



change, the share of all foreign currency funds in broader aggregate M2Y stood at about 28% as of January 1, 2005. It dropped by almost 6 percentage points over 2004 (its decline in 2003 was more considerable, by 13 percentage points).

The increase in the banking sector's claims on the non-financial sector of the economy in 2004 was a major source of growth in the money supply: in 2004 it amounted to 1,370.4 billion rubles. At the same time, the dynamics of monetary indicators were also affected by the continued growth of banking sector net foreign assets, mainly caused by the Bank of Russia's purchases of foreign exchange on the domestic market. The increase in the banking sector's claims on non-financial enterprises

and the expansion of banking sector net foreign assets in the fourth quarter accounted for about 40% of their annual growth.

The broad monetary base grew 30.6% in 2004 Q4 (29% in 2003 Q4). The share of banking sector's funds in correspondent accounts with the Bank of Russia increased from 12% to 20% in the broad monetary base in October-December (from 10% to 16% in the same period of the previous year). The share of credit institutions' funds absorbed by the Bank of Russia through its OBR, reverse repo and deposit operations dropped from 6.3% to 4.5% in the monetary base over the quarter and from 12.6% to 9.6% taking into account the credit institutions' required reserves.

The accumulation of funds in the general government's accounts caused by the expansion of the Stabilisation Fund, had a serious restraining effect on money supply growth. Growth in the value of the Stabilisation Fund's accounts was faster in the fourth quarter than in the third quarter of 2004 (172.5 billion rubles as against 120.6 billion rubles). However, for the first time in the past few years, the balances of the government's accounts with the Bank of Russia were observed to grow, suggesting a change in the nature of budget policy's influence on the dynamics of monetary indicators.

## Statistical Addendum

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

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



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

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

**Consumer price dynamics by group  
of goods and services (over quarter, %)**

	Inflation	Core inflation	Food price growth	Growth in food prices, excluding vegetable prices	Vegetable and fruit price growth	Non-food price growth	Service price growth
<b>2002</b>							
I	5.4	2.8	4.2	2.1	22.6	2.7	14.5
II	3.4	1.5	3.0	0.7	20.1	3.1	5.1
III	1.2	2.3	-1.4	1.8	-21.6	2.1	7.3
IV	4.3	3.2	4.9	3.6	15.5	2.5	5.5
<b>2003</b>							
I	5.2	2.8	4.8	2.8	22.4	2.8	10.6
II	2.6	1.8	2.5	1.6	9.3	1.8	4.5
III	0.6	2.5	-1.2	2.6	-27.8	1.9	3.6
IV	3.1	3.6	3.9	4.3	-0.8	2.4	2.1
<b>2004</b>							
I	3.5	2.4	3.8	3.2	10.1	1.4	6.4
II	2.5	1.8	2.1	1.9	3.5	2.0	4.3
III	1.8	2.4	1.2	2.7	-13.4	2.0	3.0
IV	3.4	3.5	4.7	4.7	4.8	1.8	3.0

## Inflation Growth Structure (percentage points)

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

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

\* Excluding vegetables and fruit.

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

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

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

\* Excluding vegetables and fruit.

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

## Contribution to Inflation Growth (%)

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
<b>2003</b>						
January	27.5	12.4	31.6	28.5	40.6	59.4
February	26.7	13.4	37.1	22.8	41.8	58.2
March	27.3	14.9	35.3	22.5	44.2	55.8
April	27.0	15.3	34.7	23.1	44.9	55.1
May	26.9	15.9	34.5	22.7	46.1	53.9
June	28.1	16.0	33.7	22.2	47.9	52.1
July	29.7	16.2	35.2	18.8	50.2	49.8
August	36.5	19.1	38.9	5.5	60.7	39.3
September	41.6	21.2	39.3	-2.1	69.1	30.9
October	46.7	21.6	36.4	-4.7	74.3	25.7
November	48.5	21.7	33.6	-3.8	76.3	23.7
December	49.1	21.0	31.7	-1.8	75.9	24.1
<b>2004</b>						
January	35.8	7.6	40.3	16.3	43.2	56.8
February	42.3	9.0	35.4	13.3	50.0	50.0
March	45.0	10.3	30.2	14.5	55.3	44.7
April	46.1	11.7	31.5	10.7	57.5	42.5
May	45.3	14.2	32.1	8.5	58.5	41.5
June	42.3	15.3	30.6	11.8	57.2	42.8
July	43.5	15.3	29.9	11.3	58.8	41.2
August	47.0	16.5	30.8	5.7	62.6	37.4
September	50.9	19.1	30.9	-0.9	68.4	31.6
October	54.2	18.7	29.3	-2.3	70.9	29.1
November	55.4	18.3	27.2	-1.0	72.0	28.0
December	55.7	17.1	25.7	1.5	72.0	28.0

\* Excluding vegetables and fruit.

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

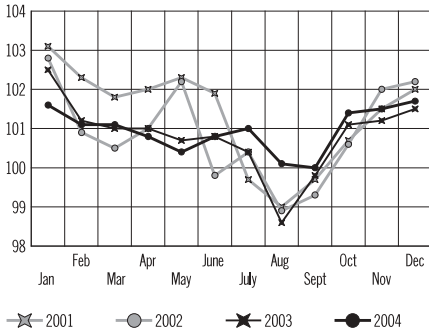
**Contribution to monthly inflation growth  
by group of goods and services**

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
<b>2003</b>						
January	27.5	12.4	31.6	28.5	40.6	59.4
February	25.5	15.0	45.0	14.6	43.7	56.3
March	29.7	20.3	28.3	21.7	53.0	47.0
April	25.5	17.2	31.6	25.7	48.7	51.3
May	25.9	21.2	33.1	19.8	55.3	44.7
June	38.4	16.6	26.9	18.1	62.7	37.3
July	46.8	18.9	50.7	-16.4	74.7	25.3
August	<i>Estimate impossible for negative value</i>					
September	164.8	72.9	50.5	-188.3	270.6	-170.6
October	86.6	25.6	14.2	-26.4	114.6	-14.6
November	63.8	23.3	8.4	4.5	94.1	5.9
December	53.8	14.2	15.1	16.9	71.7	28.3
<b>2004</b>						
January	35.8	7.6	40.3	16.3	43.2	56.8
February	53.5	11.5	26.8	8.1	61.8	38.2
March	54.6	14.8	11.5	19.2	74.2	25.8
April	49.6	17.1	36.3	-2.9	65.1	34.9
May	40.1	29.6	35.6	-5.2	64.9	35.1
June	22.7	22.7	21.0	33.7	48.2	51.8
July	50.3	15.6	25.3	8.7	68.1	31.9
August	101.5	35.8	46.0	-83.3	122.3	-22.3
September	117.0	63.9	34.1	-115.0	164.9	-64.9
October	75.6	16.9	19.0	-11.5	86.8	13.2
November	63.4	15.6	12.0	9.0	79.4	20.6
December	56.7	7.1	13.1	23.1	71.7	28.3

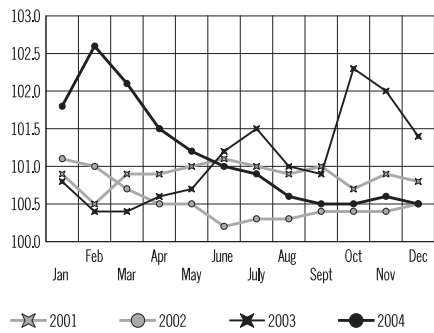
\* Excluding vegetables and fruit.

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

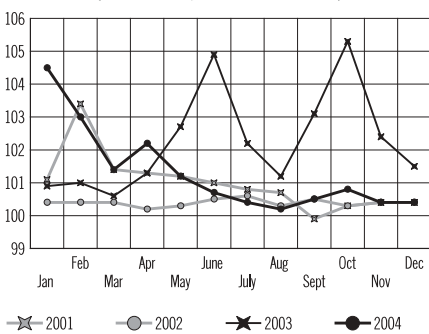
**Food prices, total**  
(as % of previous month)



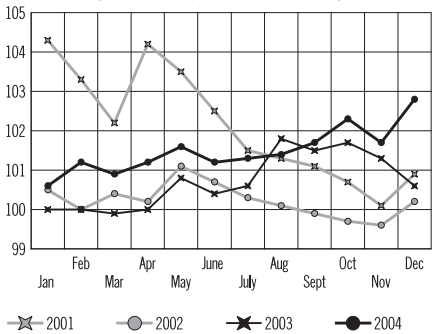
**Pasta prices**  
(as % of previous month)



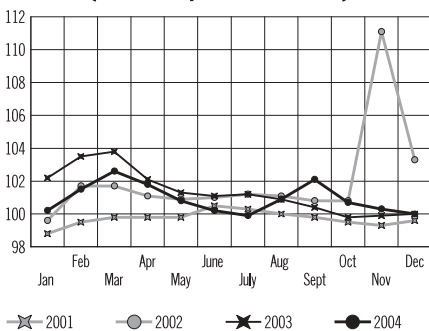
**Bread and bakery product prices**  
(as % of previous month)



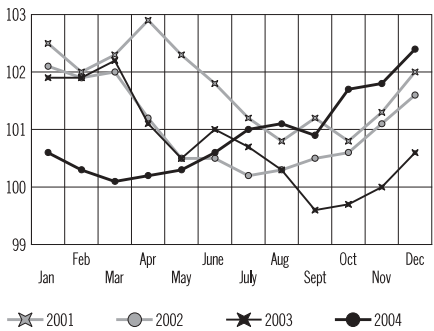
**Meat and poultry prices**  
(as % of previous month)



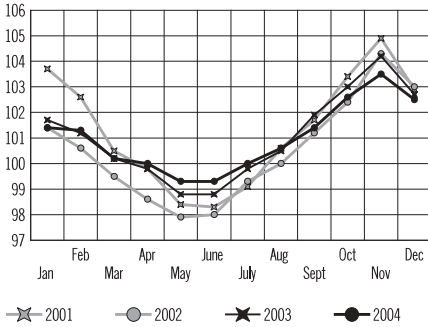
**Cereal and legume prices**  
(as % of previous month)



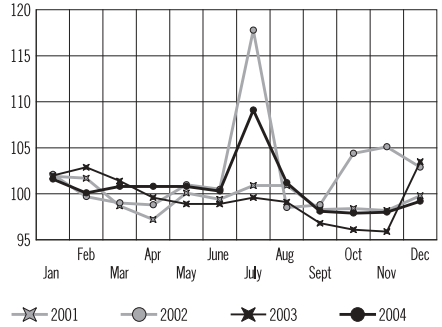
**Fish and seafood prices**  
(as % of previous month)



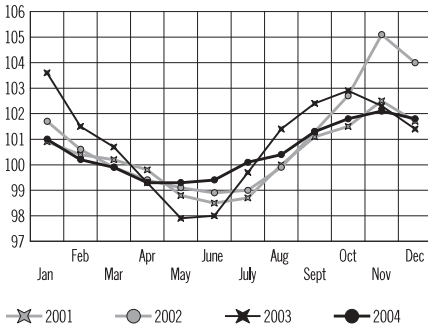
**Milk and dairy product prices  
(as % of previous month)**



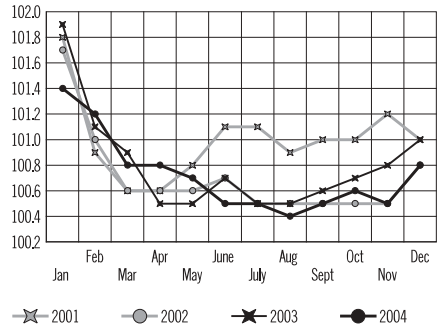
**Granulated sugar prices  
(as % of previous month)**



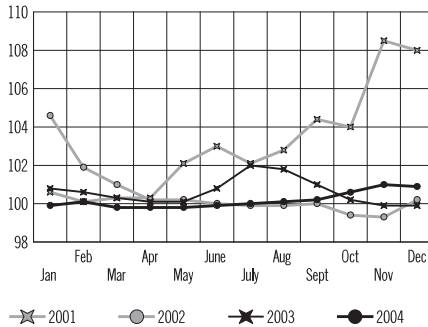
**Butter prices  
(as % of previous month)**



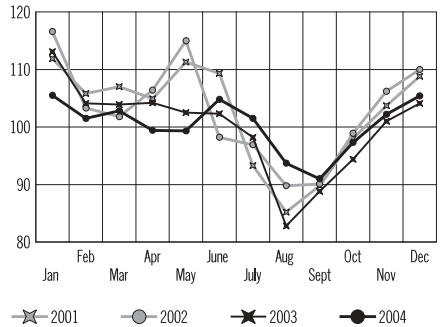
**Alcoholic beverage prices  
(as % of previous month)**



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

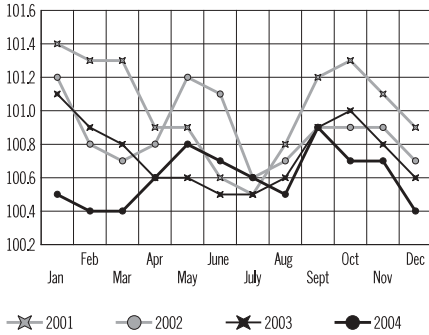


**Vegetable and fruit prices  
(as % of previous month)**

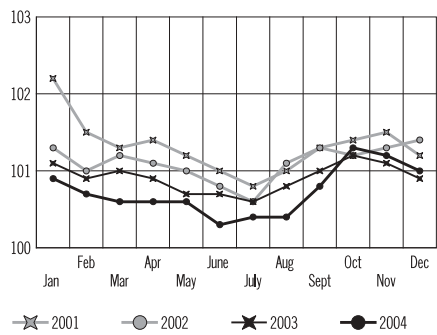




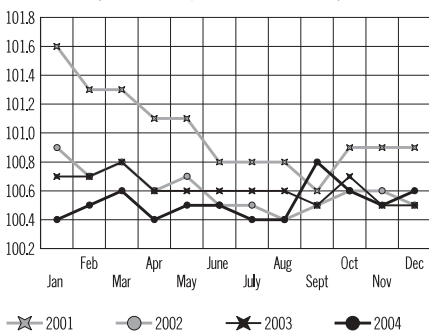
**Non-food prices, total**  
(as % of previous month)



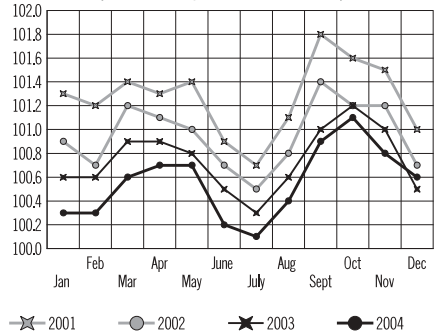
**Knitwear prices**  
(as % of previous month)



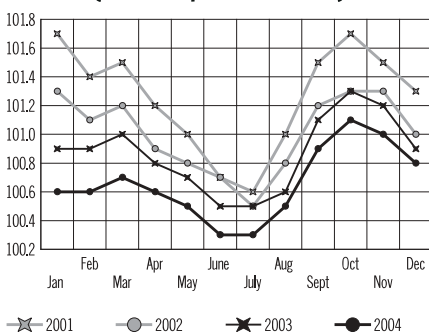
**Fabrics prices**  
(as % of previous month)



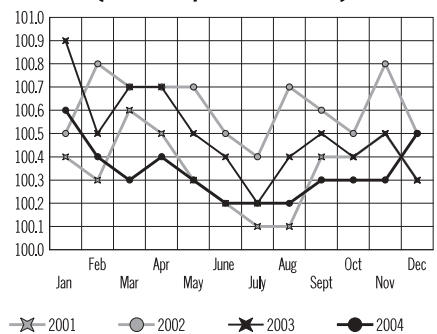
**Footwear prices**  
(as % of previous month)



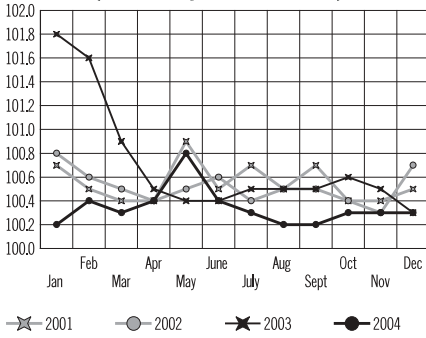
**Clothes and underwear prices**  
(as % of previous month)



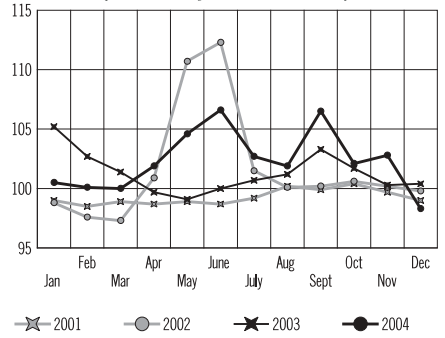
**Detergent and cleaning product prices**  
(as % of previous month)



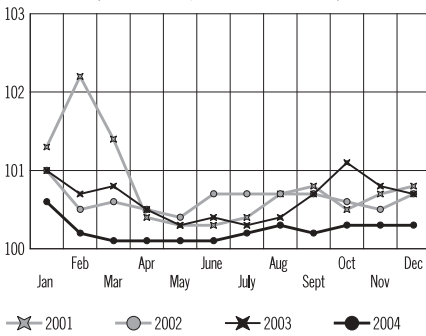
**Tobacco prices**  
(as % of previous month)



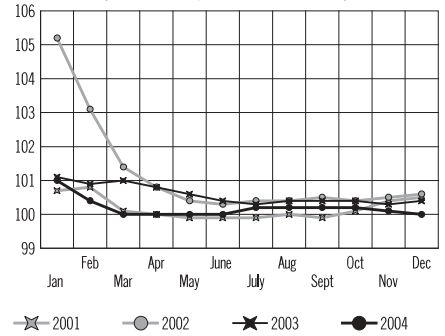
**Petrol prices**  
(as % of previous month)



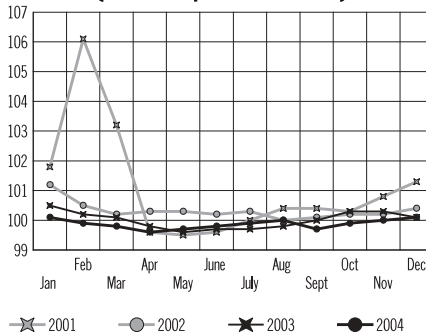
**Household electric appliances prices**  
(as % of previous month)



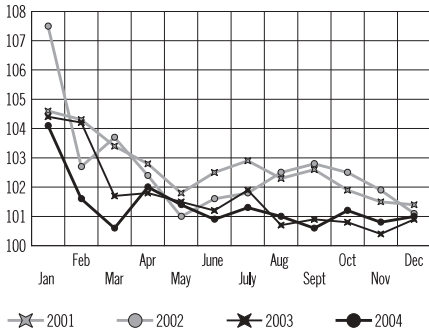
**Medicine prices**  
(as % of previous month)



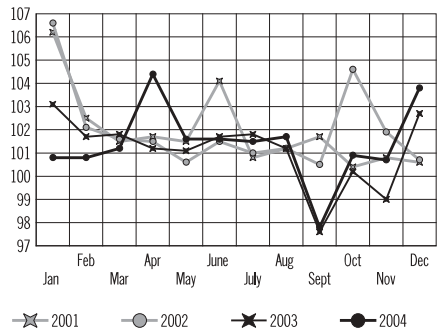
**TV and radio prices**  
(as % of previous month)



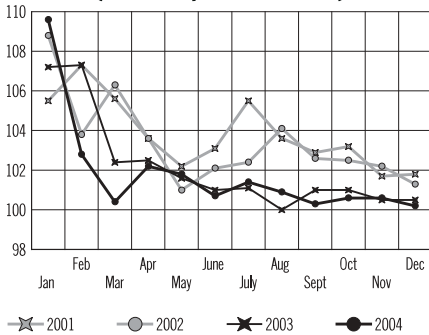
**Service prices**  
(as % of previous month)



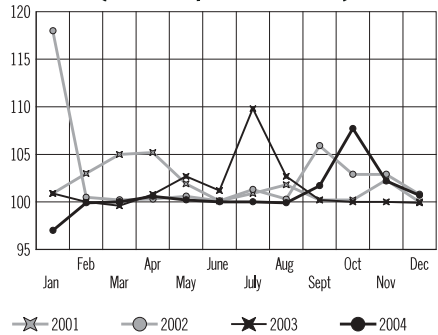
**Passenger transport fares**  
(as % of previous month)



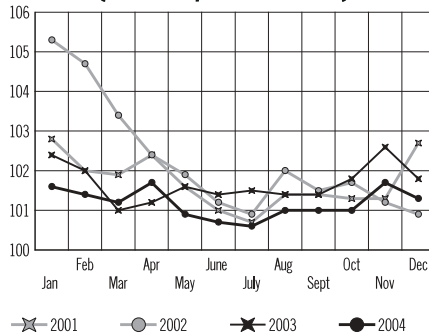
**Rent and communal service prices**  
(as % of previous month)



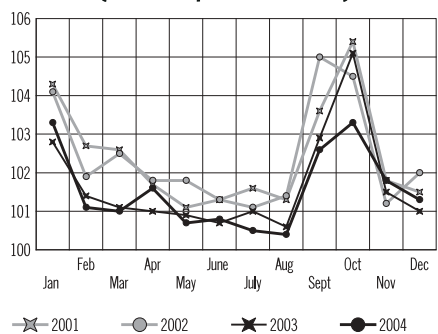
**Communication fees**  
(as % of previous month)



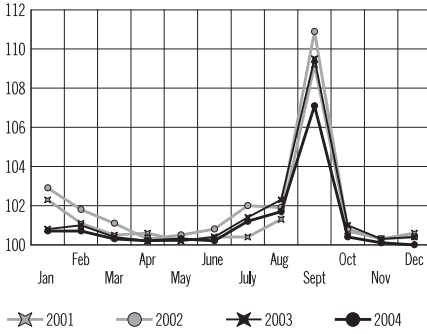
**Healthcare prices**  
(as % of previous month)



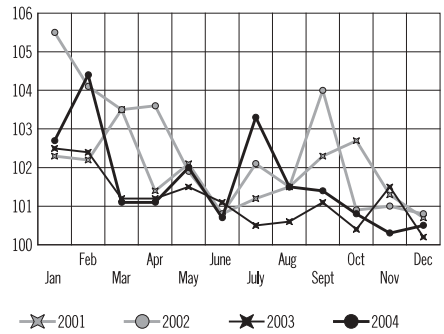
**Entertainment and leisure prices**  
(as % of previous month)



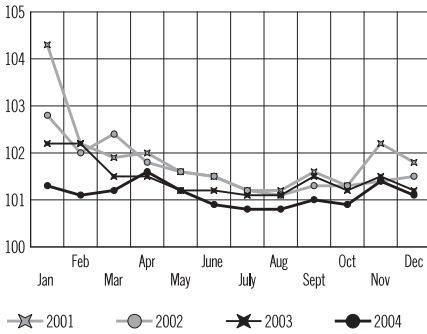
**Education fees  
(as % of previous month)**



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



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



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

