



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

# **Quarterly Inflation Review**

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**2007 Q3**

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**Research and Information Department**

*The electronic version of Quarterly Inflation Review is available on the Bank of Russia's website :  
<http://www.cbr.ru/publ/>.*

## Introduction

In the third quarter of this year inflation continued due to expanding domestic demand and the powerful supply shocks caused by growth in the prices of some foodstuffs on world commodity markets.

Economic growth in Russia in January-September 2007 was faster than in the same period of 2006 but the increase in domestic demand did not match producers' capability for non-inflationary growth in output. According to estimates, actual output this year surpassed its potential, accelerating inflation in the economy.

As wage rose faster this year than last year, the share of wage costs in the value added has expanded. Price growth accelerated in the fuel and energy production sector and producer prices went up in the sectors oriented to the consumer goods market (food production and the production of textile and clothing and leather, leather goods and footwear). These processes show that cost-push inflation is a significant factor.

Inflation in the countries that are the major exporters of goods to Russia, monitored allowing for their relative importance for Russian imports, in January-September 2007 accelerated as compared with the same period of 2006 (this year's nine-month average relative to last year's nine-month average) and this created conditions for the accelerated price growth in the Russian economy.

Some food prices rose at particularly rapid rates in January-September 2007, especially in the third quarter, following the general food price uptrend in the world.

Compared to December 2006, consumer price growth in September 2007 (7.5%) was faster than in the same period of 2006, making the attainment of the 6.5-8% target for inflation increasingly difficult. The inflationary expectations have increased in this situation.

The monetary conditions of the economy in July-September changed from the first half of the year. The August subprime mortgage crisis in the United States caused the price of credit to rise on the international market, stimulating the outflow of capital from Russia. As a result, the Russian financial market experienced a relative shortage of liquidity, accompanied by growth in domestic interest rates. In that situation the Bank of Russia had to conduct active operations to provide liquidity to credit institutions. In addition, it took steps to increase potential security for its loans and repo operations, giving credit institutions wider access to the refinancing instruments. Banks withdrew a large part of funds from their deposit accounts with the Bank of Russia even though the latter had raised its minimum deposit interest rates.

The third quarter saw the slowing of growth in monetary indicators. Broad money growth slowed to 31.6% as of October 1, 2007, and M2 growth was down to 48.3%. In the third quarter of this year, M2 growth slowed for the first time after a long period (two years) of accelerating growth but it was faster than the demand for money forecast for 2007 in Guidelines for the Single State Monetary Policy in 2008 (37-39%). It also exceeded the revised forecast, raised to 40-44% on faster-than-expected economic growth. The high rates of overall growth in the money supply stimulate the inflationary expectations, while the continued slowing of M2 growth may reduce the risk of inflation by the end of next year (due to the inevitable lags). The reduction of the velocity of money due to the de-dollarisation, the expansion of the share of the savings component and the contraction of the share of cash in the ruble supply structure also mitigate the inflationary consequences of growth in the money supply.

# Inflation Dynamics

## Consumer prices

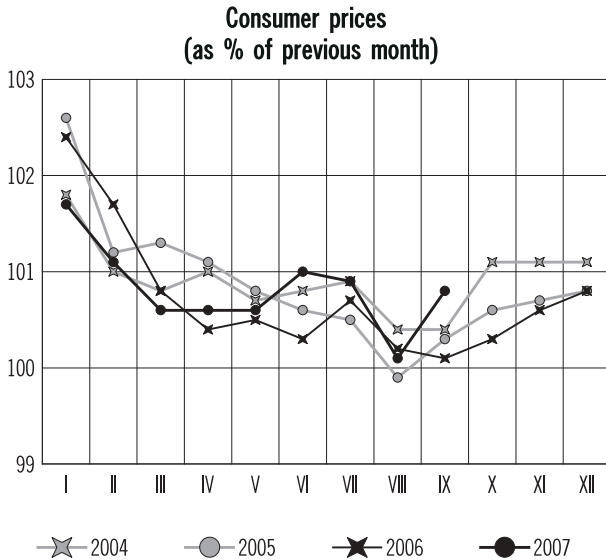
According to the Federal State Statistics Service (Rosstat), in the nine months of this year consumer prices rose 7.5%, or by 0.3 percentage points more than in January-September 2006. In the first quarter they increased 3.4%, in the second 2.2% and in the third 1.8%. In September 2007 consumer prices grew 9.4% year on year and in January-September 2007 they gained 8.2% as compared with the same period in 2006.

The acceleration of inflation was due to **core inflation**, which stood at 3.7% in the third quarter of this year as against 1.7% in the first and 1.2%

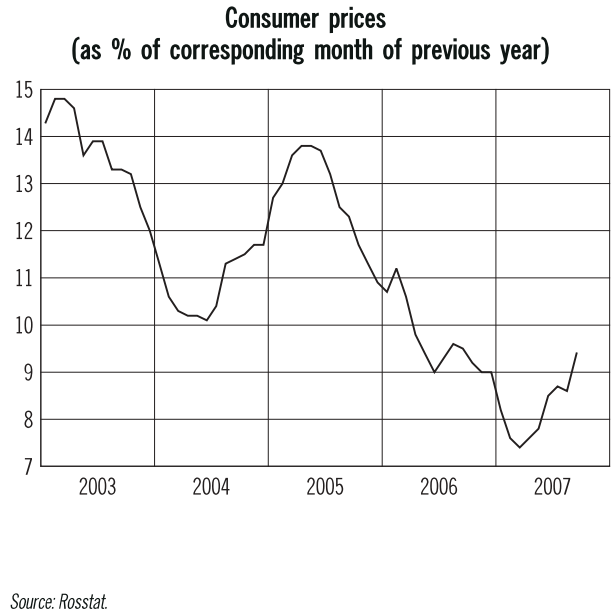
in the second. In the nine months of this year it accelerated to 6.7% from 5.9% in the same period last year. In September 2007, core inflation stood at an estimated 8.7% year on year.

Estimates show that growth in the prices of goods and services included in the core consumer price index calculation accounted for 5.3 percentage points, or 69.9%, of overall consumer price growth in January-September 2007 (as against 4.6 percentage points, or 63.4%, in the same period last year).

Growth in **food prices, excluding vegetable and fruit prices**, made the biggest contri-



Source: Rosstat.



## Consumer price inflation (%)

	Growth (September 2007 on December 2006)	Growth (September 2006 on December 2005)	
Prices of goods and services, total	7.5	7.2	Acceleration of growth by 0.3 percentage points
Of which:			
- food prices	8.1	6.7	Acceleration of growth by 1.4 percentage points
- food prices, excluding vegetable and fruit prices	8.1	6.6	Acceleration of growth by 1.5 percentage points
- non-food prices	4.0	4.3	Slowing of growth by 0.3 percentage points
- prices of paid services provided to households	11.6	12.0	Slowing of growth by 0.4 percentage points
Prices of goods and services included in core inflation calculation	6.7	5.9	Slowing of growth by 0.8 percentage points

Source: Rosstat.

bution to the acceleration of inflation. In the nine months of this year they gained 8.1%, whereas in the same period last year they rose 6.6%. According to estimates, growth in these prices in January-September 2007 accounted for 3.0 percentage points, or 39.2%, of overall consumer price growth. In the same period last year these prices accounted for 2.6 percentage points, or 35.7%, of overall consumer price growth; of this, growth in the prices of bread and bakery products and milk and dairy products was responsible for an estimated 0.8 percentage points, or 10.2%, of overall consumer price growth.

Growth in food prices excluding vegetable and fruit prices accelerated in September (by 2.2%) when prices of fat, milk and dairy products rose significantly, reflecting the increase in domestic and world demand for food products amid limited capabilities for production growth. The production of vegetable oil in Russia fell by 1.7% in January-September 2007, as compared with the same period a year earlier. The output of dairy products remained unchanged from the previous year, but the production of low-fat dairy products decreased by 12.9% in terms of skimmed milk, and whole milk powder, cream and ice cream powder 4.4%. Domestic flour production dropped 3.7% and the output of bread and bakery products was down 2% and pasta 6.2%.

Grain product prices increased the most in the first half of the year. In the nine months of 2007 the price of sunflower oil soared 17.2%, whereas in the same period of 2006 it fell 1.2%. The price of butter went up 17.1% as against 4.0% a year earlier, milk and dairy products 12.0% as against 4.6% and bread and bakery products 20% as against 7.6%.

**Vegetable and fruit prices** gained 8.1% in the nine months of this year, or 0.1 percentage points less than in the same period of 2006. According to estimates, as a result of growth in vegetable and fruit prices the general level of consumer prices rose by 0.3 percentage points, or 4.1% of overall consumer price growth, in January-September 2007, whereas in the same period last year the respective figures stood at 0.3 percentage points and 4.5%.

**Overall food price growth** in the nine months of this year stood at 8.1% as against 6.7% in January-September 2006.

As in the previous years, **non-food prices** grew more slowly than the prices of other major types of consumer goods and services. In the nine months of this year non-food prices increased 4% (as against 4.3% in January-September 2006). The prices of building materials and tobacco products rose at the most rapid rates (13.6% and 5.7%,

**Food price inflation (%)**

	Growth (September 2007 on December 2006)	Growth (September 2006 on December 2005)	
Food products	8.1	6.7	Acceleration of growth by 1.4 percentage points
Bread and bakery products	20.0	7.6	Acceleration of growth by 12.4 percentage points
Cereals and legumes	15.9	11.0	Acceleration of growth by 4.9 percentage points
Pasta	13.8	3.8	Acceleration of growth by 10.0 percentage points
Meat and poultry	5.4	3.9	Acceleration of growth by 1.5 percentage points
Fish and seafood	5.9	5.7	Acceleration of growth by 0.1 percentage points
Milk and dairy products	12.0	4.6	Acceleration of growth by 7.4 percentage points
Butter	17.1	4.0	Acceleration of growth by 13.1 percentage points
Sunflower oil	17.2	-1.2	
Granulated sugar	0.2	37.3	Slowing of growth by 37.1 percentage points
Vegetables and fruit	8.1	8.2	Slowing of growth by 0.1 percentage points
Alcoholic beverages	5.2	7.4	Slowing of growth by 2.2 percentage points

Source: Rosstat.

respectively). In the same period last year these prices increased 8.2% and 4.6%, respectively.

Prices of **paid services provided to households** gained 11.6% in the nine months of this year (as against 12% in the same period of 2006). Estimates show that growth in service prices in that period accounted for 2.9 percentage points, or 37.8%, of overall consumer price growth (2.9 percentage points, or 39.6%, in January-September 2006).

Housing and utility prices rose 13.3% in January-September 2007 as against 16.8% in the same period last year. Communications fees increased 10.8% as against 1.8% a year earlier due to significant growth in the city telephone service charges. Overall growth in the regulated service prices stood at an estimated 11.8% in the nine months of the year, a decrease of 0.4 percentage points from the same period a year earlier.

Growth in service prices in January-September 2007 increased overall consumer price growth by 5.5 percentage points (as against 6.3 percentage points in the same period last year).

According to Rosstat, in the nine months of this year consumer prices rose more than in the same period last year in all **federal districts**, except the Urals, Far Eastern and Siberian.

Judging by estimates, the differences between the Russian regions in terms of the price of

the fixed set of goods and services used by Rosstat for the interregional comparisons of the purchasing power of the population narrowed in January-September 2007. The regional difference ratio<sup>1</sup> decreased to 42.4% from 45.3% in that period.

Non-food prices grew almost at the same rate (from 3.7% to 4.6%) in all federal districts in January-September 2007. Meanwhile, the rates of growth in vegetable and fruit prices differed significantly region by region. In the Northwestern Federal District, for example, these prices rose 11.8%, whereas in the Siberian Federal District their growth stood at 0.6%.

Growth in service prices slowed down in most of the federal districts in the nine months of this year, as compared with the same period last year. The Siberian and Volga Federal Districts were the only exceptions.

### Housing prices

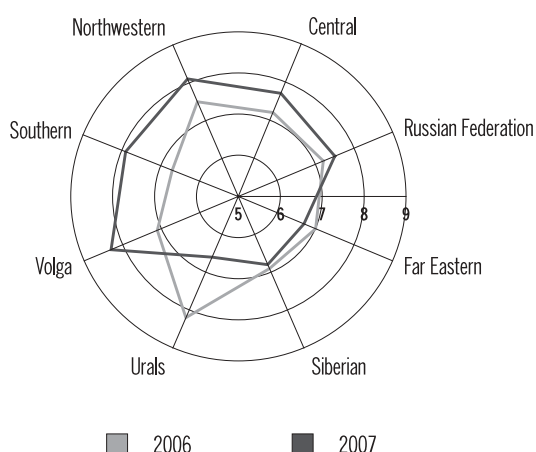
Housing prices continued to rise faster than inflation. In the third quarter of this year housing prices on the primary market increased 15.6%, as compared with the fourth quarter of 2006<sup>2</sup>, and 14.9% on the secondary market. Nevertheless, this represents a slowdown from last year's 35.7% and 36.1%.

Growth in housing prices was slowing amid rapid growth in the construction of new housing, which stood at 131.3% in January-September 2007 as compared with the same period last year.

### Producer prices

**Industrial producer prices** rose 17% in the nine months of this year (as against 15.2% in the same period last year). Their growth accelerated as producer prices in the mining sector increased 36.4% in that period as against 25.8% in January-September 2006. In the fuel and energy sector producer price growth quickened to 40.5% from 26.3%. Meanwhile, producer prices in the metal ore mining sector rose 8.2% as against 33.1% in January-September 2006. Growth in producer prices in the mining sector in the nine months of this year accounted for an estimated 8.1 percentage points, or 47.9%, of overall industrial producer price growth. In January-Septem-

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

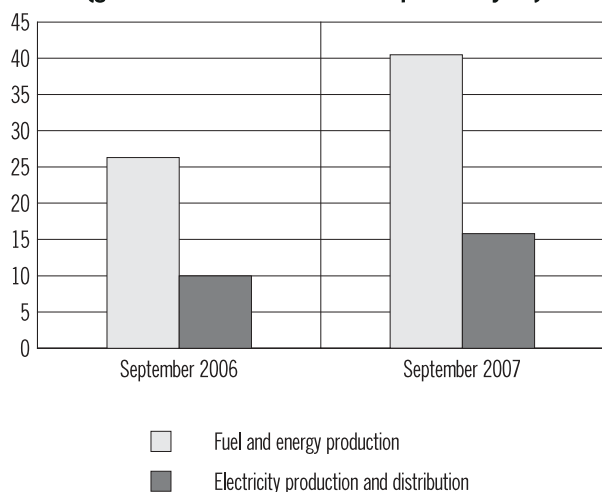


Source: Rosstat.

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

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

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



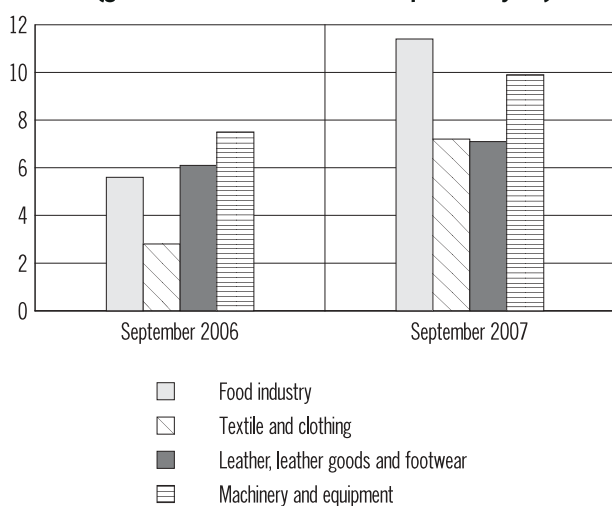
Source: Rosstat.

ber 2006 it accounted for 5.7 percentage points, or 37.6%.

Price growth in the manufacturing sector slowed to 10.5% in January-September 2007 from 12.7% in the same period last year.

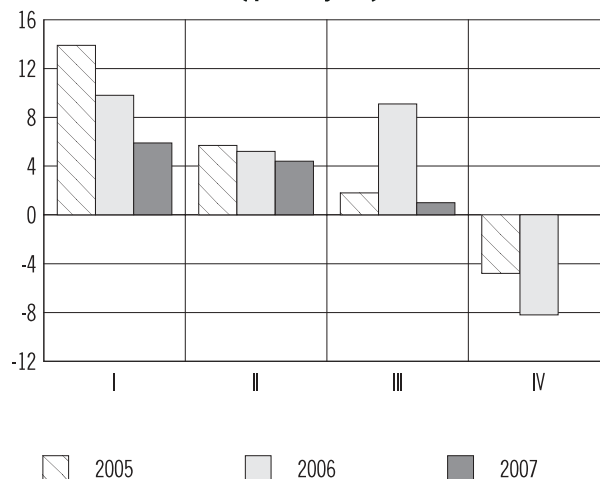
Growth in producer prices of manufactured goods that go to the consumer goods market accelerated significantly in January-September 2007 as compared with the same period last year. Textile and clothing manufacturer prices rose 7.2% (as against 2.8% in January-September 2006), prices in the production of foodstuffs, including beverages and tobacco, increased 11.4% (as against 5.6% a year earlier) and prices in the pro-

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



Source: Rosstat.

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



Source: Rosstat.

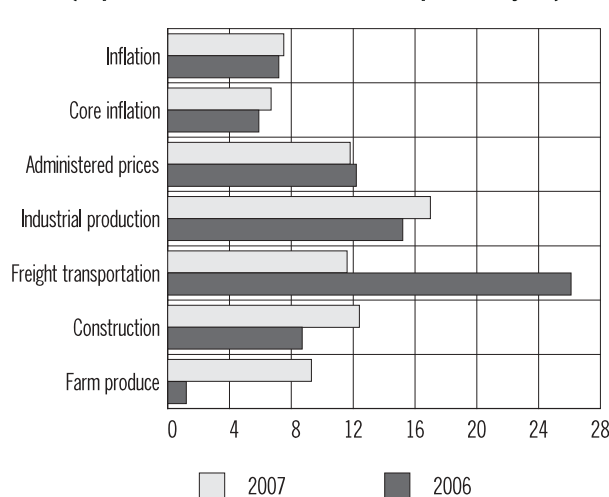
duction of leather, leather goods and footwear went up 7.1% (as against 6.1%).

In the nine months of this year, prices in the production, transmission and distribution of electricity, gas and water gained 15.6% (as against 10.4% in the same period last year).

**Freight transportation charges** grew 11.6% in January-September 2007, whereas in the same period of 2006 they increased 26.1%). Railway fares were up 7.7% as against 8.9% a year earlier.

**Communication fees for corporate entities** rose 4.1% in the nine months of this year (as against 0.5% in the same period last year).

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



Source: Rosstat.

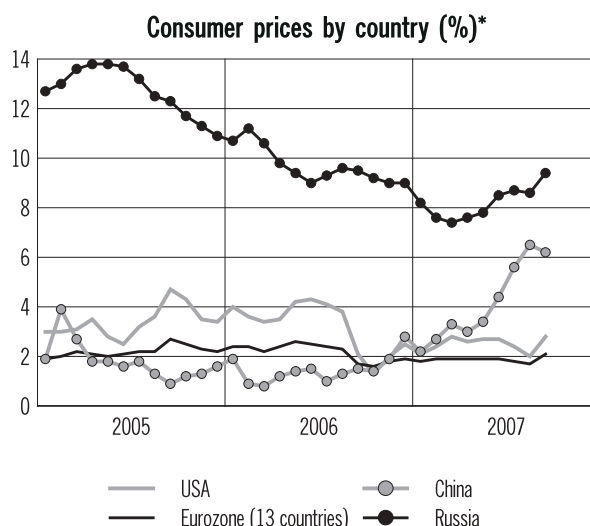
Prices in the **construction sector** increased 12.4% over that period as against 8.7% a year earlier.

**Agricultural producer prices** gained 9.3% in January-September 2007 as against 1.2% in the same period last year. Price growth was registered in both crop growing and livestock breeding. In the nine months of this year producer prices in crop farming rose 16.2% as against 8.0% in the same period last year. Prices rose especially high for grains (31.4% as against 16.6% a year earlier) and potatoes (22.1% as against 17.5%). Livestock producer prices went up 4.6% in the nine months of this year as against 2.7% in the same period of 2006. At the same time, there was a drop in egg prices by 1.8% as against a fall by 11.7% in January-September 2006.

### Inflation in some countries<sup>3</sup>

Inflation in the countries that are the major exporters of goods to Russia in the nine months of 2007 was higher than in the same period of 2006 (September on December of the previous year). Most of the countries, Russia's trading partners accounting for a large share of Russian imports, registered the acceleration of price growth. The biggest contribution to aggregate inflation in the countries that are Russia's leading trading partners was made by the acceleration of inflation in China to 4.4% (from 1% in September 2006 relative to December 2005), Ukraine to 8.6% (5.9%), Germany to 1.8% (0.5%), Belarus to 5.4% (3.1%) and Kazakhstan to 8.6% (5.9%). At the same time, inflation slowed down in Turkey, some European countries (Britain, France, Italy and the Netherlands) and Japan. Growth in food prices, caused by the rise in the prices of agricultural produce on the world and domestic markets, had a major effect on inflation in foreign countries.

US inflation stood at 3.3% in the nine months of this year (September on December of



\* Growth in consumer prices on corresponding month of previous year.  
Source: US Labor Department Bureau of Labor Statistics, Eurostat, China's National Statistics Bureau and Rosstat.

the previous year). In September 2006, it stood at 3.1%. Core inflation<sup>4</sup> made the biggest contribution to the change in the general level of consumer prices (1.6 percentage points). However, the acceleration of inflation was due to the quickening of growth in energy prices (from 10.6% in January-September 2006 to 13.2% in the period under review). US core inflation stood at 2.1% in the nine months of this year as against 2.5% in the same period in 2006. The slowing of growth in rent (from 3.7% to 2.9%) was the main factor of its reduction.

Eurozone inflation<sup>5</sup> stood at 1.6% in the nine months of this year as against 1.4% in the same period last year. Core inflation<sup>6</sup> was the major contributor to eurozone consumer price growth (0.7 percentage points). Compared to January-September 2006, core inflation's contribution increased, while the contribution made by the change in energy and food prices remained unchanged. Eurozone core inflation stood at 1% in January-September 2007 as against 0.7% in the same period of 2006.

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

<sup>4</sup> The rise in the level of prices of goods and services included in the consumer goods basket, except foodstuffs and energy products.

<sup>5</sup> Thirteen member states, including Slovenia. Source: Eurostat.

<sup>6</sup> Growth in prices of goods and services included in the consumer goods basket, except foodstuffs, alcoholic beverages, tobacco and energy products.



## Foreign trade

The price situation for the major Russian export commodities<sup>7</sup> on world markets in January-September 2007 was good on the whole. World market prices of Russian exports were higher on average than in the same period last year: energy prices were up 1.9% and non-energy prices up 8.2%.

Growth in the price of oil, which resumed in the middle of January 2007, continued virtually during the entire period under review and it accelerated in the third quarter. The main reasons for the rise in oil prices on the world market were faster growth in the world demand for oil, especially in the rapidly developing countries of Asia, which exceeded growth in the supply of oil, the weakening of the US dollar against other major world currencies, the tough position taken by the OPEC member countries on the oil production levels (10 OPEC countries, which exclude Iraq and Angola, had not revised the oil output quotas since July 2005) and some other geopolitical and climate-related factors.

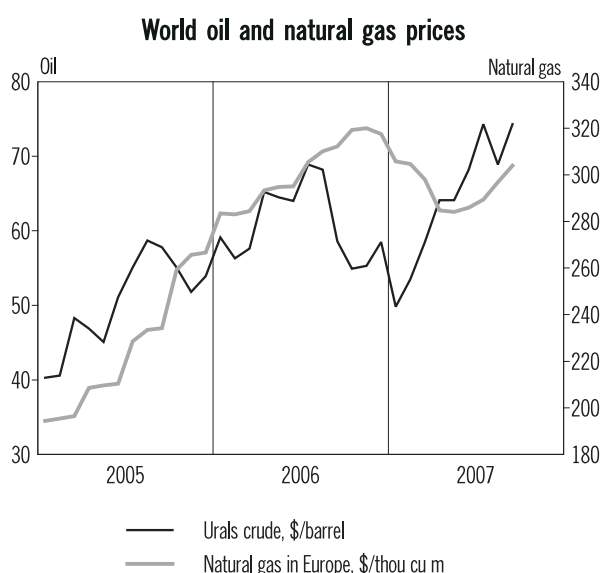
As a result, the Bank of Russia has calculated that the average price of Urals crude in the third quarter of this year was 11.1% higher than in the same period last year and stood at \$72.5 per barrel. Petroleum product prices were 11.7% higher

on average, whereas the price of natural gas in Europe was down 4.0%.

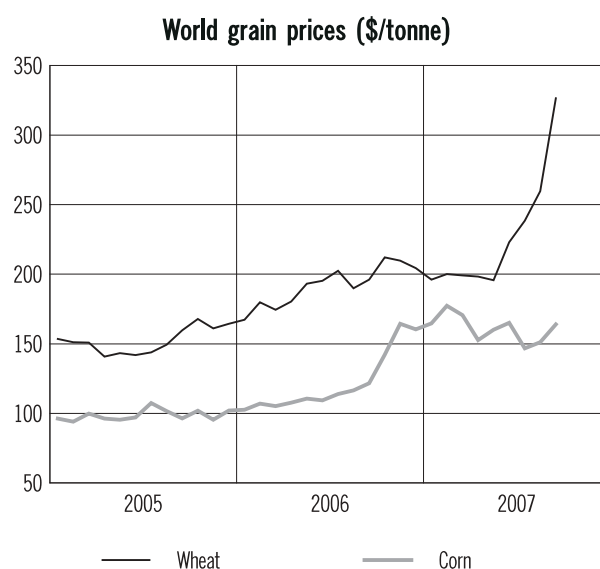
In the nine months of this year the world market price of Russian oil was by 2.4% higher than in the same period last year and petroleum product prices were higher by 1.5%, while natural gas prices in Europe remained virtually unchanged from January-September 2006.

The world metal market registered a slight rise in ferrous metal prices in the second and third quarter of this year, but in the nine months of the year ferrous metal prices were by 1.7% lower on average than in the same period of 2006. As for the non-ferrous metal market, the price of aluminium fell 8% and nickel was down 37% in the third quarter compared with the second, while the price of copper remained virtually unchanged. In the nine months of this year non-ferrous metal prices were higher than in the same period last year: aluminium and copper were up 7.3% and the price of nickel increased by 1.9 times. Prices of other Russian raw material exports, except timber, were higher than in January-September 2006.

Food price rises on world markets are due to the reduction of raw material stocks, the unusually rapid expansion of demand, which exceeds growth in output, the increased use of agricultural raw materials for the production of bio-fuel and



Source: Reuters, World Bank.



Source: World Bank.

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

growth in freight rates caused by the underproduction of cargo ships. The world's agricultural production today makes unrealistic the plans announced by many countries to replace a part of mineral fuel by biological fuel and foreign experts believe that things won't change for another two to three years.

Prices of Russia's major food imports<sup>8</sup> had different dynamics on world markets in the third quarter of the year. Calculated on a quarter-on-quarter basis, prices of wheat, butter, sunflower oil, milk, poultry and raw sugar increased, the price of beef remained virtually unchanged, while pork, refined sugar and corn prices declined.

Growth in grain prices has resumed on the world market in the past two agricultural years. According to the World Bank, wheat prices rose by 1.6 times and corn prices by 1.7 times in June 2007 compared with June 2005. In the third quarter growth in wheat prices accelerated compared with the previous quarter and stood at 34%. As for corn prices, they hit a high last February and in the subsequent months they demonstrated a weak downward trend. In January-September 2007, the price of wheat and corn on the US market was, respectively, by 21% and 46% higher than in the same period of 2006.

According to International Grains Council (IGC) estimates, the outlook for the world grain harvest in the new agricultural year is good, but weather conditions in some CIS countries, Europe and the United States have compelled experts to lower their forecast. In addition, in the third quarter of the year experts expressed concern that the wheat harvest in Australia might be smaller than expected and grain harvests in North America and Africa were affected by bad weather. In September 2007, the IGC lowered again its wheat harvest forecast and this along with growth in demand in many importing countries has led to higher prices (Egypt, Brazil, India, Algeria, Jordan and Morocco are buying up more and more wheat on the world market). The Ukrainian government in June placed a temporary ban and on November 1 set quotas on wheat exports. The world consumption of corn is growing rapidly as corn is being increasingly used

in the production of bio-fuel (ethanol). The lowering of the wheat harvest forecasts and the restrictions imposed on exports by some countries amid the lowest level of wheat stocks in 30 years and the expansion of world demand for grains in the consumer sector as well as industrial production create preconditions for further growth in prices.

Russia's wheat exports to the world market are growing: in January-August 2007 they increased 21.2% as compared with the same period in 2006 while contract export prices rose 64.8%. At the same time, wheat imports fell by 60% as the contract price surged 37.7%. Wheat export volumes exceeded import volumes by 14.4 times in that period (4.8 times in January-August 2006).

According to the weekly *Oil World*, prices of animal and vegetable fats have been rising fast on the world market this year. In the United States, for example, the price of edible animal fats increased 84% in July 2007 year on year, while the price of refined sunflower oil in Europe soared to a seven-year high. The price of animal oil grew as its consumption increased in some major importing countries amid the reduction of its world stocks. The price of sunflower oil rose on the world market due to a dramatic fall in output in all producer countries in the Northern Hemisphere and the reduction of the sunflower oil seed processing in the European Union (EU), Ukraine, Russia and Turkey, the world's top five sunflower oil producers. In addition, the rapidly expanding bio-fuel market increasingly affects the balance between the resources and demand for edible animal and vegetable oils.

Growth in dairy product prices on the world market is due to the rise in demand in some developing countries of Asia, North Africa and the Middle East and such major consumers as the EU and the United States. According to the Organisation for Economic Co-operation and Development (OECD), the world market prices of milk powder and other dairy products will remain high in 2007-2008 and in the period until 2016 and they will be determined by the world economic situation, especially the rates of economic growth

<sup>8</sup> Average prices of raw and refined sugar are based on data published daily by the London Commodity Exchange. Average monthly prices of grains are based on data reported by the World Bank, beef, pork and poultry by the International Monetary Fund and sunflower oil by the Russian Market Research Institute's Bulletin of Foreign Business Information.

in the countries of Asia, Africa and South America, rather than short-term factors such as bad weather, exchange rate fluctuations or production problems.

The price of sunflower seeds exported from EU countries increased by 2.1 times in September 2007 year on year and the price of European sunflower oil rose by 1.9 times. Compared with the third quarter of 2006, in the third quarter of this year they grew 40% and 36%, respectively. In January-September 2007, the price of sunflower oil on this market gained 39% as compared with the same period last year.

Contract import prices of milk and butter rose significantly in January-August 2007. Compared with December 2006, they gained 68.5% and 88.1%, respectively (in August 2006 they fell 14.2% and 1.9%, respectively). In January-August 2007, contract prices of milk and butter increased, respectively, by 38.1% and 21.7% on average, as compared with the same period in 2006, while milk and butter imports contracted 32.0% and 21.1%, respectively.

The slight rise in beef and pork prices in January-September 2007 shows that this market has somewhat stabilised. According to foreign experts' estimates, the world production of beef will increase 1.2% in the 2007/2008 agricultural year<sup>9</sup> and pork 2.7% (in the same period last year these prices rose 0.8% and 3.2%, respectively).

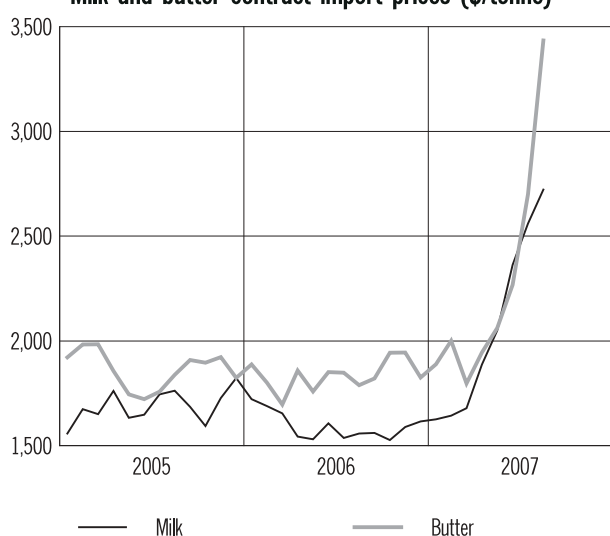
Growth in poultry prices was due to the expansion of world demand, especially in Asian countries (China is becoming the world's leading importer of poultry). Many countries of Africa and the Middle East are restoring poultry imports to former levels, while some are increasing them. It should be noted that after the fall in poultry prices in 2005-2006, which was largely caused by the bird flue epidemic that hit more than 40 hitherto virus-free countries of Europe, the Middle East and Africa, in the third quarter of this year poultry prices had just recovered to the 2004 Q3 level. Consequently, their further growth is very likely.

The price of refined sugar continued to fall on the world market in the third quarter of the year, whereas raw sugar prices remained stable. In the nine months of this year, the price of raw sugar dropped 41% and refined sugar 34% as compared with the same period last year.

Despite growth in some import food prices, import prices in January-September 2007 increased more slowly than export prices. This shows that the terms of trade between Russia and other countries<sup>10</sup> were better than in the same period of 2006.

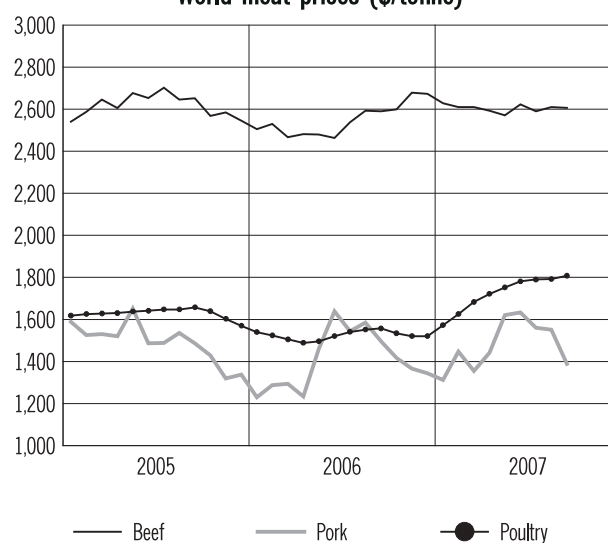
Russia's trade surplus contracted in January-September 2007 as compared with the same period last year due to the slight increase in exports and the acceleration of growth in imports. It shrank by an estimated 15.9% to \$93.5 billion,

**Milk and butter contract import prices (\$/tonne)**



Source: Rosstat.

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



Source: International Monetary Fund.

<sup>9</sup> From July 1 to June 30 of the next calendar year.

<sup>10</sup> The ratio between export and import price indices.

whereas in January-September 2006 it grew 27.7% to \$111.2 billion).

### Foreign trade in some countries<sup>11</sup>

The EU<sup>12</sup> trade deficit contracted by 20.1 billion euros in January-August 2007 compared with the same period last year as the value of mineral fuel and fuel and lubricants imports decreased by 11.1% amid growth in exports of machinery and equipment. EU imports from Russia declined by 5% in value, mainly as a result of the reduction in mineral fuel imports. The US trade deficit contracted by \$27.6 billion, largely because of the reduction in the value of imports of primary commodities and materials. There was a fall in the value of Russian exports to the United States of ferrous metals and ferrous metal products, aluminium, oil and petroleum products. China's trade surplus expanded by \$67.3 billion, or 1.7 times, due to export growth. At the same time, growth in Russian exports to China slowed down in value and the balance of China's trade with Russia became favourable for the first time in the period under review.

### Demand

#### Domestic demand

Russia's GDP increased 7.9% in the first half of this year (in January-June 2006 it grew 6.0%). Economic growth was due to rapid growth in demand.

The expansion of domestic demand, caused by growth in incomes in various sectors of the economy, and the ruble's appreciation in real

terms stimulated dynamic growth in imports of both investment and consumer goods. Moreover, according to Bank of Russia estimates, imports of investment goods necessary for economic development grew a little faster than consumer goods imports. Growth in consumer goods imports was largely due to the increased imports of cars, household gadgets and appliances and other non-food products.

In January-September 2007, imports of goods from Asia-Pacific Economic Cooperation (APEC) member countries, especially China, Japan and the United States, increased faster than imports in general. Growth in imports from EU countries, including the eurozone, and CIS was slower than growth in overall imports.

The share of imported products in the commodity structure of retail trade expanded from 44% in the second quarter of 2006 to 45% in the second quarter of this year, while the share of imports in food stocks increased from 33% to 36%.

In January-September 2007, as a year earlier, imports of goods grew mainly due to the expansion of import volumes, which increased significantly compared with January-September 2006, whereas growth in import prices accelerated slightly. At the same time, growth in some import prices creates conditions for price growth on the domestic market. The value of imports increased significantly as growth in engineering imports, especially cars, and foodstuffs accelerated compared with January-September 2006.

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

	2005					2006					2007	
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year	Q1	Q2
GDP	5.0	5.6	6.5	8.0	6.4	5.0	7.0	6.8	7.8	6.7	7.9	7.8
Final consumption	6.7	10.3	10.7	10.9	9.7	7.9	9.1	9.6	10.2	9.3	9.7	10.0
Of which:												
- households	9.5	14.0	13.7	13.6	12.8	9.6	10.7	11.6	12.6	11.2	11.9	12.2
Gross capital formation	16.3	0.4	6.6	8.3	7.2	4.0	16.9	10.4	19.7	13.4	34.2	24.5
Net exports	-9.9	-8.6	-24.0	-11.1	-12.8	-5.9	-14.3	-22.2	-24.3	-15.8	-21.9	-25.1
- exports	3.5	5.7	5.1	10.6	6.4	9.0	6.4	6.1	7.4	7.2	3.4	5.2
- imports	14.7	14.5	17.8	19.6	17.0	22.9	21.7	19.1	23.2	21.7	25.5	25.8

Source: Rosstat.

<sup>11</sup> Based on data compiled by the US Department of Commerce Bureau of Census, Eurostat, China's Ministry of Commerce and national statistical offices of other countries.

<sup>12</sup> Twenty-seven member countries, including Bulgaria and Romania. Excluding mutual trade between EU member countries.

Growth in expenses on household sector final consumption stood at 12.1% in January-June 2007 (10.2% in January-June 2006). Consumer spending continued to increase rapidly in January-September 2007, stimulating growth in retail sales. Retail trade turnover accelerated to 14.8% (from 13.3% in January-September 2006), whereas growth in the value of paid services provided to the public slowed down a little (to 7.3% from 7.7%).

Government expenditures on final consumption increased 4.5% in January-June 2007 (in the same period last year they grew 4.6%). It has been estimated that in January-September 2007 non-interest federal budget expenditures relative to GDP were higher than in the same period last year, which represents an inflation risk factor. At the same time, the absorption of additional oil revenues into the Russian Government's Stabilisation Fund contained consumer price growth.

Gross capital formation increased 28.5% in the first half of this year (in January-June 2006 it grew 11.2%). There was a marked rise in investment activity in January-September 2007. Fixed capital investment increased 21.2% (as against 11.8% in the same period of 2006). Most of the funds went to the mining sector, transport and communications.

Investments in machinery, equipment and transport vehicles accounted for more than a third of total investment. A fifth was used to import equipment. Considerable sums invested in machinery and equipment facilitated the technical retooling of production, stimulated growth in labour productivity and created conditions for controlling price growth.

Fixed capital investments were largely financed by raised funds (55.5%) in January-June 2007, of which 16.4% were budget funds. Bank loans accounted for 9.8% as against 9.3% in January-June 2006.

As imports of goods and services grew considerably faster than exports in January-June 2007, net exports declined by 23.4%.

### **Foreign demand<sup>13</sup>**

According to estimates based on first-half reports and forecasts by the IMF, the Commission of the European Communities and Reuters agency, the economic situation in the countries that are Russia's leading trading partners was good in January-September 2007. GDP growth rates in the countries that are major importers of goods from Russia remained high and mostly unchanged from January-September 2006. According to estimates, GDP growth was higher than in January-September 2006 in Ukraine, Poland, Italy, Britain, China, Finland and some other countries in this group. Preliminary data show that China's GDP grew 11.5% in January-September 2007 as compared with the same period last year, when it increased 11.2%. US GDP growth slowed to 2% from 3% a year earlier amid a sharp fall in investments in housing construction.

Growth in the value of Russian exports of goods in January-September 2007, as compared with the same period in 2006, was chiefly due to the increase in the value of non-energy exports. The increase in non-energy export prices and the resumption of growth in the price of oil were accompanied by the expansion of export volumes of oil and most other products, whereas export volumes of natural gas and ferrous metals contracted. Compared with the first nine months of 2006, exports of goods increased 10.4% to \$247.0 billion (calculated according to the balance of payments methodology). Export volumes grew more slowly than export prices. Exports to APEC and CIS countries, especially members of the Eurasian Economic Community (EurAsEC), increased considerably faster than exports in general<sup>14</sup> in January-September 2007. Exports grew particularly in value to the APEC countries, South Korea and Japan, whereas the value of exports to China and the United States decreased. Exports of goods to the EU countries, including the eurozone countries, increased slightly. However, exports increased the most in value to Sweden and Spain and declined the most to Germany and Italy.

<sup>13</sup> Based on data compiled by the US Department of Commerce Bureau of Economic Analysis, Eurostat, China's National Statistics Bureau and national statistical offices of other countries.

<sup>14</sup> Source: Federal Customs Service.

## Supply

Production in the major types of activity increased 8.6% in January-September 2007 as against 5.7% in the same period last year. The output of construction products and retail trade grew at the most rapid rates.

Industrial output grew 6.6% in January-September 2007 as against 4.2% in the same period of 2006. The manufacturing sector has expanded its share in the gross value added structure this year. Growth in output in this sector accelerated from 4.4% in January-September 2006 to 10% in January-September 2007. The most rapid rates of growth were registered in the production of rubber goods and plastics (21.9%), machinery and equipment (20.9%), transport vehicles (15.7%) and non-metal mineral products (13.9%). There was a rise in the output of products that go to the consumer goods market: food production increased 6.3% and the production of leather and footwear 4%. However, producer prices in these types of activity in January-September 2007 were higher than in the same period last year and put pressure on overall consumer price dynamics.

The expansion of supply had a favourable effect on price dynamics in the economy. Agricultural output increased 2.2% in January-September 2007, as compared with the same period last year (in January-September 2006 it grew 1.6%). There was a rise in the output of major livestock products, including cattle and poultry (a rise of 10.1%). As a result, the output of meat and meat products increased 9% in January-September 2007, as compared with the same period last year (this includes the output of meat and top-quality meat products, which grew 17%). At the same time, the output of dairy products remained unchanged from January-September 2006, while the output of some dairy products fell, adversely impacting dairy price dynamics on the consumer goods market.

By the middle of October 2007 farmers had thrashed 3.4% more grain and 35.2% more corn than in 2006. However, sunflower and sugar beet production declined by 14.1% and 4.5%, respectively. This may have a negative effect on the production of vegetable oil and granulated sugar and, consequently, adversely impact their price dynamics in the future.

Estimates show that the utilisation of production capacity at key industrial enterprises in the first half of the year stood at 61%. In the second quarter the highest utilisation ratio was registered in the production of coke and petroleum products (82%) and fuel and energy (80%). The lowest utilisation ratio was registered at enterprises producing machinery and equipment (52%) and textile and clothing enterprises (48%).

## Labour market

Growth in the number of people employed in the economy has accelerated this year. In January-September 2007, the number of jobholders rose by an estimated 2.2% as against 0.8% in the same period last year. Output growth has accelerated. As a result, in the nine months of this year labour productivity increased by an estimated 5.1% as against 5.5% in the same period last year. Consequently, the intensive factors of growth have retained their significance, containing price growth in the economy.

According to estimates, in January-September 2007, as in the previous year, labour productivity in the production of goods grew faster than in the services. Growth in the services sector slightly exceeded growth in the production sector. At the same time, the number of jobs in the services sector increased year on year and decreased in the production sector.

Real wage grew faster (by 116.2%) than labour productivity in January-September 2007. The gap between them became wider than in the same period last year, creating preconditions for further growth in prices.

Wages continue to differ widely by type of activity this year. The highest average monthly wage was registered in the financial business (33,691 rubles) and fuel and energy production (26,472 rubles). It exceeded the national average by 2.7 times and 2.1 times, respectively. The average monthly wage was the lowest in agriculture, hunting and forestry (5,596 rubles), textile and clothing production (6,021 rubles) and the production of leather, leather goods and footwear (6,680 rubles). It accounted for, respectively, 44%, 47% and 53% of the national average wage. Wages were below average in budget-financed sectors such as education, utility and other

public services, including healthcare. However, wages increased rapidly in these sectors (by 24-28%).

In the income structure of GDP the share of wages and salaries expanded from 46.0% to 49.8% in the first half of 2007 as compared with the same period last year.

The number of unemployed, calculated using the ILO methodology, fell by an estimated 12.8% in January-September 2007 (it was down 3.4% in the same period last year). The total number of jobless accounted for 6.3% of the economically active population (as against 7.3% in January-September 2006).

## Monetary Conditions

### Exchange rate

The supply-demand situation on the domestic foreign exchange market in the third quarter was affected by the net outflow of capital from the private sector of the Russian economy, registered for the first time since the first quarter of 2006 and caused by instability on international financial markets created by the subprime mortgage crisis in the United States. The weakening of the nominal effective rate of the ruble slowed down significantly. The Bank of Russia remained the net buyer of foreign exchange as it conducted operations on the forex market to prevent sharp exchange rate fluctuations, but growth in international reserves has slowed down.

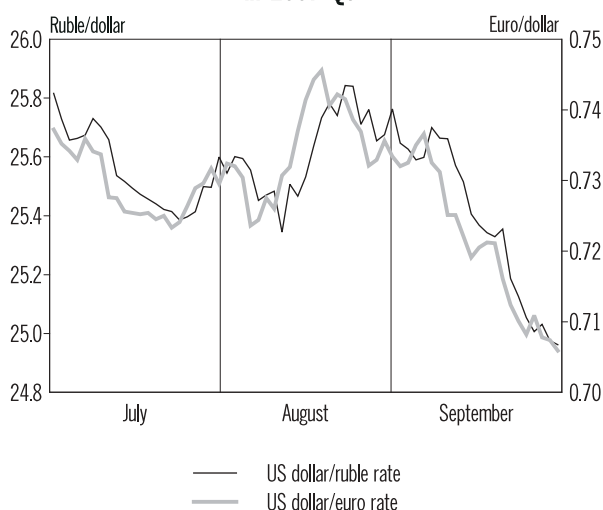
The dollar's fall against the euro on the international currency market brought about the change in the ruble's rate against the dollar and the euro. The exchange rate dynamics in the period under review were affected by the increased likelihood of an interest rate cut in the United States due to the negative effect of the subprime mortgage crisis on the financial sector of the US economy and the risk of adverse macroeconomic consequences of this crisis. The rate of the ruble's appreciation against the dollar and its depreciation against the euro depended on the use by the Bank of Russia of the bi-currency basket as an

operational benchmark of its exchange rate policy. The composition of this basket, whose value is expressed in rubles, has not changed since the second quarter (it is made up of 0.55 dollars and 0.45 euros).

**The nominal ruble/US dollar rate** gained 1.4% in the third quarter as compared with the second (in the second quarter it rose 1.7%). The ruble's appreciation against the dollar slowed due to the increased volatility of the dollar/euro rate on the international market, caused by instability of the financial market as a whole and the contradictory macroeconomic factors that affected the exchange rate (on the one hand, there was a contraction in the US budget and trade deficit, but on the other hand, the prevailing sentiment about the short-term outlook for the US economy was pessimism). In the nine months of this year (September 2007 on December 2006) the ruble appreciated 3.7% against the dollar in nominal terms and 8.1% in real terms (7.7% and 12.1% in the same period last year).

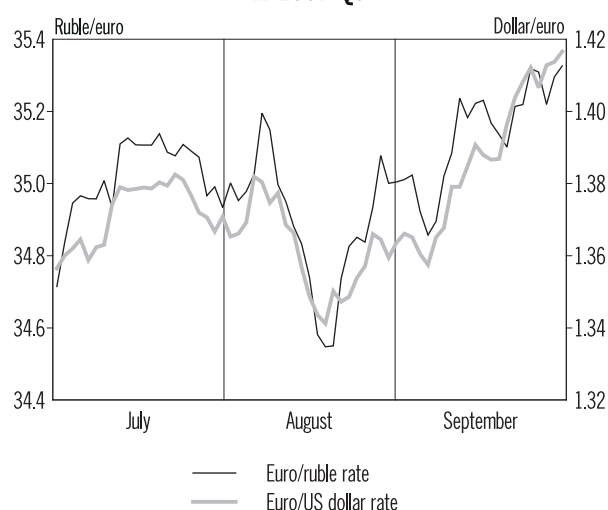
**The nominal ruble/euro rate** slipped 0.5% in the third quarter of this year as compared with the second (in the second quarter it was down 1.1%). In the nine months of this year the ruble depreciated 1.2% against the euro, whereas in real terms it gained 4.5% due to the difference be-

**Nominal US dollar/ruble and US dollar/euro rate in 2007 Q3**



Source: Bank of Russia, Reuters.

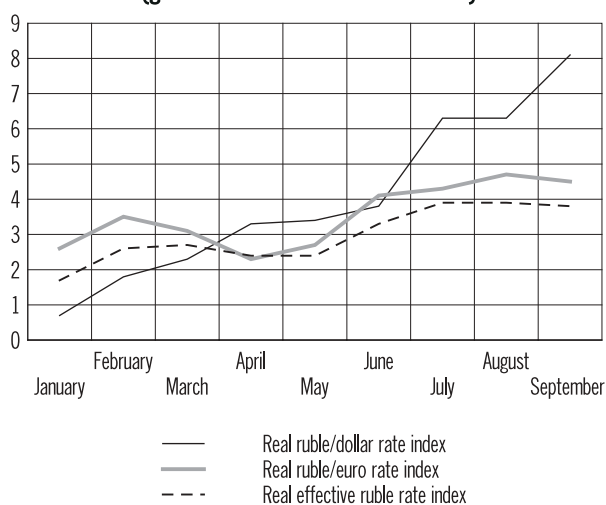
**Nominal euro/US dollar and euro/ruble rate in 2007 Q3**



Source: Bank of Russia, Reuters.



**Real ruble rate indices in 2007  
(growth as % of December 2006)**



Source: Bank of Russia.

tween the rates of inflation in Russia and eurozone countries. In the same period of 2006, the ruble appreciated 0.2% against the euro in nominal terms and 6.0% in real terms.

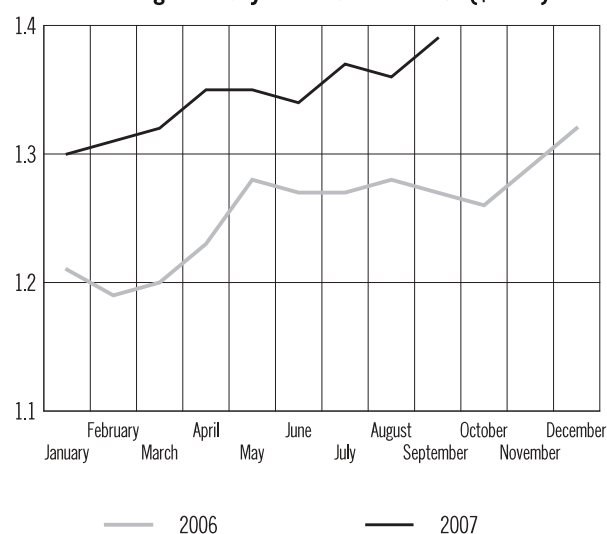
**The nominal effective rate of the ruble** against the currencies of Russia's major trading partners inched down 0.1% in the third quarter of this year as compared with the second (in the second quarter it was down 0.6%). In the nine months of this year it fell 0.5%, whereas in January-September 2006 the nominal effective rate rose 3.2%. The major factors of the decline of the nominal effective rate were the ruble's depreciation against the euro, Turkish lira, Chinese yuan, Hungarian forint, Polish zloty, Indian rupee, Brazilian real and Kazakhstan tenge and the slowing of the ruble's appreciation against the US dollar, Ukrainian hryvnia, Belarusian ruble and Japanese yen.

In the nine months of this year the **real effective rate of the ruble** gained 3.8% as against 7.9% in January-September 2006. The slowing of the rise of the ruble's real effective rate was caused not only by the reduction of the nominal effective rate, but also by the acceleration of inflation in the countries that are Russia's major trading partners, especially in the eurozone, China, Ukraine, Belarus, Poland and Kazakhstan. At the same time, the contribution Russian inflation made to the strengthening of the real effective rate of the ruble in the nine months of this year was comparable with the contribution it made during the entire year of 2006.

Russia's international reserves increased by \$19.5 billion, or 5%, in the third quarter of this year (in the third quarter of 2006 they grew by \$15.6 billion). In July they increased by \$10.3 billion, or 2.5%, whereas in August they decreased by \$127 million, or 0.03%. In September international reserves grew by \$9.3 billion, or 2.2% and as of October 1, 2007, they totalled \$425.4 billion, an increase of \$121.6 billion, or 40%, since the beginning of the year. In the same period of 2006, Russia's international reserves increased by \$84 billion, or 46%.

**On the international currency market** the dollar depreciated 5% against the euro, 4% against the yuan and 1.8% against the yen in the nine months of 2007 (September 2007 on December 2006). The dollar's depreciation against the euro was due to the narrowing of the difference between US and eurozone interest rates. China continued gradually to strengthen the yuan against the dollar as part of its managed floating exchange rate policy. In May 2007, it broadened the permissible range of intraday yuan/US dollar fluctuations from +/-0.3% to +/-0.5%. As regards the currencies of importance for the Russian economy, the US dollar depreciated against the Turkish lira, Indian rupee and Hungarian forint (in January-September 2006 the dollar appreciated against these currencies). The dollar also depreciated against the currencies of most of the other trading partners, but at a slower pace than in January-September 2006 (except for the dollar's depreciation against the Brazilian real and Polish zloty). The Ukrainian hryvnia and Belarusian ruble remained unchanged against the dollar.

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



Source: Reuters.

## Interest rates

In the third quarter of this year, the Bank of Russia continued to **narrow the interest rate band** for its operations. On August 14, it raised the standard 'tom-next' and 'call' deposit rate, which sets the lower limit of the band, from 2.5% to 2.75% p.a.

Throughout the third quarter of this year the Bank of Russia repeatedly raised the cut-off rates at the deposit auctions. At the 4-week deposit auctions it raised the average weighted interest rate from 3.20% to 4.16% p.a. (in the second quarter it ranged from 3.22% to 4.74% p.a.) and at the 3-month deposit auctions (in July and the first 10 days of August) from 3.79% to 4.13% p.a. (in the second quarter they ranged from 4.03% to 5.02% p.a.). The average weighted yield at the Bank of Russia bond (OBR) auctions was 4.14-5.09% p.a. (in the second quarter it was 4.20-5.17% p.a.).

At the overnight repo auctions the average weighted interest rate stood at 6.04-6.5% p.a. in the second part of August and September and at the 7-day auctions it was 6.99% p.a. As in the second quarter, the average weighted Lombard credit auction interest rate in July-September 2007 stood at 7.00% p.a.

There was no single interest rate trend on the Russian financial market in the third quarter of the year. Credit institutions cut interest rates on retail operations, while interest rates on operations conducted with non-financial enterprises for

different terms changed both ways. Interbank credit market interest rates and yields on government securities increased.

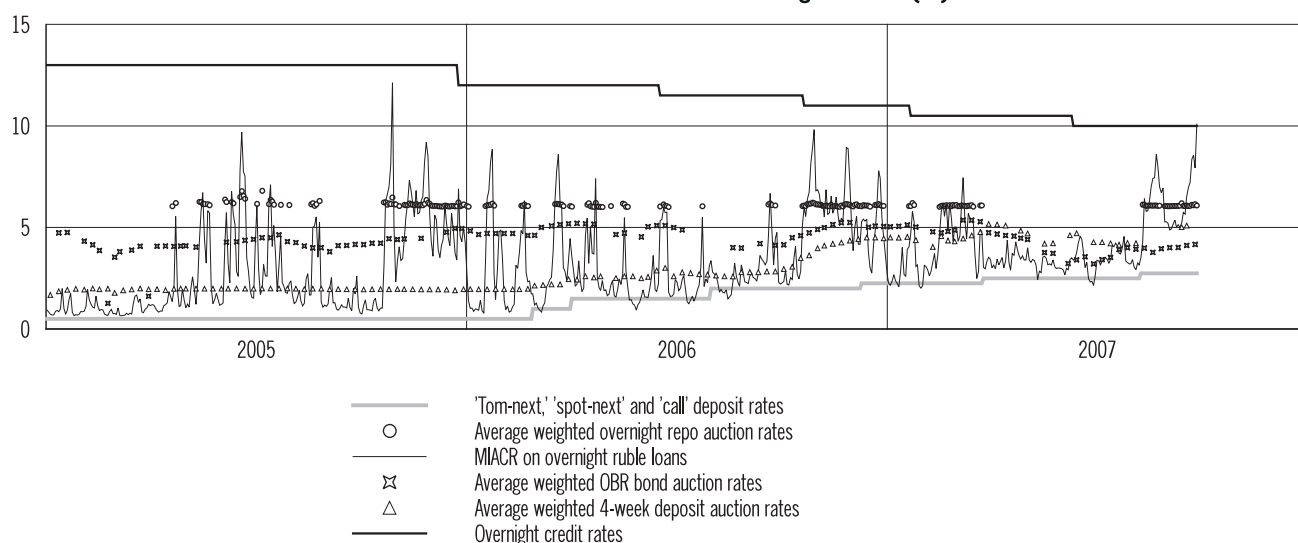
Bank interest rates on overnight ruble loans changed within the Bank of Russia interest rate band and only in the period from July 2 to 5 they were lower by 2-35 basis points than the 'tom-next' ruble deposit rates and on September 28 they were higher by 9 basis points than the overnight credit rate. The range of fluctuations of the MIACR on overnight ruble loans widened significantly in the third quarter (2.15-10.09% p.a.) as compared with the second (2.43-4.56% p.a.). The average MIACR on overnight ruble loans rose to 4.94% p.a. in the third quarter as against 3.34% p.a. in the second.

The average interest rate on short-term loans to non-financial enterprises rose by 0.2 percentage points to 9.8% p.a., whereas the average interest rate on long-term loans fell by half a percentage point to 11.0% p.a.

The yield curve for loans to non-financial enterprises continued to rise in the up-to-one-year section and started to descend in the sections showing the longer-term loans. The yield curve for loans with terms of up to six months moved up, whereas the yield curve for loans with terms longer than six months moved down. The inclination of the yield curve decreased.

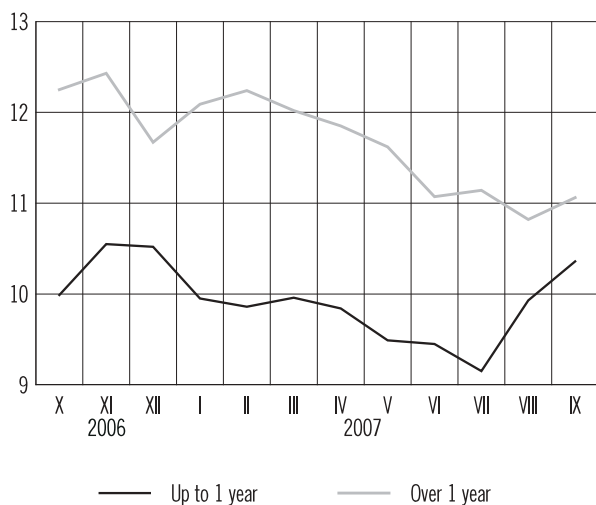
The average interest rate on household loans with terms of up to one year slipped by 0.1 percentage points in the third quarter as compared

Bank of Russia interest rates and overnight MIACR (%)



Source: Bank of Russia.

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



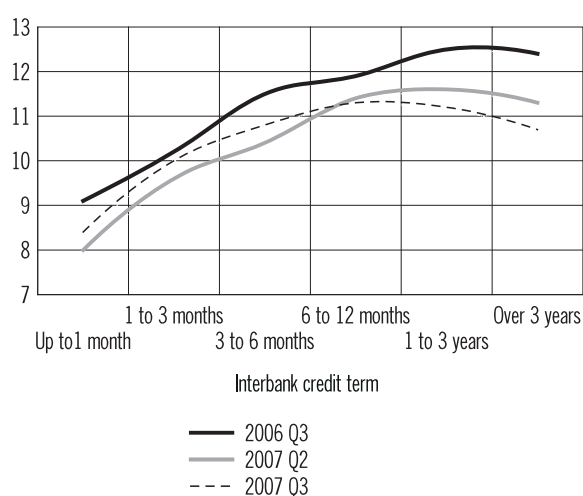
Source: Bank of Russia.

with the second and stood at 18.4% p.a. and the average interest rate on household loans with terms longer than one year fell by half a percentage point to 14.8% p.a.

The average interest rate on household deposits with maturities of up to one year was down by 0.3 percentage points to 7.0% p.a. and the average interest rate on household deposits with maturities of one year to three years declined by 0.4 percentage points to 8.5% p.a.

On the OFZ market, as trade turnover on the secondary market more than doubled quarter on quarter, yields tended to rise for most of the period under review and only in the last ten days of

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



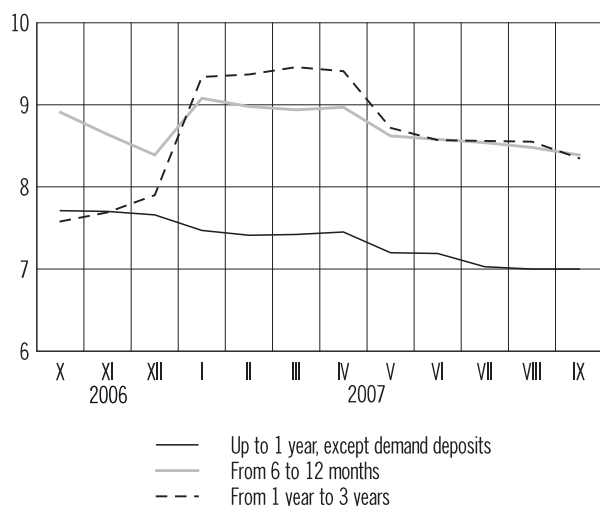
Source: Bank of Russia.

September the opposite trend began. As of the end of the third quarter the effective OFZ market portfolio indicator climbed by 8 basis points compared with the end of the previous quarter and stood at 6.60% p.a. The average quarterly effective market portfolio indicator gained 4 basis points and reached 6.59% p.a.

The OFZ yield curve continued to rise in the third quarter but its inclination decreased, reflecting growth in the yield on government bonds with maturities of up to three years.

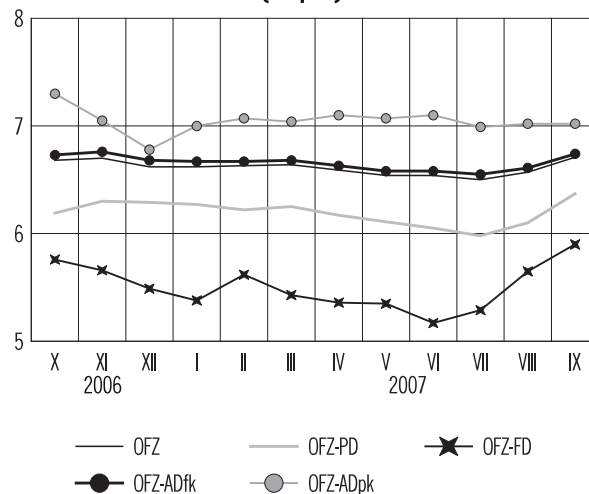
The term structure of interest rates by instrument remained fairly balanced in the period under review. As yield curves for the long-term

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

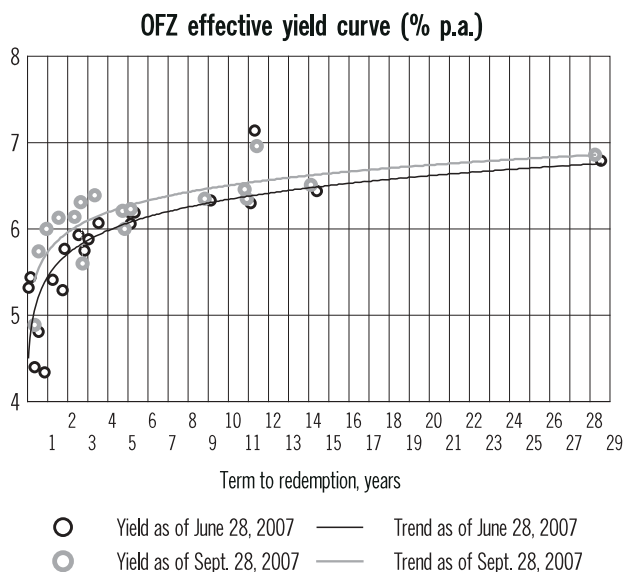


Source: Bank of Russia.

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



Source: Bank of Russia.

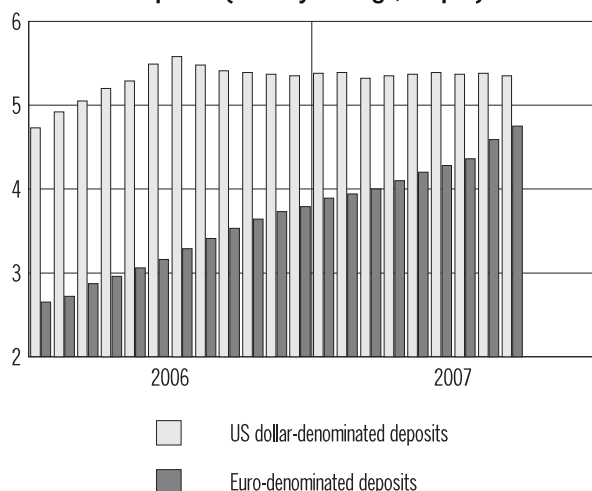


Source: Bank of Russia.

instruments became almost flat or started to sink in the third quarter, it became clear that Russian financial market participants were awaiting a slight fall in interest rates on short- and medium-term ruble-denominated instruments.

**The US Federal Reserve** cut the benchmark federal funds rate from 5.25% to 4.75% p.a. in September and to 4.5% p.a. in October. The European Central Bank (ECB) in March raised its refinancing rate from 3.5% to 3.75% p.a. and in June to 4% p.a. In the nine months of this year (September 2007 on December 2006) the LIBOR on euro-denominated deposits with terms from one month to one year rose by 0.8-1.1 percentage points amid the slight change in the rates on similar deposits denominated in US dollars<sup>15</sup>. The yield on US

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



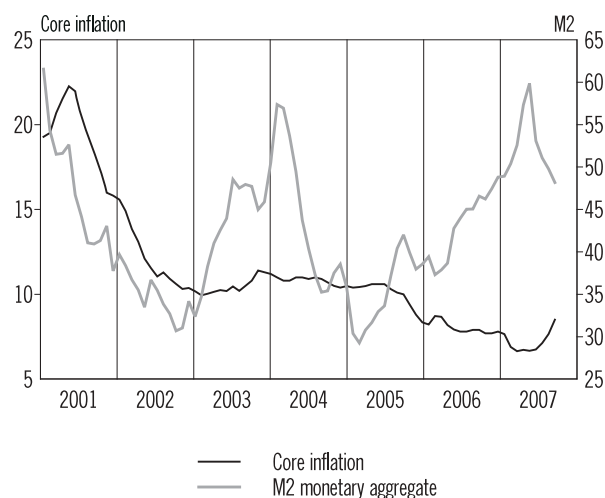
Source: Reuters.

government securities with terms to redemption of two to three years fell by 0.5-0.7% in September, as compared with December 2006, and at the end of the month it was below the yield on similar eurozone financial assets for the first time since the middle of 2004. The LIBOR on the dollar-denominated deposits with all maturities and the yield on US treasuries with maturities longer than three years in September were higher than the LIBOR on the euro-denominated deposits and the yield on similar eurozone government securities. However, the spreads narrowed significantly as compared with December 2006 (mainly due to the rise in yields on the euro-denominated assets).

## Money

**The monetary aggregate M2** increased 5.9% in the third quarter of this year and due to the recurrent seasonal factor its growth was smaller than in the previous quarter (15.4%). The annualised growth of M2 (against the same date of the previous year) slowed from 53.1% as of July 1, 2007, to 48.3% as of October 1, 2007. Nevertheless, M2 growth exceeded the forecast of the 2007 money demand made in Guidelines for the Single State Monetary Policy in 2008 (37-39%) and its updated version (40-44%) based on faster economic growth. The rapid fall in the velocity of money mitigated the inflationary aftermath of growth in the money supply. In the third quarter of this year, the velocity of money, calculated on the basis of the M2 monetary aggregate, decreased by 5.3% (in the same period of 2006 it

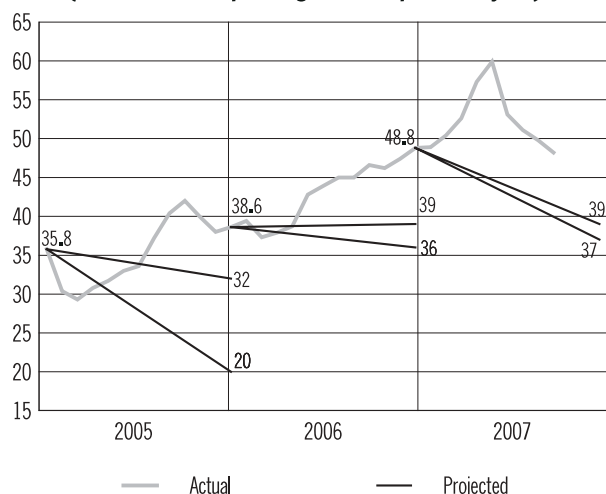
**Core inflation and M2 (as % of corresponding date of previous year)**



Source: Bank of Russia, Rosstat.

<sup>15</sup> Based on data provided by the Reuters agency.

**Projected and actual M2 growth rates  
(as % of corresponding date of previous year)**



Source: Bank of Russia.

decreased by 3.7%). In the first nine months of this year it was down 17.0% (it was down 9.6% in the same period of 2006) and calculated on an annualised basis, it decreased by 20.6% (12.5% as of October 1, 2006).

**The aggregate 'Money' in the monetary survey definition**, which includes the most liquid transactional components of the money supply, reflects the economic situation and liquidity preferences. In the third quarter of this year these funds increased 6.2% as against 8.4% in the same period last year due to the expansion of the cash component of this aggregate and its non-cash component, such as household and non-financial

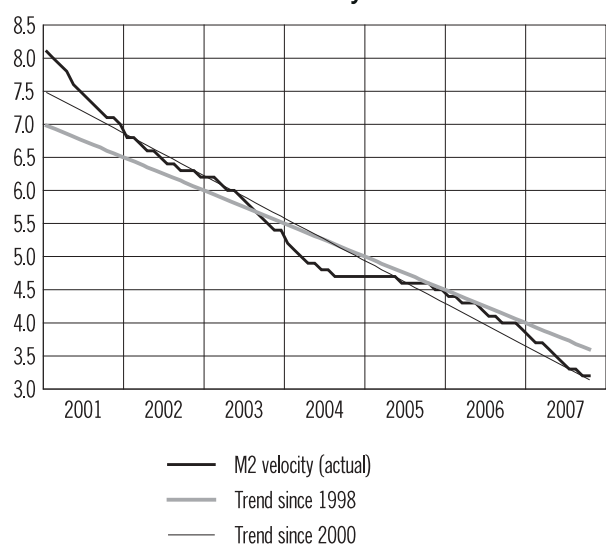
enterprise sector demand deposits. On an annualised basis, growth in the aggregate 'Money' slowed from 49.1% as of July 1, 2007, to 46.0% as of October 1, 2007.

**Demand deposits** increased 6.0% in the third quarter of this year as against 9.5% in the same period of 2006 and their annualised growth slowed from 62.3% to 57.2%. The non-cash component of the 'Money' aggregate was mostly made up of non-financial enterprise funds and its expansion reflects, above all, the economic agents' rising demand for money to conduct transactions. Growth in non-financial enterprise sector demand deposits slowed on an annualised basis from 65.8% to 59.2% in the third quarter of this year, whereas the annualised growth of household demand deposits remained almost unchanged and stood at 49.4% as of October 1, 2007. Non-financial enterprises accounted for 80.4% of total demand deposits as of October 1, 2007.

**Cash outside the banks (M0 aggregate)** grew 6.4% in the third quarter of this year as against 7.5% in the same period last year. Annualised **M0 growth** slowed from 35.6% to 34.2%. The share of cash in the structure of the aggregate 'Money' remained unchanged in the period under review and stood at 45.4% as of October 1, 2007.

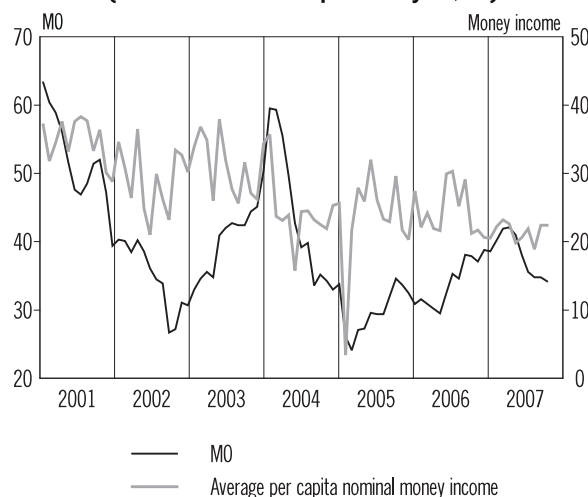
The slowing of the demand for cash in the third quarter of the year was accompanied by the reduction of household demand for foreign ex-

**M2 Velocity**



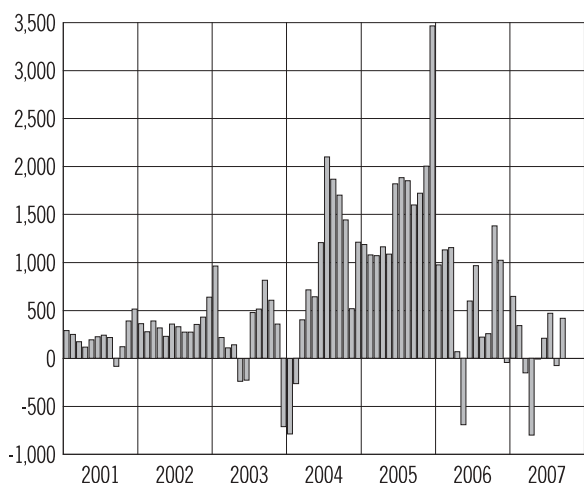
Source: Bank of Russia.

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



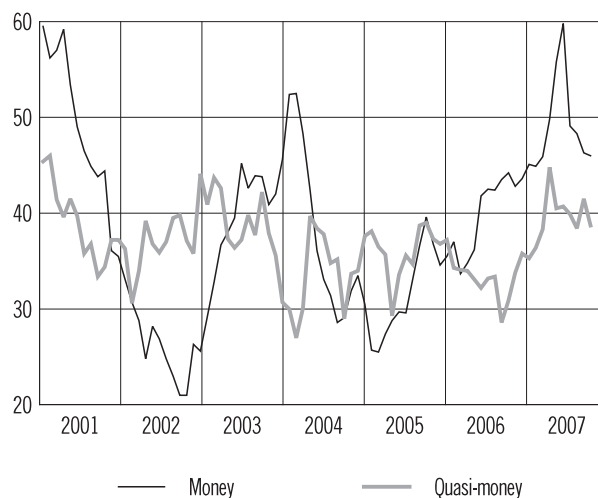
Source: Bank of Russia, Rosstat.

**Net sales of foreign exchange to households through exchange offices (million US dollars)**



Source: Bank of Russia.

**Money and Quasi-money (as % of corresponding date of previous year)**



Source: Bank of Russia.

change. Net sales of foreign exchange to households through the exchange offices of the authorised banks in July-September 2007 totalled about \$800 million as against \$1.4 billion in the same period last year. Balance of payments data show that in the third quarter of this year foreign exchange decreased by \$4.7 billion and in January-September by \$11.6 billion (\$8.4 billion in January-September 2006).

**The aggregate 'Quasi-money'** comprises less liquid components of the money supply used by economic agents as savings. In the third quarter of this year this aggregate increased 4.7% (5.6% in the same period last year) and on an

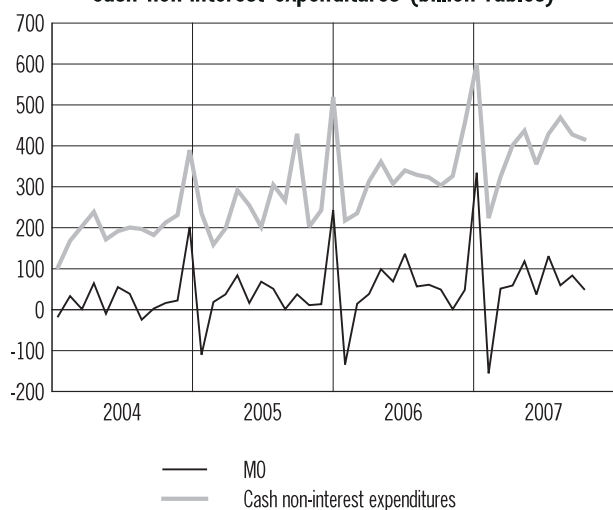
annualised basis its growth slowed from 39.9% as of July 1, 2007, to 38.7% as of October 1, 2007 (30.9% as of October 1, 2006). Growth in 'Quasi-money' in the third quarter of this year was due to the expansion of the ruble component and the increase in foreign currency-denominated deposits. Time deposits denominated in rubles increased 5.3% in the third quarter of this year (as against 10.9% in the same period of 2006) and their annualised growth slowed from 60.1% to 52.1%. Foreign currency deposits grew 6.0% in dollar terms over that period (in the third quarter of 2006 they decreased 4.5%). The share of ruble-denominated time deposits in 'Quasi-money' in the third quarter expanded by half a percentage point to 78.5%.

Annualised growth in household time deposits slowed from 48.4% to 46.3% in the third quarter, whereas their share in total ruble-denominated time deposits expanded by 1.9 percentage points to 75.6% as of October 1, 2007. Growth in non-financial enterprise sector time deposits slowed down significantly: from 105.8% as of July 1, 2007, to 73.5% as of October 1, 2007.

The slowing of the annualised rate of M2 growth was largely due to the non-financial enterprises sector deposit dynamics. It was also the result of the slowing of the annualised growth in cash and household time deposits.

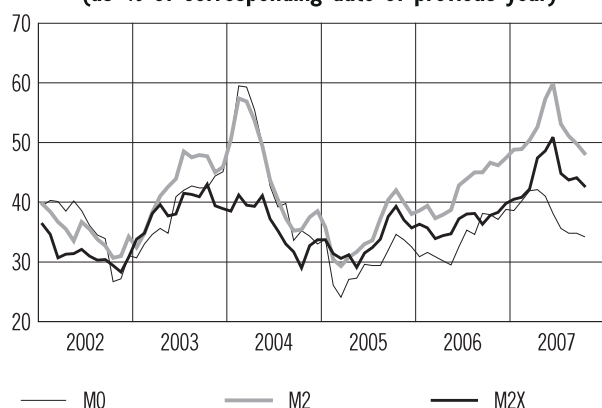
**Growth in the money supply, including foreign currency deposits (M2X aggregate)** stood at 5.5% in the third quarter of this year (it

**Monthly growth in cash in circulation and federal budget cash non-interest expenditures (billion rubles)**



Source: Bank of Russia, Federal Treasury.

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



Definitions of aggregates:

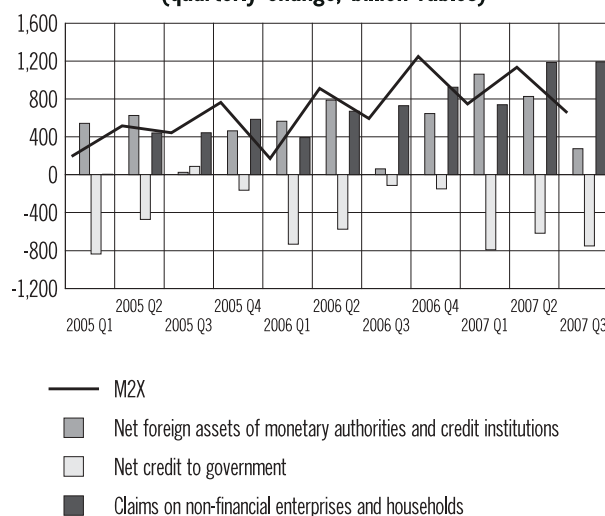
M0 - cash in circulation (outside banks);

M2=M0+ruble accounts of resident non-financial enterprises and households;

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

Source: Bank of Russia.

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



Source: Bank of Russia.

was 7.1% in the same period of 2006). In the third quarter of this year the annualised rate of growth in the monetary aggregate M2 was higher than the rate of growth in the monetary aggregate M2X due to the fall in demand for foreign exchange: as of October 1, 2007, M2X annualised growth stood at 42.7% as against 37.8% as of the same date a year earlier.

**The dollarisation ratio** (the share of the foreign currency component in the money supply in its monetary survey definition) decreased by 0.2 percentage points in the third quarter of this year and as of October 1, 2007, it stood at 9.6% (in the same period last year it fell by 1.7 percentage points and in 2006 as whole by 4.9 percentage points). At the same time, the ruble-denominated time deposits accounted for the largest share in M2X (34.7% as of October 1, 2007, as against 32.5% as of October 1, 2006).

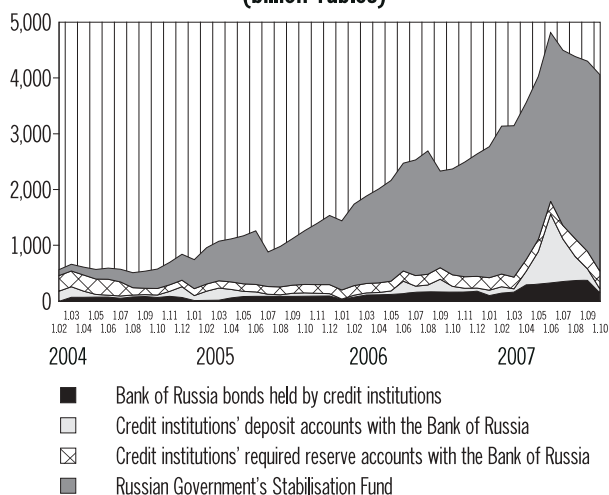
The principal source of growth in the money supply that comprises foreign currency deposits in third quarter of this year was **banking sector domestic claims**, which increased by 428.9 billion rubles as against 688.0 billion rubles in the same period last year. The dynamics of banking sector domestic claims were primarily the result of the increase by 1,191.4 billion rubles in bank claims on the non-financial enterprise sector and the reduction by 670.0 billion rubles in the monetary authorities' net claims on the government. The monetary authorities' net foreign assets in-

creased by 159.6 billion rubles in the third quarter of the year and banking sector net foreign assets grew by 115.6 billion rubles. As a result, **banking sector net foreign assets** increased by 275.1 billion rubles as against 60.7 billion rubles in the third quarter of 2006. Consequently, banking sector claims on non-financial enterprises and households were the main factor of money supply growth in the third quarter of this year.

In January-September 2007, growth in banking sector claims on non-financial enterprises and households (3,116.4 billion rubles as against 1,791.6 billion rubles in the same period last year) exceeded the expansion of net foreign assets of the monetary authorities (2,630.4 billion rubles as against 1,872.6 billion rubles in January-September 2006). Consequently, the importance of bank claims on non-financial enterprises and households as a source of money supply growth had increased in the first nine months of this year.

The capital crunch on the world market in the third quarter of this year, which became manifest in the reduction of credit resources and the tightening of the terms of lending, the rise in interest rates and the change in investor preferences in favour of high-security assets, brought about the outflow of capital by the private sector and the expansion of Russian banking sector operations with the foreign sector. According to balance of payments data, banking sector foreign assets increased by \$18.4 billion in the third quarter of

**Banking sector liquidity absorption  
(billion rubles)\***



\* As of the 1st day of each month.  
Source: Bank of Russia, Ministry of Finance.

this year (in the third quarter of 2006 they grew by \$3.0 billion) and foreign liabilities by \$19.1 billion (as against \$11.8 billion in the third quarter of 2006). As a result, both the size and structure of the monetary base had changed significantly and the raising of the reserve requirements on July 1 and significant growth in the monetary authorities' claims on credit institutions in August (96.5 billion rubles) contributed to this change. As a consequence, the **broad monetary base** contracted by 10.7% in the third quarter of this year (in the same period last year it expanded by 6.1%). The share of banking sector funds sterilised by the Bank of Russia by taking bank funds on deposit and conducting operations with Bank of Russia bonds (OBR) in the third quarter contracted from 21.6% to 4.8% of total broad money. The share of banking sector required reserves expanded from 4.8% to 6.9%. The share of credit institutions' funds in correspondent accounts with the Bank of Russia expanded from 10.3% to 12.6% in the third quarter and the share of cash in circulation, taking into account the cash balances in credit

institutions' cash departments, increased from 63.3% to 75.6%.

**Net foreign assets of the monetary authorities**, which increased by 159.6 billion rubles, and the **monetary authorities' claims on credit institutions**, which increased by 55.4 billion rubles in absolute terms, were the principal source of growth in the broad monetary base in the third quarter of this year. The continued accumulation of funds in general government accounts, which was primarily due to the expansion of the **Stabilisation Fund**, was a major brake on money supply growth in the third quarter of the year. In the first nine months of 2007, the Stabilisation Fund grew by 49.9% to 3,519.1 billion rubles (in the same period last year it increased by 53.1%). Net credit to the government contracted by 670.0 billion rubles in the third quarter of this year.

The **money multiplier** (M2 to broad money) increased by 18.6% in the third quarter of this year and as of October 1, 2007, it stood at 2.5, the highest level in several years.

The correlation between the consumer price dynamics and M2 in January-September caused the ruble supply to grow by 18.7% **in real terms** (19.6% in the same period last year). The slowing of M2 growth in real terms has been accompanied by the improvement of the M2 structure. In the first nine months of this year, the share of cash in M2 contracted by 2.9 percentage points to 28.0% as of October 1, 2007, whereas the share of time deposits expanded by half a percentage point to 38.3% as of the same date.

The slowing of real growth in the money supply and the acceleration of the reduction of the velocity of money in January-September 2007, as compared with the same period of 2006, and the continued improvement of the M2 structure mitigate the inflationary consequences of growth in the money supply.



# Statistical Addendum

Table 1

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

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices, excluding petrol prices**	Service price growth
<b>2005</b>								
January	2.6	0.9	1.4	1.1	5.1	0.4	0.5	8.8
February	1.2	0.7	1.4	0.9	6.1	0.4	0.4	2.2
March	1.3	0.8	2.1	1.1	11.2	0.4	0.4	1.2
April	1.1	0.9	1.7	1.3	5.4	0.5	0.4	0.8
May	0.8	0.6	1.1	0.7	4.1	0.4	0.4	0.8
June	0.6	0.5	0.7	0.4	3.3	0.3	0.3	0.9
July	0.5	0.5	0.3	0.5	-1.8	0.4	0.4	0.9
August	-0.1	0.5	-1.0	0.5	-12.9	0.5	0.4	0.8
September	0.3	0.8	-0.7	0.6	-11.6	1.1	0.8	0.9
October	0.6	0.7	0.4	0.6	-2.4	0.7	0.7	0.7
November	0.7	0.6	0.9	0.6	4.5	0.6	0.6	0.6
December	0.8	0.6	1.1	0.6	5.6	0.5	0.5	0.8
Full year (December on December)	10.9	8.3	9.6	9.1	14.3	6.4	6.0	21.0
<b>2006</b>								
January	2.4	0.8	2.0	1.0	11.3	0.4	0.5	6.2
February	1.7	1.2	3.0	1.9	12.6	0.5	0.5	1.0
March	0.8	0.7	1.2	0.9	3.2	0.4	0.4	0.7
April	0.4	0.4	0.3	0.3	-0.3	0.3	0.3	0.6
May	0.5	0.4	0.5	0.2	2.6	0.4	0.4	0.6
June	0.3	0.3	0.0	0.1	-0.6	0.3	0.3	0.7
July	0.7	0.5	0.9	0.7	2.7	0.4	0.3	0.6
August	0.2	0.6	-0.5	0.7	-10.0	0.8	0.5	0.8
September	0.1	0.8	-0.6	0.6	-11.0	0.8	0.6	0.5
October	0.3	0.5	0.0	0.4	-4.1	0.6	0.7	0.4
November	0.6	0.6	0.8	0.6	2.7	0.6	0.6	0.5
December	0.8	0.7	1.1	0.8	3.6	0.5	0.5	0.7
Full year (December on December)	9.0	7.8	8.7	8.5	10.3	6.0	5.7	13.9
<b>2007</b>								
January	1.7	0.6	0.9	0.6	4.1	0.4	0.4	4.7
February	1.1	0.5	0.8	0.5	3.6	0.3	0.4	2.6
March	0.6	0.5	0.8	0.5	3.2	0.4	0.4	0.6
April	0.6	0.5	0.8	0.5	3.1	0.4	0.4	0.5
May	0.6	0.3	1.0	0.1	7.8	0.4	0.3	0.5
June	1.0	0.4	1.7	0.4	12.2	0.3	0.3	0.6
July	0.9	0.9	1.4	1.4	1.9	0.4	0.4	0.6
August	0.1	1.1	-0.6	1.6	-16.1	0.6	0.5	0.5
September	0.8	1.6	1.0	2.2	-8.8	0.8	0.8	0.4

\* Excluding vegetables and fruit.

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

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

Table 2

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

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices, excluding petrol prices**	Service price growth
<b>2005</b>								
January	2.6	0.9	1.4	1.1	5.1	0.4	0.5	8.8
February	3.9	1.7	2.8	2.0	11.5	0.7	0.9	11.2
March	5.3	2.4	4.9	3.1	24.0	1.1	1.2	12.6
April	6.5	3.3	6.7	4.4	30.8	1.6	1.6	13.5
May	7.3	4.0	7.9	5.1	36.1	2.1	2.0	14.4
June	8.0	4.4	8.6	5.5	40.6	2.4	2.4	15.4
July	8.5	5.0	8.9	6.1	38.0	2.8	2.8	16.5
August	8.3	5.5	7.8	6.6	20.2	3.4	3.2	17.4
September	8.6	6.3	7.1	7.2	6.2	4.5	4.1	18.5
October	9.2	7.1	7.5	7.8	3.6	5.2	4.8	19.3
November	10.0	7.7	8.4	8.4	8.3	5.9	5.5	20.0
December	10.9	8.3	9.6	9.1	14.3	6.4	6.0	21.0
<b>2006</b>								
January	2.4	0.8	2.0	1.0	11.3	0.4	0.5	6.2
February	4.1	2.0	5.0	2.9	25.3	0.9	0.9	7.2
March	5.0	2.8	6.2	3.9	29.3	1.3	1.3	8.0
April	5.4	3.2	6.5	4.2	28.9	1.6	1.6	8.6
May	5.9	3.6	7.0	4.4	32.3	2.0	2.0	9.3
June	6.2	3.9	7.0	4.5	31.5	2.3	2.3	10.0
July	6.9	4.5	8.0	5.2	35.0	2.7	2.7	10.7
August	7.1	5.1	7.4	6.0	21.6	3.5	3.2	11.5
September	7.2	5.9	6.7	6.6	8.2	4.3	3.8	12.0
October	7.5	6.5	6.7	7.0	3.7	5.0	4.5	12.5
November	8.2	7.1	7.5	7.6	6.5	5.5	5.2	13.0
December	9.0	7.8	8.6	8.5	10.3	6.0	5.7	13.9
<b>2007</b>								
January	1.7	0.6	0.9	0.6	4.1	0.4	0.4	4.7
February	2.8	1.1	1.8	1.1	7.8	0.7	0.8	7.4
March	3.4	1.7	2.6	1.7	11.2	1.1	1.2	8.0
April	4.0	2.2	3.3	2.1	14.7	1.5	1.7	8.6
May	4.7	2.5	4.3	2.3	23.6	1.9	2.0	9.1
June	5.7	3.0	6.1	2.7	38.6	2.2	2.3	9.8
July	6.6	3.9	7.6	4.1	41.2	2.6	2.8	10.5
August	6.7	5.0	7.0	5.8	18.5	3.2	3.3	11.1
September	7.5	6.7	8.1	8.1	8.1	4.0	4.2	11.6

\* Excluding vegetables and fruit.

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

Table 3

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

	Monthly inflation	Core inflation	Food price growth	Food price growth*	Vegetable and fruit price growth	Non-food price growth	Growth in non-food prices, excluding petrol prices**	Service price growth
<b>2005</b>								
January	12.7	10.4	12.1	12.9	3.0	7.3	6.2	23.1
February	13.0	10.4	12.4	12.6	7.6	7.2	6.2	23.8
March	13.6	10.5	13.5	12.9	16.4	7.1	6.1	24.6
April	13.8	10.6	14.5	13.2	23.4	7.0	6.0	23.1
May	13.8	10.6	15.2	13.3	29.3	6.6	5.8	22.4
June	13.7	10.6	15.1	13.4	27.5	6.3	5.7	22.4
July	13.2	10.3	14.2	12.9	23.4	6.2	5.7	21.9
August	12.5	10.1	12.9	12.5	14.7	6.1	5.7	21.6
September	12.3	10.0	12.1	12.1	11.3	6.3	5.9	22.0
October	11.7	9.4	11.0	10.9	11.6	6.3	5.9	21.4
November	11.3	8.9	10.3	9.9	14.1	6.3	6.1	21.2
December	10.9	8.3	9.6	9.1	14.3	6.4	6.1	21.0
<b>2006</b>								
January	10.7	8.2	10.2	9.1	21.1	6.5	6.0	18.1
February	11.2	8.7	11.9	10.1	28.4	6.6	6.1	16.7
March	10.6	8.7	10.9	10.0	19.2	6.7	6.1	16.1
April	9.8	8.2	9.4	9.0	12.7	6.4	6.0	15.9
May	9.4	7.9	8.7	8.5	11.1	6.4	6.0	15.6
June	9.0	7.8	8.0	8.1	7.0	6.4	6.0	15.3
July	9.3	7.8	8.7	8.3	11.9	6.3	5.9	15.0
August	9.6	7.9	9.2	8.5	15.6	6.6	6.0	15.0
September	9.5	7.9	9.3	8.5	16.4	6.2	5.8	14.5
October	9.2	7.8	8.8	8.3	14.4	6.1	5.7	14.1
November	9.0	7.8	8.7	8.3	12.4	6.0	5.7	13.9
December	9.0	7.8	8.7	8.5	10.3	6.0	5.7	13.9
<b>2007</b>								
January	8.2	7.7	7.5	8.0	3.1	6.0	5.7	12.3
February	7.6	6.9	5.3	6.6	-5.1	5.8	5.6	14.2
March	7.4	6.7	4.9	6.2	-5.2	5.8	5.6	14.0
April	7.6	6.8	5.4	6.3	-1.9	5.9	5.8	13.9
May	7.8	6.7	5.9	6.3	3.0	5.9	5.7	13.8
June	8.5	6.9	7.7	6.6	16.2	5.9	5.7	13.7
July	8.7	7.3	8.3	7.4	15.3	5.9	5.8	13.7
August	8.6	7.8	8.3	8.3	7.5	5.7	5.8	13.4
September	9.4	8.7	10.0	10.0	10.2	5.8	6.1	13.4

\* Excluding vegetables and fruit.

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

Table 4

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
<b>2005</b>							
January	0.4	0.1	1.8	0.2	2.6	0.7	1.9
February	0.8	0.2	2.3	0.5	3.9	1.3	2.6
March	1.3	0.4	2.6	1.0	5.3	1.9	3.3
April	1.9	0.5	2.8	1.3	6.5	2.7	3.8
May	2.1	0.7	3.0	1.5	7.3	3.1	4.1
June	2.3	0.8	3.2	1.7	8.0	3.5	4.5
July	2.5	0.9	3.4	1.6	8.5	3.9	4.5
August	2.8	1.1	3.6	0.8	8.3	4.4	4.0
September	3.0	1.5	3.9	0.3	8.6	5.0	3.6
October	3.3	1.7	4.0	0.1	9.2	5.6	3.6
November	3.6	1.9	4.2	0.3	10.0	6.1	3.9
December	3.8	2.1	4.4	0.6	10.9	6.6	4.3
<b>2006</b>							
January	0.4	0.2	1.5	0.4	2.4	0.6	1.8
February	1.1	0.3	1.7	1.0	4.1	1.5	2.6
March	1.5	0.5	1.9	1.2	5.0	2.1	2.9
April	1.6	0.6	2.0	1.1	5.4	2.5	2.9
May	1.7	0.7	2.2	1.3	5.9	2.7	3.1
June	1.8	0.8	2.4	1.2	6.2	3.0	3.2
July	2.0	0.9	2.5	1.4	6.9	3.4	3.5
August	2.3	1.2	2.7	0.9	7.1	3.9	3.2
September	2.6	1.5	2.9	0.3	7.2	4.6	2.6
October	2.7	1.7	3.0	0.1	7.5	5.0	2.5
November	3.0	1.9	3.1	0.3	8.2	5.5	2.7
December	3.3	2.0	3.3	0.4	9.0	6.1	3.0
<b>2007</b>							
January	0.2	0.1	1.2	0.2	1.7	0.5	1.2
February	0.4	0.3	1.8	0.3	2.8	0.9	1.9
March	0.6	0.4	2.0	0.4	3.4	1.3	2.1
April	0.8	0.5	2.1	0.6	4.0	1.7	2.3
May	0.8	0.7	2.3	0.9	4.7	1.9	2.7
June	1.0	0.8	2.4	1.5	5.7	2.3	3.4
July	1.5	0.9	2.6	1.6	6.6	3.0	3.6
August	2.1	1.1	2.7	0.7	6.7	3.9	2.8
September	3.0	1.4	2.9	0.3	7.5	5.3	2.3

\* Excluding vegetables and fruit.

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

Table 5

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Inflation over period, %	Core inflation	Non-core inflation**
<b>2005</b>							
January	0.4	0.1	1.8	0.2	<b>2.6</b>	0.7	1.9
February	0.4	0.1	0.5	0.3	<b>1.2</b>	0.6	0.7
March	0.5	0.1	0.3	0.5	<b>1.3</b>	0.6	0.7
April	0.5	0.2	0.2	0.3	<b>1.1</b>	0.7	0.4
May	0.3	0.1	0.2	0.2	<b>0.8</b>	0.5	0.3
June	0.2	0.1	0.2	0.2	<b>0.6</b>	0.4	0.3
July	0.2	0.1	0.2	-0.1	<b>0.5</b>	0.4	0.1
August	0.2	0.2	0.2	-0.6	<b>-0.1</b>	0.4	-0.5
September	0.2	0.4	0.2	-0.6	<b>0.3</b>	0.6	-0.4
October	0.3	0.2	0.2	-0.1	<b>0.6</b>	0.5	0.0
November	0.2	0.2	0.1	0.2	<b>0.7</b>	0.5	0.3
December	0.3	0.1	0.2	0.2	<b>0.8</b>	0.4	0.4
<b>2006</b>							
January	0.4	0.2	1.5	0.4	<b>2.4</b>	0.6	1.8
February	0.7	0.2	0.2	0.5	<b>1.7</b>	0.9	0.7
March	0.4	0.1	0.2	0.2	<b>0.8</b>	0.6	0.3
April	0.1	0.1	0.1	0.0	<b>0.4</b>	0.3	0.0
May	0.1	0.1	0.1	0.1	<b>0.5</b>	0.3	0.2
June	0.0	0.1	0.2	0.0	<b>0.3</b>	0.2	0.1
July	0.3	0.1	0.2	0.1	<b>0.7</b>	0.4	0.3
August	0.3	0.2	0.2	-0.5	<b>0.2</b>	0.5	-0.3
September	0.2	0.3	0.1	-0.5	<b>0.1</b>	0.6	-0.5
October	0.1	0.2	0.1	-0.2	<b>0.3</b>	0.4	-0.1
November	0.2	0.2	0.1	0.1	<b>0.6</b>	0.5	0.2
December	0.3	0.1	0.2	0.1	<b>0.8</b>	0.5	0.3
<b>2007</b>							
January	0.2	0.1	1.2	0.2	<b>1.7</b>	0.5	1.2
February	0.2	0.1	0.7	0.1	<b>1.1</b>	0.4	0.7
March	0.2	0.1	0.1	0.1	<b>0.6</b>	0.4	0.2
April	0.2	0.1	0.1	0.1	<b>0.6</b>	0.4	0.2
May	0.1	0.1	0.1	0.3	<b>0.6</b>	0.2	0.4
June	0.2	0.1	0.2	0.6	<b>1.0</b>	0.3	0.6
July	0.5	0.1	0.2	0.1	<b>0.9</b>	0.7	0.2
August	0.6	0.2	0.1	-0.8	<b>0.1</b>	0.8	-0.7
September	0.8	0.3	0.1	-0.4	<b>0.8</b>	1.3	-0.5

\* Excluding vegetables and fruit.

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

Table 6

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
<b>2005</b>						
January	17.0	4.8	70.2	8.0	27.1	72.9
February	21.2	6.2	60.4	12.1	33.4	66.6
March	24.5	6.8	50.0	18.7	36.7	63.3
April	28.6	8.1	43.8	19.5	41.1	58.9
May	29.3	9.2	41.2	20.2	43.1	56.9
June	29.0	9.8	40.5	20.8	44.1	55.9
July	30.1	10.9	40.7	18.3	46.5	53.5
August	33.2	13.2	43.6	9.9	52.3	47.7
September	35.1	17.1	44.9	3.0	58.3	41.7
October	35.9	18.6	43.9	1.6	60.9	39.1
November	35.6	19.2	41.8	3.4	61.1	38.9
December	35.2	19.2	40.3	5.4	60.5	39.5
<b>2006</b>						
January	16.0	6.1	59.5	18.3	24.5	75.5
February	27.2	7.7	40.9	24.1	37.2	62.8
March	30.1	9.1	37.6	23.2	42.4	57.6
April	30.5	10.3	37.9	21.3	45.7	54.3
May	29.3	11.8	37.2	21.8	46.7	53.3
June	28.6	12.9	38.3	20.2	48.4	51.6
July	29.6	13.5	36.7	20.2	49.7	50.3
August	32.7	16.8	38.5	12.1	55.4	44.6
September	35.7	20.2	39.6	4.5	63.4	36.6
October	36.3	22.4	39.4	2.0	66.7	33.3
November	36.2	22.9	37.7	3.2	67.3	32.7
December	36.6	22.6	36.3	4.6	67.1	32.9
<b>2007</b>						
January	13.4	8.3	69.0	9.3	29.5	70.5
February	14.9	9.2	65.3	10.6	31.3	68.7
March	17.8	11.6	58.1	12.5	38.3	61.7
April	19.5	13.5	52.9	14.0	42.8	57.2
May	18.0	14.3	48.4	19.3	41.6	58.4
June	17.5	13.8	42.7	26.0	40.4	59.6
July	22.8	14.1	39.2	23.9	45.8	54.2
August	31.6	17.0	40.8	10.6	58.5	41.5
September	39.2	18.9	37.8	4.1	69.9	30.1

\* Excluding vegetables and fruit.

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

Table 7

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

	Foodstuffs*	Non-food products	Paid services	Vegetables and fruit	Core inflation	Non-core inflation**
<b>2005</b>						
January	17.0	4.8	70.2	8.0	27.1	72.9
February	30.0	9.2	40.0	20.8	46.5	53.5
March	33.6	8.4	20.9	37.0	46.1	53.9
April	46.7	14.1	15.8	23.4	60.9	39.1
May	34.9	18.4	20.6	26.1	60.1	39.9
June	25.7	15.5	32.1	26.6	54.6	45.4
July	48.4	29.6	43.6	-21.6	86.0	14.0
August	<i>No estimate for negative value</i>					
September	92.7	141.5	83.9	-218.1	243.9	-143.9
October	47.2	40.9	29.7	-17.8	96.4	3.6
November	31.6	26.1	18.2	24.1	63.1	36.9
December	31.0	18.8	22.1	28.1	53.5	46.5
<b>2006</b>						
January	16.0	6.1	59.5	18.3	24.5	75.5
February	43.4	10.0	14.0	32.6	55.8	44.2
March	43.9	15.8	21.6	18.7	67.5	32.5
April	35.8	27.0	41.3	-4.2	90.9	9.1
May	16.1	27.6	29.9	26.4	57.3	42.7
June	15.3	34.9	59.7	-10.0	81.6	18.4
July	37.6	19.0	23.4	20.0	60.9	39.1
August	140.5	132.4	97.9	-270.7	249.5	-149.5
September	269.8	290.1	128.8	-588.7	678.9	-578.9
October	51.0	73.9	34.6	-59.5	145.8	-45.8
November	35.6	29.6	17.8	17.0	74.1	25.9
December	39.5	18.9	23.2	18.4	64.4	35.6
<b>2007</b>						
January	13.4	8.3	69.0	9.3	29.5	70.5
February	17.1	10.6	59.7	12.6	34.2	65.8
March	31.4	22.7	24.5	21.4	70.7	29.3
April	29.9	24.5	22.6	23.0	69.6	30.4
May	8.4	19.5	20.6	51.6	34.4	65.6
June	15.6	11.6	16.6	56.2	35.1	64.9
July	55.9	15.7	17.5	10.9	79.2	20.8
August	724.2	251.3	162.1	-1,037.6	1,016.5	-916.5
September	99.5	33.9	14.5	-47.8	160.7	-60.7

\* Excluding vegetables and fruit.

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

Table 8

## Russia's key macroeconomic and financial indicators

		Year	Q1	Q2	Q3	Q4	
<b>Macroeconomic indicators</b>							
GDP	over period since start of year, billion rubles	2005	4,479	9,652	15,524	21,620	
		2006	5,662	11,988	19,236	26,781	
		2007	6,566	14,213			
	over period since start of year, as % of corresponding period of previous year	2005	105.0	105.3	105.8	106.4	
		2006	105.0	106.1	106.3	106.7	
		2007	107.9	107.9			
	as % of corresponding quarter of previous year	2005	105.0	105.6	106.6	108.0	
		2006	105.0	107.0	106.8	107.8	
		2007	107.9	107.8			
Industrial output indices	as % of corresponding quarter of previous year	2005	103.2	103.6	104.1	104.9	
		2006	103.0	106.0	103.8	103.0	
		2007	108.4	106.7	104.9		
	over period since start of year, as % of corresponding period of previous year	2005	103.2	103.4	103.6	104.0	
		2006	103.0	104.4	104.2	103.9	
		2007	108.4	107.7	106.6		
Agricultural output	as % of corresponding quarter of previous year	2005	100.3	101.1	103.7	101.4	
		2006	102.1	101.8	101.4	110.4	
		2007	102.9	103.7	101.5		
	over period since start of year, as % of corresponding period of previous year	2005	100.3	100.9	102.7	102.4	
		2006	101.3	101.9	101.6	103.6	
		2007	102.9	103.4	102.2		
Fixed capital investment	over period since start of year, billion rubles	2005	540.5	1,316.8	2,310.4	3,611.1	
		2006	636.5	1,622.1	2,868.4	4,580.5	
		2007	866.5	2,265.1	3,992.7		
	as % of corresponding quarter of previous year	2005	106.3	108.4	111.4	114.3	
		2006	105.7	114.7	113.0	117.2	
		2007	120.1	123.8	119.6		
Retail trade turnover	over period since start of year, billion rubles	2005	1,511.1	3,185.9	4,982.7	7,040.9	
		2006	1,852.4	3,915.5	6,147.6	8,690.3	
		2007	2,234.9	4,751.3	7,511.0		
	as % of corresponding quarter of previous year	2005	110.5	113.8	113.3	113.5	
		2006	111.1	113.3	115.0	115.0	
		2007	113.9	114.8	115.4		
Federal budget on accrual basis, as of end of period	revenue	billion rubles	2005	1,196.4	2,386.4	3,681.7	5,127.2
			2006	1,399.1	2,938.1	4,561.0	6,278.9
			2007	1,421.9	3,245.7	5,087.5	
		as % of GDP	2005	26.7	24.7	23.7	23.7
			2006	24.7	24.5	23.7	23.4
			2007	21.7	22.9	22.2*	
	expenditure	billion rubles	2005	671.1	1,444.2	2,519.7	3,514.3
			2006	823.2	1,854.7	2,866.5	4,284.8
			2007	945.6	2,169.7	3,464.3	
		as % of GDP	2005	15.0	15.0	16.2	16.2
			2006	14.5	15.5	14.9	16.0
			2007	14.4	15.3	15.1*	
Federal budget surplus on accrual basis, as of end of period	billion rubles	2005	525.3	942.2	1,162.0	1,612.9	
		2006	575.9	1,083.4	1,694.5	1,994.1	
		2007	476.3	1,076.0	1,623.2		
	as % of GDP	2005	11.7	9.7	7.5	7.5	
		2006	10.2	9.0	8.8	7.4	
		2007	7.3	7.6	7.1*		

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



Table 8 (continued)

		Year	Q1	Q2	Q3	Q4
<b>Socio-economic indicators</b>						
Nominal imputed average monthly per employee wage	rubles	2005	7,638	8,234	8,674	9,651
		2006	9,397	10,401	10,949	12,203
		2007	11,876	12,993	13,534	
	as % of corresponding quarter of previous year	2005	122.6	122.4	123.9	126.2
		2006	122.3	125.1	125.1	125.2
		2007	127.3	125.9	124.2	
	over period since start of year , as % of corresponding period of previous year	2005	122.6	122.4	123.0	126.9
2006		122.3	123.7	124.1	124.3	
2007		127.3	126.6	125.7		
Real imputed average monthly per employee wage	as % of corresponding quarter of previous year	2005	108.4	107.6	110.0	113.4
		2006	110.3	114.3	114.3	114.8
		2007	118.2	116.6	114.1	
Household money income	per capita monthly average, rubles	2005	6,539.5	7,707.3	8,064.7	9,697.7
		2006	8,025.7	9,806.4	10,087.6	11,791.8
		2007	9,752.4	11,806.9	12,411.4	
Household real disposable money income	as % of corresponding quarter of previous year	2005	105.1	114.1	112.7	111.9
		2006	106.8	113.2	111.4	109.3
		2007	112.8	110.6	113.7	
	over period since start of year, as % of corresponding period of previous year	2005	105.1	109.8	110.8	111.1
		2006	106.8	110.2	110.6	110.2
		2007	112.8	111.6	112.4	
Household spending, as % of income	purchase of goods and payment of services	2005	73.6	70.1	71.9	67.2
		2006	73.9	67.9	71.4	68.2
		2007	74.7	69.8	72.3	
	compulsory payments and contributions	2005	8.4	8.8	9.6	9.6
		2006	11.4	11.0	11.6	11.1
		2007	13.1	12.5	11.6	
	growth in savings	2005	13.1	10.3	9.5	9.4
		2006	10.7	9.7	7.3	10.3
		2007	9.0	7.9	5.4	
	foreign exchange purchase	2005	7.6	8.0	9.1	9.2
		2006	7.6	7.0	7.3	7.4
		2007	5.3	7.1	5.3	
	cash on hand	2005	-2.7	2.8	-0.1	4.6
		2006	-3.6	4.4	2.4	3.0
		2007	-2.1	4.5	5.4	
Average imputed pension	total, rubles	2005	2,125	2,324	2,467	2,540
		2006	2,539	2,727	2,800	2,839
		2007	2,846	3,091	3,108	
Real imputed pension	as % of corresponding quarter of previous year	2005	106.6	108.2	110.6	112.6
		2006	107.8	107.2	103.7	102.5
		2007	104.1	104.9	102.0	
	over period since start of year, as % of corresponding period of previous year	2005	106.6	107.4	108.5	109.6
		2006	107.8	107.5	106.1	105.1
		2007	104.1	104.5	103.6	
Total number of unemployed (calculated by ILO methodology)	million	2005	6.0	5.5	5.4	5.5
		2006	5.7	5.5	5.0	5.0
		2007	5.2	4.5	4.4	
	as % of economically active population	2005	8.2	7.4	7.3	7.5
		2006	7.8	7.4	6.7	6.8
		2007	7.0	6.0	5.8	

Table 8 (continued)

		Year	Q1	Q2	Q3	Q4	
<b>Foreign economic activities</b>							
Price of Urals crude	over period since start of year, \$/barrel	2005	43.1	45.4	49.3	50.4	
		2006	57.7	61.1	62.5	60.9	
		2007	54.0	59.7	64.0		
	as % of corresponding period of previous year	2005	146.4	146.1	148.2	145.6	
		2006	134.0	134.7	126.7	120.9	
		2007	93.5	97.7	102.4		
Exports of goods	over period since start of year, \$ billion	2005	50.2	109.8	174.7	243.8	
		2006	67.4	143.9	223.8	303.9	
		2007	72.1	156.3	247.0		
	as % of corresponding period of previous year	2005	134.6	136.4	135.4	133.1	
		2006	134.2	131.1	128.1	124.7	
		2007	107.9	108.7	110.4		
Imports of goods	over period since start of year, \$ billion	2005	25.7	55.1	87.6	125.4	
		2006	31.0	69.8	112.6	164.7	
		2007	43.1	95.5	153.5		
	as % of corresponding period of previous year	2005	129.1	128.6	129.1	128.8	
		2006	120.6	126.6	128.5	131.3	
		2007	139.0	136.8	136.3		
Current account (over period since start of year), \$ billion		2005	20.1	42.4	62.5	84.4	
		2006	30.7	55.5	79.7	96.1	
		2007	22.9	39.0	57.1		
Net capital outflow (inflow) by private sector (over period since start of year), \$ billion		2005	1.7	-3.6	4.5	0.1	
		2006	-6.0	14.2	26.3	40.1	
		2007	13.5	66.2	56.7		
Foreign investment in Russia's non-financial sector (Rosstat data)	over period since start of year, \$ billion	2005	6.0	16.5	26.8	53.6	
		2006	8.8	23.4	35.3	55.1	
		2007	24.6	60.3			
	as % of corresponding period of previous year	2005	97.6	86.9	92.1	132.4	
		2006	146.0	141.9	131.7	102.7	
		2007	280.0	260.0			
Of which	direct	total, \$ billion	2005	1.9	4.5	6.6	13.1
			2006	3.8	6.4	10.3	13.7
			2007	9.8	15.8		
		as % of corresponding period of previous year	2005	130.0	131.0	118.1	138.8
			2006	200.0	143.6	155.5	104.6
			2007	250.0	250.0		
	portfolio	total, \$ billion	2005	0.1	0.2	0.4	0.5
			2006	0.2	0.5	0.7	3.2
			2007	0.2	1.1		
		as % of corresponding period of previous year	2005	89.9	135.2	160.5	136.3
			2006	290.0	290.0	182.3	700.0
			2007	85.8	220.0		
	other	total, \$ billion	2005	4.0	11.8	19.9	40.1
			2006	4.7	16.5	24.4	38.2
			2007	14.7	43.4		
as % of corresponding period of previous year		2005	87.3	76.7	85.2	130.5	
		2006	117.2	139.1	122.8	95.3	
		2007	310.0	260.0			
Russia's international reserves (as of end of period), \$ billion		2005	137.4	151.6	159.6	182.2	
		2006	205.9	250.6	266.2	303.7	
		2007	338.8	405.8	425.4		
Real ruble exchange rate indices, last month of quarter (as % of December of previous year)***	ruble vs. dollar	2005	4.7	3.3	2.3	3.9	
		2006	6.9	10.0	12.1	16.7	
		2007	2.3	3.8	8.6		
	ruble vs. euro	2005	6.8	14.7	14.2	18.8	
		2006	6.5	4.9	6.0	5.6	
		2007	3.1	4.1	4.5		
	effective rate	2005	5.1	8.7	8.3	10.5	
		2006	6.2	7.0	7.9	7.4	
		2007	2.7	3.3	4.0		

Table 8 (continued)

	Year	Q1	Q2	Q3	Q4	
<b>Financial market indicators (including Sberbank rates)</b>						
Average for period						
Overnight interbank credit rate, % p.a.	in rubles	2005	1.16	2.96	2.31	4.56
		2006	3.17	2.78	2.58	5.14
		2007	3.90	3.40	4.91	
	in US dollars	2005	2.3	2.8	3.3	3.9
		2006	4.4	4.8	5.2	5.2
		2007	5.2	5.2	5.1	
OFZ yields****, % p.a.	2005	7.9	8.0	7.7	7.1	
	2006	6.8	6.9	6.8	6.7	
	2007	6.6	6.6	6.6		
Interest rate on household time deposits, % p.a.	up to 1 year in rubles	2005	9.5	8.6	8.5	8.4
		2006	8.3	8.0	7.6	7.7
		2007	7.4	7.3	7.0	
	over 1 year in rubles	2005	8.4	7.9	6.2	6.4
		2006	7.6	5.1	5.2	5.4
		2007	7.9	7.5	7.1	
	up to 1 year in US dollars	2005	5.6	5.7	5.6	5.6
		2006	5.6	5.7	5.7	5.9
		2007	5.4	5.3	5.2	
	over 1 year in US dollars	2005	6.1	5.6	5.8	5.5
		2006	6.2	4.7	5.0	5.5
		2007	6.8	6.6	6.4	
Interest rate on credit to non-financial institutions, % p.a.	up to 1 year in rubles	2005	10.6	10.7	10.3	11.0
		2006	10.4	10.8	10.3	10.4
		2007	9.9	9.6	9.8	
	over 1 year in rubles	2005	13.0	11.7	12.9	12.1
		2006	12.7	12.9	12.5	12.1
		2007	12.1	11.5	11.0	
	up to 1 year in US dollars	2005	7.9	8.6	9.0	8.8
		2006	8.6	8.4	8.6	8.5
		2007	8.7	8.8	8.4	
	over 1 year in US dollars	2005	9.6	9.6	10.4	10.4
		2006	10.5	10.2	10.4	10.0
		2007	10.3	10.1	9.3	
Interest rate on ruble promissory notes discounted by banks, % p.a.	2005	10.9	10.6	9.9	10.0	
	2006	12.9	8.7	9.2	9.7	
	2007	9.5	8.9	10.8		
MICEX rate in 'tomorrow' trades, rubles/\$	2005	27.8560	28.1012	28.5150	28.7151	
	2006	28.0733	27.1897	26.8053	26.5910	
	2007	26.1795	25.8599	25.5043		
As of end of quarter						
RTS index, points	2005	669.07	706.38	1,007.76	1,125.60	
	2006	1,434.99	1,494.63	1,549.99	1,921.92	
	2007	1,935.72	1,897.70	2,071.80		
Refinance rate, % p.a.	2005	13.0	13.0	13.0	12.0	
	2006	12.0	11.5	11.5	11.0	
	2007	10.5	10.0	10.0		

Table 8 (end)

		Year	1.01	1.04	1.07	1.10
<b>Monetary indicators</b>						
M0, billion rubles		2005	1,534.8	1,481.7	1,650.7	1,740.7
		2006	2,009.2	1,928.8	2,233.4	2,400.8
		2007	2,785.2	2,741.2	3,027.5	3,220.9
M2, billion rubles		2005	4,363.3	4,474.6	4,927.4	5,292.8
		2006	6,045.6	6,169.4	7,092.3	7,757.5
		2007	8,995.8	9,412.6	10,857.7	11,494.0
Net foreign assets of monetary authorities and credit institutions, billion rubles		2005	3,210.0	3,753.3	4,379.7	4,405.4
		2006	4,867.9	5,433.6	6,221.1	6,281.9
		2007	6,927.5	7,988.6	8,815.9	9,091.1
Domestic claims, billion rubles		2005	4,345.6	3,509.6	3,487.7	4,035.2
		2006	4,460.8	4,129.4	4,256.1	4,944.1
		2007	5,727.7	5,696.9	6,241.6	6,670.5
Money (monetary survey definition), billion rubles		2005	2,848.3	2,859.6	3,144.3	3,371.9
		2006	3,858.5	3,855.9	4,479.3	4,856.1
		2007	5,598.4	5,774.3	6,676.5	7,088.4
Quasi-money (monetary survey definition), billion rubles		2005	2,450.4	2,640.0	2,871.6	3,086.5
		2006	3,362.6	3,537.0	3,825.5	4,041.1
		2007	4,548.3	5,120.2	5,352.7	5,605.4
Foreign currency deposits, billion rubles		2005	935.1	1,024.9	1,090.6	1,167.9
		2006	1,178.2	1,225.9	1,221.0	1,153.2
		2007	1,155.4	1,490.6	1,183.7	1,212.4
Broad monetary base, billion rubles		2005	2,380.3	2,250.4	2,303.3	2,539.7
		2006	2,914.2	2,721.4	3,287.0	3,486.0
		2007	4,122.4	4,210.2	5,139.1	4,587.2
Balances in correspondent accounts, billion rubles		2005	480.4	320.9	276.7	374.4
		2006	508.6	320.0	430.9	443.7
		2007	638.1	518.1	528.7	576.3
M2 velocity	annual average	2005	4.7	4.7	4.6	4.6
		2006	4.4	4.3	4.1	4.0
		2007	3.8	3.6	3.3	3.2
	change since start of year, %	2005	-10.0*****	-1.1	-1.9	-3.4
		2006	-6.5*****	-2.3	-6.1	-9.6
		2007	-13.5*****	-6.1	-12.4	-17.0
Monetisation of the economy (by M2 aggregate), %		2005	21.2	21.4	21.6	22.0
		2006	22.7	23.2	24.2	25.1
		2007	26.2	27.9	29.9	31.6
Money multiplier	by broad monetary base	2005	1.83	1.99	2.14	2.09
		2006	2.08	2.27	2.16	2.23
		2007	2.18	2.24	2.11	2.51
	change since start of year, %	2005	9.2*****	8.5	16.7	13.7
		2006	13.2*****	9.3	4.0	7.3
		2007	5.2*****	2.5	-3.2	14.8
Foreign exchange rates	rubles per UD dollar	2005	27.75	27.85	28.63	28.53
		2006	28.78	27.70	26.94	26.78
		2007	26.33	26.01	25.82	24.95
	rubles per euro	2005	37.84	36.03	34.63	34.31
		2006	34.19	33.63	34.24	33.98
		2007	34.69	34.69	34.72	35.35

\* Preliminary data.

\*\* Estimate.

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

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

\*\*\*\*\* Relative to start of previous year.



