

## INFLATION AND MONETARY POLICY IN MARCH 2013

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*In March 2013 the consumer price index made 0.3% (0.6% in March 2012), which is less than in February of this year by 0.3 p.p. In April, inflation has also increased: within 15 days of the month CPI made 0.3%. As a result, inflation reached in annual terms has reached 7.0%. In Q1 2013, according to preliminary estimates of the Bank of Russia, the net outflow of capital from the country reached \$25.8bn, which is by \$7.8bn less than the relevant indicator of 2012.*

In March inflation continued to slow down: the consumer price index for the month decreased from 0.6% in February to 0.3%, which is below the relevant indicator of the same period of 2012 (0.6%). As a result, the inflation rate in annual terms has decreased by 0.3 p.p. to 7.0% (Fig. 1). The core inflation index<sup>1</sup> in March 2013 made 0.4%, which is lower than in the last year by 0.1 p.p.

The CPI decline was contributed above all, by the continued to slow down in the rate of food prices growth (from 0.8% in February to 0.4% in April). The reasons for this decline are the lower growth rates of prices for fruit and vegetables (from 2.8% in February to 0.1%), cereals and beans (from 1.5% to 0.5%) and alcoholic beverages (from 2% to 1.4%). Prices for such types of foods as sugar, meat and poultry, as well as sunflower oil, compared with the previous month were lower, respectively by (-0.8%) and (-0.1%) . At the same time, the price of eggs after February downfall (-0.6%) in March has grown by 0.2%.

The growth rate of prices and tariffs for commercial services in March made 0.2%, which is lower than in February (0.4%). The leaders of price growth were telecommunication services, which prices increased by 1.5%. Passenger transport services became have decreased by 2%, the tariffs for travel in the compartment cars of various types of long-distance trains have been also decreased.

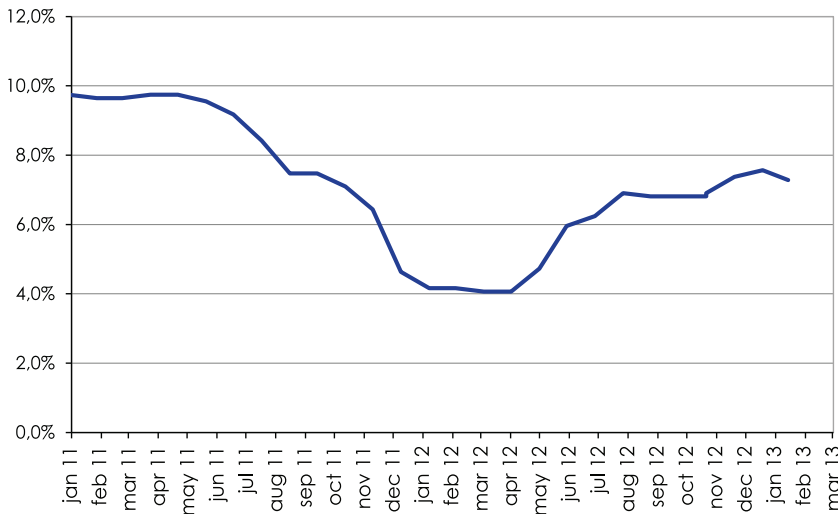
In March, the growth rate of non-food products remained unchanged as compared to February, amounting up to the month results to 0.4% (+0.5% in March 2012). Prices went up for tobacco products (+3.5%), pharmaceuticals (+0.8%), gasoline (+0.5%), and certain types of seasonal clothing (+0.5%). The only non-food items, which became cheaper in March, were audio and video devices (-0.5%).

As of the end of 15 days of April, the CPI made 0.3%. As a result, the cumulative inflation from the beginning of the year reached 2.2%, which is 1.2 higher than in the same period of 2012. On April 15 the inflation in annual terms has reached 7.0%.

Note that the acceleration of inflation at the beginning of the year seems to have a non-monetary nature and is a consequence of seasonal price growth for foodstuffs, increased tax on excisable goods and tariffs for transport services at the beginning of the year. Some role in the rising prices was also played by February indexation of pensions. A decline in consumer inflation began in February, continued in March and is expected in Q2 quarter of this year, but the pressure on prices in regard to growth will have increasing housing and public utilities tariffs from July 1 and the expectations of the poor harvest due to the difficult weather conditions in the spring. Restraining factors in inflation will be the decline in domestic demand, which has been noted throughout the year, and the continued slowdown in monetary supply (M2 growth rate in annual terms has slowed down from 21.8% as of March 1, 2012 to 14.2% as of March 1, 2013).

In March 2013 the monetary base in broad definition has been further expanded. As of the month results, it increased by 1.4% to Rb 8,628.1bn (Fig. 2). All components of the monetary base in broad definition have grown: the amount of cash in circulation with regard to balances of credit

<sup>1</sup> The core consumer price index is the indicator reflecting the level of inflation in the consumer market after adjustment for the seasonal (prices of vegetable and fruit products) and administrative (regulated tariffs for certain types of services, etc.) factors, which is also calculated by the RF Statistical Service (Rosstat).



Source: RF Statistical Service.  
Fig. 1. The Growth Rate of CPI in 2011–2013 (% year to year)

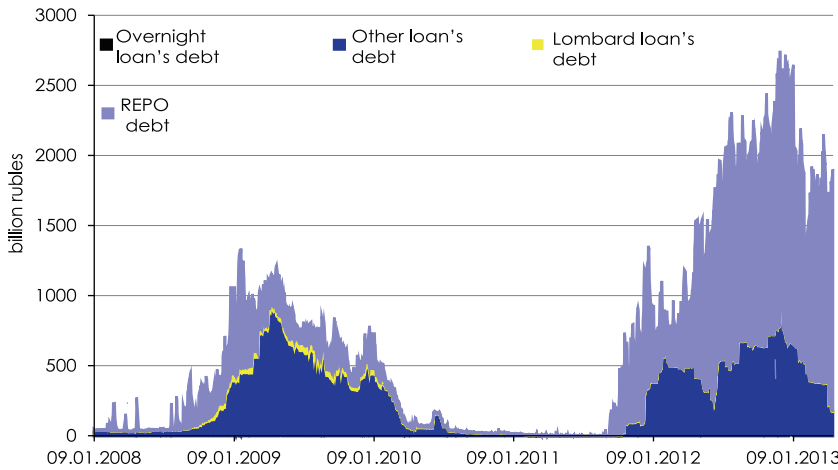


Fig.2. Arrears of commercial banks with the Bank of Russia in 2008–2013.

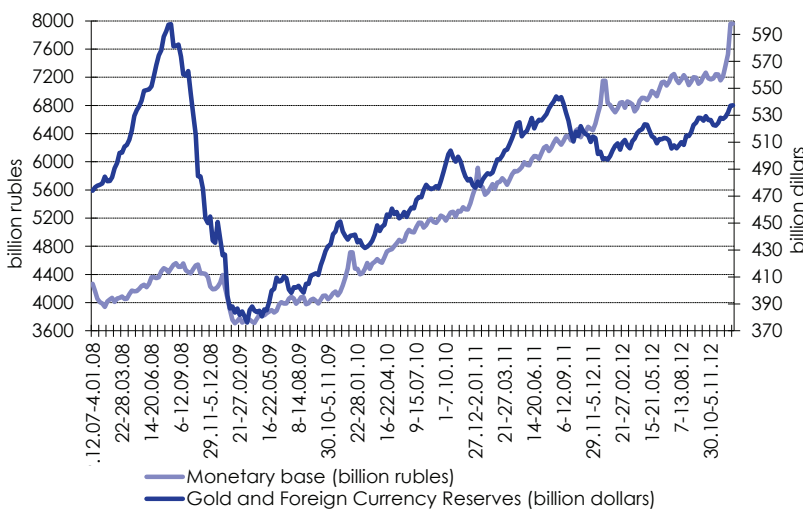


Fig. 3. Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2007–2013

institutions increased by 0.5% to Rb 7,101.9bn, in correspondent accounts – by 4.9% to Rb 856.3bn, the banks’ deposits with the Central Bank – by 25.4% to Rb 220.4bn, mandatory reserves – by 0.6% to Rb 449.5 bn.

The simultaneous growth of cash in circulation and mandatory reserves in March resulted in the expansion of the monetary base in narrow definition (cash plus mandatory reserves) by 0.5% to Rb 7,551.4bn (Fig. 3).

In March excessive reserves of commercial banks<sup>1</sup> have increased by 8.5% to Rb 1076.7bn. In April the debt of banks under repo transactions has reached nearly Rb 1.8 trillion (Rb 1.5 trillion in March) (Fig. 2), and interbank rates were higher on average by 6% (indicative rate Mosprime in April amounted to 5.8–6.4%).

On April 1, 2013 the volume of international reserves of the RF Central Bank amounted to \$528bn, which is by 3.2% less from the beginning of the year. The reduction of the Russian foreign currency reserves in dollar terms is based on the strengthening of the dollar against the Euro due to problems in the economy of Cyprus.

There were no foreign currency interventions of the Bank of Russia Central Bank in March (Fig. 4).

Source: RF Central Bank, author’s estimates.

According to the tentative estimates of the Bank of Russia, the net outflow of capital in QI of 2013 amounted to \$25.8bn, which is by 23.2% less than in 2012, when the outflow reached \$33.6bn. The slowing down of capital outflow is due primarily to the decline of the surplus balance of the current account of payments: a stable ruble nomi-

1 Under the excessive reserves of commercial banks with the RF Central Bank is understood the sum of correspondent accounts of commercial banks, their deposits with the RF CB and the RF CB bonds of commercial banks.

nal exchange rate with minimal interventions of the RF Central Bank indicates the balance of supply and demand in the foreign exchange market, at which the surplus on the current account offsets the negative balance in the financial account of balance of payments.

In March the ruble real effective exchange rate has decreased by 0.3% (Fig. 4). At the same time, in Q1 the ruble real effective exchange rate has increased by 2.8%.

Due to the developments in Cyprus, Euro was downgrading in the world market: on April 18, it has fallen down to the level of Euro 1.32 per \$1. Within the first three weeks of April the U.S. currency has grown against the ruble by 1.1% to Rb 31.5; the European currency has grown by 3.3% to Rb 41.1. As a result, the value of the two-currency basket has increased, and made Rb 35.8 (+2.2%) as of April 20. The ruble decline was due to the lower oil prices, occurred because of the deterioration of the situation in Cyprus, as well as of the publication of negative macroeconomic data on the economies of China and the US. ●

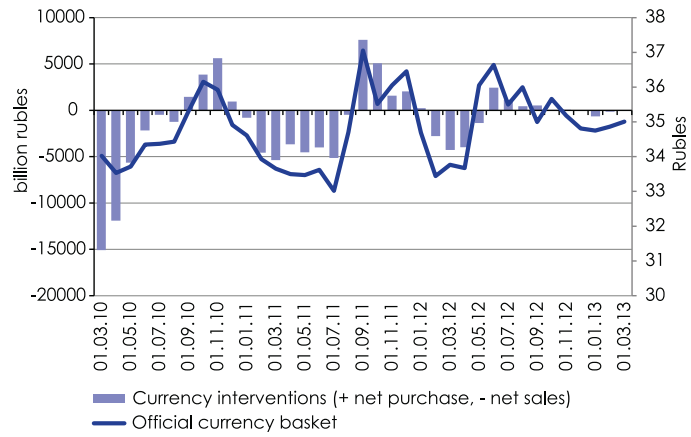
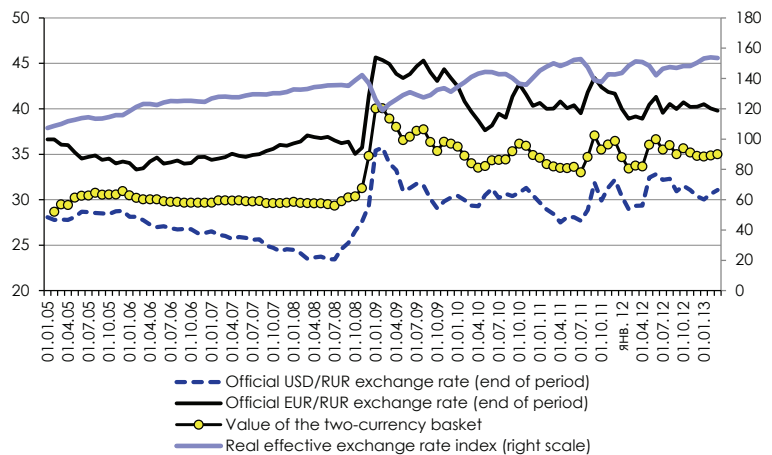


Fig. 4. Central Bank Currency Interventions and Dynamic of Rubles Exchange Rate in March 2010 – March 2013



Source: RF Central Bank, author's estimates.

Fig. 5. Indicators of Ruble Exchange Rate in January 2005 – March 2013