

INFLATION AND MONETARY POLICY IN MAY 2013

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The consumer price index stood at 0.7% in May 2013 (0.5% in May 2012), showing an increase of 0.2 p.p. vs. April 2013. In June, prices were growing too: the consumer price index reached 0.3% within 20 days of the month, thereby boosting inflation by 7.4% on a year-on-year basis. A downtrend in the ruble exchange rate which was observed in May thru June didn't result in any substantial growth in Central Bank's currency interventions.

Consumer-price inflation accelerated in May: consumer price index increased from 0.5% in April 2013 to 0.7% at month-end, being 0.2% higher against 2012. As a result, inflation reached 7.4% on a year-on-year basis (see fig. 1). Core inflation¹ stood at 0.3% in May 2013, being 0.1 p.p. higher year on year.

The consumer price index increased basically in response to faster growth of prices of food products (from 0.7% in April to 1.0% in May) as a result of faster growth of prices of fruit and vegetable products (from 3.6% in April to 6.5%), sugar and granulated sugar (from 1.7% in April to 2.0%), fish and seafood products (from 0.2 in April to 0.6%). Prices of such food products as sun flower oil, as well as eggs were found to be 0.1% and 6.6% lower respectively against the previous month. Growth in prices of alcoholic beverages (from 1.4% in March to 1.0% in April and 0.8% in May), bread and flour products (from 0.8% in April to 0.4% in May) and macaroni products (from 0.6% in April to 0.4% in May) kept slowing down.

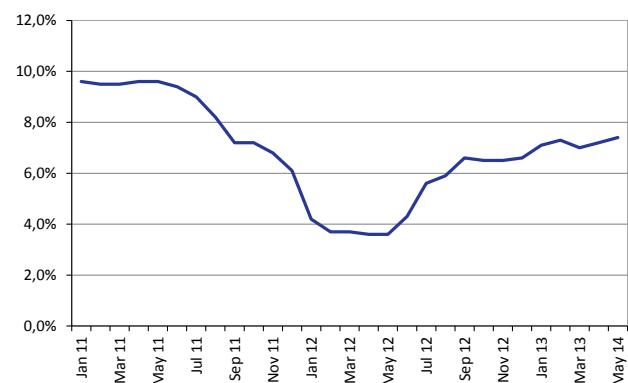
Prices and tariffs of retail paid services grew at a rate of 0.8% in May, being 0.5% higher than in April. It was the passenger transport services that increased most (by 4.8%) during the season of mass vacations, namely long-distance train charges, as well as costs of airline services. Furthermore, costs of health-improving services and international travel services grew up by 1.4% and 1.6% respectively. Costs of personal services (+0.5%), medical services (+0.7%) and insurance services (+0.7%) tended to grow.

In May 2013, growth in prices of non-food products slowed down vs. April to increase 0.3% (+0.4 in April) at the end of the month. It was prices of tobacco products (+3.2%) (+4.3 in April 2013) and medicaments (+0.9%) (+1.0 in April 2013) that increased most within this group of products. In June,

prices of audio visual goods (−0.3%) and motor benzene (−0.4%) kept dropping among non-food products.

The consumer price index stood at 0.3% as of June 20. As a result, accumulated year-to-date inflation reached 3.4%, being 1.3 times year on year. Inflation stood at 7.4% as of June 20 on a year-on-year basis.

The acceleration of inflation seems to basically have non-monetary nature and result from seasonal growth in prices of foods products, excises on excisable goods and tariffs of transport services at the beginning of the year. Indexation of pensions in February had a certain effect on the price growth too. Consumer-price inflation began to slow down in February and continued in March, but again prices tended to grow in April in response to an increase in prices of certain food products and tariffs and prices of certain groups and types of service. Further price growth will be encouraged by indexation of public utility rates scheduled for July 1 and a poor crop anticipated due to adverse weather conditions at certain regions. Inflation will be constrained by such factors as low domestic demand which has been observed over a year, and further slowdown in money supply growth rates (M2 growth rate slowed down



Source: Rosstat.

Fig. 1. CPI growth rate in 2011–2013 (% year over year)

¹ Reference consumer price index is an indicator which describes the level of inflation in the consumer market, net of seasonal (prices of fruit and vegetable products) and administrative (tariffs of regulated types of service, etc.) factors which is also calculated by the Federal State Statistic Service of Russia (Rosstat).

19.6% as of May 1, 2012 to 15.2% as of May 1, 2013 on a year-on-year basis).

In May 2013, M0 dropped 0.3% to Rb 8782,8bn (Fig. 2). M0 has the following growing components. Correspondent accounts, an increase of 9.6% to Rb 893,1bn, compulsory reserves, an increase of 2.8% to Rb 487bn, banks' deposits with the Central Bank of Russia, an increase of 10.9% to Rb 124,3bn. The volume of cash in circulation, including cash on hand at credit institutions, decreased by 1.8% to Rb 7278,5bn.

The fall in the volume of cash in circulation in May narrowed M1 (cash plus compulsory reserves) by 1.5% to Rb 7765,5bn (Fig. 3).

In May, the volume of excess reserves at commercial banks¹ grew up by 9.8% to Rb 1017,4bn, whereas banks' debt under repo transactions increased by 11.9% to reach Rb 2,07 trillion. According to the data as of June 26, banks' debt under repo transactions amounted to Rb 2,2 trillion (Fig. 2). Increased debt on repo transactions in May was accompanied by increase in interest rates in the interbank lending market² (from 6.2% in April to 6.37% in May). The interest rate stood at an average of 6.25% in June 1 thru 26.

On June 1, 2013, the volume of Central Bank's international reserves amounted to \$518,4bn, having dropped by 3.6% year-to-date (Fig. 3). Russia's dollar international reserves contracted in Q1 2013 basically because the US dollar gained against the Euro. In May, the international reserves kept contracting amid insignificant volumes of Bank of Russia's currency net sales in response to a growth in the EUR/USD exchange rate due to uncertainty about FRS's policy tightening and anticipated economic recovery in the EC.

Bank of Russia currency interventions didn't exceed \$237m and 19m Euro in May and were intended to level volatility of ruble exchange rate in the periods of its fast weakening (Fig. 4).

In May, ruble real effective exchange rate gained 1.1% (-1.4% in April 2013) against foreign currencies (Fig. 5). Ruble real effective exchange rate increased by 2.9% at the end of the 1st quarter.

US dollar exchange rate increased by 1.75% to Rb 31,59 in May in response to uncertainty about discontinuation of the FRS's QE (quantitative easing) program. In May, EUR exchange rate grew by 0.83% (Rb 40,97/euro) in expectation of good news about business climate in certain EC countries. EUR/USD

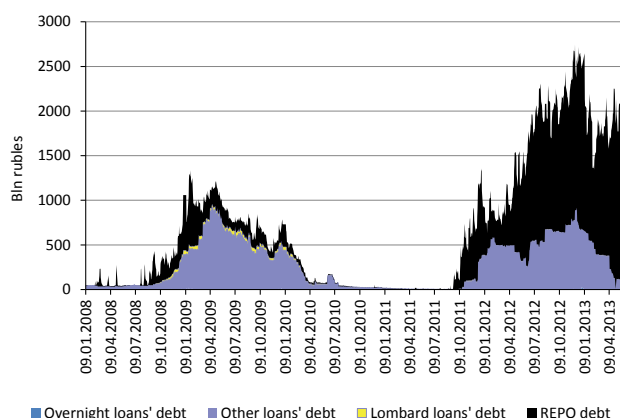
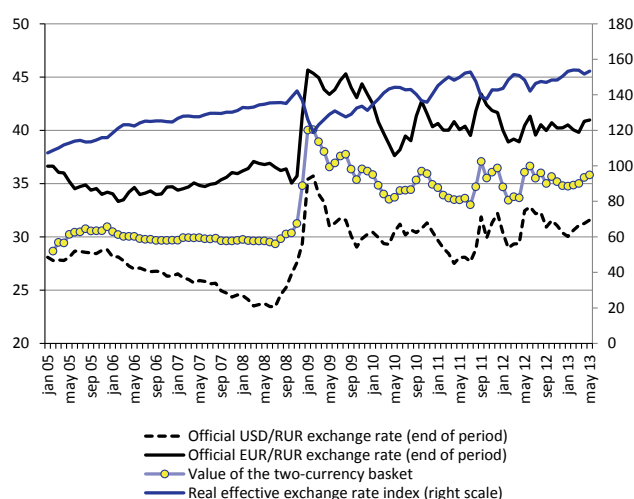


Fig. 2. Commercial banks' debt owed to the Bank of Russia in 2008–2013



Source: Central Bank of Russia, author's estimates.

Fig. 3. Dynamics of M1 and gold and foreign currency (international) reserves of the Russian Federation in 2007–2013

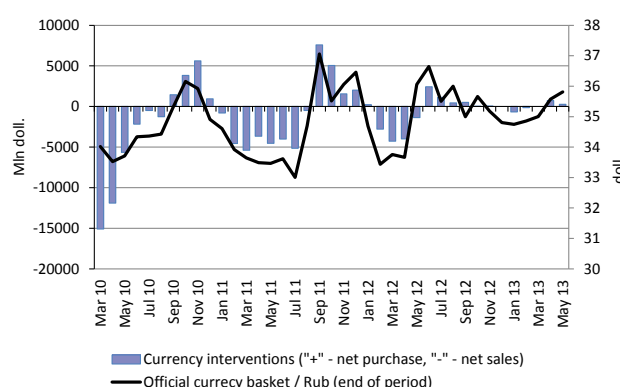
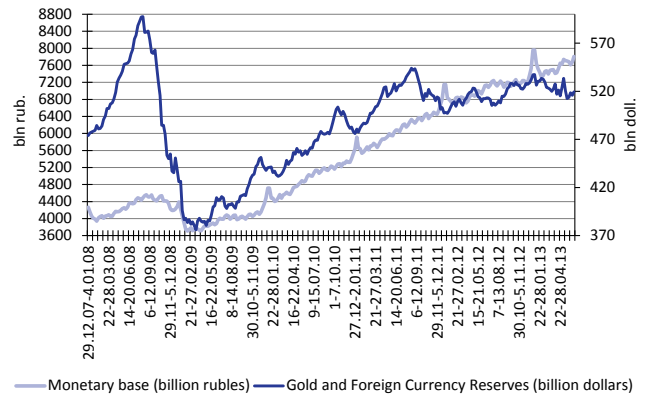


Fig. 4. Bank of Russia's currency interventions and ruble/currency basket exchange rate in March 2010 thru May 2013

1 Commercial banks' excess reserves with the Central Bank refer to the amount of commercial banks' correspondent accounts, their deposits with the Central Bank, as well as Central Bank bonds held by commercial banks.

2 Interbank interest rate is the monthly average MIACR, an interest rate on ruble overnight interbank loans.

exchange rate was 1.3 on average in May. The dual currency basket value increased by 1.28% to Rb 35,8 in May. Ruble devaluation in nominal terms was partially driven by lower oil prices in the global market. In June, a trend of ruble weakening in nominal terms continued. USD exchange rate increased by 2.9% to reach Rb 32,7, EUR exchange rate increased by 3.7% to reach Rb 42,97 as of June 26. As a result, the dual currency basket value increased by 3.3% to Rb 37,3. EUR/USD exchange rate was 1.3 on average within 26 days in June. ●



Source: Central Bank of Russia, author's estimates.
 Fig. 5. Ruble exchange rate indicators in January 2005 thru May 2013