INFLATION AND MONETARY POLICY IN NOVEMBER 2013

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In November 2013, the Consumer Price Index (CPI) amounted to 0.6%, similar to October 2013 (vs. 0.3% in November 2012). As a result, the inflation rate in per annum terms, as seen by the results of the first 11 months of 2013, rose above 6.5%. Over the period from 1 December through 16 December, the CPI amounted to 0.3%. Despite the ongoing slowdown in economic activity, the RF Central Bank has so far abstained from cutting its overnight lending rate.

In November, the inflation rate in the Russian Federation remained high: the Consumer Price Index, as seen by the month end's results, amounted to 0.6% (similar to October 2013), thus climbing 0.3 pp above its year-earlier level. As a result, the inflation rate in per-annum terms went up to 6.5% (*Fig. 1*). The core inflation rate[1] in November 2013 was 0.6%, similar to the same period of 2012.

In November, the prices of foodstuffs rose by 0.7% on October 2013 (*Fig. 2*). Compared with October, the growth rates of prices for fish and seafood products; fruit and vegetable products; and fresh eggs decreased from 1.2% to 0.7%, from 3.6% to 3.0%, and from 18.2% to 11.6%, respectively. The growth rates of prices for butter increased from 2.7% in October to 2.8% in November, while those of prices for milk and dairy products went up from 0.4% in October to 1.6% in November. At the same time, the prices of cereals and legumes continued to fall (-0.5% in November; -0.3% in October), as did prices for lump and granulated sugar (-2.7% in November; -2.6% in October), sunflower oil (-1.2% in November; -0.6% in October), and macaroni products (-0.6% in November; -0.1% in October). Thus, the biggest contributors to the rise in food prices were the rising growth rates of prices for products of animal origin, and for fruit and vegetable products. The growth of prices for butter, dairy products and fresh eggs was determined by the lack of raw materials caused by the fall in fodder availability, which resulted from the poor harvest of field crops in 2012. The growth of prices for fruit and vegetable products, which began in October 2013, can be attributed to seasonal fluctuations.

Having dropped by 0.1% in October, the prices and tariffs established for commercial services rendered to the population increased by 0.2% in November. The growth rate of tariffs for housing and utilities services in November amounted to 0.2%, which represented a 0.4 pp decrease from October. Prices for passenger transport services continued to decline, although at a slower rate than in October (-0.5 in November vs. -2.6% in October). The same applied to spa resort services (-0.4% in November vs. -3% in October) and outbound tourism services (-0.6% in November vs. -1.5% in October). Prices for most types of services went up. Thus, higher prices were recorded for medical services (+1.1% in November vs. +0.4% in October), services rendered by cultural establishments (+1.7% in November vs. +0.8% in October), personal consumer services (+1.0% in November vs. +0.4% in October), and insurance services (+0.5% in November vs. +0.1% in October).

In November, the growth rate of prices for non-food commodities amounted to 0.4%, which represented a 0.1 pp drop on October. In this commodity group, the steepest deceleration was recorded by the growth rates of prices for pharmaceuticals (+0.4% in November vs. +1.0% in October) and tobacco products (+1.2% in November vs. +1.9% in October). Motor gasoline prices did not grow (vs. +0.4% in October).

In December, the rate of inflation continued its upward movement, mainly due to the end of the seasonal decline in prices for fruit and vegetable products and a leap in the prices of dairy products and fresh eggs. Bearing in mind that imports make up a considerable share of total consumption in Russia, it should be noted that Russian inflation might be pushed up, to some extent, by the weaker ruble. The Consumer Price Index for the first 16 days of December amounted to 0.3%, similar to the same period of 2012. As a result, the cumulative inflation rate since the year's beginning rose to the level of 6.2% (vs. 6.3% over the same period of 2012). At present, the main factors that are keeping inflation at bay are the lack of significant demand pressure on prices, this year's relatively good harvest of cereal and legume crops, and the improved situation on the global agricultural market.

1 The core consumer price index reflects the level of inflation on 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. This index is also calculated by the RF Statistics Service (Rosstat).

In November 2013, the broad monetary base increased by 2.1% to Rb 9,138bn (*Fig. 3*). All its components grew: the monies kept on commercial banks' correspondent accounts with the RF Central Bank (growth by 4.6% to Rb 1,005bn), banks' deposits (growth by 14.5% to Rb 1,005bn), required reserves (growth by 0.2% to Rb 510.1bn), and the volume of cash in circulation, including the cash balances of credit institutions, (growth by 1,7% to Rb 7,523bn).

The narrow monetary base (currency issued by the Bank of Russia plus required reserves) over November grew by 0.9%, amounting to Rb 8,032.7bn (*Fig. 4*).

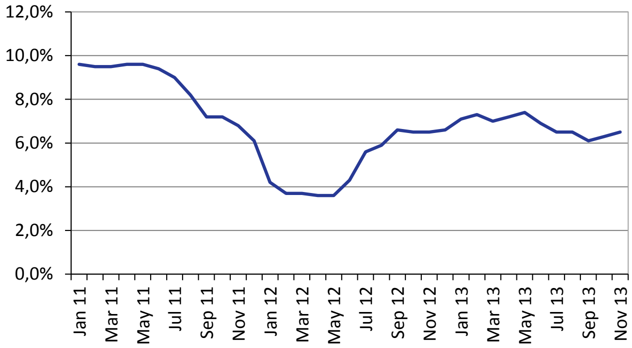
In November 2013, the surplus reserves held by commercial banks[1] rose by 5.5% to Rb 1,105bn, while the amount of banks' repo debt increased by 14.5% to Rb 2.6 trillion. As of 20 December, banks' repo debt amounted to Rb 3 trillion. On the whole, in November 2013 the banking sector's debt to the RF CB exceeded its pre-crisis record high. In the situation of continuing structural liquidity deficit experienced by the banking sector, the interest rate in the interbank market[2] in August was on the average at the level of 6.2% (vs. 6.06% in October 2013), having risen above the similar index for January 2013 by 14.9% (5.4% in January 2013). Over the period from 1 through 19 December, the average interest rate increased, thus amounting to an average of 6.44% (*Fig. 5*). It should be noted that the upward movement of interest rates over the period of November-December 2013 occurred due to the revocation of licenses of a number of Russian banks.

As of 1 December 2013, the Bank of Russia's international reserves volume amounted to $ 515.6bn, having shrunk since the year's beginning by 4.1% (*Fig. 4*). At the same time, over the course of November, the reserves backed by monetary gold declined by $ 3.4bn due to a downward adjustment of asset value.

As seen by the month-end results, the scale of currency interventions by the Bank of Russia in November was $ 3,556m, their purpose being to level down the volatility of the ruble's exchange rate (*Fig. 6*). In November, the financial regulator did not purchase any foreign currency with the purpose of replenishing or spending the monies held by the Federal Treasury as part of sovereign funds denominated in foreign currencies. Over that month, the regulator seven times revised the boundaries of the bi-currency basket's floating corridor by 5 kopecks, thus pushing them up

1 The surplus reserves held by commercial banks at the RF CB are understood as the aggregate balance of their correspondent accounts, deposits with the RF CB, and the bonds issued by the RF CB and held by commercial banks.

2 The interbank interest rate is the average monthly interest rate on overnight ruble-denominated interbank loans (Moscow Interbank Actual Credit Rate – MIACR).



Source: The Rosstat.

Fig. 1. The CPI Growth Rate in 2011–2013 (% Year-on-Year)

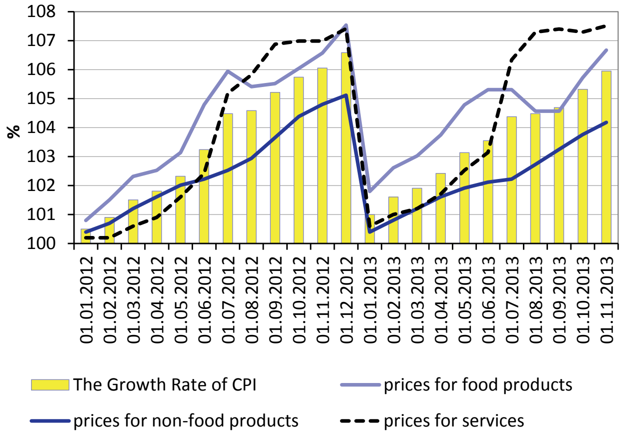


Fig. 2. The CPI Growth Rate in 2012–2013
(as a Percentage of the Previous Year' December)

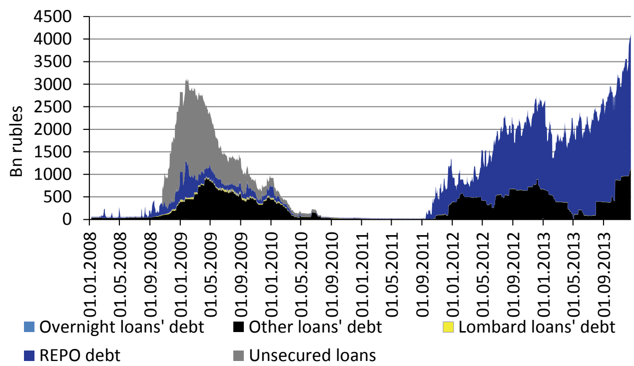


Fig. 3. The Movement of Commercial Banks' Debt to the Bank of Russia in 2008–2013

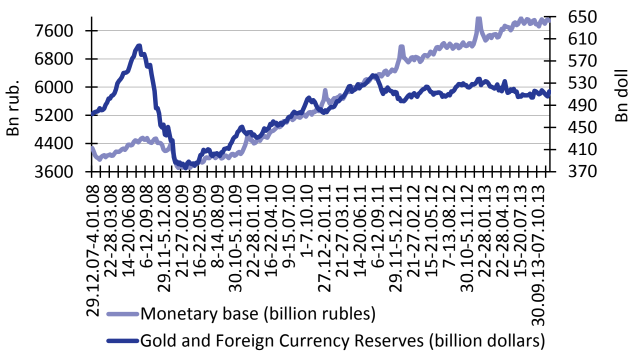


Fig. 4. Behavior of Russia's Narrow Monetary Base and Gold and Foreign Currency (International) Reserves in 2007–2013

to the level of Rb 32.7–39.7. As of 19 December, the boundaries of the bi-currency basket's floating corridor were set at Rb 32.95–39.95. Over the period from 1 through 19 December, the volume of currency sales by the Bank of Russia amounted to $ 2,802m, while the regulator undertook currency interventions in order to replenish or spend the monies held by the Federal Treasury as part of sovereign funds.

According to the Bank of Russia's preliminary estimates, net capital outflow from Russia in Q3 2013 increased to $ 12.9bn, and on the whole for the first nine months of 2013 this index amounted to $ 48.1bn, which is by $ 1.7bn more than the same index for the first nine months of 2012. Over the period from January through September 2013, net capital outflow from the banking sector rose to $ 10.1bn.

In October, the ruble's real effective exchange rate against the two major foreign currencies gained 0.5% (vs. +1.1% in September 2013). Meanwhile, as seen by the quarter-end results of Q3 2013, the ruble's real effective exchange rate declined by 2.3% (*Fig. 7*).

The nominal exchange rate of the ruble against the US dollar rose by 3.5% to Rb 33.2. The growth of the euro's exchange rate against the ruble over November amounted to 2.8% (Rb 45.2). In November, the euro-to-USD exchange rate was on the average at the level of 1.35. The value of the bi-currency basket over November increased by 3.1%, to Rb 38.6. Over the period from 1 through 21 December, exchange rate of the US dollar against the ruble dropped by 0.5% to Rb 33.0; the euro's exchange rate against the ruble dropped by 0.3% to Rb 45.0; as a result, the value of the bi-currency basket declined by 0.4% to Rb 38.4. The average euro-to-USD exchange rate in November amounted to 1.37. It should be noted that the euro's strengthening occurred due to the end of recession in the Eurozone.

On 10 December 2013, the Bank of Russia's Board of Directors announced its decision that the accumulated amount of its FX interventions should be reduced, which resulted in an automatic shift of the operational band by 5 kopecks, to $ 350m. It should be reminded that, since mid-2012, the accumulated amount of its FX interventions related to automatic shifts of the operational band had been set at $ 450m, and then, from 9 September 2013 onwards, at $ 400m. This recently introduced measure of the RF CB, designed to further increase the flexibility of the ruble's exchange rate, will establish the conditions for a gradual adaptation of economic agents to exchange rate fluctuation and successful management of foreign exchange risks.

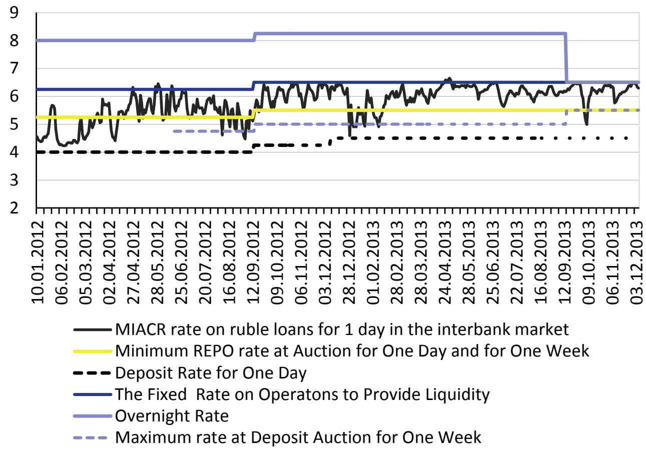
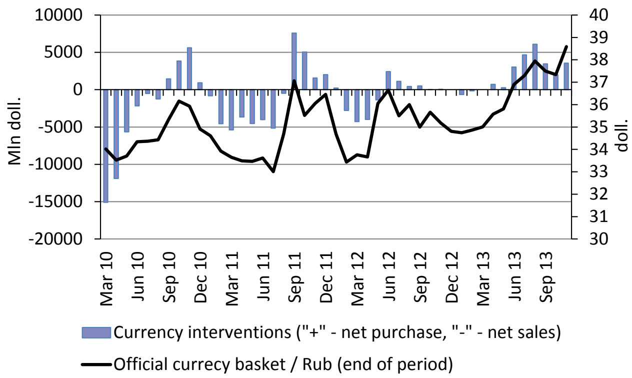
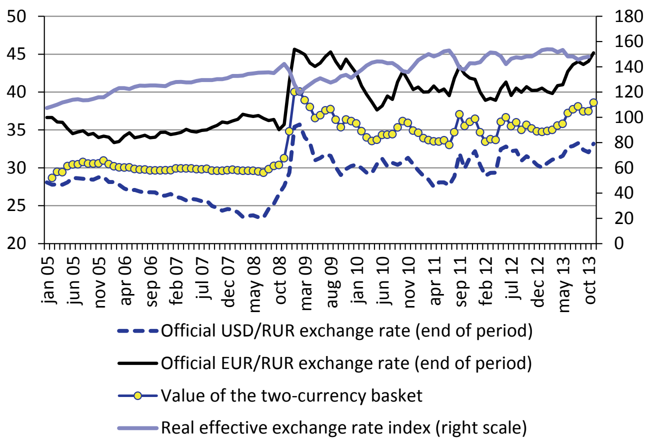


Fig. 5. The Bank of Russia's Interest Rate Corridor and the Interbank Market's Behavior in 2012–2013 (% per Annum)



Source: RF CB; the author's calculations.

Fig. 6. The Bank of Russia's Currency Interventions and the Ruble Exchange Rate against the Bi-currency Basket in March 2010 – November 2013



Source: RF CB; the author's calculations.

Fig. 7. Behavior of the Ruble's Exchange Rate Indicators in January 2005 – October 2013