The Central Bank of the Russian Federation

Guidelines for the Single State Monetary Policy in 2012 and for 2013 and 2014

Approved by the Bank of Russia Board of Directors on 28 October 2011

Contents

I. Medium-term monetary policy principles

The guidelines for the single state monetary policy in 2012 and for 2013 and 2014 have been prepared in accordance with Article 45 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' to inform the public about the Bank of Russia's goals in this field of macroeconomic regulation, as well as the instruments and conditions for achieving these goals.

In the next three years, the Bank of Russia will complete its transition to inflation targeting through setting the target range of changes in consumer price index (CPI). In the next few years, the Bank of Russia's monetary policy will focus on consistently reducing inflation and, in a longer-term perspective, on maintaining steadily low rates of price growth (price stability). This policy will help ensure sustainable economic growth and raise the living standards of the population.

The goal of this strategy is to lower annualised inflation to a rate of 4-5% in 2014.

The Bank of Russia will implement its monetary policy using a flexible exchange rate-setting mechanism. At the same time, the Bank of Russia will retain its presence in the domestic foreign exchange market in order to mitigate excessive fluctuations of the rouble. However, it will not obstruct the development of market-based rouble exchange rate trends that are the result of fundamental factors. This policy will help avoid the risks that are posed to the stability of the Russian financial system by excessively sharp fluctuations of the exchange rate. At the same time, it will allow economic agents to adapt to the free floating exchange rate.

The consistent scaling down of the Bank of Russia's direct intervention in exchange rate-setting processes will reduce the impact of the Bank of Russia's operations to purchase and sell foreign currency in the domestic foreign exchange market on the banking sector's liquidity. In light of this fact, the Bank of Russia's interest rate policy begins to play a key role in the monetary regulation process.

The Bank of Russia will use the short-term interbank money market rate as the operational target of its interest rate policy. A change in the short-term interest rate will pass a signal to market participants that the regulator is tightening or easing its monetary policy and will influence medium- and long-term interest rates. This policy will help regulate demand in the economy to influence inflation.

The Bank of Russia will normally take interest rate decisions on a monthly basis. As the impact of monetary policy on inflation dynamics is spread over time, the Bank of Russia will use estimates of the expected inflation path when implementing its interest rate policy. The Bank of Russia's interest rate decisions will be based on a broad analysis of risks for reducing inflation linked to the demand and supply factors, which have a short- and medium-term impact on inflationary processes, as well as the monetary factors that determine the medium- and long-term inflation path. If necessary, the Bank of Russia will employ an entire range of instruments available, in addition to interest rate policy measures.

Considering the lessons of the financial and economic crisis, the Bank of Russia intends to pay close attention to issues related to financial stability. These issues are important, taking into account the fact that the banking system serves as the main channel by which monetary policy signals are sent to the real sector of the economy. The stability and efficiency of the financial intermediation system are crucial for both achieving the monetary policy goals of reducing inflation and maintaining price stability, and ensuring overall macroeconomic equilibrium. The study of the processes in the financial sector of the economy (including the constant monitoring of price dynamics on the real estate and stock markets, the analysis of trends in monetary aggregates and credit activity) will help determine the probability of financial imbalances in advance and allow the Bank of Russia to take timely monetary policy and banking regulation measures to prevent these scenarios.

In order to maintain financial stability, the Bank of Russia will pay special attention to the timely identification and assessment of bank risks and ensure the transparency of credit institutions' activity, first and foremost, for the purpose of identifying problems early. The development of risk-based approaches to banking supervision stemming from the best foreign practice will be a key instrument in the implementation of these tasks. The Bank of Russia will continue to employ a differentiated regime of supervision over certain credit institutions depending on their systemic importance, their level of transparency, the complexity of their business and the extent of their compliance with the required ratios. Additional regulation and control mechanisms will apply to systemically important banks, taking international experience into account as well as the specifics of the national economy.

The successful implementation of the monetary policy strategy will largely depend on the Bank of Russia's successes in implementing the tasks of developing the country's of financial markets' infrastructure and expanding their capacity. The Bank of Russia will also pay close attention to improving Russia's national payment system, the smooth and efficient operation of which (including its interaction with foreign payment systems) is a necessary condition if monetary regulation is to be made more effective, or if financial stability is to be ensured and the investment climate in the country improved.

The efficiency of monetary policy largely depends on the state of the government's finances. Consistent fiscal policy measures aimed at gradually reducing the budget deficit and ensuring long-term equilibrium and the sustainability of the budget system will make a positive contribution to maintaining financial and macroeconomic stability and will therefore create favourable conditions for achieving monetary policy goals.

The Bank of Russia will regularly explain to the public the goals and the rationale of its monetary policy and carry out macroeconomic assessments necessary for taking decisions. The Bank of Russia's greater information openness in this field will contribute to improving the practice of managing inflationary expectations and will instill confidence in its monetary policy.

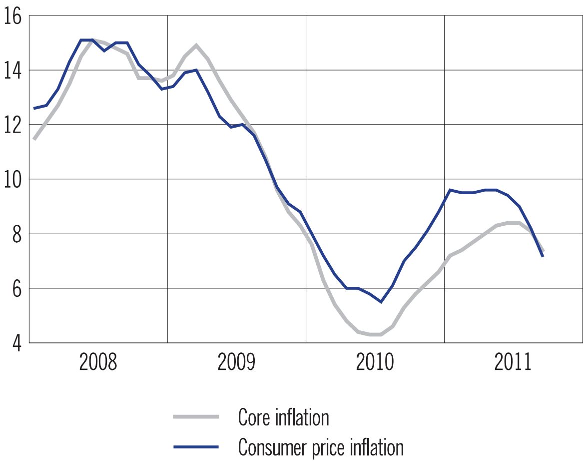
II. Russia's economic development and monetary policy in 2011

II.1. Inflation and economic growth

In January-September 2011, production growth continued in the Russian economy. Domestic demand expanded and was the main force driving GDP growth. The unstable situation in the global economy affected the dynamics of external demand and Russian exports. Russia continued to register a net private capital outflow. Russia's macroeconomic indices showed different trends. Nevertheless, at the end of the period, most of the indices tended to grow. Russia's GDP grew by 3.7% in January-June 2011 and could increase further by the end of the year.

Amid economic growth, the number of employed increased in January-September 2011 as compared with the same period of 2010. The total number of unemployed stood at 6.0% of the economically active population, as of the end of September 2011 (compared to 6.6% a year earlier).

Consumer price inflation and core inflation (as % of corresponding month of previous year)



Household spending on goods and services grew by an estimated 6.9% in January-September 2011. Fixed capital investment started to increase in the second quarter of the year and grew by 4.8% in the first nine months of 2011 (compared to 2.9% in the same period a year earlier).

With world energy prices at higher levels than in 2010, Russia's federal budget revenue increased. Tight fiscal policy measures generated a federal budget surplus in January-September 2011, which was estimated at 2.9% of GDP (in January-September 2010, a budget deficit amounting to 2.2% of GDP was registered).

Year-on-year inflation remained at a high level and stood at 9.4-9.6% in the first half of 2011. At the beginning of the year, inflation was largely due to the increase in food prices, which grew rapidly as a result of the poor grain harvest in Russia in 2010, and also due to rising world food prices. As consumer demand demonstrated growth, the prices of non-food products and services provided to households grew faster on average than in the same period of 2010.

Food price growth began to slow down in February 2011 and in June a decrease in food prices was registered. These dynamics were largely the result of the fall in vegetable and fruit prices that was registered in April-September 2011. This may suggest a diminishing impact of the contraction in agricultural produce supply in 2010 on prices. In the first seven months of the year, the rouble's appreciation contributed to lower inflation. The rouble was seen to de-

Consumer price inflation and core inflation
(as % of corresponding month of previous year)

	2008		2009		2010		2011	
	core inflation	inflation	core inflation	inflation	core inflation	inflation	core inflation	inflation
January	11.5	12.6	13.8	13.4	7.6	8.0	7.2	9.6
February	12.1	12.7	14.6	13.9	6.3	7.2	7.4	9.5
March	12.7	13.3	14.8	14.0	5.4	6.5	7.7	9.5
April	13.5	14.3	14.4	13.2	4.8	6.0	8.0	9.6
May	14.5	15.1	13.6	12.3	4.4	6.0	8.3	9.6
June	15.0	15.1	12.9	11.9	4.3	5.8	8.4	9.4
July	15.0	14.7	12.3	12.0	4.3	5.5	8.4	9.0
August	14.9	15.0	11.7	11.6	4.6	6.1	8.1	8.2
September	14.6	15.0	10.8	10.7	5.3	7.0	7.4	7.2
October	13.7	14.2	9.6	9.7	5.8	7.5		
November	13.7	13.8	8.8	9.1	6.2	8.1		
December	13.6	13.3	8.3	8.8	6.6	8.8		

preciate to some extent in August-September, but this trend did not have a significant negative impact on price dynamics. The actual output of goods and services continued to grow and was close to its potential (natural) level, which did not obstruct the slowdown in price growth.

In September 2011, year-on-year inflation slowed significantly and stood at 7.2%, while core inflation amounted to 7.4%. Consumer price growth may remain at less than 7% in 2011 (compared with 8.8% in 2010).

II.2. Balance of payments

Russia's balance of payments in January-September 2011 reflected increased instability in international markets and its parameters were determined by different factors. In January-August 2011, the current account surplus offset private capital outflow and remained sufficient to enable Russia to continue accumulating international reserves. In September 2011, the increase in net capital outflow reduced Russia's reserve assets.

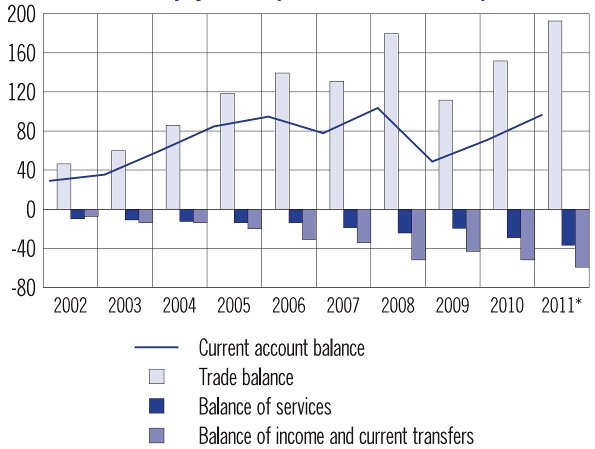
The current account surplus grew to $73.6 billion, or by 28%, as compared with January-September 2010. The trade surplus grew to $147.7 billion.

Exports of goods grew by 32% to $380.1 billion. This growth was due to higher prices for Russia's export commodities amid a slight increase in export quantities (by 1%). The export quantities of crude oil declined by 3% while the export quantities of petroleum products remained close to the level registered in January-September 2010. However, the export of natural gas grew by 14% as compared to the same period last year. The contract price of crude oil grew by 40%, petroleum products by 37% and natural gas by 20%. The total export value of these commodities increased by 36% and their share in overall exports stood at 66%. The exports of other items grew by 25%, of which ferrous and non-ferrous metals by 14%.

Imports of goods reached $232.3 billion, an increase of 35% compared with January-September 2010, and an increase of 6% compared with January-September 2008. The slowing of growth in imports in the third quarter of 2011 was partly attributed to the rouble's weakening against the basket of currencies of Russia's major trading partners. In contrast to exports, import dynamics were largely determined by the growth in import quantities. Contract prices grew by 12%. The share of machine-building goods continued to increase in the structure of imports while the share of foodstuffs and raw materials for their production, as well as chemicals slightly decreased.

The deficit in the balance of services amounted to $27.3 billion (as compared with $20.9 billion in January-September 2010). The value of services provided to non-residents grew from $32.7 billion to $39.5 billion. However, this growth failed to make up for the large-

Key current account parameters of Russia's balance of payments (billions of US dollars)



** Estimate.*

scale increase in the imports of services to a record high of $66.8 billion in the same periods of previous years. The structure of imports was dominated by services received by Russian citizens during their stay abroad (37%) and services provided by non-resident transport companies (17%).

The deficit of the balance of employee compensation grew by 20% in January-September 2011 to $7.5 billion. Compensation paid to non-residents working in Russia exceeded the compensation received by Russian citizens from foreign employers by three times.

The balance of investment income was negative and stood at $37.3 billion. Payables totalled $67.0 billion and receivables amounted to $29.7 billion.

The balance of current transfers posted a $2.1 billion deficit, which was close to the level registered in January-September 2010. Interstate settlements on export and import duties within the Customs Union played an increasingly important role.

The financial account deficit (net of reserve assets) expanded to $48.0 billion in January-September 2011 (compared with $9.4 billion in January-September 2010). The Russian economy's external obligations increased by $40.4 billion (compared with $29.4 billion in January-September 2010). Other sectors[1] of the economy were able to raise $33.3 billion ($14.4 billion in January-September 2010) largely in the form of direct investment, which totalled $28.3 billion. The value of funds raised by banks from non-residents contracted from $12.9 billion to $8.1 billion. Russia registered a capital inflow in the first half of 2011, whereas in the third quarter of this year credit institutions hardly carried out any large transactions in global financial markets. Operations conducted by the general government and monetary authorities reduced their external debt by $1.1 billion. Overall, Russia's external debt was estimated at $519.4 billion, as of 1 October 2011.

Foreign assets more than doubled in January-September 2011 as compared with the same period last year, with funds invested by residents abroad (net of reserve assets) amounting to $88.3 billion. Other sectors of the economy made the biggest contribution to this growth, as their external claims grew by $64.1 billion (by $42.9 billion in January-September 2010). Capital outflow in the form of direct investment has traditionally prevailed in the structure of resident foreign assets ($43.6 billion) whereas the value of foreign currency cash held by residents (except banks) continued to contract in January-September 2011 (by $5.4 billion), although less intensively than in the same period of 2010 (by $13.6 billion). Banks' foreign assets increased by $23.0 billion partly reflecting preference changes in favour of investing abroad amid the rouble's depreciation by the end of the period. Russia's contributions to the EurAsEC reserve fund, and also the growth in overdue debt on accrued but unpaid interest, increased the general government's foreign assets by $1.3 billion.

Net private capital outflow was estimated at $49.4 billion in January-September 2011 ($14.3 billion in the same period of 2010). Changes in the sentiments of foreign investors withdrawing funds from Russian instruments amid higher volatility in global financial markets, and also the increased attractiveness of residents' investments in foreign assets (prompted by the unfavourable investment climate in Russia) were the main factors that intensified capital flight from the country.

The growth in reserve assets accounted for in the balance of payments stood at $21.2 bil-

[1] *Other sectors include non-financial corporations, financial corporations other than credit institutions, households, and non-profit service providers.*

lion in January-September 2011. In September 2011, amid the increase in demand for foreign currency, the Bank of Russia stepped up its operations in the domestic foreign exchange market. As a result, Russia's international reserves contracted by $8.3 billion. As of 1 October 2011, Russia's international reserves, taking into account exchange rate and asset revaluations as well as other changes, stood at $516.8 billion. The country had sufficient reserves to finance the import of goods and services for 16 months (19 months as of 1 October 2010).

The price of Russian oil in the world market is expected to average $108 per barrel in 2011. This will increase the country's current account surplus to $96.3 billion. With exports of goods estimated at $521.9 billion and imports at $329.3 billion, the trade surplus will reach $192.6 billion. As imports of services are growing faster than their exports, the deficit in the balance of services is expected to increase to $37.1 billion. The financial account deficit (net of reserve assets) is estimated at $73.6 billion. Private sector foreign assets are expected to continue to grow rapidly until the end of this year, while growth in the build-up of private sector foreign liabilities will be slower, due to which net private capital outflow will widen to $70 billion as compared with the previous year. The current account surplus will be sufficient to keep stable the level of international reserves, which will grow by $22.7 billion in 2011 (as compared with $36.8 billion in 2010).

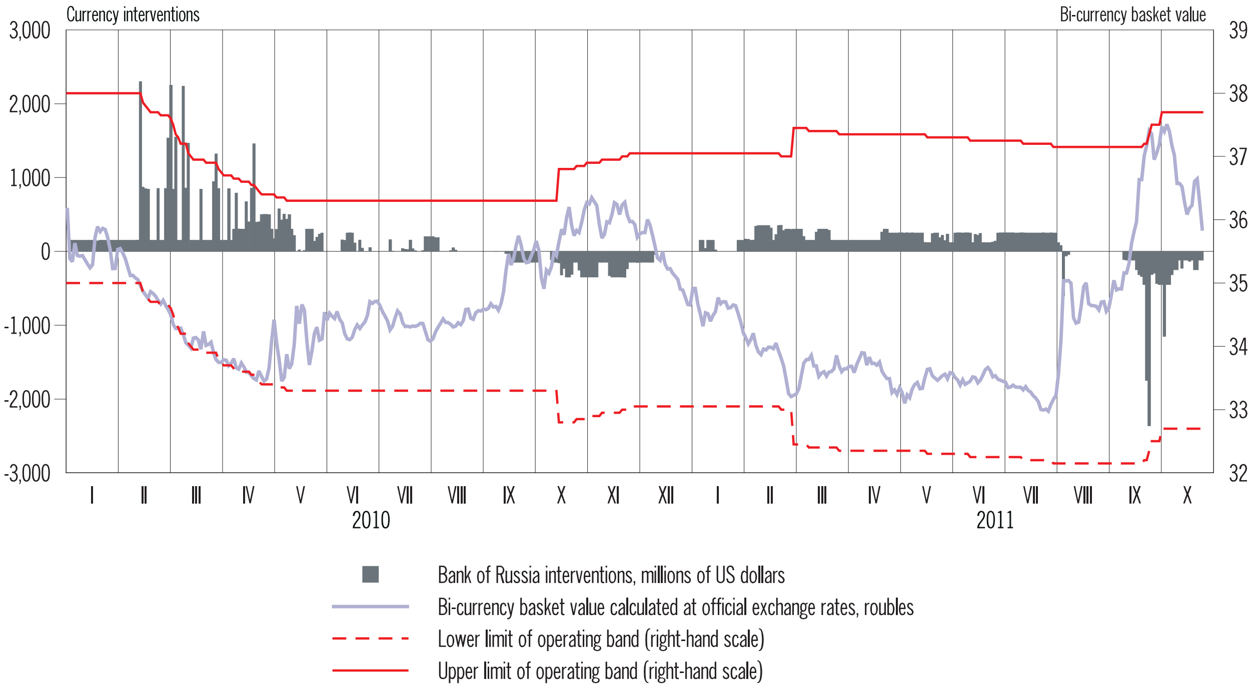
II.3. Exchange rate

In 2011, the Bank of Russia's exchange rate policy was aimed at mitigating the fluctuations of the rouble exchange rate. The Bank of Russia continued to use the rouble value of the bi-currency basket (0.45 euros and 0.55 US dollars) as an operational benchmark for its exchange rate policy, setting an operating floating band for its permissible values and correcting the limits of the band depending on the volume of currency interventions. At the same time, the Bank of Russia did not set any targets or fixed limits for the exchange rate.

The exchange rate policy mechanism allowed the Bank of Russia to buy or sell foreign currency both at the limits of and inside the operating band of the bi-currency basket. The operating band also included the range within which foreign currency interventions were not conducted.

The limits of the operating band were readjusted automatically, whenever the Bank of

Bank of Russia interventions in domestic foreign exchange market and rouble value of bi-currency basket



Russia's accumulated currency interventions reached the required amount. However, the amount of accumulated interventions was calculated without taking the volume of targeted interventions to offset the impact of ongoing imbalance between demand and supply in the domestic foreign exchange market into account.

In order to make the exchange rate-setting mechanism even more flexible, on 1 March 2011 the Bank of Russia broadened the operating floating band from 4 roubles to 5 roubles, and reduced the value of accumulated interventions that cause the limits of the band to shift by 5 kopecks from $650 million to $600 million.

In January-July 2011, the favourable situation in global commodities markets contributed to the persistence of a significant foreign currency inflow into the country, despite the acceleration of growth in imports and net private capital outflow. As a result, the supply of foreign currency steadily exceeded demand in the domestic foreign exchange market in the reporting period, creating conditions for the rouble's appreciation. The value of the bi-currency basket dropped from 34.91 roubles as of 1 January 2011 to 33.01 roubles as of 31 July 2011.

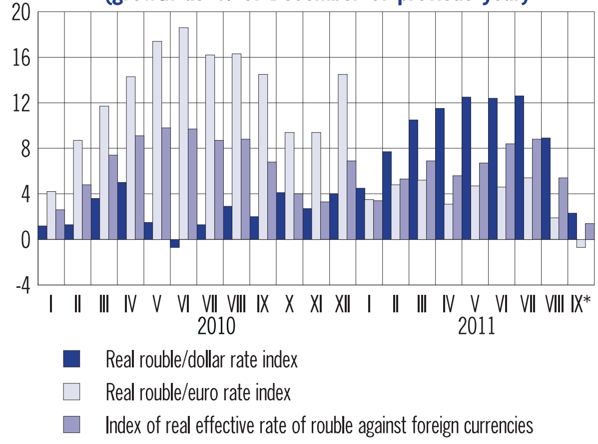
In August-September 2011, growing concerns over debt problems in the European Union and in the United States and general uncertainty about the prospects of growth for the global economy have considerably increased investor risk aversion. These factors have prompted capital outflows from emerging market countries and the weakening of their currencies.

As private capital outflow from Russia intensified in August-September 2011, the demand for foreign currency exceeded its supply in the domestic foreign exchange market, despite the continued inflow of funds from Russia's foreign trade operations. In these conditions, the Bank of Russia started operations in August within the framework of its exchange rate policy to sell foreign currency in the domestic foreign exchange market, which helped mitigate the rouble's depreciation and keep the market stable. The total value of net foreign currency sales by the Bank of Russia in August-September 2011 amounted to $7.1 billion.

The pace of the weakening of the rouble's nominal exchange rate against major world currencies during this period was comparable to the exchange rate dynamics demonstrated by the currencies of most BRICS countries. The rouble value of the bi-currency basket increased by 6.6% in January-September 2011 to 37.1991 roubles as of 1 October 2011. In October 2011, the rouble value of the bi-currency basket decreased again, partly offsetting its increase in the previous months and remained considerably below the upper limit of the Bank of Russia's operating band.

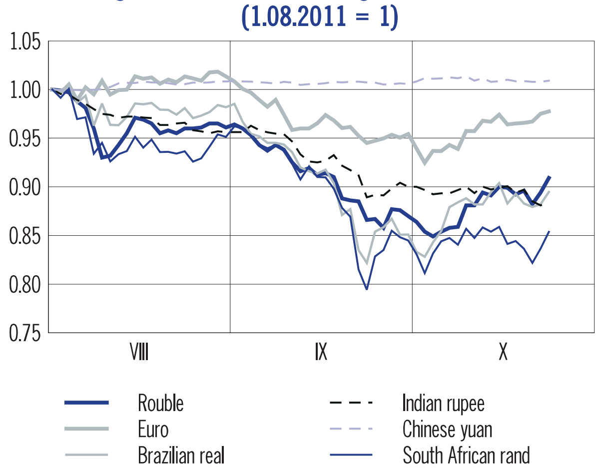
Taking varying conditions in the domestic foreign exchange market in the first three quarters of 2011 into account, the Bank of Russia conducted operations within the framework of its exchange rate policy both to buy (January-August) and sell foreign currency in the domestic foreign exchange market (August-Sep-

Real rouble exchange rate
(growth as % of December of previous year)



** Preliminary data.*

Indices of foreign currencies' nominal exchange rates against the US dollar in August-October 2011 (1.08.2011 = 1)



tember). Net foreign currency purchases by the Bank of Russia in the domestic foreign exchange market amounted to $21.0 billion in January-September 2011.

Overall, the rouble appreciated in both nominal and real terms against the currencies of Russia's major trading partners in January-September 2011. The nominal effective rate of the rouble against foreign currencies grew by 2.2% in September 2011 on December 2010, while the rouble's real effective rate increased by an estimated 1.4% over this period.

II.4. Monetary policy implementation

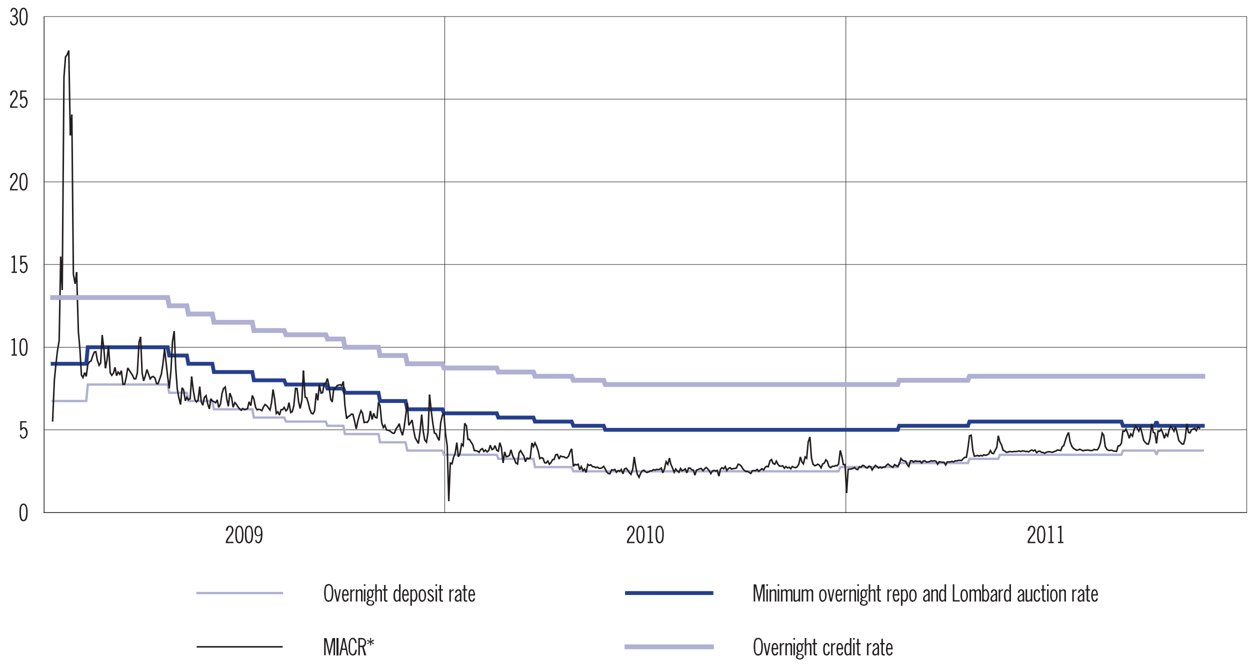
During 2011, monetary policy has been implemented amid global economic uncertainty. This uncertainty has been intensified by regional and interregional financial and economic imbalances, persisting inflationary risks and risks to sustainable economic growth in Russia, prompting the need for decisions to ensure balance. The reduction of interest rates on Bank of Russia operations in 2009-2010 and the anti-crisis measures that were implemented in Russia have created favourable conditions for the functioning of the banking sector and the relatively steady increase in banks' lending activity corresponding to the pace of economic recovery and development. These conditions have allowed the Bank of Russia to switch to the use of largely standard monetary regulation instruments this year amid efforts to consistently increase the flexibility of the exchange rate-setting mechanism and enhance the role of interest rate policy. However, if necessary, the Bank of Russia may resort to other instruments to support the banking sector, including operations that were previously suspended.

Interest rate policy

Considering the high level of inflation registered in Russia at the beginning of this year and the unstable situation in global commodities and financial markets, the Bank of Russia took measures in January-May 2011 to gradually raise interest rates on its operations, and also to increase required reserve ratios to suppress inflationary expectations.

In the second quarter of this year, the prices of some consumer goods showed a downward trend, while the upward inflation trend came to a halt. In addition, prerequisites emerged for the gradual weakening of inflationary pressure from

Bank of Russia key interest rates and overnight MIACR (% p.a.)



** MIACR is an average weighted rate on overnight interbank rouble loans.*

money supply. The analysis of short- and medium-term inflation risks gave the Bank of Russia grounds to expect a slower price increase in the second half of 2011. In light of this, the Bank of Russia considered the level of market interest rates achieved by mid-2011 as acceptable for maintaining, in the next few months, a balance between constrained inflationary pressure and the possibility of slower economic growth. Therefore, in June-August 2011, the Bank of Russia left the refinancing rate and interest rates on its operations unchanged.

The level of banking sector liquidity decreased significantly in January-October 2011 due to the absorption of a considerable amount of credit institutions' funds through the budget channel, and also due to a significant outflow of private capital, which reduced the scale of the Bank of Russia's operations in the domestic foreign exchange market and prompted the regulator in September-October to switch to foreign currency net sales. These factors increased interest rate volatility in the money market. Given these conditions, the Bank of Russia decided to narrow the band of interest rates on its key operations of providing and absorbing liquidity in order to raise the effectiveness of its interest rate policy.

Overall, the refinancing rate and the overnight credit and currency swap rates have been raised by 0.5 percentage points since the start of the year; the interest rates on other refinancing instruments, except fixed repo and Lombard loan rates, have increased by 0.25 percentage points and deposit rates have increased by 0.75-1.0 percentage points.

The change of interest rates on Bank of Russia operations and the reduction of banks' liquidity have led to growth in short-term interbank lending rates.

During the first months of the year, amid considerable excess liquidity remaining in the banking sector, money market rates stayed close to the lower limit of the interest rate band on Bank of Russia operations. As banks' liquidity decreased and credit institutions' demand for refinancing intensified, market rates moved to the middle of this band. The average weighted

Bank of Russia interest rates in 2011 (% p.a.)*

Purpose	Type of instrument	Instrument	Maturity	As of 1.01	Interest rate from:			
					28.02	3.05	31.05	15.09
Providing liquidity	Standing facilities (fixed interest rates)	Overnight loans	1 day	7.75	8.00	8.25	8.25	8.25
		Currency swap (rouble part)	1 day	7.75	8.00	8.25	8.25	8.25
		Lombard loans, repo	1 day, 7 days	6.75	6.75	6.75	6.75	6.50
		Lombard loans	30 days **	6.75	6.75	6.75	6.75	6.50
		Loans secured by gold	Up to 90 days	—	—	—	—	6.75***
			From 91 to 180 days	—	—	—	—	7.25****
		Loans extended against the collateral of non-market assets or guarantees	Up to 90 days	6.75	7.00	7.25	7.25	7.00
			From 91 to 180 days*****	7.25	7.50	7.75	7.75	7.50
	Open market operations (minimum rates)	Repo auctions	1 day	5.00	5.25	5.50	5.50	5.25
		Lombard auctions, repo auctions	7 days	5.00	5.25	5.50	5.50	5.25
			3 months	6.50	6.75	7.00	7.00	6.75
Absorbing liquidity	Open market operations (maximum rates)	Deposit auctions	1 month	5.00	5.00	5.25	5.50	5.50
	Standing facilities (fixed interest rates)	Deposit operations	1 day and call	2.75	3.00	3.25	3.50	3.75
			7 days	3.00				
Memo item:								
Refinancing rate				7.75	8.00	8.25	8.25	8.25

* Except operations suspended as of 1 January 2011.

** Operations suspended by the Bank of Russia from 10 February 2011.

*** The interest rate was set at 7.00% p.a. from 29 August 2011.

**** The interest rate was set from 1 November 2011.

***** Operations suspended by the Bank of Russia from 10 February 2011 and resumed from 1 November 2011.

MIACR on overnight rouble loans increased from 2.7% p.a. in January to 4.5% p.a. in September. In these conditions, the spread between the MIACR and Bank of Russia fixed deposit rates increased by 0.8 percentage points. The rate increase was accompanied by the growing activity of market participants: the average daily turnover of interbank lending transactions calculated on the MIACR sample grew from 89.8 billion rubles in January to 194.7 billion rubles in September.

The gradual improvement of the situation in the real sector of the economy in 2011, and also the prolonged effect of the Bank of Russia's accommodative monetary policy helped further reduce the cost of credit resources for non-financial organisations and households. The average weighted interest rate on rouble loans to non-financial organisations with terms of up to one year fell by 2.1 percentage points in August 2011, year on year, to a historic low of 7.9% p.a. The average weighted rate on rouble loans to non-financial organisations with terms of over one year declined from 11.9% p.a. in August 2010 to 10.3% p.a. in August 2011. The average weighted rate on rouble loans to households for terms of up to one year decreased over the same period from 27.1% p.a. to 22.9% p.a. and for terms of over one year it fell from 17.9% p.a. to 17.1% p.a., respectively.

The non-price conditions of bank lending to non-financial organisations eased to a lesser extent than in the previous year. Banks continued to set relatively tight requirements for the financial position of this category of borrowers. For large borrowers, these requirements were tightened even further. As for the provision of loans to households, banks continued to ease their requirements with respect to the financial position of borrowers and collateral for loans and increase the maximum maturity and value of loans.

Money supply and its sources

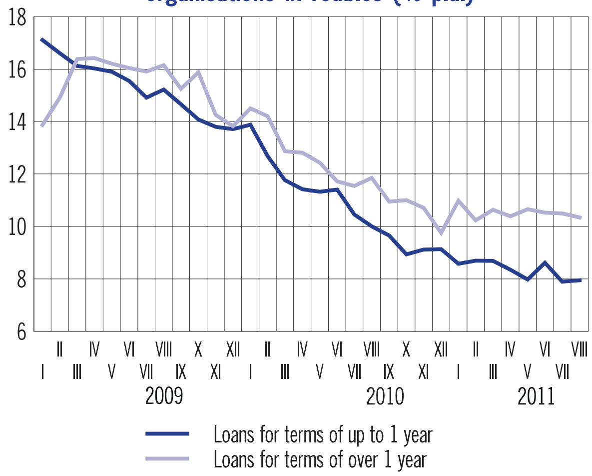
The analysis of monetary aggregate dynamics makes it possible to identify medium- and long-term inflation risks. The aggregate money supply grew faster than money demand in late 2009 and in 2010, suggesting an increase in inflation risks in the first half of 2011. At the same time, the slowing of growth in money supply creates conditions for the decrease in inflation caused by monetary factors.

In 2010, the annual rates of growth in the M2 monetary aggregate were relatively high and measured over 30%. However, from September 2010, the annual rates of growth in rouble money supply were observed to fall gradually and this trend continued in 2011. As a result, the annual rates of growth in the M2 monetary aggregate stood at 20.9% as of 1 September 2011 (as against 31.1% as of 1 January 2011).

In January-August 2011, there was a decrease in the annual rates of growth in household and non-financial organisation rouble deposits. At the same time, the annualised growth in household rouble deposits was considerably faster than the annualised growth in non-financial organisation deposits. In particular, despite the slowing of growth, household rouble deposits grew by an annualised 33-34% on average in January-August 2011 (43-44% in January-August 2010). By comparison, the annual rates of growth in the rouble deposits of non-financial organisations stood at 18% over that period (about 34% in January-August 2010). The annualised growth in household rouble deposits amounted to 26.8% as of 1 September 2011 as compared with 15.1% for non-financial organisations.

Annualised growth in broad money (including foreign currency deposits) also started to slow down from December 2010. This trend continued in January-August 2011 (this growth

Nominal interest rates on loans to non-financial organisations in roubles (% p.a.)



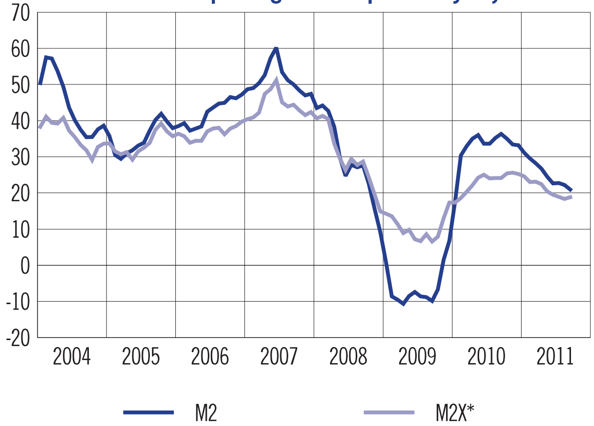
stood at 18.8% as of 1 September 2011 as against 24.1% as of the same date a year earlier).

As the rouble exchange rate changed significantly from August 2011, the value of foreign currency deposits increased by 2.1% in January-August 2011 in rouble terms (in January-August 2011, it fell by 7.2%). The annualised growth in foreign currency deposits in rouble terms stood at 8.6% as of 1 September 2011 (the value of foreign currency deposits decreased by 13.8% as of 1 September 2010 compared with the same period of the previous year). Nevertheless, the level of dollarisation of deposits[2] was lower in January-August 2011 than in the same period of the previous year and stood at 15.5% as of 1 September 2011 (16.9% as of 1 September 2010). According to preliminary estimates of Russia's balance of payments, the value of foreign cash outside banks decreased in the first nine months of 2011. However, this decrease was considerably smaller than in the same period last year.

The increase in the banking sector's net foreign assets contributed to money supply growth. Their growth in January-August 2011 stood at 1,509.9 billion roubles as against 1,019.5 billion roubles in the same period last year. The Bank of Russia's net foreign assets grew by 1,119.5 billion roubles in January-August 2011 (by 1,325.4 billion roubles in the same period last year). The budget channel ceased to be a source of money supply growth in the reporting period. The banking sector's net claims to the general government contracted by 2,821.3 billion roubles in January-August 2011, whereas in the same period of the previous year they had grown by 131.3 billion roubles.

The contribution of bank lending to the expansion of broad money increased considerably in January-August 2011. The banking sector claims to non-financial organisations and households grew by 2,805.6 billion roubles and this increase exceeded their growth in the same period last year by more than twice (1,148.5 billion roubles). The role of lending activity in money supply dynamics has increased noticeably and this factor has allowed the Bank of Russia to implement its interest rate policy more effectively.

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



** Broad money.*

The debt on loans extended to non-financial organisations in roubles and foreign currencies (in rouble terms) increased by 13.0% in January-August 2011 (by 5.6% in January-August 2010). The debt on these loans increased by 20.0% as of 1 September 2011 from the same date a year earlier, which was mainly due to lower lending rates.

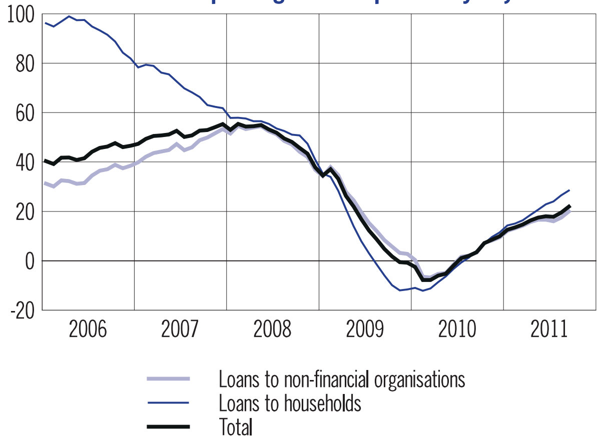
The debt on loans extended to households in roubles and foreign currency (in rouble terms) grew by 19.6% in January-August 2011 (by 6.5% in January-August 2010). The annualised rate of growth in this debt stood at 28.5% as of 1 September 2011 (4.0% as of 1 September 2010). The increase in consumer activity and the easier lending terms were the factors that accelerated growth in loans to households. The Russian government's measures to stimulate mortgages and car lending provided further support to the long-term retail lending in 2011.

As the payment discipline of borrowers improved and banks used various instruments to reduce problem debts, the quality of the corporate and retail loans increased. The share of overdue loans in the total value of loans to non-financial organisations decreased from 5.3% as of 1 January 2011 to 5.1% as of 1 September 2011 and in the total value of loans to households from 6.9% to 6.1%, respectively.

The share of problem and bad loans in the total value of the Russian banks' aggregate credit portfolio decreased by 0.6 percentage points in

[2] The level of dollarisation in this case is the share of foreign currency deposits (in rouble terms) in broad money.

Rouble and foreign currency loans to non-financial organisations and households (growth as % of corresponding date of previous year)



January-August 2011 to 7.8% as of 1 September 2011. Banks' loan loss provisions increased by 2.6% in January-August 2011 (by 12.3% in the same period last year). Loan loss provisions accounted for 8.1% of total loans as of 1 September 2011 (8.8% as of 1 January 2011).

Credit risks will remain quite high in 2011 but will no longer pose a serious threat to the banking sector as they did during the crisis. Measures to improve the procedure of assessing the level of risks assumed by banks for the real owners and affiliated parties will help further alleviate the problem of credit risks.

Considering the current trends in the dynamics of major macroeconomic indicators, money supply (the M2 monetary aggregate) is expected to grow by 18-22% in 2011 while the narrowly defined monetary base may expand by 18-20%. These estimates are close to the indicators of the third variant of the monetary programme outlined in the Guidelines for the Single State Monetary Policy in 2011 and for 2012 and 2013. However, certain indicators of the monetary programme for 2011 were specified by the Bank of Russia proceeding from their actual dynamics.

In 2011, net international reserves held by monetary authorities are expected to grow less than projected. This can be largely explained by the deterioration of the balance of Russia's capital and financial account. The Bank of Russia's decisions, which increased the flexibility of the rouble exchange rate, considerably reduced the money issue effect from its interventions in the domestic foreign exchange market. Net international reserves (NIR) held by monetary authorities grew by 0.7 trillion roubles in January-September 2011 (by 1.8 trillion roubles in the same period last year). In line with the updated forecast of the balance of payments, NIR could increase by 0.8 trillion roubles as a whole in 2011

Estimated monetary programme indicators for 2011 (billions of roubles)*

	1.01.2011 (fact)	1.10.2011 (fact)	1.01.2012 (forecast)	2011 growth (forecast)
Monetary base (narrow definition)	**5,912.7**	**6,303.7**	**7,099**	**1,186**
– cash in circulation (outside the Bank of Russia)	5,785.2	6,059.5	6,840	1,055
– required reserves**	127.6	244.2	259	132
Net international reserves	**14,304.5**	**15,044.6**	**15,090**	**786**
– billions of US dollars	469.4	493.6	495	26
Net domestic assets	**-8,391.8**	**-8,740.9**	**-7,991**	**401**
Net credit to general government	-3,962.6	-6,148.0	-5,529	-1,567
– net credit to federal government	-2,906.8	-4,452.4	-4,229	-1,323
– balances of consolidated budget accounts of regional governments and government extra-budgetary funds' accounts with the Bank of Russia	-1,055.8	-1,695.6	-1,300	-244
Net credit to banks	-1,640.2	-236.3	-90	1,550
– gross credit to banks	576.6	765.1	950	373
– correspondent accounts of credit institutions, bank deposits with the Bank of Russia, and other instruments used to absorb excess banking sector liquidity	-2,216.8	-1,001.3	-1,040	1,177
Other net unclassified assets	-2,788.9	-2,356.6	-2,372	417

** Programme indicators, calculated at a fixed exchange rate, are based on the official exchange rate of the rouble as of the beginning of 2011.*
*** Required reserves for liabilities in the currency of the Russian Federation deposited with the Bank of Russia.*

(by 2.7 trillion roubles, according to the third variant of the monetary programme).

Considering the expected volume of the monetary base, this suggests that the monetary authorities' net domestic assets (NDA) will increase by 0.4 trillion roubles in 2011.

The fiscal dynamics this year will change the NDA structure considerably. As the general government's budget showed a surplus, net credit to the general government contracted significantly (by 2.2 trillion roubles in the first nine months of 2011), which was the main reason for the slowing of the monetary base dynamics and an important channel for absorbing banking sector liquidity. The practice of depositing temporarily free federal budget funds with credit institutions mitigated the effect of the budget factor on banking sector liquidity. In January-September 2011, the value of federal budget funds deposited with credit institutions grew by 0.9 trillion roubles. Contraction in net credit to the general government is estimated at 1.6 trillion roubles in 2011 as a whole (0.5 trillion roubles under the third variant of the monetary programme for 2011). Given these conditions, in accordance with the updated programme, net credit to banks may expand by 1.6 trillion roubles (a decrease of 1.0 trillion roubles is projected under the third variant of the programme).

The Bank of Russia takes into account these changes in the dynamics of monetary indicators in 2011 when using monetary policy instruments.

Monetary policy instrument application

Required reserve ratios

In 2011, the Bank of Russia took decisions to raise required reserve ratios on 1 February, 1 March and 1 April. Overall, required reserve ratios for credit institutions' liabilities to non-resident legal entities in roubles and foreign currency were increased from 2.5% to 5.5% and for credit institutions' liabilities to individuals and other liabilities in roubles and foreign currency from 2.5% to 4.0%. As a result, the funds deposited by credit institutions in required reserve accounts with the Bank of Russia increased from 188.4 billion roubles as of 1 January 2011 to 347.0 billion roubles as of 1 October 2011. The averaged amount of required reserves in credit institutions' correspondent accounts and subaccounts with the Bank of Russia during the period of averaging, from 10 September to 10 October 2011, totalled 455.0 billion roubles. This revealed an increase of 221.9 billion roubles or almost twofold since the start of the year.

Bank of Russia operations to absorb liquidity

As banking sector liquidity was gradually withdrawn through the budget channel, the value of credit institutions' funds in correspondent and deposit accounts with the Bank of Russia, and funds invested in Bank of Russia bonds (OBRs) contracted by more than 1.2 trillion roubles as of 1 October 2011 as compared with the beginning of the year.

At the same time, banking sector liquidity remained at a high level in the first half of 2011, which largely prompted the Bank of Russia to carry out operations to absorb credit institutions' spare funds.

The total value of the Bank of Russia's deposit operations with credit institutions increased by a factor of 2.4 in January-September 2011 compared with the same period last year to 62.3 trillion roubles, of which overnight deposit operations accounted for 87.5%, 1-week deposit operations for 9.3% and call deposits for 1.8%. In order to give credit institutions the possibility to manage their liquidity more effectively, on 1 March 2011 the Bank of Russia decided to change the time required for concluding deposit transactions via the Reuters-Dealing system and the MICEX Electronic Trading System (ETS). The time for concluding overnight deposit deals through the Reuters Dealing system was extended to 17:00, Moscow time, while similar transactions via the MICEX ETS system could now be signed during both the first and second trading sessions.

Three-month deposit auctions were suspended by the Bank of Russia from 1 January 2011 as the regulator switched to issuing three-month OBRs.

In January-September 2011, the Bank of Russia placed OBRs worth 0.5 trillion roubles in the primary market at market prices (1.8 trillion roubles in the same period of 2010). Over the same period, OBR redemption totalled 1.1

trillion roubles. The value of outstanding OBRs stood at 10.3 billion roubles at market prices as of 1 October 2011.

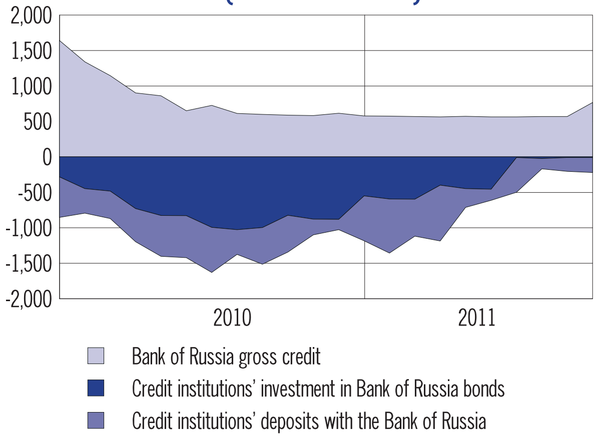
Bank of Russia outright sales of government securities were an additional instrument used by the regulator to absorb the liquidity overhang. Bank of Russia sales of federal government bonds (OFZ) from its own portfolio totalled 8.0 billion roubles in January-September 2011.

Bank of Russia operations to provide liquidity

In January-July 2011, as banking sector liquidity remained at a high level, credit institutions' demand for most refinancing instruments was insignificant: credit institutions applied for them from time to time, which was caused by the need to make tax payments. However, beginning in August, the volume of credit institutions' refinancing increased considerably amid the resumption of capital outflow that was prompted by the intensification of the eurozone debt crisis. The Bank of Russia's gross credit to banks expanded by 188.6 billion roubles in January-September 2011. Credit institutions' debt on loans extended against securities on the Bank of Russia Lombard list and non-market assets fell by 9.6 billion roubles, while their debt on repo operations increased by 199.0 billion roubles.

In order to ensure the smooth functioning of the payment system, the Bank of Russia extended intraday loans to credit institutions on a daily basis. In January-September 2011, the value of these loans increased by 25.5% year

Bank of Russia gross credit to credit institutions and Bank of Russia debt on absorption operations (billions of roubles)



on year to 25.1 trillion roubles as of 1 October 2011.

The Bank of Russia also extended overnight loans to credit institutions to enable them to conclude daily operations. The volume of overnight loans increased by 3.8% in January-September 2011, year on year, to 167.9 billion roubles.

The average daily debt on repo operations conducted by the Bank of Russia in January-September 2011 stood at 11.6 billion roubles as against 27.7 billion roubles in the same period of 2010.

The value of Lombard loans extended to credit institutions in January-September 2011 totalled 42.7 billion roubles (57.4 billion roubles in January-September 2010). Of these Lombard loans provided at fixed interest rates for terms of 1 to 30 calendar days equalled 34.7 billion roubles.

Credit institutions' demand for loans extended against the collateral of non-market assets contracted significantly compared with the previous year. In January-September 2011, their value totalled 6.7 billion roubles as against 320.9 billion roubles in the same period of 2010.

Foreign exchange swap operations were not conducted by the Bank of Russia in January-September 2011 due to the absence of credit institutions' demand for them.

In 2011, the Bank of Russia completed its work to create a new credit institution refinancing instrument: gold-secured loans. As of 1 October 2011, credit institutions from six Russian regions (the Moscow Region, the Samara and Chelyabinsk Regions, and the Republics of Buryatia and Sakha (Yakutia) and also the Krasnodar Territory) have the possibility to conduct transactions based on this refinancing mechanism. In October, the Bank of Russia decided to extend the term of the provision of gold-secured loans to 180 days and set the interest rate on loans with maturities of 91 to 180 days at 7.25% p.a. from 1 November 2011.

As part of its efforts to scale down anti-crisis measures, the Bank of Russia suspended from 3 May 2011 signing general agreements with Russian credit institutions on extending unsecured loans. In accordance with the decision it took in March 2011, the Bank of Russia suspended as of 1 July 2011 repo transactions with credit institutions secured by the shares of Russian companies. The Bank of Russia Board of Directors also took decisions on suspending other operations and returning to its pre-crisis criteria for including securities in its Lombard list. At the same time, considering credit institutions' increased demand for refinancing, the Bank of Russia resumed some measures in the fourth quarter of 2011 which were aimed at maintaining banking sector liquidity:

– it restarted the provision of loans extended against the collateral of credit institutions' guarantees;

– it raised the haircuts on non-market assets accepted as collateral for Bank of Russia loans from 0.2-0.5 to 0.5-0.8;

– it resumed from 1 November 2011 the provision of Bank of Russia loans secured by assets or guarantees for terms from 90 to 180 calendar days.

III. Macroeconomic development scenarios for 2012 and for 2013 and 2014 and balance of payments forecast

International financial institutions and economic organisations expect the global economy to continue to grow in 2012 and in the period up to 2014. The rates of growth in the global production of goods and services will amount to 4.0% in 2012 and remain the same as in 2011, according to the IMF's forecast. Nevertheless, the unsteady recovery of the US economy, as well as unstable government finances in some foreign countries have created the risk of less favourable medium-term global economic scenarios. It has not been ruled out that business activity may decline considerably in the countries that are Russia's major trading partners and risks for foreign financial systems may increase. Inflation in most countries trading with Russia is expected to slow in 2012 as the impact of energy and food price changes is forecast to decrease. These factors will reduce the external risks of inflation acceleration in Russia. Interest rates in foreign countries are unlikely to change significantly in 2012 as compared with 2011. The deterioration of the situation in global financial markets may affect capital outflow from Russia; however, the continued recovery of the Russian economy and the improvement of the investment climate may stimulate capital inflow.

This being considered, the Bank of Russia has developed three monetary policy forecast variants for 2012-2014, one of which corresponds to the government's forecast. The scenarios are based on the price of Russian oil in world markets.

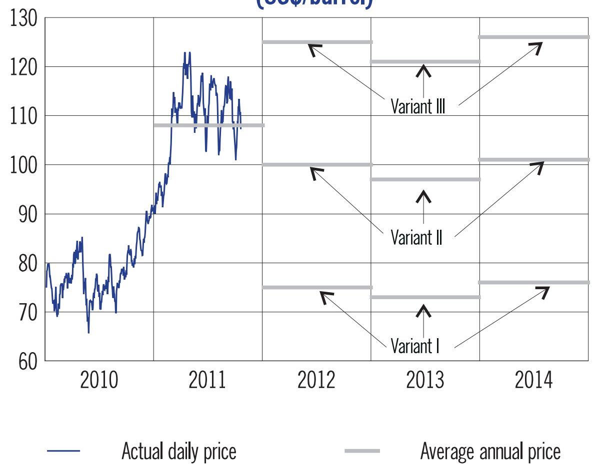
Under **the first forecast variant**, the Bank of Russia assumes the average annual price of Russia's Urals crude in world markets to fall to $75 per barrel in 2012.

In this case, household real disposable money income may increase by 3.9%, and fixed capital investment by 4.2%. GDP would grow by 3.3%.

The second forecast variant is the government's forecast, on which the draft federal budget for 2012-2014 is based. According to this forecast, the price of Russian oil may stand at $100 per barrel in 2012.

This variant envisages Russia's economic development, which would be due to the implementation of active government policy aimed at improving the investment climate, raising the competitiveness of the Russian economy, stimulating economic growth and modernisation, and also increasing the efficiency of budget expenditure. Under this variant, household real disposable money income is expected to rise by 5.0%

Price of Urals crude (US$/barrel)



in 2012. Fixed capital investment growth may accelerate to 7.8%. In this case, GDP may grow by 3.7%.

Under **the third forecast variant**, the Bank of Russia expects the Urals crude price to rise to $125 per barrel in 2012.

With larger revenues from the export of Russian commodities in 2012, investment activity is expected to increase. Fixed capital investment may grow by 8.7% and household real disposable money income by 5.2%. GDP is expected to grow by 4.7%.

GDP growth in 2013-2014 may range between 3.5% and 4.8%, depending on the scenario.

The baseline forecast for Russia's balance of payments in 2012-2014 is compiled on the assumption that the price of Urals crude will remain relatively stable within the range of $97-101 per barrel. The first and third variants envisage the probability of price deviations from this range by 25% in both directions.

Under the first forecast variant, which is based on the assumption that the average price of Russian oil will decline to $75 per barrel in 2012, Russia's current account surplus is expected to fall considerably, to $11.3 billion. With exports contracting faster than imports, the positive balance of goods and services will decrease to $69.7 billion. The second forecast variant envisages a moderate deterioration of the price situation in the world fuel and energy market, due to which the current account surplus and the positive balance of goods and services will contract less dramatically, to $36.5 billion and $101.9 billion, respectively. Under the more favourable price situation in external markets envisaged in the third forecast variant, the current account surplus could reach $72.5 billion and the positive balance of goods and services could reach $141.8 billion but will fail to exceed their 2011 levels.

The deficit in the balance of income and current transfers is expected to fall insignificantly, to $58.4 billion under the first variant and equal $65.4 billion and $69.3 billion under the second and third variants, respectively.

The capital and financial account is expected to register a deficit reduction to $26.3 billion and $10.5 billion under the first and second variants, respectively, and reach a balanced level under the third. The intensive growth of foreign liabilities of the Russian economy in 2012 will help compensate for investment abroad to a larger extent than in 2011 under the first and second variants, which will reduce net private capital outflow to $25.0 billion and $10.0 billion, respectively, while the third variant envisages a balance of cross-border private capital flows. The balance of operations by the gener-

Russian balance of payments forecast for 2012-2014 (billions of US dollars)

	2011 (estimate)	2012			2013			2014		
	$108 per barrel	Forecast variant 1 ($75 per barrel)	Forecast variant 2 ($100 per barrel)	Forecast variant 3 ($125 per barrel)	Forecast variant 1 ($73 per barrel)	Forecast variant 2 ($97 per barrel)	Forecast variant 3 ($121 per barrel)	Forecast variant 1 ($76 per barrel)	Forecast variant 2 ($101 per barrel)	Forecast variant 3 ($126 per barrel)
Current account	**96.3**	**11.3**	**36.5**	**72.5**	**-15.7**	**5.9**	**49.8**	**-34.4**	**-6.0**	**37.1**
Balance of goods and services	155.6	69.7	101.9	141.8	45.3	73.4	121.8	29.0	63.5	110.7
Exports of goods and services	*576.3*	*490.1*	*584.3*	*666.7*	*491.5*	*594.9*	*697.6*	*508.7*	*633.7*	*754.4*
Imports of goods and services	*-420.7*	*-420.4*	*-482.5*	*-524.9*	*-446.2*	*-521.5*	*-575.9*	*-479.7*	*-570.2*	*-643.8*
Balance of income and current transfers	-59.3	-58.4	-65.4	-69.3	-61.0	-67.5	-71.9	-63.4	-69.6	-73.6
Capital and financial account	**-73.6**	**-26.3**	**-10.5**	**0.0**	**-2.8**	**18.0**	**23.5**	**12.2**	**33.0**	**38.5**
Financial account (net of reserve assets)	**-73.6**	**-26.3**	**-10.5**	**0.0**	**-2.8**	**18.0**	**23.5**	**12.2**	**33.0**	**38.5**
General government and monetary authorities	*-3.6*	*-1.3*	*-0.5*	*0.0*	*2.2*	*3.0*	*3.5*	*2.2*	*3.0*	*3.5*
Private sector (including net errors and omissions)	*-70.0*	*-25.0*	*-10.0*	*0.0*	*-5.0*	*15.0*	*20.0*	*10.0*	*30.0*	*35.0*
Change in reserve assets ("+" signifies decrease, "-" signifies increase)	**-22.7**	**14.9**	**-26.0**	**-72.5**	**18.4**	**-23.8**	**-73.3**	**22.2**	**-26.9**	**-75.6**

al government and the monetary authorities will be insignificant. Private capital outflow will slow as foreign investors show an increased interest in Russian assets and residents partly refocus on investing in their own economy.

The current account surplus will offset the financial account deficit only partially under the first variant and fully under the second variant, while no offset will be required under the third variant. As a result, foreign exchange reserves will fall by $14.9 billion under the first variant and increase by $26.0 billion and $72.5 billion under the second and third variants, respectively.

Under the first variant of the medium-term forecast for Russia's balance of payments, the positive balance of goods and services is expected to fall significantly, to $45.3 billion in 2013 and $29.0 billion in 2014 amid low world prices of Russian oil, while the deficit in the balance of income and current transfers will increase. As a result, the current account balance will run a deficit of $15.7 billion in 2013 and $34.4 billion in 2014. Under the second variant, the current account balance will remain positive but drop to $5.9 billion in 2013 as imports are expected to grow, while its deficit in 2014 will reach $6.0 billion. Under the third forecast variant, the current account surplus is estimated at $49.8 billion in 2013 and $37.1 billion in 2014. All the forecast variants for Russia's balance of payments in 2014 take into account the positive effect of holding the XXII Olympic Winter Games, which is estimated at $4-5 billion. The expected reduction of the current account balance under all the forecast variants is based on the presumption of Russia's more balanced participation in the international labour division system.

The balance of the capital and financial account will be influenced by larger private capital inflows into the Russian economy. However, the financial account will remain negative at $2.8 billion in 2013 under the first variant. The other forecast variants for 2013 envisage the expansion of the private sector's operations to raise foreign capital and a financial account surplus of $18.0-23.5 billion amid high global prices for Russia's key export commodities. Further growth in foreign investment in 2014 will ensure a surplus of Russia's capital and financial account under all the forecast variants, which will range from $12.2 billion under the first variant to $38.5 billion under the third variant.

Under the first variant, reserve assets will fall by $18.4 billion in 2013 and by $22.2 billion in 2014. Under the other forecast variants, reserve assets are expected to grow in 2013-2014 by $23.8 billion and $26.9 billion under the second variant and by $73.3 billion and $75.6 billion under the third variant, respectively.

IV. Monetary policy objectives and instruments in 2012 and in 2013 and 2014

IV.1. Quantitative indicators of monetary policy and the monetary programme

Given the scenario condition of the Russian economy and key parameters of the social and economic development forecast of the Russian Federation for 2012 and the planning period of 2013 and 2014, the Russian Government and the Bank of Russia have set a goal of reducing inflation to 5-6% in 2012, to 4.5-5.5% in 2013, and to 4-5% in 2014 (on a December-on-December basis). This headline inflation target is matched by core inflation of 4.5-5.5% in 2012, 45% in 2013, and 3.5-4.5% in 2014.

Monetary programme calculations for 2012-2014 have been made on the basis of money demand indicators which correspond to the inflation targets and GDP projections, as well as balance of payments forecasts, and parameters of the draft federal budget law.

During this period, economic growth will be driven by both external factors connected with the favourable situation in the world commodities and capital markets, and internal factors such as growth in bank lending to the real economy.

Depending on the forecast variant, the monetary aggregate M2 could increase by 12-20% in 2012, 16-19% in 2013, and 17-20% in 2014.

The Bank of Russia has drawn up three monetary programme variants based on the key scenarios of the social and economic development forecast for 2012-2014 and other abovementioned parameters. It should be noted that the second variant is based on the macroeconomic indicators used in compiling the draft federal budget for 2012 and the planning period of 2013 and 2014. The rates of growth in the narrow monetary base, calculated taking into account the need to achieve inflation targets, and corresponding to the economic growth projections, may vary between 9% and 16% in 2012, 12% and 14% in 2013, and 13% and 15% in 2014, depending on the monetary programme variant.

Assuming that the balance of payments demonstrates the expected dynamics during the period under review, money supply under the first variant will be largely shaped by growth in the net domestic assets (NDA) of the monetary authorities, while the value of net international reserves (NIR) will decrease. Under the second and third variants, money supply will be mainly determined by the increase in NIR. At the same time, the parameters of the federal budget performance influencing the change in the Bank of Russia's net credit to banks will be important for the implementation of monetary policy.

The budget projections for the three-year forecast period all envisage a federal budget deficit in 2012-2014. It is assumed that in the medium term the federal budget deficit will be mainly financed with larger borrowings in the domestic market and with the revenues from privatisation. The Reserve Fund is expected to be enlarged in 2012-2014. At the same time, the share of oil and gas revenues in total government income will remain relatively high and government borrowing in the forecast period will have its objective limits. Taking this into account, changes in the situation in global commodities and financial markets, as compared with the original conditions envisaged for the draft federal budget, may prompt corresponding adjustments to the monetary financing of the federal budget deficit.

Under the second and third variants of the monetary programme, net credit to the federal government is expected to decrease, mainly as a result of the accumulation of money in the accounts of sovereign funds, while the first variant envisages an increase in net credit to the federal government.

These scenario conditions will determine the impact of the budget channel on money supply in 2012-2014. Considering the expected dynamics of net credit to the general government under all the variants foreseen during the forecast period, the volume of the Bank of Russia's operations to refinance credit institutions will grow consistently.

Under **the first variant** of the monetary programme, calculated on the assumption that the world price of oil will fall significantly, NIR could decrease in absolute terms in 2012-2014, contracting by 0.5 trillion roubles in 2012, 0.6 trillion roubles in 2013 and 0.7 trillion roubles in 2014.

To ensure that growth in the monetary base matches the parameters of this programme variant, NDA should increase by 1.1 trillion roubles in 2012, 1.5 trillion roubles in 2013, and 1.8 trillion roubles in 2014.

If world oil prices fall below the level projected in the draft federal budget for 2012-2014, this factor will increase the budget's vulnerability to various shocks. Given that federal budget expenditures remain within the limits of budget projections, the federal budget deficit may stand at about 4% of GDP in 2012-2014 under this variant. The need to finance it may cause considerable spending from the sovereign funds and a large-scale build-up of government borrowings, which would push up their cost and increase expenditures on government debt servicing. The considerable growth in borrowing in the domestic market may edge out credit to the real economy, while the increase in external borrowings may prompt an inflow of short-term capital.

Monetary programme projections for 2012-2014 (billions of roubles)*

	1.01.2012 (estimate)	1.01.2013			1.01.2014			1.01.2015		
		Variant 1	Variant 2	Variant 3	Variant 1	Variant 2	Variant 3	Variant 1	Variant 2	Variant 3
Monetary base (narrow definition)	**7,099**	**7,713**	**8,058**	**8,264**	**8,672**	**9,137**	**9,452**	**9,825**	**10,440**	**10,891**
– cash in circulation (outside the Bank of Russia)	6,840	7,420	7,752	7,950	8,330	8,777	9,079	9,421	10,012	10,444
– required reserves**	259	293	306	314	342	361	373	403	429	447
Net international reserves	**15,090**	**14,635**	**15,882**	**17,301**	**14,073**	**16,608**	**19,534**	**13,396**	**17,429**	**21,837**
– billions of US dollars	495	480	521	568	462	545	641	440	572	717
Net domestic assets	**-7,991**	**-6,922**	**-7,824**	**-9,036**	**-5,401**	**-7,471**	**-10,082**	**-3,571**	**-6,989**	**-10,946**
Net credit to general government	-5,529	-5,202	-5,698	-6,589	-4,801	-6,159	-7,864	-4,290	-6,706	-9,283
– net credit to federal government	-4,229	-4,038	-4,534	-5,425	-3,537	-4,895	-6,600	-2,926	-5,342	-7,919
– balances of consolidated budget accounts of regional governments and government extra-budgetary funds' accounts with the Bank of Russia	-1,300	-1,164	-1,164	-1,164	-1,264	-1,264	-1,264	-1,364	-1,364	-1,364
Net credit to banks	-90	679	250	116	1,865	1,092	565	3,187	2,072	1,281
– gross credit to banks	950	1,687	1,302	1,196	2,876	2,157	1,667	4,211	3,160	2,385
– correspondent accounts of credit institutions, bank deposits with the Bank of Russia, and other instruments used to absorb excess banking sector liquidity	-1,040	-1,008	-1,053	-1,080	-1,012	-1,066	-1,103	-1,024	-1,089	-1,105
Other net unclassified assets	-2,372	-2,399	-2,376	-2,563	-2,465	-2,404	-2,783	-2,468	-2,354	-2,944

** Programme indicators, calculated at a fixed exchange rate, are based on the official exchange rate of the rouble as of the beginning of 2011.*

*** Required reserves for liabilities in the currency of the Russian Federation deposited with the Bank of Russia.*

Under the first variant of the monetary programme, net credit to general government is expected to increase by 0.3 trillion roubles in 2012, by 0.4 trillion roubles in 2013 and by 0.5 trillion roubles in 2014. Monetary programme calculations show that under this variant net credit to banks may grow by 0.8-1.3 trillion roubles annually, if the Bank of Russia steps up operations to provide liquidity to the banking sector. Gross credit to banks may reach 40% of the monetary base in 2014.

Under **the second variant** of the monetary programme, which envisages moderate growth in oil prices during the forecast period, the increase in NIR matching the corresponding balance of payments forecast indicators will be 0.8 trillion roubles in 2012, 0.7 trillion roubles in 2013, and 0.8 trillion roubles in 2014.

Calculations show that the NIR growth in 2012-2014 will have to be ensured along with the increase in NDA, which should reach 0.2-0.5 trillion roubles annually allowing for the dynamics of the monetary base estimated in line with the inflation target.

The reduction of the federal budget deficit and its financing largely from non-monetary sources as stipulated by the key parameters of budget policy are expected to cut net credit to the general government by 0.2 trillion roubles in 2012 and by 0.5 trillion roubles in 2013 and 2014 annually.

Given this scenario in the dynamics of net credit to the general government, NDA growth in 2012-2014 will be mainly ensured by an increase in net credit to banks (by 0.3-1.0 trillion roubles annually), which will largely result from the expansion of gross credit to banks.

Under **the third** monetary programme **variant**, which is based on the assumption that oil prices will rise significantly, NIR could increase by 2.2 trillion roubles in 2012 and 2013 annually and by 2.3 trillion roubles in 2014. At the same time, taking into consideration the expected monetary base dynamics, NDA could contract by 1.0 trillion roubles in 2012, by 1.0 trillion roubles in 2013 and by 0.9 trillion roubles in 2014 under this variant.

Taking into consideration the expected improvement in the external economic situation and more substantial GDP growth under this variant, there is reason to expect the balances of the budget accounts with the Bank of Russia to increase by more than under the second variant, and this will correspond to a contraction of net credit to the general government by 1.1-1.4 trillion roubles annually in 2012-2014. The volume of government borrowing in this case may be lower than the level stipulated in budget projections.

Under this scenario, net lending to banks is expected to grow by 0.2 trillion roubles in 2012, by 0.4 trillion roubles in 2013 and by 0.7 trillion roubles in 2014.

The monetary policy's key parameters for the three-year forecast period will be influenced by external market developments, the correlation of interest rates in the domestic and external markets, the extent of budget policy tightness and the progress in the implementation of economic reform. The monetary programme parameters are not rigid, and may be revised if the economic situation changes and the actual conditions deviate from the conditions assumed while compiling the economic development forecast variants. To respond effectively to changes in the monetary situation and take into account possible risks in implementing monetary policy, the Bank of Russia will use the entire set of instruments at its disposal.

IV.2. Exchange rate policy

In 2012 and in the 2013-2014 period, exchange rate policy will be aimed at consistently scaling down the Bank of Russia's direct intervention in the rate-setting process and creating conditions for the transition to a floating exchange rate regime. The Bank of Russia will continue its policy of increasing the flexibility of the rouble exchange rate to prepare market participants to act under the conditions of a floating rate and facilitate their adaptation to the considerable exchange rate fluctuations that may be caused by external shocks.

During the transitional period, exchange rate policy will be aimed at mitigating fluctuations of the rouble exchange rate against major world currencies, and also offsetting the effect of ongoing imbalances between supply and demand in the domestic foreign exchange market. The parameters of the exchange rate policy mechanism will be set taking the key balance of payments factors, budget indicators, and the situation in the Russian money market into account, and will match the goals of the single monetary policy. At the same time, the Bank of Russia will not set any targets or fixed limits on the exchange rate level of the national currency.

At present, the high current account surplus is creating fundamental conditions for the strengthening of the national currency, but as the trade surplus is expected to fall due to the faster growth of imports, the role of this factor will decrease and, therefore, the balance of the capital and financial accounts will exert a growing influence on the exchange rate. Cross-border capital flows may be excessively volatile as a result of a change in the sentiments of market participants in the domestic and global financial markets. This factor, along with the Bank of Russia's reduced interventions in the domestic foreign exchange market, will increase uncertainty over rouble exchange rate dynamics in the medium term. In this situation, exchange rate risk management by economic agents in the real and financial sectors becomes increasingly important.

IV.3. Monetary policy instruments and their application

One of the key objectives of the Bank of Russia in 2012-2014 is to create the conditions for increasing the efficiency of its interest rate policy. For this purpose, the Bank of Russia will continue to implement measures aimed at making the exchange rate-setting process more flexible, upgrading the set of monetary regulation instruments used, and mitigating the influence of autonomous factors on banking sector liquidity. These measures will help gradually increase the influence of the interest rate channel of the monetary policy transmission mechanism on attaining final inflation targets. In particular, in order to make the influence of the Bank of Russia's interest rate policy on short-term money market rates more effective, the Bank of Russia will have to decide on optimising its set of monetary regulation instruments and improving the mechanism of its operations based on the forecasts of banking sector liquidity indicators.

During the transition to the floating exchange rate regime, the Bank of Russia will continue to further scale down its interventions in the domestic foreign exchange market, gradually giving up the managed exchange rate regime. At the same time, depending on developments caused by external and internal factors, the Bank of Russia may conduct operations in the domestic foreign exchange market resulting in liquidity provision or absorption.

Depending on macroeconomic development scenarios that influence the dynamics of monetary indicators, the Bank of Russia is prepared to actively use the instruments involving the provision of funds to the banking sector or to absorb credit institutions' free liquidity to attain medium-term monetary policy targets.

All the three forecast variants envisage the expansion of the Bank of Russia's net credit to banks. If the banking sector registers a shortage of liquidity, the Bank of Russia will use the required set of refinancing instruments based on both auction operations and standing facilities for the provision of liquidity.

To improve the effectiveness of monetary policy instruments, the Bank of Russia will continue its efforts to make refinancing operations more accessible to credit institutions. With this in mind, it may also extend the list of assets that can be used as collateral in these operations. At the same time, the Bank of Russia will continue its work to create a single system of bank refinancing against the collateral of assets included in a single collateral pool. This pool is expected to be comprised of assets such as promissory notes, credit claims, securities on the Bank of Russia Lombard list and on the quotation lists of Russian stock exchanges, and also gold and other assets.

If developments in the banking sector lead to the creation of an excessive money supply, the Bank of Russia will continue to use instruments such as OBR placements and deposits in order to absorb liquidity. Bank of Russia open-market operations with government bonds and other securities may be used as an additional means of regulating liquidity.

The Bank of Russia expects to use the possibilities offered by the banking electronic speed payment (BESP) system to make settlements on liquidity provision and absorption operations.

The Bank of Russia will continue to use the reserve requirements as an instrument of monetary policy and a means of restraining inflation. Taking into consideration the changes in the banking sector's liquidity, the Bank of Russia may alter or differentiate the required reserve ratios, consider the risks of inflation and slower economic growth, and also the risks posed by external economic factors.

In 2012-2014, the Bank of Russia will continue to cooperate with the Ministry of Finance in areas relating to monetary policy implementation and the development of the financial market. Specifically, a mechanism developed jointly by the Ministry of Finance and the Bank of Russia will be further used to deposit temporarily free budget funds with credit institutions, thereby mitigating the effect of uneven budget flows on banking sector liquidity. Also, the Bank of Russia will cooperate with the Ministry of Finance in drafting and implementing measures aimed at developing the market for government securities. The increase in liquidity and the expansion of the government securities market's capacity will broaden the Bank of Russia's ability to regulate money supply and help raise the efficiency of the interest rate policy transmission mechanism.

V. Addendum

V.1. Measures to be implemented by the Bank of Russia to upgrade the banking system and banking supervision in 2012 and in 2013 and 2014

In order to upgrade the banking system and banking supervision in 2012-2014, the Bank of Russia will focus on implementing measures stipulated by the Strategy of Russian Banking Sector Development until 2015 that are intended to increase the quality of banks' activity and maintaining the stability of the Russian banking sector.

The banking sector will face increased competition (both intrasectoral and intersectoral) in the most lucrative segments of the banking services market. This will lead credit institutions to raise their capitalisation. The consolidation of the banking sector is also expected to intensify, and new, larger banking structures will emerge.

At the same time, the diversification of the banking business and banking income will develop further, including as a result of the introduction of new technologies and the improvement of bank risk management and banking regulation. Measures will be taken to reduce risk concentration, including risk concentration per borrower (or group of related borrowers), investment, area of activity, and industry. Banks are expected to develop banking products that generate an income from fee in order to keep their incomes stable.

Credit institutions will pay close attention to the development of their long-term resource base, in which household deposits will play an increasingly important role.

These trends are expected to improve the accessibility of banking services both for individuals and organisations.

Tougher competition and measures to develop banking regulation and banking supervision will increase transparency and market discipline in the banking sector. As a result, credit institutions will increasingly focus on their long-term performance, make more rational decisions and build effective management systems, including risk management systems.

As part of its efforts to improve banking regulation and banking supervision, the Bank of Russia will continue in 2012-2014 its work to raise the quality of bank capital and assets, limit the level of risks, including the level of their concentration, and increase the reliability of credit institutions' accounting and reporting. The development of substantive risk-based approaches that take the domestic and international experience into account will be a key instrument in the sphere of banking regulation and banking supervision.

Measures to improve banking supervision and increase its quality envisage:

– identifying bank risks, taking into account the prospects of the economy and the financial sector, and developing an early response system;

– using differentiated approaches to supervision, taking into account the systemic importance, profile and level of risks, and also the level of credit institutions' transparency;

– carrying out supervisory measures to reduce risk concentration, including exposure to affiliated parties;

– developing supervision on a consolidated basis;

– developing cooperation with government regulatory and control agencies, including foreign supervisors, in order to exchange information.

Measures are envisaged to develop a system of control to be exercised by the Bank of Russia's head office over the situation in the banking sector, especially at systemically important credit institutions.

The Bank of Russia considers it necessary to create legislative fundamentals in Russia for introducing all the standards of banking regulation and banking supervision established by the Basel Committee on Banking Supervision (BCBS). These include legislation empowering the Bank of Russia to set requirements for credit institutions' corporate governance, risk and capital management systems, to exercise consolidated supervision, to use professional judgment in supervisory practices, and also to define disciplinary action against members of executive bodies and boards of directors (supervisory boards) for faults in the activity of their credit institutions.

In order to implement the provisions of Basel II, the Bank of Russia will carry out work in 2012-2014 to draft banking regulation and supervisory rules envisaging approaches to credit risk assessment based on internal ratings. The Bank of Russia will also cooperate with credit institutions in drafting and introducing internal capital adequacy assessment procedures.

In order to introduce new international requirements for capital quality and adequacy and maintain the required level of liquidity as stipulated by the BCBS documents adopted in 2010 (Basel III) and supported by the G20 leaders at their summit in Seoul in November 2010, the Bank of Russia intends to take the following measures:

– make amendments to the regulations to review the structure of regulatory capital and introduce requirements for the adequacy of capital components;

– set requirements for building capital buffers, introducing the leverage indicator defined as the ratio between capital and the total value of assets and off-balance sheet items that are not weighted by risk;

– introduce two liquidity ratios: the short-term liquidity coverage standard defined as the ratio of liquid assets to net cash outflow over the next 30 calendar days in a market stress scenario, and the net stable funding standard determined as the ratio of available reliable sources of funding with a maturity of at least one year to the required amount of stable funding in a stress scenario.

In 2013-2014, the Bank of Russia will define approaches for banks to create the countercyclical capital buffers as an instrument to limit systemic risks. In order to implement these approaches, additional indicators of risk growth in the Russian financial system are intended to be developed.

Measures are planned in 2012-2014 to work out criteria for classifying banks as systemically important, and also define regulatory requirements for their activity, taking into account the proposals developed by the BCBS jointly with the Financial Stability Board (FSB) for global systemically important financial institutions. While developing corresponding criteria for Russian banks, the Bank of Russia will take into account the specifics of the domestic market for banking services, and also the work being carried out by the BCBS and the FSB to adapt the proposed approaches to the regulation of national systemically important banks.

With regard to international recommendations on compliance with FSB principles and standards relating to compensation (remuneration), the Bank of Russia will implement them taking into account the specific requirements of national legislation.

In order to reduce the administrative burden on banks, measures are planned to unify supervisory requirements for the sustainability of credit institutions and the requirements for their participation in the deposit insurance system by making corresponding amendments to legislation.

In order to increase the transparency of Russian credit institutions, they will be required to disclose information to the public on the qualifications and work experience of their top managers.

Measures will be required to statutorily establish the duty of shareholders and persons exerting indirectly (through third parties) material influence on decisions taken by the credit institutions' management bodies, including third parties, to provide information to credit institutions for the disclosure of the ownership structure. These would include cases where the shares of credit institutions are kept by nominal holders.

Measures are planned to further develop the legislative framework of credit institutions' affiliated parties to increase the transparency of the ownership structure of credit institutions. In particular, it will be necessary to stipulate the duty of all affiliated parties of credit institutions to provide information on them and be held responsible for their failure to comply with this requirement.

Work will be continued to legislatively improve merger and acquisition processes. Amendments will be made to the legislation to stipulate a possibility for legal entities (including credit institutions) with different forms of incorporation to participate in the reorganisation of credit institutions, which will give an additional stimulus to raise their capitalisation through restructuring.

The policy towards integration into the world financial market should be conducted taking into account national interests, the real level of development and the competitiveness of the Russian banking sector. The ban on opening foreign bank branches will remain as a necessary measure for maintaining the competitiveness of Russian banks in the domestic market for banking services and the Bank of Russia will continue its participation in drafting the corresponding federal law.

The Bank of Russia will participate in work to draft laws aimed at providing additional protection for creditors and consumers of financial services, including the improvement of the law on pledge and the development of legislation on consumer credit. At the same time, work will continue to implement measures for improving the financial literacy of the population with respect to banking.

Measures to increase the transparency of credit institutions as a result of the use of International Financial Reporting Standards (IFRS) in their activities are an important step towards raising the efficiency of the banking sector and boosting clients' confidence in banks. With this in mind, these tasks should be resolved through the implementation of Federal Law No. 208-FZ, dated 27 July 2010, 'On Consolidated Financial Statements', under which credit institutions are required to draw up, submit and publish consolidated financial statements. For its part, the Bank of Russia considers it necessary to encourage credit institutions to be conservative enough in making fair value measurements under the IFRS standards and, if necessary, will use banking regulation and supervisory powers to adjust the measurements, proceeding from prudential approaches.

The Bank of Russia will further study approaches and measures for maintaining the systemic stability of the banking sector. The Bank of Russia will continue to upgrade its macroprudential analysis tools by calculating banking sector financial soundness indicators, among other things, and posting them on the IMF website, and to assess systemic risk by conducting stress tests.

In order to better protect the banking system and credit institutions' creditors, including bank depositors, and reduce the risks of abuses by credit institutions' managers and owners, work will continue to improve the mechanisms of liquidation procedures at banks. These measures will include the assignment of criminal responsibility to the heads of credit institutions, and also persons responsible for accounting and other records, for deliberately entering false data into documents regulating civil rights and duties, accounting and other records and reports on the economic activities of a credit institution, and also for making corrections that distort the substance of these documents, if these actions are taken in pursuit of personal gain or in one's personal interest and inflict damage on citizens, organisations or the state.

In the course of inspections, which the Bank of Russia will conduct in 2012-2014, special attention will be paid to the inspection of credit institutions of systemic importance to the banking sector of the Russian Federation and its regions, along with the inspection of credit institutions that conduct highly risky operations and credit institutions that are not transparent enough.

The inspections will focus on assessing bank risks (credit and market risks, liquidity and concentration risks, including risk concentration on the owners' business), the systems of their management, and the identification of doubtful transactions.

In order to achieve the best results in the inspection of credit institutions (their branches), the Bank of Russia will continue the on-going monitoring of the process of arranging and holding inspections and the coordination of work for conducting these inspections. Special attention will be paid to formulating risk-based assignments for the inspections of credit institutions.

The improvement of the inspection organisation's structure, which envisages measures to centralise the Bank of Russia's inspecting activity by 2014, will help make inspections more effective.

Regulatory support for inspections will be improved, taking into account internationally-accepted approaches, and the Bank of Russia's measures to implement the Strategy of Russian Banking Sector Development until 2015.

The Bank of Russia is legislatively empowered to set requirements for credit institutions to develop internal control procedures to prevent the legalisation (laundering) of criminally obtained incomes and the financing of terrorism. In light of this, special attention will be paid to risk-based approaches used by credit institutions to identify customers, their representatives, beneficiaries, and also to monitor operations for the provision of services to customers.

V.2. Measures to be implemented by the Bank of Russia to improve financial markets in 2012 and in 2013 and 2014

To improve the effectiveness of the Russian financial market and promote the development of its infrastructure and instruments, in 2012-2014 the Bank of Russia will:

– participate in carrying out a plan to create an international financial centre in Moscow;

– participate, jointly with the Federal Financial Markets Service, in improving approaches towards regulating the activity of clearing organisations and central counterparties;

– participate in upgrading the legislation regulating depository activities, and recognise the concept of a foreign nominal holder;

– participate in upgrading the legislation regulating the organisation of exchange trade;

– make arrangements for the inclusion of the Russian rouble in settlement currencies of the Continuous Linked Settlement (CLS) system;

– participate, jointly with the Ministry of Finance, in efforts to further liberalise the government securities market by making amendments to Bank of Russia's regulations and other instructions allowing the placement and circulation of government securities on stock exchanges in accordance with their rules;

– participate in upgrading the legislation to define the status of the precious metal account;

– participate in upgrading the legislation regulating the terms and conditions of the issue and circulation of the certificates of deposit and savings certificates.

– improve the legislative and contractual base regulating repo transactions in the Russian market.

V.3. Measures to be implemented by the Bank of Russia to improve the Russian payment system in 2012 and in 2013 and 2014

In 2012-2014, the Bank of Russia will carry out measures to develop and upgrade the Russian payment system for the purpose of ensuring the stable functioning of Russia's financial system.

The Bank of Russia will take measures to implement Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'. In particular, work will be carried out to draft a Strategy for the Development of the National Payment System stipulating measures to ensure the stable functioning of the national payment system, increase its effectiveness and competitiveness, improve the Bank of Russia payment system, develop infrastructural and intersystem interaction between participants in the national payment system, and also enhance accessibility and the security of payment services, including with the use of innovative payment instruments.

In order to follow up with this federal law, the Bank of Russia will develop regulations in 2012 to cover the following areas:

– the regulation of the Bank of Russia payment system;

– the regulation of payment systems, as well as supervision and oversight in the national payment system;

– measures to ensure the smooth operation of payment systems and information protection (security) in money remittances.

In order to ensure the development of the national payment system, the Bank of Russia will participate in the work of the Technical Committee on Financial Operations Standards to continue creating a national standard of cashless settlements based on the ISO 20022 methodology and introducing it into the national payment system.

Basic measures to develop the Bank of Russia payment system will focus on improving the Bank of Russia system of real-time gross settlements (BESP). It will especially focus on expanding settlement services provided to credit institutions, as well as financial market participants, the Federal Treasury and Bank of Russia divisions, including a broader format of the BESP system operation. It will also increase the operational efficiency and automation of intraday liquidity management procedures. The implementation of these measures will create conditions for lowering the risks and costs incurred by payment system participants.

V.4. Principal measures planned by the Bank of Russia to upgrade Russia's banking system, banking supervision, financial markets, and the payment system in 2012

Description of measures	Implementation period
Banking system and banking supervision	
1. Participation in creating legislative fundamentals for introducing recommendations of the Basel Committee on Banking Supervision, including the legislation empowering the Bank of Russia to set rules for credit institutions' risk and capital management, including the use of internal methods of risk assessment, and also establishing responsibility for members of executive bodies and boards of directors (supervisory boards) for the activity of credit institutions, including risk management.	Q3-Q4
2. Participation in drafting the Federal Law 'On the Recovery of Overdue Debts'.	Q1
3. Participation in drafting a federal law on the possibility of appointing Bank of Russia staff as authorised representatives at credit institutions of importance for the Russian banking system and the Russian economy.	Q1-Q4
4. Participation in drafting a federal law aimed at unifying supervisory requirements for the assessment of credit institutions' soundness and the requirements for their participation in the deposit insurance system based on the international principles of supervision and corrective measures.	Q3-Q4
5. Drafting the Federal Law 'On Amending Article 8 of the Federal Law 'On Banks and Banking Activities'' to stipulate a requirement for credit institutions to post information on their websites on the qualification and work experience of the top managers of credit institutions.	Q3-Q4
6. Participation in drafting a federal law stipulating a requirement for shareholders and persons who indirectly (through third persons) exert a material influence on decisions taken by the management of a credit institution, including third persons, to provide information to the credit institution for the disclosure of the ownership structure, including in cases when the credit institution's shares are kept by a nominal holder.	Q3-Q4
7. Participation in drafting a federal law aimed at improving the procedures of credit institutions' reorganisation.	Q3-Q4
8. Drafting the Federal Law 'On Amending the Federal Law 'On the Insolvency (Bankruptcy) of Credit Institutions' and Other Laws of the Russian Federation to Improve the Bankruptcy Procedures for Credit and Other Financial Institutions and Enhance Responsibility for Illegitimate Activity Taken on the Eve of Bankruptcy'.	Q3-Q4
9. The phased centralisation of Bank of Russia inspections in the Central and Urals Federal Districts.	Q1-Q4
10. Drafting proposals on the specifics of regulating the activity of systemically important banks.	Q2
11. Participation in improving financial literacy of the population with respect to banking.	Q1-Q4

Description of measures	Implementation period
Financial markets	
12. Participation in upgrading the legislation regulating depository activities and the organisation of exchange trade.	Q1-Q4
13. Participation, jointly with the Federal Financial Markets Service, in improving approaches towards regulating the activity of clearing organisations and central counterparties.	Q1-Q4
14. Making arrangements for the inclusion of the Russian rouble in settlement currencies of the Continuous Linked Settlement (CLS) system.	Q1-Q4
15. Participation, jointly with the Ministry of Finance, in further liberalising the government securities market.	Q1-Q4
16. Upgrading the legislation to define the status of the precious metal account.	Q1-Q4
17. Participation in improving the legislation regulating the terms and conditions of the issue and circulation of the certificates of deposit and savings certificates.	Q1-Q4
Payment system	
18. Measures to implement Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.	Q1-Q4
19. Drafting a Strategy for the Development of the National Payment System.	Q2
20. Expanding the format of the functioning of the BESP system.	Q4